MANAGING CHAOS FROM WITHIN THE CYCLONE'S EYE.

State Strategies

CA
Population 39MM
Retail Doors 1250
AR $4.6BB

LEVEL is the number one tablet brand commanding a 48% SOM within our subcategory. Within the overarching Pills category, which comprises tablets, soft gels, and capsules (tablets account for 67% of the entire category), LEVEL is the category leader with a 33% SOM. Thus, LEVEL is the market leader in not only its respective subcategory but also in the entire Pills category.

A major determinant of LEVEL's market dominance within the aforementioned categories is that across all form factors, LEVEL is the eighth most penetrated brand across retail doors, with over 700 retail doors annually. Not only does this make LEVEL the clear-cut market leader in both revenue and penetration within the Pills category, but LEVEL continues to remain the fourth largest edible brand in the state.

Let's unpack this a bit. Ingestibles account for 15% of CA's $4.6B market cap. Overall, 10 brands are responsible for 80% of the ingestible revenue, with nine of those brands producing gummies as their primary products. LEVEL remains the outlier in this pack. The top three ingestible brands are all national cannabis brands (Wyld, Kiva, and Kanha) that are the dominant ingestible brands in many US markets. Because LEVEL has maintained its position in California within this peer group, this sends a strong signal about continued consumer adoption driven by our best-in-class sampling program, innovative product class, and unparalleled customer retention. We're confident that this signal is repeatable as we expand nationally.

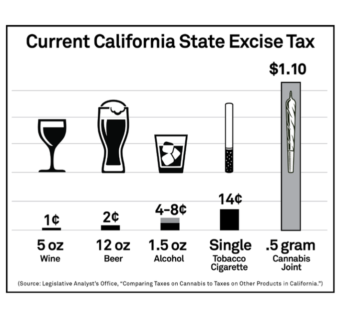
Price sensitivity has evolved into a primary influence to purchasing decisions for major customer segments. Because LEVEL sits in a premium brand position, there is a large consumer base that remains inaccessible due to pricing. LEVEL adheres to a strict mandate of minimal discounting and promotional pricing, which is at odds with how the rest of the industry operates. It is imperative we vociferously protect the brand IP we have spent years building, so simply lowering pricing in an attempt to drive growth by accessing an untouched tranche of potential customers would be tantamount to suicide.

Yet there remains strong demand from budget-conscious individuals wanting to maximize their cannabis intake at the lowest price. The market's persistence in pricing racing to the bottom presented us with a strategic opportunity to exploit an identified pricing disparity, providing the impetus for creating a value brand that would facilitate our accessing the large segments of price-conscious consumers. By leveraging our existing infrastructure and expertise, from manufacturing to sales and everything in between, we have deployed this strategy with an ambitious goal of consolidating a majority of the remaining category SOM.

The Tablet is a value-designed brand launched in March 2024. It is a no-frills brand, engineered to aggressively compete in pricing segments that LEVEL does not reach, providing the consumer with a higher-quality and lower-priced option than any competitor. We are optimistic we will be able to capture a significant amount of accretive revenue in California over the next 18 months with this strategy.

Giants fell in 2023 and continue falling in 2024. Some of the remaining ones (in size, not by any representative standard for operational acumen or business savvy) continue to teeter. HERBL, CA's largest distributor for years ($100MM ARR), seemingly vanished overnight from the CA market last June. Persistent irreconcilable liquidity issues led to a massive debt bubble that brought it and many others down. Grassdoor, one of the largest delivery services in CA that found its footing during COVID-19, shuttered its operations to close out the year. A well-known conglomerate of several large brands that attempted to find refuge under an M&A paradigm overly reliant on the reverse-listing paradigm offered through the Canadian Securities Exchange (CSE) continues to toe the edge. Subversive Capital entered the CA market in 2019 with a $380MM SPAC war chest. Fueled by braggadocio and a self-serving penchant for blazing through investor cash, it accomplished nothing and finally folded. MedMen, the $3.2BB one-time industry darling that was going to revolutionize cannabis, finally torched its last relationship and last dollar.

