



Responsible Investing in the Emerging Cannabis Industry

3Q 2019 Limited Partner Update

December 2019

Dear Merida Limited Partner:

As we turn the corner on the second decade of the 21st century, our investment focus, and the cannabis industry in general, have put us in the middle of a societal “evolution.” While voices from outside the industry keep talking about cannabis as a “revolution,” we ignore the shiny objects presented to investors and focus on what we believe are truly the most lucrative opportunities as normalization continues to grind forward. Given that \$200-\$250B of cannabis has been consumed globally per year for at least the past 20 years, a regulatory shift regarding its legal status doesn’t strike us as a “revolution.” It is with this lens that we analyze the many incremental changes the cannabis industry is experiencing and we believe that to view the progression as a series of black and white, binary outcomes or a single, massive paradigm shift, is incorrect.

The Merida team’s collective decades of involvement in state-level licensing and operations drives our investment process; we have a good sense of how these shifts affect real world outcomes, and how rules are driven by public desire as much as a fast-evolving set of principles that are unique across state jurisdictions. This deeper understanding of the microdynamics of this “evolution,” and the relentless pursuit of understanding it, has led to investments that are now beginning to emerge as epicenters of adoption, growth, and opportunity. Medical data (CB2 Insights), econometrics and predictive analytics (New Frontier Data), lab testing (Steep Hill), quality control and quality assurance (Ionization Labs), precision dosing (Mode), branded products specifically targeting faster adopting demographics (Her Highness, Gaby, Henry’s) are just a few examples of companies in the midst of what is “NEXT” and that exemplify how the underpinnings of our thesis help us build for the tomorrow of cannabis and hemp value creation without overlooking today’s opportunities.

Our team is constantly exploring how this “evolution” is affecting a variety of related aspects of cannabis so that we can identify friction points, stress factors, and any variable that leads to additional insights or challenge previously constructed notions. We are also fortunate to have such a robust ecosystem of companies and investors who are contributing to this effort with information, feedback, and observations around their own experiences in the space. With these tools we look at 2020 excited to uncover new opportunities just as we keep our eyes open to the pragmatic risks that exist in the space today.

Political/Regulatory Landscape

SAFE Banking Act Update

On September 25th the House of Representatives passed the SAFE Banking Act with a vote of 321-103. The bill would allow financial institutions to bank state-legal cannabis companies and appealed to legislators on a bipartisan basis. While the bill should be considered by the Senate in the near future, a vote is yet to be scheduled.

The SAFE Banking Act represents an opportunity to open up the US cannabis markets to the US capital markets, or at least the US debt market (which is massive in its own right). We are currently in a capital constrained environment and this legislation would make debt financing more available to cannabis companies. This said, debt is already available to cannabis companies with strong credit profiles (see: Trulieve's 9.75% 2024 SNR Secured Notes which closed 6/28/2019 and 10/30/2019 and Green Thumb's 12% 2022 SNR Secured notes which closed on 5/23/2019).

House Judiciary Vote to Federally Legalize Cannabis

On November 20th the House Judiciary Committee voted and passed the Marijuana Opportunity Reinvestment and Expungement ("MORE") Act. The legislation would remove cannabis from the Controlled Substances Act ("CSA") and set aside funding to begin repairing the inequitable damage caused by the war on drugs. The MORE Act calls for a 5% federal tax on cannabis sales. This tax revenue would fund programs such as job training, provide legal aid for those affected by prohibition, and fund small business loans to socially and economically disadvantaged individuals while lifting barriers to licensing and employment in the industry. Finally, the MORE Act would provide for resentencing and expungement of records for people previously convicted of cannabis offenses and would shield immigrants from being denied citizenship status over cannabis. The bill has 55 cosponsors in the House and there is a companion bill being led in the Senate by Kamala Harris. This said, the MORE Act lacks the bipartisan support of other bills including the STATES Act and the SAFE Act.

Vape Crisis : Statewide Bans & CDC Findings re: Vitamin E

In the early Fall, there was a spate of vaping related deaths that appears to have been caused by a contaminant or low-quality hardware prevalent in black market products. The quick initial determination that no legal products were involved was challenged by a case in Oregon when one victim had both legal and illegal products in his possession. When the CDC and Oregon authorities tested all other products in the batch in question, there was no Vitamin E acetate present and it is now widely believed that no legal products were involved in the injuries to consumers. There are some recent questions as to whether certain products that were legally sold in Massachusetts caused injuries but authorities have not released enough information to determine if this conclusion is correct.

Here is what we know from the CDC¹:

- 2,172 cases of Vape Associated Lung Injury (VALI) and 42 deaths as of 11/13/2019;

¹ https://www.cdc.gov/tobacco/basic_information/e-cigarettes/severe-lung-disease.html

- The CDC tested samples from 29 patients in 10 states and found vitamin E acetate in 100% of samples, THC in 82%, and nicotine in 62% (the CDC lamented that federal illegality caused quite a headache in this analysis);
- The findings “provide direct evidence of vitamin E acetate at the primary site of injury within the lungs.”

The FDA has completed a much more thorough analysis of vape samples from illegal sources², surveying 685 samples from 25 states. Here is a summary of their findings: 443 samples contained THC, of these 48% contained vitamin E acetate and 24% contained another diluent such as MCT. The concentration of vitamin E ranged from 23% to 88%.

We believe that there are several probable outcomes from this crisis, including that this is a crisis for the illegal, rather than the legal market. There have already been articles linking many of the illnesses to an illegal product maker called Honey Cut. We shared the Leafly article about Honey Cut with our shareholders in early November.

We think that the legal market regulations are validated by the results of the investigation into the injuries from vape products and that this could eventually be the catalyst for legalization and further regulation as lawmakers look to push all black market activity into a regulated market. We also believe that many of our investments in data, compliance and quality control will benefit from the push by regulators to ensure quality control on vaping products. The short-term disruption to companies like KushCo is unfortunate but we believe that Merida is well-positioned to benefit from the eventual tailwinds as regulation and compliance become paramount priorities.

