

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.

The securities offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**U.S. Securities Act**”), or the securities laws of any state of the United States, and may not be offered, sold or delivered, directly or indirectly, in the United States of America, its territories, possessions or the District of Columbia (the “**United States**”), or to a U.S. person (as such term is defined in Regulation S under the U.S. Securities Act) (a “**U.S. Person**”) unless exemptions from the registration requirements of the U.S. Securities Act and any applicable state securities laws are available. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities within the United States or to, or for the account or benefit of, any U.S. Person. See “Plan of Distribution”.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the General Counsel of MedMen Enterprises Inc., at 10115 Jefferson Boulevard, Culver City, California 90232, telephone (424) 341-4969, and are also available electronically at [www.sedar.com](http://www.sedar.com).

## SHORT FORM PROSPECTUS

New Issue

November 28, 2018

# MedMen®

**MEDMEN ENTERPRISES INC.**

**\$75,020,000**

**13,640,000 Units**

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**Price: \$5.50 per Unit**

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This short form prospectus (the “**Prospectus**”) qualifies the distribution (the “**Offering**”) of 13,640,000 units (the “**Units**”) of MedMen Enterprises Inc. (the “**Corporation**” or “**MedMen**”) at a price of \$5.50 per Unit (the “**Offering Price**”). Each Unit consists of one Class B Subordinate Voting Share in the capital of the Corporation (each, a “**Unit Share**”) and one share purchase warrant of the Corporation (each, a “**Warrant**”). Each Warrant will entitle the holder thereof to acquire, subject to adjustment in certain circumstances, one Class B Subordinate Voting Share of the Corporation (each, a “**Warrant Share**”) at an exercise price of \$6.87 until September 27, 2021. The Units are being issued pursuant to an underwriting agreement dated November 16, 2018 (the “**Underwriting Agreement**”), among the Corporation and Canaccord Genuity Corp., as lead underwriter (the “**Lead Underwriter**”), and Eight Capital and Cormark Securities Inc. (collectively, with the Lead Underwriter, the “**Underwriters**”).

The Corporation’s issued and outstanding Class B Subordinate Voting Shares (the “**Subordinate Voting Shares**”) are listed and posted for trading on the Canadian Securities Exchange (the “**CSE**”) under the symbol “**MMEN**” and on the OTCQX Best Market (the “**OTCQX**”) under the symbol “**MMNFF**”. On November 8, 2018, the last trading day prior to the announcement of the Offering, the closing price per Subordinate Voting Share on the CSE was \$7.32 and on the OTCQX was US\$5.55. On November 27, 2018, the last trading day prior to the date of this Prospectus, the closing price per Subordinate Voting Share on the CSE was \$4.46 and on the OTCQX was US\$3.38.

The Corporation has given notice to the CSE to list the Unit Shares, the Warrants and the Warrant Shares on the CSE. Listing will be subject to the Corporation fulfilling all of the listing requirements of the CSE. **There is currently no market through which the Warrants may be sold and purchasers may not be able to resell such Warrants purchased under this Prospectus. This may affect the pricing of the Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of the Warrants, and the extent of issuer regulation. See “Risk Factors”.**

	Price to the Public <sup>(1)</sup>	Underwriters’ Fee <sup>(2)</sup>	Net Proceeds to the Corporation <sup>(3)(4)</sup>
Per Unit.....	\$5.50	\$0.33	\$5.17
Total.....	\$75,020,000	\$4,501,200	\$70,518,800

- (1) The Offering Price was determined by arm’s length negotiation between the Corporation and the Lead Underwriter, on behalf of the Underwriters, with reference to the prevailing market price of the Subordinate Voting Shares.
- (2) The Corporation has agreed to pay the Underwriters a cash fee (the “**Underwriters’ Fee**”) equal to 6% of the gross proceeds from the Offering (including any gross proceeds raised on exercise of the Over-Allotment Option (as defined herein)). See “Plan of Distribution”.
- (3) After deducting the Underwriters’ Fee, but before deducting the expenses of the Offering (estimated to be approximately \$450,000), which together with the Underwriters’ Fee, will be paid from the gross proceeds of the Offering.
- (4) The Underwriters have been granted an over-allotment option, exercisable, in whole or in part, at any time, and from time to time, on or before the 30th day following the Closing Date (the “**Over-Allotment Deadline**”), to purchase up to an additional 2,046,000 Units (the “**Over-Allotment Units**”) at the Offering Price to cover the Underwriters’ over-allocation position, if any, and for market stabilization purposes (the “**Over-Allotment Option**”). The Over-Allotment Option may be exercised by the Underwriters to acquire: (i) up to 2,046,000 Over-Allotment Units at the Offering Price; (ii) up to 2,046,000 additional Unit Shares (the “**Over-Allotment Shares**”) at a price of \$4.7222 per Over-Allotment Share (the “**Over-Allotment Share Price**”); (iii) up to 2,046,000 additional Warrants (the “**Over-Allotment Warrants**”) at a price of \$0.7778 per Over-Allotment Warrant (the “**Over-Allotment Warrant Price**”); or (iv) any combination of Over-Allotment Units at the Offering Price, Over-Allotment Shares at the Over-Allotment Share Price and Over-Allotment Warrants at the Over-Allotment Warrant Price, provided that the aggregate number of Over-Allotment Shares that may be issued under such Over-Allotment Option does not exceed 2,046,000 and the aggregate number of Over-Allotment Warrants that may be issued under such Over-Allotment Option does not exceed 2,046,000. The Over-Allotment Option is exercisable by the Lead Underwriter giving notice to the Corporation prior to the Over-Allotment Deadline, which notice shall specify the number of Over-Allotment Units, Over-Allotment Shares and/or Over-Allotment Warrants to be purchased. If the Over-Allotment Option is exercised in full, the total “Price to the Public”, “Underwriters’ Fee” and “Net Proceeds to the Corporation” will be \$86,273,000, \$5,176,380 and \$81,096,620, respectively. This Prospectus qualifies the grant of the Over-Allotment Option and the distribution of Over-Allotment Units, Over-Allotment Shares and Over-Allotment Warrants issuable upon exercise of the Over-Allotment Option. A purchaser who acquires Over-Allotment Units, Over-Allotment Shares or Over-Allotment Warrants forming part of the Underwriters’ over-allocation position acquires those Over-Allotment Units, Over-Allotment Shares and Over-Allotment Warrants under this Prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See “Plan of Distribution”.

The following table sets out the maximum number of securities under options issuable to the Underwriters in connection with the Offering:

Underwriters’ Position	Maximum Number of Securities Available	Exercise Period	Exercise Price
			\$5.50 per Over-Allotment Unit
Over-Allotment Option <sup>(1)</sup>	2,046,000 Over-Allotment Units	For a period of 30 days from and including the Closing Date	\$4.7222 per Over-Allotment Share \$0.7778 per Over-Allotment Warrant

- (1) This Prospectus qualifies the grant of the Over-Allotment Option and the distribution of all securities issuable thereunder. See “Plan of Distribution”.

Unless the context otherwise requires, when used herein, all references to the “Offering” include the exercise of the Over-Allotment Option, all references to “Units” include the Over-Allotment Units issuable upon exercise of the Over-Allotment Option, all references to “Unit Shares” include the Over-Allotment Shares issuable upon exercise of the Over-Allotment Option, all references to “Warrants” include the Over-Allotment Warrants issuable upon exercise of the Over-Allotment Option, and all references to “Warrant Shares” include the Subordinate Voting Shares issuable upon exercise of the Over-Allotment Warrants.

**Investing in the Units is speculative and involves a high degree of risk and should only be made by persons who can afford the total loss of their investment. A prospective purchaser should therefore review this Prospectus and the documents incorporated by reference herein in their entirety and carefully consider the**

**risk factors described under “Risk Factors” prior to investing in the Units. See “Caution Regarding Forward-Looking Statements” and “Risk Factors”.**

**Prospective purchasers are advised to consult their own tax advisors regarding the application of Canadian federal income tax laws to their particular circumstances, as well as any other provincial, foreign and other tax consequences of acquiring, holding or disposing of the Units, including the Canadian federal income tax consequences applicable to a foreign controlled Canadian corporation that acquires the Units.**

The Underwriters, as principals, conditionally offer the Units, subject to prior sale, if, as and when issued by the Corporation and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under “Plan of Distribution”, subject to the approval of certain legal matters on behalf of the Corporation by Cassels Brock & Blackwell LLP and on behalf of the Underwriters by Borden Ladner Gervais LLP.

Subscriptions for the Units will be received subject to rejection or allotment, in whole or in part, and the Underwriters reserve the right to close the subscription books at any time without notice. Closing of the Offering is expected to take place on or about December 4, 2018, or such other date as may be agreed upon by the Corporation and the Underwriters, but in any event not later than 42 days after the date of the receipt for this Prospectus (the “**Closing Date**”). In connection with the Offering, and subject to applicable laws, the Underwriters may over-allot or effect transactions that are intended to stabilize or maintain the market price of the Subordinate Voting Shares at levels other than that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time. **The Underwriters may offer the Units at a lower price than stated above. See “Plan of Distribution”.**

It is anticipated that the Unit Shares and Warrants comprising the Units will be delivered under the book-based system through CDS Clearing and Depository Services Inc. (“**CDS**”) or its nominee and deposited in electronic form, or will otherwise be delivered to the Underwriters registered as directed by the Underwriters, on the Closing Date. Except in limited circumstances, a purchaser of Units will receive only a customer confirmation from the registered dealer from or through which the Units are purchased and who is a CDS depository service participant. CDS will record the CDS participants who hold Unit Shares and Warrants on behalf of owners who have purchased Units in accordance with the book-based system. No definitive certificates will be issued unless specifically requested or required. See “Plan of Distribution”.

The Corporation has two classes of issued and outstanding shares: the Subordinate Voting Shares and the Class A Super Voting Shares of the Corporation (the “**Super Voting Shares**”). The Subordinate Voting Shares are “restricted securities” within the meaning of such term under applicable Canadian securities laws. Each Subordinate Voting Share is entitled to one vote per Subordinate Voting Share and each Super Voting Share is currently entitled to 1,000 votes per Super Voting Share on all matters upon which the holders of shares of the Corporation are entitled to vote, and holders of Subordinate Voting Shares and Super Voting Shares will vote together on all matters subject to a vote of holders of both those classes of shares as if they were one class of shares, except to the extent that a separate vote of holders as a separate class is required by law or provided by the articles of the Corporation. Other than the return of the issue price for their Super Voting Shares, the holders of Super Voting Shares are not entitled to receive, directly or indirectly, as holders of Super Voting Shares, any other assets or property of the Corporation. Holders of Subordinate Voting Shares are entitled to receive, as and when declared by the board of directors of the Corporation, dividends in cash or property of the Corporation. In the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs, the holders of Subordinate Voting Shares are, subject to the prior rights of the holders of any shares of the Corporation ranking in priority to the Subordinate Voting Shares (including, without restriction, the Super Voting Shares as to the issue price paid in respect thereof), entitled to participate rateably along with all other holders of Subordinate Voting Shares. **In the event that a take-over bid is made for the Super Voting Shares, the holders of Subordinate Voting Shares will not be entitled to participate in such offer and may not tender their shares into any such offer, whether under the terms of the Subordinate Voting Shares or under any coattail trust or similar agreement. Notwithstanding this, any take-over bid for solely the Super Voting Shares is unlikely given that by the terms of the investment agreement entered into by the Corporation and the Founders (as defined herein) in connection with the issuance to the Founders of the Super Voting Shares, upon any sale of Super Voting Shares to an unrelated third party purchaser, such Super Voting Shares will be redeemed by the Corporation for their issue price. See “Description of Share Capital of the Corporation” for further details.**

The directors, chief executive officer, interim chief financial officer and promoters of the Corporation reside outside of Canada and each has appointed Cassels Brock & Blackwell LLP, Suite 2200, HSBC Building, 885 West Georgia Street, Vancouver, British Columbia V6C 3E8, as his or her agent for service of process in Canada. Macias, Gini & O'Connell, LLP, the auditor in respect of the financial statements of the Corporation, prepared on a combined basis, as at and for the year ended June 30, 2017, is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction. Martin Hood LLC, the auditor in respect of the consolidated financial statements of PharmaCann LLC ("PharmaCann") as at and for the years ended December 31, 2017 and 2016, which are attached hereto, is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that resides outside of Canada or is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction, even if the party has appointed an agent for service of process.

The Corporation's head office is located at 10115 Jefferson Boulevard, Culver City, California 90232 and registered office is located at Suite 2200, HSBC Building, 885 West Georgia Street, Vancouver, British Columbia V6C 3E8.

