



Responsible Investing in the Emerging Cannabis Industry

Q2 2019 Limited Partner Update

September 2019

Dear Merida Limited Partner:

This is an exciting time in the cannabis investing landscape. Thanks to the growth of the Merida team and an intense effort to focus on our value-added model and ecosystem connectivity, our third fund has had a successful launch. Similar to our launch of Fund II, we have hit the ground running in Fund III with a pipeline of investments that are complementary to our existing portfolio and will derive value from interacting with our earlier investments. We have a large backlog of thoroughly vetted opportunities that we are currently assessing as positive contributors to our portfolio ecosystem. We believe that this aspect of our thesis largely insulates our companies from some of the adverse side effects of an emerging market, and we will continue to lean heavily on our methodology of driving value through connectivity.

As an investor in Fund II, the full Merida ecosystem (now at 37 companies) offers not only risk mitigation, but also has created accretive opportunities for our earliest portfolio companies. Kush, GrowGen, New Frontier and all of our Fund II portfolio companies have benefitted incredibly from investments made in Fund I and the early investments in Fund III, which is only 3 months old but is nearing its first close with a diverse set of 14 investments, several of which overlap the investments made in Fund II.

As we begin to look at maximizing returns while also creating liquidity for our shareholders, making distributions, or adding on to existing investments with recycled capital, it is important to highlight the challenges our sector is facing as well as how Merida's grounded approach to value helps us identify risks that could affect the returns of our investments. Some of these risks are company specific while others are macroeconomic in nature. Those of you who hold investments in various cannabis companies undoubtedly see some of these challenges yourself. It is also worth noting that the recent market volatility may give investors the impression that all cannabis companies are struggling, or that the landscape of opportunity has diminished. Nothing could be further from the truth. Finally, we appreciate that while market volatility affects our public

companies in various ways, it can have a profound effect on the psychology of investors, who are beginning to understand the obstacles that cannabis investing presents in terms of both exposure and operations.

Market values for public companies had a volatile second quarter as many companies saw their shares under pressure. For companies in our portfolio, it was a mixed bag. GrowGen is currently one of the best performing stocks in the sector, while some of our MSO investments (whose numbers have climbed sequentially) and KushCo have been adversely affected, we believe, by the unfulfilled promises many Canadian companies made when going public at aggressive valuations. That said, the biggest story of the second quarter is the retrenchment of Canadian stock values, the effect these stocks have had on the U.S. market, and the fact that the Canadian landscape is under heavy pressure to show that the industry can mature past the relentless promotion of sketchy companies, harkening back to Canada's oil & gas and mining days.

There is no doubt that Canadian firms are struggling under the weight of valuations that were never justified given their addressable market and the huge capital expenditures required by each Canadian LP's operating plan. We have never focused more than a small amount of our efforts on the Canadian market specifically because we identified early on that the business models being pursued there were unlikely to warrant fundamental valuations anywhere near proposed offering prices. Even with market caps recently chopped down to size, we believe Canadian companies are still relatively expensive as a group.

We highlighted governance lapses at Cannttrust last October when two top executives left the company and the company failed to publicize these departures until nearly a month had passed and only after a Reddit commenter highlighted the departures. Even then, Cannttrust only confirmed the rumors on Twitter and never made a formal announcement until much of the cannabis investing world became aware of the situation. As a further unraveling, Cannttrust was found in May to have sold cannabis grown in rooms that had not been licensed by Health Canada. Products from the harvest ended up in several foreign countries and Cannttrust was forced to halt all sales due to its inability to identify the unlicensed cannabis.

This is one example of how regulators, and in this specific case, Health Canada, struggle with oversight. That struggle has riled the Canadian markets. In this case, a whistleblower came forward and provided irrefutable evidence that Health Canada was deliberately deceived by Cannttrust, which had gone so far as to construct fake walls to take pictures that would convince Health Canada that all activities adhered to regulatory standards. Our ability to highlight those issues illustrates Merida's adept information gathering to identify the ways in which legal changes, or the evolution of the consumer market, could play out. For example, while Canada's federal regulation was perceived as strict, we understood how in reality, most U.S. states have far more rigorous regulatory enforcement regimes. Cannttrust has raised many questions regarding the safety of Canadian markets, and has caused billions in market cap to be shed.

The Canadian downturn is relevant because it has had a profound effect on the US market. Primarily it has further tightened capital markets. While this dynamic may prove beneficial to our Fund in the long run, at a macro level it has slowed the pace of completed capital raises

significantly. Large investors have begun to recognize that investing in cannabis can offer incredible returns, but also offer challenges in diligence, identifying operational problems and separating fact from hype.

Turning away from Canada and to the State of New York, we are excited that our portfolio company, Valley Agriceuticals (“Valley Ag”), has received approval to close the sale of its NY operation to Cresco for more than \$100mm (when factoring in the stock appreciation of Cresco since the transaction was finalized). Valley Ag and MCP Wellness were our first two direct investments in operational licenses and both have resulted in large winners. This is no coincidence, as we started in this vertical of the cannabis space years before most operators. We understand the relative value of licenses and how to make operations as attractive as possible for resale or to simply run them at profitable margins. While Fund II is not initiating new positions, our pursuit of opportunities in Fund III in this vertical brings focus to our efforts to push connectivity between our companies across all funds.

Clearly the march to a normalized cannabis/CBD industry is moving apace in every way except for perhaps the most fundamental: federal legislation. The Farm Bill was a good start but we believe that banking and potentially cannabis research will be resolved within the next nine months. We remain convinced that the current illegality continues to optimize the opportunity for asymmetric gains and we continue to position our portfolio appropriately for the eventuality of deregulation and incremental legality.



Political/Regulatory Landscape

The dam of illegality in the U.S. cannabis market continues to crumble. A state-by-state legal approach with a federal banking law loosening up traditional capital structures would be optimal for continuing our strategy of employing asymmetric information to uncover value in the pre-legalization phase of the industry. Below are significant recent highlights.

