



Responsible Investing in the Emerging Cannabis Industry

### **4Q 2019 Limited Partner Update**

March 2020

Dear Merida Limited Partner:

Our Q4 2019 letter centers around several overarching themes that are pervasive in the cannabis industry: the existing lack of capital for cannabis companies and its effect on valuations and public equity pricing and the survival of fast-growing companies reliant on that capital; the recent (and in some cases wise) decisions of MSOs to terminate high-profile transactions; and the current regulatory landscape. Whether it was the meltdown of the Canadian capital markets or the slower than expected development of California's legal market that has put pressure on large operators who raised capital at frothy valuations in early 2019, the year ended far differently than it began. The public market stock price activity has been brutal for the past six months, and we view the current state of affairs as a painful but necessary recalibration that bodes well for the future of the industry and aligns with our investment thesis in particular.

Before delving into the current capital drought, I'd like to highlight one of Merida's recent and significant successes. One of our key differentiators is our ability to pursue opportunities directly in a variety of different verticals, with a focus on state-based limited licenses. We have submitted 10 license applications over the three year history of the fund, building on the success of our founders' group from the 2013-2016 Cannabis 1.0 era, when we won licenses in Connecticut, Minnesota and Nevada and merged an unsuccessful attempt in Maryland with a license winner. Merida is finally beginning to see the fruits of those early efforts with our recent success in Missouri, which should yield strong returns to Fund III over the next few years. Given Merida's de novo success in Missouri-we paid \$250K for 43% of Como which owns 5 dispensaries and \$250K for 17% of Good Harvest Missouri, which won processing and cultivation-and our current efforts in Virginia and Maryland, we now have significant, and relatively inexpensive exposure to direct operations with limited licensing moats around their business. This allows us to pursue higher yields in the intermediate terms as those operations can focus on sustained profitability rather than burning precious capital hoping to scale quickly and attract a potential suitor. This is important in today's climate given the scarcity of cash buyers and also given the premium applied to profitable businesses in the sector.

Turning now to the broader markets, we have consistently expressed a deep skepticism of Canadian operators' valuations and their addressable market size in calculating a reasonable base valuation (refer to our twitter feed for numerous examples), and we have always felt that the stock market's "democratic" vote on valuations was imperfect at best because of the narrow band of parties actually "voting" in 2017/2018. While 2019 saw a shift to a broader investor base buying into public companies, much of the activity is still in small caps and Canadian retail, which made easy money between 2016-2018, but has since gotten annihilated. This scenario drives us to examine businesses that are better positioned to capitalize on the stresses and frictions inherent in volatile times. GrowGeneration, Ionization Labs, Emerald Scientific, KushCo and Steep Hill Labs (the latter two have their own issues which we have addressed in previous letters) are all companies positioned to serve operators regardless of whether those operators have access to easy capital because they are so critical to the supply chain producing cannabis-based medicines or consumer goods.

We highlighted some of the industry's struggles during the course of the year including the rampant depletion of capital that began in Q2 and accelerated into year end. Public company values took the brunt of this, missing out on access to the cheap capital that drove expansion in 2018 and early 2019. This scarcity in turn created a marketplace where mergers and acquisitions were scrutinized with a particular focus on the capital necessary to achieve scale. Turning the corner on 2020, we have seen large transactions dissolve, including our own MCP Wellness transaction – the dissolution of which was driven by our buyer's lack of access to capital as well as our desire to receive a liquid currency with tangible immediate upside as opposed to stock in a company that was hamstrung by issues on day one.

The virtue inherent in the new paradigm of capital scarcity is that companies began to focus on profitability and the actual cost of capital versus the expected output of that capital spending. Expenses and spending were finally scrutinized in Q4, ushering out insanity and bringing reality to the cannabis marketplace. We were often one of very few voices expressing doubts that prolific amounts of SG&A would be justified by later results. 2019 ended with many joining the chorus in calling for companies to begin making structural changes to their operations. CEOs of dozens of large companies were removed - something unthinkable only a year before.

In the U.S., the carnage has been less pronounced, largely due to capital limitations that have mitigated unbridled spending (except perhaps in the case of MedMen, which saw their executive team change as losses and lack of capital have pushed the company to the brink of survival). Many of the better-run companies in the U.S. have taken a more deliberate approach to growth, trying to maintain a trajectory towards profit rather than justifying losses with stories of expected profits that wear thin with investors when that capital must be raised at lower levels.

The pullback of spending and the focus on profitability is an encouraging sign for the industry and bodes well for the next leg of growth which we believe is highlighted by the further maturation of the consumer vertical and the medical/research vertical heading into 2020.

## **Large Transactions Terminated**

Trends can easily become the default consensus and one trend that is now pervasive is that MSOs are much more cautious in their acquisitions and avoid spending cash on anything that will have significant cash burn. MSOs are also much more interested in further penetrating existing markets rather than planting flags in every state. This combined with the scarcity of cash, or the high cost of investment capital, have rendered transactions which have a cash compensation component far less likely. To put it in simple terms, in this current climate, if a potential acquisition is burning cash, then a transaction is likely a non-starter. Furthermore, it's a healthy trend that companies back away from an expected acquisition if the transaction ceases to make sense, regardless of the optics around that. This was unthinkable in the free money days of 2017 and 2018 because all attention was on equity prices, not business fundamentals.

To illustrate, we highlight three representative examples below. Note that we too have experience in the arena, with our MCP Wellness-CannCure deal, which was terminated largely because we were unwilling to close without a significant upfront cash payment or merge our profitable asset with a nascent operator that could have burned cash for two years or more. Refer back to our Q3 shareholder update for a deep dive on the MCP Wellness termination.

### **MedMen - PharmaCann**

MedMen, the oft-troubled Los Angeles-based multistate marijuana operator, announced in October that its blockbuster acquisition of PharmaCann was scuttled and that the company will instead focus on beefing up its retail operations in California and other states. The decision to terminate the planned \$682mm all-stock transaction was surprising as it was revealed just one month after MedMen stated that both companies had complied with antitrust obligations under Hart-Scott-Rodino (HSR) requirements and that the deal was expected to close by the end of 2019. MedMen had also loaned \$21mm to PharmaCann throughout the HSR waiting period which made terminating the transaction tricky. We had heard rumblings that the deal was in trouble in the summer for two other reasons not associated with high costs - PharmaCann investors were concerned about the final deal value given MedMen's stock decline, and there were rumors that Cannabis REIT IIPR, which has several sale and leaseback agreements with PharmaCann, was concerned about the transaction and its impact on their counterparty risk.

Under the termination agreement, PharmaCann has agreed to surrender the following cannabis facilities and licenses to MedMen in return for the forgiveness of the \$21mm loan:

- An operational cultivation and production facility in Hillcrest, Illinois.
- A retail location in Evanston, Illinois.
- A retail license for the "greater Chicago" area.
- A license for a vertically integrated facility in Virginia.

### **Harvest Health & Recreation – Falcon International**

Last February, Harvest Health ("Harvest") agreed to an all-stock transaction that would have amounted to \$155mm upfront with another \$85mm if the stores purchased from Falcon International ("Falcon") met revenue targets. Falcon's primary business was third party brand distribution which was once seen as an attractive component of California's legal ecosystem but

has since been exposed as a business that is difficult to run profitably due to competition, fragmented retail landscape, and the risk around counterparty credit.