**This Prospectus qualifies the distribution of securities of an entity that currently directly derives a substantial portion of its revenues from the cannabis industry in certain U.S. states, which industry is illegal under U.S. Federal Law. The Corporation is directly involved (through licensed subsidiaries) in both the adult-use and medical cannabis industry in the States of California, Nevada, New York and Florida, as permitted within such states under applicable state law which states have regulated such industries, and is in the process of acquiring businesses which would allow the Corporation to directly participate in the adult-use and medical cannabis industry in the States of Arizona, Illinois, Maryland, Massachusetts, Pennsylvania, Ohio, Virginia and Michigan, as permitted within such states under applicable state law and which states have regulated such industries. In addition, the Corporation is indirectly involved (through management services which include the use of the "MedMen" brand and retail and cultivation and production operations, human resources, finance and accounting, marketing, sales, legal and compliance support services) in both the adult-use and medical cannabis industry in the State of California.**

**The cultivation, sale and use of cannabis is illegal under federal law pursuant to the U.S. Controlled Substance Act of 1970 (the "CSA"). Under the CSA, the policies and regulations of the United States Federal Government and its agencies are that cannabis has no medical benefit and a range of activities including cultivation and the personal use of cannabis is prohibited. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and in case of conflict between federal and state law, the federal law shall apply.**

**On January 4, 2018, former U.S. Attorney General Jeff Sessions issued a memorandum to U.S. district attorneys which rescinded previous guidance from the U.S. Department of Justice specific to cannabis enforcement in the United States, including the Cole Memo (as defined herein). With the Cole Memo rescinded, U.S. federal prosecutors have been given discretion in determining whether to prosecute cannabis related violations of U.S. federal law. If the Department of Justice policy was to aggressively pursue financiers or equity owners of cannabis-related business, and United States Attorneys followed such Department of Justice policies through pursuing prosecutions, then the Corporation could face (i) seizure of its cash and other assets used to support or derived from its cannabis subsidiaries, and (ii) the arrest of its employees, directors, officers, managers and investors, who could face charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA by virtue of providing financial support to state-licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis. Additionally, as has recently been affirmed by U.S. Customs and Border Protection, employees, directors, officers, managers and investors of the Corporation who are not U.S. citizens face the risk of being barred from entry into the United States for life.**

**Unless and until the United States Congress amends the CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk that federal authorities may enforce current U.S. federal law. If the U.S. federal government begins to enforce U.S. federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, the Corporation's business, results of operations, financial condition and prospects would be materially adversely affected.**

**Despite the current state of the federal law and the CSA, the States of California, Nevada, Massachusetts,**



Maine, Michigan, Washington, Oregon, Colorado, Vermont and Alaska, and the District of Columbia, have legalized recreational use of cannabis. Massachusetts, Maine and Michigan have not yet begun recreational cannabis commercial operations. In early 2018, Vermont became the first state to legalize recreational cannabis by passage in a state legislature, but does not allow commercial sales of recreational cannabis. Although the District of Columbia voters passed a ballot initiative in November 2014, no commercial recreational operations exist because of a prohibition on using funds for regulation within a federal appropriations amendment to local District spending powers.

In addition, over half of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis, provided that there are strict limits on the levels of THC. However, there is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions.

The Corporation's objective is to capitalize on the opportunities presented as a result of the changing regulatory environment governing the cannabis industry in the United States. Accordingly, there are a number of significant risks associated with the business of the Corporation. Unless and until the United States Congress amends the CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk that federal authorities may enforce current federal law, and the business of the Corporation may be deemed to be producing, cultivating, extracting, or dispensing cannabis or aiding or abetting or otherwise engaging in a conspiracy to commit such acts in violation of federal law in the United States.

For these reasons, the Corporation's investments in the United States cannabis market may subject the Corporation to heightened scrutiny by regulators, stock exchanges, clearing agencies and other Canadian authorities. There are a number of risks associated with the business of the Corporation. See the section entitled "Risk Factors", including "Cannabis Continues to be a Controlled Substance under the United States Federal Controlled Substances Act", within the AIF (as defined herein) and herein.

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## **ABOUT THIS SHORT FORM PROSPECTUS**

An investor should rely only on the information contained in this Prospectus (including the documents incorporated by reference herein) and is not entitled to rely on parts of the information contained in this Prospectus (including the documents incorporated by reference herein) to the exclusion of others. The Corporation and the Underwriters have not authorized anyone to provide investors with additional or different information. The Corporation and the Underwriters take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give readers of this Prospectus. Information contained on, or otherwise accessed through, the Corporation's website shall not be deemed to be a part of this Prospectus and such information is not incorporated by reference herein.

The Corporation and the Underwriters are not offering to sell the Units in any jurisdictions where the offer or sale of the Units is not permitted. The information contained in this Prospectus (including the documents incorporated by reference herein) is accurate only as of the date of this Prospectus (or as of the date of the document incorporated by reference herein or as of the date as otherwise set out in the document incorporated by reference herein, as applicable), regardless of the time of delivery of this Prospectus or any sale of the Units. The business, financial condition, results of operations and prospects of the Corporation may have changed since those dates. The Corporation does not undertake to update the information contained or incorporated by reference herein, except as required by applicable Canadian securities laws.

This Prospectus shall not be used by anyone for any purpose other than in connection with the Offering.

The documents incorporated or deemed to be incorporated by reference herein contain meaningful and material information relating to the Corporation and readers of this Prospectus should review all information contained in this Prospectus and the documents incorporated or deemed to be incorporated by reference herein.

## **MEANING OF CERTAIN REFERENCES AND CURRENCY PRESENTATION**

References to dollars or "\$" are to Canadian currency unless otherwise indicated. All references to "US\$" refer to United States dollars. On November 27, 2018, the daily exchange rate for the United States dollar in terms of Canadian dollars, as quoted by the Bank of Canada, was US\$1.00 = \$1.3289.

Unless the context otherwise requires, all references in this Prospectus to the "Corporation" refer to the Corporation and its subsidiary entities on a consolidated basis.

## **MARKET AND INDUSTRY DATA**

Unless otherwise indicated, the market and industry data contained or incorporated by reference in this Prospectus is based upon information from independent industry publications, market research, analyst reports and surveys and other publicly available sources. Although the Corporation and the Underwriters believe these sources to be generally reliable, market and industry data is subject to interpretation and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any survey. Neither the Corporation nor the Underwriters have independently verified any of the data from third party sources referred to or incorporated by reference herein and accordingly, the accuracy and completeness of such data is not guaranteed.

## **CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

This Prospectus includes "forward-looking information" and "forward-looking statements" within the meaning of Canadian securities laws and United States securities laws. All information, other than statements of historical facts, included in this Prospectus that addresses activities, events or developments that the Corporation expects or anticipates will or may occur in the future is forward-looking information. Forward-looking information is often identified by the words "may", "would", "could", "should", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect" or similar expressions and includes, among others, information regarding: expectations for the effects of the Business Combination (as defined herein); statements relating to the business and future activities of, and developments related to, the Corporation after the date of this Prospectus, including such things as future business strategy, competitive strengths, goals, expansion and growth of the Corporation's business, operations and plans, including information concerning the completion and timing of the completion of contemplated acquisitions, including the contemplated acquisitions of PharmaCann and other businesses announced by the Corporation in October 2018 and to date in November 2018, and the contemplated sale of certain real estate assets pursuant to the

sale and leaseback transactions with the REIT (as defined herein), expectations regarding whether such proposed transactions will be consummated, including whether conditions to the consummation of such proposed transactions will be satisfied and whether such proposed transactions will be completed on the current terms and contemplated timing, the structure of the PharmaCann Acquisition (as defined herein), the timing for completing such proposed transactions, expectations for the effects of such proposed transactions, including the potential number and location of cultivation and production facilities and dispensaries or licenses therefor to be acquired and markets to be entered into by the Corporation as a result of completing such proposed acquisitions, expectations regarding the markets to be entered into by the Corporation as a result of completing such proposed acquisitions, such as the growth to be experienced by such new markets, the ability of the Corporation to successfully achieve its business objectives as a result of completing such proposed acquisitions, expectations regarding any further real estate sale transactions with the REIT, the contemplated use of proceeds from the September Unit Offering (as defined herein) and the October Term Loan (as defined herein), new revenue streams, the roll out of new dispensaries, including as to number of planned dispensaries to be opened in the future and the timing in respect of the same, and related forecasts, estimates of future cultivation, manufacturing and extraction capacity, expectations as to the development and distribution of the Corporation's brands and products, the implementation of the Corporation's customer rewards program and of direct-to-consumer delivery service, the expansion of the Corporation's in-store pickup service from the current footprint and features, the implementation of a research and development division, the application for additional licenses and the grant of licenses or renewals of existing licenses that have been applied for, the expansion of existing cultivation and production facilities, the completion of cultivation and production facilities that are under construction, the construction of additional cultivation and production facilities, the expansion into additional U.S. and international markets, including Canada under the joint venture arrangement with Cronos Group Inc., the outcome of collective bargaining negotiations, any potential future legalization of adult-use and/or medical cannabis under U.S. federal law, expectations of market size and growth in the United States and the states in which the Corporation operates or contemplates future operations and the effect such growth will have on the Corporation's financial performance, expectations for other economic, business, regulatory and/or competitive factors related to the Corporation or the cannabis industry generally, and other events or conditions that may occur in the future.

Readers are cautioned that forward-looking information and statements are not based on historical facts but instead are based on reasonable assumptions, estimates, analysis and opinions of management of the Corporation at the time they were provided or made, in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances, and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation, as applicable, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information and statements.

Forward-looking information and statements are not a guarantee of future performance and are based upon a number of estimates and assumptions of management at the date the statements are made including among other things assumptions about: the contemplated acquisitions and dispositions being completed on the current terms and current contemplated timeline; development costs remaining consistent with budgets; ability to manage anticipated and unanticipated costs; favorable equity and debt capital markets; the ability to raise sufficient capital to advance the business of the Corporation; favorable operating and economic conditions; political and regulatory stability; obtaining and maintaining all required licenses and permits; receipt of governmental approvals and permits; sustained labor stability; stability in financial and capital goods markets; favourable production levels and costs from the Corporation's operations; the pricing of various cannabis products; the level of demand for cannabis products; the availability of third party service providers and other inputs for the Corporation's operations; and the Corporation's ability to conduct operations in a safe, efficient and effective manner. While the Corporation considers these assumptions to be reasonable, the assumptions are inherently subject to significant business, social, economic, political, regulatory, competitive and other risks and uncertainties, contingencies and other factors that could cause actual performance, achievements, actions, events, results or conditions to be materially different from those projected in the forward-looking information and statements. Many assumptions are based on factors and events that are not within the control of the Corporation and there is no assurance they will prove to be correct.

Risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation, as applicable, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information and statements include, among others, risks relating to the concentrated Founder voting control of the Corporation and the unpredictability caused by the existing capital structure; U.S. regulatory landscape and enforcement related to cannabis, including political risks; risks relating to anti-money laundering laws and regulation; other governmental and environmental regulation; public opinion and perception of the cannabis industry; risks related to the ability to consummate the proposed acquisitions and the

ability to obtain requisite regulatory approvals and third party consents and the satisfaction of other conditions to the consummation of the proposed acquisitions on the proposed terms and schedule; the ability to suitably structure the proposed PharmaCann Acquisition and complete the acquisition on the basis of such structure; the potential impact of the announcement or consummation of the proposed acquisitions on relationships, including with regulatory bodies, employees, suppliers, customers and competitors; the diversion of management time on the proposed acquisitions; risks related to contracts with third party service providers; risks related to the enforceability of contracts; the limited operating history of the Corporation; reliance on the expertise and judgment of senior management of the Corporation; risks inherent in an agricultural business; risks related to co-investment with parties with different interests to the Corporation; risks related to proprietary intellectual property and potential infringement by third parties; risks relating to financing activities including leverage; risks relating to the management of growth; increased costs associated with the Corporation becoming a publicly traded company; increasing competition in the industry; risks relating to energy costs; risks associated to cannabis products manufactured for human consumption including potential product recalls; reliance on key inputs, suppliers and skilled labour (the availability and retention of which is subject to uncertainty); cybersecurity risks; ability and constraints on marketing products; fraudulent activity by employees, contractors and consultants; tax and insurance related risks; risks related to the economy generally; risk of litigation; conflicts of interest; risks relating to certain remedies being limited and the difficulty of enforcement of judgments and effect service outside of Canada; risks related to future acquisitions or dispositions; sales by existing shareholders; the limited market for securities of the Corporation; limited research and data relating to cannabis; as well as those risk factors discussed elsewhere herein and in the documents incorporated by reference herein, including the AIF.