These challenges are not confined to CA-centric companies only; many of the MSO (multistate operators; e.g., Cresco, CuraLeaf, 4Front) divested from the CA market because they have not been able to compete in an environment where success isn't defined by how much of the market can be controlled through a limited license offering. The previously impenetrable MSO advantage continues to deteriorate in step with that of the limited license model, forcing them to begin moving into wholesale (in-house brands and/or brand partnership) as maturation toward more traditional CPG continues. Succeeding in CA requires grit, relentless drive, innovative strategies, strong execution, and an unwavering commitment to company mission.



California's cannabis tax policy, an issue we haven't broached yet but that warrants discussion, continues to unnecessarily burden the ever-struggling industry. The asymmetric advantage gained by the non-taxed illicit market and the newest offender, the unregulated hemp industry, compound the difficulty of operating in a regulated market where the egregious tax burden disincentivizes both brands and consumers. Even with this challenge, the bureaucratic machine is scheduled to increase the excise tax from 15% to 19% in 2025. The additional tax cost for consumers to purchase cannabis from the regulated market ranges between 25% and 40%, depending on the municipality where the cannabis is purchased. It almost feels as though the state wants this experiment to ultimately fail. Though I am probably giving the government too much much credit with that thought.

Mobile Manufacturing

Because of the prohibition against regulated state cannabis programs from engaging in interstate commerce (don't worry, the illicit market and unregulated hemp are able to do so 24/7/365), there are few options for brands that want to operate in multiple states. Primarily, brands will white label and license their brand IP with a licensed operator in a given state that will co-manufacture and typically distribute for them. These royalty-type agreements work well for the brand as they have minimal capital requirements since they don't need to stand up infrastructure or go through the burdensome licensing process. Plus, most licensed operators already have process pipelines for most types of products, e.g. flower, pre-rolls, vapes, and gummies, beverages, etc. For a tablet, this type of agreement just doesn't work.

For one, the equipment needed to properly manufacture tablets is highly specialized and expensive and requires technical expertise. Also, most licensed operators do not make tablets as part of their core product offering, so there has been no investment in building this CapEx intensive production line.

Fortunately, our asset-lite model solves several of these challenges at once. We already have the equipment and expertise needed to produce tablets and an industry-leading brand to sell them. Therefore we have developed a model that allows us to roll up to a licensed partners facility, unload a few pallets and a tablet press, set up, manufacture, break down, load out, and leave our partner with four to six months of bulk tablets. Our partners then fill and finish our packaging before distributing our product throughout the state. Our partners help open retail doors and we run sales and drive velocity.

This model is proving to be effective. Because most operators do not make a tablet, we do not compete with any in-house branded products they may make. Our product is unique and differentiated, so in a copycat industry of sameness, we add a pop of uniqueness to their book of products. We benefit from their license without having to heavily invest toward infrastructure in any given state. We have immediate access to their established distribution network, and they benefit from our ability to manufacture and sell a lot of tablets. It is a non-zero-sum game.

NV
Population 3MM
Retail Doors 110
AR $850MM

NV is a tough market. This state has a small permanent resident population, limited licenses, and razor-thin margins, and it is mature in years but not sophistication and is a highly competitive market. The confluence of all these attributes sets up NV as a fantastic training ground for LEVEL.

NV cannabis is really defined by the tourist industry in Vegas. Although this no-holds-barred, free-wheeling, deal-seeking environment presents a fresh set of difficulties, we have continued to find ways to be successful in NV.

During our first 12 months of operations in NV we were able to establish ourselves as a trusted brand and partner, consolidate the existing competitor landscape, secure upward of 49% SOM within our category, and launch an additional product class, the Hashtab, in December 2023.

We continue to observe strong market adoption of LEVEL products and continued relationship building among our retail partners. Internally there is cautious optimism for LEVEL's continued growth in NV and confidence in further consolidating our market position in 2024.

NY
Population 19MM
Retail Doors 80
AR $350MM

They say the road to hell is paved with good intentions. New York commercial cannabis exemplifies this adage. The well-intentioned social equity program (the cornerstone of the regulated rollout) was used numerous times to hold the industry hostage for the better part of 2023 because of poor design, not to mention misaligned interests between stakeholders, corruption, and deplorably incompetent execution by regulators. In the words of NY Gov. Kathy Hochul, ". . . the adult use rollout has been a disaster." With only 100 (out of a projected 1,200) retailers currently open and operating in NY, the industry perseveres in being the primary passenger on its own struggle bus.

