

# FLUENT Corp.

(Formerly Consortium Inc.)

## SELECTED FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") provides information concerning the financial condition and results of operations of FLUENT Corp. (the "Company"). This MD&A is provided as of April 17, 2025, unless otherwise stated, and should be read along with the audited Fluent Corp. Financial Statements ("Consolidated Financial Statements") and the accompanying notes for the years ended December 31, 2024, and 2023.

The results reported herein have been prepared in accordance with International Financial Reporting Standards (IFRS) and, unless otherwise noted, are expressed in United States thousands of dollars.

The Financial Statements include the accounts of the Company and its wholly owned subsidiaries and the Company's interests in affiliated companies (see "Basis of consolidation" section within this MD&A). All intercompany balances and transactions have been eliminated on consolidation.

This MD&A includes non-IFRS financial measures, such as "Gross profit before fair value adjustments", "Gross margin before fair value adjustments", "EBITDA", "Adjusted EBITDA", "EBITDA margin" and "Adjusted EBITDA margin", as defined below. The management of the Company believes that these non-IFRS financial measures, in addition to conventional measures prepared in accordance with IFRS, provide information that is helpful to understand the results of operations and financial condition of the Company. The objective is to present readers with a view of the Company from the management's perspective by interpreting the material trends and activities that affect the operating results, liquidity, and financial position of the Company. These measures are not necessarily comparable to similarly titled measures used by other companies.

"Gross profit before fair value adjustments" is gross profit plus (minus) the changes in fair value of biological assets. "Gross margin before fair value adjustments" is "gross profit before fair value adjustments" divided by revenue. "EBITDA" is net income (loss), plus (minus) interest expense (income) and finance transactions costs, plus taxes, plus depreciation and amortization. "EBITDA margin" is equal to EBITDA divided by revenue. "Adjusted EBITDA" is equal to EBITDA plus (minus) the changes in fair value of biological assets, plus (minus) the changes in fair market value of derivatives, plus (minus) certain one-time non-operating expenses, as determined by management. "Adjusted EBITDA Margin" is equal to Adjusted EBITDA divided by revenue.

FLUENT Corp. was incorporated under the laws of the Province of Ontario, Canada pursuant to the Business Corporations Act (Ontario) ("OBCA") on August 31, 2018 under the name "Consortium Inc." On February 5, 2025, the Company amended the Articles to change its name from "Consortium Inc." to "FLUENT Corp." The Company's registered office is located at 365 Bay Street, Suite 800, Toronto, Ontario, M5H2V1 and its head office is located at 5540 W. Executive Drive, Suite 100, Tampa, Florida, United States, 33609. The Company's shares are listed on the Canadian Securities Exchange ("CSE") under the trading symbol "FNT" and on the OTCQX under the trading symbol "CNTMF".

Additional information relating to the Company, including the Company's audited year-end financial results and unaudited quarterly financial results, are available under the Company's profile on SEDAR+ ([www.sedarplus.ca](http://www.sedarplus.ca)).

## Cautionary Note Regarding Forward-Looking Statements

This MD&A contains forward-looking statements that relate to the Company's current expectations and views of future events. All statements, other than statements of historical facts, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements.

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

Forward-looking statements are based on certain assumptions and analyses made by the Company in light of the experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate and are subject to risks and uncertainties. In making the forward-looking statements included in this MD&A, the Company has made various material assumptions, including but not limited to the performance of the Company's business and operations; the receipt and/or maintenance by the Company of required licenses and permits in a timely manner or at all; the intention to grow the business and operations of the Company; the expected growth in the number of the people using medical cannabis products; expectations of market size and growth in the United States; the competitive conditions and increasing competition of the cannabis industry; applicable laws, regulations and any amendments thereof; the competitive and business strategies of the Company; the Company's operations in the United States, the characterization and consequences of those operations under federal United States law, and the framework for the enforcement of medical and adult use cannabis and cannabis-related offenses in the United States; the completion of additional cultivation and retail facilities; the general economic, financial market, regulatory and political conditions in which the Company operates; the United States regulatory landscape and enforcement related to cannabis, including political risks; anti-money laundering laws and regulation; other governmental and environmental regulation; public opinion and perception of the cannabis industry; the enforceability of contracts; reliance on the expertise and judgment of senior management of the Company; proprietary intellectual property and potential infringement by third parties; the concentrated voting control of the Company by certain shareholders of the Company and the unpredictability caused by the capital structure; risks inherent in an agricultural business; risks relating to energy costs; risks associated to cannabis products manufactured for human consumption including potential product recalls; reliance on key inputs, suppliers and skilled labor; cybersecurity risks; ability and constraints on marketing products; fraudulent activity by employees, contractors and consultants; tax and insurance related risks; risk of litigation; conflicts of interest; security risks; risks related to future acquisitions or dispositions; sales by existing shareholders; limited research and data relating to cannabis; the medical benefits, viability, safety, efficacy and social acceptance of cannabis; the availability of financing opportunities, the ability to make payments on existing indebtedness; risks related to pricing pressures in the states in which the Company operates; risks associated with economic, political and social conditions; risks related to contagious disease, particularly COVID-19 (Coronavirus); and other risks described in this MD&A and described from time to time in documents filed by the Company with Canadian securities regulatory authorities. Although the Company believes that the assumptions underlying these statements are reasonable, they may prove to be incorrect, and the Company cannot assure that actual results will be consistent with these forward-looking statements. Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions, and other factors, including risks described in the public documents of the Company available at [www.sedarplus.ca](http://www.sedarplus.ca).

The Company's forward-looking statements are based on the reasonable beliefs, expectations, and opinions of management on the date of this MD&A (or as of the date they are otherwise stated to be made). Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results that were not anticipated, estimated, or intended. There is no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update or revise any forward-looking statements except to the extent required by applicable securities laws.

## Basis of Consolidation

This MD&A includes the accounts of the Company and its wholly and majority-owned subsidiaries. Subsidiaries over which the Company has control are fully consolidated from the date control commences until the date control ceases. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable are taken into account. Non-controlling interests in the equity of consolidated subsidiaries are shown separately in the consolidated statement of operations and in the consolidated statement of changes in shareholders' equity. All intercompany balances and transactions are eliminated on consolidation. The information below lists the Company's subsidiaries that are consolidated in the Consolidated Financial Statements and the ownership interest held as of December 31, 2024, and 2023.

	<b>% Ownership</b>	<b>% Ownership</b>
	<b>December 31, 2024</b>	<b>December 31, 2023</b>
Cansortium Holdings LLC	100%	100%
Cansortium Pennsylvania, LLC	100%	100%
Cansortium Puerto Rico, LLC	100%	100%
Cansortium Texas, LLC	100%	100%
Cansortium Canada Holdings Inc.	100%	100%
Fluent Servicing, LLC	100%	100%
Cansortium Brazil Ltda.	100%	100%
Cansortium Florida, LLC	100%	100%
Cansortium Colombia S.A.S.	50%	50%
Spirit Lake Road Nursery, LLC	100%	100%
Cavern Capital Holdings LLC	100%	100%
Fluent Hemp LLC	100%	100%
Cansortium International Inc.	100%	100%
Trick Tail Capital LLC	100%	100%
RIV Capital Inc.	100%	n.a.
2683922 Ontario Inc.	100%	n.a.
RIV Capital US Corp.	100%	n.a.
RIV Capital US Services LLC	100%	n.a.
Allgro Holdings LLC	100%	n.a.
Etain, LLC	100%	n.a.

## Business Overview

The Company, through its various U.S. subsidiaries, is licensed to produce and sell medical and adult-use cannabis in New York, medical cannabis in Florida and Texas, and sell medical cannabis in Pennsylvania.

A Company subsidiary is also licensed to sell hemp-derived cannabis products in Florida, although that accounts for a negligible amount of business activity during the reporting period.

Through its acquisition of RIV Capital Inc. on December 19, 2024, the Company is licensed to produce and sell both medical and adult-use cannabis in New York.

The Company discontinued its operations in Puerto Rico, Canada and Colombia during 2019. The Company discontinued its operations in Brazil during 2022.

In the United States, licensing for medical or recreational cannabis cultivation, production, sale, and use is determined at a state level basis and not federally. Cultivation, sale and use of cannabis is illegal under federal law in the United States pursuant to the U.S. Controlled Substances Act of 1970. Each state which allows the production, sale and/or use of cannabis has its own legislation, rules, regulations, and policies with respect to the licensing of medical or recreational cannabis-related activities. The

Company believes that its operations are in full compliance with all applicable state and local laws, regulations, and licensing requirements.

#### RIV Acquisition

On May 30, 2024, the Company and RIV Capital Inc. (“RIV Capital”) entered into a definitive arrangement agreement pursuant to which the Company would acquire all of the issued and outstanding Common Shares in exchange for common shares of the Company (the “RIV Transaction”). RIV Capital, through its subsidiary Etain LLC, is a vertically integrated cannabis company licensed in New York state to cultivate, manufacture, process, and distribute both medical and adult-use cannabis in both retail and wholesale markets. Through the RIV Transaction, the Company would have access to cannabis operations in New York state and have access to RIV Capital’s significant cash balance, which will enable to the Company to continue its growth objectives. Expected synergies include cultivation, processing, and operating efficiencies, corporate integration and elimination of duplicative public company costs in the combined company.

On December 19, 2024, following receipt of requisite shareholder and regulatory approvals, the RIV Transaction was affected and RIV Capital shareholders received 1.245 Fluent common shares in exchange for each RIV share held.

#### Florida

Most of the Company’s existing business takes place in the State of Florida.

In the State of Florida, the Department of Health, Office of Medical Marijuana Use (the “Department”) issues licenses to Medical Marijuana Treatment Centers to cultivate, process and sell medical cannabis (referred to as an “MMTC License”). The Company operates under an MMTC License issued to Spirit Lake Road Nursery, LLC, a wholly owned indirect subsidiary of the Company.

As of the date of this MD&A, the Company operates a cultivation facility in Zolfo Springs, FL (the “Sweetwater Facility”), a cultivation facility in Polk City, FL (the “Polk Facility”), a cultivation and production facility in Tampa, FL (the “Tampa Facility”) and a cultivation site in Ruskin, FL (the “Ruskin Facility”). The Tampa Facility produces various products ranging from topicals, inhalation vaporizers, oral, smoking and edibles.

The Tampa Facility is approximately 22,000 sq. ft. of indoor cultivation which includes 20,160 sq. ft. of flowering canopy over 6 levels. In the second quarter of 2022, the Company added 24,225 sq. ft. building to the existing Tampa Facility with approximately 9,000 sq. ft. of new cultivation area and approximately 15,000 sq. ft. of new production and office space.

