

TPCO HOLDING CORP.
(FORMERLY SUBVERSIVE CAPITAL ACQUISITION CORP.)
MANAGEMENT'S DISCUSSION AND ANALYSIS

As at and for the year ended December 31, 2020
And for the Period from June 17, 2019 (Date of Incorporation) Through December 31, 2019

(Expressed in U.S. Dollars)

MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion of performance, financial condition and future prospects should be read in conjunction with the audited consolidated financial statements (“**Financial Statements**”) of TPCO Holding Corp. (Formerly Subversive Capital Acquisition Corp.) (the “**Corporation**”) for year ended December 31, 2020 and the accompanying notes thereto.

This Management’s Discussion and Analysis (“**MD&A**”) has been prepared with an effective date of March 12, 2021. The Consolidated Financial Statements have been prepared by management in accordance with International Financial Reporting Standards (“**IFRS**”) and with interpretation of the International Financial Reporting Interpretations Committee (“**IFRIC**”). The Corporation’s financial information is expressed in United States dollars unless otherwise specified. Additional information about the Corporation, including the Corporation’s most recent annual information form, can be found on SEDAR at www.sedar.com.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document may contain “**forward-looking information**” (as defined under applicable securities laws). This forward-looking information relates to future events or future performance including with respect to the Corporation’s objectives and priorities for fiscal year 2021 and beyond, and strategies or further actions with respect to the Corporation and the Corporation’s business operations, financial performance and condition.

Such forward-looking information reflects management’s current beliefs and are based on information currently available to management. In some cases, forward-looking information can be identified by terminology such as “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “estimate”, “predict”, “potential”, “continue”, “target”, “intend”, “could” or the negative of these terms or other comparable terminology. By its very nature, forward-looking information involves inherent risks and uncertainties, both general and specific, and many factors could cause actual events or results to differ materially from the results discussed in the forward-looking information. In evaluating forward-looking information, readers should specifically consider various factors that may cause actual results to differ materially from any forward-looking information. These factors include, but are not limited to, market and general economic conditions and the risks and uncertainties discussed in the section entitled “Risk Factors” in the Corporation’s annual information form. (the “**AIF**”).

The forward-looking information contained in this MD&A is presented for the purpose of assisting investors in understanding business and strategic priorities and objectives of the Corporation as at the periods indicated and may not be appropriate for other purposes. Forward-looking information contained in this MD&A is not a guarantee of future performance and, while forward-looking information is based on certain assumptions that the Corporation considers reasonable, actual events and results could differ materially from those expressed or implied by forward-looking information. Prospective investors are cautioned to consider these and other factors carefully when making decisions with respect to the Corporation and not place undue reliance on forward looking information. Circumstances affecting the Corporation may change rapidly. Except as may be expressly required by applicable law, the Corporation does not undertake any obligation to update publicly or revise any such forward-looking information, whether as a result of new information, future events or otherwise.

NATURE OF ACTIVITIES

The Corporation is a vertically integrated cannabis company based in the United States focused on the recreational and wellness markets. The Corporation’s portfolio consists of high quality vertically integrated seed-to-sale operations in California, as well as a substantial hemp-derived *cannabidiol* (“**CBD**”) product manufacturing and distribution operation, with a focus on differentiated branded products and direct-to-consumer distribution. The registered office of the Corporation is located at 595 Burrard Street, Suite 2600, Three Bentall Centre, Vancouver, BC, V7X 1L3, Canada. Our head office is located at 1550 Leigh Avenue, San Jose, CA 95125.

The Corporation was incorporated under the *Business Corporations Act* (British Columbia) on June 17, 2019 under the name Subversive Capital Acquisition Corp. (“**SCAC**”) as a special purpose acquisition corporation for the purpose of effecting, directly or indirectly, an acquisition of one or more businesses or assets, by way of a merger, amalgamation, arrangement, share exchange, asset acquisition, share purchase, reorganization or any other similar

business combination.

On July 16, 2019, the Corporation closed its initial public offering (the “**IPO**”) of 57,500,000 Class A restricted voting units (“**Class A Restricted Voting Units**”) (including 7,500,000 Class A Restricted Voting Units issued pursuant to the exercise in full of the over-allotment option granted to Canaccord Genuity Corp. (the “**Underwriter**”), as sole underwriter), at a price of \$10.00 per Class A Restricted Voting Unit for gross proceeds of \$575,000,000. Upon closing of the IPO, the gross proceeds were deposited into an escrow account (the “**Escrow Account**”). The Corporation’s Class A Restricted Voting Units commenced trading on the Neo Exchange Inc. (the “**Exchange**”) under the symbol “SVC.UN.U” on July 16, 2019.

Each Class A Restricted Voting Unit consisted of one Class A restricted voting share (“**Class A Restricted Voting Share**”) and one-half of a warrant (“**Warrant**”). The Class A Restricted Voting Units separated into Class A Restricted Voting Shares and Warrants on August 26, 2019 and commenced trading on the Exchange under the symbols “SVC.A” and “SVC.WT.U”, respectively.

On January 15, 2021, the Corporation completed its qualifying transaction (the “**Qualifying Transaction**”) comprised of the acquisition of all of the equity of each of CMG Partners, Inc. (“**Caliva**”) and Left Coast Ventures, Inc. (“**LCV**”). Pursuant to the Corporation’s articles, upon closing of the Qualifying Transaction (i) all outstanding Class A Restricted Voting Shares of the Corporation not submitted for redemption were converted into common shares in the capital of the Corporation (“**Common Shares**”) on a one for one basis, and (ii) all outstanding Class B shares of the Corporation were converted into Common Shares on a one for one basis. Additionally, in connection with the closing of the Qualifying Transaction, the outstanding Warrants now represent a share purchase warrant to acquire a Common Share. Trading in the Common Shares and the Warrants commenced on the Exchange under the symbols “GRAM.U” and “GRAM.WT.U”, respectively, on January 15, 2021.

SIGNIFICANT EVENTS

Private Placement

On November 24, 2020, the Corporation announced a private placement of subscription receipts (“**Subscription Receipts**”) and non-voting shares (“**Non-Voting Shares**”) of SCAC Capital Acquisition Inc., a subsidiary of SCAC, at a price of \$10.00 per Subscription Receipt or Non-Voting Share (the “**Private Placement**”). As at December 31, 2020, aggregate subscription amounts of \$25,087,000 for a total of 2,508,700 subscription receipts had been received in cash from subscribers and was held by Subversive Capital Sponsor LLC (the “**Sponsor**”). Subsequent to year-end and prior to closing of the Qualifying Transaction, the Private Placement of Subscription Receipts and Non-Voting Shares closed for total gross proceeds of \$61,635,000.

Upon closing of the Qualifying Transaction, investors in the Private Placement received one Common Share in respect of each Subscription Receipt or Non-Voting Share purchased under the Private Placement. Certain purchasers under the Private Placement also received, for no additional consideration, in aggregate approximately 466,000 Common Shares from the Sponsor upon closing of the Qualifying Transaction in consideration of their purchase of the Subscription Receipts. The proceeds from the Private Placement were used in connection with the Qualifying Transaction and to fund the growth of the Corporation following closing of the Qualifying Transaction.