It doesn't help that NYC alone probably has a couple thousand unlicensed shops (traps or bodegas) that sell various cannabis products without the burden of compliance, regulation, inability to use standard payment processing (credit and bank card), prohibition from using social media and e-commerce, and, least of all, no 280e. With ZERO enforcement around unlicensed shop operations, the NY market is going to continue providing ample entertainment for years to come.

Don't let the information provided lead you astray. The NY regulated market will be one of the largest in the world, eventually. It will just take time, relentless execution, and a disciplined approach focused through the lens of a long-term vision to navigate the arduous path.

There has been meaningful movement over the past couple of months as the Office of Cannabis Management is in the process of approving upward of 1,500 additional retail licenses, which are slated to be approved and come online over the next 18 months. We anticipate a sharp increase in sales velocity as these additional retailers begin to operate. In preparation for this next wave and to best position ourselves for success in this and other new markets, we recently hired our first East Coast team member, who will oversee and manage LEVEL in NY and NJ.

NY will serve as the East Coast hub, being centrally located to service NJ and PA, as well as future East Coast states that will come online.

NJ
Population 9MM
Retail Doors 123
AR $1BB

New Jersey has been a shining example of how to successfully roll out a regulated market in the United States. With a dense and robust population, the tightly regulated market is hungry for cannabis, has a preference for West Coast brands, and is growing quickly. LEVEL's NJ launch is providing strong signals around quick customer adoption and accelerating sales velocity. Our initial production run was forecasted to last four months but sold out in eight weeks.

We have partnered with Ascend Wellness, a midsize MSO with operations in seven states, for the NJ market. Ascend has a strong focus on retail operations, maintains a narrowly curated, top-tier brand partner portfolio, and has been reporting strong operational gains over the past 11 months.

Strong upside potential exists for both parties if we collectively find the NJ partnership beneficial. We are primed to launch LEVEL into three additional adult-use markets where Ascend already operates.

MI
Population 10MM
Retail Doors 800
AR $3BB

Growth potential and excitement abound for LEVEL in this Midwest bastion of cannabis. MI is pound for pound the largest cannabis market in the world. With an annual revenue of over $3BB and only 10MM in population, MI is a sophisticated, mature market primed for LEVEL. We have a best-in-class partner, Pleasantrees, and are thrilled to have finally opened this market.

In MI, LEVEL offers a volume play in a state with over 800 retail doors with a product class that has not been established yet. Our launch has been well received in the market, and LEVEL will be a dominant brand in this territory within the next 12 months. MI will also function as the Midwest hub for LEVEL. From MI we will service the other Midwestern states that have regulated cannabis programs: OH, IL, MO, etc.

OH
Population 12MM
Retail Doors 100
AR $600MM

Ohio has been a target market for quite some time, and although we've been working diligently to enter this market (>14 months), it is now just coming online. A multitude of political challenges have hampered the medical cannabis roll out, and even now the adult-use roll out is plagued by a proxy war being waged between the House and the Senate.

With that said, OH is going to be a strong adult-use market, and LEVEL will be on shelves as the state transitions from +150k medical patients to 8MM potential adult customers beginning in the summer 2024. It is worth bearing in mind that OH will also function as the proxy adult-use market for the major population centers of KY, which are only 90 miles from Cincinnati.

PA
Population 13MM
Retail Doors 176
AR $1.6BB

PA is a sleeping giant primed to become one of the largest markets in the United States. Currently, PA is a formidable medical-only market with $1.5BB in annual revenue, already making it a top market in the United States. Governor Shapiro is pushing to convert the PA market to an adult-use market through a legislative initiative with sights set on an ambitious rollout by July 1, 2025.

Although medical only at the moment, PA has a sophisticated patient base with a hankering for quality ingestibles, which the market lacks. Boasting a population of +13MM, converting to adult use will potentially catapult PA into a top five market in the United States. Ever opportunistic, LEVEL took advantage of a fleeting window to enter the medical market. Establishing a market-leading position prior to an adult-use rollout should lead to an outsized return on our accelerated launch into this state, providing ample opportunity for growth and success.