Federal Court orders DEA to Reassess Cannabis

In a stunning move that signals the most significant judicial statement on cannabis to date, a federal appeals court gave medical cannabis patients and reform advocates a small but significant procedural victory recently, ruling that it would hold open a case challenging the scheduling status of marijuana under federal law. In essence, the court is putting the federal government on notice that it must “promptly” make a decision on marijuana rescheduling so that those who rely on its medical benefits don’t suffer unjustly.

Cannabis patients and advocates filed a lawsuit against the DOJ in a U.S. District Court in 2017, alleging that the Schedule I status of cannabis under the Controlled Substances Act (CSA) poses serious health risks and unfair economic disadvantages.

The court dismissed the case last year after accepting the government's scheduling discretion and ruling against each of the plaintiffs' claims. It also argued that the plaintiffs should have first pursued reform through an administrative process, seeking relief from the federal agencies responsible for drug scheduling, before pursuing judicial action.

The U.S. Court of Appeals for the Second Circuit has agreed that it took the issue to the judicial branch prematurely and when it should have exhausted its administrative options. That said, the court also determined that unique circumstances apply, particularly as it concerns the two child plaintiffs who argued that current federal law both jeopardizes their health and creates legal uncertainty.

Writing for the majority, Judge Guido Calabrese stated “[W]e are troubled by the Drug Enforcement Administration (DEA)’s history of dilatory proceedings. Accordingly, while we concur with the District Court’s ruling, we do not dismiss the case, but rather hold it in abeyance and retain jurisdiction in this panel to take whatever action might become appropriate if the DEA does not act with adequate dispatch.” **Remarkably, these two sentences could force the DEA to de-schedule before any of the bills listed below have a chance to change the face of the federal legal regime.**

Safe Banking Act

This bill would open up traditional banking and financial services to the cannabis industry by amending existing laws to preclude federal regulators from penalizing banks that accept cannabis clients. The bill would also require the U.S. Treasury to update its obstructive FINCEN guidance and its Anti-Money Laundering guidance – both of which have been the two biggest hurdles preventing the cannabis space from joining the 21st century’s banking system. While this bill fell short last year in the House Financial Services Committee, it did have strong bi-partisan support including 14 votes from conservative republicans. It is worth noting that most of the major U.S. banks submitted written testimony in support of passage. Reps Danny Heck and Ed Perlmutter plan to have the bill on the House floor for a full vote this month and believe they have the votes to get it passed out of the House, including over 1/3rd of the Republican caucus. On the Senate side, Financial Services Chairman Crapo was quoted recently as saying he did not want to get the bill heard. However, it is widely believed that if the bill garners 300 votes in the House (out of 435), he will allow it to be heard and will attach it to a “Must Pass” bill to ensure it gets moving. Self-interest may be the deciding factor as several Republicans in tough re-election battles see this as a key driver of voter interest and will push to pass legislation that voters now clearly favor.

STATES Act

The STATES Act amends the Federal Controlled Substances Act to remove cannabis from Schedule 1 in states where cannabis has been legalized (either recreationally or medically). This bill has 24 sponsors in the Senate and 175 sponsors in the House in addition to leadership’s support. House Democrats currently present the bill’s biggest hurdle as are they pushing to include contentious amendments, particularly around social justice reforms and de-scheduling. Timing of this bill is late 2019 and the upcoming presidential election in 2020 will ensure it is politically driven.

FDA Oversight

The FDA held hearings on May 31 on CBD regulations with Merida's Chief Scientific Officer Deb Kimless playing a key role in the testimony. The goal is to have CBD products regulated like nutraceuticals, with some baseline production and manufacturing standards to bring uniformity and modernization to the marketplace. We expect formal regulations to begin hitting the tape by late 2019. With our recent transformational merger of Freedom Leaf Health with Green Lotus Hemp, we are watching all CBD regulations closely as this is an area where we see incredible opportunities.

The FDA has repeatedly announced that it will have guidance on CBD within the next 3 months. The biggest unknown is their position on infused foods and beverages as the FDA seems inclined to significantly limit these product categories until they have adequate data on form factors requiring a manufacturing process. Regardless of the final FDA determinations, it is clear that CBD-related businesses will require higher levels of regulation and oversight, a backdrop that we believe aligns well with Merida's core investment thesis.



Multi State Operators ("MSOs") remain one of the most popular verticals in cannabis due primarily to their size and scale. There are now a wide range of MSO strategies, geographical concentrations and financial results from which to choose when reviewing the vertical. Canadian public markets are now stuffed with public company MSOs, which should ultimately allow investors to compare and contrast the most attractive companies. Below, we summarize some key data for your edification.

Public Comparables as of 8/20/2019

We note that while the MSOs continue to trade more or less in tandem with Canadian LPs, MSOs are projecting to be more profitable than LPs and to post these profits more expediently than LPs. However, there are MSOs targeting market share at the expense of profitability.