FinCen Guidance on CBD/Hemp

Since the passage of the 2018 Farm Bill, banking restrictions and lack of access to financing have significantly impeded the hemp industry. While demand for hemp continues to grow, banking regulations are still grey as to the treatment of hemp related businesses that have consistently struggled to gain access to services such as credit card processing, payroll, and traditional business loans. This has forced participants to seek private financing at high interest rates or seek alternative methods of financing their business such as sale lease-back transactions. The Treasury’s Financial Crimes Enforcement Network (FinCen) issued guidance for the banking of cannabis-related business in 2014 by establishing a requirement whereby banks must submit a Suspicious Activity Report (SAR) for their clients involved in a “marijuana-related business.” When FinCen issued this guidance to the industry, hemp and its derivatives were still federally classified alongside marijuana as Schedule 1 drugs. Since hemp was federally legalized for cultivation under the 2018 Farm Bill, the concerns of federal illegality were eased, but the operational roadblocks for companies were not. Significantly, on December 3, 2019, FinCen, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, in consultation with the Conference of State Bank Supervisors, clarified that banks are no longer required to take the extra step of submitting SARs as it relates to business customers dealing strictly with hemp and its derivatives.

In a joint press release, the aforementioned federal financial regulatory agencies stated: “Because hemp is no longer a Schedule I controlled substance under the Controlled Substances Act, banks are not required to file a Suspicious Activity Report on customers solely because they are engaged in the

² <https://www.fda.gov/news-events/public-health-focus/lung-illnesses-associated-use-vaping-products#Analysis>

growth or cultivation of hemp in accordance with applicable laws and regulations.” To summarize, banks are still required to submit an SAR if they believe their hemp business customers are involved in suspicious activity, but no longer are they required to submit an SAR merely because their clients are involved in the growth or cultivation of hemp.

This guidance could prove a significant victory for the growth of the hemp industry. While banks do not have to accept hemp clients, they no longer need to implement enhanced supervision and protocols for filing these SARs for hemp accounts which has clearly deterred banking activity. It is also a positive sign for how financial institutions may be guided on treating cannabis businesses after the Safe Banking Act passes, which we believe is likely in 2020.



Key State Regulatory Updates

Michigan Recreational Sales Began on December 2, 2019 – Ahead of Schedule

Michigan regulators, tasked with implementing the recreational program by January 1st, have stated they will allow current medical license holders to make up to 50% of their inventory available for recreational sales.

We believe that our Michigan asset is well positioned for these recreational sales, particularly for our store in Morenci and our planned store in Camden. Morenci is a town that borders Ohio and is 30 miles from Toledo (pop: 275K) and 70 miles away from Fort Wayne (pop: 270K). Camden is about 30 miles west of Morenci and borders both Ohio and Indiana. Looking at how adult-use sales took off in Fall River, Massachusetts (nearly \$1MM per week), which borders Rhode Island, we see an exciting opportunity ahead for these two locations as consumers from Ohio (where cannabis is less accessible) travel to Michigan.

The most important element of Michigan’s transition to a recreational program will be the impact on combined sales of its medical program, which is likely to go from \$200MM of legal sales to \$400MM, and the recreational program which could be \$400MM or more in 2020. The combined \$800MM will be absorbed by the ~100 licensed dispensaries that now exist, many of which are clustered in low barrier to entry locations like Traverse City or Bay City. We own ~10% of the licensed dispensaries in the state as of now and expect that Michigan’s move to a Top 5 revenue state will prove very lucrative.

Michigan’s chaotic transition from a medical to recreational status mirrors the chaos in Colorado or California, both states that had less structured yet robust medical programs at the time of their recreational program launch. In Michigan’s case, it seems like the chaos will diminish by the end of the first quarter as rules become settled and implemented in a uniform manner.

To give you a sense of the turmoil 2019, consider that Michigan changed the regulatory group responsible for administering their cannabis programs around mid-year. However, because of the need to keep the original group intact right up to the transition, the state did not proactively message the timing surrounding the transition, effectively ensuring that the original administrators, LARA, were lame ducks for months before the transition. Essentially, LARA could not approve licensees or create

legislation unless they were coordinating with a group that was not yet fully formed. This inevitably resulted in haphazard or delayed approvals and was certainly one of the biggest contributing factors to the shortage of approved cultivators in 2019.

Additionally, this confusion led to a debilitating shortage of licensed flower, which significantly affected licensed dispensaries (including ours as we currently have the largest footprint of licensed retail in the state). At one point in Q2, Michigan regulators were permitting “caregiver” flower to be sold in licensed dispensaries. Weeks later, they prohibited it before allowing it once again several weeks later. This type of uncertainty makes it difficult to manage inventory and select and order product, while giving an advantage to both unlicensed operators and unscrupulous licensees who could include unlicensed products on their shelves with little risk. We believe the state will rectify the situation as they begin to audit operators’ tracking systems. When recreational cannabis launches, all of these disadvantages should normalize over time.

Missouri Licensing Decisions Expected in December

After false starts and application errors that necessitated several documentation modifications, Missouri will be one of the larger states to award limited licenses in 2019/2020. With a population of ~6MM people, Missouri should have a robust program with adoption rates that could rival Oklahoma, which is the most successful state to launch a medical program in recent years. Missouri also has a robust set of conditions for patients, which already number around 22,500, to qualify for medical cards. This would easily be the largest patient population to exist before product is even available. CT, MN, OH, IL, and MD *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 plans to award 348 licenses: 192 for dispensaries, 60 for cultivation facilities, 86 for manufacturing facilities and 10 for testing labs. Each of Missouri’s 8 districts will be allowed a maximum of 24 dispensaries. We have a differentiated approach to licensing in Missouri that we hope will lead to several licenses. Applications must be judged and reported on by December 31, 2019. Our partner in one of the applications is the team from Michigan who have done yeoman’s work building our profitable business in Michigan.

With a robust set of conditions and a strong set of operating rules, Missouri will be a strong program and one of the first red states to put such a robust program into play, following Oklahoma’s lead.

Illinois

Illinois passed a recreational law nearly seven months ago and on January 1, 2020 will have its first recreational sales. The first round of applications for recreational operations are limited to existing medical marijuana retailers, and about 30 are newly licensed to sell recreational products. This means that GTI and Cresco are poised to significantly increase sales as they already have production ramping and large grow canopies to accommodate the coming demand spike expected over the next 3 months.

Ironically, Illinois originally launched its medical program with draconian restrictions on operators and patients which led to some bizarre data outputs over the last few years. In 2018, Illinois had one of the lowest patient visitation numbers, with an average of 49% of its patients visiting a dispensary in an average month. Most limited medical markets see numbers in the 60th or low 70th percentiles. At the same time, Illinois saw an average spend almost double the national average, which is indicative of a state where rules were a huge drag on demand as legal patients purchased more and likely were distributing it to others not registered in the program. This all changes shortly and with 11MM people, this should be a \$1B market in 2020 if the operators can meet demand.