With respect to certain material forward-looking information and statements in this Prospectus, the Corporation notes the following:

- (i) The rollout of the direct-to-consumer delivery service assumes that the Corporation obtains appropriate licenses, that the Corporation is able to hire and retain sufficient staff to operate the delivery service, that capital costs associated with such rollout do not increase materially beyond that budgeted and the Corporation is otherwise able to successfully establish its delivery infrastructure and network. If the Corporation is unable to hire and retain sufficient staff to operate the delivery service, if capital costs associated with such rollout increase materially, or if the Corporation is unsuccessful in building its delivery infrastructure and network, the timing as to implementing direct-to-consumer delivery could be delayed, or the initiative could be cancelled.
- (ii) The timing of the introduction of new products assumes that the Corporation's cultivation and production facilities are operating, that new product and brands have sufficient consumer appeal to be stocked by third party retailers, that the Corporation's manufacturing and packaging operations do not face any input constraints and that products can be produced in an efficient and scalable manner. If the Corporation is faced with operational issues with its facilities, the Corporation may not be able to supply product for sale under its new brands until such issues are corrected. In addition, costs could increase and new product introductions could be delayed or cancelled.
- (iii) The expansion of the Mustang facility assumes that funds are available to fund the expansion, that the Corporation obtains the necessary licences (or amendments to licences) to permit a larger facility, all necessary construction permits are issued and that the cost of such expansion does not increase such that construction would no longer be economically viable. A failure to obtain necessary permits and licenses, or a delay in such permits and licenses, or an increase in construction costs could result in this expansion being deferred for a material amount of time or being cancelled.

Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which may have been used. Although the Corporation has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such forward-looking information and statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such information and statements. Accordingly, readers should not place undue reliance on forward-looking information and statements. The forward-looking information and statements contained herein are presented for the purposes of assisting readers in understanding the Corporation's expected financial and operating performance and the Corporation's plans and objectives and may not be appropriate for other purposes.

The forward-looking information and statements contained in this Prospectus represent the Corporation's views and expectations as of the date of this Prospectus and forward-looking information and statements contained in the

documents incorporated by reference herein represent the Corporation's views as of the date of such documents, unless otherwise indicated in such documents. The Corporation anticipates that subsequent events and developments may cause its views and expectations to change. However, while the Corporation may elect to update such forward-looking information and statements at a future time, it has no current intention of and assumes no obligation for doing so except to the extent required by applicable law.

### ELIGIBILITY FOR INVESTMENT

In the opinion of Cassels Brock & Blackwell LLP, counsel to the Corporation, and Borden Ladner Gervais LLP, counsel to the Underwriters, based on the current provisions of the *Income Tax Act* (Canada) (the "**Tax Act**") and the regulations thereunder, in force as of the date hereof, the Unit Shares, Warrants, and Warrant Shares, if issued on the date hereof, would be qualified investments for trusts governed by a registered retirement savings plan, registered retirement income fund, registered education savings plan, registered disability savings plan, tax-free savings account (collectively, "**Registered Plans**") or a deferred profit sharing plan ("**DPSP**"), provided that:

- (i) the Unit Shares and Warrant Shares are listed on a designated stock exchange for the purposes of the Tax Act (which currently includes the CSE) or the Corporation qualifies as a "public corporation" (as defined in the Tax Act); and
- (ii) in the case of the Warrants, either the Warrants are listed on a designated stock exchange for the purposes of the Tax Act (which currently includes the CSE) or the Warrant Shares are qualified investments as described in (i) above, and the Corporation is not, and deals at arm's length with each person who is, an annuitant, a beneficiary, an employer or a subscriber under or a holder of such Registered Plan or DPSP.

Notwithstanding the foregoing, the holder, annuitant or subscriber of a Registered Plan (the "**Controlling Individual**") will be subject to a penalty tax in respect of Unit Shares, Warrant Shares or Warrants held in the Registered Plan if such securities are a prohibited investment for the particular Registered Plan. A Unit Share, Warrant Share or Warrant generally will be a "prohibited investment" for a Registered Plan if the Controlling Individual does not deal at arm's length with the Corporation for the purposes of the Tax Act or the Controlling Individual has a "significant interest" (as defined in the Tax Act) in the Corporation. In addition, the Unit Shares and Warrant Shares will generally not be "prohibited investments" if such securities are "excluded property" (as defined in the Tax Act) for a Registered Plan. Controlling Individuals should consult their own tax advisors as to whether the Unit Shares, Warrant Shares or Warrants will be a prohibited investment in their particular circumstances.

**Persons who intend to hold Unit Shares, Warrants or Warrant Shares in a Registered Plan, should consult their own tax advisors in regard to the application of these rules in their particular circumstances.**

### DOCUMENTS INCORPORATED BY REFERENCE

**Information has been incorporated by reference in this Prospectus from documents filed with the securities commissions or similar regulatory authorities in Canada.** Copies of the documents incorporated herein by reference may be obtained on request without charge from the General Counsel of the Corporation, at 10115 Jefferson Boulevard, Culver City, California 90232, (424) 341-4969, and are also available electronically at [www.sedar.com](http://www.sedar.com).

The following documents (or the sections or sub-sections thereof set out below), filed with the various securities commissions or similar authorities in each of the provinces of Canada, except Québec, are specifically incorporated by reference into and form an integral part of this Prospectus:

- 1. the annual information form of the Corporation dated November 2, 2018 (the "**AIF**");
- 2. the audited financial statements of the Corporation as at and for the years ended June 30, 2018 and 2017, together with the notes thereto and the auditor's report for the year ended June 30, 2018 attached thereto and the auditor's report for the year ended June 30, 2017 attached to the Listing Statement (as defined herein) (the "**Financial Statements**");
- 3. the management's discussion and analysis of the Corporation for the year ended June 30, 2018;
- 4. the following sections and sub-sections of the listing statement of the Corporation dated May 28, 2018 (the "**Listing Statement**") (a) the sub-section entitled "Summary of New Equity Incentive Plan" of Section 9

(Options to Purchase Securities) of the Listing Statement; and (b) Section 15 (Executive Compensation) of the Listing Statement;

5. the management information circular of the Corporation dated April 27, 2018, prepared in connection with an annual and special meeting of shareholders held on May 28, 2018 (the “**RTO Circular**”), other than the section titled “United States Industry Background and Trends”, including any tables or graphs therein, in Schedule “C” to the RTO Circular, and other than any other statement contained in the RTO Circular to the extent that any statement contained herein or in any document incorporated or deemed to be incorporated by reference herein subsequently filed after the RTO Circular modifies or supersedes such a statement contained in the RTO Circular;
6. the material change report dated November 26, 2018 regarding the appointment of James (Jim) Miller as Interim Chief Financial Officer;
7. the material change report dated November 19, 2018 regarding the announcement of the Offering and amendment of the terms thereof;
8. the material change report dated October 22, 2018 regarding the announcement of the PharmaCann Acquisition;
9. the material change report dated October 11, 2018 regarding the completion of the October Term Loan;
10. the material change report dated September 17, 2018 regarding the announcement of the September Unit Offering;
11. the material change report dated September 17, 2018 regarding the execution of leases for five (5) retail locations in Florida and the completion of the acquisition of dispensary and cultivation assets in Florida pursuant to the Florida Acquisition Agreement (as defined herein);
12. the material change report dated September 5, 2018 regarding the appointment of Benjamin Rose as the non-executive chairman of the board of directors of the Corporation and of Antonio Villaraigosa to the board of directors of the Corporation;
13. the material change report dated August 2, 2018 regarding the appointment of Jay Brown to the board of directors of the Corporation;
14. the material change report dated July 30, 2018 regarding the appointment of Stacey Hallerman to the board of directors of the Corporation; and
15. the template version of the term sheet dated November 16, 2018 in connection with the Offering, as filed after obtaining the receipt for the preliminary short form prospectus dated November 16, 2018 in respect of the Offering (the “**Term Sheet**”).

Any document of the type required by National Instrument 44-101 — *Short Form Prospectus Distributions* to be incorporated by reference into a short form prospectus, including any annual information forms, material change reports (except confidential material change reports), business acquisition reports, interim financial statements, annual financial statements and the auditor’s report thereon, management’s discussion and analysis and information circulars of the Corporation filed by the Corporation with securities commissions or similar authorities in Canada after the date of this Prospectus and prior to the completion or withdrawal of the Offering shall be deemed to be incorporated by reference into this Prospectus.

**Notwithstanding anything herein to the contrary, any statement contained in this Prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded, for purposes of this Prospectus, to the extent that a statement contained herein or in any other subsequently filed document incorporated or deemed to be incorporated by reference herein modifies or supersedes such prior statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is**

necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall thereafter neither constitute, nor be deemed to constitute, a part of this Prospectus, except as so modified or superseded.

## MARKETING MATERIALS

The “template version” (as such term is defined in National Instrument 41-101 — *General Prospectus Requirements* (“**NI 41-101**”)) of the Term Sheet which has been incorporated by reference in this Prospectus is not part of this Prospectus to the extent that the contents of such document has been modified or superseded by a statement contained in this Prospectus.

Any template version of any “marketing materials” (as such term is defined in NI 41-101) that is filed with the securities commissions or similar regulatory authorities in all provinces Canada, except Québec, in connection with the Offering after the date of this Prospectus and before the termination of the distribution under the Offering will be deemed to be incorporated into this Prospectus.

## THE CORPORATION

### Corporate Structure

The Corporation was incorporated in the Province of British Columbia under the *Business Corporations Act* (British Columbia) (the “**BCBCA**”) on May 21, 1987. On August 28, 2017, the Corporation changed its name from T.M.T. Resources Inc. to Ladera Ventures Corp. (“**Ladera**”), and consolidated its outstanding common shares (the “**Ladera Common Shares**”) on a 10 old for one (1) new basis. On May 28, 2018, in connection with the Business Combination, the Corporation (i) consolidated its outstanding Ladera Common Shares on a 9.2623 old for one (1) new basis by way of resolution of its board of directors (without any corporate filings being necessary) (the “**Ladera Consolidation**”), and (ii) filed an alteration to its Notice of Articles with the British Columbia Registrar of Companies to change its name from Ladera Ventures Corp. to MedMen Enterprises Inc. and to amend the rights and restrictions of its existing class of common shares, redesignate such class as the class of Subordinate Voting Shares and create the Super Voting Shares (collectively, the “**Share Terms Amendment**”).

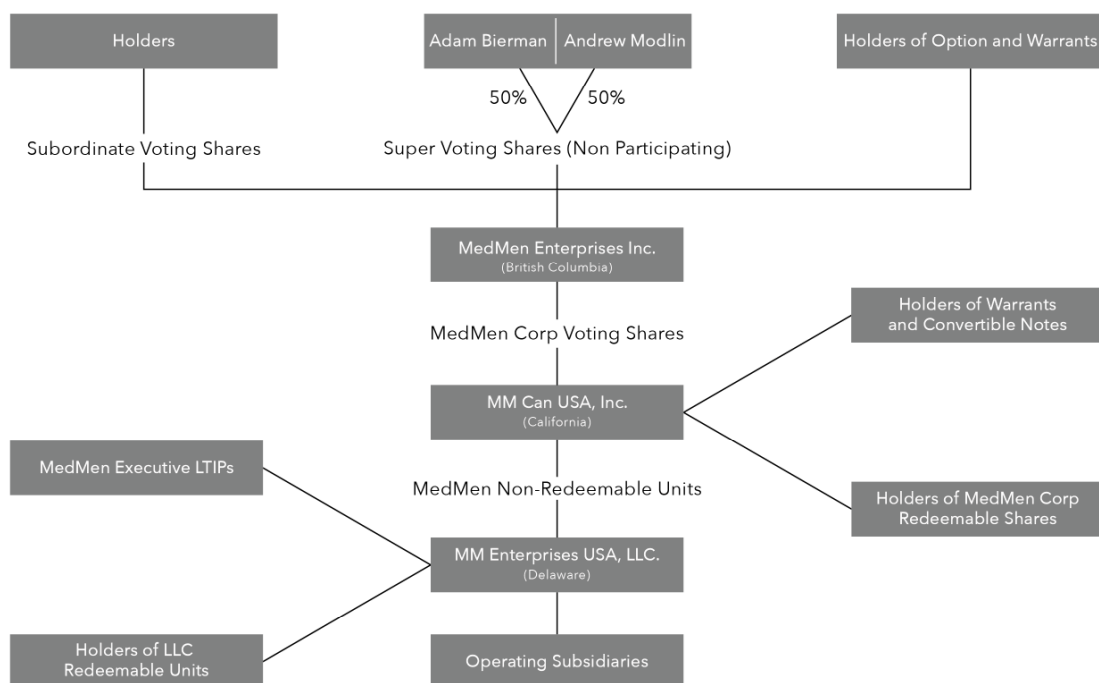
The Corporation’s head office is located at 10115 Jefferson Boulevard, Culver City, California 90232 and registered office is located at Suite 2200, HSBC Building, 885 West Georgia Street, Vancouver, British Columbia V6C 3E8.