Harvest alleges Falcon failed to produce auditable financial records, which suggests that Harvest can walk away from the deal without incurring any penalty. Harvest shareholders hope a judge agrees because California is just about the last place where a multistate operator wants to expand right now. Harvest has already initiated a legal process to terminate the transaction as there are incredibly high stakes involved including the return to Harvest of \$47.8mm in loans and payments advanced to Falcon. Agency distribution in California has been one of the hardest hit areas of the ecosystem and Harvest has made allegations that go far beyond simple mismanagement. They have accused Falcon of misrepresenting its financial condition and of illegal operations that included interstate transportation.

Specifically, Harvest alleges that evidence exists that Falcon was knowingly engaged in a pattern of ongoing violations of law and regulations governing its conduct as a marijuana/cannabis business, including (a) providing marijuana/cannabis in violation of California Bureau of Cannabis Control (“CBCC”) regulations and (b) interstate transportation of marijuana/cannabis before the Merger Agreement was executed, and (c) that it engaged in ongoing CBCC regulation violations after the Merger Agreement was executed.

#### Cresco Labs - Vida Cann

In November, Merida portfolio company Cresco Labs (Cresco) announced that it was terminating its \$120mm acquisition of Florida-based Vida Cann. Cresco has stated that the decision was founded on the need to conserve cash as Cresco works to accelerate top and bottom-line growth. Cresco said: "The team and operations at VidaCann are phenomenal, but with a focus on managing our cost of capital, and insuring the most efficient and highest return on invested capital, the ability to deploy resources to other, existing, Cresco markets that are widely considered some of the top markets in the U.S., like Illinois, Pennsylvania, California and Nevada, has to take priority."

We believe that the fact that Cresco was largely paying cash for the transaction had a significant impact on their decision. With Illinois going recreational, Cresco's cultivation presence in Michigan (which is also now recreational), and potential expansion on the horizon in California, Nevada, New York, Pennsylvania and beyond, expending such a significant sum in a highly competitive state where they might not even move the needle on their drive to profitability was not the best use of Cresco's capital.

#### Regulatory Landscape

There has been virtually no federal regulatory movement on the large-scale bills like the SAFE Banking Act or MORE Act since the beginning of November when the impeachment of President Trump began to heat up. Almost all regulatory activity has come at the state level with the exception of several small bills that seek to carve up the federal apparatus around criminal enforcement of cannabis or removing it from Schedule 1. While there are some novel strategies for doing so in these actions, this quarter had very little federal activity likely to impact the industry. That said, there was progress at the state level, including what we think to be a potentially

paradigm-shifting court decision: the New Jersey Court of Appeals decision in *Hager v. MK Construction*.

### Hager v. MK Construction

On January 13, 2020, the New Jersey Appellate Division ruled in favor of a severely injured medical marijuana patient and ordered his former employer to reimburse him for his medical marijuana expenses. The case is a remarkable step forward for the medical cannabis industry, potentially opening the door to wider reimbursement, as well as for the rights of employee-patients seeking to use medical cannabis.

In a case of first impression, a three-judge panel ruled that a workers' compensation judge can order an employer to reimburse its employee for the employee's use of medical marijuana prescribed for chronic pain following a work-related accident. The court specifically rejected the employer's argument that the Controlled Substances Act ("CSA") preempts the New Jersey Compassionate Use Medical Marijuana Act ("MMA"). The court also rejected the employer's arguments that (1) the workers' compensation judge's order would require the employer to aid and abet its employee's possession of an illegal substance in violation of the CSA, and (2) the employer should be treated similarly to a private health insurer, which the MMA expressly exempts from requirements to reimburse medical marijuana costs. Finally, the court ruled that for purposes of patients seeking humane and reasonable forms of treatment, at least in this instance, medical marijuana is a reasonable and necessary form of treatment under the New Jersey Workers' Compensation Act ("WCA").

On the heels of Maine and New Mexico decisions that differ on whether the CSA preempts state cannabis laws (Maine found it does, New Mexico found it does not), we believe that this decision could have far reaching effects on how other patients approach medical cannabis and impact how marijuana-related businesses conduct commerce as the "aid and abet" dicta from the New Jersey Court could allow for an aggressive expansion of what is permissible under cannabis's status on Schedule 1 of the CSA.

There are 5 specific takeaways from *Hager* that we believe are worth noting:

1. The Court of Appeals is the highest court in any state to consider questions of reimbursement around medical cannabis.
2. The Court made broad references to cannabis as a better option for chronic pain than opioids.
3. The Court dismissed the opinion of one of the expert witnesses that questioned the effectiveness of cannabis and considered cannabis part of a reasonable treatment plan if the patient has exhausted other options for relief.
4. The ordered reimbursement covered 2 ounces per month, which cost \$616. That is a lot of cannabis to consume every month.
5. In ruling that the New Jersey MMA does not conflict with the federal CSA, the New Jersey Court of Appeals opened the door to any company or person in a medical or recreational state to argue in favor of transacting with cannabis companies since there is no "aid and abet" risk.

## Missouri

With the granting of cultivation, processing, and dispensary licenses, Missouri (MO) is now officially open to create a robust medical program. We wrote in our Q2 shareholder update about some of the opportunities to acquire de novo licenses due to the value proposition and our achievement in Missouri is a validation of that effort. With a population of ~6mm people, a broad set of conditions and lax recommendation rules, Missouri should have a robust program with adoption rates that could rival Oklahoma, the most successful state to launch a medical program in recent years. Missouri patients already number around 27,000. This would easily be the largest patient population to exist before product is even available. Connecticut, Minnesota, Ohio, Illinois, and Maryland *combined* had fewer patients at the launch of their programs.

The conditions for Missouri patients include:

- Cancer
- Epilepsy
- Glaucoma
- Migraines
- Chronic severe, persistent pain or persistent muscle spasms
- Debilitating psychiatric disorders
- HIV or AIDS
- Chronic medical conditions otherwise treated by prescription medications that may be habit-forming
- Any terminal illness
- Other chronic, debilitating or other medical conditions at a physician's discretion

The Missouri health department announced that it received 2,163 applications and collected more than \$13mm in application fees. The state awarded 348 licenses: 192 for dispensaries, 60 for cultivation facilities, 86 for manufacturing facilities and 10 for testing labs. Merida won five dispensaries with Como Health, in which Merida is the principal investor, and a cultivation and processing license with CAMP, where Merida opportunistically supported a woman-owned applicant to a successful application. Both companies are currently in the process of operationalizing their respective opportunity and we think we could see revenue in Q4 in one or both.

## Michigan

While we have learned a great deal about Michigan since we entered into our transaction with Green Skies early last year, two insights that drove our thesis at the time of our investment still give us confidence that our operation will thrive in 2020 and beyond. We noticed that MSOs had largely failed to establish any type of footprint within Michigan before its recreational passage by ballot measure in 2018. While we believed these companies could establish cultivation and processing as licenses seemed easily acquired, our conversations with many of those MSOs throughout 4Q18/1Q19 told us that most MSOs assumed they would turn their attention to Michigan retail after recreational passage.