Public Comparables as of 11/25/2019

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

Public Comparables - U.S. Multi-State License Roll-Ups													As of	11/25/2019
US\$ mm	Next	Last	FD	Equity	Net	Enterprise	2018E	EV / 2018E	2018E	EV / 2018E	2018E	2018E	2018E	
Company Name	Financial	Close	Share	Value	Debt	Value	LC	R	R	EBIT	EBIT	EBIT	Margin	
Trulieve Cannabis Corp (a)	4/29/2020	\$ 11.67	110	\$ 1,285	\$ 54	\$ 1,339	\$ 283	\$ 103	13.0x	\$ 46	29.4x	44.4%		
MedMen (b)	4/29/2020	0.52	522	272	239	511	168	40	nm	(47)	nm	n/a		
Green Thumb Industries (c)	4/29/2020	9.03	202	1,826	31	1,856	272	46	40.4x	16	nm	34.6%		
iAnthus (d)	4/29/2020	1.37	178	243	104	347	89	49	7.0x	(34)	nm	n/a		
Liberty Health Sciences (e)	1/29/2020	0.44	345	152	5	157	17	0	nm	(5)	nm	n/a		
Sunniva (f)	4/29/2020	0.42	39	16	35	51	22	14	3.6x	n/a	n/a	n/a		
TerraTech (g)	4/29/2020	0.20	103	21	34	54	40	31	1.7x	n/a	n/a	n/a		
Golden Leaf (h)	4/29/2020	0.02	816	16	15	31	17	17	1.9x	(15)	nm	n/a		
Acreage Holdings (i)	3/30/2020	5.10	124	634	3	638	90	81	7.9x	(5)	nm	n/a		
Columbia Care (j)	3/30/2020	2.30	234	539	(31)	508	77	39	12.9x	n/a	n/a	n/a		
Cresco Labs (k)	4/29/2020	5.60	321	1,800	(12)	1,788	120	43	41.3x	2	nm	4.6%		
Harvest Health (l)	4/29/2020	2.50	285	713	56	770	106	47	16.4x	10	nm	22.0%		
Curaleaf (m)	4/29/2020	5.73	492	2,819	104	2,923	247	205	14.3x	n/a	n/a	n/a		
Vireo Health (n)	4/29/2020	1.26	167	210	(23)	187	29	18	10.4x	3	nm	16.7%		
4Front/Cannex (o)	4/29/2020	0.45	529	238	4	241	-	-	n/a	-	n/a	n/a		
MariMed (p)	3/30/2020	0.80	234	187	24	211	103	12	17.8x	2	nm	20.3%		
CLS Holdings (q)	4/29/2020	0.22	260	57	-	57	10	5	11.2x	(14)	nm	n/a		
Green Growth Brands (t)	3/30/2020	0.90	240	216	77	293	22	n/a	n/a	n/a	n/a	n/a		
AYR Strategies (x)	4/29/2020	8.33	33	277	155	432	43	75	5.8x	23	19.2x	30.0%		
JUSHI (y)	3/30/2020	1.29	122	158	39	197	2	-	n/a	-	n/a	n/a		
Median excludes any data point labeled "nm".									11.2x		24.3x	22.0%		
Average excludes any data point labeled "nm".									13.7x		24.3x	24.6%		

Company Name	2019E	EV / 2019E	2019E	EV / 2019E	2019E	2020E	EV / 2020E	2020E	EV / 2020E	2020E	Qtrly FCF	Last
	R	R	EBIT	EBIT	Market	R	R	EBIT	EBIT	Market	(CFO-CapEx)	Update
Trulieve Cannabis Corp (a)	\$ 249	5.4x	\$ 112	12.0x	44.8%	\$ 398	3.4x	\$ 152	8.8x	38.3%	\$ (4)	11/25/2019
MedMen (b)	130	3.9x	(171)	nm	n/a	293	1.7x	(68)	nm	n/a	(185)	11/25/2019
Green Thumb Industries (c)	215	8.6x	29	64.2x	13.4%	468	4.0x	123	15.2x	26.2%	(54)	11/25/2019
iAnthus (d)	93	3.7x	(20)	nm	n/a	268	1.3x	52	6.7x	19.4%	(2)	11/25/2019
Liberty Health Sciences (e)	11	14.3x	(6)	nm	n/a	66	2.4x	13	12.1x	19.7%	2	11/25/2019
Sunniva (f)	47	1.1x	9	6.0x	18.2%	77	0.7x	18	2.9x	23.4%	(1)	11/25/2019
TerraTech (g)	85	0.6x	9	6.4x	10.0%	n/a	n/a	n/a	n/a	n/a	(4)	11/25/2019
Golden Leaf (h)	51	0.6x	10	3.1x	20.0%	n/a	n/a	n/a	n/a	n/a	(3)	11/25/2019
Acreage Holdings (i)	162	3.9x	(125)	nm	n/a	324	2.0x	29	22.0x	9.0%	(30)	11/25/2019
Columbia Care (j)	82	6.2x	(42)	nm	n/a	317	1.6x	52	9.9x	16.2%	(45)	11/25/2019
Cresco Labs (k)	142	12.6x	12	152.8x	8.2%	607	2.9x	186	9.6x	30.7%	(22)	11/25/2019
Harvest Health (l)	158	4.9x	(44)	nm	n/a	645	1.2x	170	4.5x	26.4%	(133)	11/25/2019
Curaleaf (m)	265	11.0x	20	144.0x	7.7%	1,033	2.8x	267	10.9x	25.8%	(25)	11/25/2019
Vireo Health (n)	38	4.9x	4	51.9x	9.5%	134	1.4x	36	5.2x	26.7%	(10)	11/25/2019
4Front/Cannex (o)	167	1.4x	18	13.6x	10.7%	335	0.7x	101	2.4x	30.0%	(17)	11/25/2019
MariMed (p)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(16)	11/25/2019
CLS Holdings (q)	59	1.0x	19	3.0x	32.7%	148	0.4x	59	1.0x	39.8%	(0)	11/25/2019
Green Growth Brands (t)	16	18.6x	(49)	nm	n/a	144	2.0x	12	24.4x	8.3%	(65)	11/25/2019
AYR Strategies (x)	91	4.8x	27	15.8x	30.2%	230	1.9x	99	4.4x	43.0%	(5)	11/25/2019
JUSHI (y)	63	3.1x	3	65.7x	4.8%	205	1.0x	42	4.7x	20.5%	(14)	11/25/2019
Median excludes any data point labeled "nm".		4.8x		14.7x	12.1%		1.7x		7.7x	26.0%		
Average excludes any data point labeled "nm".		5.8x		44.9x	17.5%		1.8x		9.0x	25.2%		