The Sweetwater Facility commenced operations in the fourth quarter of 2020 and includes 26,000 sq. ft. of indoor cultivation, production, administrative space, and a 40,000 sq. ft. greenhouse, on 15 acres. Current cultivation is 15,400 sq. ft. of indoor flowering canopy, with its first harvesting occurring in March 2021. Additionally, the Sweetwater Facility has expansion capacity for up to seven additional greenhouses.

The Polk Facility commenced operations in the third quarter of 2022 and includes a 27,000 sq. ft. greenhouse, on 72 acres with its first harvesting occurring in December 2022. Additionally, the Polk Facility has expansion capacity for up to five acres of additional greenhouses.

The Ruskin Facility commenced operations in the first quarter of 2024 and includes a 13,824 sq. ft. of indoor flowering canopy, with its first harvesting occurring in second quarter of 2024.

As of December 31, 2024, the Company operated 35 dispensaries throughout the State of Florida.

#### Texas

The Company owns and operates 1,300 sq. ft. of cultivation space in climate and humidity-controlled C-containers which include 1,920 sq. ft. of flowering canopy over 2 levels. Currently, the Company only sells in Texas via home deliveries. The Company has rights to expand the cultivation facility up to 400,000 additional sq. ft. as demand requires.

## Pennsylvania

The Company currently operates the three dispensaries it is licensed to operate in the south-central region of Pennsylvania for the sale of medical cannabis. This dispensing permit allows for the purchase of finished products from permitted processors in the Commonwealth of Pennsylvania.

The Company's first dispensary in Pennsylvania, located in Hanover, opened in September 2018. The Company's second dispensary in Pennsylvania, located in Mechanicsburg, opened in August 2021. The third dispensary, located in Annville, opened in April 2022.

## New York

Through the RIV acquisition, Fluent operates a cannabis cultivation and production facility located in Chestertown, New York (the "Chestertown Facility"), a hamlet with approximately 700 residents in the Adirondack Mountains. Constructed in 2015, the approximately 20,000 square foot facility is comprised of approximately 8,100 square feet of rooms dedicated for flowering and includes two smaller extraction labs and a larger production floor for the manufacture of cannabis products (dried flower, pre-rolls, vaporizers, capsules, tinctures, powders, lozenges, lotions, and oral sprays).

As of December 31, 2024, the Company operated 4 dispensaries throughout the State of New York.

## **Products and Brands**

The Company's cannabis products are offered in oral drops, capsule, topical, syringe, dried flower, pre-roll, cartridge, concentrate and edible forms, along with accessories. The Company's products have shifted from marketing mainly under the FLUENT™ brand name, launched in May 2019, to a house of brands that includes Bag-O, FLUENT, Hyer Kind, Knack, MOODS, and Wandr. Prior to the launch of the FLUENT brand the Company operated under the Knox Medical brand.

In Pennsylvania, the Company's product portfolio is a variety of third-party branded medical cannabis products.

**Management's Discussion & Analysis of the Company for the three months ended December 31, 2024, and 2023**

**FINANCIAL HIGHLIGHTS**

Financial results	Three months ended		
	December 31, 2024	December 31, 2023	Variance
Revenue	\$ 24,919	\$ 25,544	\$ (625)
Gross profit before fair value adjustments <sup>(1)</sup>	\$ 10,000	\$ 12,612	\$ (2,612)
Gross margin before fair value adjustments <sup>(1)</sup>	40.1%	49.4%	-9.2%
Gross profit	\$ 7,785	\$ 13,344	\$ (5,559)
Gross margin	31.2%	52.2%	-21.0%
Selling, general and administrative expenses	\$ 12,576	\$ 9,329	\$ 3,247
EBITDA <sup>(1)</sup>	\$ (29,650)	\$ 7,411	\$ (37,061)
Adjusted EBITDA <sup>(1)</sup>	\$ 3,019	\$ 6,864	\$ (3,845)
Net income (loss)	\$ (25,391)	\$ (4,710)	\$ (20,681)
Net income (loss) per share basic and diluted	\$ (0.08)	\$ (0.02)	\$ (0.06)
	December 31, 2024	December 31, 2023	Variance
<b>Balance Sheet</b>			
Total assets	\$ 206,993	\$ 177,803	\$ 29,190
Total long-term liabilities	187,606	119,711	67,895
Total liabilities	215,975	169,218	46,757

**Notes:**

<sup>(1)</sup> Gross profit before fair value adjustments, gross margin before fair value adjustments, EBITDA and Adjusted EBITDA are non-IFRS financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Refer to quarterly results of operations sections below for reconciliation to IFRS.

**QUARTERLY RESULTS OF OPERATIONS (three months ended December 31, 2024, and 2023)**

(all figures in 000's)

	Three months ended		
	December 31, 2024	December 31, 2023	Variance
Revenue, net of discounts	\$ 24,919	\$ 25,544	\$ (625)
Cost of goods sold	14,919	12,932	1,987
Gross profit before fair value adjustments <sup>(1)</sup>	10,000	12,612	(2,612)
<i>Gross margin before fair value adjustments <sup>(1)</sup></i>	<i>40.1%</i>	<i>49.4%</i>	<i>-9.2%</i>
Realized fair value of increments on inventory sold	(1,383)	3,615	(4,998)
Unrealized change in fair value of biological assets	(832)	(2,883)	2,051
Gross profit	7,785	13,344	(5,559)
<i>Gross profit margin</i>	<i>31.2%</i>	<i>52.2%</i>	<i>-21.0%</i>
Expenses:			
General and administrative	5,119	2,436	2,683
Sales and marketing	5,507	5,265	242
Depreciation and amortization	1,831	1,634	197
Share-based compensation	119	(6)	125
Total expenses	12,576	9,329	3,247
Income (loss) from operations	(4,791)	4,015	(8,806)
Other expense (income):			
Finance costs, net	5,252	4,806	446
Change in fair market value of derivative	(1,392)	171	(1,563)
Bargain purchase gain on business combination	(44,520)	-	(44,520)
(Gain) loss on lease modifications	(223)	-	(223)
Loss on issuance and settlement of debt	8,725	116	8,609
(Gain) loss on disposal of assets	25	(96)	121
Intangible assets impairment	64,285	-	64,285
Loss on loan	1,201	-	1,201
Other expense	257	1	256
Total other (income) expense	33,610	4,998	28,612
Income (Loss) before taxes	(38,401)	(983)	(37,418)
Income taxes	(13,010)	3,727	(16,737)
Net income (loss)	\$ (25,391)	\$ (4,710)	\$ (20,681)
Foreign currency translation adjustment	(862)	-	(862)
Comprehensive income (loss)	\$ (26,253)	\$ (4,710)	\$ (21,543)

<sup>(1)</sup> Gross profit before fair value adjustments, gross margin before fair value adjustments, EBITDA and Adjusted EBITDA are non-IFRS financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Refer to quarterly results of operations sections below for reconciliation to IFRS.

## **Revenue**

Consolidated revenue for the three months ended December 31, 2024 decreased 2.4% to \$24,919 compared to \$25,544 for the same period last year. Revenue for the three months ended December 31, 2024 consisted primarily of revenue generated through the Company's thirty-five Florida dispensaries, along with revenue from three dispensaries in Pennsylvania. Revenue for the three months ended December 31, 2023 consisted primarily of revenue generated through the company's thirty-three Florida dispensaries, along with revenue from three dispensaries in Pennsylvania.

## **Gross profit and Gross Profit Before Fair Value Adjustments**

Gross profit before fair value adjustments for the three months ended December 31, 2024 was \$10,000, or 40.1% of revenue, versus gross profit before fair value adjustments of \$12,612, or 49.4% of revenue, for the same period last year. The decrease in gross profit before fair value adjustments for the three months ended December 31, 2024 compared to the three months ended December 31, 2023 was caused mainly by excess inventory and price compression in the Florida market as a result of Amendment 3 failure to pass.

Gross profit for the three months ended December 31, 2024 was \$7,785 or 31.2% of revenue, versus gross profit of \$13,344 or 52.2% of revenue, for the same period last year. The variance in adjusted gross profit is the result of changes in fair value of biological assets.

## **Selling, general and administrative expenses**

Consolidated selling, general and administrative (SG&A) expenses for the three months ended December 31, 2024 and 2023 were as follows:

	Three months ended		
	December 31, 2024	December 31, 2023	Variance
General and administrative expenses	\$ 5,119	\$ 2,436	\$ 2,683
Selling and marketing expenses	5,507	5,265	242
Depreciation and amortization	1,831	1,634	197
Share-based compensation	119	(6)	125
Total expenses	\$ 12,576	\$ 9,329	\$ 3,247

Consolidated SG&A expenses of \$12,576 for the three months ended December 31, 2024 increased by \$3,247 compared to the same period last year. This increase was mainly driven by a \$2,683 increase in our general and administrative expenses.

### *General and administrative expenses*

As noted above, total general and administrative expenses for the three months ended December 31, 2024 increased by \$2,683 compared to the same period last year. Increase in general and administrative expense is primarily related to legal costs incurred due to potential transactions and to salaries and wages from an increase in head count.

### *Selling and marketing expenses*

Selling and marketing expenses for the three months ended December 31, 2024 increased by \$242 to \$5,507 compared to \$5,265 for the three months ended December 31, 2023. This was primarily driven by increased salaries and wages due to increased headcount to support the increased number of Florida dispensaries in operation versus the same period last year.

Selling and marketing expenses as a percentage of revenue is 22.1% for the three months ended December 31, 2024 versus 20.6% for the same period last year.

### *Depreciation and Amortization:*



Depreciation and amortization increased \$197 for the three months ended December 31, 2024 to \$1,831 compared to \$1,634 for the three months ended December 31, 2023. The increase in depreciation and amortization is primarily the result of the increase in depreciation expense related to our leasehold improvements as some of the Company's leasehold improvements have become fully depreciated.

*Share-based compensation*

Share-based compensation was \$119 for the three months ended December 31, 2024. Stock compensation expense for both periods consists primarily of expense related to the Company's stock option and restricted stock unit plan.

