



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 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	
Company Name	Financi	Clo	Shar	M	De	Val	LC	R	R	R	EBITI	EBITI	Mar	
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	Mar	R	R	EBIT	EBIT	Mar	(CFO-CapEx)	Upd
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	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%
Average excludes any data point labeled "nm".										5.8x	44.9x	17.5%
										1.7x	7.7x	26.0%
										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

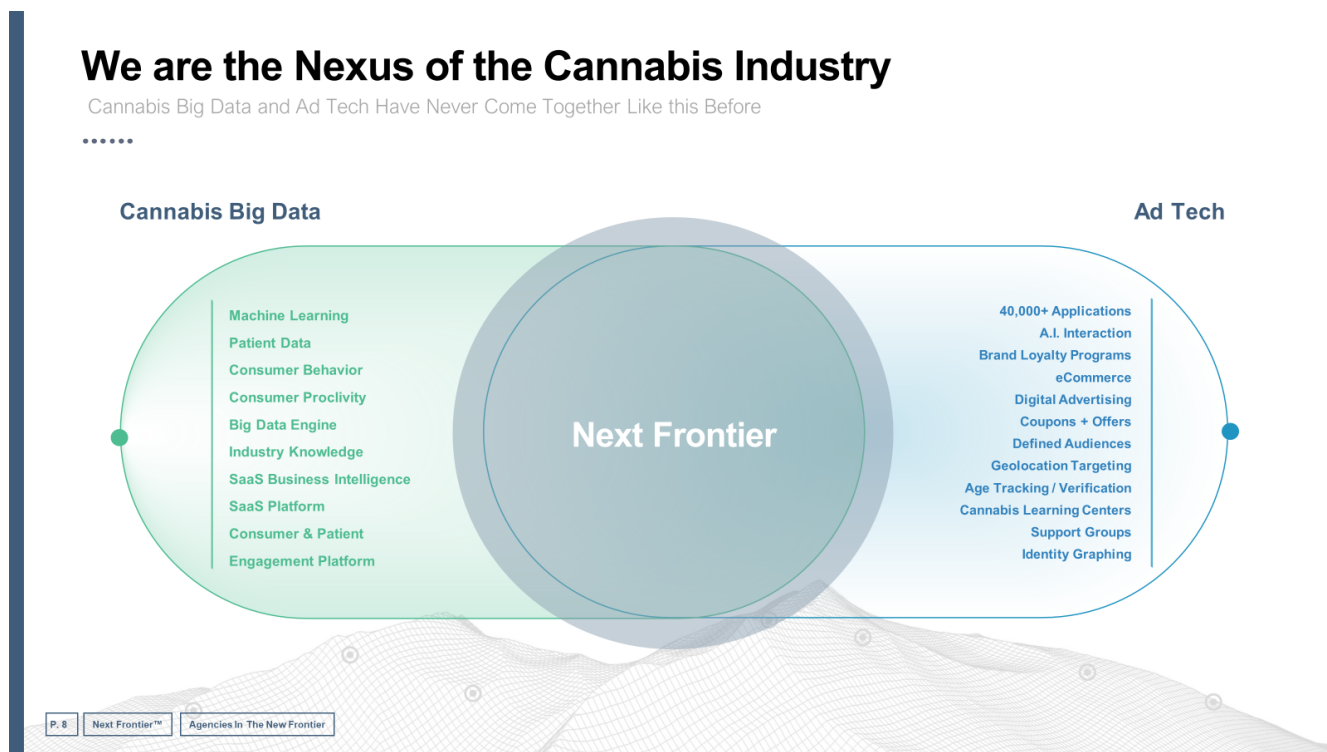
When we launched our first fund, we saw New Frontier Data as a company that was building something that was going to be ahead of its target market, which was still definitionally unclear. Was it operators who needed a dashboard, investors who needed information on individual companies or markets, commodities 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

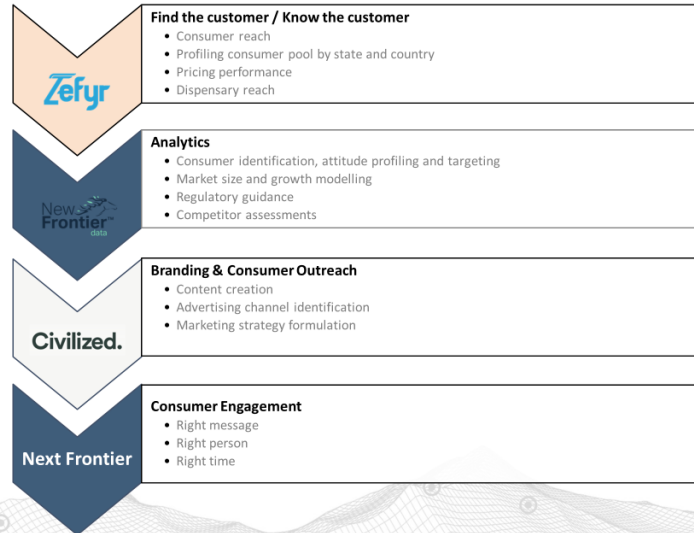
Leverage the power of our predictive marketing and geo-targeting to inspire action, improve loyalty, drive advocacy and boost your clients' sales

