



Responsible Investing in the Emerging Cannabis Industry

2017 Year End Limited Partner Update

March 16, 2018

Dear Merida Limited Partner:

We hope you all had a healthy New Year and great beginning to 2018. This update will cover the 4th Quarter of 2017 through the close of the Fund to new money in January, and is current up to March of 2018. While we typically send our partner update 45 days after a quarter closes, we delayed the release of this update to include certain information around our most recent deployments in Q1 2018 and the change in NAV which will be memorialized in the LPA.

When Merida constructed its strategy in mid-2016 and launched soon after with investments in GrowGeneration (at \$0.70 per share) and New Frontier Data, we predicated much of our investment thesis on the rapid growth of cannabis adoption, whether medical or adult-use. While we had a significant amount of industry experience, we knew that raising a dedicated fund to invest in this thesis would be challenging. We lacked neither belief nor will, and thought quite accurately in retrospect, that the 2016 elections would overwhelmingly support our thesis that the liberalization of cannabis laws on a state level was hastening. We believed this liberalization would lead to the industry phase we have called “Cannabis 3.0”. We estimated that the acceleration to a more professional stage would beget a more rational supply chain over time, and we worked tirelessly to cherry pick the companies we thought could best fill that supply chain.

Soon after the 2016 elections, Merida secured a position in Steep Hill Labs at what looks like a remarkably low valuation given their recent operating trajectory and ended 2016 with these three investments in hand. For our earliest investors, the PPM you read might be a relic in your mind, but that was a short 16 months ago - the blink of an eye in investment terms. You believed in us and helped make those 16 months a rousing success largely because you enabled us to make three “platform” investments that touched every corner of the ancillary space and gave us access to a broad spectrum of information and data which has driven our approach from inception.

For those who invested in the first half of 2017, you had access to a bit more information with which to base your decision. With GrowGen and New Frontier announcing a partnership to study the ancillary markets in February, you could see how Merida's connectivity to our portfolio companies and the broader industry could lead to tangible results that add value to our investments. As an example of the power of our ability to source and interpret information as effectively as any other cannabis industry participants, we identified that cannabis sales largely lagged ancillary spending due to the high capital requirements in medical states or large build outs in adult-use states, where much of the institutionalization was occurring. We anticipated that an analysis would indicate that ancillary spending was much higher than the already robust cannabis CAGR. Nine months later, our thesis was proven correct, as New Frontier released a report in December showing that the ancillary component of cannabis (i.e. the sectors of the industry that support but do not touch the plant) was growing at more than 50%, almost double the industry's broader reported growth rate. While we had no concrete idea what the data would show from a pure numerical perspective, this report highlighted what we already believed – that the ancillary space presented one of the most compelling investment opportunities in the cannabis value chain. This was conceived among our team in tandem with the talented management teams of New Frontier and GrowGen and has shined a light on an investment thesis that was not in vogue in 2016. When the report was released, the prices of publicly traded ancillary company equities began to climb materially. It is incredible to think how much value highlighting this information created and how the industry has taken another crucial step forward as informational certainty is essential to institutional participation. That is the Merida way, and over the past year it has served our portfolio well.

While making several additional investments in GrowGeneration throughout Q2, we believed we were investing in a company, not making a trade. The company continued to prove they merited capital investment and could hit their organic growth and acquisition targets. Looking back at those moments when the stock languished around our later entry point, we believed it was only a matter of time until the market discovered what we saw to be a gem among undeserved, hyped-up cannabis stocks. We were finally rewarded in Q4 2017, as the New Frontier report confirmed our thesis - ancillary spending was exploding. As ancillary companies gained in value, GrowGen broke to the upside, hitting a high of \$9 (high close was \$8.90 on 1/16), but more importantly, establishing a highly liquid trading range around \$4.50, where it currently trades.

Those investors who joined Merida in the second half of 2017 had a more tangible track record to assess. By August, it was clear that Merida had accumulated a strong portfolio of professional companies leading their verticals. New Frontier's data and analytics were ubiquitous, garnering more than 80% share of the industry's data voice in periodicals. GrowGen had announced another strong quarter and opened their 10th store. California's proposed laws seemed to favor a company like Steep Hill. Lumigrow, Merida's investment in the LED lighting sector, had signed one of the largest sale orders in the history of the Southern Hemisphere. Most importantly, the industry had moved towards a more stable ecosystem that was perfect for our investment thesis and word was spreading that Merida is a thoughtful, supportive investor that builds companies. This in turn helped to lower our investment acquisition cost and make it far easier to secure partnerships for our portfolio companies.

On the heels of GrowGen's movement upwards, we were able to initiate a position in Kush Bottles at a very attractive level. Walk into any dispensary in an adult-use West Coast market and you will see why we were attracted to the company. The product breadth and selection can be overwhelming to cannabis customers, and packaging is often a primary differentiator of these products. The focus that cannabis companies are putting into unique packaging is remarkable. Kush is simply arming many of these parties who then engage in intense brand warfare. Merida believes that a large portion of the available product brands will likely not survive, but Kush's business model as supplier to the "winners" should result in a significant ramp period where California and other evolving markets see a massive demand for value-added packaging needs.

This same rule applies to the growth we are witnessing at GrowGen as well as our other portfolio companies like Steep Hill, Manna and Simplifya, which made its first California sale two weeks after our January 2018 investment closed and now has more than 25 clients in California in just 60 days. We expect Simplifya to close many more clients in the near future, as Vincente Sederberg, a leading cannabis law firm and large Simplifya shareholder, has included Simplifya's compliance software in the 50+ California licensing applications they are tasked with submitting.

As Merida evolved and our companies thrived, our capital raising pipeline also matured. We raised nearly \$7 million in December and January, virtually doubling the size of Fund I, which allowed us to close very attractive transactions in GrowGen, Kush Bottles, Valley Agriceuticals and Simplifya. About 25% of our investors added to their initial investment to take advantage of the fact that they could assess our portfolio based on the updates, commentaries and other information we had provided over time. That we sit here today in March with a nearly fully deployed portfolio is both exciting and invigorating. It took a leap of faith and an iron will to envision our current position as we scrambled for capital to close our investment in GrowGen one year ago. Yet here we are, with our NAV up 80.4% net (94.8% gross) since inception, and I can say with conviction that the best is yet to come for Merida and the cannabis industry.