**Other expense (income)**

Other expense (income) items for the three months ended December 31, 2024 and 2023 were as follows:

	Three months ended		
	December 31, 2024	December 31, 2023	Variance
Finance costs, net	\$ 5,252	\$ 4,806	\$ 446
Change in fair market value of derivative	(1,392)	171	(1,563)
Bargain purchase gain on business combination	(44,520)	-	(44,520)
(Gain) loss on lease modifications	(223)	-	(223)
Loss on issuance and settlement of debt	8,725	-	8,725
(Gain) loss on disposal of assets	25	(96)	121
Intangible assets impairment	64,285	-	64,285
Loss on loan	1,201	-	1,201
Other income	257	117	140
<b>Total other (income) expense</b>	<b>\$ 33,610</b>	<b>\$ 4,998</b>	<b>\$ 28,612</b>

Total other expense during the three months ended December 31, 2024 was \$33,610, compared to an expense of \$4,998 for the same period in 2023, an increase of \$28,716. Total other expense during the three months ended December 31, 2024 consisted of \$44,520 of bargain purchase gain related to the RIV acquisition, change in fair market value of derivative of \$1,392 and gain on lease modification of \$223, which were offset by loss of issuance and settlement of debt of \$8,725, finance costs of \$5,252, and intangible asset impairment of \$64,285.

Total other expense during the three months ended December 31, 2023 was \$4,998 consisting of finance costs of \$4,806, a change in fair market value of derivative of \$171, a loss on debt settlement of \$116, and a \$1 loss on termination of a contract partially offset by a gain on disposal of assets of \$96.

Finance costs of \$5,252 for the three months ended December 31, 2024, were primarily comprised of interest expense of \$2,768, accretion costs of \$1,344, and right-of-use interest expense of \$1,161, which were slightly offset by \$21 of interest income.

Finance costs of \$4,806 for the three months ended December 31, 2023, were primarily comprised of interest expense of \$2,246, debt issuance costs of \$1,262, and right-of-use interest expense of \$1,306, slightly offset by \$8 of interest income related to loan receivable.

Change in fair market value of derivative of \$(1,392) and \$171 for the three months ended December 31, 2024 and 2023, respectively, is due to the change in fair value of the Company's equity price guarantee and the Smith Convertible Note described Note 14 of the Company's footnotes.

## EBITDA

EBITDA is a non-IFRS financial measure that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. The Company calculates EBITDA from net loss, plus (minus) interest expense (income), plus taxes, plus depreciation and amortization, as follows:

	Three months ended		
	December 31, 2024	December 31, 2023	Variance
Net loss	\$ (25,391)	\$ (4,710)	\$ (20,681)
Finance costs, net	5,252	4,806	446
Income taxes	(13,010)	3,727	(16,737)
Depreciation and amortization	3,499	3,588	(89)
EBITDA	\$ (29,650)	\$ 7,411	\$ (37,061)

## Adjusted EBITDA

Adjusted EBITDA is a non-IFRS financial measure that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. The Company calculates adjusted EBITDA from EBITDA plus (minus) unrealized loss (gain) on embedded derivatives, plus (minus) certain one-time non-operating expenses, as determined by management. The reconciliation from EBITDA to Adjusted EBITDA is as follows:

	Three months ended		
	December 31, 2024	December 31, 2023	Variance
EBITDA	\$ (29,650)	\$ 7,411	\$ (37,061)
Change in fair value of biological assets	2,215	(732)	2,947
Change in fair market value of derivative	(1,392)	171	(1,563)
Bargain purchase gain on business combination	(44,520)	-	(44,520)
Loss on issuance and settlement of debt	8,725	-	8,725
Intangible assets impairment	64,285	-	64,285
Professional fees <sup>(1)</sup>	1,414	-	1,414
One-time employee costs <sup>(2)</sup>	151	-	151
Share-based compensation	119	(6)	125
Loss on loan	1,201	-	1,201
Other non-recurring expense <sup>(3)</sup>	471	20	451
Adjusted EBITDA	\$ 3,019	\$ 6,864	\$ (3,845)

(1) Legal and professional fees associated with potential transactions and professional fees associated with prior periods.

(2) Severance and relocation costs.

(3) One-time costs incurred during the period related.

**Management's Discussion & Analysis of the Company for the years ended December 31, 2024 and 2023**

(all figures in 000's)

**FINANCIAL HIGHLIGHTS**

<b>Financial results</b>	<b>Year ended</b>		
	<b>December 31, 2024</b>	<b>December 31, 2023</b>	<b>Variance</b>
Revenue	\$ 103,562	\$ 97,290	\$ 6,272
Gross profit before fair value adjustments <sup>(1)</sup>	\$ 50,328	\$ 49,476	\$ 852
Gross margin before fair value adjustments <sup>(1)</sup>	48.6%	50.9%	-2.3%
Gross profit	\$ 54,558	\$ 47,533	\$ 7,025
Gross margin	52.7%	48.9%	3.8%
Selling, general and administrative expenses	\$ 48,023	\$ 38,267	\$ 9,756
EBITDA <sup>(1)</sup>	\$ 1,025	\$ 23,863	\$ (22,838)
Adjusted EBITDA <sup>(1)</sup>	\$ 25,019	\$ 27,184	\$ (2,165)
Net income (loss)	\$ (40,390)	\$ (22,750)	\$ (17,640)
Net income (loss) per share basic and diluted	\$ (0.13)	\$ (0.08)	\$ (0.05)
	<b>December 31, 2024</b>	<b>December 31, 2023</b>	<b>Variance</b>
<b>Balance Sheet</b>			
Total assets	\$ 206,993	\$ 177,803	\$ 29,190
Total long-term liabilities	187,606	119,711	67,895
Total liabilities	215,975	169,218	46,757

**Notes:**

<sup>(1)</sup> Gross profit before fair value adjustments, gross margin before fair value adjustments, EBITDA and Adjusted EBITDA are non-IFRS financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Refer to quarterly results of operations sections below for reconciliation to IFRS.

**RESULTS OF OPERATIONS (years ended December 31, 2024 and 2023)**

(all figures in 000's)

	Year ended		
	December 31, 2024	December 31, 2023	Variance
Revenue, net of discounts	\$ 103,562	\$ 97,290	\$ 6,272
Cost of goods sold	53,234	47,814	5,420
Gross profit before fair value adjustments <sup>(1)</sup>	50,328	49,476	852
<i>Gross margin before fair value adjustments <sup>(1)</sup></i>	<i>48.6%</i>	<i>50.9%</i>	<i>-2.3%</i>
Realized fair value of increments on inventory sold	(3,642)	12,659	(16,301)
Unrealized change in fair value of biological assets	7,872	(14,602)	22,474
Gross profit	54,558	47,533	7,025
<i>Gross margin</i>	<i>52.7%</i>	<i>48.9%</i>	<i>3.8%</i>
Expenses			
General and administrative	17,602	10,022	7,580
Sales and marketing	22,805	20,193	2,612
Depreciation and amortization	7,078	7,414	(336)
Share-based compensation	538	638	(100)
Total expenses	48,023	38,267	9,756
Income from operations	6,535	9,266	(2,731)
Other expense (income)			
Finance costs, net	19,952	17,941	2,011
Change in fair market value of derivative	(9,684)	433	(10,117)
Loss on issuance and settlement of debt	8,725	-	8,725
Loss on disposal of assets	237	(26)	263
Intangible assets impairment	64,285	-	64,285
(Gain) loss on lease modifications	(223)	67	(290)
Bargain purchase gain on business combination	(44,520)	-	(44,520)
Loss on loan	1,201	-	1,201
Other expense	262	7	255
Total other (income) expense	40,235	18,422	21,813
Income (loss) before taxes	(33,700)	(9,156)	(24,544)
Income taxes	6,690	13,594	(6,904)
Net income (loss)	\$ (40,390)	\$ (22,750)	\$ (17,640)

<sup>(1)</sup> Gross profit before fair value adjustments, gross margin before fair value adjustments, EBITDA and Adjusted EBITDA are non-IFRS financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Refer to quarterly results of operations sections below for reconciliation to IFRS.

## **Revenue**

Consolidated revenue for the year ended December 31, 2024, increased 6.4% to \$103,562, compared to \$97,290 last year. Revenue for the year ended December 31, 2024, consisted primarily of revenue generated through the Company's thirty-five Florida dispensaries, along with revenue from three dispensaries in Pennsylvania.

## **Gross Profit and Gross Profit Before Fair Value Adjustments**

Gross profit before fair value adjustments for the year ended December 31, 2024, was \$50,328 or 48.6% of revenue, versus gross profit before fair value adjustments of \$49,476, or 50.9% of revenue last year. The increase in gross profit before fair value adjustments for the year ended December 31, 2024 compared to the year ended December 31, 2023 is the result of the increase in the number of dispensaries.

Gross profit for the year ended December 31, 2024, was \$54,558, or 52.7% of revenue, versus gross profit of \$47,533, or 48.9% of revenue last year. The increase in gross profit is the result of the changes in fair value of biological assets.

## **Selling, general and administrative expenses**

Consolidated selling, general and administrative (SG&A) expenses for the year ended December 31, 2024 and 2023 are as follows:

	Year ended		
	December 31, 2024	December 31, 2023	Variance
General and administrative expenses	\$ 17,602	\$ 10,022	\$ 7,580
Selling and marketing expenses	22,805	20,193	2,612
Depreciation and amortization	7,078	7,414	(336)
Share-based compensation	538	638	(100)
Total expenses	\$ 48,023	\$ 38,267	\$ 9,756

Consolidated SG&A expenses of \$48,023 for the year ended December 31, 2024 increased by \$9,756 compared to last year. This increase was driven by a \$7,580 increase in our general and administrative expenses and a \$2,612 increase in selling and marketing expenses, partially offset by decrease in depreciation and amortization of \$336 and a decrease in share-based compensation of \$100.

### *General and administrative expenses*

Increase of \$7,580 of general and administrative expenses for the year ended December 31, 2024 compared to last year is the result of legal costs incurred related to transactions and to salaries and wages due to increase in head count.

### *Selling and marketing expenses*

Selling and marketing expenses of \$22,805 for the year ended December 31, 2024 increased by \$2,612 compared to \$20,193 last year. This was primarily driven by increased salaries and wages due to increased headcount to support the increased number of Florida dispensaries compared to the number of dispensaries last year.

Selling and marketing expenses as a percentage of revenue is 22.0% for the year ended December 31, 2024 versus 20.8% last year.

### *Depreciation and amortization*

Depreciation and amortization decreased \$336 for the year ended December 31, 2024 to \$7,078 compared to \$7,414 for the year ended December 31, 2023. The decrease in depreciation and amortization is primarily the result of the decrease in depreciation expense related to our leasehold improvements as the Company's leasehold improvements are becoming fully depreciated.

### Share-based compensation

Share-based compensation decreased \$100 for the year ended December 31, 2024 compared to the year ended December 31, 2023. Stock compensation for the year ended December 31, 2024, and 2023 included stock compensation paid to our board of directors.