Portfolio Company Updates

MCP Wellness Michigan

Given the chaos we experienced almost daily in Michigan (as described above), we feel fortunate that to have maintained strong revenues in the face of the state's turmoil. While we believe that we were poised for big growth in 2019, Michigan's many pivots in preparation for its recreational launch made large leaps impossible. Our focus in Q3 was opening the six dispensaries that came online, and organizing our operation in preparation for recreational sales. We also are working towards the launch of our own cultivation operation which will help us manage our own inventory and almost double our gross margins.

Our numbers in Q3 are disappointing on a gross basis simply because the market for licensed sales in Michigan was expected to grow much quicker than what the actual numbers detail. What excites us most going into 2020 is that the accommodations for unlicensed operators and caregivers in 2019 will end in 2020. These accommodations and constant rule changes (described above) created pure chaos for most of 2019 and significantly reduced our growth as we competed with operators who adhered to a fraction of the regulations. With a full year of recreational sales, our own cultivation facility and at least 9 dispensaries open for the entirety of 2020, we are targeting sales of \$55-65MM, which factors in a fair amount of continuing supply chain disruption until at least mid-Q2 '20.

For 3Q2019, our stores saw over 85,000 transactions and revenue in excess of \$11MM. Our revenues and profit were both affected by the temporary ban on vape products and the proposed SOL transaction, which prevented us from initiating the build out of our grow and processing operation. If there is one negative outcome from our time under LOI with SOL, it is this delay of our grow build out, which has now begun in earnest such that we expect to supply our dispensaries with our own products by the end of 2Q2020.

GrowGeneration ("GRWG")

Q3 2019 Financial Highlights:

- Net income of \$1,049,699 for 3Q2019 compared to a net loss of (\$784,573) for 3Q2018, an increase of \$1.8MM.
- Adjusted EBITDA of \$2,046,730 for 3Q2019 compared to adjusted EBITDA of \$(71,584) for 3Q2018, an increase of \$2.1MM.
- GAAP earnings of \$.03 per share for Q3 2019 and \$.07 per share year to date, basic.
- NON-GAAP adjusted earnings per share of \$.06 per share for 3Q2019 and \$.14 per share year to date, basic.

- Revenue of \$21.8MM up \$13.4MM or 159% over 3Q2018 revenues of \$8.4MM.
- For the nine-month period ended September 30, 2019, revenue was \$54.3MM versus \$19.9MM for the same period 2018.
- Same store sales were up 48% for 3Q2019 versus 3Q2018.
- Gross profit margin percentage was 29.9% for 3Q2019 compared to 25.7% for 3Q2018.
- Store operating costs, as a percentage of revenue, have declined to 12.6% for 3Q2019 compared to 16.8% for 3Q2018.
- Corporate overhead, as a percentage of revenue declined to 12%, (8.3% excluding non-cash) for 3Q2019 compared to 16% of revenue for 3Q2018.
- The Company had \$16MM in cash and cash equivalents at September 30, 2019.
- As of September 30, 2019, the Company had working capital of \$30.4MM compared to working capital of \$21.6MM at December 31, 2018.
- For the 9 month period ended September 30, 2019, the Company acquired and opened 8 stores, one in Denver, CO, Palm Springs, CA, Reno, NV, Grand Rapids, MI and two in Maine and opened new store locations in Tulsa, OK and Brewer, ME. In the 4th quarter, the Company plans to open its 24th and 25th locations, both of which will be in Oklahoma.
- Tony Sullivan appointed Executive Vice President and Chief Operating Officer of GrowGeneration. Tony most recently served as Executive Vice President and Chief Operating Officer of Forman Mills, a \$300 MM business, Dollar Express, a \$500 MM carve-out of 330 Family Dollar stores in 36 states, and 20+ years at Foot Locker Inc. leading 2100 + stores over \$2.5B in sales as VP Store Operations.
- All convertible debt has been converted to equity as of September 30, 2019.

KushCo (“KSHB”)

Fiscal Fourth Quarter and Full Year 2019 Financial Summary

Fourth Quarter

- Net revenue increased 135% year-over-year to \$47.0MM.
- On a GAAP basis, gross profit was 20.1%, compared to 18.1% in the prior year period.
- On a Non-GAAP basis, excluding the impact of certain non-recurring items, gross profit was approximately 22.1%.
- On a GAAP basis, net loss was approximately \$11.5MM, compared to approximately \$3.2MM in the prior year period. Basic and diluted loss per share was \$0.13 compared to \$0.04 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 \$7.2MM and basic and diluted net loss per share was \$0.08.

Full Year

- Net revenue increased 186% year-over-year to a record \$149MM, enabling the Company to achieve its previously issued guidance of between \$145MM and \$150MM.
- On a GAAP basis, gross profit was 16.5%, compared to 25.6% in the prior year.
- On a Non-GAAP basis, excluding the impact of certain non-recurring items, gross profit was approximately 21.3%.
- On a GAAP basis, net loss was approximately \$39.6MM, compared to a net loss of approximately \$24.3MM in the prior year. Basic and diluted loss per share was \$0.47 and \$0.57, respectively, compared to \$0.37 in the prior year.
- On a Non-GAAP basis, excluding the impact of certain non-recurring charges and gains, net loss for the year was \$29.8MM and basic and diluted loss per share was \$0.35.
- Cash was approximately \$3.9MM as of August 31, 2019, compared to approximately \$13.5MM as of August 31, 2018. The Company secured a revolving credit facility with Monroe Capital for up to \$50MM on August 21, 2019, and completed a \$30.1MM equity offering on September 26, 2019, with total net proceeds of \$27.6MM.