Q4 saw significant developments in the industry that demonstrate the continuing evolution of the cannabis ecosystem.

Sun Life, a major Canadian insurer, announced that it would launch a reimbursement program for cannabis patients with several qualifying conditions. Sun Life will reimburse patients up to \$6,000 per year (a \$500 per month spend) – which is roughly double what patients spend per month in medical markets like New York, Connecticut, Florida and Minnesota. A more interesting angle is that insurance companies are notorious for their cost-benefit analysis and we predict that the data Sun Life generates may help hasten the move to insurance reimbursement in the United States. When the data is in, we believe that Sun Life will be able to show that overall health care costs go down when patients replace opioids with cannabis and that patient QOL (Quality of Life) metrics are much higher when they can avoid the risks and side effects of opioids. A recent study actually determined that inhaled cannabis increased the analgesic effect of opioids which could lead doctors who favor opioids for intense pain to recommend synergistically supplementing cannabis when opioid tolerance grows too high in a patient.

We believe that Merida's network has provided us with an asymmetric information advantage on this topic. Several years ago, I was fortunate enough to meet with several of the people who were trying to make cannabis medical reimbursement a reality in Toronto. They indicated that several of the largest workers' compensation providers were pushing for this because it would help patients who were injured in the manual trades (i.e., construction workers) move away from the typical treatment of opioids and rest, which really decreased worker productivity. Data had been collected to indicate that those who were prescribed opioids for their injuries typically needed medicine for months after the initial injury. Given the prohibition of taking opioids during work hours, recovery was often painful and slow for the patient, and productivity down for the employer. Additionally, as expensive opioid treatments led to all kinds of related costs including drug abuse or addiction treatment, impaired driving summonses, opioid toxicity and other opioid-related issues, reinsurers were pushing for an alternative for long term pain care. Low-THC cannabis was considered a strong candidate as a solution to this dynamic, and Canada is far more liberal on cannabis research than the United States. It only took two years of a broad-based medical program in Canada for the first insurer to move to reduce overall system costs by replacing a class of drugs that is terrible for pain management and qualitative maintenance with cannabis, a far more benign treatment.

These discussions were fresh in my mind as I sought to find potential investments in the pharmaceutical delivery vertical. As we explored how the workers' compensation insurers viewed cannabis, we learned that they favored non-smoking methods that could be used throughout the day. Enter Manna Molecular. It seemed likely that transdermal patches would solve many of the issues that concerned reinsurers about cannabis. While this point may not have been a primary consideration in our investment, we strongly believed that as the global insurance industry evolves on cannabis, turnkey delivery system providers like Manna will experience incredible growth. Further, Merida believes that transdermal patches may become the largest non-consumption medical delivery method of cannabis. Transdermal delivery patches currently make up less than 1% of all cannabis delivery methods for medical users. We expect that to rise in the next few years to closer to the 10% of pain/sleep medications delivered through transdermal patches. With Sun Life's foray into cannabis reimbursement, another of our predictions comes closer to fruition.



Sephora, a major cosmetics retailer, announced that it will develop a line of CBD creams made from hempseeds. While this is not a surprising news story, it is another example of a large corporation seeing the value of CBD in mass consumer products. Additionally, it highlights how the legalization of hemp is moving much faster than cannabis, thus offering another industry segment with its own opportunity set. As hemp becomes more prevalent, expect to see CBD in many products as well as hemp fibers in paper, clothing and other products. Relatedly, and as another example of the cross-pollination of ideas within Merida's portfolio, New Frontier recently announced the acquisition of the Hemp Business Journal, one of the leading resources in the hemp industry. Their data and resources will seamlessly integrate with New Frontier and allow New

Frontier to cover the Hemp/CBD industry as effectively as it covers cannabis – a truly unique differentiator from other data providers focused solely on cannabis.



In a transaction that has garnered very little attention compared to the Constellation-Canopy Growth transaction, Alliance One International, a NYSE-listed tobacco company (ticker: AOI), recently acquired two Canadian producers (one licensed and one in the last stages of pre-license) and a hemp producer in North Carolina. AOI had a market capitalization of ~\$125MM when these transactions were announced. That market cap now sits at ~\$240MM. AOI clearly concluded that the opportunity for accelerated profit and growth will come from cannabis rather than tobacco, leading to higher valuation as evidenced by the market reaction to date. AOI indicated as much in their release, in which their CEO stated that AOI aims to position itself as one of the world's largest CBD producers within five years. Who will make the next leap after lawn care, alcohol and tobacco? It is hard to predict, yet here we have another example of pre-cannabis industrial companies moving to grab early stage companies before the full institutionalization movement drives acquisition costs much higher. We will also be following this transaction to see how they intend to handle distribution of CBD, which still falls into a grey legal zone within the United States.



Cronos, one of the smaller Canadian LPs, was recently approved to up-list to NASDAQ, making them the first cultivator, albeit from Canada, to list on that exchange. We think this trend will accelerate and that 2018 will see three to four ancillary companies trade on NASDAQ, which has previously shown some reticence for such listings. MassRoots and TerraTech were both rejected for a NASDAQ listing over the past several years, partly due to idiosyncratic issues at each company. The Cronos listing is a big advancement for the U.S. capital markets and something worth celebrating.



As a final point before I get into the financial section of this update, I wanted to present an evolving thought and potentially predictive insight that the Merida team has been discussing over the past few months. There has been a large gap in the cannabis industry information flow which we have highlighted previously, and which seems on the verge of change. Cannabis related consumer data and consumer metrics have not been studied anywhere close to the level at which they are scrutinized in other sectors of consumable goods industries (food being just one example). Recently, we have been pitched by several companies that have presented detailed consumer studies that they themselves commissioned for their product launches. New Frontier has also begun to ramp up its collection of data. This can provide insight and context on emerging

consumer trends, which in turn gives us more breadth as we start to focus on the consumer packaged goods space.

Since Fund I will no longer make new investment allocations, this is largely relevant to our recently launched Merida Capital Partners II LP, but worth noting as an insight we had while cross-referencing some of the data we received recently. Raw flower is certainly decreasing as a product category as concentrates, oils, and manufactured products grow in number. That is augmented by CBD or extract-only medical markets like Texas, Florida (which is now fully medical), Minnesota, Pennsylvania and New York that have launched in the last several years. We believe that certain factors leading to the rise of concentrates are misunderstood by the market, and that there is an opportunity in the raw flower consumer packaged brand space.