### Other expense (income)

Other expense (income) for the year ended December 31, 2024 and 2023 were as follows:

	Year ended		
	December 31, 2024	December 31, 2023	Variance
Finance costs, net	\$ 19,952	\$ 17,941	\$ 2,011
Change in fair market value of derivative	(9,684)	433	(10,117)
Loss on issuance and settlement of debt	8,725	-	8,725
(Gain) loss on disposal of assets	237	(26)	263
Intangible assets impairment	64,285	-	64,285
(Gain) loss on lease modifications	(223)	67	(290)
Bargain purchase gain on business combination	(44,520)	-	(44,520)
Loss on loan	1,201	-	1,201
Other expense	262	7	255
Total other expense	\$ 40,235	\$ 18,422	\$ 21,813

Finance costs of \$19,952 for the year ended December 31, 2024 was comprised of interest expense of \$9,762, accretion costs of \$5,501, right-of-use interest expense of \$4,750, partially offset by \$58 of interest income and by \$3 of other miscellaneous income.

Finance costs of \$17,941 for the year ended December 31, 2023, was primarily comprised of interest expense of \$8,931, debt issuance costs of \$4,579, and right of use interest expense of \$4,473. This was partially offset by interest income related to loan receivable of \$42.

During the year ended December 31, 2024, the Company recognized a \$9,684 gain in fair value on revaluation derivatives of which \$9,109 was related of the derivative liability associated with equity price guarantee and \$575 was related to the Smith Convertible Note. See note 14 from the Company's financial statements and footnotes for more information related to the equity price guarantee.

Loss on issuance of debt settlement for the year ended December 31, 2024 of \$8,725 relates to the recognition of the Smith Convertible Note (see Note 14) that resulted in a loss of \$9,612, loss on the bridge loan of \$292, partially offset by a gain in the term loan refinance of \$1,179.

### EBITDA

EBITDA is a non-IFRS financial measure that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. The Company calculates EBITDA from net loss, plus finance costs, plus income taxes, plus depreciation and amortization, as follows:

	Year ended		
	December 31, 2024	December 31, 2023	Variance
Net income (loss)	\$ (40,390)	\$ (22,750)	\$ (17,640)
Finance costs, net	19,952	17,941	2,011
Income taxes	6,690	13,594	(6,904)
Depreciation and amortization	14,773	15,078	(305)
EBITDA	\$ 1,025	\$ 23,863	\$ (22,838)

## Adjusted EBITDA

Adjusted EBITDA is a non-IFRS financial measure that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. The Company calculates adjusted EBITDA from EBITDA plus (minus) unrealized loss (gain) on embedded derivatives, plus (minus) certain one-time non-operating expenses, as determined by management. The reconciliation from EBITDA to Adjusted EBITDA is as follows:

	Year ended		
	December 31, 2024	December 31, 2023	Variance
EBITDA	\$ 1,025	\$ 23,863	\$(22,838)
Change in fair value of biological assets	(4,230)	1,943	(6,173)
Change in fair market value of derivative	(9,684)	433	(10,117)
Bargain purchase gain on business combination	(44,520)		(44,520)
Loss on issuance and settlement of debt	8,725	-	8,725
Intangible assets impairment	64,285	-	64,285
Professional fees <sup>(1)</sup>	5,584	-	5,584
One-time employee costs <sup>(2)</sup>	927	-	927
Share-based compensation	538	638	(100)
Loss on loan	1,201	-	1,201
Other non-recurring expense <sup>(3)</sup>	1,168	307	861
Adjusted EBITDA	\$ 25,019	\$ 27,184	\$(2,165)

(1) Legal and professional fees associated with potential transactions and professional fees associated with prior periods.

(2) Severance and relocation costs.

(3) One-time costs incurred during the period related.

## HISTORICAL QUARTERLY RESULTS

The following table sets out certain financial information for each of the eight fiscal quarters up to and including the fourth quarter of 2024. The information has been derived from the Company's Condensed Interim Consolidated Financial Statements, which, in management's opinion, have been prepared on a basis consistent with the Consolidated Financial Statements for the years ended December 31, 2024, and 2023.

Quarter ended (\$ in 000's)	Dec-31 2024	Sep-30 2024	Jun-30 2024	Mar-31 2024	Dec-31 2023	Sep-30 2023	Jun-30 2023	Mar-31 2023
Revenue	\$ 24,919	\$ 26,147	\$ 27,269	\$ 25,227	\$ 25,544	\$ 25,260	\$ 24,430	\$ 22,056
Gross profit before fair value adjustment	10,000	14,288	13,779	12,261	12,612	13,653	12,982	10,229
Gross profit	7,785	11,578	20,259	14,936	13,344	14,518	12,158	7,513
Income (loss) from operations	\$ (4,791)	\$ (146)	\$ 7,712	\$ 3,760	\$ 4,015	\$ 4,228	\$ 1,905	\$ (883)

## **LIQUIDITY AND CAPITAL RESOURCES**

As of December 31, 2024, the Company had \$40,106 in cash and cash equivalents. The major components of the Company's statements of cash flows for the year ended December 31, 2024 and 2023 are as follows:

	<b>Year ended</b>		
	<b>December 31, 2024</b>	<b>December 31, 2023</b>	<b>Variance</b>
Cash and cash equivalents provided by operating activities	\$ 1,774	\$ 18,455	\$ (16,681)
Cash and cash equivalents provided by (used in) investing activities	21,996	(6,338)	28,334
Cash and cash equivalents provided by (used in) financing activities	6,677	(9,955)	16,632
Effect of foreign exchange rate movements on cash held	(862)	-	(862)
<b>Net change in cash and cash equivalents</b>	<b>\$ 29,585</b>	<b>\$ 2,162</b>	<b>\$ 27,423</b>

### ***Operating activities***

Cash flow used in operating activities for the year ended December 31, 2024, was \$1,774 compared to cash flow provided by operating activities of \$18,455 for the year ended December 31, 2023. The decline in cash generated from operating activities is primarily attributable to the reduction in revenues and settlement of tax payments that had been carried over from previous periods.

### ***Investing activities***

Cash flow provided by investing activities for the year ended December 31, 2024 was \$21,996, compared to a use of \$6,338 for the year ended December 31, 2023. The cash inflow was attributed to \$44,951 cash acquired in the RIV acquisition partially offset by the bi-annual renewal of Florida's medical marijuana license of \$1,332 and increase purchases of property, plant, and equipment of \$16,173.

### ***Financing activities***

Cash flow provided by financing activities for the year ended December 31, 2024 was \$6,677 compared to cash flow used in financing activities of \$9,955 for 2023. The increase of \$16,632 in cash provided by financing activities was primarily driven by issuance of convertible notes of \$8,975 for the year ended December 31, 2024. The influx of cash was offset by the principal payments of notes payable and insurance financing.



## CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

The Company leases certain business facilities from third parties under lease agreements that specify minimum rentals. The leases expire through 2048 and contain certain renewal provisions. Future minimum lease payments under non-cancelable leases having an initial or remaining term of more than one year are as follows:

For the twelve month period ending December 31,	Scheduled Payments
2025	\$ 10,800
2026	11,179
2027	10,909
2028	9,759
2029	9,323
2030	9,023
2031	8,697
Thereafter	\$ 20,984
Total Future Minimum Lease Payments	\$ 90,674

## SUMMARY OF OUTSTANDING SHARE DATA

The share capital of the Company on a diluted basis is 698,767,798. This is comprised of 447,680,258 common shares, 2,462,668 proportionate voting shares (each proportionate voting share is convertible into ten common shares), 27,500,000 warrants, 31,396,370 convertible debt, 9,554,325 stock options, 4,940,771 restricted stock units, and 153,069,395 Exchangeable Shares.

Earnings per share have been calculated using the weighted average number of shares outstanding during a period on a total outstanding and fully dilutive basis. The potential conversion of warrants, convertible debt, and stock options into common shares have a dilutive effect on earnings per share. The weighted average number of basic and diluted shares are presented in the table below:

	December 31, 2024	December 31, 2023
Weighted average number of shares - basic	305,528,621	292,622,129
Weighted average warrants	27,500,000	42,080,064
Weighted average convertible debt	3,010,611	-
Weighted average options	8,862,164	11,439,585
Weighted average restricted stock units	5,372,952	2,895,698
Weighted average exchangeable shares	5,451,787	-
<b>Weighted Average Number of Shares - Diluted</b>	<b>355,726,135</b>	<b>349,037,476</b>

## TRANSACTIONS WITH RELATED PARTIES

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities for the Company, directly and indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. For year ended December 31, 2024 and 2023, key management personnel compensation consisted of the following:

**For the years ended December 31,**

	<b>2024</b>	<b>2023</b>
Salary	\$ 3,402	\$ 2,856
Option-based compensation	7	83
Restricted stock unit compensation	24	118
All other compensation	372	554
<b>Total</b>	<b>\$ 3,805</b>	<b>\$ 3,611</b>

***Transactions with related parties***

On February 28, 2023, the Company closed a non-brokered private placement offering of 30,000,000 units, at a price of \$0.10 per unit, for aggregate gross proceeds of \$3,000,000. Each unit consists of one common share of the Company and one-half common share purchase warrant. Each full warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.15 per full common share purchase warrant for a period of 36 months from the issuance date. As part of the private placement, the Company issued to its Executive Chairman 10,000,000 shares and 5,000,000 warrants.

On January 6, 2023, September 2, 2023 and November 10, 2023 the Company issued to its Board of Directors' members, 1,354,167 shares, 2,031,250 shares and 1,184,207 shares at \$0.12, \$0.08 and \$0.10 per share, respectively, as compensation resulting in an increase to share capital of \$439 for the twelve-month period ending December 31, 2023.

On January 8, 2024, the Company entered into a commercial lease with Nittany Management, LLC, which is owned by the Company's current Executive Chairman. The lease is for property located in Tampa Florida; the property includes 20,000 sq. ft. foot building. The commercial lease is for a ten-year term, with rent commencing six months after the Company has taken possession of the property. The Company shall pay a base rent of \$362 a year with 3% increases to base rent each year.

On May 28, 2024, the Company made an amendment to the January 8, 2024 commercial lease with Nittany Management, LLC in which an additional \$1,360 became due under the lease for the property located in Tampa Florida and will be repaid over a 3-year period accruing interest at 13% year.

On August 28, 2024, the Company issued to its Board of Directors' 865,382 common shares as compensation resulting in an increase in share capital of \$113. Subsequent to December 31, 2024, the Company issued 1,657,063 common shares to its' Board of Directors in substitution of their fourth quarter 2024 fees. At December 31, 2024, the Company had accrued \$117 within its share-based compensation reserve for this issuance.