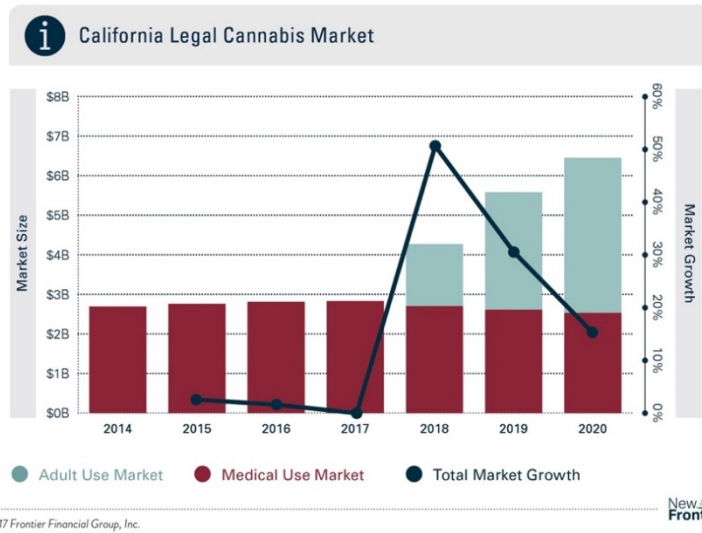
At no point in our discussions did any MSO indicate that they fully understood the local rules in Michigan. Additionally, real estate ownership was an essential component to obtaining licenses and none of the MSOs owned any. They would thus be largely shut out of the initial licensing unless they

wanted to pay huge premiums for unbuilt licenses. As the capital crunch of 2H 2019 hit, MSOs no longer showed interest in expending capital in Michigan until its post-recreational launch, allowing us to grow our footprint 3x to 11 operating dispensaries. We also hold 7 other unbuilt licenses, primarily in Grand Rapids where we dominated the dispensary application approval process, winning nearly half of all licenses granted. MSOs are now beginning to realize their oversight. Michigan's retail landscape will require them to pay huge premiums for attractive municipal retail locations, or be relegated to merely a wholesaler with very little pricing power once the more than 1mm square feet of cultivation currently in some stage of buildout is completed. In recent discussions with Cresco Labs, their team expressed dismay at finding retail locations that could be licensed since most municipalities have placed an unofficial moratorium on new licenses until after recreational launches occur. For Detroit, that could mean no new licenses for 6 months or more. Ann Arbor has already granted its maximum. Grand Rapids, Battle Creek, and Flint have largely done the same. That means that the largest municipal population centers are closed to MSOs, unless they buy existing assets.

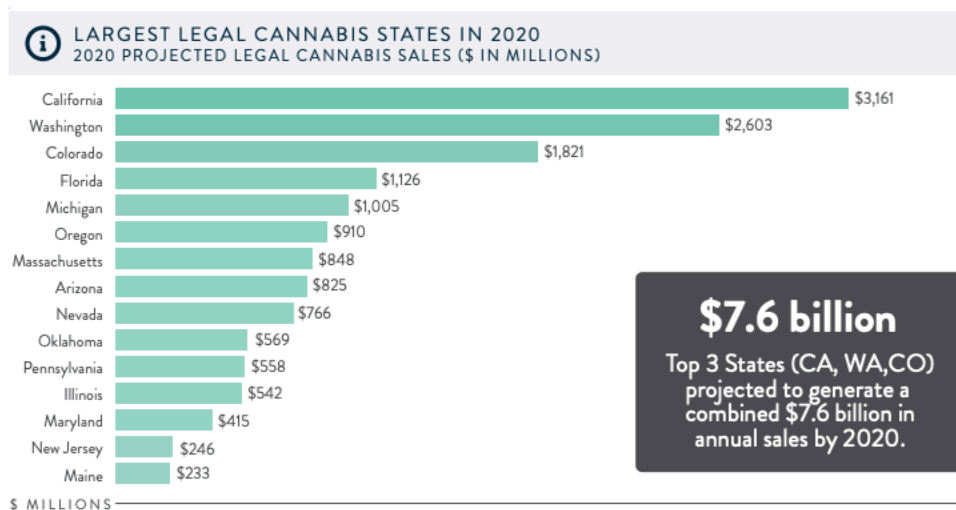
Our operation continues to rebound from the December chaos, posting \$2.25mm of gross revenue in January. We also remain committed to launching our grow operations as fast as practical. The grow will not only give us greater access to supply, which has been virtually non-existent for our rec dispensaries, but also allow us to contract manufacture for all of the many brands in CA/NV/WA et al.

### California

California remains one of the enigmas of the cannabis industry. It is worth going back to New Frontier's projections for California from 2017, which mirrored BDS Analytics and other market research at the time. Some of the broader headwinds the industry has faced - the sluggish rollout of bellwether California, and the huge valuations given to CA-based operators in anticipation of the projected growth - have created a huge value gap that may not be resolved until 2021 at the earliest. The black market continues to thrive in the state and with other markets like Illinois, Michigan, and Massachusetts starting to ramp up, Californian black market product is now staying in California, which has put significant pressure on operators who must compete with illegal products throughout the value chain. It also has created a grey market, where legal operators attempt to inject unregulated products into the regulated stream, again punishing compliant companies. One large company caught up in unregulated allegations is Lowell Herb Co., a well-respected operator that buys large quantities of flower to turn into manufactured products. Lowell refutes the allegations but with companies like Kushy Punch getting caught with an unregulated "parallel facility" to its regulated facility, it's not hard to believe some operators are reacting to the stress of California's slow development by cutting corners or operating in a non-compliant manner.



As the figure below illustrates, California is now projected to do ~\$3bb in sales in 2020, which is slightly lower than the original post-ballot passage projection of \$7bb above. California's black market was estimated at \$8.7bb recently which explains why many operators are struggling there.