Concentrates (i.e. oils and products made from/with extracted cannabis) have become popular because of convenience, ease of use and lack of identifiable odor during use. Retail shelves in California, Washington, Oregon and Colorado are stuffed with these products. Currently, dispensary profits are greater with concentrates and specialty products because as those brands need to establish themselves, many manufacturers are virtually giving away their products at very low margins. For example, at Euflora, in the 16th St. Mall in Denver, an edible brand was doing a “buy two, get two free” promotion when I visited two weeks ago. One of the cashiers told me this brand was flying off the shelves. He also told me that there is a similar promotion from a different manufacturer each week. Of course these products sell well - you get 40 10-milligram THC edibles for \$30. That is only \$0.75 per edible! The manufacturer cannot be making any money the way these edibles were packaged with hard cover shells and interlocking childproofing, and they certainly will not be in business very long if they need to continue such a discounting program.

At the same time, flower is often displayed in generic jars with little identification other than a strain name or a category (i.e., Indica, Hybrid, Sativa). During recent research visits to dispensaries in California and Colorado, I noticed that several dispensaries now also sell flower categorized by potential effects and featured labels such as “Uplifting”, “Euphoric”, “Calm”, “Body Buzz” and “Sleepy”. I asked the employees of these dispensaries if they noticed flower sales changing as a result of these branding strategies and I largely heard the same thing across the six dispensaries I visited – the categorized “feelings” are materially helping flower sales. We have seen several brands who use similar taxonomies grow quickly (Lucid Moods, Ascnd and CannDESCENT being the most recent). However, due largely to the creativity and volume of new concentrate products hitting the market daily, it's still gaining on flower.

At the same time, pre-rolls are by far the fastest growing segment of the non-concentrate products. Between January 2017 and January 2018, pre-roll sales were up 32% in Colorado and 52% in Oregon, and they now comprise ~10% of all flower sales. Ironically, pre-rolls are not considered “flower” in the cannabis product taxonomy yet they are the “packaged” product in the flower world. We believe that the rise in their popularity must be partly due to the heavy focus pre-roll providers place on consumer-oriented packaging. We have independent verification on pre-roll movement as Kush finds it impossible to keep pre-roll tubes in stock due to the speed with which the category is growing and the emphasis on packaging for these products.

Taken together, flower brands are reacting to what they see as the advantage of concentrates, which is really the advantage of packaged goods versus non-packaged goods. When you buy a melon at the store, you may not know exactly what you are getting, but buy a pack of Oreos and you know what you are getting every time. So, we believe that pre-rolls are a good indicator of the consumer movement within product verticals and the preference for packaged goods over non-packaged goods even on the raw product-i.e. raw cannabis flower).

The irony is that edibles and concentrates are actually quite diverse (or inconsistent) depending on the batch, or even within a batch based on dosing of the edible. But the perception of the newer consumer is that all concentrates or edibles within a package or “brand” are more likely to be identical. People enter a dispensary and see beautifully packaged goods and then a jar with flower in it that uses a name of a strain with which they are unfamiliar. It thus makes perfect sense that consumers skew towards a concentrate. The evolving thought is that over time, concentrate companies will see rampant competition and increasing quality control costs, and that flower will actually re-emerge as a higher ROI consumer product with very few growers competing with a pre-packaged flower geared towards the connoisseur flower market. That way, they will not rely on generic presentation in the dispensary to sell their products. We believe that several branded companies will eventually figure out this element of the consumer market, and as a result become quite successful with little true competition. Identifying a player in this branded space that has crossed the fragmentation gap would be very intriguing as a potential area of investment for Merida.

New Merida Team Additions

As our AUM has grown and our efforts to drive value to our portfolio intensify, we have expanded the Merida team and solidified our operation in several ways. We have also officially moved into 641 Lexington Avenue, where we have dedicated space to host companies and investors and a nice office space for our team to collaborate. While bulking up our internal team, we have also added to our advisory group of experts, which brings a greater ability to process and operationalize all of the information we are collecting. Please join me in welcoming David Goldberg, Daisy Mellet and Robert Swartz on the Merida team side, David Hirsch as a technology advisor, and Fund I advisor Gregory Parsons who officially joins our Investment Committee as an independent member.

While David Goldberg’s extensive biography is on our website, in short, he is a 25+ year credit veteran who has worked at Goldman Sachs as well as several other large banks, ran credit for Silver Rock (Milken Family Office), and invested in Merida several months ago before committing himself full time to our efforts. David has been instrumental in closing Fund I and launching Fund II. David will work with Jeff Monat, Peter Rosenberg and me on assessing and structuring opportunities.

Daisy Mellet has joined us as our Chief Administrative Officer from Seawolf Capital, where she served in a similar role. Daisy worked previously at FrontPoint Partners, where she supported the trading and investing efforts of the investment team profiled in “The Big Short”. Since joining us

in November, Daisy has been instrumental in supporting Kevin Gibbs' operational and recordkeeping efforts and preparing us for our soon-to-be completed audit, as well as assisting me in organizing our outreach and streamlining our internal communications.

Robert Swartz joins us as our Director of Relationship Management where he will work with Howard Glynn in managing our communications with our existing portfolio companies, potential partners, investors and diligence targets. Bob most recently was a Vice President and Portfolio Advisor at F.N.B. Wealth Management. He brings an extensive background in relationship management, investments, finance and banking.

David Hirsch is the CEO of CompoundVC, a leading venture capital firm that is currently on its third fund. Before founding Metamorphic Ventures, which became Compound, David was a senior executive in the national sales team of Google and its second employee in New York. David will be invaluable in helping us drive value in our burgeoning tech portfolio, which now includes Simplifya, New Frontier Data and Steep Hill Labs.

Gregory Parsons is the CEO of Semper Capital, an asset manager specializing in credit which just crossed the \$2B mark in AUM. Before taking the reins at Semper, Gregory worked at McKinsey & Co. and will bring additional focus and discipline to our already rigorous diligence and investment process.