On November 26, 2024, in connection with the closing of the Credit Agreement, the Company and William Smith, a director and the Executive Chair of Fluent Corp., and certain companies controlled by Mr. Smith, amended and restated the termination agreement dated May 30, 2024, which provided for, among other things, the termination of the floor share agreement (Note 14) in exchange for the issuance of a 3-year \$6,500 subordinated promissory note, all to occur on the closing of the business combination with RIV Capital Inc. Pursuant to the terms of the Amended Smith Transaction Termination Agreement, Fluent paid to the Smith Group a \$500 cash fee and issued to the Smith Group a secured subordinated convertible note in an initial aggregate principal amount of \$6,500 due May 26, 2029, bearing interest of 15%, with all accrued but unpaid interest compounded quarterly, and without a Company right to prepay the note after year two. The Smith Convertible Note is subordinated in the right of payment to the Credit Agreement and the principal and accrued interest thereunder is convertible, at the discretion of the Smith Group, into shares at a price of \$0.21 per share.

During the years ended December 31, 2024 and 2023, the Company engaged Litvak Beasley Wilson & Ball, LLP, ("Law Firm") to represent the Company on various legal matters. The Company's CEO is a partner at Litvak Beasley Wilson & Ball, LLP. Services performed by the Law Firm included litigation, regulatory and general counsel services. Services were provided in normal commercial terms; the Company's CEO did not participate in the legal services rendered by the Law Firm. During the years ended December 31, 2024 and 2023, the Company recognized legal expenses of \$479 and \$339, respectively, to Litvak Beasley Wilson & Ball, LLP. At December 31, 2024, and 2023, the Company had no outstanding payments due to Litvak Beasley Wilson & Ball, LLP in the consolidated statements of financial position.

## KEY ACCOUNTING POLICIES

### (a) Basis of preparation

The annual consolidated financial statements (the “consolidated financial statements”) of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”). These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due for the near future.

### (b) Functional and presentation of currency

The consolidated financial statements are presented in thousands of United States (“U.S.”) dollars unless otherwise stated. The functional currency of the U.S. subsidiaries is the U.S. dollar. The functional currency of the Canadian subsidiaries is the Canadian dollar. The functional currency of the Brazilian subsidiary is the Brazilian real. The functional currency of the Colombian subsidiary is the Colombian peso.

The assets and liabilities of foreign operations are translated into U.S. dollars at period end exchange rates. Income and expenses, and cash flows of foreign operations are translated into U.S. dollars using average exchange rates. Exchange differences resulting from the translation of foreign operations are recognized in comprehensive loss and comprehensive loss in shareholders’ equity.

### (c) Critical accounting judgments, estimates and assumptions

The preparation of the Company’s annual consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Critical judgments, estimates and assumptions that have the most significant effect on the amounts recognized on the annual consolidated financial statements have been set out in Note 3 of the audited annual consolidated financial statements for the years ended December 31, 2024, and 2023.

## UNITED STATES REGULATORY ENVIRONMENT

### Federal Regulatory Environment

In accordance with the Canadian Securities Administrators (“CSA”) Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities* (“**Staff Notice 51-352**”) dated February 8, 2018, and Staff Notice 51-357 – *Staff Review of Reporting Issuers in the Cannabis Industry* dated October 10, 2018 below is a discussion of the current federal and state-level U.S. regulatory regimes in those jurisdictions where the Company is currently directly involved through its subsidiaries, in the cannabis industry. In accordance with Staff Notice 51-352, the Company will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated 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.

The U.S. Drug Enforcement Administration (“DEA”) currently classifies cannabis as a Schedule I controlled substance under the Controlled Substances Act (21 U.S.C. § 811). A Schedule I controlled substance is defined as a substance that has no currently accepted medical use in the United States, a lack of safety for use under medical supervision and a high potential for abuse. Schedule I controlled substances are federally illegal and the manufacturing, sale and use of cannabis is a violation of federal law.

Due to conflicting and changing views between state legislatures and the federal government regarding cannabis, cannabis businesses are subject to inconsistent laws and regulations. The Obama Administration attempted to address the inconsistent treatment of cannabis under state and federal law in the Cole Memorandum that Deputy Attorney General James Cole sent to all U.S. Attorneys in August 2013. The Cole Memorandum noted that, in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, processing, distribution, sale and possession of cannabis, conduct in compliance with such laws and regulations was not a prosecution or enforcement priority for the Department of Justice (“DOJ”).

On January 4, 2018, former U.S. Attorney General Jeff Sessions formally rescinded the Cole Memorandum. 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 substantively in compliance with the Cole Memorandum’s guidelines should not be a prosecutorial priority. The federal government of the United States has always reserved the right to enforce federal law regarding the sale and disbursement of medical or recreational marijuana, even if state law sanctioned such sale and disbursement. Although this rescission does not necessarily indicate that marijuana industry prosecutions are now affirmatively a priority for the DOJ, there can be no assurance that it will not enforce such laws in the future.

In October 2022, President Biden announced that cannabis scheduling under federal law would be reviewed, noting that cannabis is scheduled as more dangerous than fentanyl and methamphetamine, two substances that are driving an overdose epidemic in the country. In December 2022, President Biden signed the Medical Marijuana and Cannabidiol Research Expansion Act into law, which provides for significantly broader opportunities to study cannabis.

On August 29, 2023, and in response to President Biden’s directive to review cannabis’s scheduling, the Department of Health and Human Services (“HHS”) formally presented its recommendation to the DEA that cannabis be rescheduled to Schedule III from Schedule I. Section 280E of the Internal Revenue Code does not apply to those trafficking in Schedule III controlled substances, which would most likely reduce the tax burden of most U.S. cannabis companies. The DEA, which has final jurisdiction over scheduling decisions, started the review process for rescheduling.

On May 16, 2024, then-U.S. Attorney General Merrick Garland submitted to the Federal Register a notice of proposed rulemaking to consider moving marijuana from a Schedule I to a Schedule III drug under the Controlled Substances Act. The notice initiated a 60-day comment period for members of the public to submit comments regarding the rule where more than 43,000 comments were received. After reviewing the public comments, the DEA determined that a hearing was necessary and selected Administrative Law Judge John J. Mulrooney to oversee it. Expert testimony was expected to begin in early 2025. However, that hearing was postponed on January 15, 2025. Due to the recent re-election of President Trump, the future of the rescheduling process is uncertain.

As an industry best practice, and in light of the federal approach to regulating cannabis, the Company abides by the following to ensure compliance with the guidance provided by the Cole Memorandum:

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

In addition, the Company conducts background checks to ensure that certain individuals working at its operating subsidiaries are of good character, and have not been involved with other illegal drugs, engaged in illegal activity or activities involving violence, or use of firearms in cultivation, manufacturing or distribution of cannabis. The Company also conducts ongoing reviews of its cannabis business activities, the premises on which they operate and the policies and procedures that are related to possession of cannabis or cannabis products outside of the licensed premises.

As of December 31, 2024, 99% of the Company's assets were and continue to be exposed to U.S. marijuana related activities. By these measures 99% of the Company's assets and operations were related to U.S. marijuana related activities.

There have been efforts at reforming federal cannabis law. As of December 31, 2024, there were more than a dozen proposed congressional bills addressing a spectrum of issues regarding the cannabis industry, from banking and tax reform to full legalization. However, none have passed into law.

There does exist a legislative safeguard for the medical cannabis industry, appended to the federal budget bill. Every year since 2015, Congress has adopted a so-called "rider" provision to the Consolidated Appropriations Acts (formerly referred to as the Rohrabacher-Farr Amendment and currently referred to as the Rohrabacher-Blumenauer Amendment) to prevent the federal government from using congressionally appropriated funds to enforce federal law against regulated medical cannabis actors operating in compliance with state and local law. On March 9, 2023, the amendment was renewed as part of the Consolidated Appropriations Acts of 2024, H.R. 4366, which was effective through September 30, 2024. The amendment has since been extended by Continuing Resolution, H.R. 10455, until March 14, 2025.

The large and ever-growing size of the cannabis industry, in addition to participation by state and local governments and investors, suggests that a large-scale federal enforcement operation would more than likely create unwanted political backlash for the Department of Justice and the current administration. Regardless, cannabis remains illegal at the federal level. The U.S. federal government has always reserved the right to enforce federal law over the sale and disbursement of medical or adult-use cannabis, even if state law authorizes such sale and disbursement. There is no guarantee that state laws legalizing and regulating the sale and use of cannabis will remain in place or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. Unless cannabis is removed from Schedule I of the Controlled Substances Act, there is a risk that federal authorities may enforce current U.S. federal law criminalizing cannabis.

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

#### *U.S. Legal Advice*

The Company and its subsidiaries are in compliance with U.S. state laws and the related licensing frameworks. The Company and its subsidiaries use reasonable commercial efforts to confirm, through the advice of U.S. counsel in each state in which the Company operates, the monitoring and review of its business practices, and regular monitoring of changes to U.S. federal enforcement priorities, that its businesses are in compliance with applicable licensing requirements and regulatory frameworks. Other than as disclosed herein, the Company's U.S. based subsidiaries have not received non-compliance orders, citations or notices of violation that may have an impact on such entity's licenses, business activities and/or operations. The Company's U.S. based subsidiaries have obtained legal advice regarding (a) compliance with applicable state regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law.

#### *Compliance Program*

The Company's Director of Compliance oversees, maintains, and implements the compliance program and personnel in conjunction with the Chief Legal Officer and Executive Vice President - Operations. The Director of Compliance and Chief Legal Officer serve as liaisons to the various state and local regulators at all times. It is the responsibility of the Director of Compliance to work with all operational department heads to ensure operations and employees strictly comply with applicable laws,

regulations and licensing requirements to ensure that the operations do not endanger the health, safety, or welfare of the communities that the Company operates in. The Director of Compliance works closely with the operations and security directors to ensure that operations and all employees are following and complying with the Company's written standard operating procedures.

The Company has developed policies and standard operating procedures that establish minimum standards and requirements for operations in each market, encompassing operational aspects such as cultivation, manufacturing, packaging of product, the handling of confidential or personal information and method by which an employee may dispense cannabis to an authorized individual. Upon the Company's entry into a new market, the Director of Compliance and Chief Legal Officer work with each department director to adapt these policies and standard operating procedures into a unique set of operating procedures for each respective market, tailored to each market's regulatory requirements.

Working with the operations, human resources, and security departments, the Director of Compliance reviews and monitors training for all employees, including on the following topics:

- compliance with applicable state and local laws
- safe cannabis use
- dispensing procedures
- cultivation and processing procedures
- security and safety policies and procedures
- inventory control
- point of sale and seed to sale tracking software
- quality control
- transportation procedures

The Company's compliance protocols emphasize quality assurance, as evidenced by its efforts to obtain GMP (or similar) certification in its facilities, security and inventory controls, as well as patient safety. These efforts ensure strict monitoring of cannabis and inventory in all phases of the process. Only authorized and properly trained employees are permitted to access any seed-to-sale system or dispense cannabis to an authorized individual.