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

Steep Hill Labs

There has been significant activity at Steep Hill over the past several months. Management and the Board have been extremely active in exploring a variety of strategic alternatives to maximize the inherent value of the Steep Hill franchise. The sale of Steep Hill's R&D group has now been completed. Reggie Gaudino, along with one other technician, remain as consultants to Steep Hill to service and advise on items such as GenKit testing. With the Front Range transaction, we have eliminated approximately \$100k per month in ongoing payroll and received a crucial cash injection. Additionally, we have ensured that no Steep Hill revenue stream will be materially impacted.

SH recently earned ISO 17025 accreditation in all scopes of testing. The California lab is now in a position to take on increasing testing volumes in full compliance with state standards and industry expectations. After almost twelve months of continuous improvement, the lab has addressed many of the issues that were plaguing it under the previous management team. We have achieved this through a systematic approach of identifying problems to drive improvements at each stage of the production process. As a result of these initiatives, we have dramatically decreased our turnaround time for regulatory samples.

We continue to work on improving our potency and pesticide methods in a compliant fashion to meet the challenges that are presented by industry-wide lab shopping. Although improving slightly, revenue performance continues to lag below expectations. Management believes that the operating challenges stem from (1) slower than expected growth in the legal California cannabis market and (2) Steep Hill's inability to drive strong customer retention. California's struggle to transition from an illegal to a regulated adult-use market has been well documented in the industry press. The black market has persisted strongly due to many reasons, including a very strict regulatory backdrop and high retail sales taxes placed on recreational cannabis products.

On an encouraging note, SH has recently reengaged with several of their previously lost customers, as clients are increasingly demanding Steep Hill's testing consistency and scientific integrity and we believe this rigor is just starting to be recognized as a key differentiator in the testing market. Additionally, we recently concluded a deal with Natura Life Sciences in Sacramento to be their exclusive partner for all their testing needs. They are a large, vertically integrated grower, manufacturer and distributor, coming online with a 300,000 sq.ft. grow/manufacturing facility. They anticipate regulatory testing in the order of 50 batches per week plus dozens more R&D tests by Q3 2020. They are also very interested in becoming part of a "Steep Hill Inside" program.

Valley Ag / Cresco

Just after the end of 3Q 2019, the Cresco acquisition of Valley Agriceuticals closed. We continue to view Cresco as a market leading Multi-State Operator (MSO).

Third Quarter 2019 Highlights and Subsequent Events

Revenue

- Third quarter revenue of \$36.2MM, up 184% year-over-year and 21% quarter-over-quarter.
- Third quarter pro forma revenue increased 48% quarter-over-quarter to \$73.6MM, which includes the impact of pending acquisitions and investments.

EBITDA

- Third quarter Adjusted EBITDA of \$11.1MM, compared to \$9.7MM in the prior-year period. Excluding the impact of biological assets, adjusted EBITDA for the third quarter was \$3.1MM.
- Third quarter 2019 financial results included \$4.5MM related to share-based incentive compensation, acquisition and other non-recurring costs of \$4.7MM, and \$2.2MM in expansion and relaunch costs.

Net Income

- Third quarter net loss of \$8.6MM, compared to net income of \$1.2MM in the prior-year period.

Balance Sheet

- As of September 30, 2019, the Company had total assets of \$416.5MM, including cash and cash equivalents of \$73.7MM and a working capital position of \$144.6MM with zero debt on the balance sheet.
- On November 26, 2019, the Company announced a sale-and-leaseback agreement for its Marshall, Michigan and Yellow Springs, Ohio facilities for \$38MM which is expected to close within 30 days.

Operations

- As of September 30, 2019, the Company was operational in six U.S. states, with binding transactions pending in NY and MA, as well as approved expansion into MI.
- On October 8, 2019, the Company closed its acquisition of 100% of the membership interests of Gloucester Street Capital, LLC, the parent entity of Valley Agriceuticals, LLC, providing the Company with one of 10 vertically integrated licenses granted in NY.
- The waiting period under the HSR Act for the Company's pending acquisition of Origin House expired on October 22, 2019, satisfying one of the remaining conditions to completing the acquisition. The Company expects its acquisition of Origin House to close in early 2020, which greatly expands its distribution network in California.
- The Company signed a purchase agreement to acquire certain assets from Tryke Companies, LLC, a vertically integrated seed-to-sale cannabis company, including six prime *Reef Dispensary* locations in Nevada and Arizona, expanded licensed cultivation and process capacity in Las Vegas and Phoenix, and entry into the Utah market.
- On November 26, 2019, the Company announced the mutual termination of its proposed acquisition of VidaCann, Ltd eliminating \$120 MM in near-term cash requirements.