Federal Taxes

We have discussed the Sisyphusian nature of operating in cannabis due to 280e, the +100-word IRS section that burdens the regulated cannabis industry. Moving cannabis to a Schedule III drug would remove that yoke. For operators such as LEVEL, this would be an incredible boon. Our tax liability, which was greater than $1MM on 7% EBITDA, (as we are required to pay taxes on our gross margin and are penalized for running an optimized business with high margins), would vaporize. Federal taxes for LEVEL would have parity with any other US company of our size and position, which we estimate to be ~ 10% of our current tax burden.

There is a non-zero possibility that the 280e's heinous burden will be resolved in 2024. This will be tied directly to rescheduling cannabis from Schedule I to Schedule III. However, as discussed in last year's update, hope is not a strategy. We continue to build this company to be successful, even if 280e remains for the next several years.

Federal Outlook

This was an interesting year for cannabis at the federal level, and there are several threads to pull on regarding it. Our federal legislative process is in such a state of disarray that getting anything done in a bipartisan manner appears to be a pipe dream, except apparently banning TikTok. This is no different for cannabis, even though there are heavily monied interests on both sides of the aisle and a majority of the United States has a regulated cannabis industry of some type. The biggest legislative initiative was the SAFE(R) Banking Act, which is the Frankensteinian reimagining of a perpetual seven-year-old bill that has passed the House in as many times but has yet to pass the Senate. At this point, however, this bill is mostly symbolic because primary banking options are available to most cannabis operators, even if traditional financial instruments, credit lines, loans, and so on are still unavailable.

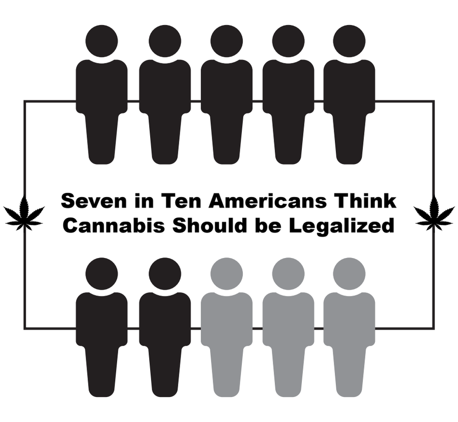
There are 38 states (and DC) that have a regulated cannabis industry, whether medical and/or adult-use, with two more states having adult-use cannabis initiatives on ballots in 2024. With Ohio, the Union now has 24 states that have a regulated adult-use industry. I am confident we will watch two more states implement adult-use through 2025, pushing us over the 50% threshold.

In 2023 dysfunction and impotence within the federal legislative arm led to an emergency 12-month extension of the 2018 Farm Bill. This is nontrivial for a couple of reasons. The first is the fact that the Farm Bill has passed every five years with the precision of an atomic clock for 85+ years. The second and more critical reason is an arbitrary definition for hemp included in the 2018 bill, discussed in detail below, which has created a bifurcated class system within cannabis that amounts to a distinction without a difference.

The black swan in all of this could be the rescheduling of cannabis from Schedule I to Schedule III. A Schedule I drug (cannabis) has no currently accepted medical benefit and a high potential for abuse and lacks accepted safety. Schedule II drugs (fentanyl and Adderall) have high abuse potential and accepted medical use with severe restrictions, and their abuse leads to severe physical or psychological dependence. Schedule III drugs (Tylenol w/ codeine, ketamine) have accepted medical use and low to moderate potential for abuse, and their dependency may lead to low to moderate physical/psychological issues. Where do you think cannabis belongs in this conversation?

With a recommendation in August 2023 by the HHS, Health and Human Services, under a Biden Administration's mandate for expedited review, a full review was provided on the scientific merit regarding the medical efficacy of cannabis with a strong recommendation to move it from Schedule I to Schedule III. Even the FDA commissioner has stated publicly in front of Congress that there is no reason for the DEA to delay its decision. The DEA has final rescheduling authority, except in the case of a legislative action, so this 10-month-old recommendation is now in the hands of the DEA.