The Company is in compliance with U.S. state law and the related licensing framework in each state in which it has active marijuana operations. The Company uses reasonable commercial efforts to ensure that its business is in compliance with applicable licensing requirements and the regulatory frameworks enacted by these states, through the duties of the Director of Compliance and Chief Legal Officer, who monitor and review the Company's business practices and changes to U.S. Federal enforcement priorities.

The Director of Compliance and Chief Legal Officer monitor compliance notifications from various state regulators and ensure timely response and corrective action if necessary. No notifications have been received other than as set out below. The Company maintains comprehensive recordkeeping and retention procedures for any action involving the products it cultivates, processes, and/or dispenses. In addition, the Company maintains accurate records of all activities it is licensed to conduct in each market and does so in compliance with applicable laws and regulations. Adherence to the Company's compliance protocols in each market is mandatory and ensures that all operations remain compliant with the regulation(s) set forth by the applicable regulatory bodies, as well as all requirements of licensure.

Each facility is monitored and supervised under a uniform set of policies and procedures that also requires daily, weekly, monthly and quarterly reporting on applicable activities that occur at each facility. These reports, completed by or under the supervision of the applicable facility manager include: germination, cloning, plant destruction, harvest details, extraction rates, product formulation details, logistics, transportation, delivery, sales and customer complaints. Each facility also utilizes a password protected, role-based, seed-to-sale inventory tracking and reporting software system. The Director of Compliance, Chief Legal Officer and Executive Vice President - Operations all have full administrative access to the seed-to-sale tracking and reporting software. The seed-to-sale software program gives the Director of Compliance real time access to the source data, which reports all daily activities of each subsidiary in order to conduct independent analysis and verification of the standard reports submitted by each subsidiary.

In addition to the standard reports submitted by each facility and the seed-to-sale software program access, the Director of Compliance and staff perform scheduled and unscheduled site visits and audits of each facility. The scheduled and unscheduled site visits and audits are performed at least quarterly and are used to verify source data on all reported subsidiary activities, debrief and interview key employees, and conduct an overall review of the operating conditions of all Company facilities.

## **State Regulatory Environment**

### **Florida**

#### ***Regulatory Framework***

Florida regulates medical marijuana as set forth in the Florida Constitution, Florida Statutes, implementing regulations of the Florida Administrative Code, and other applicable laws. The Florida Department of Health, Office of Medical Marijuana Use (“**OMMU**”) is responsible for oversight and implementation of medical marijuana laws in Florida.

#### ***Florida Statutes***

Section 381.986, Florida Statutes, governs the cultivation, processing, dispensing, and ordering of marijuana for medical use in Florida by qualified Florida-licensed physicians for medical use by qualified patients. Under this law, “medical use” means “acquisition, possession, use, delivery, transfer, or administration of marijuana authorized by a physician certification.” Legally permitted routes of administration include oil-based products, edibles, and smoking.

Only Florida-licensed physicians who undergo the required training can recommend marijuana for medical use in Florida. Qualified patients must be permanent Florida residents and must be diagnosed with one of the qualifying medical conditions set forth in Section 381.986(2), Florida Statutes.

#### ***Chapter 64-4, Florida Administrative Code***

As required by Florida Statutes, OMMU implements regulations governing the use of medical marijuana in the state, including the licensing of businesses to cultivate, process, and dispense medical marijuana to qualified patients. These regulations are found in Chapter 64-4, Florida Administrative Code and a series of emergency rules found in the Florida Administrative Register.

#### ***U.S. Attorney Statements***

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

#### ***Licensing and Compliance in Florida***

In Florida, OMMU administers and maintains the state’s medical marijuana program pursuant to the Florida Constitution and Florida Statutes. Florida law currently requires each Medical Marijuana Treatment Center (“**MMTC**”) to be vertically integrated, which means the MMTC must control all aspects of the operations from “seed to sale”, i.e., cultivation, processing, distribution, sale, and delivery. Additionally, as a condition to becoming operational, each MMTC is statutorily required to comply with all disclosures made to obtain the license.

MMTCs must maintain adequate security and surveillance at all of their sites, comply with all applicable laws relating to the MMTC license, and are subject to regular unannounced audits by OMMU. All inventory movements must be logged in a seed-to-sale tracking system (“**STS System**”) that is integrated with an STS System operated and monitored by OMMU. Processing, or manufacturing, activities must occur in a facility that has been audited for compliance with Good Manufacturing Practices by a third-party auditor.

## ***Licenses***

The Company, through its direct and indirect wholly owned subsidiaries, is licensed to cultivate, process and sell medical cannabis and to own and operate individual dispensary locations as well as deliver product directly to customer's homes throughout the State of Florida. There is no limit on the number of facilities that can be operated under a single MMTC license.

In the State of Florida, the Department issues licenses to produce and sell medical cannabis i.e. the MMTC License (formerly a Dispensing Organization License).

The MMTC License held by the Company's Florida subsidiary was renewed for a two-year term effective August 20, 2024. The Company follows all regulatory requirements regarding the reporting of inventory movement and sales, as well as all other data reporting and record retention requirements in Pennsylvania.

## ***Dispensary Requirements***

MMTCs may dispense up to a 70-day supply of medical marijuana in non-smokable forms or up to a 35-day supply in smokable forms at any time. At all times, the MMTC employee must ensure the privacy of information in regards to the patient records as required by Florida legislation and applicable privacy laws. All dispensations must be logged in the MMTC's STS system.

## ***Transportation Requirements***

When transporting cannabis to dispensaries or to patients for delivery, a manifest must be prepared, and transportation must be done using an approved vehicle. The cannabis must be stored in a separate, locked area of the vehicle and at all times there must be two people in a delivery vehicle. The manifest for all deliveries must be generated in the MMTC's STS system.



## ***Department Inspections***

The OMMU conducts announced and unannounced inspections of MMTC's to determine compliance with the laws and regulations. The Department also must inspect an MMTC upon receiving a complaint or notice that the MMTC has dispensed cannabis containing mold, bacteria, or other contaminants that may cause an adverse effect to humans or the environment. The Department conducts at least a biennial inspection of each MMTC to evaluate the MMTC's records, personnel, equipment, security, sanitation practices, and quality assurance practices.

## ***New York***

### ***Regulatory Framework***

In July 2014, the New York Legislature and Governor enacted the Compassionate Care Act to provide a comprehensive, safe and effective medical cannabis program. The Compassionate Care Act provides access to the program for those who suffer from qualifying conditions and have a physician's recommendation. In 2021, the Marijuana Regulation and Tax Act ("MRTA") was signed into law. The MRTA legalized adult-use cannabis and established the New York Office of Cannabis Management, which continues to promulgate rules and regulations.

The Office of Cannabis Management ("OCM") is the regulatory agency that oversees the adult-use and medical cannabis program in New York. There is currently one principal medical license category in New York: Registered Organization (a vertically integrated license). The Company's New York subsidiary holds a Registered Organization Adult-use Cultivator Processor Distributor Retail Dispensary ("ROD") license.

Under the ROD license, the Company operates one cultivation/manufacturing facility and four medical cannabis dispensaries. Three of the medical dispensaries have co-located adult-use sales. Under the MRTA the Company may open an additional five medical dispensaries.

All operating facilities are, as of the date hereof, active with the State of New York. The Company's ROD License is renewable for two-year terms. The current license expires November 11, 2025.

The Company follows all regulatory requirements regarding the reporting of inventory movement and sale, as well as all other data reporting and record retention requirements mandated by New York.

## ***Pennsylvania***

### ***Regulatory Framework***

Pennsylvania legalized medical marijuana when it adopted the Pennsylvania Medical Marijuana Act in 2016. It is found in Chapters 1131 through 1210 of the Pennsylvania Code. Most of the regulation of Pennsylvania's medical marijuana program to date has occurred under this law and through temporary regulations, all of which are summarized below under the heading "Pennsylvania Medical Marijuana Act."

### ***Pennsylvania Medical Marijuana Act***

Under the Pennsylvania Medical Marijuana Act, the term "medical marijuana" refers to marijuana obtained for a certified medical use by a Pennsylvania resident with a serious medical condition. A serious medical condition includes 17 different conditions including cancer, HIV-positive status, AIDS, several neurological conditions and issues, and severe intractable pain.

The Pennsylvania Medical Marijuana Act provides for issuance of permits to grower/processors, dispensaries, and clinical registrants.

A dispensary may only dispense medical marijuana to a patient or caregiver in an indoor, enclosed, secure facility as approved by the Pennsylvania Department of Health. The dispensary must have an approved operation plan that includes appropriate safety, security, surveillance, inventory tracking, record keeping, and maintenance measures. It may only dispense medical marijuana to a patient or caregiver who presents a valid identification card to an employee at the facility who is authorized to

dispense medical marijuana at the facility. The entire transaction must be tracked in the commonwealth's seed-to-sale electronic tracking system.

### ***Licensing and Compliance in Pennsylvania***

In Pennsylvania, the Department of Health administers and maintains the state's medical marijuana program pursuant to Pennsylvania laws and regulations. As a dispensary permit holder, Pennsylvania law requires the use of state-mandated point of sale and product tracking software to log and record all inventory and sales activities, as well as all patient interactions. All marijuana must be stored with adequate security requirements to prevent diversion. Each facility must also have security measures to prevent unauthorized access and video surveillance; as well as the ability to maintain records of all activities. Only qualified patients or registered caregivers can be dispensed cannabis pursuant to a qualified physician's active recommendation; all of which must be confirmed prior to dispensation. Each dispensary must also employ a licensed pharmacist, doctor or registered nurse practitioner. Additionally, all employees must pass state mandated criminal history background screenings.

### ***Permits***

Cansortium Pennsylvania, LLC received its original dispensary permit on September 29, 2017 and was valid for one year. The permit has been renewed each year since, and the current permit is valid through June 28, 2025. The permit allows the holder to operate up to three (3) dispensaries in the Southcentral Region of Pennsylvania (i.e. Adams, Bedford, Blair, Cumberland, Dauphin, Franklin, Fulton, Huntingdon, Juniata, Lebanon, Mifflin, Perry and York counties).

### ***Pennsylvania Department of Health Inspections***

The Pennsylvania Department of Health may conduct announced or unannounced inspections or investigations to determine the medical marijuana organization's compliance with its permit. An investigation or inspection may include an inspection of a medical marijuana organization's site, facility, vehicles, books, records, papers, documents, data, and other physical or electronic information.