Simplifya

Like most of the digital service providers in cannabis, Simplifya has faced an “adoption wall” that it is finally beginning to climb. As a true SaaS tool that serves the medium to large grower, selling into MSOs and other companies who are reticent to make changes to their operational procedures and flow is a difficult task. Simplifya’s banking support tools also face that challenge since banks have been slow to prepare for a future where cannabis clients can freely bank. We are incredibly encouraged by the fact that Simplifya has refined its tools so that they can now sell to one point of contact, like a bank, which will require all of their cannabis clients to use the self-audit and verification tools. As they launch these tools, we believe that they will see faster adoption and become one of the default support services that a professionalized operator will see as a necessary tool to maintain regulatory compliance or simply to stay abreast of any operational risks in real time.

As of November, Simplifya is generating MRR (monthly recurring revenue) of \$47K, compared to \$25K in January 2019 and \$40K in August 2019. For the full year 2019, the company is projecting ~\$510K of revenue increasing to a projected \$2.0MM in 2020, with net income of -\$1.4MM. The Company has a cash balance (December) of ~\$550K and is burning approximately \$240K of cash per month. The Company is expected to complete a \$4mm funding round in January at a pre-money valuation of \$35MM (in early 2019, the Company raised \$3.3mm at a pre-money valuation of \$25MM).

The company is expecting ~\$100K of MRR by the end of 2Q 2020 due to the introduction of a new product, “Simplifya Verified”. This tool enables insurance providers to verify the validity of its cannabis clients’ licenses, which is a critical component of the underwriting process. The Company is in the process of executing a major contract with CannGen Insurance Services for 2020, and recently began selling this product to Cannasure Insurance Services, Hub Insurance, and CohnReznick.

Simplifya is now selling its core product (a monthly audit tool enabling operators to remain compliant with state laws) in 16 states, including CA, OR, NV, AZ, CO, OK, ND, AR, IL, MI, OH, PA, NY, MA, MD and FL. Approximately 6,700+ pages of regulations are simplified and 343 state and local jurisdictions are covered.

Manna

- In 3Q 2019, Manna continued building its patch business while preparing to launch new, innovative products utilizing both Hemp CBD as well as THC/CBD versions. The team of scientists that Manna has deployed against this new product development has developed best in breed products in the areas of women’s sexual health and pain management as well as new delivery methods for cannabis-based products.
- Q3 also saw the introduction of new branding and positioning for the entire Manna Product line, providing each product with the high-end look and feel consistent with products of this caliber. This includes packaging, retail displays, marketing support materials, and website. This branding supports a highly differentiated suite of products and underscores that the Manna offerings are of the highest quality, supported by the best available science.
- Manna is testing a much more robust approach to Sales and Business Development by deploying outside sales execs in MA to test the impact of having an outside sales force to increase uptake of the entire line of Manna products. Preliminary anecdotal results are extremely promising. The

launch of Vella, a women's sexual health product, is being led by a Product Leader with significant experience in this area, as well as high level contacts in the luxury retail and wellness space. The groundwork has been created for Manna to make the pivot from a very small boutique operation with one or two products to an industry leader with a broad spectrum of product offerings.

- Revenue performance in Q3 was modest (roughly \$371K), but that was prior to the addition of a new licensee (in AK), a significant ramp up in OH, and the launch of Vella. The outlook for Q4 is extremely promising as is the forecast moving into 2020.

NAV Summary

Fund I - Investment & Gain by Position *

	Investment Type	Investment at Cost	% of Total Investment	Gain	Gross Return
New Frontier	Private	\$ 3,608,786	22.8%	\$ 1,963,206	54%
Grow Generation	Public	3,131,875	19.8%	6,911,873	221%
Steep Hill	Private	600,024	3.8%	6,054	1%
Lumigrow	Private	350,000	2.2%	216,711	62%
MIT	Private	275,000	1.7%	-	0%
Manna Molecular	Private	850,000	5.4%	30,440	4%
Kush + Summit	Public	2,337,000	14.8%	835,895	36%
Valley Ag/Cresco	Public	1,095,002	6.9%	2,254,877	206%
Jushi	Public	125,000	0.8%	1,117,448	894%
Simplifya	Private	1,000,000	6.3%	689,158	69%
MCP Wellness Michigan	Private	2,459,000	15.5%	3,356,097	136%
Subtotal		\$ 15,831,688	100.0%	\$ 17,381,758	

* 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