Pursuant to the business combination among the Corporation (then Ladera) and MM Enterprises USA, LLC (the “**LLC**”), a series of transactions was completed on May 28, 2018 resulting in a reorganization of the LLC and Ladera and pursuant to which Ladera became the indirect parent and sole voting unitholder of the LLC (the “**Business Combination**”). The Business Combination constituted a reverse takeover of Ladera by the LLC under applicable securities laws.

The LLC was formed as a limited liability company under the laws of the State of Delaware on January 9, 2018 and is governed by a limited liability company agreement dated the same date, as amended and restated as of January 29, 2018, as further amended and restated as of February 8, 2018 and as further amended and restated as of May 28, 2018 in connection with the completion of the Business Combination (the “**A&R LLC Agreement**”).

Set forth below is the organization chart of the Corporation. The material subsidiaries of the LLC did not change in connection with the Business Combination.





**Note:** See “Description of Share Capital of the Corporation” herein, “Description of Share Capital of MedMen Corp.” in the AIF and “Description of Unit Capital of the LLC” in the AIF for additional details as to the share and unit capital of the Corporation, MedMen Corp. (as defined herein) and the LLC, respectively. See also “Consolidated Capitalization” herein for additional details as to the outstanding share and unit capital of the Corporation, MedMen Corp. and the LLC.

## Summary Description of the Business

Since the completion of the Business Combination, the Corporation has adopted the business carried on by the LLC. The Corporation is a U.S.-based, fully-integrated cannabis company. The Corporation is currently focused on the cultivation, production, and retail aspects of the cannabis supply chain. The Corporation has scalable, highly-efficient cultivation and production facilities which use the latest agronomic technology and sustainable techniques.

The Corporation operates one cultivation and production facility in Nevada (Mustang), one cultivation and production facility in New York, and one cultivation and production facility in Florida (acquired pursuant to the Florida Acquisition Agreement), with total existing capacity of approximately 72,300 square feet. The Corporation is also currently developing additional large-scale cultivation and production operations in California, in Florida (to complement existing operations within the existing facility in Florida) and in New York (to replace the existing facility in New York) and a cultivation and genetics facility in Nevada, and expanding the cultivation area at its Mustang facility in Nevada. In addition to its cultivation and production operations, the Corporation currently owns and operates 10 premium retail stores located in strategic locations across key cities and neighborhoods in California, Nevada and New York through its award-winning retail concept. Additionally, the Corporation recently secured leases for 10 retail locations in Florida and completed an acquisition pursuant to the Florida Acquisition Agreement, as part of which the Corporation acquired the right to open 25 medical dispensaries in Florida. As of July 2018, the qualified patient count in Florida surpassed 100,000, which was deemed to be the threshold that, once

crossed, allows for license holders to further expand their footprint to 30 medical dispensaries to serve the needs of the population.<sup>1</sup>

In addition to pending acquisitions, the Corporation has applied for or is contemplating applying for the requisite licenses for eight additional retail locations (five in California, two in Nevada, and one in Massachusetts), one manufacturing and distribution location in California, another distribution location in California and one cannabis consumption lounge in California. See “PharmaCann Acquisition” and “Additional Recent Developments” herein and “General Development of the Business – Pipeline Transactions” in the AIF for additional details in respect of pending acquisitions and licenses applied for or contemplated to be applied for by the Corporation.

The Corporation currently holds licenses within California, Nevada, New York and Florida, across the cannabis supply chain, providing the requisite authorization for the various activities of the Corporation at its existing retail locations and cultivation and manufacturing operations and overall providing the requisite authorizations for 41 retail locations and 4 cultivation and production facilities.

In addition to owning its own cannabis licenses and operations, the Corporation also provides management services to third-party cannabis license-holders. The Corporation currently has management services contracts at four licensed retail dispensaries in California.

Assuming completion by the Corporation of its pending acquisitions, the Corporation will be licensed for 70 retail locations and 16 cultivation and production facilities (including licenses for retail locations under management by the Corporation).

The Corporation is operated by an executive team that has significant experience in the cannabis industry and a robust operational and acquisition track-record as to all facets of the Corporation’s operations, which has executed its business plan to rapidly scale its business. The Corporation has approximately 945 employees as of October 1, 2018 across its operating jurisdictions.

More detailed information regarding the business of the Corporation as well as its operations, assets, and properties can be found in the AIF and other documents incorporated by reference herein, as supplemented by the disclosure herein. See “Documents Incorporated by Reference”, “PharmaCann Acquisition” and “Additional Recent Developments”.

## PHARMACANN ACQUISITION

### Acquisition

On October 11, 2018, the Corporation announced that it had entered into a binding letter of intent with PharmaCann to acquire all outstanding equity interests in PharmaCann in an all-stock transaction, valued at US\$682 million based on the closing price of the Subordinate Voting Shares on October 9, 2018 (such value being subject to change based on the daily closing price of the Subordinate Voting Shares) (the “**PharmaCann Acquisition**”). As a result of the transaction, the Corporation expects to add licenses in Illinois, New York, Pennsylvania, Maryland, Massachusetts, Ohio, Virginia and Michigan. Combined, based on current license holdings (including licenses for properties under the Corporation’s management) and the Corporation’s and PharmaCann’s current pending acquisitions, the two companies are expected to be licensed for 70 retail stores and 16 cultivation and production facilities. Under the terms of the binding letter of intent, PharmaCann units will be exchanged for Subordinate Voting Shares (or the substantial equivalent thereof of a new holding company, as described below), which on a *pro forma* basis will, after certain adjustments, equal approximately 25% of the Corporation’s fully-diluted outstanding Subordinate Voting Shares (calculated based on the treasury stock method) at the time of closing. It is currently contemplated that each of the Corporation and PharmaCann will become subsidiaries of a newly incorporated corporation, which corporation is expected to be incorporated under the laws of British Columbia and have an authorized and issued share capital substantially similar to that of the Corporation, subject to the issuance of shares to the unitholders of PharmaCann. As a result, if the PharmaCann Acquisition proceeds as contemplated, it is expected that all outstanding Subordinate Voting Shares, including the Unit Shares, will be exchanged for shares of the newly incorporated corporation having substantially similar attributes as the Subordinate Voting Shares, and all outstanding Warrants will be adjusted in accordance with the terms and conditions of the Warrant Indenture (as

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<sup>1</sup> See Section 381.986(8)(a)5.a., Chapter 381, Title XXIX, The 2018 Florida Statutes.

defined herein) to become exercisable for shares of the newly incorporated corporation having substantially similar attributes as the Subordinate Voting Shares.

The transaction is subject to, among other things, execution of definitive documentation, regulatory approvals by various local and state authorities in each of the U.S. states where PharmaCann's assets and licenses are held, all debt of PharmaCann being repaid, other than equipment lease financing and capital leases, any applicable securityholder approvals being obtained and other customary closing conditions. The transaction closing is expected to take 6-12 months from announcement based on the receipt of such regulatory approvals. In the event that certain of such regulatory approvals are not obtained by the transaction closing, a portion of the Subordinate Voting Share consideration, as determined by the parties (but in no event more than 30% of the consideration), will be held in escrow until such regulatory approvals are received, and such escrowed Subordinate Voting Shares shall be released to unitholders of PharmaCann upon the receipt of such regulatory approvals. In the event that an approval is not able to be obtained within 24 months following the execution of definitive documentation in respect of the transaction, the parties will use commercially reasonable efforts to transition the related license to a third party with any such proceeds going to the Corporation and any related escrowed Subordinate Voting Shares being released to PharmaCann unitholders.

Upon execution of definitive documentation, it is contemplated that the Corporation will call and hold a shareholders meeting to pursue the requisite shareholder approval to consummate the PharmaCann Acquisition in accordance with the acquisition structure as currently contemplated and noted above.

In respect of obtaining state and local regulatory approval, all applicable regulators have provided with notice of the PharmaCann Acquisition. Additionally, the Corporation and PharmaCann have been in correspondence with such regulatory authorities as currently appropriate and are in the process of preparing applicable application documentation for obtaining such regulatory approval, which is expected to be submitted to such regulatory authorities after execution of definitive documentation.

As indicated above, definitive documentation has not been executed in respect of the PharmaCann Acquisition and as such there is no assurance that the transaction will be consummated on the terms outlined above or at all. See "Risk Factors".

### **PharmaCann History and Description**

PharmaCann was founded in 2014 as medical marijuana was beginning to be recognized as a viable alternative for patients suffering from certain debilitating health conditions, and was formed with a mission of being a thought leader helping medical marijuana find its rightful place in established healthcare.

Today, PharmaCann is one of the largest vertically-integrated medical cannabis companies in the United States. Employing over 288 people as of November 2018, PharmaCann has grown organically around a core group of objective, data-driven professionals with backgrounds in fields such as horticulture, chemical engineering, pharmacy, pharmaceutical research, healthcare, retail operations management, logistics, information technology, accounting, finance, regulatory compliance, and law. PharmaCann has historically focused on obtaining medical cannabis licenses in states with tightly regulated medical cannabis systems. It currently operates three cultivation and processing facilities and 10 dispensaries across Illinois, New York, Maryland, Massachusetts, and it is in the process of designing and building additional cultivation, processing, and dispensary facilities in Massachusetts, Pennsylvania, Ohio, and Virginia. In total, the company operates 13 cultivation/processing or dispensary facilities and possesses provisional licenses to open another ten such facilities across four states.

PharmaCann has a broad group of unitholders, including management, employees and third party investors. A control person (as defined in applicable Canadian securities laws) of PharmaCann, on the one hand, and Wicklow Capital, Inc., on the other hand, fall under the common control of certain parties. To MedMen's knowledge, Wicklow Capital, Inc. is a holder of Subordinate Voting Shares but is not a related party (as defined under Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*) of MedMen. However, the Chief Investment Officer of Wicklow Capital, Inc. is the non-executive chairman of MedMen's board of directors. Overall, to MedMen's knowledge, there is no related party of MedMen that is a unitholder of PharmaCann.

## **Growth Strategy in U.S. Market**

PharmaCann's growth strategy has centered around being an early entrant into limited-license medical cannabis programs, establishing a significant market share, and actively helping shape the expansion of each state medical cannabis program in which it operates. PharmaCann has succeeded in establishing an industry-leading track record in competitive application processes for limited-license state medical cannabis programs. PharmaCann has been awarded at least one cannabis business license in each of the six states it considered most desirable and in which it has applied. The majority of PharmaCann's active and provisional licenses have been the result of merit-based applications rather than the purchase of pre-existing operations, with all licenses in Maryland, New York, Ohio, Pennsylvania, and Virginia being the result of competitive application processes.

Being an early entrant into a number of markets, PharmaCann has also been able to leverage its prior experience as regulated states expand their respective cannabis programs. PharmaCann has been successful in second-round applications as well as adding to existing facility counts by understanding the dynamics and structure of the state markets in which it operates. The company has pending applications for retail facilities in Pennsylvania as well as cultivation, processing, and retail facilities in New Jersey.

## **Cultivation and Production**

PharmaCann currently operates three combined cultivation and pharmaceutical-grade processing facilities in Illinois and New York, with plans to open three additional cultivation and processing facilities in Massachusetts, Pennsylvania, and Virginia and one cultivation facility in Ohio. In Illinois, PharmaCann's two facilities are comprised of 47,000 square feet of cultivation space and 36,000 square feet of processing, extraction, and lab space. PharmaCann owns the larger facility located in Dwight, Illinois, and PharmaCann has a long-term land lease securing its other facility in Hillcrest, Illinois. PharmaCann's New York cultivation facility is 125,000 square feet in total area. Approximately 80,000 square feet of the facility are currently operational, of which 26,000 square feet are devoted to processing, extraction, research and development, and lab space. Secured by a long-term lease, the New York facility is sited on over 40 acres, which is expected to allow the company to expand to meet growing medical demand.