Recent Operational Highlights

- Significantly expanded CBD footprint with launch of new hemp trading business.
- Named Sentia Wellness as first CBD brand partner under new Retail Services division.
- Completed \$30.1MM registered direct offering, providing additional capital to execute on the Company's growth strategy and help achieve positive adjusted EBITDA.
- Entered exclusive distribution agreement with global anti-counterfeiting and authentication solutions provider De La Rue to authenticate products throughout the supply chain.

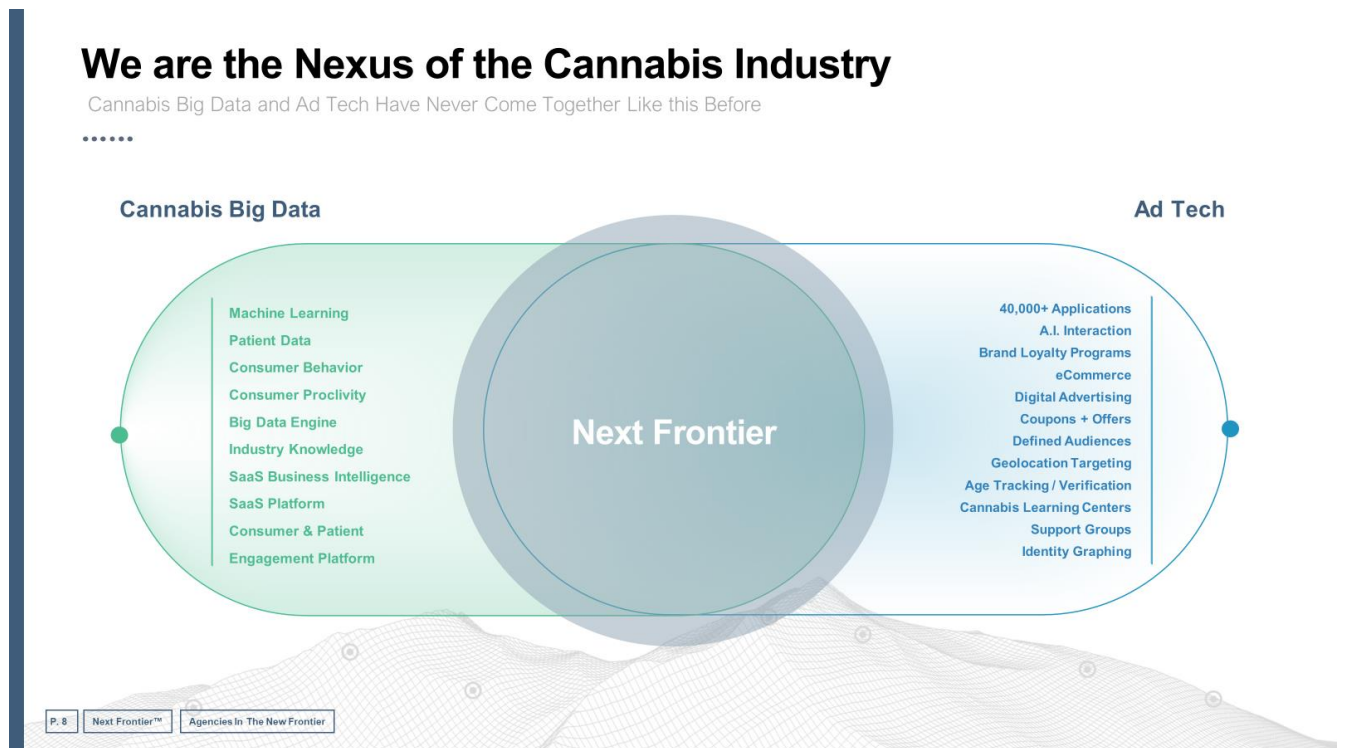
New Frontier Data

When we launched our first fund, we saw New Frontier Data as a company that was building something that was going to be ahead of its target market, which was still definitionally unclear. Was it operators who needed a dashboard, investors who needed information on individual companies or markets, commodities traders, tech companies looking to serve large TAMs, vendors looking for a concentrated market for non-cannabis services, or possibly just large non-cannabis companies looking to get educated on a \$300B+ market? The answer to who wants data and predictive analytics is now clear – it's everyone. The problem with capturing all that demand is packaging it such that different users can interact with and parse the data according to their needs. Solving that problem can be expensive and time consuming, but we think New Frontier is at a place where they are close to solving a decent cross-section of that challenge.

The era of big data is here. 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.

To illustrate, imagine the effect of using demographic data to target every woman aged 18-54 in Western Michigan who was present in a dispensary over the last 30 days with a specific product launch. Consider a pharmaceutical company that needs to know what percentage of its patients or consumers bought indica strains because they want rest and relaxation, or if they are in a medical market, received a medical card or used specific products for sleep. Overlay these data sets and then create a curated data run that can predict a new market potential for similar consumers/patients. That is incredibly powerful in unstructured and emergent consumer landscapes and New Frontier is putting this together in its Next Frontier Solution.

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. What does this future of predictive analytics and large-scale data optimization look like? Below are 3 select images from a recent New Frontier presentation on their "Next Frontier Collective" that we believe summarize the opportunity. We have included a recent New Frontier deck alongside this update for those who wish to review in greater detail.



How It Works

Risk-Free Ad-Tech Solutions Powered by Cannabis Big Data

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1. Research

Target ideal medical and recreational cannabis consumers based on their lifestyles, preferences, maladies, buying habits, locations and more

2. Develop

Confidently develop campaigns with the understanding of cannabis rules, regulations and market climate

3. Distribute

Use our analytic tools to adjust your campaign strategies to the ever-changing cannabis market

4. Refine

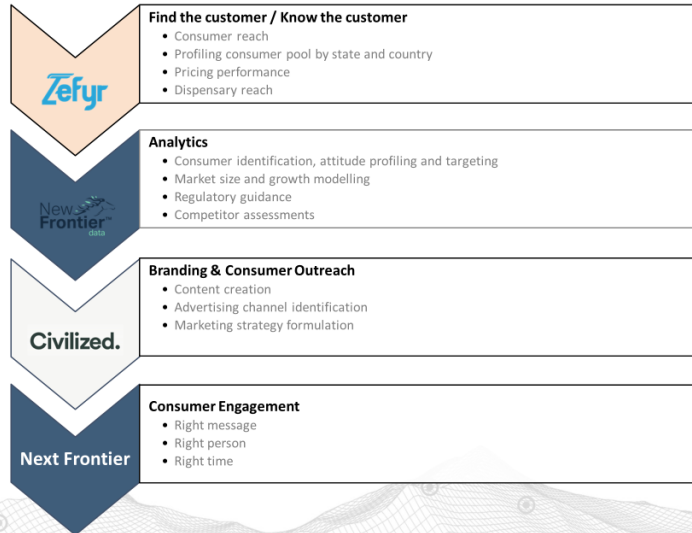
Leverage the power of our predictive marketing and geo-targeting to inspire action, improve loyalty, drive advocacy and boost your clients' sales

P. 9 Next Frontier™ Agencies In The New Frontier

The Next Frontier Collective

Our complimentary platforms combine to maximize ad reach and effectiveness

.....