Q4-2018 Deployments

Kush Bottles Initial Investment -- \$357,000 at \$1.50/ share, \$1.98MM at an effective price of \$3.61/ share

As we discussed briefly in Merida's last investor letter, the Fund invested in Kush Bottles (ticker: KSHB), a public company that we believe will be one of the largest and most successful companies in the cannabis packaging space. Merida made its first of two investments in Kush in November 2017 at \$1.50 per share. Capacity in the offering was highly limited, but Merida was able to deploy \$357,000 at that price. Although a relatively small capital investment for the Fund, it provided Merida with a foothold in the company. After eight weeks of post-investment work with Kush, we eventually led a much larger financing that included a straight equity purchase, a strategic referral agreement and the ability to participate as a preferred capital provider for future, larger raises. These features would prove quite valuable for Merida. Below we detail our lead involvement in Kush's most recent financing that closed in February 2018.

As with most of our investments, there is a compelling structural angle to the Kush thesis that we believe is not fully appreciated by the public markets. Merida's deep industry research indicates that packaging should be one of the fastest growing verticals in the space. With the passage of recreational cannabis in California and Massachusetts, and more stringent child-resistant packaging requirements in other medical markets, organic growth in the packaging sector should materially exceed the overall cannabis industry CAGR over the next 2 to 3 years. Kush Bottles is an established leader in the packaging space, and their access to public equity funding should provide the company with a powerful advantage in acquiring smaller competitors across

various North American markets. We believe this cost of capital advantage will become evident over the next several quarters for Kush.

We also looked deeply at Kush's overlapping interests with our portfolio, and areas of the industry where we have strong relationships and coverage. As Kush's CMP acquisition gives them a dominant position in serving extractors with their vape cartridges and basic needs for distributing their product, we saw a synergy between Kush and Manna, who seeks downstream extractors to buy the Mannabot and transdermal patches. We believe that over time, Manna's existing clients could use Kush's custom packaging on the patches created using Manna's technology and in return, Kush could introduce Manna to some of the thousands of concentrate producers they serve. Kush serves more than 5,000 companies overall.

A secondary but equally important strategic consideration is the consumer data that Kush collects. Kush can develop granular data regarding consumer consumption patterns by tracking producer and supplier orders. As mentioned above, Kush's acquisition of CMP Wellness, gives them one of the dominant franchises in vape cartridges, an area of tremendous growth that should continue to explode as California and Massachusetts go online and Florida, New York and Pennsylvania (all of which are extract-focused markets) open, thus requiring millions of vape cartridges every month.

Lastly, Merida is poised to receive equity compensation under the Strategic Partnership Agreement which will lower our cost basis in Kush at a time when their per share valuation should be rising, based on business introductions and strategic partners we have identified for the company..

Kush achieved several notable highlights in the calendar fourth quarter of 2017 (as well as the subsequent quarter):

- Kush Bottles Reports Fiscal Year End 2017 Results; Revenues Increased 129% Year-over-Year to approximately \$19 million (<https://ir.kushbottles.com/2017/fiscal-year-end-2017-earnings/>)
- Kush Bottles to Develop Customized Cannabis Packaging For Future Farm Technologies (<https://ir.kushbottles.com/2018/kush-bottles-future-farm-technologies/>)
- Kush Bottles Announces East Coast Expansion (<https://ir.kushbottles.com/2018/kush-bottles-announces-east-coast-expansion/>)

As mentioned above, Merida's existing relationship with Kush provided the Fund with an extraordinary opportunity to provide the Company with \$6 million of primary equity capital in February 2018 (<https://ir.kushbottles.com/2018/kush-bottles-merida-capital-partners/>). In the press release, I stated Merida's view as follows: "Kush Bottles' acquisitions and in-house development efforts have established the Company as a critical link in the supply chain for more than 5,000 cannabis growers, extractors, manufacturers and retailers. The Merida team could not be more excited to put significant resources to work to build on this foundation to expand Kush Bottles' leading position." Merida looks forward to partnering with Kush in growing the Company and helping to consolidate the North American cannabis packaging industry.

GrowGen Add-on Investment -- \$1.25 million at \$3.00/ share with 187,500 warrants struck at \$0.01

Since our last investor letter, Grow Generation has done an exceptional job of capital allocation and investment, all while adeptly operating its day-to-day retail business. Below are several of the company's most important strategic initiatives from the past several months.

On January 12th, GrowGen closed an offering of \$9 million of convertible notes led by Merida, while also receiving investment from a new institutional investor, Navy Capital. We note that Merida Capital Partners II, our recently launched second fund, was also a large investor in the transaction. We believe this is one of the largest announced financings for a U.S.-listed cannabis company and are hopeful that it will assist GrowGen in attracting a broader institutional shareholder base. The terms of our investment were compelling - a note convertible at \$3.00 per share and 37,500 penny warrants per \$250,000 invested. Even with the stock's recent pullback, our return on this investment is nearly 90% in 60 days.

Additionally, the Company established 2018 revenue guidance in excess of \$30 million (including acquisitions), an impressive growth rate over expected 2017 revenue of \$15 million. Shortly after announcing their financing, GrowGen wasted no time in deploying some of its recently raised capital.

On January 24th, the Company announced the acquisition of East Coast Hydroponic Warehouse for total consideration of approximately \$4.7 million. Located in Warwick, Rhode Island, East Coast Hydroponic is the largest hydroponic store on the East Coast, generating estimated revenue of \$5 million. GrowGen has highlighted New England as a focus geography for expansion, and this transaction offers the Company a prime position to capture the growth of several medical and adult-use state markets. Most importantly, the company was able to pay consideration of just under 1x revenue for East Coast Hydroponic, a valuation that we feel is extremely attractive for a market leading position in a growing region.

On January 31st, GrowGen signed the acquisition of Humboldt Depot, a California-based retailer, for consideration of approximately \$1.5 million. The Humboldt Depot business produced 2017 revenue of roughly \$4.0 million in revenue in 2017, and this figure does not include a new store location in McKinleyville, CA, which the company plans to open in 2018. GrowGen was able to make this strategic acquisition in the Emerald Triangle region for an exceedingly attractive valuation of less than 0.4x sales.

Finally, the Company announced a small acquisition in Washington State, Groco Supply. The specialty store generates sales of \$1.0 million, and information on the acquisition appears to indicate that it was purchased for a revenue multiple similar to that of its other recent transactions. Merida continues to believe that GrowGen has an attractive pipeline of acquisitions that should be strongly accretive to equity holders.

Below is an illustrative impact of the Company's value-added acquisition strategy.