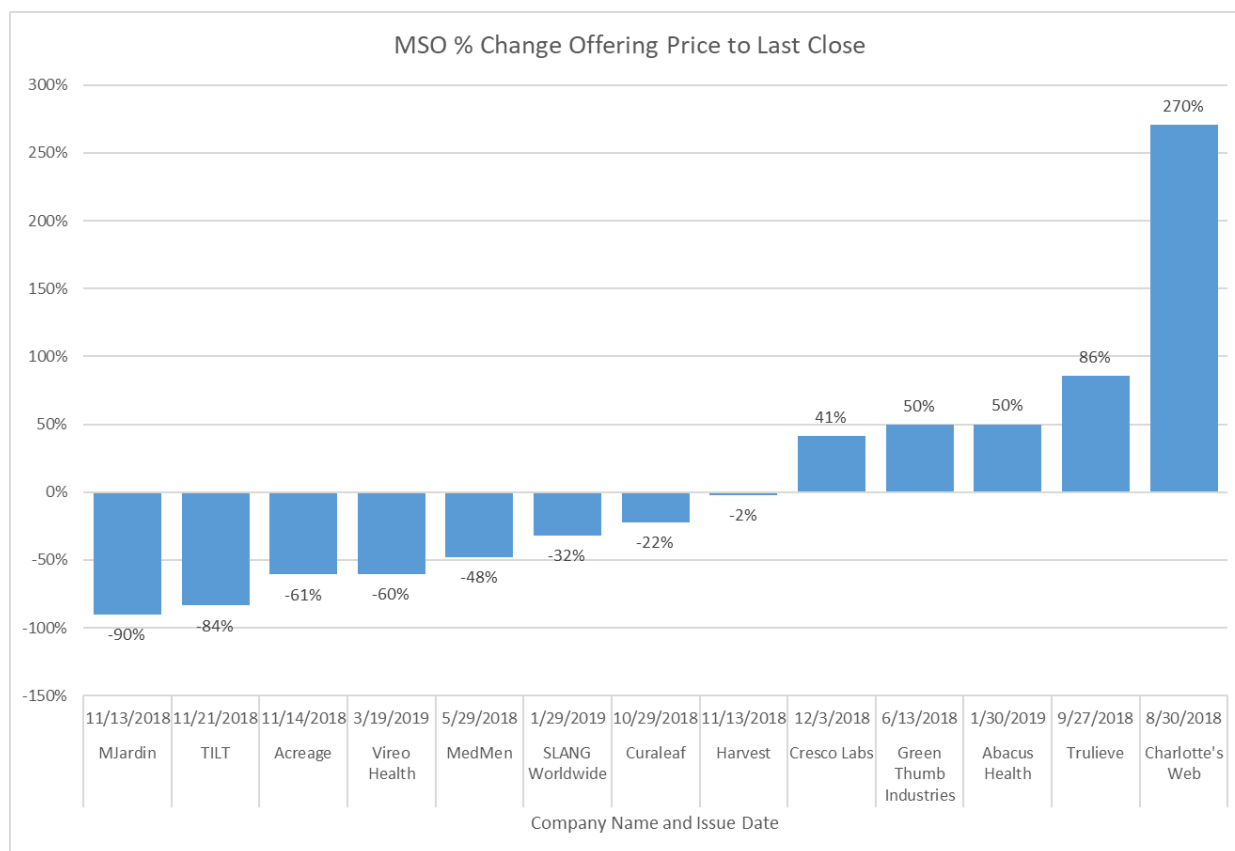
MSOs that are considered "quality" operators are projecting solid EBITDA margins in 2019 and 2020. Most of these names have remained above their RTO deal prices, even as the sector pulled back by ~50% from the highs. There are several potential legislative catalysts for the MSO space, including the SAFE Banking Act, the STATES Act and New York / New Jersey recreational legislation.

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

As of 8/20/2019

US\$ mm	Next	Last	FD	Equity	Net	Enterprise		2018E	EV / 2018E	2018E	EV / 2018E	2018E
Company Name	Financials	Close	Shares	MC	Debt	Value	LQA	Rev	Rev	EBITDA	EBITDA	Margin
Trulieve Cannabis Corp (a)	11/30/2019	\$ 8.37	110	\$ 922	\$ 74	\$ 996	\$ 232	\$ 103	9.7x	\$ 46	21.8x	44.4%
MedMen (b)	10/28/2019	2.03	514	1,044	193	1,237	146	40	nm	(47)	nm	n/a
Green Thumb Industries (c)	8/28/2019	8.70	200	1,743	32	1,775	112	46	38.6x	16	nm	34.6%
iAnthus (d)	8/29/2019	2.48	179	444	100	543	74	49	11.0x	(34)	nm	n/a
Liberty Health Sciences (e)	11/30/2019	0.30	345	104	33	137	29	0	nm	(5)	nm	n/a
Sunniva (f)	8/29/2019	0.90	39	35	19	54	57	14	3.8x	n/a	n/a	n/a
TerraTech (g)	11/30/2019	0.41	103	42	14	56	42	31	1.8x	n/a	n/a	n/a
Golden Leaf (h)	8/29/2019	0.04	584	23	19	43	16	17	2.6x	(15)	nm	n/a
Acreage Holdings (i)	11/30/2019	9.65	117	1,129	(20)	1,109	52	81	13.7x	(5)	nm	n/a
Columbia Care (j)	11/30/2019	4.95	228	1,130	(74)	1,056	77	39	26.9x	n/a	n/a	n/a
Cresco Labs (k)	8/21/2019	9.07	295	2,674	(122)	2,552	84	43	58.9x	2	nm	4.6%
Harvest Health (l)	11/30/2019	4.87	284	1,385	(38)	1,347	77	47	28.7x	10	nm	22.0%
Curaleaf (m)	8/29/2019	6.64	498	3,306	(89)	3,217	141	205	15.7x	n/a	n/a	n/a
Vireo Health (n)	8/29/2019	1.71	107	183	15	198	23	18	11.0x	3	nm	16.7%
4Front/Cannex (o)		0.66	622	411		411			n/a		n/a	n/a
MariMed (p)	11/30/2019	1.50	195	293	32	324	103	12	27.4x	2	nm	20.3%
CLS Holdings (q)	8/29/2019	0.23	260	60	2	62	10	n/a	n/a	n/a	n/a	n/a
Green Growth Brands (t)	8/29/2019	1.46	201	293	(18)	275	22	n/a	n/a	n/a	n/a	n/a
AYR Strategies (x)	11/30/2019	10.97	43	471	155	626	43	75	8.3x	23	27.8x	30.0%
JUSHI (y)	11/30/2019	1.80	174	313	(76)	237	2		n/a		n/a	n/a
Median excludes any data point labeled "nm".									12.4x		24.8x	22.0%
Average excludes any data point labeled "nm".									18.4x		24.8x	24.6%