P. 11 Next Frontier™ Agencies In The New Frontier

Freedom Leaf (“FRLF”)

For the fiscal year ending June 30, 2019, the Company generated \$2.3MM of revenue and posted a net loss of \$12.7MM. The transformational Green Lotus acquisition closed on May 31, 2019, and the FY 2019 results included \$204,021 of Green Lotus revenue for the month of June. Since the acquisition, the Company has undergone a board approved corporate restructuring which includes: (a) the consolidation of the Company’s manufacturing, sales, distribution and corporate functions into the newly acquired Green Lotus infrastructure; (b) the sale or closure of non-core and money-losing businesses; and (c) employee headcount reductions. These actions will result in material operational synergies and cost savings.

In July, the Company completed its inaugural shipment of \$600,000 of topical hemp-CBD products to Mexico, with two additional orders of similar size shipped in October. The products will be distributed by Green Lotus’ Mexican partner, CBD Life SA, initially in up to 4,000 locations. On October 1, the Company announced a distribution agreement with Greenlane Holdings, Inc., one of the largest sellers of premium cannabis accessories and CBD products to ~11,000 retail smoke shop, head shop, and dispensary locations in the U.S. In late September, the Company launched a premium line of sparkling hemp beverages, with initial distribution to ~1,000 retail partners.

On November 18, the Company closed a \$5MM financing round led by MCP Wellness II which is an SPV led by Merida III. Of the total proceeds, \$2.7MM was contributed from Fund III.

Ionization Labs

Ionization Labs had a series of milestones and achievements in 3Q 2019. In September, they completed their 15th deployment of their Cann-ID high frequency potency testing solution. Cann-ID is a decentralized Testing-as-a-Service, which they have currently deployed in Oregon, Kentucky, Tennessee, North Carolina, Virginia and Texas. Ionization Labs’ plans to deploy solutions in Nevada and Colorado closed in Q3 and are slated for deployment in Q4. In July/August, their monthly recurring revenues (“MRR’s”) surpassed \$50K/month, and they are forecasting to break \$100K in monthly recurring revenues by December.

Their system stability and performance has yet to produce any customer attrition. As a result of thousands of man hours of software development and standardized chemistry, their solution now meets all testing requirements as mandated by the USDA's interim hemp testing rules. Client testimonials, continued conversations with the Texas Department of Agriculture, and lobbying efforts secured a valuable testing pilot program with Texas A&M's Soil and Crop Sciences program. In the process of deploying their solutions in late Q3, their team has four unique value add propositions that have been incorporated within the Cann-ID 2.0 software build that enables cultivator and extractor clients to use our Cann-ID solution for precision agriculture and extraction business analytics. Version 2.0 will offer these tools beyond cannabinoid testing data including user entered fields for data association (weather, reactor settings, etc.), automated startup and sleep functions - no Chemstation interaction, shareable reports with no login required and new graphing tools for data visualization.

Henry's Original ("Henry's")

Henry's continued its steady top line growth through Q3. The Company started the year with \$476,000 in revenues in January and ended Q3 earning nearly \$1.2MM in the month of September. According to BDS Analytics, Henry's is the fastest growing flower brand in the State, attaining #2 rank in the Pre-Roll category, #4 rank for overall Flower sales, and #5 in the pre-packaged category.

The Company has continued its infrastructure build-out, doubling the number of licensed and operational farms in 2019, and tripling the number of partner farms that purchase their nursery genetics and sell back the resulting flower to the Company. Henry's also moved into its new headquarters in Cotati, CA in September. The Cotati facility will serve as the Company's post-harvest processing center, allowing the Company to internalize packing functions and increase gross margins from roughly 30% this year to an estimated 50% next year. The Company expects further gross margin expansion in forward years to north of 60% as they grow further.

Henry's growth will continue with additional SKUs (Omura flower cartridges launched in Q3; 1-gram and 1/4-ounce SKUs launching in Q4), greater sales penetration (currently in 255 dispensaries state-wide), and a greater marketing push. Long-term growth will be driven by regulatory expansion - the Company is working with Mendocino County to expand their licensed canopy growth acreage from approximately 1 to 30. The Company's investment into their infrastructure has reached maximum cash-burn, and the Company expects to be cashflow neutral in 2020, and cashflow positive in 2021 and beyond. The Company will launch its Series C in early 2020.

i2 Accelerator

Q3 saw our announcement of our initial class of i2 investments. The five companies selected all have strong growth prospects, and most importantly, are run by strong entrepreneurs who come from disadvantaged communities. In total, we deployed \$500K into these five companies in a variety of structures that we believe will yield similar risk-adjusted returns. All of the companies were selected with an eye towards integrating them into our ecosystem in impactful ways for both them and our other portfolio companies. All five are already working with existing portfolio companies and we should be able to report some of the results of these strategic partnerships by next quarter.

The companies are as follows:

Vega Farms, a Meriden, Connecticut-based hemp farm that also makes finished goods like pre-rolls, and with Merida capital, extractions and CBD isolate.

High Road, a Washington D.C.-based cannabis technology platform and mobile app that provides access to patients/consumers through safe, convenient and compliant delivery using the company's integrated, on-demand delivery software.

Higher Learning, a Pontiac, Michigan-based vocational school that offers training/education for job opportunities in cannabis, specifically provisioning ("budtending"), cultivation and extraction.

Canna Bistro, an Atlanta-based CBD-infused café with plans to produce & sell CBD-infused food (e.g. edibles, frozen foods & beverages) on a larger scale and distribute nationally to various grocery stores.

James Henry, an Oakland-based lifestyle, health and wellness brand with doctor-created proprietary formulations that mimic opioids and can help people get off of opioids. They have 3 licenses for manufacturing, distribution & retail delivery as well as 1,700 sq. ft. green zoned facility. The company is also veteran-owned.