GRWG	Nov. 2017	Pro forma Jan. '18	Pro forma Acquisition
Share Price	\$ 4.00	\$ 4.00	\$ 4.00
Basic Shares Out	16.4	16.4	18.7
Options / Warrants / Convert Dilution	4.5	8.9	8.9
Diluted Shares Out	20.9	25.3	27.6
Market Cap (mm)	\$ 83.6	\$ 101.0	\$ 110.4
Net Debt / (Cash)	\$ (1.8)	\$ (10.8)	\$ (1.4)
Enterprise Value	\$ 81.8	\$ 90.2	\$ 109.0
Revenue	\$ 30.0	\$ 30.0	\$ 55.0
EV / Revenue (x)	2.7	3.0	2.0
Steady-state EBITDA margin	12%	12%	12%
Implied Steady-state EBITDA	\$ 3.6	\$ 3.6	\$ 6.6
EV / EBITDA (x)	22.7	25.1	16.5
Decrease in EV / Revenue multiple			-34%
Decrease in EV / Steady-state EBITDA multiple			-34%

The accretion analysis assumes GrowGen acquires \$25 million of revenue at a 0.75x EV / revenue multiple, using 50% stock and 50% cash consideration. We estimate that the acquisitions would have a material impact in lowering the Company's pro forma Revenue and EBITDA multiples by approximately one-third. If GRWG shares simply traded at pre-deal multiples (i.e., no multiple expansion), Merida estimates that GRWG's share price would increase by 30-40%. Keep in mind that this analysis excludes any impact from cost and revenue synergies, which the GrowGen management team has consistently achieved in their prior acquisitions.

Lastly, on March 8th, GrowGen announced at the Roth Small Cap conference that they are upping revenue guidance to \$37 million for 2018, largely based on a large and growing acquisition pipeline. Their presentation focused on attractive acquisition metrics that we helped them identify. We are excited to continue working with GrowGen on their acquisition pipeline as their strategic capital partner and believe additional acquisitions should allow the company to increase their 2018 revenue and profitability guidance.

New Frontier Add-on Investment -- \$475,000 in Series A Preferred and Additional Series A Warrants

Throughout the 4th quarter, we made three modest add-on investments totaling \$475,000 in New Frontier as they closed out their Series A round and closed the purchase of the Hemp Business Journal (“HBJ”). We paid the same valuation as the Series A round and received additional warrants for the investment. The HBJ acquisition puts New Frontier in a position to roll all of the HBJ’s Hemp / CBD data onto their platform and be the leader in tracking this critical vertical. We

foresee the CBD market becoming incredibly lucrative over the next several years, as states like Texas launch low-THC programs, and several European countries like Italy are poised to pass laws that encourage low-THC products. In addition to CBD's significant role in health and wellness, hemp should fill several industrial uses giving it a significant market going forward as it moves from the grey market to full legality. The compelling aspect of New Frontier's acquisition is that they paid 1X 2017 revenues, which we believe is an accretive valuation to add HBJ's growing revenue base and complementary expertise.

Simplifya Initial Investment -- \$1 million in Series B Preferred

We recently invested \$1 million at a \$12 million pre-money valuation in Simplifya, a compliance software company, Simplifya. We led Simplifya's Series B Preferred round for several reasons. We have been researching potential investments in the internal compliance space for some time. Many industry participants have a misconception that seed-to-sale (S2S) tracking is the main compliance tool that fully handles a company's internal needs. While S2S tracking is certainly a required element of nearly every state's laws, it cannot ensure that a producer is complying with the labyrinth of laws to which both adult-use and medical cultivators / manufacturers are subject. It also happens to be an area where we have a plethora of experience and knowledge. The fact that very few people understand how compliance differs from S2S tracking is an opportunity for us, and Merida again based an investment decision on what we believe is an informational asymmetry in our favor.

Throughout the past year, we have performed diligence on several companies that offer services sitting on top of S2S systems. The current compliance offerings are weak and cannot be mistaken for a robust compliance program such as the one I ran at publicly-traded MarketAxess. As we researched several of the current compliance software companies, we identified that many of them offer web-based solutions that run side by side with the S2S systems, but are essentially manual checklists for compliance tasks. Massroots tried to buy CannaRegs for \$12 million in stock and CannaRegs is in many ways an encyclopedia for rules, yet offers no "intelligent" solution that allows a user to integrate its operational needs with state rules. New Frontier had also tried to acquire a compliance company a year ago. Without going into specifics, we have been deeply unimpressed by what is on the market for any type of cannabis participant. The deeper we looked into other compliance companies, the more we saw a growing need that lacked solutions.

We viewed the need for compliance on an operational level in the context of a growing regulatory regime in virtually every state, and the impact of regulation on already taxed operations. As rules become more complex, and operations grow larger and multifaceted (as in a grower moving to manufactured products, or becoming a third party distributor in California, for example), companies fret their ability to stay abreast of simple rules-based actions they need to take, while failing to consider any of their long-term compliance needs from a strategic perspective. As these companies were dealing with compliance gaps in an ad-hoc solution, we had asked New Frontier to alert us to any other companies who had offerings that were gaining market traction.

Enter Simplifya. It is a cost effective, easy-to-use, cloud-based application for web and mobile use that lets operators easily audit their cannabis businesses to ensure compliance with state and local regulations. Simplifya was founded by partners at one of the oldest and most respected cannabis law firms, Vincente Sederberg (“VS”), which maintains nearly 50% ownership of the company. Through VS, Simplifya has unparalleled relationships in the legal and insurance worlds as well as access to a knowledge base to build tools that help operators efficiently comply with local and state laws.

Simplifya’s unique and innovative software platform is designed (as the name of the company suggests) to “simplify” the process in which a business is managed by providing a user-friendly tool to prompt managers and employees about specific actions to be accomplished and to provide a digital and mobile performance checklist of adherence to all government and corporate rules and regulations.

With over 100 current paying customers, and with VS incorporating Simplifya into ~100 upcoming applications for California licensure, Simplifya has already crossed the initial fragmentation gap in establishing a sales pipeline.

The primary strategic overlay for our investment into Simplifya is to continue our pursuit of opportunities in rapidly evolving digital verticals that track or assist operational compliance. In addition, we are always looking for companies which connect Merida to the operational behavior of a multitude of operators. We love data, and Simplifya collects it by the terabyte, which is what drove the New Frontier partnership they have finalized since we made our investment. The use of digital compliance and optimization tools is exploding as states require operators to interface with state-based S2S systems like METRC, MJFreeway and BioTrack. Four years ago, statewide seed-to-sale tracking or POS contracts did not exist. Today, sixteen states mandate operator usage of certain tools at the state level. This is a huge sea-change that can be expected to continue until all 50 states have a required compliance system. Companies are overwhelmed by this evolution and Simplifya is rapidly becoming the tool they utilize to validate their internal compliance.