## Public Comparables as of 12/31/2019

### Public Comparables - U.S. Multi-State License Roll-Ups

Public Comparables - U.S. Multi-State License Roll-Ups														As of	12/31/2019
US\$ mm	Next	Last	FD	Equity	Net	Enterprise		2018A		2018A	EV / 2018A	2018A		2018A	
Company Name	Financial	Clo	Shar	Fl	De	Val	L	R	EV / 2018A	EBIT	EBIT	EBIT	Marg		
Trulieve Cannabis Corp (a)	4/29/2020	\$ 11.84	109	\$ 1,294	\$ 82	\$ 1,376	\$ 283	\$ 103	13.4x	\$ 46		30.2x	44.4%		
MedMen (b)	11/26/2019	0.53	526	279	439	718	176	40	nm	(47)		nm	n/a		
Green Thumb Industries (c)	4/29/2020	9.75	223	2,173	(13)	2,161	272	46	47.0x	16		nm	34.6%		
iAnthus (d)	4/29/2020	1.47	172	253	104	357	89	49	7.2x	(34)		nm	n/a		
Liberty Health Sciences (e)	11/30/2019	0.47	345	162	28	190	33	0	nm	(5)		nm	n/a		
Sunniva (f)	11/29/2019	0.20	39	8	43	51	17	14	3.6x	n/a		n/a	n/a		
TerraTech (g)	11/30/2019	0.16	103	17	34	50	30	31	1.6x	n/a		n/a	n/a		
Golden Leaf (h)	11/29/2019	0.02	816	16	5	21	14	17	1.3x	(15)		nm	n/a		
Acreage Holdings (i)	11/30/2019	5.92	124	737	3	740	90	81	9.2x	(5)		nm	n/a		
Columbia Care (j)	11/30/2019	2.49	234	583	(41)	542	88	39	13.8x	n/a		n/a	n/a		
Cresco Labs (k)	11/29/2019	6.86	306	2,098	(12)	2,086	120	43	48.2x	2		nm	4.6%		
Harvest Health (l)	4/29/2020	3.15	285	899	56	955	133	47	20.4x	10		nm	22.0%		
Curaleaf (m)	4/29/2020	6.31	492	3,104	104	3,208	247	205	15.6x	n/a		n/a	n/a		
Vireo Health (n)	11/29/2019	1.07	167	178	(23)	155	32	18	8.6x	3		nm	16.7%		
4Front/Cannex (o)		0.45	538	242	4	245	15	-	n/a	-		n/a	n/a		
MarlMed (p)	11/30/2019	0.62	234	145	40	185	45	12	15.6x	2		nm	20.3%		
CLS Holdings (q)	11/29/2019	0.22	260	57	-	57	10	5	11.2x	(14)		nm	n/a		
Green Growth Brands (t)	11/29/2019	0.61	240	146	83	229	51	n/a	n/a	n/a		n/a	n/a		
AYR Strategies (x)	4/29/2020	9.38	46	428	155	584	128	75	7.8x	23		25.9x	30.0%		
JUSHI (y)	11/30/2019	1.38	122	169	39	208	2	-	n/a	-		n/a	n/a		
Median excludes any data point labeled "nm".									11.2x			28.1x	22.0%		
Average excludes any data point labeled "nm".									15.0x			28.1x	24.6%		

Company Name	2019E R	EV / 2019E R	2019E EBIT	EV / 2019E EBIT	2019E Marg	2020E R	EV / 2020E R	2020E EBIT	EV / 2020E EBIT	2020E Marg	Qtrly FCF (CFO-CapEx)
Trulieve Cannabis Corp (a)	\$ 249	5.5x	\$ 116	11.9x	46.6%	\$ 397	3.5x	\$ 159	8.7x	40.1%	\$ (25)
MedMen (b)	130	5.5x	(171)	nm	n/a	218	3.3x	(63)	nm	n/a	(54)
Green Thumb Industries (c)	217	10.0x	31	70.4x	14.1%	474	4.6x	124	17.4x	26.2%	(27)
iAnthus (d)	89	4.0x	(28)	nm	n/a	248	1.4x	41	8.7x	16.6%	(21)
Liberty Health Sciences (e)	11	17.3x	(6)	nm	n/a	66	2.9x	13	14.6x	19.7%	(0)
Sunniva (f)	47	1.1x	9	6.0x	18.2%	77	0.7x	18	2.8x	23.4%	(5)
TerraTech (g)	85	0.6x	9	5.9x	10.0%	n/a	n/a	n/a	n/a	n/a	(2)
Golden Leaf (h)	51	0.4x	10	2.1x	20.0%	n/a	n/a	n/a	n/a	n/a	(1)
Acreage Holdings (i)	161	4.6x	(73)	nm	n/a	302	2.4x	21	34.6x	7.1%	(25)
Columbia Care (j)	82	6.6x	(42)	nm	n/a	318	1.7x	52	10.5x	16.3%	(105)
Cresco Labs (k)	114	18.3x	4	579.6x	3.1%	451	4.6x	131	15.9x	29.0%	(22)
Harvest Health (l)	160	6.0x	(47)	nm	n/a	795	1.2x	202	4.7x	25.4%	(37)
Curaleaf (m)	265	12.1x	24	135.9x	8.9%	1,033	3.1x	261	12.3x	25.3%	(23)
Vireo Health (n)	36	4.3x	(3)	nm	n/a	121	1.3x	25	6.2x	20.5%	(12)
4Front/Cannex (o)	4	55.8x	10	24.5x	227.3%	110	2.2x	9	27.3x	8.2%	(2)
MarlMed (p)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(5)
CLS Holdings (q)	59	1.0x	19	3.0x	32.7%	148	0.4x	59	1.0x	39.8%	(0)
Green Growth Brands (t)	16	14.6x	(50)	nm	n/a	100	2.3x	(34)	nm	n/a	(23)
AYR Strategies (x)	102	5.7x	28	20.8x	27.5%	290	2.0x	100	5.8x	34.5%	(2)
JUSHI (y)	63	3.3x	3	69.4x	4.8%	205	1.0x	42	5.0x	20.5%	(14)
Median excludes any data point labeled "nm".										8.7x	23.4%
Average excludes any data point labeled "nm".										11.7x	23.5%



## **Portfolio Company Updates**

In a brutal landscape, we remain focused on ensuring our public and private companies operations continue to progress in an efficient manner since capital remains scarce. That is the current context of all efforts to drive our portfolio forward.

### **Dharma Pharmaceuticals LLC:**

Dharma Pharmaceuticals LLC (“Dharma”) was awarded 1 of 5 licenses in Virginia to grow, process and sell medical marijuana. Merida made an initial investment into Dharma in September of 2019. Construction began in late September on the facility in Bristol, VA, which contains cultivation, processing and dispensary operations. Primary construction on the 35,000 sq/ft facility was completed in early December of 2019 ahead of the state’s inspection on December 19. Although we partnered with the original Dharma founders 9 months after license were awarded to all five recipients, on January 7th Dharma became the first licensee in Virginia to receive final approval from the Virginia Board of Pharmacy to begin operations. We anticipate the first seeds will go into the ground in early March. We believe we will have product to sell in late July and should be the first company into the Virginia market. Consider that three MSOs had licenses before us, yet Merida’s operational efficiency and historical know-how was able to create a significant timing advantage for our operation over these larger organizations as we should be the only products available in Virginia for months before our competitors get to market.

Dharma has created a full sales force that has begun collaborating with different medical cannabis support groups throughout Dharma's Health Service Area. The sales force is working to educate potential patients and doctors on the benefits of medical cannabis as well as to build Dharma name recognition throughout our Health Service Area. Dharma is also working with state legislators on bills to increase the number of retail locations each license holder is allowed to operate and to improve patient access to the medicine.

### **Henry’s:**

Henry’s finished the year strong with a record Q4, earning over \$4mm of top-line revenues. To put this in perspective, Henry’s started 2019 with monthly revenues of \$450K, and grew month over month fairly consistently, hitting sales of over \$1.4mm by the end of the year. For the year, Henry’s grew revenues from \$4.5mm in 2018 to \$10.3mm in 2019.

Henry’s continued to gain market share throughout 2019 and is well-positioned to be the California market leader in both the Flower and Pre-Roll categories in 2020. Through November 2019 (the latest available data), BDS Analytics has Henry’s as #2 in the State for Flower Sales, # 5 for Pre-rolls, and #2 when combining the two categories. Henry’s was not on the map when we invested.