Qualifying Transaction

On November 24, 2020, the Corporation entered into (i) a definitive transaction agreement by and among the Corporation, Caliva, TPCO CMG Merger Sub, Inc. and GRHP Management, LLC, as shareholders’ representative for Caliva’s shareholders (the “**Caliva Agreement**”), pursuant to which the Corporation would acquire all of the equity of Caliva; (ii) a definitive transaction agreement by and among the Corporation, LCV, TPCO LCV Merger Sub Inc. and Shareholder Representative Services LLC, as shareholders’ representative for LCV’s shareholders (the “**LCV Agreement**”), pursuant to which the Corporation would acquire all of the equity of LCV; and (iii) an agreement among the Corporation, Caliva, OG Enterprises Branding, Inc. (“**OGE**”), SC Branding, LLC and SC Vessel 1, LLC whereby the Corporation would acquire SC Vessel 1, LLC’s interest in OGE. On the same date, LCV entered into an agreement and plan of merger (the “**Sisu Agreement**”) pursuant to which it would acquire, concurrently with the completion of the Qualifying Transaction, Sisu Extraction, LLC (“**Sisu**”).

In addition, on November 24, 2020 the Corporation entered into a brand strategy agreement (the “**Brand Strategy Agreement**”) between the Corporation and SC Branding, LLC related to the relationship with and services of Shawn C. Carter p/k/a JAY-Z. The Corporation also announced that it had entered into a binding heads of terms agreement (the “**ROC Nation Agreement**”) with Roc Nation, LLC (“**Roc Nation**”) which sets out the terms pursuant to which the Corporation would become Roc Nation’s “Official Cannabis Partner”.

On December 18, 2020, the Corporation gave notice to the holders of the Class A Restricted Voting Shares of their right to redeem all or a portion of their Class A Restricted Voting Shares at a per-share price of \$10.13 (the “**Redemption Price**”), payable in cash, in connection with the closing of the Qualifying Transaction. The Redemption Price was equal to each holder’s per-share amount deposited in the escrow account, adjusted for interest or other amounts earned and net of applicable taxes payable on such interest and other amounts earned and net of direct expenses related to the redemption. Subsequent to the year-end, upon closing of the Qualifying Transaction, 26,092,664 Class A Restricted Voting Shares were redeemed, representing an aggregate redemption amount of \$264,318,686.

The acquisitions of Caliva, LCV and Sisu closed on January 15, 2021, while the acquisition of SC Vessel 1, LLC’s interest in OGE closed on January 19, 2021. Further details of all transactions are laid out below.

Acquisition of Caliva

Pursuant to the terms of the Caliva Agreement, the Corporation acquired all of the issued and outstanding equity interests of Caliva from the existing shareholders of Caliva for a preliminary purchase price of \$282,940,430 (subject to certain adjustments and holdbacks) satisfied in the form of newly issued Common Shares, at a price of \$10.00 per Common Share, subject to exceptions for certain U.S. persons that received consideration in cash.

In addition, the Caliva shareholders received:

- (i) a contingent right to receive up to an aggregate of 17,356,299 additional Common Shares in the event the 20-day volume weighted average trading price (“**VWAP**”) of the Common Shares reaches \$13.00, \$17.00 and \$21.00 within three years of closing, with one-third issuable upon the achievement of each price threshold, respectively; and
- (ii) a contingent right to receive up to an aggregate of 3,929,327 additional Common Shares (the “**Caliva Earnout Shares**”) if the aggregate consolidated cash of the Corporation at closing net of short term indebtedness was less than \$225,000,000, in which case a proportionate number of Caliva Earnout Shares would become payable based on a set formula.

Acquisitions of LCV and Sisu

Pursuant to the terms of the LCV Agreement, the Corporation acquired all of the issued and outstanding equity interests of LCV from the existing shareholders of LCV for a preliminary purchase price of approximately \$70,000,000 (subject to certain adjustments and holdbacks), satisfied in the form of newly issued Common Shares at a price of \$10.00 per Common Share, subject to exceptions for certain U.S. persons that received consideration in cash.

In addition, the LCV shareholders received a contingent right to receive up to an aggregate of 3,856,955 additional Common Shares in the event the 20-day VWAP of the Common Shares reaches \$13.00, \$17.00 and \$21.00 within three years of closing, with one-third issuable upon the achievement of each price threshold, respectively.

Concurrently with closing of the Qualifying Transaction, LCV acquired all of the issued and outstanding units of Sisu from the existing members of Sisu. Under the terms of the Sisu Agreement, the Corporation was obligated to fund the consideration to acquire Sisu. Upon closing, Sisu members received consideration of approximately \$81,000,000 (subject to certain adjustments and holdbacks) comprised of (i) a number of common shares of TPCO equal to approximately \$66,000,000 satisfied in the form of newly issued Common Shares at a price of \$10.00 per Common Share, subject to exceptions for certain U.S. persons that received cash; and (ii) \$15,000,000 in cash.

Acquisition of OG Enterprises

The Corporation indirectly acquired a 50% interest in OGE as a result of its acquisition of Caliva. On January 19, 2021, following closing of the Qualifying Transaction, the Corporation acquired the remaining 50% of OGE from SC Vessel 1, LLC. As consideration for the remaining 50% interest in OGE, SC Vessel 1, LLC received 3,000,000 Common Shares and a contingent right to receive up to an additional 1,000,000 Common Shares in the event the 20-day VWAP of the Common Shares reaches \$13.00, \$17.00 and \$21.00 within three years of closing, with one-third issuable upon the achievement of each price threshold, respectively.

Brand Strategy Agreement and Roc Nation Agreement

Under the terms of the Brand Strategy Agreement, the Corporation has been granted the right and license to use JAY-Z's approved name, image and likeness for promoting and advertising until January 15, 2031. Pursuant to the terms of the Brand Strategy Agreement, the Corporation has issued 2,000,000 Common Shares to JAY-Z for the rights and services provided by JAY-Z prior to the closing of the Qualifying Transaction, and committed to pay \$38,500,000 in either cash or Common Shares, at the option of SC Branding, LLC, over the ten year term of the Brand Strategy Agreement.

Under the terms of the Roc Nation Agreement, Roc Nation will provide strategic and promotional services to the Corporation and its brands for a period of three years. Pursuant to the terms of the Roc Nation Agreement, the Corporation will issue Common Shares in the amount of approximately \$25,000,000 at the effective date of the agreement and will pay Roc Nation additional consideration of \$15,000,000 in Common Shares, payable in quarterly issuances over the second and third years of the term.

In addition, on January 15, 2021, JAY-Z became the Chief Visionary Officer of the Corporation.