Gloucester Street Capital / Valley Agriceuticals Initial Investment -- \$900,000

Merida has finally developed enough supply chain opportunity that we are comfortable expanding our “asset-lite” investment model into highly selective opportunities in the cultivation / production vertical. We formed Merida Capital Cultivation, a subsidiary to insulate Merida from direct contact with the plant, in order to make the Valley Agriceutical (ValleyAg) investment. While medical cultivation will likely not reach the targeted 15% of our portfolio we projected in our PPM, this and broader opportunities in this channel (such as Jushi, described below) offer value from their complimentary orientation to our ancillary companies.

In Valley Agriceuticals, we found a company that has a very specific value proposition that we find compelling by how it can intersect with our portfolio. One aspect of investing that defines Merida is our pursuit of special opportunities that allow us to bring scale and our supply chain connectivity to accelerate the accretion of value to our portfolio companies and thus to our

investors. In this case, we deployed a modest amount of capital alongside a trusted partner and frequent co-investor (One East Capital, who invested \$5 million), to finance a limited-license grower in New York, a rapidly growing market which has been much-maligned. New York's population ratios are by far the best in the U.S.: 20 million people and only 10 licensed vertical operations. The tangible math is very simple before factoring in the \$2 billion black market in the state, widely considered the largest single black market for consumption in the country. Recent articles have even pointed to high prices as driving people back to the black market in New York, something we think that more producers will ultimately rectify.

The model ValleyAg plans to pursue, its reasonable valuation and mature management team, however, were insufficient on a stand-alone basis for us to make our first "touching the plant" investment. We looked at the much-maligned New York market and its seemingly misunderstood potential as one of those informational asymmetries we could not ignore. With all of ValleyAg's virtues, it is the New York ecosystem that truly made this a unique opportunity for returns comparable to those we target in our ancillary investments. As detailed in our Q3 update, the New York market has seen strong growth in patient counts as state rules have liberalized. Additionally, the addition of chronic pain as a qualifying condition is a key driver with metrics around its impact on patient count that we find compelling.

In our Q3 Update, we wrote the following regarding NY:

Legislative wrangling gave the state an extract-only market, and terribly constraining product restrictions that makes NY the worst medical market in the U.S. from a patient adoption perspective. With a population of 20 million and only 35,000 registered cannabis patients, that translates into a ~.02% adoption rate. Just this month, NY added PTSD for veterans, police officers, firefighters, and domestic abuse victims. How they will determine the last category should prove very interesting. It will be interesting to see what the federal VA facilities and doctors in NY do as we believe veteran access to medicinal cannabis could be a game changer for insurance reimbursement due to the purchasing power of the VA and its effect on Medicare and Medicaid.

What we find most interesting is that NY is the only state to add limited licenses (5 additional vertical licenses) since their original grant of five licenses. We have done a fair amount of research to determine why they would do such a thing and it appears that regulators wanted to add dispensary coverage, but the current law only allows for vertical licenses, meaning they needed to add cultivators to add dispensaries. With only 20 licensed dispensaries currently, NY is clearly underserved by dispensaries and geographic coverage sorely lacking. Manhattan, an island of 8 million people has two dispensaries. One change that has further intrigued us is the August addition of chronic pain as a certifying condition and home delivery, both of which could have a very positive effect on the program over the next 12 months and really drive patient demand.

While it is unfortunate for the five operators that exist today who have collectively lost millions to establish businesses that now have double the competition, the 5 new licensees should be well-positioned to profit from the lessons learned over the first two years of the program. With home delivery, chronic pain and non-smokable flower now approved in a case by case basis, we think NY could be one

of the markets to watch for big growth in 2018 and potentially even getting to .05% penetration which would translate into almost 65,000 new patients over the next 12 months.

A few other intriguing, but minute elements others may have missed in NY: in April, the Department of Financial Services reiterated specific guidance that NY insurers must reimburse their members for doctor's visits that result in a medical marijuana recommendation if that recommendation was not the only (or sole) reason for the visit. In the guidance it explicitly says that insurers may not use the result of a medical marijuana recommendation to deny reimbursement. Coupled with proposals in NJ and Illinois, we now have significant indications about how states view the future of this. For NY insureds, this is essentially a \$300 subsidy for MMJ program or roughly 1.5 months of medicine. NY has also added nurse practitioners and physician's assistants as those able to write recommendations and reduced restrictions on advertising and marketing by the 10 licensed organizations.

New York is now up to ~47,000 patients, which translates to nearly 3,000 new patients per month. With 20 new dispensaries coming online and a home delivery option, we see that increase steepening over the next six months and exceeding the 65,000 patients we projected previously at YE 2018. With nearly 1,500 recommending medical professionals, New York now has the largest medical support system. Furthermore, as dispensary coverage increases, patients will likely migrate out of the black market in increasing numbers so that they can get the best products and work with their doctors on their titration or treatment plans.

ValleyAg will operate four dispensaries (Brooklyn, Huntington, Poughkeepsie and Utica / Syracuse), simplifying the distribution of their own products and generating revenues quickly. They also benefit from a new change in the New York law which allows providers to sell other producers' products. Valley Ag originally built a small 6,000 square foot production facility as part of their application. Without commenting on the wisdom of spending that capex before even getting a license, it now benefits our investment as ValleyAg can process excess inventory from other producers (of which there is a fair amount) into its own products and establish its dispensaries and a patient following without any build-out. This asset-light approach is what intrigued us initially, and is something we think mitigates our potential risks by a great degree since ValleyAg has the luxury of establishing its consumer base before spending money to expand its facility. We like that predictability and believe it significantly increases capital efficiency and our return on investment.

As for the intersection with our portfolio, we expect GrowGen to supply their equipment, Manna to be their transdermal patch solution and Kush to be their packaging company. New Frontier will provide them enterprise level data. This exemplifies the type of virtuous circle of value creation that we pursue relentlessly.