All of this was despite the abovementioned California market environment and the broader public market cannabis stock sell-off in the second half of 2019 which siphoned capital out of the space. This macro industry trend, combined with a California regulatory environment that has arguably proven hostile towards licensed operators and beneficial to the illicit or black market (in short, high taxes and limited upstream and downstream licensed operators), has ultimately led to low cash balances and high accounts receivable to expand state-wide. This forced Henry’s to make

some hard decisions in November and December, including saying no to servicing certain retailers at the expense of revenues (they are now on payment programs with their biggest obligors and are on a path to full repayment), and restructuring the business, including laying off 20 employees or about 20% of their workforce. Henry's did restructure in Q4 2019 to minimize expenses and achieved the first operational cash flow positive month in December. This positions Henry's well for 2020 and beyond.

Henry's does have a need for capital to continue its growth trajectory, and Merida is in discussions with Henry's to provide bridge capital into an expected 2020 Series C raise. Henry's key to long-term success ultimately resides in the thesis we have had all along – the biggest chokepoint for brands in CA has been supply and production resources, with limited legal market flower and competent supply chain partners available. Investing in the company's own production infrastructure (significantly bolstered by local license regulatory expansion visualized here) ensures steady supply and higher margins. With a sufficient and timely capital raise in 2020, the company expects to be Net Income positive in 2020 and beyond, with limited cash burn over the next two years and cash flow positive thereafter.

#### **GL Brands:**

In November 2019 Freedom Leaf, Inc. changed its name to GL Brands, Inc. and in February 2020, a new ticker was introduced: GRLB

On February 3, 2020, GL Brands announced Fiscal Q1 results for the quarter ending September 30, 2019. Revenue for the quarter reached an all-time high of \$2.1mm, an increase of 248% from \$609K in 1Q19. In addition, 1Q20 revenue nearly matched the \$2.3mm of revenue generated in fiscal 2019. The Company achieved a gross margin of 69% compared to 56% in the prior year quarter ended September 30, 2018, due to lower COGS and more efficient operations. The Company reported a net loss of \$14.5mm, primarily attributable to \$13.7mm of one-time, non-cash expenses related to the restricted stock awarded and cash compensation (deferred) to the ESC Labs management team as part of the Green Lotus acquisition.

On November 2019 the Company closed a \$5mm financing led by Merida Capital. The Company issued a 3-year 8% note convertible into GRLB shares at \$0.20 and a 3-year warrant (60% coverage) with a strike price of \$.09. Details of the transaction were filed in the form of an 8-K issued on November 18, 2019.

#### **MCP Wellness Michigan:**

The market in Michigan experienced many disruptions in 2019 which we have discussed at length throughout the Q4. The key driver of these disruptions was the transition to adult use and the Michigan regulatory ambiguity on that transition, which has allowed caregivers to remain licensed beyond the state's original mandate. Michigan regulators also have implemented rules which have favored cultivators, placing much of the administrative onus on retail operators, who must comply with complex rules around product labelling and the split between adult use and medical products.

We have covered this extensively but a quick summary of our timeline in Michigan. In April of 2019, we were preparing a grow facility at the time we entered into the CannCure/SOL transaction. Our soon to be partners asked us to wait to start the cultivation build because they wanted to help design the grow to their specifications, which we permitted because the large down payment of \$9mm gave us confidence that the transaction would close. Unfortunately, once we realized the transaction would not close, we immediately recognized that the delay in building the grow facility was going to hurt our results in the first half of 2020. We have moved quickly to finalize the design and put our original plan into action and hope to have a complete buildout ready by early Q3.

Ultimately, the delay of six months in launching the grow is regrettable and will inform how we structure transactions going forward since we will not delay critical elements of our operating plan regardless of a potential transaction. We are fortunate that we were able to win additional dispensary licenses which will help us make up lost revenue from the lack of a cultivation operation until Q3 2020 but we have learned a painful lesson from the errors made in the CannCure/SOL transaction that we will not repeat.

#### **Summary of Operations:**

- In 2019, MCP Wellness Michigan expanded its dispensary footprint from three to eleven operating dispensaries, three of which are currently approved for recreational sales.
  - In addition, the company was one of the largest license winners in Grand Rapids.
- MCP Wellness Michigan performed adequately in withstanding these supply shocks. The company's Total Revenue for 2019 was \$33mm, with a 27% Gross Margin and a 9% EBIT Margin. Our EBIT margins were significantly affected by the ramp up of personnel costs in anticipation of closing the CannCure/SOL transaction. We have already taken steps to normalize personnel costs after the transaction was terminated, and we expect EBIT margins to rebound throughout 2020.
- While there was a deterioration of Gross Margin in 2019, we are already seeing Gross Margin increase back into the healthy 40%+ range. In 2019, Gross Margin was adversely affected by a dearth of product in the recreational market.
- Despite margin pressure from both a lack of clean supply that complied with regulations, and other regulations which impact purchase planning, our operation in Michigan operated profitably in 2019, producing more than \$2mm in profit.

## MCP Wellness Michigan Consolidated Operating Results

January - December 2019

	1Q2019	2Q2019	3Q2019	4Q2019	2019 Total
<b>Total Revenue</b>	<b>\$7,824,408</b>	<b>\$9,803,604</b>	<b>\$9,439,892</b>	<b>\$6,718,576</b>	<b>\$ 33,786,481</b>
Total Cost of Goods Sold	\$5,348,610	\$7,236,977	\$7,173,723	\$4,771,908	\$ 24,531,218
<b>Gross Profit</b>	<b>\$2,475,799</b>	<b>\$2,566,627</b>	<b>\$2,266,169</b>	<b>\$1,946,668</b>	<b>\$ 9,255,263</b>
<i>Gross Margin</i>	32%	26%	24%	29%	27%
Operating Expenses	\$1,066,513	\$1,157,660	\$1,798,010	\$2,229,415	\$ 6,251,597
<b>Earnings Before Interest and Tax</b>	<b>\$1,409,286</b>	<b>\$1,408,968</b>	<b>\$ 468,159</b>	<b>-\$ 282,746</b>	<b>\$ 3,003,666</b>
<i>EBIT Margin</i>	18%	14%	5%	-4%	9%

We remain committed to launching our grow as fast as practical. The grow will not only give us greater access to supply, which has been virtually non-existent for our recreational shelves, but also allow us to contract manufacture for all of the many brands in CA/NV/WA et al. that have approached us to help them launch within Michigan.

### **New Frontier:**

The era of big data seems to finally have arrived in the cannabis industry. Large investments into point of sale providers and data companies who are supposedly “deep diving” into data have given us even more confidence that a world where sophisticated data usage is driving the top operators is an inevitability. Look at companies like Fyllo, which raised \$16mm of seed funding, Headset’s \$12mm raise, or the ~\$30mm raised by Green Bits (a POS provider) to see that investors recognize the importance of data to every potential operator, large and small. Larger operators seeking insights has grown such that New Frontier’s sales pipeline for 2020 already exceeds its revenue for 2019, which was more than double its revenue in 2018. We now know a great deal more about digital adoption and have a deeper insight into the challenges these companies have as they launch, particularly if their product offerings are still being defined.

