



QUESTIONS AND ANSWERS ABOUT CANNABIS

1. *What are the projected medical cannabis revenues for the first three years of sales?*

	YEAR 1	YEAR 2	YEAR 3	Notes
NC Population	10,400,000	10,400,000	10,400,000	2020 Census figure
# of Medical Cannabis Patients	104,000 (1% of NC population)	156,000 (1.5% of NC population)	208,000 (2% of NC population)	2% is average across 38 states with medical cannabis; very conservative estimate
Avg. Spend per Patient per Year	\$2,000	\$2,000	\$2,000	2K annual patient spend is average across 38 states with medical cannabis
Gross Sales	\$208,000,000	\$312,000,000	\$416,000,000	
Minus estimated annual operating expenses	\$70,000,000	\$72,100,000 (3% increase)	\$76,426,000 (3% annual increase)	Salaries, benefits, costs of goods sold, etc.
Minus estimated capital expenses	\$64,000,000	\$47,000,000 (project expansion and maintenance)	\$35,000,000 (project expansion and maintenance)	Infrastructure, facilities, expansion of project to serve eventual NC market
Minus potential loan repayment, depreciation, management fee, reserve maintenance, etc.	\$35,590,000	\$71,150,000	\$104,500,000	Tribal government has already approved \$53 million to Qualla in the form of a loan guaranteed by the Tribe.
AMOUNT TO EBCI	\$38,410,000	\$121,750,000	\$200,074,000	

2. *I heard that Qualla is being audited. Is that true?*

Of course it is! Qualla engaged with an independent audit firm weeks ago (long before the recent veto) to perform the audit. This is good business practice. While Qualla has a talented team of financial professionals on its board and on staff, including internal and external CPAs, Qualla will nonetheless be independently audited this year and every single year it operates. It should be.

All businesses should undergo routine, annual audits, and Qualla is no different. Accountability matters. The only difference with Qualla is that it is involved in the cannabis business, so only certain auditing firms have the experience needed to make the audit effective.

3. How much money has Qualla Enterprises spent to date on the cannabis project?

As of May 1, 2023, Qualla has spent **\$21,631,332** of the \$31 million (\$21M in March 2022 + \$10M in December 2022) invested. \$16,010,641 was spent on capital expenses/infrastructure, and \$5,620,691 was for operating expenses. Here is a detailed breakdown of the \$21,631,332 that has been spent:

CAPITAL EXPENSES		Notes
Indoor Grow Facility	\$1,710,624	57K sq ft building will produce 35,000 lbs a year when completed steel for building ordered in 2022, resulting in savings of 250K
Hoop House Facilities	\$3,136,435	25 presently; adding 50 more for 75 total each produces 2,305 lbs per year 25 houses=57,633 lbs a year 75 houses = 172,900 lbs a year
Extraction/Processing	\$2,746,662	20K sq ft building
Warehouse/Consumable Storage	\$215,653	7k sq ft buiding
Site Work and Utilities	\$714,506	Fence, irrigation, lighting, wastewater, erosion, etc.
Cold Storage	\$34,583	Enhances product shelf life
Drying Facility	\$3,380,549	20k sq ft building divided into 8 rooms
Retail Building	\$1,429,060	Bingo Hall
Planning & Design	\$447,331	
Security & IT	\$645,241	
Machinery & Equip/FFE/Vehicles	\$1,549,998	
TOTAL Capital Expenses	\$16,010,641	
OPERATING EXPENSES		Notes
Rent	\$61,527	
Office/Materials/Supplies	\$110,586	
Advertising & Marketing	\$19,041	
Professional Services	\$489,081	
Utilities	\$160,643	
Repairs & Maintenance	\$35,826	
Insurance	\$9,462	
Travel/Training	\$127,602	
Wages/Benefits	\$2,108,695	Presently there are 54 employees: 3 executive; 3 finance; 2 HR; 12 security; 8 processing; 26 cultivation; 0 retail
Costs of Goods Sold	\$2,489,482	
Brand Development/Digital Media Strategy	\$8,750	
TOTAL Operating Expenses	\$5,620,691	
TOTAL EXPENSES	\$21,631,332	
TOTAL CASH REMANING	\$9,368,668	

4. Why did Qualla request \$64,000,000?

Primarily to build out and finish an indoor growing facility (\$35,000,000) and to hire enough people to fully staff the operation to be ready to open (\$15,770,000 per year). It is simply not possible to do \$200M-\$400M in annual sales without enough employees! We estimate that another 423 people will be needed to fully staff and secure the cultivation, processing and retail facilities.

Here is the breakdown of present employees by department versus the number of employees at full capacity:

QUALLA EMPLOYEES

Department	Present	Full capacity	Left to Hire
Executive	3	8	5
Finance	3	8	5
Human Resources	2	8	6
Security	12	62	50
Processing	2	68	66
Cultivation	26	158	132
Retail	0	165	165
TOTAL	54	477	423
	<ul style="list-style-type: none"> • 37 of the 54 are Tier 1, enrolled EBCI members • 7 of the 54 are Tier 2, meaning parent/child/spouse of an enrolled member • 1 is Tier 3, meaning an enrolled member of another tribe 		

An indoor facility is needed because it produces the highest quality flower (so-called A Bud) to smoke, which some customers prefer. Indoor cultivation (which is different than greenhouses) allows the grower to completely control the climate variables and therefore produce higher quality cannabis, but it is costly. Those two needs (indoor and full employment) alone equate to around \$50 million.