Jushi -- Initial Investment of \$125,000 and Consulting Warrants

We have been collaborating for over a year with the One East team, and have worked closely with them on the Valley Agriceutical transaction. While their focus a year ago was primarily in large investments they had made in Canadian public companies, One East has participated in several of our lead investments, is the majority capital partner in our ValleyAg transaction, and shares with us important philosophical underpinnings. Over the past 6 months, as the ValleyAg transaction came into focus, we started discussing a consolidation vehicle for rolling up U.S. cultivation and dispensing assets similar to iAnthus, MPX or Liberty Health Sciences (all public through Canadian-US dual listings). If we were to pursue a roll-up we are confident of our ability to execute at a higher level and more efficiently than the existing companies executing on this strategy. One East has a tremendous amount of connectivity to the public markets in Canada and with Merida's on the ground know-how, we began to formulate a plan for a vehicle. One East will be the sponsor of the vehicle and would focus on the capital markets side and Merida would focus on closing the ValleyAg transaction and identifying other potential assets for acquisition.

As the ValleyAg transaction began the final steps to closing, One East formed Jushi as a consolidation vehicle, and invited Merida to participate in an attractive internal "management" round, as well as offering us the opportunity to contribute our own ValleyAg purchase into Jushi with attractive optionality. Jushi also granted Merida a significant amount of Consulting Warrants at the original internal round pricing for our work in closing ValleyAg and our partnership in assisting them in the execution of Jushi's business plan. Jushi has raised additional outside capital at a premium to both our purchase price and Consulting Warrant exercise price. We will wait to see what assets they acquire with their capital and the metrics of those acquisitions before deciding to contribute the ValleyAg stock we just purchased. We expect Jushi to file to go public in 2018 and will also use those materials and the target pricing of that go-public offering to determine the best course related to our ValleyAg stock.

Merida sits on the Board of ValleyAg with two of Jushi's principals, and we are excited about the working relationship we have both in New York and as significant owners of Jushi's equity. We expect that our small capital contribution to Jushi will reap strong investment returns catalyzed by the go-public transaction and the value of additional equity granted to us - another example of our "active private equity" model bearing fruit for our investors.

Company Updates

Manna Molecular

Manna continues to execute on its business plan and closed the year at virtually breakeven for FY 2017. Manna has preserved nearly all of our invested capital and has added new products to their core offering as the MannaBot has opened up sales channels for them. When we first invested, Manna had conservatively budgeted \$200,000 for 2017 revenues. Due to their accelerating industry adoption, the Company closed the year at nearly \$550,000 of sales while also indicating they expect to double their original 2018 financial projections. Merida has gathered a significant amount of feedback on Manna's products from both patients and dispensaries, and we are very

excited about the MannaBot, transdermal patches and other new products Manna is developing. By the middle of 2018, we expect the Company to be an exclusive supplier of patches in NY through ValleyAg, and have Canadian, Washington and Oregon partnerships up and running.

Lumigrow

While Lumigrow is the smallest position in our portfolio, we believe it has significant potential given the milestones it achieved in 2017. Lumigrow closed the year with a 27% increase in units delivered, selling 8,100 lights in 2017. Their revenues exceeded \$5.3 million, albeit a disappointing number given their original projections of ~\$7 million. As a hardware company driving adoption of a newer product line (LED lighting, sensors and data), Lumigrow's earnings are sensitive to regulatory developments affecting their clients and delays in build outs that often occur in the cannabis space.

There is far more cause for optimism than worry, however. Lumigrow's three biggest clients are Aphria (Canada), Copperstate Farms (Arizona) and Monte Fiore, a food grower in Kansas. They received \$4 million from a well-regarded investor, ValueAct, at a 60% premium to our investment valuation. Additionally, Lumigrow landed the single largest order of LEDs in the Southern Hemisphere, from Nectar Farms, which starts shipping in phases this June. The total order was for \$30 million of LED lights and sensors. They closed the year with more than \$3 million of cash on their balance sheet, which has helped them prepare the supply chain needed to fulfill the Nectar Farms order. As they collect data from their deployed lights, they offer growers incredible feedback and data which allows them a second line of recurring revenue after the lights have been deployed for more than 18 months. In sum, we believe that 2018 will be a great year for Lumigrow, with the Nectar Farms order pushing them into a leading position to dominate the coming LED adoption in 2019 and beyond.

Steep Hill

Steep Hill Labs had an extremely productive fourth quarter of 2017, and the company is poised for tremendous business momentum as it enters 2018. Merida invested in two prior convertible funding rounds at valuations of \$5 million and \$25 million, respectively.

Subsequent to our last investment, Steep Hill raised their third round of convertible notes from a group of largely new investors at an implied valuation of \$38 million (<https://www.prnewswire.com/news-releases/gotham-green-partners-and-co-investors-close-out-steep-hills-series-iii-convertible-notes-300554763.html>), providing an incremental data point that supports our estimate of Steep Hill's significant intrinsic value.

Steep Hill is currently in the process of launching the first tranche of its Series A financing. This tranche will raise up to \$3mm in new capital at a pre-money valuation of \$50 million. Steep Hill plans on investing the capital in several major buckets: (1) hiring additional lab technicians and analysts, (2) purchasing additional lab equipment to increase testing capacity, (3) establishing remote lab staff and equipment throughout California and (4) constructing a state-of-the-art headquarters and R&D center. Merida is considering participating in this round, as we feel the

company is at a point of material growth inflection due to its leading position in the California testing market and its sizable international growth opportunities.

For fiscal year 2017, Steep Hill reported recognized revenues of \$3.1 million, up from \$2.5 million in 2016. Keep in mind that this \$3.1 million figure does not include any "contracted" or "deferred" revenue (totaling approximately \$4.5 million). The Company has also released its medium range financial forecast that estimates 2018 revenue of roughly \$30 million, and importantly, projects Steep Hill achieving a point of cash flow break-even in 2018. As Merida researches the medical and adult-use testing opportunities in California, it is becoming increasingly clear to us that the state's total addressable testing market (TAM) should be massive over the next several years. Even using below-current market pricing to account for current lab capacity shortages in the state, we estimate that the TAM of California alone should exceed \$500 million! This is certainly an exciting prospect for a market leader such as Steep Hill.