Gabriella's Kitchen ("GABY")

While Gabriella's Kitchen continues on its ambitious path to build a brand house with thematically specific products in a hyper competitive California marketplace, they have seen mixed results over the past quarter.

The following are financial highlights of GABY's operating results for the three months ended September 30, 2019, compared to the three months ended September 30, 2018:

- Revenue was \$6.2MM as compared to \$289,092.
- Gross loss was \$45,008 as compared to \$173,518.
- Operating expenses were \$3.3 MM as compared to \$1.3MM.

The following is a summary of key balance sheet items on September 30, 2019, compared to December 31, 2018:

- Cash was \$2.3MM as compared to \$53,658.
- Total assets of \$34.6MM as compared to \$4.6MM.
- Total working capital¹ of \$5MM as compared to (\$319,112).
- Total debt excluding lease obligations of \$1.6MM as compared to nil.

Corporate Highlights:

- On July 22, 2019, GABY entered into a definitive agreement for the acquisition of Lulu's Chocolates, a California-based manufacturer of CBD and THC infused chocolates.
- On July 25, 2019, GABY announced the acquisition of a 25,000 sq. ft. state-of-the-art production facility enabling it to consolidate in due course all its current operating segments (manufacturing and distribution) and move into cultivation.
- As of August 20, 2019, Lulu's Chocolates CBD infused chocolates are now sold in over 300 mainstream retail locations in California.
- On September 5, 2019, the Company announced a name change to GABY Inc.
- On October 2, 2019, GABY announced that it entered into a definitive agreement for the acquisition of premium organic CBD brand 2Rise Naturals.

Dharma Pharmaceuticals (“Dharma”)

Dharma is one of five medical licensees in Virginia and has the right to build a co-located cultivation, processor, and dispensary. Dharma will be located in Bristol, VA, which borders Tennessee and is also in the heart of Virginia’s opioid epidemic. Bristol County averages 161 opioid prescriptions per every 100 people and some surrounding counties are even worse with Norton county at 396 opioid prescriptions per every 100 people (according to data from Amfar). Virginia has one of the most medically focused programs in the country, which can often hold a program back, but there are incredible positives around the Virginia program that counterbalance the initial constraints of the rules.

The Virginia medical cannabis program is currently limited to products containing THC-A oil and CBD oil only. In addition, these products currently cannot contain more than 10mg of THC per serving or more than 100mg of THC per package. With only 5 licensees for 8.6MM people, Virginia has one of the best operator/population ratios in the US, giving us confidence that any initial limitations of the program are more than counterbalanced by the demographics and TAM opportunities. Our team has been working tirelessly to prepare for our inspection later this month which would allow us to begin operations. We believe we will be the first such company in Virginia approved to commence growing. Below is a picture of our second growmod being installed. We are using mods for both the speed and cost effectiveness they offer and to create flexibility as we get patient/market feedback on what products are most sought after.



There has been a lot of press regarding Virginia’s willingness to increase patient access and products as the program launches. As of right now, a draft emergency bill would target 5 main priorities, all of which would greatly benefit our investment - we believe several of these could be adopted within the first weeks of January.

1. Adding flower to approved products, which would follow states like NY, PA, and FL who have moved away from extract-only medical markets.
2. Allowing telemedicine in the first year for new patients which would allow us to serve a broad patient base through delivery.

3. Adding 4 permitted dispensaries that would not be required to be co-located to our building which would expand our retail coverage further east.
4. Changing the current THC-A/CBD required ratios to allow for different formulations which would expand the proposed product menu which typically brings patients in from the black market.
5. Changing certain pharmacist to technician coverage ratios which would reduce cost and increase efficiency within the dispensary.

Any of these proposals would be an incredible boon to our revenue generation capabilities in 2020 and beyond and would require us to significantly revise our current estimates upward. In addition, there is palpable momentum for an attempt at legalizing cannabis in 2020 to take advantage of Virginia's first in a generation bicameral control of Virginia's legislature. With our location in western Virginia, and 5.5MM in four bordering states (none of which even have true medical programs yet) within a two-hour drive of our facility legalization would be a windfall of momentous proportion. Merida has invested a total of \$4.1MM into Dharma to date between Funds II and III with Fund III owning nearly 40% of the company. We expect Fund III will fund additional capital over the next several months in order to achieve a majority stake in Dharma.

mode (formerly Vapor Dosing)

mode has made significant milestones in developing their device and app that tracks cannabis dosing, but like any company in the cannabis industry that touches vaporizing as a consumption form factor, they have had to overcome disruption to their plans. In mode's case, they are essentially ready to launch their flagship consumption device and its companion app. However, Apple's App Store has temporarily revoked apps that control vape hardware on the iOS App Store. In light of this, mode has impressed us by shifting their near-term strategy in order to launch without the benefit of Apple's distribution.

mode plans on scaling on a national level by launching direct to consumers on mode.com without the need for a state-by-state rollout since they still offer the only device that provides dosing for 510 threaded cartridges, coupled with the fact that the lack of plant touching allows for a large and fast national scale opportunity that very few other device companies (if any) in our space can achieve. We expect a full launch by March 2020 which will be the inception of revenue as well. One of the most exciting developments will be the Gen 2 mode, which should be ready by 4Q 2020 and which allows for data to be collected without the need for an app. This technology has already been developed by their engineering team and is currently being licensed to Google. mode is uniquely set up to leverage this technology.

The Company is currently looking to raise \$1.5MM at a valuation far above our most recent investment and we are discussing structure and valuation with management to see if we can secure another compelling entry point before the full launch of the device.

Mainstem (“MS”)

Mainstem began the second half of 2019 by launching the enterprise version of their procurement software, which has seen strong adoption by the larger MSOs who can see great efficiencies from using Mainstem Marketplace.

3Q2019 set a record revenue quarter for the company at ~\$758,000, up from \$664,000 in Q2. 3Q2019 revenue was also a 41% increase from Q3 of 2018. As the market trends towards consolidation and enterprise level companies emerge, MS’s focus on the enterprise customer has proven a valuable shift in their product evolution. These fast-growing enterprise companies have begun to work on back end office efficiencies which is where MS provides extreme value. With the growth that they are experiencing, we expect 4Q2019 to continue this trend of growth and to set another record revenue quarter for the company.