Company Name	2019E Rev	EV / 2019E Rev	2019E EBITDA	EV / 2019E EBITDA	2019E Margin	2020E Rev	EV / 2020E Rev	2020E EBITDA	EV / 2020E EBITDA	2020E Margin	Last Update
Trulieve Cannabis Corp (a)	\$ 238	4.2x	\$ 104	9.5x	43.9%	\$ 389	2.6x	\$ 151	6.6x	38.8%	8/20/2019
MedMen (b)	146	8.5x	(157)	nm	n/a	367	3.4x	(33)	nm	n/a	8/20/2019
Green Thumb Industries (c)	192	9.2x	20	90.1x	10.3%	445	4.0x	126	14.1x	28.3%	8/20/2019
iAnthus (d)	138	3.9x	1	543.3x	0.7%	282	1.9x	70	7.8x	24.8%	8/20/2019
Liberty Health Sciences (e)	11	12.4x	(6)	nm	n/a	66	2.1x	13	10.5x	19.7%	8/20/2019
Sunniva (f)	47	1.2x	9	6.4x	18.2%	77	0.7x	18	3.0x	23.4%	8/20/2019
TerraTech (g)	85	0.7x	9	6.6x	10.0%	n/a	n/a	n/a	n/a	n/a	8/20/2019
Golden Leaf (h)	51	0.8x	10	4.2x	20.0%	n/a	n/a	n/a	n/a	n/a	8/20/2019
Acreage Holdings (i)	157	7.1x	(44)	nm	n/a	457	2.4x	79	14.0x	17.3%	8/20/2019
Columbia Care (j)	100	10.6x	(36)	nm	n/a	325	3.2x	64	16.6x	19.5%	8/20/2019
Cresco Labs (k)	215	11.9x	78	32.9x	36.2%	779	3.3x	251	10.2x	32.2%	8/20/2019
Harvest Health (l)	242	5.6x	8	170.5x	3.3%	851	1.6x	264	5.1x	31.0%	8/20/2019
Curaleaf (m)	334	9.6x	61	52.7x	18.3%	918	3.5x	279	11.5x	30.4%	8/20/2019
Vireo Health (n)	73	2.7x	18	11.0x	24.7%	187	1.1x	54	3.7x	28.9%	8/20/2019
4Front/Cannex (o)	92	4.5x	10	41.1x	10.9%	325	1.3x	38	10.8x	11.7%	8/20/2019
MariMed (p)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	8/20/2019
CLS Holdings (q)	59	1.1x	19	3.2x	32.7%	148	0.4x	59	1.1x	39.8%	8/20/2019
Green Growth Brands (t)	12	23.5x	(17)	nm	n/a	161	1.7x	47	5.8x	29.2%	8/20/2019
AYR Strategies (x)	94	6.7x	30	21.0x	31.7%	235	2.7x	105	5.9x	44.8%	8/20/2019
JUSHI (y)	63	3.8x	3	78.9x	4.8%	205	1.2x	42	5.6x	20.5%	8/20/2019
Median excludes any data point labeled "nm".		5.6x		27.0x	18.3%		2.1x		7.2x	28.6%	
Average excludes any data point labeled "nm".		6.7x		76.5x	19.0%		2.2x		8.3x	27.5%	



Portfolio Company Updates

MCP Wellness Michigan

We continue to work on the audit required to finalize and close our sale of MCP Wellness to CannCure, a Florida licensee. In addition to Michigan and Florida operators, CannCure has also acquired a California dispensary operation, One Plant, and a California cultivator, Northern Emeralds. The four entities will be combined and a public listing is expected by no later than Q1 2020 even though the transaction will close much sooner-we are still targeting October. Our operation in Michigan is about to double its dispensary count, from 3 to 6, over the next 6 weeks, including the highly anticipated opening of a flagship Ann Arbor dispensary. Merida's three funds will own approximately 17% of CannCure, which will be renamed Bluma Wellness. With an aggressive earn out based on revenue in year one post-closing, our operating team is preparing the operation in Michigan for ramping up dispensary operations over the next several quarters. As of the end of Q2, MCP's Michigan 1H 2019 revenue was more than \$19mm.

GrowGeneration (“GRWG”)

Fund III participated in GrowGen’s recent \$12mm offering at \$3.10 per share, with 50% warrant coverage at \$3.50 in order to further support GrowGen’s rapid growth. GRWG has now expanded to 24 retail locations throughout 9 markets in North America. The Company’s growth is being driven through high double-digit same store sales, an aggressive acquisition and consolidation strategy, the opening of de novo stores and increased activity on its e-commerce platform. The Company is consistently delivering over 100% year over year growth, and financial performance has improved in all areas. Second quarter results were incredible from every perspective.

Revenues for Q2 were \$19.5mm up \$12.3mm or 172% over Q2 2018 revenues of \$7.1mm are an impressive headline but all metrics showed meaningful improvement as the company logged a profitable quarter and has projected profitability going forward.

Q2 2019 Financial Highlights:

- Net income of \$1,062,000 for Q2 2019 compared to a net loss of \$(929,959) for Q2 2018, an increase of \$2.0mm.
- Adjusted EBITDA of \$1,779,310 for Q2 2019 compared to adjusted EBITDA of \$(205,758) for Q2 2018, an increase of \$2.0mm.
- GAAP earnings of \$.04 per share for Q2 2019 and \$.04 per share year to date, basic.
- Non-GAAP adjusted earnings per share of \$.06 per share for Q2 2019 and \$.08 per share year to date, basic.
- Same store sales were up 23% for Q2 2019 versus Q2 2018.
- Gross profit margin percentage was 29.9% for Q2 2019 compared to 24.2% for Q2 2018.
- Store operating costs, as a percentage of revenue, have declined to 14% for Q2 2019 compared to 16.1% for Q2 2018.
- Corporate overhead, as a percentage of revenue declined to 9.8%, for Q2 2019 compared to 16.8% of revenue for Q2 2018.

With its hyper growth and robust acquisition activity, GRWG has consumed a large portion of its cash reserves, yet still has sufficient liquidity to fund existing operations for the next year. That said, to fund the slate of potential acquisitions and organic growth opportunities that exist in each market, GRWG recently raised capital in a private placement in which Merida invested \$2mm from Funds II and III, combined. Post transaction, GRWG’s cash position is strong at approximately \$11mm.

Merida continues to believe GRWG is meaningfully undervalued, trading at less than 2.5X 2019 estimated revenues. As an OTC-listed ancillary company, GRWG is not garnering as much market attention as a plant-touching company or multi-state operator listed on the Canadian exchanges. We expect GRWG’s stock will eventually break out as the market identifies the incredible acquisition metrics the company is able to achieve, with strong second quarter earnings and more visibility from a possible up-listing to NASDAQ. With distribution for its own proprietary products, and HeavyGardens.com for direct-to-consumer online sales, GRWG now has the foundation to surpass \$100mm of sales in 2020 while maintaining its strong margin expansion.