Social Equity Fund

In connection with the Qualifying Transaction, the Corporation committed to organizing a new social equity fund with an initial minimum funding of \$10,000,000 and planned annual contributions of at least 2% of net income. Social Equity Ventures LLC was formed in Delaware subsequent to year-end.

Management Team and Board of Directors

Upon closing of the Qualifying Transaction, the senior management team and board of directors of the Corporation were reconstituted as follows:

- Steve Allan as Chief Executive Officer
- Brett Cummings as Chief Financial Officer and President of LCV
- Dennis O'Malley as Chief Operating Officer and President of Caliva
- Shawn "JAY-Z" Carter as Chief Visionary Officer
- Desiree Perez as Chief Social Equity Officer
- Drew Kornreich as Chief M&A Officer
- Colin Brown as Chief Legal Officer
- John Figueiredo as President of SISU

Board of Directors:

- Carol Bartz, former CEO of Yahoo! and Autodesk
- Al Foreman, Partner of Tuatara Capital
- Daniel Neukomm, CEO of La Jolla Group
- Jeffry Allen, Director of Barracuda and former Director of NetApp
- Leland Hensch, former CEO of SCAC
- Michael Auerbach, General Partner of Subversive Capital LLC

Appointment of New Chief Financial Officer

Effective February 15, 2021, Mike Batesole was appointed Chief Financial Officer of the Corporation, reporting directly to Chief Executive Officer Steve Allan. Mr. Batesole succeeded Brett Cummings, who will remain with the Corporation to ensure a smooth transition, advance the hemp CBD business and progress the social equity ventures program.

SELECTED QUARTERLY INFORMATION

The following selected financial information is derived from the consolidated financial statements of the Corporation for the most recent six historical quarters. The quarter-ended September 30, 2019 includes results from incorporation on June 17, 2019 through to September 30, 2019.

	Quarter-Ended					
	12/31/20	09/30/20	06/30/20	03/31/20	12/31/19	09/30/19
Income						
Interest	\$ 105,896	\$ 155,416	\$ 139,658	\$ 1,949,342	\$ 2,634,959	\$ 2,636,754
Total Income	105,896	155,416	139,658	1,949,342	2,634,959	2,636,754
Expenses						
Amortization of issue costs	23,004,278	2,864,859	2,850,513	2,836,240	2,822,037	2,807,906
Interest income allocable to Class A Shares	105,896	155,416	139,658	1,949,342	2,634,959	2,636,754
General and administrative	8,019,123	371,666	111,556	311,573	309,082	241,807
Total Expenses	31,129,297	3,391,941	3,101,727	5,097,155	5,766,078	5,686,467
Income (loss) before provision for income taxes	(31,023,401)	(3,236,525)	(2,962,069)	(3,147,813)	(3,131,119)	(3,049,713)
Provision for income taxes	-	-	-	-	-	-
Net income (loss)	\$ (31,023,401)	\$ (3,236,525)	\$ (2,962,069)	\$ (3,147,813)	\$ (3,131,119)	\$ (3,049,713)
Weighted average shares outstanding of Class B Shares, basic and diluted	15,218,750	15,218,750	15,218,750	15,218,750	15,218,750	15,218,750
Net Loss per share - basic and diluted	\$ (2.04)	\$ (0.21)	\$ (0.19)	\$ (0.21)	\$ (0.21)	\$ (0.20)

SELECTED ANNUAL FINICAL INFORMATION

The following selected financial information is derived from the consolidated financial statements of the Corporation for the year ended December 31, 2020 and the period from June 17, 2019 (the date of incorporation) through December 31, 2019:

	<u>Year Ended December 31, 2020</u>	<u>For Period From June 17, 2019 Through December 31, 2019</u>
Income		
Interest	\$ 2,350,312	\$ 5,271,713
Total Income		
Expenses		
Amortization of issue costs	31,555,890	5,629,943
Interest income allocable to Class A Shares	2,350,312	5,271,713
General and administrative	8,813,918	550,889
Total Expenses	<u>42,720,120</u>	<u>11,452,545</u>
Income (loss) before provision for income taxes	\$ (40,369,808)	\$ (6,180,832)
Provision for income taxes	\$ -	\$ -
Net income (loss)	\$ (40,369,808)	\$ (6,180,832)
Weighted average shares outstanding of Class B Shares, basic and diluted	15,218,750	15,218,750
Net Loss per share - basic and diluted	<u>\$ (2.65)</u>	<u>\$ (0.42)</u>
Total Assets	\$ 607,681,123	\$ 581,004,912
Total Liabilities	\$ 610,943,997	\$ 568,984,978
Shareholders' (Deficiency) Equity	\$ (3,262,874)	\$ 12,019,934

RESULTS OF OPERATIONS

Prior to closing of the Qualifying Transaction on January 15, 2021, the Corporation did not conduct any commercial operations and was focused on the identification and evaluation of businesses or assets to acquire. Other than developments related to the Qualifying Transaction disclosed above, there were no notable events that occurred during the year ended December 31, 2020.

For the year ended December 31, 2020, the Corporation realized a net loss of \$40,369,808, representing a diluted net loss of approximately \$2.65 per share, as compared to net income of \$2,250,312 for the period from from June 17, 2019 (the date of incorporation) through December 31, 2019, representing net loss of approximately \$0.41 per share. The loss in 2020 was primarily attributable to the following factors:

- The \$31,155,891 non-cash amortization of the costs which were issued together with the Class A Restricted Voting Shares for the year ended December 31, 2020, as compared to \$5,629,943 non-cash amortization of the costs for the period from from June 17, 2019 (the date of incorporation) through December 31, 2019; and
- General and administrative expenses of \$8,813,918 for the year ended December 31, 2020, which reflect costs incurred in negotiating, evaluating, conducting due diligence and closing on potential Qualifying Transactions as well as payment to the affiliate of the Sponsor for the utilization of office space, utilities and administrative support, as compared to general and administrative expenses of \$550,889 for the period from from June 17, 2019 (the date of incorporation) through December 31, 2019.

For the three months ended December 31, 2020, the Corporation realized a net loss of \$31,023,401, representing a diluted net loss of approximately \$2.04 per share, as compared to a net loss of \$3,131,119 for the three months ended December 31, 2019, representing a diluted net loss of \$0.21 per share. The loss in the fourth quarter of 2020 was primarily attributable to the following factors:

- The \$23,004,278 non-cash amortization of the costs which were issued together with the Class A Restricted Voting Shares for the three months ended December 31, 2020, as compared to \$2,822,037 non-cash amortization of the costs for the three months ended December 31, 2019; and
- General and administrative expenses of \$8,019,123 for the three months ended December 31, 2020, which reflect costs incurred in negotiating, evaluating, conducting due diligence and closing on potential Qualifying Transactions as well as payment to the affiliate of the Sponsor for the utilization of office space, utilities and administrative support, as compared to general and administrative expenses of \$309,082 for the three months ended December 31, 2019.