One final point is critical to remember. Tribal Government has already approved providing approximately \$53 million (\$52,985,914 to be exact) to Qualla in the form of a loan guaranteed by the Tribe. This was Resolution 468, passed December 8, 2022. Qualla looks forward to receiving such proceeds and immediately putting them to good use.

5. I heard we were supposed to get state-of-the-art greenhouses. Why didn't we? What are hoop houses?

The original plan in November 2021 was for Qualla to construct 7 state-of-the-art greenhouses in the first year. They are very nice and would have produced approximately 83,000 lbs. of cannabis annually. Unfortunately, these greenhouses are also very expensive. Construction of these 7 greenhouses was budgeted to cost around \$33,700,000.

That cost was a problem. Qualla did not have \$33,700,000 (it still doesn't). In March 2022, Qualla received \$21 million. It did not receive the next \$10 million until December 2022, almost a year later. So Qualla never had enough money to do the greenhouses as originally planned. In addition, the Coopers Creek facility lacked adequate power to operate the greenhouses without significant (and costly) upgrades.

So rather than do nothing or cry about the situation, Qualla improvised. It rallied some of the brightest minds in cannabis. It shifted cultivation away from greenhouses to the much less expensive hoop houses and started construction in June 2022 (when the Coopers Creek site was finally approved). Then Qualla brought in a team of engineers to winterize the hoop houses so that they could grow cannabis year-round (just like the greenhouses would).

And it worked! For around \$5 million, Qualla will have 75 hoop houses capable of producing over 121,500 lbs. of cannabis in harvests throughout the year.

Let's compare the 7 greenhouses with the 75 hoop houses:

	Greenhouses	Hoop Houses
Number	7	75
Cost	\$33.7M	\$5M
Annual Production	83,000 lbs	121,500 lbs
Year round production?	Yes	Yes

Sometimes in life you have to play the hand you are dealt, and that is exactly what Qualla did. And did very well.

It turns out that Qualla's innovation was a blessing in disguise. Not only are the hoop houses far less expensive and equally productive as compared to the greenhouses, but the greenhouses have recently struggled in high humidity environments like Florida and have required substantial and expensive retrofitting post-construction to address such problems. The cost of such retrofitting has made greenhouses nearly as expensive as indoor facilities in high humidity environments (like the Great Smoky Mountains).

In sum, the hoop houses are a tremendous achievement, well under budget, innovatively engineered and remarkably productive. They are a cornerstone of the profitability of this project, and Qualla is rightfully proud of their development and success.

6. *Is the project overbudget?*

Not at all. As we said in Question 2, Qualla has spent around \$21.6 million of the \$31 million provided to it. The original budget was to spend around \$50 million in the first year. That number only included 7 greenhouses (see Question 5), and it did not include any indoor facility.

One year after spending began (the first funds were spent in April 2022), more than \$9 million remains in the bank. And, despite having spent less than half of its budgeted amount, Qualla has already harvested around \$20 million worth of cannabis—almost equal to every dollar that it has spent!

7. *Is providing money to Qualla going to endanger revenue that EBCI receives from the casino?*

Absolutely no one associated with Qualla is willing to do anything that would jeopardize casino revenue. Never. To say or suggest otherwise is terribly misleading and simply not true.

The National Indian Gaming Committee (NIGC) has issued guidance about use of “gaming revenues” (a specifically-defined term) on cannabis. That guidance must be respected and followed. It has been and it will continue to be.

Contrary to what some are saying, Qualla has never “disagreed” with the NIGC. That is ridiculous. What Qualla has said is that the cannabis project can be funded in a manner that is consistent with NIGC guidance. And it absolutely can be!

Think about it—multiple gaming tribes have already funded cannabis projects. More importantly, the Eastern Band of Cherokee Indians has already provided \$31 million to the cannabis project and promised to provide another \$53 million in the form of a loan! So plainly funding cannabis can be safely done without endangering revenue from the casino.

That is all Qualla is asking for—do what has already been done by this Tribe and others.

THANK YOU FOR TAKING THE TIME TO READ THESE QUESTIONS AND ANSWERS. IF YOU CAN, COME VISIT US. IF YOU CAN'T VISIT, PLEASE EMAIL US AT info@quallalle.com

ASK QUESTIONS. EVEN TOUGH ONES. BUT PLEASE GET ACTUAL, ACCURATE FACTS ABOUT THE PROJECT RATHER THAN RELYING ON WHAT YOU MAY HEAR.

REMEMBER, THIS IS YOUR PROJECT. NOTHING HISTORIC IS EVER EASY, BUT TOGETHER WE WILL MAKE HISTORY!