The company has also started to reach a size where they can exercise certain price leverage over their partners. Along with identifying efficiencies in their ordering and fulfillment, this price leverage has helped grow margins on product sales from 16% in Q2 to 23% in Q3. MS is also utilizing business intelligence of products sold, removal of free shipping, and incorporating custom packaging sales within the platform, which is expected to grow margins and sales going into 2020.

Mainstem is still trending towards profitability, with burn decreasing 10% or more QoQ over the past 3 quarters. While sales increased more than 10% in Q3 from Q2, expenses were up less than 1%, which the company believes is a sustainable trajectory for the near term until it can cross into profitability. We are assisting the company in exploring strategic partners that could accelerate this profitability and with the increase in sales of grow products, like lights, we are beginning to see deep synergies between VividGro and Mainstem that could result in a strategic business relationship, if not an outright merger.

Materia Medica (“MMP”)

In September, MMP raised €950,000 of capital at a pre-money valuation of €3.6MM, of which Merida Fund III invested €750,000 for a 16.1% stake. Fund II originally purchased a 25% stake at a pre-money valuation of €1.2MM in October 2018. As a result of the most recent transaction, Fund II’s stake was diluted to 19.9%, and Fund II has an option to purchase 15% of the Company’s equity at a valuation of €5MM.

In 3Q2019, the Company moved into a new lab facility that was GMP certified by the previous pharma tenant and is being upgraded to meet MMP’s specifications. The new lab will be ready for production by the end of the year with the ability to produce ~21 kilos of CBD extract per month. During this transition period, MMP has set up a mobile extraction lab. The Company previously obtained the following certifications, which will be transferred to the new facility subject to an inspection: HACCP (food safety), ISO 9001 (quality management systems), and GMP Cosmetics.

The proceeds from the offering will be used to fund operations, upgrade its new laboratory facility, purchase extraction equipment that will increase monthly capacity to ~60 kilos, and obtain a pharmaceutical GMP license (which is expected to take 12 months, requiring clinical trials and the registration of active ingredients). The Company has a testing business, which has generated

€160,000 of revenue (Jan-October 2019) and is expected to generate ~€220,000 of total revenue in 2019. The Company is adding microbial testing in 2020, which will enhance revenue. And in January, MMP will be launching an B2C online site for the sale of tinctures, which will also be carried on Amazon.

As in the US prior to the signing of the 2018 Farm Bill, there is a regulatory gray area in Europe because cannabis and hemp are viewed as one and the same. In Europe, hemp and CBD products are sold online, but the large CPG, pharma, and cosmetic companies are reticent to embrace CBD until there is more regulatory clarity. The UN convention on cannabis is expected to be amended in March 2020 based on the World Health Organization recommendation that cannabis and hemp should be differentiated. If that happens MMP expects the “floodgates” to open for CBD. The Company has the potential for several large orders from cosmetic companies who want to move forward with CBD products, but will only do so if there is regulatory clarity. MMP has ~€810,000 of cash on hand (as of November 1), and based on the current cash burn and capital plans, no additional capital will be required until the end of Q2 2020. MMP intends to wait until the UN convention on cannabis is amended in March before it commits to purchasing additional extraction capacity.

Merida Merger Corp. I

Fund III is the primary sponsor in a new publicly traded Special Purpose Acquisition Company (“SPAC”) called Merida Merger Corp. I. A SPAC is a publicly traded company that raises a pool of capital through an initial public offering (“IPO”) for the purpose of investing in an existing private company. The money raised in the IPO of a SPAC is placed into a trust and held until the SPAC identifies an investment opportunity. The initial SPAC IPO investors retain the right to approve the investment or have their capital returned. If the SPAC is unable to close an investment in 24 months, the IPO proceeds are released from the trust and returned to the SPAC IPO investors.

Fund III invested \$1MM in the risk capital of the SPAC to create the company and the SPAC successfully raised \$130MM from primarily cannabis-oriented institutional investors in November 2019. This the first SPAC sponsored by a private equity firm dedicated to cannabis investments, and dual listed on the Nasdaq and NEO. The SPAC will invest in a leading private cannabis company and help the target company go public via a reverse merger with the SPAC publicly traded entity. We are excited to seek a founder friendly partnership to support the right team in bringing a differentiated investment opportunity to the public markets. A successful transaction that de-SPACs should result in a return in excess of 10X our sponsor capital.

NAV Summary

Fund III - Investment & Gain by Position *

	Investment Type	Investment at Cost	% of Total Investment	Gain	Gross Return
Dharma - Virginia	Private	3,510,000	16.2%	-	-
Henry's	Private	\$ 3,500,000	16.2%	\$ -	-
Freedom Leaf	Public	1,730,000	8.0%	-	-
Gabriella's Kitchen	Public	1,546,192	7.1%	(186,779)	-12%
MCP Wellness Michigan	Private	1,515,314	7.0%	4,290,368	283%
Grow Generation	Public	1,515,314	7.0%	1,004,196	66%
Tokr	Private	1,002,368	4.6%	284,196	28%
Vapor Dosing Technology	Private	1,000,000	4.6%	-	-
MediaJel	Private	1,000,000	4.6%	500,000	50%
Materia Medica	Private	849,002	3.9%	-	-
New Frontier	Private	750,000	3.5%	-	-
Kush	Public	665,000	3.1%	45,600	7%
Ionization Labs	Private	500,000	2.3%	-	-
Mainstem	Private	500,000	2.3%	-	-
Hemp Innovations	Private	500,000	2.3%	-	-
Convectium	Public	333,333	1.5%	111,111	33%
Cannabis Now	Private	250,000	1.2%	-	-
Good Harvest Missouri	Private	250,000	1.2%	-	-
VividGro	Private	250,000	1.2%	-	-
CoMo Health	Private	223,506	1.0%	-	-
Merida i2	Private	150,000	0.7%	-	-
Merida Merger Corp.	Private	50,000	0.2%	-	-
Canndescent	Private	50,000	0.2%	-	-
Harvest Care Medical	Private	10,000	0.0%	-	-
Subtotal		\$ 21,650,030	100.0%	\$ 6,048,692	

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

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

As we move towards the end of the year, we are thankful for the support of our investors, and will continue to relentlessly pursue value on your behalf. Have a great holiday season and a happy new year!

Very Truly Yours,

Mitchell Baruchowitz