As at December 31, 2020, the gross proceeds of the IPO totaling \$575,000,000 were held in cash and cash equivalents in the Escrow Account. During the three months ended December 31, 2020, the Corporation earned interest income of \$105,896 on this balance, as compared to \$2,634,959 for the three months ended December 31, 2019. During the year ended December 31, 2020, the Corporation earned interest income of \$2,350,312 on this balance, as compared to \$5,271,713 for the period from from June 17, 2019 (the date of incorporation) through December 31, 2019. Total interest earned from inception to December 31, 2020 was \$7,622,025.

Transaction costs are directly related to the IPO and consist mainly of legal, accounting, printing, filing and underwriting costs. Transaction costs incurred from June 17, 2019 (date of incorporation) through the date of the IPO were allocated between Shareholders' Equity and shares subject to redemption on the following basis:

	Class A		Class B	
	Restricted		Units	Total
	Voting Shares	Warrants		
Professional fees (Legal, accounting, etc.)	\$ 614,302	\$ 5,167	\$ 14,571	\$ 634,040
Underwriter's commission	31,529,072	95,928	—	31,625,000
Exchange listing	123,466	1,039	—	124,505
Other	122,583	1,031	2,908	126,522
Total	\$ 32,389,423	\$ 103,165	\$ 17,479	\$ 32,510,067

The Underwriter is entitled to an underwriting commission equal to up to \$31,625,000 or 5.5% of the gross proceeds of the Class A Restricted Voting Units issued under the IPO. The Corporation paid \$11,500,000 to the Underwriter at the closing of the IPO. The balance of the underwriting commission of \$20,125,000, or 3.5% of the gross proceeds (the "**Deferred Amount**") of the Class A Restricted Voting Units, was accrued.

GENERAL AND ADMINISTRATIVE EXPENSES

The Corporation had the following general and administrative expenses for the year ended December 31, 2020:

	Year Ended December 31, 2020	For the Period from Inception on June 17, 2019 Through December 31, 2019
Professional and consulting fees	\$ 2,062,316	\$ 136,584
Insurance	200,000	95,611
Administrative fees	120,000	55,000
Fees to escrow agent	8,306	215,320
Transaction expenses	6,316,683	-
Other	106,613	48,374
Total	<u>\$ 8,813,918</u>	<u>\$ 550,889</u>

OPERATING, INVESTING AND FINANCING ACTIVITIES

Cash provided by operating activities for the year ended December 31, 2020 was \$2,350,312 compared to cash provided by operating activities of \$4,131,780 for the period from inception on June 17, 2019 through December 31, 2019. Cash provided by operating activities for the three months ended December 31, 2020 was \$105,896 compared to cash provided by operating activities of \$2,634,959 for the three months ended December 31, 2019.

Cash used by investing activities for the year ended December 31, 2020 was \$2,350,312 compared to cash used of \$580,271,713 for the period from inception on June 17, 2019 through December 31, 2019. The current period amount reflects interest allocable to the cash and securities held in escrow. Cash used by investing activities for the three months ended December 31, 2020 was \$105,896 compared to cash used of \$2,634,959 for the three months ended December 31, 2019.

Cash provided by financing activities for the year ended December 31, 2020 was \$Nil compared to cash provided of \$576,139,933 for the period from inception on June 17, 2019 through December 31, 2019. Cash provided by financing activities for the three months ended December 31, 2020 was \$Nil compared to cash provided of \$Nil for the three months ended December 31, 2019.

CAPITAL MANAGEMENT

The investment held in the Escrow Account as at December 31, 2020 included the \$575,000,000 in gross proceeds from the IPO and accrued interest totaling \$7,516,129 (as compared to \$5,271,713 at December 31, 2019). In accordance with the terms of the IPO, all amounts raised through the issuance of the Class A Restricted Voting Units were deposited into the Escrow Account and were released upon closing of the Qualifying Transaction on January 15, 2021. Upon closing of the Qualifying Transaction on January 15, 2021, the Corporation had access to approximately \$381 million of liquidity to execute on its business plans.

As at December 31, 2020, the Sponsor held, on behalf of the Corporation, aggregate subscription amounts of \$25,087,000 in respect of subscriptions for Subscription Receipts. Subsequent to year-end and prior to closing of the Qualifying Transaction, the Private Placement of Subscription Receipts and Non-Voting Shares closed for total gross proceeds of \$61,635,000. On closing of the Qualifying Transaction on January 15, 2021, the Subscription Receipts and Non-Voting Shares were converted to Common Shares.

As of the date hereof the Corporation does not have any off-balance sheet financing arrangements and has not guaranteed any debt or commitments of other entities or entered into any options on non-financial assets.

SHARE CAPITAL

As of the date of this MD&A, the Corporation had 92,024,217 Common Shares and 35,837,500 Warrants issued and outstanding. The Warrants will become exercisable at an exercise price of \$11.50 commencing March 22, 2021 and will expire on January 15, 2026. Once the Warrants become exercisable, the Corporation may accelerate the expiry date of the outstanding Warrants (excluding the Warrants held by the Sponsor in certain circumstances) by providing 30 days' notice, if and only if, the closing price of the Common Shares equals or exceeds \$18.00 per Common Share (as adjusted for stock splits or combinations, stock dividends, extraordinary dividends, reorganizations and recapitalizations) for any 20 trading days within a 30-trading day period.

The Corporation has an equity incentive plan (the "**Equity Incentive Plan**") that permits the grant of stock options, restricted share units ("**RSUs**"), deferred share units, performance share units and stock appreciation rights to non-employee directors and any employee, officer, consultant, independent contractor or advisor providing services to the Corporation or any affiliate. As of the date of this MD&A, a total of 2,151,391 RSUs were granted and outstanding under the Equity Incentive Plan.

Prior to closing of the Qualifying Transaction, Caliva maintained the CMG Partners, Inc. 2019 Stock Option and Grant Plan (the "**Caliva EIP**"), which permitted awards of common stock in Caliva. In connection with the Qualifying Transaction, Caliva and the Corporation agreed that the Corporation would maintain the Caliva EIP and that outstanding awards thereunder will entitle the holder to receive Common Shares. There are currently 1,027,527 options to purchase up to 1,027,527 Common Shares under the Caliva EIP outstanding. No further awards will be granted under the Caliva EIP.

Prior to closing of the Qualifying Transaction, LCV maintained the Amended and Restated 2018 Equity Incentive Plan (the "**LCV Equity Plan**") which authorized LCV to grant to its employees, directors and consultants up to 14,775,000 shares of common stock in the form of stock options and other equity-based awards. In connection with the Qualifying Transaction, LCV and the Corporation agreed that the Corporation would maintain the LCV Equity Plan and that outstanding awards thereunder will entitle the holder to receive Common Shares. There are currently 34,971 options to purchase up to 34,971 Common Shares under the LCV Equity Plan outstanding. No further awards will be granted under the LCV Equity Plan.