KushCo

KushCo continues to execute on its plan of supporting the largest cannabis companies in the world. KushCo now has over 5,000 business accounts with 12 accounts exceeding \$500k in annual sales. KushCo works with some of the largest US MSO's and has recently diversified its customer base by beginning to work with Canadian LPs.

On August 22nd, 2019, Kush announced that it had closed on a five-year \$50mm credit facility with an accordion of \$15mm with Monroe Capital. Monroe Capital is a private credit asset management firm that engages in direct lending and opportunistic private credit investing. While the terms of the deal were not publicly disclosed, we believe that these debt structures show how the industry is maturing from equity bought deals.

3Q 2019 Financial Highlights:

- Net revenue increased 221% year-over-year to \$41.5 mm, compared to the same quarter a year ago and 17.9% on a sequential basis versus the second fiscal quarter of 2019.
- On a GAAP basis, gross profit increased to 17.8%, compared to 12.9% during the second fiscal quarter of 2019.
- On a Non-GAAP basis, excluding the impact of certain non-recurring items, gross profit was approximately 22.8%.
- On a GAAP basis, net loss was approximately \$10.6mm, compared to a net loss of approximately \$9.2 million during the third quarter of fiscal 2018. Loss per share improved from negative \$0.14 during the third quarter of fiscal 2018 to negative \$0.12 during the third quarter of fiscal 2019.
- On a Non-GAAP basis, excluding the impact of certain non-recurring charges and gains, net loss during the third quarter was \$8.6 mm and net loss per share was negative \$0.10.
- Cash was approximately \$12.2mm as of May 31, 2019, compared to approximately \$13.5mm as of August 31, 2018.

New Frontier Data

New Frontier is finally hitting its stride for both digital adoption and sales of their curated data and research. 1H 2019 sales of \$740K (gross sales signed) and revenues of \$474K are both up ~50% from 2018. The momentum in Q3 for their sales has the company projecting \$4.2mm of revenues for FY 2019. As a SaaS company with margins near 60%, large contracts signed in the last month give us confidence that New Frontier should at minimum hit \$3mm in sales for the year, which would be a gain of over 300% from 2018.

Equio subscriptions have also begun to climb steeply, showing that the capital spent to build out this robust suite of resources is paying off. Equio saw a 63% QoQ gain in subscriptions and New Frontier recorded more subscriptions in the first 6 months of 2019 than in all of 2018. In addition, nearly every channel of information distribution grew nearly 100% YoY in Q2. Since this represents the most promising sales channel for subscription growth, its important to track. NF's newsletter had 113% growth YoY in subscribers. Free reports downloaded grew 482% YoY. Paid reports grew ~965% YoY. While the 2018 base of sales was small, New Frontier has used all of

their analytical trackers to offer a more streamlined product to targeted subscribers and we believe that growth will accelerate in Q3 and Q4.

Additionally, New Frontier has been active in potential acquisition discussions and recently signed an LOI with a prominent cannabis media company that did \$4mm in sales in 2018 and was tracking significantly higher in 2019. Due to confidentiality obligations, we cannot disclose much about the transaction but we believe that the combined company would be poised for a public offering in late 2019 or early 2020.

Freedom Leaf (“FRLF”)

Freedom Leaf closed the purchase of Green Lotus (“GL”) on May 31, 2019 for a total consideration of \$47MM comprised of \$6MM in cash and \$41MM of FRLF common stock plus an earn-out based on the performance of key contracts Green Lotus had secured prior to the merger. On the metric side, Freedom Leaf is purchasing Green Lotus at 2.3x and 8.7x 2019 projected revenue and EBITDA, respectively. The public CBD comps trade at a median 2019 revenue and EBITDA multiples of 7.9x and 43x, respectively.

Key highlights below:

- Green Lotus operates a 10,000 sq. ft manufacturing, lab and processing facility (GMP compliant, but not licensed due to current regulations in TX) in Dallas, TX; a 2,000 sq. ft GMP certified lab in Denver (certified GMP by the state); and 8,000 sq. ft of corporate office space in Dallas, TX.
- The acquisition will add significant management capabilities to the combined company including Daniel Nguyen, the Chief Science Officer, with a master’s degree in organic chemistry and extensive experience in nutraceuticals and cosmetics formulations, and a 17-person sales team.
- The company has tolling agreements with leading processors of extract in Colorado and owns biomass inventory which will support domestic revenue through most of 2020.
- The Dallas manufacturing facility has the capacity to fulfill 2019 and 2020 anticipated demand; tinctures are manufactured in the Dallas facility and co-packers are used for topicals, gummies, and soft gels.
- The company distributes its products in ~1,200 stores nationwide including supermarket chains such as Wegman’s and Giant Eagle, vape shops, independent pharmacies, natural food and wellness stores.
- The company utilizes a B2B wholesale model, working with 3 major third-party distributors: NY (head & vape shops); Midwest (HS Wholesale, head & vape shops), and Texas (independent pharmacies).
- The company has ~ 33 employees, broken down as follows: Management team-3; Sales force-17; Operations team-6; Production & fulfillment-7.

The Green Lotus transaction was transformational. We expect Green Lotus to generate a substantial increase in revenue, while also providing Freedom Leaf with a more robust portfolio of products, enhanced distribution capabilities and penetration in attractive emerging markets

worldwide, most notably Mexico. The acquisition also brings Freedom Leaf a new management team, a low-cost supply chain, access to GMP manufacturing and lab facilities, and a robust sales team.

Green Lotus has already begun executing on our broader strategic plan, executing on the domestic opportunity Freedom Leaf already mapped out while delivering the first CBD products permitted in Mexican history to its Mexican partner, CBD Life. We find the Mexican contract, which totals \$26MM, as one of the driving factors for our belief that the newly combined Freedom Leaf/Green Lotus will succeed over time. Very few U.S. companies have been able to export CBD, due to costs or regulatory factors, and with THC exports banned, Green Lotus is one of possibly three companies in the U.S. to export branded CBD products. Due to the exclusivity of the Mexican contract, Green Lotus is now in a strong position to expand to other markets in Central and Latin America over time.

Lastly, we believe that when Mexico moves to allow cannabis products, CBD Life would be a natural partner for our operational know-how in looking to produce products locally and serve the Mexican market.