PharmaCann is also currently designing and constructing cultivation and processing facilities varying between 50,000 to 80,000 square feet in each of Massachusetts, Pennsylvania, and Virginia and a cultivation facility in Ohio. Each facility is located on ample land currently or soon-to-be controlled by PharmaCann to support all planned expansions in the foreseeable future.

PharmaCann designs its production facilities to comply with current agricultural and manufacturing practices, producing products destined for human consumption according to the current standards employed by manufacturers in other highly-regulated industries. PharmaCann's cultivation team has extensive experience managing the environmental conditions in greenhouse facilities located in a variety of climates in the eastern United States, producing consistent, quality, pharmaceutical-grade cannabis products with defined cannabinoid profiles. Operating in highly regulated states requires PharmaCann to be able to initially demonstrate a capacity to operate under these standards as well as maintain continued compliance, enforced by regular inspections by state regulatory agencies. By abiding by strict regulatory guidelines, PharmaCann produces consistent supplies of quality cannabis, providing consumers with products with reliable dosing and cannabinoid profiles. PharmaCann maintains a broad portfolio of genetic varieties with a range of cannabinoid profiles targeted at various therapeutic indications. PharmaCann utilizes a variety of different extraction technologies depending on the feedstock desired for product formulation and filling, resulting in feedstocks of high quality with a high degree of consistency. PharmaCann also meets the highest industry testing and labeling standards. Every batch of medical cannabis products from PharmaCann's three manufacturing facilities is analyzed by independent testing laboratories and passes state standards, within an accuracy of +/- 10% of the specified level of cannabinoids in each dose required in many jurisdictions.

## **Research & Development**

PharmaCann has assembled a highly regarded team of researchers and quality assurance specialists with years of experience in the pharmaceutical industry. The Company uses its employees' experience in large-scale horticulture, automation, drug discovery, research and development, and quality control to study and develop new therapeutic product platforms for a broad range of diseases and conditions. The PharmaCann R&D team has assembled a dedicated research laboratory to tackle its goals. Most recently, the PharmaCann R&D team implemented a custom automated capsule manufacturing line, greatly expanding facility capsule production capacity. Other developments

include updated product formulations and excipient mixtures, which have been met with positive patient feedback. PharmaCann continues to plan significant investment in custom automated filling systems for all of its production facilities while pursuing a variety of new product forms.

In the cultivation field, PharmaCann experiments with plant spacing, yield training, lighting and improved pest management techniques. The Company also engages in research and development activities focused on developing new crop additive formulations as part of efforts to increase the efficiency of the processes used to produce its products while minimizing the use of traditional pesticides and fungicides.

PharmaCann has been at the forefront of the cannabis industry in developing and implementing proprietary innovations. Building on experience in the pharmaceutical industry, in 2017 PharmaCann's R&D team developed a patent-pending "self-emulsifying drug delivery system" for capsules sold in the State of New York. The compounds utilized in these capsules have been shown to improve the absorption of fat-soluble compounds such as THC and CBD in the human digestive system.

## **Dispensaries**

PharmaCann currently operates a total of 10 dispensaries in Illinois, New York, Maryland and Massachusetts. Beginning in May 2018, the Company began adopting the name "Verilife" to newly opening dispensaries as well as remodels of existing dispensaries. Verilife dispensaries are based on patient-focused models with areas for one-on-one consultations and rapid check-out counters that facilitate e-commerce and delivery orders to maximize throughput. In Illinois, PharmaCann has four dispensary locations currently open, all in the greater Chicago metropolitan area. In New York, PharmaCann has four dispensary locations in heavily-populated areas in the state: New York City, Albany, Buffalo and Syracuse. Direct-to-consumer delivery is offered at each of the New York locations. In Maryland, PharmaCann's dispensary is located in Rockville, a suburb of Washington D.C. In Massachusetts, PharmaCann has one operational dispensary located in Wareham, Massachusetts. Currently fully licensed to sell medical cannabis, the Wareham dispensary location recently became one of the first dispensaries in Massachusetts to receive a license to dispense recreational cannabis to adult users over the age of 21, with sales expected to be commence before the end of 2018. PharmaCann's license in Massachusetts allows it to open two additional medical and recreational dispensaries in Massachusetts. PharmaCann also has provisional licenses to operate a dispensary in Ohio, up to three dispensaries in the southeastern region Pennsylvania, and one dispensary in Virginia.

PharmaCann's dispensaries are designed to equal the sophistication of the company's cultivation facilities, balancing a welcoming retail atmosphere with cutting-edge security and patient privacy considerations. PharmaCann dispensary layouts aim for open space while preserving a secure operational "core," consisting of the secure areas. The result is that PharmaCann is able to adapt professionally-designed and branded spaces able to meet the needs of any market and community while still complying with all regulations of each jurisdiction in which PharmaCann operates.

All PharmaCann dispensary employees receive extensive training utilizing information and material compiled by a medical advisory group that allows PharmaCann's dispensary employees to effectively counsel patients, during initial or subsequent visits regarding issues specific to their treatment regimens or medical conditions, no matter what the patient experience level.

## **Inventory Management**

PharmaCann is seasoned in operating state-mandated inventory control systems. PharmaCann has developed and implemented an inventory tracking system that interfaces with a resource planning platform to give enterprise-wide visibility into production, compliance, security, financial reporting and other critical data. This resource planning platform is also designed to be able to integrate with outside platforms, notably those operated by state regulatory agencies to provide intricate monitoring and oversight of cannabis material from "seed-to-sale". To date, PharmaCann has tracked over 1,000,000 individual plants, over 1,000 distinct batches of harvested marijuana, over 1,500 lots of processed marijuana products and over 5,000,000 individually packaged products in the aggregate. PharmaCann employees perform ongoing compliance reviews for inventory and quality assurance, and all facilities are regularly inspected by state regulators.

PharmaCann offers a wide range of cannabis and cannabis-containing products in its branded dispensaries and, in jurisdictions where permitted, distributes its products to third-party licensed dispensaries through robust wholesale

networks. PharmaCann's product lines vary slightly state-to-state, where varying regulations dictate the form of cannabis that may be consumed by patients.

### **Delivery**

PharmaCann is permitted to deliver products directly to consumers in some jurisdictions, which provides an asset to those who may live a considerable distance from a dispensary, such as outside a metropolitan area, or those who have limited mobility. Based out of PharmaCann's dispensaries, delivery orders are received by the same trained dispensary employees or pharmacists who can counsel customers on their orders if necessary. PharmaCann directly employs the couriers who make deliveries. In addition to being fully qualified dispensary employees, couriers are versed in security procedures, ensuring that PharmaCann operates as a professional, safety-minded corporate citizen in the communities it serves.

## **ADDITIONAL RECENT DEVELOPMENTS**

### **Financial Statements**

The Corporation anticipates filing its unaudited interim consolidated financial statements for the three month periods ended September 30, 2018 and September 30, 2017 on November 29, 2018. For the three month period ended September 30, 2018, the Corporation had revenue of approximately US\$21.5 million, gross profit before fair value adjustment of approximately US\$11.65 million and net loss and comprehensive loss of approximately US\$66.5 million.

### **Management Change**

The Corporation announced on November 16, 2018 that its Chief Financial Officer James Parker has resigned, and that James (Jim) Miller, the Corporation's Vice President of Accounting, has been appointed Interim Chief Financial Officer until Mr. Parker's successor is named. See "Risk Factors – Risks Related to the Business of the Corporation".

Mr. Miller joined the LLC in January 2018. He has guided the Corporation's financial reporting and control functions as well as various operating departments including accounts payable, payroll and general accounting. Prior to joining the LLC, Mr. Miller held several senior finance and accounting positions at leading entertainment firms such as the Walt Disney Company and Viacom.

### **Real Estate Sales and Leaseback**

On October 18 and 22, 2018, the Corporation announced that it had reached agreements to sell the real estate on which its Abbot Kinney, Beverly Hills and Downtown Las Vegas stores are located to the newly formed Treehouse Real Estate Investment Trust (the "**REIT**") and Stable Road Capital, whereby one property (Beverly Hills) is to be sold to the REIT and two properties (Abbot Kinney and Downtown Las Vegas) were to be sold to Stable Road Capital, with the sale to the REIT to take place following the capitalization of the REIT through a private placement.

On November 7, 2018, the Corporation completed the sale of the two properties to Stable Road Capital, generating approximately US\$8 million of proceeds for the Corporation, after repayment of debt. The Corporation has leased both properties sold at market rates under long-term leases.

The Corporation expects the sale of the Beverly Hills property to the REIT to generate approximately US\$3,700,000 of proceeds for the Corporation, after repayment of debt.

Additional real estate assets in the Corporation's portfolio are expected to be sold to the REIT over the next 12 months. All current real estate assets of the Corporation have been offered for sale to the REIT and the parties are in the process of negotiating terms in respect of the same. Any such sale of properties remains subject to ongoing due diligence by the REIT, consummation of the REIT, successful negotiation and execution of definitive documentation, final approval of the REIT board and the satisfaction of customary closing conditions. See "Risk Factors".

The Corporation expects to lease all properties sold at market rates under long-term leases.

Overall, the purpose of the sale and leaseback transactions is to allow MedMen to raise cash equal to the excess of the sale price of the applicable property over any debt tied to the applicable property, repay any such debt and reduce interest expense related to any such debt. In the longer term, removing real property from MedMen's balance sheet is intended to free up capital for uses that MedMen believes will result in a greater return on capital for its investors. It will also transfer the risk and opportunity of fluctuating real estate prices from MedMen to the third party purchasers of the applicable properties.

### Other Acquisitions

In June 2018, the Corporation completed the acquisition of a dispensary located in Downtown Las Vegas. This retail location was rebranded and reopened in mid-July 2018.

In September 2018, the Corporation announced the execution of leases for five retail locations in Florida and completed the acquisition, pursuant to a definitive agreement (the "**Florida Acquisition Agreement**"), of dispensary and cultivation assets from Florida based Treadwell Simpson Partnership and certain affiliates thereof (collectively, "**Treadwell Nursery**"). As part of the transaction, the Corporation acquired Treadwell Nursery's cultivation facility situated on five acres in Eustis, Florida and the right to open 30 medical dispensaries in Florida.

On November 1, 2018, upon receipt of state and local regulatory approvals, the Corporation completed the acquisition of another dispensary in Las Vegas. The dispensary license obtained pursuant to such acquisition is anticipated to be used to operate the Corporation's new retail location on South Highland Drive, which on a preliminary basis the Corporation expects to open in the first quarter of calendar 2019.

In October 2018 and to date in November 2018, the Corporation has announced the execution of definitive agreements in respect of the following pending transactions:

- a definitive agreement with, among others, WhiteStar Solutions LLC ("**WhiteStar**") to acquire control of Monarch, a Scottsdale, Arizona-based licensed medical cannabis license holder with dispensary, cultivation and processing operations through the acquisition from Whitestar of Omaha Management Services, LLC. In addition, MedMen will acquire from WhiteStar their exclusive co-manufacturing and licensing agreements with Kiva, Mirth Provisions and HUXTON for the state of Arizona. In addition to operating a medical marijuana dispensary, Monarch operates a 20,000 square-foot cultivation and manufacturing facility in Mesa, Arizona. Monarch distributes branded products to over 60 dispensaries in the state. As consideration for the acquisition, the Corporation will pay approximately 80 percent in shares and 20 percent in cash. The share consideration will be satisfied by way of issuance of Subordinate Voting Shares. The transaction is expected to close in late November or early December 2018 and is subject to customary closing conditions, including regulatory approval.
- a definitive agreement with, among others, Future Transactions Holdings LLC to merge with such entity and thereby indirectly acquire Seven Point, a medical marijuana dispensary located in the historic Chicago suburb of Oak Park, Illinois. Seven Point is located in a high foot traffic shopping district among popular restaurants, cafes and major retailers like Whole Foods, Gap and Pier 1. As consideration for the acquisition, the Corporation will pay a combination of cash at closing, deferred cash and Subordinate Voting Shares. The transaction is expected to close within 90 days of announcement and is subject to customary closing conditions, including regulatory approval.
- a definitive agreement to acquire a dispensary license from B12, LLC in Emeryville, California by way of acquisition of the entity holding such license. As a result of the transaction, MedMen will have one of only two adult-use licenses issued in the City of Emeryville, just outside San Francisco. The dispensary location is in a young professional hub of the East Bay, between Oakland and Berkeley. The dispensary is expected to open in 2019 and will be located at 3996 San Pablo Avenue, across the street from the Bay Street Emeryville Shopping Center, which features more than 50 businesses. As consideration for the acquisition, the Corporation will pay a combination of cash and Subordinate Voting Shares, at closing and on an earn-out basis. The transaction is expected to close in late November or early December 2018 and is subject to customary closing conditions, including regulatory approval.
- a definitive agreement to acquire Viktorya's Medical Supplies LLC d/b/a Buddy's Cannabis; holding a microbusiness license entitling the company to sell, distribute, cultivate and manufacture cannabis onsite in San Jose, California. The dispensary is a two-story building located in San Jose, situated in Silicon Valley

and the largest city in Northern California and the tenth most populous in the United States. Buddy's Cannabis is one of sixteen licensed cannabis collectives in the city of San Jose, and as such exemplifies MedMen's focus on restrictive license sub-markets. This location is contemplated by the Corporation to serve as the initial hub for its Northern California platform. The Corporation will pay cash on closing and on a deferred basis as consideration for the acquisition. The transaction is expected to close within 90 days of execution of the definitive agreement and is subject to customary closing conditions, including regulatory approval.