Time functions differently in Washington, DC, but chatter from many corners around an imminent rescheduling decision is rampant. The punditry typically suggests the entire process could take upward of 36 months, but there is continued optimism that the ruling will be announced by mid-2024, although this time period is quickly approaching. The amount of engagement from the FDA, White House, DEA, and Congress is also a telling sign that suggests a ruling should be imminent. Even if the DEA makes the clear and demonstrably reasonable decision to reschedule cannabis, the proposal has to go through the DOJ for approval by the White House OMB, before getting published in the Federal Registry and entering a public comment period. Following a potentially lengthy public comment period the DEA has 30 days to respond to comments, following which would be an indeterminate amount of time to implement the change. This would be the idealized path based on theory and procedure; we can be assured that if the DEA recommends cannabis be rescheduled, there will be lawsuits filed and potential injunctions placed in an attempt to thwart this inevitability. Regardless of whether rescheduling happens in 2024, momentum has turned for this inevitability.

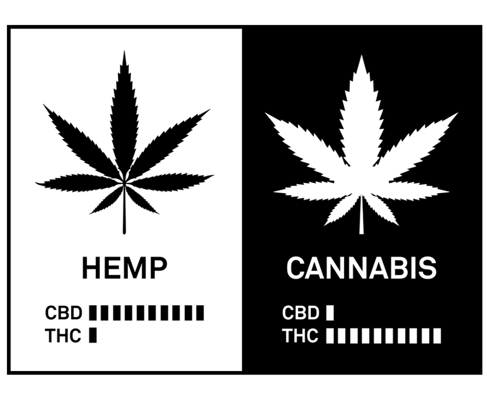


In an ideal world, cannabis is not rescheduled, but it is DE-scheduled. Descheduling is not going to happen under this current administration nor under the current Congress, so pragmatism demands we approach the potential next phase of national cannabis building keeping Occam's razor in mind—the simplest approach is often the quickest (or best) toward change. It is only reasonable to accept and understand that reversing 90+ years of prohibition does not occur overnight. In fact, it is taking decades to get there.

As stated above, what is the second reason the emergency extension of the Farm Bill has serious implications for the industry? Read on.

Cannabis and Hemp A Distinction without a Difference

Cannabis and hemp, under the definition of the 2018 Farm Bill, are identical plants that are treated as a distinction without a difference.



The hemp provisions within the 2018 Farm Bill were intended to facilitate a pathway for agricultural farmers in states, such as KY, to grow a cash crop other than tobacco. The Farm Bill intended to foster a resurgence of industrial hemp in an attempt to reintroduce this agricultural product in the United States, which was banned when "marijuana" was scheduled under the CSA, Controlled Substance Act. The coalescence of several events shaped this policy misstep in ways never imagined. As Mitch McConnell, a huge champion and proponent of the hemp provisions in the 2018 Farm Bill, commented, "[the bill] is intended to supply rope, not dope."

Industrial hemp is grown for its fibers and oils. The strains of industrial hemp cultivated from Europe to Asia contain very little cannabinoid content. These hardy plants share some semblance to the iconic inflorescence of a cannabis plant and function as biological factories capable of producing excellent-quality fiber and oil for countless consumables and food/feed products.

When the 2018 Farm Bill was approved with a blindly ignorant and stupidly simplistic definition for hemp, effectively removing it from the DEA's CSA, there was a parallel movement happening in the United States: state-regulated adult-use cannabis programs. The progress from outright national prohibition to a patchwork of strictly regulated state markets coincided with advancements in science that allowed cannabis plants that were previously labeled "drug-type" products to now become "fiber-type" ones or colloquially known as hemp.

The ability to genetically control the output ratio of cannabinoids, namely CBD:THC, brought about a second derivative effect from the 2018 Farm Bill. Farmers from Kentucky to North Carolina to Colorado planted hemp in upward of hundreds of thousands of crop acres, intending to provide fiber and oil feedstock inputs, but instead they produced hundreds of metric tons of cannabinoids, primarily CBD and THC. However, the CBD health craze didn't bring the wave of new consumers needed to consume the surplus stockpile continuing to amass unabated in several states that participated in pilot hemp programs.

What happens at the confluence of an oversupply of unregulated cannabinoids, robust e-commerce pipelines, social media distribution channels, a vague interpretation of Farm Bill language, a severe lack of clarity or guidance from governing authorities, and ZERO enforcement, encouraging a free-for-all environment? The unregulated hemp market.