Vireo (“VREO”)

VREO generated operating revenue in six states during the second quarter of 2019: Arizona, Maryland, Minnesota, New Mexico, New York, and Pennsylvania.

On April 11, 2019, VREO announced the acquisition of two medical cannabis licenses in Nevada. These licenses are conditionally approved for adult-use cannabis and will enable Vireo to cultivate, manufacture, and wholesale cannabis-based products to Nevada's licensed dispensaries. On June 20, 2019, VREO announced the acquisition of a medical cannabis licenses in Puerto Rico, including pre-approval to cultivate, process, and sell cannabis products and operate up to six dispensaries.

2Q2019 Financial Highlights:

- Total revenue for Q2 2019 increased 70 percent to \$7.2 million versus Q2 2018.
- Net loss for Q2 2019 was approximately \$1.9 million, as compared to net income of \$120,080 in the prior year quarter. Adjusted net loss was \$0.4 million in Q2 2019, as compared to adjusted net income of \$0.4 million in the prior year quarter.
- Q2 2019 EBITDA and Adjusted EBITDA were \$0.8 million and \$2.3 million respectively, as compared to \$1.9 million and \$2.1 million, respectively, during the prior year quarter.

Canndescent

Canndescent is in the middle of a capital raise that equates to a 35% increase from the round we participated in last year. They closed 2Q19 at \$6.3m in revenue, up 31% QoQ, and up 390% YoY. We believe that the market has changed for large California producers, due mainly to the sheer number of companies that have come to market in the past 90 days. This is another example of how the Canadian market has affected the U.S. market as we believe the value destruction in those public equities has filtered into the private market and made capital more

scarce, which has driven valuations down. In many circumstances, that is a positive development for Merida, since we believe long term execution is more important to driving value than the price of any one capital raise and decreased valuations are beneficial to us.

We continue to see strong sell through rates and Canndescent's products, particularly their flower, are considered top products for California's consumers. We are particularly excited by Canndescent's moves to Nevada and Michigan over the next quarter.

Henry's Original ("Henry's")

Henry's is a private California-based vertically-integrated operator and brand, whose popular flower and pre-roll products are cultivated entirely from Mendocino County. Henry's has created a brand identity through this regional legacy. Merida views Henry's as not only an opportunity to invest and grow a scalable value brand tied directly to ground zero of the cannabis industry, but to also invest in a vertically-integrated company that controls its supply chain and therefore will operate at relatively large EBITDA margins in the long-term. Their business model is a contrast to lower-margin white-label distribution plays, most notably Flow Kana and Lowell Bros.

Henry's produced \$2.9MM in revenue in 2017, its first year of sales, and \$4.5MM in 2018. Through Q2 of 2019, Henry's generated \$3.5MM of revenue, and expects their monthly revenue figures to ramp up throughout the rest of 2019 as they penetrate into more retail outlets, roll out new products, double their production, and make their first serious marketing push. We do not expect the company to hit our projected \$15MM revenue forecast for 2019 due to delays in funding and California-specific regulatory factors that has impacted the entire State. This has forced Henry's to throttle back production and delay marketing spend, but we feel good about Henry's achieving strong top-line growth to approximately \$10MM, and much stronger growth in forward years with brand development and regulatory changes.

We expect Henry's to burn through a little more than half the Series B proceeds in 2019 as they scale, come close to breakeven on a bottom-line basis in 2020 (subject to growth mandates), and achieve significant positive cash flows in 2021 and beyond, with mature EBITDA margins of 34%. Henry's is well-positioned to gain market share in California, the biggest market in the country and the world, and Merida sees the potential for Henry's brand to elevate and cross the fragmentation gap geographically through licensing agreements outside of the Golden State. The valuation entry point seems attractive relative to comparable companies, and warrants positions Merida well for outsized returns in the long-run.

CB2 Insights ("CBII")

CB2 Insights continues to execute their business strategy and acquire accretive clinics at remarkably affordable levels. CBII's management believes that Gross Margin and EBITDA will increase within the next quarter by way of economies of scale from its recent acquisitions (which

have generally taken 3-6 months to reflect in CBII's earnings) and we believe that the inflection point of data sales should occur sometime in the next several quarters.

2Q2019 Financial Highlights:

- Revenue for the quarter was \$3.3 million, a 14.3% increase over the previous quarter and did not include revenue from its recent [New Jersey Alternative Medicine acquisition](#), which would have added an estimated \$700 thousand for the quarter.
- Gross profit of \$2.1 million or gross margin of 65.3%.
- Operating expenses increased quarter over quarter by \$671 thousand, due in large part to the [newly acquired clinics in Colorado and Arizona](#); as well as certain legacy expenses related to these clinics which CBII has since centralized and will see reflected in Q3;
- At quarter-end CBII had cash of \$1.3 million on hand.
- Adjusted EBITDA1 loss of \$790 thousand in Q2 2019 versus Adjusted EBITDA loss of \$712 thousand in Q1 2019.
- Net loss improved to \$1.9 million versus \$2.2 million the prior quarter, a 14% improvement.

Manna Molecular

Manna, which has traditionally focused on transdermal patches, is finally shifting from an opportunistic product company to a medical delivery/CPG company with several form factors that we believe are underutilized in the market. We remain intrigued by their transdermal patch offerings as they move to a Gen 2 patch that will have micro-needle technology which should prove to be an effective medical delivery method for those seeking low maintenance, longer term relief. They will have 3 core product lines as we hit Q4 with both product lines having a THC and CBD version for 6 core products.