The key problem was that cultivators not only were overly reliant on their instincts (something that frustratingly radiates throughout the landscape), but they weren’t online 100% of the time and so delivering these insights to people who could actually use them was impossible to overcome. New Frontier sought to address that with a corporate platform which could deliver insights to investors, operators, and the finance professionals driving the space forward. As that platform, smartly branded as Equio (loosely translated in Latin’s ablative declension as “from the Horse’s mouth”) took shape, New Frontier can now serve curated insights to the emerging executive class that no longer was walking cultivation rooms on a daily basis. We saw the Executive/Operator dichotomy evolve first, primarily because we were one of the first “networks” to involve multiple states. Jeff, Colin, Kevin and I understood that the emergence of MSOs and the capital being plowed into the public markets in Canada through both Canadian cos (LPs) and US companies going public created a different class of industry participant—that of the professional executive. We also believed those executives would be as interested in insights that could drive operational decisions as they would about understanding how they could use information to make longer term decisions around strategy and capital allocation, two things that the public markets would value highly. But it was early...and still is to a degree.

The challenge of being early can be painful if the market never emerges for their offerings. The challenges can be summed up in three verticals-the challenge of reaching the right audience, the challenge of driving adoption of automated tools in order to achieve high margins, and the challenge of stickiness. It is these challenges that we have worked hard to help the company overcome in 2018 and 2019 and with an evolving audience of executives and new entrants or aspiring entrants from traditional industries that rely on data and market research, New Frontier is on the verge of finally monetizing that data collection as it intersects with an important change in the cannabis industry-the emergence of the consumer as there are now 10 recreational markets. Those markets are generating reams of consumer data which are being collected at the product level by many sources but few are collecting it with an eye towards developing consumer taxonomies and profiles like New Frontier identified in its landmark study (in conjunction with data from MJ Freeway). As New Frontier moves to its Next Frontier solution, enterprises entering the legal cannabis industry can finally research, target and reach their ideal cannabis consumers in a closed controlled system.

Despite capital markets constrictions and industry uncertainty, New Frontier Data has grown across its three 2019 Strategic Targets: TAM, Core, and Profit.

- Doubled Equio Premium subscribers to ~300 with 75% retention rate
- Doubled Newsletter Reach to close to 100,000 users
- Doubled Earned Media Reach to over 11bb, 90 nations
- Media Reach-1.7B up 522% YoY
- Cannabit Subs (total)-58,739 up 71% YoY
- Website Sessions-101,227 up 152% YoY
- Free report downloads-8,979 up 1400% YoY
- Hemp Newsletter Subs-6,499 up 228% YoY

#### Earnings:

- Average deal size from \$25K to \$150K
- Revenue growth from \$9000K in 2018 to \$2mm+ as of November 2019
- Average 2018 Monthly Pipeline \$150K to \$600K in 2019, now up to \$3.1mm

New Frontier has entered into binding agreements to acquire Zefyr and Civilized. We see the Zefyr piece as essential to building the future of predictive analytics to which New Frontier aspires. With Q3 revenue of \$152K, and a Q4 sales pipeline of over \$1mm alone, we are seeing the ramp for New Frontier's services spike. As of now, they have a sales pipeline of over \$3mm heading into 2020, meaning they have contracts booked, but have not yet begun executing or collecting on the contracts. The final projected pro-forma revenue (with Zefyr) is \$2mm for 2019. We are excited about 2020 and the projected \$8-\$10mm revenue at SaaS like gross margins north of 70%. Like our investments in CB2 Insights, MediaJel, Simplifya, and tökr, we do not think the raw earning power of data has been unlocked yet and believe that investments in data/information services will be a significant value driver for Merida in 2020 and beyond. New Frontier is currently raising a \$7mm bridge convertible note at a \$70mm valuation which would encompass the acquisition of these companies and a deeper integration with MediaJel's media platform.

### **Gabriella's Kitchen:**

GABY is working on eight initiatives that they believe will get them into a position of sustainability in 2020. The company's acquisition spree has led to integration challenges that they are just beginning to tackle. We remain cautious about the company's prospects because of their need for capital over the next two quarters and the missteps they took while integrating these businesses. While the management team has repeatedly funded much of the company's needs, we would like to see a broader capital base given the company's burn as this is another area of concern. We do see these initiatives as a positive sign that the company understands its positioning and how to resolve lingering issues but in total, they will have to execute these eight initiatives efficiently before we can return to a more bullish posture regarding the company's prospects.

1. Sale of the frozen food business. An internally run sale process has commenced and we should have an outcome within the next 45 to 60 days. This will save GABY up to \$1.5mm in 2020 and depending on the sale price will bring in additional cash.
2. Acquisition of HiTouch Distribution. Strong revenue and positive EBITDA with high growth potential in 2020 and beyond. This is not the usual cannabis distribution business that you will find in a cannabis operation but is instead a profitable business in the mainstream channel that we will use to aggressively expand our CBD portfolio into mainstream doors. We will also rely on HiTouch management experience, processes and IT to streamline the operations of our THC distribution business.
3. Acquisition of Imbue CBD. Strong brand with over 300 doors nationwide (mostly east coast) in the independent pharmacy and convenience channel. Acquisition of Imbue adds a profitable, high growth and established product line to GABY's current portfolio of CBD products and adds significant horsepower to an already strong management team. Finally, and significantly, it adds the valuable pharmacy and convenience channel to GABY's portfolio.
4. Expansion and continued increase in operating efficiencies of Sonoma Pacific's THC business, including production and manufacturing efficiencies, automation, faster turnaround of raw ingredients into packaged goods, and better procurement dictated by market demand.
5. Focus sales on high margin product lines such as Sonoma Pacific branded flower/pre-rolls, Lulu Chocolate Edibles, development of new product lines, and limited but high margin third party fulfillment and distribution.
6. Aggressive expansion of CBD product line on the back of new acquisitions. HiTouch distribution and Imbue sales channels along with strong Imbue products and GABY proprietary brands; Lulu, 2Rise, and Sonoma *Specific* (CBD).
7. Aggressive cost cutting. Mostly includes headcount and disposal or sale of redundant office space, equipment, and assets. This will include sale of unused licenses that will generate further cash.
8. \$10mm financing to complete the acquisitions of HiTouch/Imbue and the above discussed initiatives.

With the acquisitions and product expansion GABY is forecasting to generate \$38mm (C\$50mm) in revenue for 2020 with a company-wide gross margin of 34% and EBITDA of approx. US\$400K (without taking into account any synergies from acquisitions or further cost savings).

**GrowGeneration Cop (“GRWG”):**

GrowGen remains one of the true successes of 2019, with management that has consistently performed in an efficient and intelligent manner. The company has grown organically and found intriguing opportunities to add to their store portfolio, which now stands at 26. The numbers tell the story but most important, we believe the company still has a significant amount of acquisition and organic growth runway heading into 2020, and the additional buying power they achieve should further improve their bottom line over time.

**2019 Financial Highlights:**

- Revenue of \$80.0mm, up \$51.0mm or 176% versus 2018.
- Revenue for Q4 2019 was \$26mm versus \$9.1mm for Q4 2018.
- Same store sales were up 62% for Q4 2019 versus Q4 2018.
- Same store sales were up 36% for fiscal year 2019 versus 2018.
- Total new store and acquired stores for 2019 totaled 11 new store locations.
- Fully deployed ERP platform across all locations.
- Up listed to the Nasdaq Exchange.