RELATED PARTY TRANSACTIONS

Prior to the closing of the Qualifying Transaction, pursuant to an administrative services agreement between the Corporation and the Sponsor dated July 16, 2019 (the "**Administrative Services Agreement**"), the Corporation provided a payment of \$10,000 per month to the Sponsor for the utilization of office space, utilities and administrative support. The Corporation further reimbursed the Sponsor for any out-of-pocket expenses incurred by directors, officers and consultants of the Corporation which were paid by the Sponsor relating to certain activities on the Corporation's behalf, including identifying and negotiating the Qualifying Transaction. During the year ended December 31, 2020 and for the period from June 17, 2019 (date of incorporation) through December 31, 2019, the Corporation recorded \$120,000 and \$55,000, respectively, of administrative fees, which \$175,000 and \$55,000, respectively, is included in accrued expenses in the accompanying statement of financial position. The Administrative Services Agreement terminated upon consummation of the Qualifying Transaction.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

For further information about the accounting policies used by the Corporation, please refer to the Financial Statements and notes thereto for the period ended December 31, 2020, which have been prepared in accordance with IFRS and with interpretation of the IFRIC.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant assumptions were used in determining the fair value of the Class A Restricted Voting Shares at inception.

Critical accounting estimates represent estimates made by management that are, by their very nature, uncertain. Management evaluates its estimates on an ongoing basis. Such estimates are based on assumptions that management believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amounts of revenues and expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. A summary of the significant accounting policies used by management in the preparation of its financial information is provided in Note 4 to the Financial Statements.

CONTROLS AND PROCEDURES

As of December 31, 2020, an evaluation was carried out, under the supervision of and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined under National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* (“NI 52-109”).

Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2020.

Management, including the Chief Executive Officer and the Chief Financial Officer, has designed internal control over financial reporting as defined under NI 52-109 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management evaluated, under the supervision of and with the participation of the Chief Executive Officer and the Chief Financial Officer, the effectiveness of our internal control over financial reporting as at December 31, 2020, based on the principles set out in the Internal Control - Integrated Framework (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our internal control over financial reporting was designed and operating effectively as at December 31, 2020 and that there were no material weaknesses in the internal control over financial reporting.

There were no changes made in our internal control over financial reporting that occurred during the year ended December 31, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

MANAGING RISK

Since March 2020, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. It is uncertain what impact this volatility and weakness will have on the Corporation. Government and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions. Management continues to evaluate the impact of the COVID-19 pandemic on the industry and has concluded that while it is reasonably possible that the virus could have a negative effect on the Corporation’s financial position and results of its operations, the specific impact is not readily determinable as of the date of the Financial Statements.

Except as otherwise disclosed in this MD&A and in the Financial Statements, there have been no significant changes to the nature and scope of the risks faced by the Corporation as described in the AIF, which is available on the Corporation’s profile on SEDAR at www.sedar.com. Such business risks should be considered by interested parties when evaluating the Corporation’s performance and its outlook.

UNITED STATES REGULATORY ENVIRONMENT

Cannabis Industry Regulation

On February 8, 2018, the Canadian Securities Administrators revised their previously released Staff Notice 51-352 – *Issuers with U.S. Marijuana-Related Activities* (“**Staff Notice 51-352**”), which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular state’s regulatory framework. All issuers with U.S. cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents. As a result of the Corporation’s existing operations in California, the Corporation is providing the following disclosure pursuant to Staff Notice 51-352.

The Corporation derives a substantial portion of its revenues from state legalized: (i) cannabis, and products containing cannabis, used as part of the treatment for a specific symptom or disease in accordance with applicable state law, but for which no drug approval has been granted by the United States Food and Drug Administration (the “**FDA**”) (where use may include inhalation, consumption, or application) (“**Medical-Use Cannabis**”) and (ii) cannabis, and products containing cannabis, used by someone 21 or older that is not part of the treatment for a specific symptom or disease (where use may include inhalation, consumption, or application) (“**Adult-Use Cannabis**”) (collectively “**Regulated Cannabis**”). The Regulated Cannabis industry is illegal under U.S. Federal Law. The Corporation is directly involved (through its licensed subsidiaries) in both the Adult-Use Cannabis and Medical-Use Cannabis industry in the State of California which has regulated such industries.

The United States federal government regulates certain drugs through the Controlled Substances Act (21 U.S.C. §§ 801-971) (the “**CSA**”) and through the Food, Drug & Cosmetic Act (21 U.S.C. §§ 301-392) (the “**FDCA**”). The CSA schedules controlled substances, including “marihuana” (defined as all parts of the plant *cannabis sativa L.* containing more than 0.3 percent THC), based on their approved medical use and potential for abuse. Marihuana (also referred to as cannabis) is classified as a Schedule I controlled substance. The Drug Enforcement Administration (“**DEA**”), an agency of the U.S. Department of Justice (the “**DOJ**”) defines Schedule I drugs, substances or chemicals as “drugs with no currently accepted medical use and a high potential for abuse.” The FDA, which implements and enforces the FDCA, regulates, among other things, drugs used for the diagnosis or treatment of diseases. The FDA has not approved cannabis as a safe and effective treatment for any medical condition. The FDA has approved drugs containing THC and CBD, individual cannabinoids in the plant *cannabis sativa L.*, for a narrow segment of medical conditions.

State laws that permit and regulate the production, distribution and use of Medical-Use Cannabis or Adult-Use Cannabis are in direct conflict with the CSA, which makes cannabis and THC distribution and possession federally illegal. Although certain states and territories of the U.S. authorize Medical-Use Cannabis or Adult-Use Cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, cultivation, and/or transfer of cannabis and THC is illegal and any such acts are criminal acts under any and all circumstances under the CSA. Additionally, any manufacture, possession, distribution and/or sale of cannabis accessories, in states without laws expressly permitting such activity, are also federally illegal activity under the CSA. Although the Corporation’s activities are believed to be compliant with applicable California state and local law, strict compliance with state and local laws with respect to cannabis does not absolve the Corporation of liability under United States federal law, nor does it provide a defense to any federal proceeding which may be brought against the Corporation.

As of the date of this MD&A, 33 U.S. states, and the District of Columbia and the territories of Guam, Puerto Rico, the U.S. Virgin Islands, and the Northern Mariana Islands have legalized the cultivation and sale of Medical-Use Cannabis. In 11 U.S. states, the sale and possession of both Medical-Use Cannabis and Adult-Use Cannabis is legal, and the District of Columbia has legalized Adult-Use Cannabis but is barred from commercial sale. Thirteen states have also enacted low-THC / high-CBD only laws for medical patients. The sale and possession of both Medical-Use Cannabis and Adult-Use Cannabis is legal in the State of California, subject to applicable licensing requirements and compliance with applicable conditions. Further, ballot initiatives to legalize Adult-Use Cannabis recently passed in Arizona, New Jersey, South Dakota, and Montana, and ballot initiatives to legalize Medical-Use Cannabis passed in South Dakota and Mississippi, with implementation of applicable regulations expected in those states in the near future.