### **Texas**

### ***Regulatory Framework***

Texas initially limited the scope of authorization of cannabis for medical purposes to the cultivation, processing, and dispensing of low-THC cannabis prescribed to epilepsy patients.

In May 2019, the Texas legislature passed a bill that significantly expanded the Texas Compassionate Use Act. It was subsequently signed into law by the Governor. The May 2019 law increased legal access to medical cannabis products containing up to 0.5 percent THC for patients coping with a broader list of chronic medical conditions and diseases including epilepsy, a seizure disorder, multiple sclerosis, spasticity, amyotrophic lateral sclerosis, autism and terminal cancer.

### ***Compassionate Use Act***

The Texas Legislature enacted the Texas Compassionate Use Act, found in Chapter 169 of the Texas Occupations Code and Chapter 487 of the Texas Health and Safety Code, in 2015. The Texas Compassionate Use Act directs the Texas Department of Public Safety ("**DPS**") to create a secure registry of Texas-licensed physicians who are authorized to treat qualifying conditions by prescribing low-THC cannabis to qualified, registered patients who have been diagnosed with epilepsy, a seizure disorder, multiple sclerosis, spasticity, amyotrophic lateral sclerosis (ALS), autism, terminal cancer, or an incurable neurodegenerative disease. In addition, the bill required DPS to license at least three dispensing organizations by September 1, 2017, should they meet the requirements. The license authorizes the organizations to cultivate, process and dispense low-THC cannabis to prescribed patients.

The act defines low-THC cannabis as:

the plant *Cannabis Sativa L.*, and any part of that plant or any compound, manufacture, salt, derivative, mixture, preparation, resin, or oil of that plant that contains:

(A) not more than 0.5 percent by weight of tetrahydrocannabinols; and

(B) not less than 10 percent by weight of cannabidiol.

Under the act, medical use of low-THC cannabis means “ingestion by a means of administration other than by smoking of a prescribed amount of low-THC cannabis by a person for whom low-THC cannabis is prescribed.”

### ***Administrative Rules***

DPS adopted the rules implementing the Texas Compassionate Use Act in 2017. These rules, the Compassionate Use/Low-THC Cannabis Program Administrative Rules, are found in 37 Texas Administrative Code 1, Chapter 12. They specify licensing requirements and standards that licensees must satisfy for a variety of subjects, including building design and construction, records, testing, production (including limitations on the use of pesticides and other products that could harm patient health), packaging, labeling, restrictions on eligible persons who can receive low-THC cannabis, criminal history disqualifiers for licensees and their employees, sanitation, and waste disposal.

Each dispensing organization may operate a single dispensary, which must be co-located with its cultivation and processing facilities. All other dispensing may only occur via delivery, which may include same-day pickup at an arranged location such as a doctor’s office.

Production is limited under the rules; DPS will only issue sufficient licenses to provide the patient population of Texas with the most current scientifically accepted dosage. The amount of production permitted is recalculated every year as provided in the rules. As of December 31, 2024, DPS has issued three (3) dispensing organization licenses.

The Company complies with all applicable requirements regarding the reporting of inventory movement and sale, as well as other data reporting and retention requirements mandated by DPS.

### ***U.S. Attorney Statements***

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

### ***Licensing and Compliance in Texas***

In Texas the DPS administers the state’s compassionate use program. State law currently requires each license holder to be vertically integrated, which requires the license holder to control all aspects of the operations from “seed to sale”. State law requires strict limits on THC content which subsequently requires regular testing and maintenance of records.

### ***Licenses***

The Company’s subsidiary in Texas obtained a Dispensing Organization License from the Department of Public Safety on September 1, 2017. This license allows the Company’s subsidiary in Texas to cultivate and produce cannabis as well as operate a dispensary at the cultivation site. The license also allows for home delivery of the product. The current license was renewed in September 2021 and expires on October 1, 2023. The Company’s subsidiary in Texas holds one (1) of the three (3) licenses issued by the Department of Public Safety in Texas (as of December 31, 2022).

### ***Department Inspections***

DPS performs regular inspections of the facility. All requested records are given onsite or electronically as requested.

On January 17, 2019, the Company’s subsidiary in Texas received a notice of violation from the Texas Department of Public Safety Regulatory Services Division for failure to adequately respond to the Department’s requests for records on inventory and testing at its cultivation facility, in violation of Texas law. On February 1, 2019, the Department issued a violation remediation letter confirming that the matter had been resolved to its satisfaction and that no further action would be taken.

### ***General Statement Regarding State License Renewal Requirements***

Each state imposes strict license renewal requirements that vary based on unique state laws. The Company generally must complete the renewal application process within a prescribed period of time prior to the expiration date and pay an application fee. The state licensing body can deny or revoke licenses and renewals for a variety of reasons, including (a) submission of materially inaccurate, incomplete or fraudulent information, (b) failure of the Company or any of its directors or officers to comply, or have a history of non-compliance, with any applicable law or regulation, including laws relating to minimum age of customers, safety and non-diversion of cannabis or cannabis products, taxes, child support, workers compensation and insurance coverage, or failure to otherwise remain in good standing, (c) failure to submit or implement a plan of correction for any identified violation, (d) attempting to assign registration to another entity without state approval, (e) insufficient financial resources, (f) committing, permitting, aiding or abetting of any illegal practices in the operation of a facility, (g) failure to cooperate or give information to relevant law enforcement related to any matter arising out of conduct at a licensed facility and (h) lack of responsible operations, as evidenced by negligence, disorderly or unsanitary facilities or permitting a person to use a registration card belonging to another person. Certain jurisdictions also require licensees to attend a public hearing or forum in connection with their license renewal application.

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

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

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

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of the Company and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Company's earnings and could make future capital investments or the Company's operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

The Company's subsidiaries are expected to continue to derive a portion of their revenues from the cannabis industry in certain states of the United States, which industry is illegal under United States federal law. While the Company's and its applicable subsidiaries' business activities are compliant with applicable state and local law, such activities remain illegal under United States federal law. The Company is involved in the cannabis industry in the United States where local and state laws permit such activities or provide limited defenses to criminal prosecutions. Currently, the Company and its subsidiaries are directly engaged in the manufacture and possession of cannabis in the medical cannabis marketplace in the United States.

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

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

For the reasons set forth above, the Company's existing interests in the United States cannabis market may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in the United States and Canada.

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

The operations of the Company and its subsidiaries are, and will continue to be, subject to evolving regulation by governmental authorities. The Company's and its subsidiaries' operations are directly in the medical cannabis industry in the United States, where local state law permits such activities. The legality of the production, extraction, distribution and use of cannabis differs among North American jurisdictions.

The Company's and its subsidiaries' operations have been focused in states that have legalized the medical use of cannabis. Over half of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis. Some U.S. states have legalized recreational use of cannabis. However, the U.S. federal government has not enacted similar legislation for medical or recreational cannabis. As such, the cultivation, manufacture, distribution, sale and use of cannabis remains illegal under U.S. federal law.

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

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

The Company's and its subsidiaries' current or future operations in the medical and recreational cannabis industry are likely illegal under the applicable federal laws of the United States. There can be no assurances the federal government of the United States or other jurisdictions will not seek to enforce the applicable laws against the Company or its subsidiaries. The consequences of such enforcement would be materially averse to the Company and the Company's business and could result in the forfeiture or seizure of all or substantially all of the Company's assets.

The concepts of "medical cannabis" and "retail cannabis" do not exist under United States federal law because the U.S. Controlled Substances Act classifies "marijuana" as a Schedule I drug. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis remain illegal under United States federal law. Although the Company's and its subsidiaries' activities are compliant with applicable United States state and local law, strict compliance with state and local laws with respect to cannabis may neither absolve the Company and its subsidiaries of liability under United States federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company or any subsidiary. Any such proceedings brought against the Company may adversely affect the Company's and its subsidiaries' operations and financial performance.

Violations of any United States federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the United States federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company and its subsidiaries, including their reputations and ability to conduct business, their holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of their securities on various stock exchanges, their financial position, operating results, profitability or liquidity or the market price of any publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

Many factors could cause the Company's actual results, performances, and achievements to differ materially from those expressed or implied by the forward-looking statements, including without limitation, the following factors:

- the activities of the Company and its subsidiaries are subject to evolving regulation that is subject to changes by governmental authorities in Canada, the U.S. and internationally and such authorities could impose restrictions on the Company's and its subsidiaries' ability to operate;
- third parties with which the Company does business, including banks and other financial intermediaries, may perceive that they are exposed to legal and reputational risk because of the Company's and its subsidiaries' cannabis business activities;
- the Company's ability to repatriate returns generated from operations and investments in the U.S. may be limited by anti-money laundering laws;
- under Section 280E of the Internal Revenue Code, certain normal business expenses incurred in the business of selling marijuana and its derivatives are not deductible in calculating income tax liability. Therefore, certain of the subsidiaries will be precluded from claiming certain deductions otherwise available to non-marijuana businesses. As a result, an otherwise profitable, business may in fact operate at a loss after taking into account its income tax expenses. There is no certainty that the Company and the subsidiaries will not be subject to Section 280E of the Internal Revenue Code in the future, and accordingly, there is no certainty that the impact that Section 280E of the Internal Revenue Code has on the Company's margins will ever be reduced;
- federal prohibitions result in marijuana businesses being potentially restricted from accessing the U.S. federal banking system, and the Company and its subsidiaries may have difficulty depositing funds in federally insured and licensed banking institutions. This may lead to further related issues, such as the potential that a bank will freeze the Company's or any subsidiary's accounts and risks associated with uninsured deposit accounts. There is no certainty that Company or any subsidiaries will be able to maintain its existing accounts or obtain new accounts in the future; and
- although the TMX MOU confirms that there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, there can be no guarantee that this approach to regulation will continue in the future.

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

Despite these laws, FinCEN issued a memorandum on February 14, 2014 outlining the pathways for financial institutions to bank marijuana businesses in compliance with federal enforcement priorities (the “**FinCEN Memorandum**”). The FinCEN Memorandum states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. It refers to and incorporates supplementary Cole Memorandum guidance issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the United States Controlled Substances Act on the same day.

Notwithstanding former Attorney General Sessions’ revocation of the Cole Memorandum, the status of the FinCEN Memorandum has not been affected, 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 Cole Memorandum and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum appears to remain in effect as a standalone document which explicitly lists the eight enforcement priorities originally cited in the rescinded Cole Memorandum. Although the FinCEN Memorandum remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance, it is unclear whether the current administration will continue to follow the guidelines of the FinCEN Memorandum.