**Manna Molecular:**

4Q 2019 saw continued revenue growth in the base business at Manna and the introduction of a breakthrough product that has the potential to move Manna into the next level of major player in the space. Manna continues to focus on bringing to market only best in breed product offerings that are genuinely differentiated from their competitors. Manna has significantly increased revenue in each year of operations. Revenue projections for 2020 are roughly 4x 2019 actuals, as a base case.

The core business, led by the Manna Patch, continued to create strong revenue growth driven by increased awareness of the brand and the addition of new licensees. There is a strong pipeline of additional operators who have expressed the intent to sign on as licensees as their businesses come online. This provides the business with a strong foundation of revenue streams which supports ongoing operations as well as the development of new, innovative products. In addition, Manna Patch will be sold through the Manna e-commerce site and several other new outlets, greatly increasing the revenue potential of the product.

The most significant event of Q4 was the market launch of Vella, Manna’s breakthrough female sexual enhancement formulation. The launch was supported by multiple Business Development initiatives, which included Manna and Vella being featured in a full-page ad in the December 30 issue of “USA Today”. The Manna team has begun discussions with a number of mass market retailers with the notion that Vella is a product that fits well into the mass merchandisers’ business strategies. The science team that developed Vella includes Michael Frid, as well as Dr. Harin Padma -Nathan, one of the lead investigators for Viagra. The product development pathway for Vella featured the same scientific rigor that is applied to the development of ethical pharmaceuticals. This scientific discipline and rigor provide Manna with its principle differentiation from all other products in the cannabis space. The study results from live



participants have been exceptional and indicate that the product is truly a breakthrough formulation.

Beyond Manna Patch and Vella, there is a robust pipeline of new product development designed to continue to enhance the Manna portfolio of offerings. In early 2020, Manna will bring to market a Beverage Powder and a sub-lingual tablet. There has been significant advance market interest in both of these delivery methods. The science team will apply the same discipline to the development of the new products as they have to the previous offerings. All are designed to be best in class product offerings.

### **KushCo (“KSHB”):**

#### **Fiscal First Quarter Summary – November 30, 2019**

- Net Revenue Increased 38% Year-Over-Year to \$35.0mm with Gross Margin up for the Fourth Consecutive Quarter
- Net revenue increased 38% from the prior year quarter to \$35.0mm.
- On a GAAP basis, gross profit was 20.8%, compared to 12.8% in the prior year period.
- On a Non-GAAP basis, excluding the impact of certain non-recurring items, gross profit was approximately 22.6%.
- On a GAAP basis, net loss was approximately \$12.5mm, compared to approximately \$8.6mm in the prior year period. Basic and diluted loss per share was \$0.12 compared to \$0.11 in the prior year period.
- On a Non-GAAP basis, excluding the impact of certain non-recurring charges and gains, net loss for the quarter was \$9.2mm and net loss per share was \$0.09.
- Cash was approximately \$14.7mm as of November 30, 2019, compared to approximately \$3.9mm as of August 31, 2019.

#### *Recent Operational Highlights*

- Appointed former Nestle and Cetera Financial Group human resources executive Rhiana Barr as Chief People Officer
- Completed reduction in headcount of 53 employees, generating approximately \$4.3mm in net annual cost savings

### **MODE (formerly Vapor Dosing)**

Mode received a great reception at MJBiz and has brought on Adam Oesterle, who was formerly Director of Business Development for the Pax Era, to run the roll out of Mode. Adam has been working closely with the Kush team on go-to-market strategies and they are currently targeting a retail launch in Illinois, Michigan and Ohio. Mode continues to improve its identification accuracy, using the dosing rig (pictured below) in conjunction with their identification algorithm. As of Q1, their identification accuracy was at 88% for any material found within a 510 cartridge, which most product manufacturers find appealing since consumers tend to be attracted to products that can be measured in a precise way, something Mode does for virtually any brand whose oil is put into a 510 cartridge, including Kush’s C-Cells. The dosing rig essentially pulls vapor all day and the data is fed through the algorithm which is reading the internal sensors. When we first invested,

the accuracy was in the low 60s, but we felt confident that the constant trial and error and strong development team would be able to get it to current levels and even higher over time.



The device, pictured below, will connect to your phone through an app that will allow you to precision dose while detailing the terpenes and cannabinoids within the vapor that is consumed.



Mode has also shared some of their institutional feedback on the device, which should hit stores some time in Q2.

"We thought the device was slick. The ability to track consumption and generate data was interesting, both from a consumer and an operator's perspective. We're excited to be a part of the roll out."

Kirk Schmitz, Vice President of Operations at iAnthus Capital

iAnthus

"When first trying the Mode™ dosing device, I thought it was just like any other vape pen/battery in the market, but I soon realized this was different from the rest. My favorite feature on this device is the ability to dose accurately from 1mg all way up to 9mg per puff; giving users the control on how much to medicate based on how they're feeling that given day. The look of the Mode™ device is futuristic yet sophisticated; the best part is it fits all 510 thread carts. It's an all-around good device."

Abraham Lee, COO of Vader Extracts

**VADER**  
EXTRACTS

"We're very excited to participate in the Mode™ program. We feel strongly Mode™ is solving a real need within the industry which is: dosing. There are a lot of rudimentary dosing devices but nothing that pairs with the most popular cartridge in the market – the 510 cart. The display on the device is sick and the device just looks cool. We especially love the backend data analytics which will help our company better understand what our customers want from us in the future. Data is what it's all about."

Justin Nocella, Private Label Director of FlavRx

FlavRx

"The Mode device is a user-friendly experience featuring an innovative 510 connection port, easy to use touchscreen controls and a variable intensity range to help control the delivery."

Brian Stewart, Senior Vice President of Sales & Product at KushCo Holdings

**KUSHCO**  
HOLDINGS

### **Mainstem ("MS"):**

We believe that like New Frontier, Mainstem is about to benefit from the rise of the professional operator. They have successfully pivoted away from simply being a retail supplier of goods and have inked deals with two MSOs to be an ERP-like solution for procuring supplies, finding price improvement for consumables, and helping larger companies organize their procurement efforts. Mainstem is projecting strong growth for 2020 and believes it should be profitable on a monthly basis by the end of Q1. Vendors and Operators alike are being onboarded because they want access to the growing critical mass on Mainstem's marketplace, which we believe will continue to grow throughout the year.