Under President Barack Obama, the U.S. administration attempted to address the inconsistencies between federal and state regulation of cannabis in a memorandum which then-Deputy Attorney General James Cole sent to all United States Attorneys on August 29, 2013 (the “**2013 Cole Memorandum**”) outlining certain priorities for the DOJ relating to the prosecution of cannabis offenses. The 2013 Cole Memorandum noted that in jurisdictions that have enacted laws legalizing or decriminalizing Regulated Cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, processing, distribution, sale and possession of Regulated Cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. The DOJ did not provide (and has not provided since) specific guidelines for what regulatory and enforcement systems would be deemed sufficient under the 2013 Cole Memorandum. In light of limited investigative and prosecutorial resources, the 2013 Cole Memorandum concluded that the DOJ should be focused on addressing only the most significant threats related to cannabis, a non-exhaustive list of which was enumerated therein.

On January 4, 2018, U.S. Attorney General Jeff Sessions formally issued a new memorandum (the “**Sessions Memorandum**”), which rescinded all “previous nationwide guidance specific to marijuana enforcement,” including the 2013 Cole Memorandum. The Sessions Memorandum stated, in part, that current law reflects “Congress’ determination that Cannabis is a dangerous drug and Cannabis activity is a serious crime”, and Mr. Sessions directed all U.S. Attorneys to enforce the laws enacted by Congress by following well-established principles when pursuing prosecutions related to cannabis activities. There can be no assurance that the federal government will not enforce federal laws relating to cannabis in the future. As a result of the Sessions Memorandum, federal prosecutors are now free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of State-level laws that may be inconsistent with federal prohibitions. No direction was given to federal prosecutors in the Sessions Memorandum as to the priority they should ascribe to such cannabis activities, and resultantly it is uncertain how active U.S. federal prosecutors will be in relation to such activities.

The Corporation believes it is still unclear what prosecutorial effects will be created by the rescission of the 2013 Cole Memorandum. The Corporation believes that the sheer size of the Regulated Cannabis industry, in addition to participation by state and local governments and investors, suggests that a large-scale enforcement operation would more than likely create unwanted political backlash for the DOJ and the Biden administration in certain states that heavily favor decriminalization and/or legalization. Regardless, cannabis and THC remain a Schedule I controlled substance at the federal level, and neither the 2013 Cole Memorandum nor its rescission has altered that fact. The federal government of the United States has always reserved the right to enforce federal law in regard to the manufacture, distribution, sale and disbursement of Medical-Use Cannabis or Adult-Use Cannabis, even if state law permits such manufacture, distribution, sale and disbursement. The Corporation believes, from a purely legal perspective, that the criminal risk today remains similar to the risk on January 3, 2018. It remains unclear whether the risk of enforcement has been altered. Additionally, under United States federal law, it is a violation of federal money laundering statutes for financial institutions to take any proceeds from the sale of Regulated Cannabis or any other Schedule I controlled substance. Canadian banks are likewise hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions, particularly those that are federally chartered in the United States, could be prosecuted and possibly convicted of money laundering for providing services to Regulated Cannabis businesses. While Congress is considering legislation that may address these issues, there can be no assurance that such legislation passes.

Despite these laws, the U.S. Department of the Treasury’s Financial Crimes Enforcement Network (“**FinCEN**”) issued a memorandum on February 14, 2014 (the “**FinCEN Memorandum**”) outlining the pathways for financial institutions to bank state-sanctioned Regulated Cannabis businesses in compliance with federal enforcement priorities. The FinCEN Memorandum echoed the enforcement priorities of the 2013 Cole Memorandum and stated that in some circumstances, it is possible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. Under these guidelines, financial institutions must submit a Suspicious Activity Report (“**SAR**”) in connection with all cannabis-related banking activities by any client of such financial institution, in accordance with federal money laundering laws. These cannabis-related SARs are divided into three categories - cannabis limited, cannabis priority, and cannabis terminated - based on the financial institution’s belief that the business in question follows state law, is operating outside of compliance with state law, or where the banking relationship has been terminated, respectively. On the same day that the FinCEN Memorandum was published, the DOJ issued a memorandum (the “**2014 Cole Memorandum**”) directing prosecutors to apply the enforcement priorities of the 2013 Cole Memorandum in determining whether to charge individuals or institutions with crimes

related to financial transactions involving the proceeds of cannabis-related conduct. The 2014 Cole Memorandum has been rescinded as of January 4, 2018, along with the 2013 Cole Memorandum, removing guidance that enforcement of applicable financial crimes against state-compliant actors was not a DOJ priority.

However, former Attorney General Sessions' rescission of the 2013 Cole Memorandum and the 2014 Cole Memorandum has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the 2014 Cole Memorandum and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum is a standalone document which explicitly lists the eight enforcement priorities originally cited in the 2013 Cole Memorandum. As such, the FinCEN Memorandum remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance. However, FinCEN issued further guidance on December 3, 2019, in which it acknowledged that the Agricultural Improvement Act of 2018 (the "**Farm Bill**") removed hemp as a Schedule I controlled substance and authorized the United States Department of Agriculture ("**USDA**") to issue regulations governing, among other things, domestic hemp production. The guidance states that because hemp is no longer a controlled substance under federal law, banks are not required to file SARs on these businesses solely because they are engaged in the growth or cultivation of hemp in accordance with applicable laws and regulations. The guidance further notes that for hemp-related customers, banks are expected to follow standard SAR procedures, and file a SAR if indicia of suspicious activity warrants. FinCEN noted in its December 2019 guidance that the 2014 SAR reporting structure for cannabis remains in place even with the passage of the Farm Bill and this additional guidance related to hemp. FinCEN confirmed this point in guidance issued on June 29, 2020, and clarified that, if proceeds from cannabis-related activities are kept separate, a SAR filing is only required for the cannabis-related part of a business that engages in both cannabis and hemp activity.

Although the 2013 Cole Memorandum has been rescinded, one legislative safeguard for the Medical-Use Cannabis industry has historically remained in place: Congress adopted a so-called "rider" provision to the fiscal years 2015, 2016, 2017, and 2018, 2019 and 2020 Consolidated Appropriations Acts (currently referred to as the "**Rohrabacher/Blumenauer Amendment**") to prevent the federal government from using congressionally appropriated funds to enforce federal cannabis laws against regulated Medical-Use Cannabis actors operating in compliance with state and local law. The Rohrabacher/Blumenauer Amendment was included in the consolidated appropriations bill signed into law by President Trump in December 2019 and expired on September 30, 2020. In signing the Rohrabacher/Blumenauer Amendment, President Trump issued a signing statement noting that the Rohrabacher/Blumenauer Amendment "provides that the Department of Justice may not use any funds to prevent implementation of medical marijuana laws by various States and territories," and further stating "I will treat this provision consistent with the President's constitutional responsibility to faithfully execute the laws of the United States." While the signing statement can fairly be read to mean that the executive branch intends to enforce the CSA and other federal laws prohibiting the sale and possession of medical cannabis, the president did issue a similar signing statement in 2017 and no major federal enforcement actions followed. On December 27, the Rohrabacher/Blumenauer Amendment was renewed through the signing of the FY 2021 federal omnibus spending bill, which extended the protections of the Amendment through September 30, 2021. The Rohrabacher/Blumenauer Amendment may or may not be included in a subsequent omnibus appropriations package or a continuing budget resolution. Should the Rohrabacher/Blumenauer Amendment not be renewed upon expiration in subsequent spending bills, there can be no assurance that the federal government will not seek to prosecute cases involving medical cannabis businesses that are otherwise compliant with State law. Such potential proceedings could involve significant restrictions being imposed upon the Corporation.