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

*U.S. Federal trademark protection may not be available for the intellectual property of the Company due to the current classification of cannabis as a Schedule I controlled substance.*

As long as cannabis remains illegal under U.S. federal law as a Schedule I controlled substance pursuant to the Controlled Substances Act, the benefit of certain federal laws and protections that may be available to most businesses, such as federal trademark 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 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 in the United States, whether on a federal, state, or local level.

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

The Company has historically relied on access to private and public capital in order to support its continuing operations and the Company expects to continue to rely almost exclusively on the capital markets to finance its business in the U.S. legal cannabis industry. Although such business carries a higher degree of risk, and is not legal pursuant to U.S. federal law, Canadian based issuers involved in the U.S. cannabis industry have been successful in completing public financings. However, there is no assurance the Company will be successful, in whole or in part, in raising funds in the future, particularly if the U.S. federal authorities change their position toward enforcing the United States Controlled Substances Act of 1970. Further, access to funding from U.S. residents may be limited due their unwillingness to be associated with activities which violate U.S. federal laws.

### *Service Providers*

As a result of any adverse change to the approach in enforcement of United States cannabis laws, adverse regulatory or political change, additional scrutiny by regulatory authorities, adverse change in public perception in respect of the consumption of marijuana or otherwise, third party service providers to the Company could suspend or withdraw their services, which are necessary for the Company's operations. Such suspension or withdrawal by such third-party service providers may have a material adverse effect on the Company's business.

### *Enforceability of Contracts*

It is a fundamental principle of law that a contract will not be enforced if it involves a violation of law or public policy. Because cannabis remains illegal at the federal level in the United States, judges in multiple states have previously refused to enforce contracts for the repayment of money when the loan was used in connection with activities that violate federal law, even where there was no violation of state law. It is not certain that the Company will be able to legally enforce contracts it enters into if necessary. The Company cannot be assured that it will have a remedy for breach of contract, and such lack of a remedy could have a material adverse effect on the Company's business.

### *Admissibility to the U.S.*

Admissibility into the United States for those individuals involved with cannabis remains uncertain since the sale, possession, production and distribution of marijuana or the facilitation of the aforementioned remain illegal under U.S. federal law.

U.S. Customs practices continue to evolve and U.S. Customs and Border Protection ("**CBP**") released a statement on October 11, 2018 (the "**CBP Statement**") confirming that CBP enforces the laws of the United States and U.S. laws have not changed following Canada's legalization of marijuana. Requirements for international travelers wishing to enter the United States are governed by and conducted in accordance with U.S. federal law, which supersedes state laws. Although medical and recreational marijuana may be legal in some U.S. States and Canada, the sale, possession, production and distribution of marijuana or the facilitation of the aforementioned remain illegal under U.S. federal law. Consequently, crossing the border or arriving at a U.S. port of entry in violation of this law may result in denied admission, seizure, fines, and apprehension.

The CBP Statement also stated that CBP officers are thoroughly trained on admissibility factors and the *Immigration and Nationality Act*, which broadly governs the admissibility of travelers into the United States. Determinations about admissibility and whether any regulatory or criminal enforcement is appropriate are made by a CBP officer based on the facts and circumstances known to the officer at the time. Generally, any arriving alien who is determined to be a drug abuser or addict, or who is convicted of, admits having committed, or admits committing, acts which constitute the essential elements of a violation of (or an attempt or conspiracy to violate) any law or regulation of a State, the United States, or a foreign country relating to a controlled substance, is inadmissible to the United States.

The CBP Statement then continued to state that a Canadian citizen working in or facilitating the proliferation of the legal marijuana industry in Canada, coming to the U.S. for reasons unrelated to the marijuana industry will generally be admissible to the U.S. However, if a traveler is found to be coming to the U.S. for reason related to the marijuana industry, they may be deemed inadmissible.

### *The Company's and its subsidiaries' operations in the United States may be subject to heightened scrutiny.*

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

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of medical and recreational adult use cannabis under the *Cannabis Act* (Canada), investors are cautioned that in the United States, cannabis is largely regulated at the state level. To the Company's knowledge, there are to date a total of 46 states, plus the District of Columbia, that have legalized cannabis in some form. Notwithstanding the permissive regulatory environment of medical



cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act in the United States and as such, may be in violation of federal law in the United States.

Since 2014, the United States Congress has passed appropriations bills which included provisions to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law (currently the “**Leahy Amendment**”, but also referred to as the Rohrabacher-Farr Amendment).

The Leahy Amendment was set to expire with the 2018 fiscal year on December 31, 2018 (“**2018 Fiscal Year**”), however, Congress approved a nine-week continuing resolution from the 2018 Fiscal Year (the “**Continuing Resolution**”). The Continuing Resolution has the purpose of providing ongoing and consistent protection for the medical cannabis industry until December 7, 2018. Congress has been negotiating the 2019 Fiscal Year appropriations since February 2018. The much relied upon appropriations protecting the medical cannabis industry were renewed in both the House and Senate versions of the 2019 Fiscal Year Appropriations bills, with the expectation that the language will be included in the final 2019 Fiscal Year Appropriations Bill. However, it should be noted that there is no assurance that the final 2019 Fiscal Year Appropriations Bill will include appropriations protecting the medical cannabis industry. Until Congress agrees on the 2019 Fiscal Year Appropriations Bill, Congress may pass additional continuing resolutions from the 2018 Fiscal Year, which resolutions would provide ongoing and consistent protection for the medical cannabis industry.

On December 22, 2018, Congress failed to pass the 2019 Fiscal Year Appropriations Bill, including the Leahy Amendment, causing a shutdown of the federal government. During a federal government shutdown, certain “nonessential” governmental programs are stalled; however, federal law enforcement and prosecution actions are exempted from furlough, thus Drug Enforcement Administration agents and federal prosecutors can operate without any restriction otherwise imposed by the spending bill regarding interference with the cannabis industry. Accordingly, during a shutdown, there can be no assurance that the federal government will not seek to prosecute cases involving medical cannabis business that are otherwise compliant with state law.

On January 25, 2019, President Trump ended the government shutdown but announced that he may shutdown the government again on February 15, 2019 if, by that time, Congress has not agreed on the final 2019 Fiscal Year Appropriations Bill which includes sufficient funding for a border wall between the United States and Mexico. On February 15, 2019, President Trump avoided another government shutdown and signed the 2019 Fiscal Year Appropriations Bill which included the Leahy Amendment, extending its application until the end of the 2019 fiscal year on December 31, 2019. There can be no assurances that the Leahy Amendment will be included in future appropriations bills.

American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the U.S. Controlled Substances Act, any individual or business – even those that have fully complied with state law – could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the Leahy Amendment in a future budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government would have the authority to prosecute individuals for violations of the law before it lacked funding under the five (5) year statute of limitations applicable to non-capital Controlled Substances Act violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations and provides no protection against businesses operating in compliance with a state’s recreational cannabis laws.

#### *Regulatory Action and Approvals from the Food and Drug Administration*

The Company’s cannabis-based products are supplied to patients diagnosed with certain medical conditions. However, the Company’s cannabis-based products are not approved by the Food and Drug Administration (“**FDA**”) as “drugs” or for the diagnosis, cure, mitigation, treatment, or prevention of any disease. Accordingly, the USFDA may regard any promotion of the cannabis-based products as the promotion of an unapproved drug in violation of the Federal Food, Drug and Cosmetic Act (“**FFDCA**”).

In recent years, the FDA has issued letters to a number of companies selling products that contain CBD oil derived from industrial hemp warning them that the marketing of their products violates the FFDCA. FDA enforcement action against the Company could result in a number of negative consequences, including fines, disgorgement of profits, recalls or seizures of products, or a partial

or total suspension of the Company's production or distribution of its products. Any such event could have a material adverse effect on the Company's business, prospects, financial condition, and operating results.

#### *Re-classification of Cannabis in and Removal of Industrial Hemp from the Controlled Substances Act in the United States*

On December 28, 2018, the Agricultural Improvement Act of 2018 (commonly known as the "Farm Bill") was signed into law. The Farm Bill, among other things, removed industrial hemp and its cannabidiols, including CBD derived from industrial hemp, from the Controlled Substances Act and will amend the Agricultural Marketing Act of 1946 to allow for industrial hemp production and sale in the United States. Under the Farm Bill, industrial hemp is defined as "the plant *Cannabis sativa* L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more than 0.3 percent on a dry weight basis." The U.S. Department of Agriculture will promulgate regulations for the industrial hemp industry, the timing of which cannot be assured. Additionally, the Farm Bill does not legalize CBD derived from "marihuana" (as such term is defined in the Controlled Substances Act of 1970), which is and will remain a Schedule I controlled substance under the Controlled Substances Act of 1970. It is not yet known what role the USFDA will have in regulating industrial hemp and CBD derived from industrial hemp.

Hemp products, including psychoactive hemp-derived products, are subject to state and federal regulation in respect to the production, distribution and sale of products intended for human ingestion or topical application. Hemp is categorized as *Cannabis sativa* L., a subspecies of the cannabis genus. Numerous unique, chemical compounds are extractable from hemp, including CBD, THC and its various isomers (e.g., delta-8 THC, delta-9 THC, delta-10 THC, etc.), and other cannabinoids such as THC-A and THC-O (collectively, "THC Variants"). Hemp, as defined in the Farm Bill, is distinguishable from cannabis, which also comes from the *Cannabis sativa* L. subspecies, by its absence of more than trace amounts (0.3% or less) of the psychoactive compound Delta-9 THC.

As a result of the Farm Bill, federal law dictates that CBD and THC Variants derived from hemp are not controlled substances; however, products derived from hemp may still be considered a controlled substance under applicable state law. Individual states take varying approaches to regulating the production and sale of hemp and hemp-derived CBD and THC Variants. Some states explicitly authorize and regulate the production and sale of hemp-derived CBD and THC Variants or otherwise provide legal protection for authorized individuals to engage in commercial hemp activities. Other states, however, maintain laws that do not distinguish between cannabis and hemp and/or hemp-derived CBD or THC Variants which results in hemp being classified as a controlled substance under certain state laws.

In addition, the Farm Bill preserves the authority and jurisdiction of the FDA under the FFDCa to regulate the manufacture, marketing, and sale of food, drugs, dietary supplements, and cosmetics, including products that contain hemp extracts and derivatives, such as CBD and THC Variants. The Food and Drug Administration has not evaluated or approved CBD or THC Variants, and therefore does not consider them to be GRAS (Generally Recognized as Safe) for use in foods. The FDA has also found that because CBD and THC are in certain drugs approved by FDA, they cannot be used in foods or dietary supplements. Accordingly, per the FDA, foods and dietary supplements containing CBD and THC Variants do not comply with the FFDCa. FDA enforcement of its position has thus far been minimal and limited to sending warning letters to a relatively small number of companies.

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