### **2019 Revenue Recap:**

- 100% revenue growth from 1Q to 4Q 2019
- \$1mm 4Q19 revenue
- Reduced operational burn by 65% in 4Q
- Reduced headcount by 35%
- Restructured sales team and leadership

- Total revenue of \$3M, capital burn of \$1.6M of in 2019

#### 2019 Product Recap:

- Segmentation of product offering for customers, vendors and affiliates
- Launch of Enterprise Software
- Facilitates procurement standardization across multiple departments, divisions, locations
- Consolidation of purchasing

#### 2020 Strategic and Growth Initiatives:

- Enterprise Software Platform:
  - Facilitates business purchasing processes to help companies remain compliant with their purchases across the regulatory landscape
  - Consolidates, centralizes, and scales purchasing across divisions, departments, and locations for the rapid growth organizations
  - MainStem has onboarded 4 of Curaleaf's 68 operating locations, has onboarded 4 of Ascend Wellness's 8 operating locations, and is working towards a close of La Mota in Oregon which has 15 locations
- Vendor Platform:
  - Vendors want to be on the platform to gain access to Mainstem's customer base and sell products
  - Mainstem's vendor platform reduces the cost and time of customer acquisition and sales ramp up

#### **i2 Accelerator:**

Q4 saw strong progress from our initial class of i2 investments. The five companies continue to integrate into the Merida ecosystem in impactful ways for both them and our other portfolio companies. We are excited to report on some the headway that has been made, and strongly believe these companies will be able to build from their Q4 momentum.

**Vega Farms** offers a broad product line that spans tinctures, body butter, pre-rolls, flower, and gel caps. They continue to build out their distribution network and forge strong brand relationships.

**High Road** is still pre-revenue but continues to make progress on launching their technology platform and mobile app in Maryland, followed by Michigan and Illinois.

**Higher Learning** is still pre-revenue but gaining strong business momentum. Plan to open online enrollment on January 24th and hold sold-out open house on January 25th. Ribbon cutting ceremony planned for 2/15, with school officially starting on March 1st (tentative date).

**Canna Bistro** ended 2019 with \$299K in revenues & (\$70K) in operating income. Canna Bistro plans to launch infused BBQ sauce and salad dressing in 1Q 2020.

**James Henry** is re-launching the brand in January with pre-rolls and flower in their 3 proprietary formulations. The company will launch edibles and vape pens in 2020 if their capital raising efforts are successful.

### **Convectium:**

- The company signed a sales referral agreement with Jupiter whereby each company will sell pre-racked cartridges and Convectium's filling/capping machines and receive referral fees. This allows Jupiter to offer an automated solution to its customers while tapping into Convectium's customer base and vice versa.
- Closed on convertible note financing of \$560K in December.
- Reduced monthly cash burn by 50%.
- In December 2019, Convectium and Jupiter Research, a subsidiary of TILT Holdings, entered a strategic partnership. Jupiter is the largest C-Cell cartridge exclusive distributor in the U.S.
  - Significantly leverage existing customer base and salesforce of both companies.
  - Jupiter sells Convectium's filling and capping machine and receives a commission from Convectium.
  - Per Jupiter's Internal Historical Data and Forecast, 300,000,000 units of cartridge was sold by Jupiter in 2019 and forward-looking growth rate is 30% annually.
  - Convectium distributes the best quality Jupiter cartridges using the pre-racked solution and receive royalties
    - \$0.11 per unit if sold to new customers
    - \$0.06 per unit if sold to Jupiter's existing customers
- Orders significantly increased from Illinois and Michigan, customers in Canada, and customers in Massachusetts in 2019.

### **Como Health/CAMP (Missouri Licensees)**

Merida applied for and won 5 dispensary licenses in Missouri as Como Health LLC. Merida currently owns 41.25% of this entity. Three of the locations are in the St. Louis metropolitan area. The other two dispensaries are located in Columbia, Missouri and Branson, Missouri. Merida has engaged local architects and engineers to begin designing the buildings. Merida anticipates that there will be product available to sell in 9-12 months in the Missouri market.

Merida invested into Certified Alternative Medicine Providers LLC ("Camp") which won a cultivation and processing license in Missouri. Merida Invested thru Good Harvest Missouri, LLC. Merida owns 94% of this entity. Good Harvest Missouri LLC currently has a 10.7% ownership interest in CAMP and a convertible note that would allow Good Harvest Missouri LLC to acquire an additional 7.5% interest. The cultivation and processing licenses are located in the St. Louis area.

### **Premium 5:**

Premium 5 is seeking to fill a market gap in Canada related to the production of premium concentrates. Their business model is built to focus on niche extracts derived from small batch, high demand genetics with excellent terpene and cannabinoid profiles. Premium 5 plans to have product in market during 1Q20 and is currently raising another round of funding.

*Company Timeline:*

January 2020, Path to Revenue: signed manufacturing, sales, and national distribution contracts

February 2020, Manufacturing Begins: Live resin caviar/badder, shatter, and wax begin production

March 2020, First Shipment: Target 50k units which is approximately \$2mm of retail value.

April 2020, Scaling Production: Ramp production to 100k units per month which equates to approximately \$4mm of product at retail.

May 2020, First Revenue: First revenue from March shipment is received.

*Traction:*

1. 50/50 LP Contract – service agreement that provides Premium 5 50% of sales and tolling
2. Distribution – National distribution contract with Great North (Southern Glazers)
3. Dab Devices – Master distribution and white label secured for multiple dab devices
4. Key Investors – Merida Capital lead and executive investors from 2 of the world's largest cannabis companies.
5. First Mover – First live resin, caviar/badder, shatter, wax to hit the Canadian market

## NAV Summary

### Fund III - Investment & Gain by Position as of 12/31/19\*

Company	Investment Type	Investment at Cost	% of Total Investment	Gain	Gross Return
Dharma - Virginia	Private	\$ 5,360,000	17.9%	-	-
Henry's	Private	3,500,000	11.7%	\$ -	-
MCP Wellness II - GL Brands	Public	2,630,000	8.8%	218,361	8%
MCP Wellness Michigan	Private	2,014,956	6.7%	2,956,854	147%
New Frontier	Private	1,850,000	6.2%	-	-
Gabriella's Kitchen	Public	1,546,192	5.2%	(1,058,638)	-68%
Grow Generation	Public	1,500,000	5.0%	613,210	41%
MediaJel	Private	1,500,000	5.0%	841,250	56%
Tokr	Private	1,002,368	3.4%	-	0%
Merida Merger Corp.	Private	1,000,000	3.3%	-	-
Vapor Dosing Technology	Private	1,000,000	3.3%	-	-
Ionization Labs/Green Ocean	Private	1,000,000	3.3%	-	-
Materia Medica	Private	849,002	2.8%	-	0%
CannDESCENT	Private	742,770	2.5%	649,055	87%
KushCo	Public	665,000	2.2%	(13,911)	-2%
VividGro	Private	500,001	1.7%	-	0%
Mainstem	Private	500,000	1.7%	-	0%
Hemp Innovations	Private	500,000	1.7%	(500,000)	-100%
Merida i2	Private	500,000	1.7%	-	0%
Cannabis Now	Private	500,000	1.7%	-	0%
Convectium	Public	365,505	1.2%	-	0%
Good Harvest Missouri	Private	250,000	0.8%	-	0%
CoMo Health (Missouri)	Private	223,506	0.7%	-	-
Emerald Scientific	Private	200,000	0.7%	-	-
Premium 5	Private	189,013	0.6%	-	-
Harvest Care Medical	Private	20,000	0.1%	-	-
Subtotal		\$ 29,908,313	100.0%	\$ 3,706,180	12.4%

\* These returns are unaudited, exclude fees and expenses, and liquidity discounts if applicable for restricted stock positions.

MCP Wellness is marked at \$155.56, the last arms-length investment from third-party investors.

Very Truly Yours,

Mitch Baruchowitz