Despite the legal, regulatory, and political obstacles the Regulated Cannabis industry currently faces, the industry has continued to grow. Under certain circumstances, the federal government may repeal the federal prohibition on cannabis and thereby leave the states to decide for themselves whether to permit Regulated Cannabis cultivation, production and sale, just as states are free today to decide policies governing the distribution of alcohol or tobacco. Until that happens, the Corporation faces the risk of federal enforcement and other risks associated with the Corporation's business.

To the knowledge of management of the Corporation, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in California.

The Corporation's objective is to capitalize on the opportunities presented as a result of the changing regulatory

environment governing the cannabis industry in the United States. Accordingly, there are a number of significant risks associated with the business of the Corporation. Unless and until the United States Congress amends the CSA with respect to Medical-Use Cannabis or Adult-Use Cannabis, there is a risk that federal authorities may enforce current federal law, and the business of the Corporation may be deemed to be producing, cultivating, extracting, or dispensing “marihuana” or aiding or abetting or otherwise engaging in a conspiracy to commit such acts in violation of U.S. federal law.

The Corporation has received and continues to receive legal input, in verbal and written form (including opinions when required), regarding (a) compliance with applicable state and local regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law in certain respects.

The 2013 Cole Memorandum and the Rohrabacher/Blumenauer Amendment gave Medical-Use Cannabis operators and investors in states with legal regimes greater certainty regarding federal enforcement as to establish Regulated Cannabis businesses in those states. While the Sessions Memorandum has introduced some uncertainty regarding federal enforcement, the Regulated Cannabis industry continues to experience growth in legal Medical-Use Cannabis and Adult-Use Cannabis markets across the United States. U.S. Attorney General Jeff Sessions resigned on November 7, 2018. Nonetheless, there is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, even under a Biden Administration’s DOJ or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. Unless and until the United States Congress amends the CSA with respect to cannabis and THC (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current U.S. federal law.

Despite the expanding market for Regulated Cannabis, traditional sources of financing, including bank lending or private equity capital, are lacking which can be attributable to the fact that cannabis remains a Schedule I substance under the CSA. These traditional sources of financing are expected to remain scarce unless and until the federal government legalizes cannabis cultivation and sales.

Exposure to U.S. Marijuana Related Activities

The Corporation operates in the United States through various subsidiaries and other entities pursuant to arrangements with third-parties on arm’s length terms as more specifically described herein. As of the closing of the Qualifying Transaction, a majority of the Corporation’s business was directly derived from U.S. cannabis-related activities. As such, a majority of the Corporation’s balance sheet and operating statement for periods following closing of the Qualifying Transaction will reflect exposure to U.S. cannabis related activities.

State-Level Regulatory Landscape

In accordance with Staff Notice 51-352, below is a discussion of State-level U.S. regulatory regimes in those jurisdictions where the Corporation is, and will be, directly or indirectly involved through its subsidiaries. The Corporation and its subsidiaries are directly engaged in the manufacture, possession, use, sale or distribution of cannabis and/or hold licenses in the adult-use and/or medicinal cannabis marketplace in the State of California. In accordance with Staff Notice 51-352, the Corporation 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 cannabis regulation. The Corporation intends to cause its businesses to promptly remedy any known occurrences of non-compliance with applicable State and local cannabis rules and regulations, and intends to publicly disclose any non-compliance, citations or notices of violation which may have an impact on its licenses, business activities or operations.

California Regulatory Landscape

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

In 2003, Senate Bill 420 was signed into law establishing not-for-profit medical cannabis collectives and dispensaries, and an optional identification card system for Medical-Use Cannabis patients.

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

To legally operate a Medical-Use Cannabis or Adult-Use Cannabis business in California, the operator must generally have both a local and state license. This requires license holders to operate in cities with cannabis licensing programs. Therefore, counties and cities in California are allowed to determine the number of licenses they will issue to cannabis operators, or can choose to outright ban the siting of cannabis operations in their jurisdictions.

California Licensing Requirements

A medicinal retailer license permits the sale of medicinal cannabis and cannabis products to a medicinal cannabis patient in California who possesses a physician’s recommendation. Only certified physicians may provide medicinal cannabis recommendations. An adult-use retailer license permits the sale of cannabis and cannabis products to any individual age 21 years of age or older regardless of whether they possess a physician’s recommendation.

An adult-use or medicinal cultivation license permits cannabis cultivation activity which means any activity involving the planting, growing, harvesting, drying, curing, grading or trimming of cannabis. Such licenses further permit the production of a limited number of “non-manufactured cannabis products” and the sales of cannabis to certain licensed entities within the State of California for resale or manufacturing purposes.

An adult-use or medical manufacturing license permits the manufacturing of “manufactured cannabis products”. Manufacturing includes the compounding, blending, extracting, infusion, packaging or repackaging, labeling or relabeling, or other preparation of a cannabis product.

In the State of California, only cannabis that is grown in the state by a licensed operator can be sold in the state. California does not mandate a vertically-integrated system, and the state allows licensees to make wholesale purchase of cannabis from, or a distribution of cannabis and cannabis product to, another licensed entity within the state.

Holders of cannabis licenses in California are subject to a detailed regulatory scheme encompassing security, staffing, sales, manufacturing standards, testing, inspections, inventory, advertising and marketing, product packaging and labeling, white labeling, records and reporting, and more. As with all jurisdictions, the full regulations, as promulgated by each applicable state agency, should be consulted for further information about any particular operational area.

California Reporting Requirements

The State of California uses METRC as the state’s track-and-trace system used to track commercial cannabis activity and movement across the distribution chain for all state-issued licensees. The system allows for other third-party system integration via application programming interface. Only licensees have access to METRC.

California Storage and Security

To ensure the safety and security of cannabis business premises and to maintain adequate controls against the diversion, theft, and loss of cannabis or cannabis products, California's retail cannabis businesses are generally required to do the following:

- maintain a fully operational security alarm system;
- contract for security guard services;
- maintain a video surveillance system that records continuously 24 hours a day;
- ensure that the facility's outdoor premises have sufficient lighting;
- not dispense from its premises outside of permissible hours of operation;
- store cannabis and cannabis product only in areas per the premises diagram submitted to the State of California during the licensing process;
- store all cannabis and cannabis products in a secured, locked room or a vault;
- report to local law enforcement within 24 hours after being notified or becoming aware of the theft, diversion, or loss of cannabis; and
- ensure the safe transport of cannabis and cannabis products between licensed facilities, maintain a delivery manifest in any vehicle transporting cannabis and cannabis products. Only vehicles registered with the BCC that meet BCC distribution requirements are to be used to transport cannabis and cannabis products.