The following are several other important milestones that Steep Hill achieved in Q4 2017:

- Steep Hill, Together With The Pontiac Group and First Nations of Canada, Announce Steep Hill Canada (<https://www.prnewswire.com/news-releases/steep-hill-together-with-the-pontiac-group-and-first-nations-of-canada-announce-steep-hill-canada-300556925.html>)
- Steep Hill and Eybna Partner to Commercialize Customized Cannabis Terpene Formulations (<https://www.prnewswire.com/news-releases/steep-hill-and-eybna-partner-to-commercialize-customized-cannabis-terpene-formulations-300556585.html>)
- Steep Hill Announces Plans to Open in Oregon (<https://www.prnewswire.com/news-releases/steep-hill-announces-plans-to-open-in-oregon-300557935.html>)
- Steep Hill agrees upon the issuance of a nationwide license for Steep Hill Mexico to a Canadian-based group which includes extremely strong and well-entrenched lab operations partners in Mexico. More details are expected to be released by the Company in early 2018.

NAV Calculation

When we began to create a portfolio of top ancillary companies 16 months ago, it was hard to anticipate what might be in the portfolio. One of the difficult aspects of constructing a portfolio is the risk of extended illiquidity. We have booked the portfolio for purposes of recalculating the NAV of the Fund based on two simple premises. First, for private companies, we used the most recent arms-length investment price. Second, for public companies, we used a 5% discount to their trading prices as of March 9th, 2018. We used Black-Scholes for options or warrants with the exception that if the warrant or option is more than 25% in the money, we used the cash value.

Our conservative valuation methodology could underprice the actual value of our portfolio significantly as 35% of our portfolio is booked at cost or in cash and has no return yet. As an example of how booking at cost could affect the actual returns, both Simplifya and Manna have been approached by acquirers at prices that would give Merida returns well in excess of 300%, yet both of those companies sit with a zero return on our books. We also still have a cash reserve of more than \$1 million for add-on investments after factoring in projected expenses over the intermediate term, which offers another opportunity to generate returns for the portfolio.

The net return on our portfolio as of March 9th is 80.4% with a gross return of 94.8%. Most of our gains result from positive moves in Kush and GrowGen, where we now collectively hold slightly over \$14 million in combined market value. Please bear in mind that the NAV calculation in no way affects the eventual return to investors or the management fee charged. As cash or assets are distributed to investors, actual investment realizations will determine the carried interest of the fund. We believe that the gross and net returns will rise as our portfolio companies perform, particularly in the case of our large investment in New Frontier, which we think will become a public company in the next 12 months. Below is a portfolio summary with an additional piece of information highlighting the power of the Merida value-added model on the portfolio. In the highlighted area at the bottom, we focus specifically on the amount of value-added equity Merida has received for our strategic work.

The effect on the portfolio is profound and is one of our key differentiators. Quite simply, we generate excess yield for our investors through our expertise and work with our portfolio companies. There are several other companies, like Manna, Lumigrow and Jushi, where we could see additional equity for strategic introductions we make. It takes a significant amount of time to generate value from these efforts and in many cases, we are just starting to see the fruits of these efforts. We believe over time a moderate portion of our returns will be the value of this additional equity and the gains on both our core investments and this additional equity. What we find most exciting is that as we generate business development opportunities for our portfolio, particularly on the public side, the companies results are clearly impacted by our influence as you can see by both GrowGen's and Kush's 1 year stock appreciation.

While we are encouraged by the returns in the chart below, we are more excited about the potential returns of our portfolio which we believe will increase as several of the companies booked at cost begin to mature and attract potential acquirers, or the attention of underwriters seeking top notch companies to take public. Bear in mind that we are also sitting on \$1.8 million of cash in reserve, which has no yield.

Fund I Investment & Gain by Position

As of: 3/9/2018

	3/9/2018			Gross	% Total
	Price (a)	Investment	Gain	Return	P&L
New Frontier (b)		\$ 3,375,000	\$ 1,062,404	31%	9.1%
Grow Generation	\$4.40	3,131,875	6,562,927	210%	56.3%
Steep Hill (b)		450,000	1,303,095	290%	11.2%
Lumigrow (b)		350,000	224,016	64%	1.9%
MIT		275,000	-	0%	0.0%
Manna		350,000	-	0%	0.0%
Kush	\$5.16	2,337,000	2,168,455	93%	18.6%
Valley Agriceutical		900,000	-	0%	0.0%
Jushi		125,000	331,250	265%	2.8%
Simplifya		1,000,000	-	0%	0.0%
Subtotal		\$ 12,293,875	\$ 11,652,146	94.8%	100.0%
Total Equity Contributed		\$ 14,493,875	\$ 11,652,146	80.4%	

GRWG & KSHB P&L Breakdown

As of: 3/9/2018

		P&L on	Strategic		
	Total	Strategic	Consulting	Price Change	Price Change
	P&L	Consulting	as a % P&L	YTD (d)	1-Year (d)
Grow Generation - GRWG	\$ 6,562,927	\$ 599,500	9%	18%	184%
Kush Bottles - KSHB (c)	\$ 2,168,455	\$ 847,573	39%	33%	180%

Notes

- (a) Assumes 5% discount to 3/9/18 closing prices of \$4.64 and \$5.43 for GrowGeneration and Kush Bottles, respectively.
- (b) Priced at the most recent arm's-length valuation.
- (c) For the KSHB 5-year options received in the most recent financing, we utilized the Black-Scholes pricing model assuming 75% vol and the 3/9/18 closing price.
- (d) Price change through 3/13/18.

We expect to have an LPA amendment letter out in the next two weeks as well as the completion of our audit by early April. We are also planning on hosting an earnings-style conference call in late April which will include a Q&A section for you to pose questions on the portfolio or anything Merida related.

Your support and trust has enabled Merida's success. Because of your support and the hard work of our team with our portfolio companies, we can see the next evolution for Merida. This includes our recent launch of a much larger second fund, Merida Capital Partners II (which, after only 30 days is nearly the same size as this Fund), more media exposure as our unique approach gains recognition and appreciation, and the continued stewardship of our portfolio, including potential public offerings. When Merida was still a developing idea, you supported and believed in our vision so that we could reach our current state of achievement, which is still admittedly modest. We continue to be energized by the sheer number of compelling investment opportunities, and we

will continue to be disciplined and relentless in our pursuit of value in 2018 and beyond. On behalf of the entire Merida team, we thank you for your trust and wish you a prosperous rest of 2018.

Very Truly Yours,

Mitchell Baruchowitz
Managing Partner