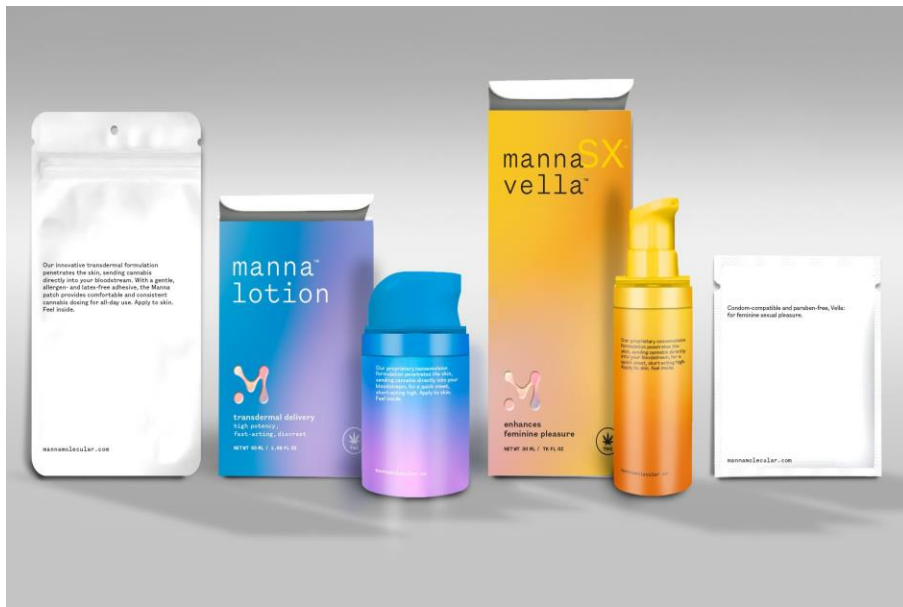
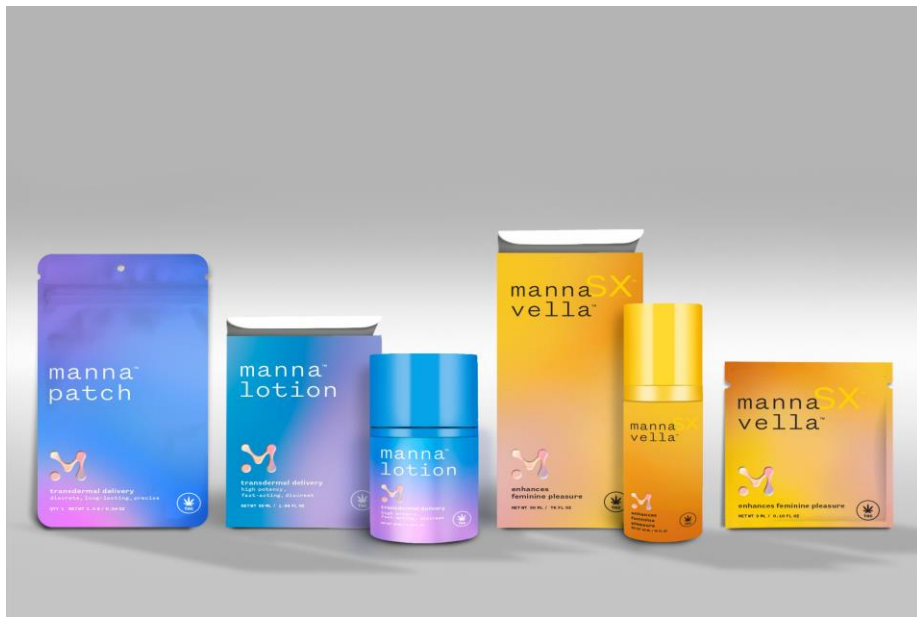
Manna's revenue reflects the increased interest in their offerings and the launch of Aphria patches in Germany is imminent. They have partners for product production in OH, CO, AK, ME, MI, CA (2x). OH alone did 20,000 in its initial month of July; FL 55,000 in August. CBD Patch sales and Vella and Lotion sales to commence in Q4 across all states.

Q1-\$70K

Q2-\$192K

Q3(July/Aug)-\$350K. August alone is estimated at \$190K.

We have attached selected pages from their product look-book to this update so you can see the product lineup for Q4.



Steep Hill Labs

As discussed in past letters, Merida has taken an active operational role at Steep Hill, helping install an independent board of directors and newly constituted management team. Over the past several months, we have made substantial progress with respect to the Company's California lab. On the operations side, Steep Hill now has a fully-functioning lab with a 3 to 5 day turnaround time, which is competitive in the California market. We are also pleased to announce that Steep Hill has achieved ISO 17025 accreditation. This is a prerequisite to qualify for a California Bureau of Cannabis Control testing license. It is a true testament to how far Steep Hill has come as an organization and as a laboratory given that this process originally started in 2015.

Additionally, Steep Hill completed the sale of its R&D group to Front Range Biosciences earlier this month. The sale involved the transfer of up to eight employees plus the non-exclusive licensing of Steep Hill IP. In return, the company received a lump sum cash payment plus Front Range

stock. The board and management team determined that this is an important step in the continued evolution of the business. Although the R&D group has created ground-breaking research and IP over the past five years, it has not generated a sustained revenue stream and has consistently been under-resourced. As such we feel that the departing staff, Steep Hill and the IP are all better served within an organization that can appropriately fund and develop the technology. It is important to note as well that Reggie Gaudino, who has, in many respects, been the face of Steep Hill for many years, will continue on as a consultant and important scientific collaborator to Steep Hill.

Finally, we believe Steep Hill represents one of the few industry platforms that can be used to acquire and build testing labs on a national (and international) scale. As consolidation occurs within multi-state operators (MSOs), Merida believes that geographic scale will be crucial for companies like Steep Hill that sell services to the cultivation and processing industry.

VividGro

VividGro has spent the past 3 months locking down a sales pipeline that we believe will accelerate as they move to create a more integrated offering around control systems and their existing lighting products. VG achieved \$1.2 Million in Q2 Revenue and also generated a \$1.2 Million in current backlog (booked orders). They have recently launched a 3rd generation product which we believe is price and quality disruptive.

Other highlights:

- \$1 Million SMT manufacturing line purchased for \$200K will be operation in Q4 (October) reducing manufacturing costs 20%
- Joint Venture formed with Innovative Growers Equipment to manufacture for Valoya and other LED lighting companies
- Projected cash flow Breakeven by YE 2019

In addition, we believe VG could benefit from a combination or deeper strategic partnership with Mainstem, and the two companies have engaged in discussions over the past quarter on what this combination could entail.