California Home Delivery Requirements

California law allows certain licensed retailers to deliver cannabis to adult customers at any private address within the state, including within those jurisdictions that have land use and zoning ordinances prohibiting the establishment of commercial cannabis businesses. At least 25 local jurisdictions where cannabis sales are banned sued the state, seeking to overturn the rule allowing home deliveries statewide. As of the date hereof, the suit was dismissed on procedural grounds, and the state regulation stands. To the knowledge of management, there have been no significant enforcement efforts mounted by local governments.

The State of California requires the satisfaction of various regulatory compliance obligations in order to operate a cannabis delivery service. The cannabis license that permits the operation of a storefront dispensary in the State of California (also referred to as a retail license) currently permits that entity to also establish a delivery operation. If an entity does not wish to set up and operate a storefront dispensary location at which it can sell products to customers in person, California has established a separate license which allows for a retail delivery operation (also referred to as a non-storefront retail license). California regulations regarding the delivery of cannabis products include the following requirements:

- All deliveries of cannabis goods must be performed by a delivery employee (at least 21 years of age) who is directly employed by a licensed retailer.
- All deliveries of cannabis goods must be made in person.
- Prior to providing cannabis goods to a delivery customer, a delivery employee must confirm the identity and age of the delivery customer (as is required if such customer was purchasing the product in the physical dispensary) and ensure that all cannabis goods sold comply with the regulatory requirements.
- A licensed cannabis entity is permitted to contract with a service that provides a technology platform to facilitate the sale and delivery of cannabis goods, in accordance with all of the following: (1) the licensed cannabis entity does not allow for delivery of cannabis goods by the technology platform service provider; (2) the licensed entity does not share in the profits of the sale of cannabis goods with the technology platform service provider, or otherwise provide for a percentage or portion of the cannabis goods sales to the technology platform service provider; (3) the licensed cannabis entity does not advertise or market cannabis goods in conjunction with the technology platform service provider, outside of the technology platform, and ensures that the technology platform service provider does not use the licensed cannabis entity's license number or legal business name on any advertisement or marketing that primarily promotes the services of the technology platform; and (4) provides various disclosures to customers about the source of the delivered cannabis goods.
- Cannabis may only be delivered to a physical address but cannot be delivered to an address located on publicly owned land or an address on land or in a building leased by a public agency, and the

delivery cannot be to a location outside of the state of California.

- The delivery operations must satisfy any local jurisdiction requirements for the delivery of cannabis products.
- A delivery employee is not permitted to carry cannabis goods in the delivery vehicle with a value in excess of \$5,000 at any time.
- The delivery vehicle and its use must satisfy certain regulatory requirements such as continuous and dedicated GPS, use of locked containment units for the cannabis products, and unmarked vehicles.

Ongoing Compliance

Overview

The Corporation is subject to the general licensing and regulatory framework in California set out under the heading “United States Regulatory Environment – California”. The Corporation has developed a compliance program designed to achieve its strategic business goals while protecting the organization and operations. The Corporation’s compliance program integrates external regulations with internal rules and procedures to effectively lay out expectations for employee duties and behaviors; this aligns the goals of its employees with those of the Corporation and helps the Corporation’s operations run smoothly. The Corporation focuses on upholding policies and procedures that ensure the organization and its employees comply with applicable laws and regulations.

Employee Training

The Corporation routinely trains employees on the compliance program’s objectives, relevant policies and procedures, and the basic components of the compliance program. Additional specialized training also takes place for various policies and procedures that are applicable to specific job functions and/or departments where needed to properly perform their jobs. Training is tracked, attested to, and documented.

Inventory and Security Policies

Maintaining security and inventory control is important to the Corporation and it has adopted a number of policies, procedures, and practices in these areas:

Security: The Corporation has taken extensive security measures including implementing professionally vetted policies, procedures, and systems to provide comprehensive protection, not only for its physical plant and inventory, but also for its employees, customers, and the surrounding public. Every licensed facility has strict access control, thorough camera coverage, and burglar alarms. These controls are supported by on-site security in certain instances.

Inventory: The Corporation maintains inventory control and reporting systems that document the present location, amount, and a description of all cannabis and cannabis products at all facilities. The traceability of cannabis goods is maintained using the California’s “Track-and-Trace” system, METRC, and the licensee’s integrated enterprise resource planning system (“ERP”). Cannabis inventory is regularly manually reconciled against METRC according to the regulations. The Corporation conducts regular continuous cycle counts in addition to both quarterly and annual manual inventory reconciliations.

Operational Compliance

Internal audits are conducted quarterly. These audits allow us to identify and monitor the Corporation’s strengths and weaknesses, highlighting continuous opportunities for improvement. These internal audits also provide us an opportunity to reinforce best practices and to institute changes in areas that are identified as opportunities for improvement. The information discovered and obtained during these internal audits is used to improve the compliance programs, when necessary, by revising policies, strengthening training, and establishing better reporting processes. The focus of the Corporation’s internal compliance audit is to ensure it is compliant with both state and local laws and regulations and internal policies and procedures.

Big Data Analysis

The Corporation has invested in a highly scalable data architecture and platform built using leading technologies and tools. By extracting data from its enterprise resource planning software and the California METRC track and trace system and subsequently organizing it in its data warehouse, the Corporation has enabled critical data and insights for

its compliance efforts. The Corporation's data warehouse secures and stores all data and transactions at frequent intervals, allowing extensive access and analysis to information that is current. The Corporation has the ability to understand precise movement of inventory or dollars, past or present, required for review or due diligence as related to compliance requirements or inquiries. The Corporation is using this data infrastructure proactively to track, monitor and reconcile inventory levels and for ongoing reconciliation with METRC.

Ongoing Compliance

The Corporation prides itself on a robust internal compliance program encompassing both the compliance measures described above as well as monitoring compliance with U.S. state law on an ongoing basis. Key to those compliance efforts is the employment of individuals dedicated to monitoring California law for changes and updates to statutes and regulations, both at the state level and the local level, that impact business operations. Currently, the Corporation employs five individuals whose job function includes some aspect of compliance. Further, the Corporation employs a government relations employee whose primary job function is to monitor the changing landscape of state and local law while employing an external consultant and two external law firms that assist in the monitoring, notification, and interpretation of any changes. Additionally, the Corporation currently implements and maintains standard operating procedures ("SOPs") that are designed for monitoring compliance with California law on an ongoing basis. These SOPs include regular review of current and anticipated statutes, regulations, and ordinances and the training of employees to maintain compliance with California law.

In addition to the internal compliance team and the consultants and law firms described above, the Corporation also engages local regulatory compliance counsel and consultants in the jurisdictions in which it operates. Such counsel regularly provides legal advice to the Corporation regarding compliance with state and local laws and regulation and the Corporation's legal and compliance exposures under United States federal law.