- a definitive agreement to acquire control of Kannaboost Technologies, Inc. and CSI Solutions LLC, collectively referred to as "Level Up". Level Up holds licenses for two vertically-integrated operations in Arizona, which include retail locations in Scottsdale and Tempe, as well as 25,000 square feet of cultivation and production capacity in Tempe and Phoenix. As part of the transaction, the Corporation will also receive a 40 percent interest in the K.I.N.D. Concentrates brand, which is currently distributed in over 90 percent of the dispensaries in Arizona. As consideration for the acquisition, the Corporation will pay US\$33 million, of which approximately 51.5 percent will be satisfied in cash and 48.5 percent in Subordinate Voting Shares. The transaction is expected to close within 90 days of announcement and is subject to customary closing conditions, including regulatory approval.
- a definitive agreement to acquire the retail operations and license for the MedMen location in Santa Ana, California, that is currently managed under a long-term management contract by the Corporation, through an all-stock transaction with Captor Capital Corp. Upon closing, the Corporation will issue 3,740,228 Subordinate Voting Shares to Captor Capital Corp., valuing the transaction at approximately US\$16 million at the time of announcement. The final purchase price is subject to adjustment for accrued liabilities at the time of closing. The transaction is subject to regulatory approvals by applicable local and state authorities and other customary closing conditions. The Corporation expects the transaction to close in December 2018. MedMen Santa Ana is strategically located in one of the most affluent regions of Southern California, with a limited number of licensed dispensaries. Given its familiarity with the assets under acquisition, execution of this transaction represents a strategic opportunity for the Corporation.

Each of such pending transactions is an arm's length transaction. In aggregate, under such pending transactions, subject to adjustments and earn-outs in certain circumstances, a total of approximately US\$43 million in cash consideration is payable and a total of approximately US\$62 million in Subordinate Voting Shares (with the method for calculating the effective issuance price used to determine the number of such Subordinate Voting Shares that issuable, varying under the applicable transactions) is payable by the Corporation.

Overall, while the Corporation is diligently pursuing completion of these acquisitions, there is no assurance that such acquisitions will be successfully completed on the proposed terms and conditions or at all or as to whether conditions to the consummation of such acquisitions will be satisfied, or the resulting benefits or consequences of completion of such acquisitions on the business, financial condition, results of operations or prospects of the Corporation. See "Risk Factors".

### **Brand Expansions and Investments**

MedMen has been focused on establishing the best-in-class retail footprint in the U.S. As such, the Corporation believes it is well-positioned to build product brands through its valuable shelf space. In order to continue consolidating the supply chain and improving its leverage and margins, MedMen has been pursuing branding opportunities in-house and with third-party brands. By building and partnering with leading brands in the industry, MedMen is endeavouring to capture economic upside in additional areas within the cannabis ecosystem.

On October 5, 2018, the Corporation launched a comprehensive suite of new cannabis products under the brand [statemade]<sup>TM</sup> during the opening of its second branded store in Las Vegas, MedMen Paradise. [statemade]<sup>TM</sup> is aimed at the modern cannabis consumer. The Corporation plans to manufacture and sell [statemade]<sup>TM</sup> in all markets where it is licensed or becomes licensed to operate, including Arizona, California, Florida and New York. The [statemade]<sup>TM</sup> product line includes tincture drops, vaporizer pens, flower and pre-rolls. The [statemade]<sup>TM</sup> products in Nevada are made at the Corporation's cultivation and manufacturing facility in Nevada (Mustang).

In July 2018, the Corporation completed a strategic minority investment (resulting in approximately 5.4% equity ownership at the time of investment) in The Hacienda Company, which owns Lowell Herb Co., a California-based



cannabis brand known for its pack of pre-rolls called Lowell Smokes. Lowell Smokes has established itself as a strong cannabis brand in California. It is the top selling pre-roll flower brand in our stores to date.

In August 2018, the Corporation executed an exclusive license agreement with Woodstock Ventures LC and its affiliate The Woodstock Cannabis Company (collectively, “**Woodstock**”), granting the Corporation rights to use the iconic Woodstock brand on cannabis products manufactured and sold by the Corporation in six states: California, Nevada, Massachusetts, Florida, Illinois and Arizona. The agreement grants the Corporation such rights to manufacture and distribute such products to its stores or third-party retailers in those six states.

In October 2018, the Corporation completed a strategic minority investment (resulting in approximately 10% equity ownership at the time of investment) in Old Pal, a California-based lifestyle brand that aims to provide every day, high quality cannabis flower. Old Pal has built a loyal following of customers through its focus on community engagement and authentic shared experiences.

### **September Unit Offering**

On September 27, 2018, the Corporation completed a “bought deal” public offering of 15,681,818 units (the “**September Units**”), at a price of \$5.50 per September Unit, which included the exercise in full by the underwriters of their over-allotment option, for aggregate gross proceeds of approximately \$86,250,000 (the “**September Unit Offering**”). Each September Unit consisted of one Subordinate Voting Share and one-half of one Subordinate Voting Share purchase warrant (each whole warrant, a “**September Warrant**”). Each September Warrant entitles the holder thereof to acquire, subject to adjustment in certain circumstances, one Subordinate Voting Share at an exercise price of \$6.87 until September 27, 2021. The net proceeds from the September Unit Offering have been and are anticipated to be used for expansion of the Corporation’s retail network, development of cultivation and production facilities, to fund operating cash flow and for general corporate and other working capital purposes.

### **October Term Loan**

As of October 1, 2018, MedMen Corp. completed a US\$73,275,000 senior secured term loan (the “**October Term Loan**”) with funds managed by Hankey Capital, LLC and with an affiliate of Stable Road Capital as the largest loan participant pursuant to a Senior Secured Commercial Loan Agreement entered into as of October 1, 2018 between MedMen Corp. and Hankey Capital, LLC. As of October 3, 2018, pursuant to the terms of the October Term Loan, the principal amount of the October Term Loan was increased to US\$77,675,000. The principal amount of the October Term Loan will accrue interest at a rate of 7.5 percent per annum, paid monthly, with a maturity date of October 1, 2020. The ownership interests of certain of the Corporation’s subsidiaries have been pledged as security for the obligations under the October Term Loan. Additionally, the Corporation guaranteed the obligations of MedMen Corp. under the October Term Loan. The principal amount of the October Term Loan has been and is anticipated to be used for acquisitions, capital expenditures and other corporate purposes.

More detailed information regarding the business of the Corporation and recent developments in respect thereof can be found in the AIF and other documents incorporated by reference herein, as supplemented by the disclosure herein. See “Documents Incorporated by Reference”.

Readers are strongly encouraged to carefully read all of the risk factors contained in the AIF and under the heading “Risk Factors” herein.

## **DESCRIPTION OF SHARE CAPITAL OF THE CORPORATION**

The authorized share capital of the Corporation consists of an unlimited number of Super Voting Shares, of which 1,630,590 were issued and outstanding as of November 27, 2018, an unlimited number of Subordinate Voting Shares, of which 74,007,855 were issued and outstanding as of November 27, 2018, and an unlimited number of Preferred Shares, issuable in series, none of which were issued and outstanding as of November 27, 2018. All of the issued and outstanding Super Voting Shares are held by the Corporation’s founders, Adam Bierman and Andrew Modlin (together, the “**Founders**”).

The Subordinate Voting Shares are “restricted securities” within the meaning of such term under applicable Canadian securities laws. The Corporation has complied with the requirements of Part 12 of NI 41-101 to be able to file a prospectus under which the Subordinate Voting Shares or securities that are, directly or indirectly, convertible into, or exercisable or exchangeable for, the Subordinate Voting Shares are distributed, as the Corporation received the requisite prior majority approval of shareholders of the Corporation, at the annual and special meeting of

shareholders held on May 28, 2018, in accordance with applicable law, including Section 12.3 of NI 41-101, for the Share Terms Amendment. The Share Terms Amendment constituted a “restricted security reorganization” within the meaning of such term under applicable Canadian securities laws.

As of November 27, 2018 and therefore prior to giving effect to the Offering, the Subordinate Voting Shares represent approximately 4.3% of the voting rights attached to outstanding securities of the Corporation and the Super Voting Shares represent approximately 95.7% of the voting rights attached to outstanding securities of the Corporation. As of November 27, 2018, giving effect to the Offering (including assuming exercise of the Over-Allotment Option in full), the Subordinate Voting Shares represent approximately 5.2% of the voting rights attached to outstanding securities of the Corporation and the Super Voting Shares represent approximately 94.8% of the voting rights attached to outstanding securities of the Corporation.

Assuming the redemption in full (in exchange for Subordinate Voting Shares) of all redeemable securities of MM CAN USA, Inc. (“**MedMen Corp.**”) and the LLC issued and outstanding as of November 27, 2018 and therefore prior to giving effect to the Offering, being 359,422,264 Class B Common Shares of MedMen Corp. (the “**MedMen Corp Redeemable Shares**”) and 10,119,197 redeemable common units of the LLC (the “**LLC Redeemable Units**”) (which MedMen Corp Redeemable Shares and LLC Redeemable Units are the effective economic equivalent of the Subordinate Voting Shares), but otherwise assuming that other convertible, exercisable or exchangeable securities of the Corporation, MedMen Corp. and the LLC remain outstanding, holders of MedMen Corp Redeemable Shares and LLC Redeemable Units would hold approximately 83.3% of the equity of the Corporation, while holders of Subordinate Voting Shares as of November 27, 2018 would hold approximately 16.7% of the equity of the Corporation.

The following is a summary of the rights, privileges, restrictions and conditions attached to the Subordinate Voting Shares, the Super Voting Shares and the Preferred Shares, but does not purport to be complete. Reference should be made to the articles of the Corporation and the full text of their provisions for a complete description thereof, which are available under the Corporation’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Subordinate Voting Shares**

Holders of Subordinate Voting Shares are entitled to notice of and to attend at any meeting of the shareholders of the Corporation, except a meeting of which only holders of another particular class or series of shares of the Corporation will have the right to vote. At each such meeting holders of Subordinate Voting Shares are entitled to one vote in respect of each Subordinate Voting Share held. As long as any Subordinate Voting Shares remain outstanding, the Corporation will not, without the consent of the holders of the Subordinate Voting Shares by separate special resolution, prejudice or interfere with any right attached to the Subordinate Voting Shares. Holders of Subordinate Voting Shares are entitled to receive as and when declared by the directors of the Corporation, dividends in cash or property of the Corporation. In the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs, the holders of Subordinate Voting Shares are, subject to the prior rights of the holders of any shares of the Corporation ranking in priority to the Subordinate Voting Shares (including, without restriction, the Super Voting Shares as to the issue price paid in respect thereof), entitled to participate rateably along with all other holders of Subordinate Voting Shares. Holders of Subordinate Voting Shares are not entitled to a right of first refusal to subscribe for, purchase or receive any part of any issue of Subordinate Voting Shares, or bonds, debentures or other securities of the Corporation. **In the event that a take-over bid is made for the Super Voting Shares, the holders of Subordinate Voting Shares will not be entitled to participate in such offer and may not tender their shares into any such offer, whether under the terms of the Subordinate Voting Shares or under any coattail trust or similar agreement. Notwithstanding this, any take-over bid for solely the Super Voting Shares is unlikely given that by the terms of the investment agreement described below, upon any sale of Super Voting Shares to an unrelated third party purchaser, such Super Voting Shares will be redeemed by the Corporation for their issue price.**

### **Super Voting Shares**

Holders of Super Voting Shares are not entitled to receive dividends. They are entitled to notice of and to attend at any meeting of the shareholders of the Corporation, except a meeting of which only holders of another particular class or series of shares of the Corporation has the right to vote. At each such meeting, holders of Super Voting Shares are entitled to 1,000 votes in respect of each Super Voting Share held. However, if at any time the aggregate number of issued and outstanding MedMen Corp Redeemable Shares and LLC Redeemable Units (or such securities

of any successor to MedMen Corp. or the LLC as may exist from time to time) beneficially owned, directly or indirectly, by a holder of the Super Voting Shares and the holder's predecessor or transferor, permitted transferees and permitted successors, divided by the aggregate number of MedMen Corp Redeemable Shares and LLC Redeemable Units beneficially owned, directly or indirectly, by the holder (and the holder's predecessor or transferor, permitted transferees and permitted successors) as at the date of completion of the Business Combination is less than 50%, the holder will from that time forward be entitled to 50 votes in respect of each Super Voting Share held. The holders of Super Voting Shares will, from time to time upon the request of the Corporation, provide to the Corporation evidence as to such holders' direct and indirect beneficial ownership (and that of its permitted transferees and permitted successors) of MedMen Corp Redeemable Shares and LLC Redeemable Units to enable the Corporation to determine the voting entitlement of the Super Voting Shares. For purposes of these calculations, a holder of Super Voting Shares will be deemed to beneficially own MedMen Corp Redeemable Shares held by an intermediate company or fund in proportion to their equity ownership of such company or fund.