MainStem

Mainstem saw solid growth in Q2 of 2019 and ended the quarter with revenue of \$664,417, an increase of 31% over the prior quarter and 50% over Q2 2018. A big part of the revenue increase for Q2 \$94,000 in Custom Packaging revenue, a significant increase over prior quarters. Custom Packaging is a primary focus for the Company moving forward as its an area that companies like Kush tend to de-emphasize as orders are usually smaller and require more individualization of sales efforts. Overall gross margin for the quarter was 18% but product gross margin (not including shipping) was 28%. This is a significant improvement over prior quarters and virtually on plan. This increase in gross margin is due in part to high custom packaging revenue which has higher margins, and to the fact that Mainstem phased out certain low-margin dropship vendors

and began inventorying those products on their own. Affiliate Revenue for the quarter was \$44,476, a 346% increase from the same quarter, prior year, and a slight increase from Q1 2019.

We continue to push the company to closely manage operating expenses and decrease cash burn from Q1 2019. Total Operating Expenses for the quarter were \$590,856, a decrease of almost 10% from the prior quarter. As mentioned in our VividGro update, we believe Mainstem and VividGro could benefit from closer effort on sales and aligning the VG lighting offerings with the lighting needs identified on Mainstem's procurement platform. As the companies formalize these efforts, we believe we could see an accretive partnership or strategic transaction take shape.

Simplifya

Since January of this year, Simplifya has doubled revenues from \$20K a month to \$38K. While it's a small revenue base, we believe that Simplifya is poised to scale in Q4 2019. Additionally, we believe that their strategy of targeting back office or supply chain bottlenecks like banks, government compliance, delivery companies and other places where potential clients are funneled may lead to longer sales cycles but ultimately will lead to higher sales in 2020.

Simplifya is an example of the digital tools to which we refer when describing the industry's slow adoption to efficiency tools due to the necessary retraining of personnel accustomed to the legacy manner of operating. We believe that Simplifya will begin scaling revenues as adoption is driven by new releases of products that allow operators to stay compliant. Key initiatives include partnerships with SCI, a private company in California that works with over 40 local governments in California. Simplifya is working towards assisting auditors for five of the local governments with the plan to expand to all 40 by 2020. That would double their monthly revenue.

Simplifya has also finished pilot programs for Harvest, Cresco, and several other MSOs. We expect 20 MSO-owned sites to be live in Q3. That would offer a significant bump to existing revenue. They are also close to converting North Bay Credit Union, who has been using the suite of tools for 6 months, to a full suite client. North Bay will require all banking clients who touch cannabis to use Simplifya's suite of products. Lastly, Simplifya is working towards partnerships with several delivery companies which would put their self-audit tools in the hands of downstream brands and operators who want to sell through the delivery companies.

Jushi

Jushi continues to execute on the stated goal of building a multi-state portfolio of branded cannabis and hemp-derived assets through opportunistic acquisitions, distressed work-outs and competitive applications. Through the combination of signed and closed acquisitions, as well as application victories, Jushi projects pro forma 2020 (as if all assets were acquired or opened as of January 1st) revenue of approximately \$200mm.

2Q 2019 Financial Update

- Revenue for the second quarter of 2019 increased 93.1% to \$0.2 mm, compared to \$0.1mm in the second quarter of 2018.
- Gross profit for the second quarter of 2019 was \$0.2mm, resulting in gross margin of 94.5%, compared to \$0.1mm for the second quarter of 2018. The increase over the prior year was primarily due to an increase in royalties on intellectual property and the opening of the first CBD retail store under Sound Wellness.
- Net loss for the second quarter of 2019 was \$11.8mm compared to a net loss of \$1.3mm in the second quarter of 2018. Net loss includes \$3.7mm in RTO costs and \$2.1mm in deal costs and professional fees for the quarter.

NAV Summary

Fund II - 2Q19 Investment & Gain by Position

	Investment Type	Investment at Cost	% of Total Investment	Gain	Gross Return
Grow Generation	Public	\$ 3,284,124	5.7%	\$ 1,489,883	45%
Kush + Summit	Public	7,636,000	13.3%	3,723,086	49%
Valley Ag/Cresco	Public	730,000	1.3%	2,514,822	344%
Merida Capital Cultivation	Private	226,163	0.4%	(226,163)	-100%
Jova	Private	910,000	1.6%	-	-
Jushi	Public	125,000	0.2%	1,114,408	892%
New Frontier	Private	3,950,004	6.9%	487,489	12%
Simplifya	Private	2,000,000	3.5%	344,518	17%
Mainstem	Private	3,350,000	5.8%	-	-
Steep Hill	Private	4,799,991	8.3%	2,024,484	42%
Canndescent	Private	3,000,000	5.2%	220,606	0
Emerald Scientific	Private	700,000	1.2%	-	-
Vireo	Public	2,000,025	3.5%	3,402,729	170%
VividGro	Private	2,600,001	4.5%	1,000,000	38%
YoCanna/Mediajel	Private	1,750,000	3.0%	670,000	38%
Vapor Dosing Technology	Private	475,000	0.8%	-	-
Ionization Labs	Private	1,230,000	2.1%	-	-
Materia Medica	Private	472,723	0.8%	-	-
Freedom Leaf	Public	2,423,750	4.2%	595,000	25%
4Front Ventures	Public	501,353	0.9%	617,640	123%
Laurel Harvest	Private	225,000	0.4%	-	-
Her Highness	Private	500,000	0.9%	-	-
New Leaf	Private	300,000	0.5%	-	-
CB2	Public	3,381,324	5.9%	(36,924)	(0)
MCP Wellness Michigan	Public - Pending	8,920,000	15.5%	31,267,765	351%
Manna Molecular	Private	500,000	0.9%	-	-
Vertical	Private	500,014	0.9%	-	-
Henry's Original	Private	500,000	0.9%	-	-
Dharma - Virginia	Private	500,000	0.9%	-	-
Subtotal		\$ 57,490,472	100.0%	\$ 49,209,343	

* These returns are unaudited, pro rata and not adjusted for tranche entry point. Gross returns exclude fees and expenses and liquidity discounts for restricted stock positions.

Thank you for your support and trust in Merida as a steward of your capital. We will continue working tirelessly to reward your support and look forward to seeing many of you at our third anniversary event in October.

Very Truly Yours,

Mitchell Baruchowitz