Unregulated hemp has been on quite a journey since early 2019. Hemp has traveled a circuitous path from simply a CBD offering to a myriad of intoxicating cannabinoid compounds (e.g., delta-8 THC) to now outright selling d9-THC in the same doses as those found in heavily regulated cannabis markets. The unintended consequences of the Farm Bill are setting up a perfect alignment to a head-on collision between regulated cannabis and unregulated hemp. Because unregulated intoxicating cannabinoid products are bought with credit cards online, in gas stations, and now at large retail box stores such as Total Wine, the stage is being set for an unforgettable, industry-defining confrontation.

Considering this, one might posit the following. If most of the operational challenges of regulated cannabis do not exist in this unregulated hemp space, does LEVEL have any designs to jump in? Short answer: No. Although this is a question we have explored in depth many times over the past four years, uncertainty around the ambiguity in the Farm Bill and the nuanced fact that our product type does not fit within the spuriously legal interpretations of the Farm Bill prevent us from taking that risk. An additionally important factor stems from the fact the increased challenges of operating in the regulated environment has pushed many operators into the unregulated hemp space, along with a barrage of brands that never operated in the regulated market. This space has become quite crowded and is quickly devolving toward complete commoditization because lack of differentiation, unfettered competition, and dirt-cheap inputs are readily available. All of which present us with an interesting opportunity to exploit our advantages within the regulated market and focus on aggressively expanding. We have our pick of best-in-class operators to work with in any given state, and there is currently little competition in our product segment, which provides us an asymmetric advantage to dominate in these markets.

Ultimately, all of this begs the following questions: how does reconciliation occur when the exact same compound (d9-THC) from identical sources is used to make identical products, but one set of products is allowed to operate with impunity and zero oversight while the other set is subject to all of the wonderful and amazing constraints detailed throughout this update? What impact will new clarifying language in the upcoming Farm Bill have? Or how will the cascading events from states passing laws to severely regulate or outright ban hemp-derived intoxicating cannabinoids influence the trajectory of this fluid and dynamic unregulated industry?

Without the benefit of a crystal ball, our recommendation is to sit back, grab the popcorn, and prepare to watch one of the most confounding, irrational, and comical events around.

Conclusion

When this update hits your inbox, LEVEL will be launched in four new states, NJ, MI, OH, and PA, bringing our total operational footprint to seven states nationwide. Metta Medical, LEVEL's parent company, will have launched a new value brand, The Tablet, in California. All of this is being accomplished while breaking a significant company milestone of having an entire quarter that is free cash flow-neutral. It would be difficult to truly convey the magnitude of this accomplishment; it is a testament to the foundation, structure, and operational execution we have built and fortified over the past several years. It is a reflection of the innovative approach LEVEL takes across all verticals in our organization from manufacturing to sales to expansion.

THE LEVEL WAY

Be **Principled**
Do the right thing. Even when no one is looking.

Be **Human**
Let compassion and respect guide our collaborative efforts.

Be **Reliable**
Build trust through consistency.

Be **Fearless**
Innovate with courage, confidence, and creativity.

Be **Relentless**
Approach each day with an unwavering commitment to excellence and forward progress.

LEVEL™

The road ahead will still be extremely difficult and see plenty of challenges, and the cannabis industry will continue to be a formidable operating environment. There is, however, an acceleration in the change occurring throughout the country, led by the states themselves. More and more states are bringing adult-use programs online, and the legislative and regulatory environment continues to evolve at rates that have not yet been observed.

It has felt that every year has been crucial in this industry. We have had to navigate seemingly insurmountable obstacles and overcome ridiculous barriers to just get the simple things done (like getting a commercial bank account). That said, we are operating under a working assumption that the next three years will be the most critical for LEVEL. During this time we will position ourselves as the number one tablet brand in the United States. We have developed a strategy and are currently executing it to achieve operational success in 12 states by the end of 2025.

During this time as states continue expanding access to cannabis while a free-wheeling unregulated hemp industry charges ahead unrestrained, a reckoning is coming. What that ultimately looks like for cannabis as a stand-alone market or in the integration of both the hemp and cannabis markets remains to be seen. What we are confident in is our ability to be nimble in the face of continual change and challenges while navigating this dynamic landscape. All of this is possible because we are guided by the principles that define the core values we have adhered to while building this amazing company.