As long as any Super Voting Shares remain outstanding, the Corporation will not, without the consent of the holders of the Super Voting Shares by separate special resolution, prejudice or interfere with any right or special right attached to the Super Voting Shares. Additionally, consent of the holders of a majority of the outstanding Super Voting Shares is required for any action that authorizes or creates shares of any class having preferences superior to or on a parity with the Super Voting Shares. In connection with the exercise of the voting rights in respect of any such approvals, each holder of Super Voting Shares has one vote in respect of each Super Voting Share held.

In the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs, the Corporation will distribute its assets firstly and in priority to the rights of holders of any other class of shares of the Corporation (including the holders of the Subordinate Voting Shares) to return the issue price of the Super Voting Shares to the holders thereof (being US\$0.10119 per Super Voting Share in respect of the Super Voting Shares issued to date) and if there are insufficient assets to fully return the issue price to the holders of the Super Voting Shares such holders will receive an amount equal to their pro rata share in proportion to the issue price of their Super Voting Shares along with all other holders of Super Voting Shares. The holders of Super Voting Shares are not entitled to receive, directly or indirectly, as holders of Super Voting Shares any other assets or property of the Corporation and their sole rights are to the return of the issue price of such Super Voting Shares.

No subdivision or consolidation of the Super Voting Shares or the Subordinate Voting Shares shall occur unless, simultaneously, the Super Voting Shares and the Subordinate Voting Shares are subdivided or consolidated in the same manner, so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes.

The holders of Super Voting Shares are not entitled to a right of first refusal to subscribe for, purchase or receive any part of any issue of Subordinate Voting Shares, bonds, debentures or other securities of the Corporation not convertible into Super Voting Shares.

The Corporation has the right to redeem all or some of the Super Voting Shares from a holder of Super Voting Shares, for an amount equal to the issue price for each Super Voting Share, payable in cash to the holders of the Super Voting Shares so redeemed (the exercise of which right is subject to the terms and conditions of the investment agreement described below). The Corporation need not redeem Super Voting Shares on a pro-rata basis among the holders of Super Voting Shares.

No Super Voting Share is permitted to be transferred by the holder thereof without the prior written consent of the Corporation (which consent right is qualified by the terms and conditions of the investment agreement described below).

To supplement the rights, privileges, restrictions and conditions attached to the Super Voting Shares, the Corporation, Mr. Bierman and Mr. Modlin entered into an investment agreement effective as of the completion of the Business Combination which, among other things, provides that (i) the Corporation will redeem one (1) Super Voting Share held by the applicable holder for the issue price thereof for every 50 MedMen Corp Redeemable Shares and/or LLC Redeemable Units beneficially owned, directly or indirectly, or deemed to be so beneficially owned by such holder that are redeemed in accordance with their terms for Subordinate Voting Shares, (ii) the Corporation will issue one (1) Super Voting Share to Mr. Bierman or Mr. Modlin, as applicable, for every 50 MedMen Corp Redeemable Shares and/or LLC Redeemable Units issued to them in connection with their executive compensation arrangements, (iii) each Super Voting Share will be transferable only if it is transferred concurrently

with 50 MedMen Corp Redeemable Shares and/or LLC Redeemable Units, and only in connection with a transfer to the holder's immediate family members or an affiliated entity or a transfer to the other Founder or an entity affiliated with the other Founder, and (iv) upon any sale of Super Voting Shares to a third party purchaser not listed in clause (iii), such Super Voting Shares will be redeemed by the Corporation for their issue price.

The foregoing is a summary of certain terms of the investment agreement, but does not purport to be complete. Reference should be made to the investment agreement and the full text of its provisions for a complete description thereof, which is available under the Corporation's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Preferred Shares**

The Preferred Shares may be issued at any time or from time to time in one or more series. The board of directors of the Corporation may by resolution alter the articles of the Corporation to create any series of Preferred Shares and to fix before issuance, the designation, rights, privileges, restrictions and conditions to attach to the Preferred Shares of each series, including the rate, form, entitlement and payment of preferential dividends, the dates and place for payment thereof, the redemption price, terms, procedures and conditions of redemption, if any, voting rights and conversion rights, if any, and any sinking fund, purchase fund or other provisions attaching to the Preferred Shares of such series; provided, however, that no Preferred Shares of any series shall be issued until the Corporation has filed an alteration to its Notice of Articles with the British Columbia Registrar of Companies.

The Preferred Shares will be entitled to preference over the Subordinate Voting Shares and any other shares of the Corporation ranking junior to the Preferred Shares with respect to the payment of dividends, if any, and in the distribution of assets in the event of liquidation, dissolution or winding-up of the Corporation, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, and may also be given such other preferences over the Subordinate Voting Shares and any other shares of the Corporation ranking junior to the Preferred Shares as may be fixed by the resolution of the board of directors of the Corporation as to the respective series authorized to be issued. The Preferred Shares of each series will rank on a parity with the Preferred Shares of every other series with respect to priority and payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding-up of the Corporation, exclusive of any conversion rights that may affect the aforesaid.

The issuance of Preferred Shares and the terms selected by the board of directors of the Corporation could decrease the amount of earnings and assets available for distribution to holders of Subordinate Voting Shares or adversely affect the rights and powers, including the voting rights, of the holders of the Subordinate Voting Shares and the Super Voting Shares without any further vote or action by the holders of the Subordinate Voting Shares and the Super Voting Shares. The issuance of Preferred Shares, or the issuance of rights to purchase Preferred Shares, could make it more difficult for a third-party to acquire a majority of the Corporation's outstanding Subordinate Voting Shares and thereby have the effect of delaying, deferring or preventing a change of control of the Corporation or an unsolicited acquisition proposal or of making the removal of management more difficult. Additionally, the issuance of Preferred Shares may have the effect of decreasing the market price of the Subordinate Voting Shares.

See "Description of Share Capital of MedMen Corp." and "Description of Unit Capital of the LLC" in the AIF for details as to the share and unit capital respectively of MedMen Corp. and the LLC.

## **DESCRIPTION OF SECURITIES BEING DISTRIBUTED**

### **Offering**

The Offering consists of Units, each of which is comprised of one Unit Share and one Warrant. The Units will separate into Unit Shares and Warrants immediately upon the closing of the Offering. The Units are offered at the Offering Price of \$5.50 per Unit.

### **Subordinate Voting Shares**

For a description of the Subordinate Voting Shares, see "Description of Share Capital of the Corporation — Subordinate Voting Shares".

As of the date of this Prospectus, the Corporation has neither declared nor paid any dividends on its Subordinate Voting Shares. Any payments of dividends on the Subordinate Voting Shares will be made in accordance with the BCBCA, and will be dependent upon the financial requirements of the Corporation to finance future growth, the

financial condition of the Corporation and other factors which the board of directors of the Corporation may consider appropriate under the circumstances. Additionally, the Corporation is restricted from declaring any dividends or other distributions pursuant to the terms and conditions of the October Term Loan. Overall, it is unlikely that the Corporation will pay dividends in the immediate or foreseeable future.

## **Warrants**

The following is a summary of the principal attributes of the Warrants and certain anticipated provisions of the Warrant Indenture mentioned herein. The summary does not purport to be complete and is qualified in its entirety by the detailed provisions of the Warrant Indenture. A copy of the Warrant Indenture may be obtained on request from the Corporation's General Counsel and obtained electronically at [www.sedar.com](http://www.sedar.com) and reference should be made to the Warrant Indenture for the full text of the attributes of the Warrants.

Each Warrant entitles its holder, upon the payment of the exercise price of \$6.87, to purchase one Warrant Share until September 27, 2021. See "Plan of Distribution".

It is expected that the Warrants will be governed by the indenture entered into as of September 27, 2018 between the Corporation and Odyssey Trust Company (the "**Warrant Agent**") in connection with the September Unit Offering, which existing indenture will be amended to provide for the issuance of the Warrants thereunder (as amended, such indenture is referred to herein as, the "**Warrant Indenture**"). As a result of such amendment, the Warrants are expected to be fungible with the September Warrants.

The Corporation will designate the Warrant Agent, in its Calgary, Alberta office, as agent for the Warrants. Prior to the closing of the Offering, the Corporation may name any other agent with respect to the Warrants.

The Warrant Indenture will provide for adjustment in the number of Warrant Shares issuable upon the exercise of the Warrants and/or the exercise price per Warrant Share upon the occurrence of certain events, including:

- (i) the issuance of Subordinate Voting Shares or securities exchangeable for or convertible into Subordinate Voting Shares to all or substantially all of the holders of Subordinate Voting Shares by way of a stock dividend or other distribution (other than a dividend paid in the ordinary course or a distribution of Subordinate Voting Shares upon the exercise of any outstanding warrants or options);
- (ii) the subdivision, redivision or change of the Subordinate Voting Shares into a greater number of shares;
- (iii) the consolidation, reduction or combination of the Subordinate Voting Shares into a lesser number of shares;
- (iv) the issuance to all or substantially all of the holders of Subordinate Voting Shares of rights, options or warrants under which such holders are entitled, during a period expiring not more than 45 days after the record date for such issuance, to subscribe for or purchase Subordinate Voting Shares, or securities exchangeable for or convertible into Subordinate Voting Shares, at a price per Subordinate Voting Share to the holder (or at an exchange or conversion price per share) of less than 95% of the "current market price", as defined in the Warrant Indenture, of Subordinate Voting Shares on such record date; and
- (v) the issuance or distribution to all or substantially all of the holders of Subordinate Voting Shares of securities, including rights, options or warrants to acquire shares of any class or securities exchangeable for or convertible into any such shares or property or assets, including evidences of indebtedness.

The Warrant Indenture will also provide for adjustment in the class and/or number of securities or other property issuable upon the exercise of the Warrants and/or the exercise price per security upon the occurrence of the following additional events:

- (i) the reclassification of the Subordinate Voting Shares;
- (ii) the amalgamation, arrangement or merger with or into any other corporation or other entity (other than an amalgamation, arrangement or merger which does not result in any reclassification of the Corporation's outstanding Subordinate Voting Shares or a change of the Subordinate Voting Shares into other shares); or

- (iii) the transfer of the Corporation's undertakings or assets as an entirety or substantially as an entirety to another corporation or other entity.

No adjustment in the exercise price or number of Warrant Shares will be required to be made unless the cumulative effect of such adjustment or adjustments would result in a change of at least 1% in the exercise price or a change in the number of Warrant Shares purchasable upon exercise by at least one one-hundredth ( $\frac{1}{100}$ th) of a Subordinate Voting Share, as the case may be.

The Corporation will covenant in the Warrant Indenture that, during the period in which the Warrants are exercisable, the Corporation will give notice to Warrant holders of certain stated events, including events that would result in an adjustment to the exercise price for the Warrants or the number of Warrant Shares issuable upon exercise of the Warrants, at least 14 days prior to the record date or effective date, as the case may be, of such event.

No fraction of a Warrant Share will be issued upon the exercise of a Warrant and no cash payment will be made in lieu thereof. Warrant holders are not entitled to any voting rights or pre-emptive rights or any other rights conferred upon a person as a result of being a holder of Subordinate Voting Shares.

From time to time, the Corporation and the Warrant Agent, without the consent of the holders of Warrants, may amend or supplement the Warrant Indenture for certain purposes, including curing defects or inconsistencies or making any change that does not adversely affect the rights of any holder of Warrants. Any amendment or supplement to the Warrant Indenture that adversely affects the interests of the holders of the Warrants may only be made by "extraordinary resolution", which will be defined in the Warrant Indenture as a resolution either (1) passed at a meeting of the holders of warrants at which there are holders of warrants present in person or represented by proxy representing at least 20% of the aggregate number of the then outstanding warrants that are subject to the Warrant Indenture and passed by the affirmative vote of holders of warrants representing not less than 66 $\frac{2}{3}$ % of the aggregate number of all the then outstanding warrants represented at the meeting and voted on the poll for such resolution, or (2) adopted by an instrument in writing signed by the holders of not less than 66 $\frac{2}{3}$ % of the aggregate number of all then outstanding warrants that are subject to the Warrant Indenture.

The Warrants and the Warrant Shares have not been and will not be registered under the U.S. Securities Act or any applicable state securities laws, and the Warrants will not be exercisable by or on behalf of a person in the United States or a U.S. Person, nor will certificates representing the Warrant Shares be registered or delivered to an address in the United States, unless an exemption from registration under the U.S. Securities Act and any applicable state securities laws is available and the Corporation has received an opinion of counsel of recognized standing or other evidence to such effect in form and substance reasonably satisfactory to the Corporation; provided, however, that a holder who is a "qualified institutional buyer" (as defined in Rule 144A under the U.S. Securities Act) at the time of exercise of the Warrants who purchased Units in the Offering to, or for the account or benefit of, persons in the United States or U.S. Persons will not be required to deliver an opinion of counsel or such other evidence in connection with the exercise of Warrants that are a part of those Units.

## **PLAN OF DISTRIBUTION**

Pursuant to the Underwriting Agreement, the Corporation has agreed to issue and sell, and the Underwriters have severally (and not jointly nor jointly and severally) agreed to purchase, as principals, on the Closing Date, 13,640,000 Units at the Offering Price, for aggregate gross consideration of \$75,020,000, payable in cash to the Corporation against delivery of the Units, subject to the terms and conditions of the Underwriting Agreement. The Offering Price was determined by arm's length negotiation between the Corporation and the Lead Underwriter, on behalf of the Underwriters, with reference to the prevailing market price of the Subordinate Voting Shares. The obligations of the Underwriters under the Underwriting Agreement are several (and not joint nor joint and several), are subject to certain closing conditions and may be terminated at their discretion on the basis of "disaster out", "material adverse change out", "regulatory out" and "breach out" provisions in the Underwriting Agreement and may also be terminated upon the occurrence of certain other stated events. Each Underwriter is, however, obligated to take up and pay for all of the Units it has agreed to purchase if it purchases any Units under the Underwriting Agreement.

Each Unit will consist of one Unit Share and one Warrant. Each Warrant will entitle the holder thereof to acquire, subject to adjustment in certain circumstances, one Warrant Share at an exercise price of \$6.87 until September 27, 2021. The Warrants will be created and issued pursuant to the terms of the Warrant Indenture. The Warrant Indenture will contain provisions designed to protect holders of the Warrants against dilution upon the happening of

certain events. No fractional Warrants will be issued. See “Description of Securities Being Distributed — Warrants”.

The Underwriters have been granted the Over-Allotment Option, which is exercisable, in whole or in part, at any time, and from time to time, on or before the Over-Allotment Deadline, to purchase up to an additional 2,046,000 Over-Allotment Units at the Offering Price to cover the Underwriters’ over-allocation position, if any, and for market stabilization purposes. The Over-Allotment Option may be exercised to acquire: (i) up to 2,046,000 Over-Allotment Units at the Offering Price; (ii) up to 2,046,000 Over-Allotment Shares at the Over-Allotment Share Price; (iii) up to 2,046,000 Over-Allotment Warrants at the Over-Allotment Warrant Price; or (iv) any combination of Over-Allotment Units at the Offering Price, Over-Allotment Shares at the Over-Allotment Share Price and Over-Allotment Warrants at the Over-Allotment Warrant Price, provided that the aggregate number of Over-Allotment Shares that may be issued under such Over-Allotment Option does not exceed 2,046,000 and the aggregate number of Over-Allotment Warrants that may be issued under such Over-Allotment Option does not exceed 2,046,000. The Over-Allotment Option is exercisable by the Lead Underwriter giving notice to the Corporation prior to the Over-Allotment Deadline, which notice shall specify the number of Over-Allotment Units, Over-Allotment Shares and/or Over-Allotment Warrants to be purchased. This Prospectus qualifies the grant of the Over-Allotment Option and the distribution of Over-Allotment Units, Over-Allotment Shares and Over-Allotment Warrants issuable upon exercise of the Over-Allotment Option. A purchaser who acquires Over-Allotment Units, Over-Allotment Shares or Over-Allotment Warrants forming part of the Underwriters’ over-allocation position acquires those Over-Allotment Units, Over-Allotment Shares and Over-Allotment Warrants under this Prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

In consideration for the services provided by the Underwriters in connection with the Offering, and pursuant to the terms of the Underwriting Agreement, the Corporation has agreed to pay the Underwriters the Underwriters’ Fee equal to 6% of the gross proceeds from the Offering (including any gross proceeds raised on exercise of the Over-Allotment Option).

The Offering is being made in each of the provinces of Canada, except Québec. The Units will be offered in each of the relevant provinces of Canada through those Underwriters or their affiliates who are registered to offer the Units for sale in such provinces and such other registered dealers as may be designated by the Underwriters. Subject to applicable law, the Underwriters may offer the Units in the United States and such other jurisdictions outside of Canada and the United States as agreed between the Corporation and the Underwriters.

The Corporation has given notice to the CSE to list the Unit Shares, the Warrants and the Warrant Shares on the CSE. Listing will be subject to the Corporation fulfilling all of the listing requirements of the CSE. There is currently no market through which the Warrants may be sold. See “Risk Factors”.

**The Underwriters propose to offer the Units initially at the Offering Price. After the Underwriters have made a reasonable effort to sell all of the Units at the Offering Price, the Offering Price may be decreased and may be further changed from time to time to an amount not greater than the Offering Price, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by purchasers for the Units is less than the gross proceeds paid by the Underwriters to the Corporation.**

Pursuant to the Underwriting Agreement, the Corporation has agreed that it will not, directly or indirectly, offer, issue, or sell any Subordinate Voting Shares or securities convertible into, exchangeable for, or otherwise exercisable to acquire Subordinate Voting Shares or other equity securities of the Corporation for a period commencing on the date hereof and for a period of 90 days after the Closing Date, without the prior written consent of the Lead Underwriter, such consent not to be unreasonably withheld or delayed, except, in conjunction with: (i) the grant or exercise of stock options and other similar issuances pursuant to the equity incentive plan of the Corporation and other equity compensation arrangements; (ii) obligations of the Corporation or its subsidiaries in respect of existing agreements, securities and instruments; (iii) the issuance of securities by the Corporation or its subsidiaries in connection with acquisitions or commercial arrangements in the normal course of business; or (iv) issuances of Subordinate Voting Shares, or issuances of securities convertible into, exercisable for or redeemable for Subordinate Voting Shares, at a price, exercise price or deemed price that is equal to or higher than the Offering Price.

Pursuant to the Underwriting Agreement, the Corporation has caused (i) each of the directors and senior officers of the Corporation, with respect to the period from November 25, 2018 until and including the 90th day after the

Closing Date, and (ii) MMMG, LLC, MedMen Opportunity Fund, LP and MedMen Opportunity Fund II, LP (collectively, the “**Significant Shareholders**”), with respect to the period from November 25, 2018 until and including the 30th business day after November 25, 2018, to enter into lock up agreements pursuant to which each such person has agreed that it will not, directly or indirectly, offer, sell, secure, pledge, or otherwise transfer, dispose of or monetize, or engage in any hedging transaction, or enter into any form of agreement or arrangement the consequence of which is to alter economic exposure to, or announce any intention to do so, in any manner whatsoever, any Subordinate Voting Shares or securities convertible into, exchangeable for, or otherwise exercisable to acquire Subordinate Voting Shares or other equity securities of the Corporation, without the prior written consent of the Lead Underwriter, such consent not to be unreasonably withheld or delayed, except in order to accept a bona fide take-over bid made to all holders of Subordinate Voting Shares or a similar business combination transaction and except pursuant to certain other limited exceptions.

Pursuant to policy statements of certain securities regulators, the Underwriters may not, throughout the period of distribution, bid for or purchase Subordinate Voting Shares. The foregoing restriction is subject to certain exceptions including: (i) a bid or purchase permitted under the Universal Market Integrity Rules for Canadian Marketplaces administered by the Investment Industry Regulatory Organization of Canada relating to market stabilization and passive market making activities, (ii) a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of the distribution, provided that the bid or purchase was for the purpose of maintaining a fair and orderly market and not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, such securities, or (iii) a bid or purchase to cover a short position entered into prior to the commencement of a prescribed restricted period. Consistent with these requirements, and in connection with this distribution, the Underwriters may over-allot or effect transactions that are intended to stabilize or maintain the market price of the Subordinate Voting Shares at levels other than those which otherwise might prevail in the open market. If these activities are commenced, they may be discontinued by the Underwriters at any time. The Underwriters may carry out these transactions on the CSE, in the over-the-counter market or otherwise.

The Unit Shares and the Warrants comprising the Units offered hereby and the Warrant Shares issuable upon exercise of the Warrants have not been and will not be registered under the U.S. Securities Act or any state securities laws and may not be offered, sold or delivered, directly or indirectly, to, or for the account or benefit of, a person in the United States or a U.S. Person.

Each Underwriter has agreed that, except as permitted by the Underwriting Agreement and as expressly permitted by applicable U.S. federal and state securities laws, it will not offer or sell the Units at any time to, or for the account or benefit of, any person in the United States or any U.S. Person as part of its distribution. The Underwriting Agreement permits the Underwriters to re-offer and re-sell the Units that they have acquired pursuant to the Underwriting Agreement to “qualified institutional buyers” (as defined in Rule 144A under the U.S. Securities Act) that are, or are acting for the account or benefit of, a person in the United States or a U.S. Person in compliance with Rule 144A under the U.S. Securities Act (and pursuant to similar exemptions under applicable state securities laws). Moreover, the Underwriting Agreement provides that the Underwriters will offer and sell the Units outside the United States to non-U.S. Persons only in accordance with Rule 903 of Regulation S under the U.S. Securities Act. The Units, and the Unit Shares and the Warrants comprising the Units, that are offered or sold to, or for the account or benefit of, a person in the United States or a U.S. Person, and any Warrant Shares issued upon the exercise of such Warrants, will be “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act and will be subject to restrictions to the effect that such securities have not been registered under the U.S. Securities Act or any applicable state securities laws and may only be offered, sold, pledged or otherwise transferred pursuant to certain exemptions from the registration requirements of the U.S. Securities Act and applicable state securities laws.

The Warrants and the Warrant Shares have not been and will not be registered under the U.S. Securities Act or any applicable state securities laws, and the Warrants will not be exercisable by or on behalf of a person in the United States or a U.S. Person, nor will certificates representing the Warrant Shares be registered or delivered to an address in the United States, unless an exemption from registration under the U.S. Securities Act and any applicable state securities laws is available and the Corporation has received an opinion of counsel of recognized standing or other evidence to such effect in form and substance reasonably satisfactory to the Corporation; provided, however, that a holder who is a “qualified institutional buyer” (as defined in Rule 144A under the U.S. Securities Act) at the time of exercise of the Warrants who purchased Units in the Offering to, or for the account or benefit of, persons in the United States or U.S. Persons will not be required to deliver an opinion of counsel or such other evidence in connection with the exercise of Warrants that are a part of those Units.



This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the Units to, or for the account or benefit of, a person in the United States or a U.S. Person. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Units, Unit Shares or Warrants within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with exemptions from registration under the U.S. Securities Act and applicable state securities laws.

Subscriptions for the Units will be received subject to rejection or allotment, in whole or in part, and the Underwriters reserve the right to close the subscription books at any time without notice. Closing of the Offering is expected to take place on or about December 4, 2018, or such other date as may be agreed upon by the Corporation and the Underwriters, but in any event not later than 42 days after the date of the receipt for this Prospectus. It is anticipated that the Unit Shares and Warrants comprising the Units will be delivered under the book-based system through CDS or its nominee and deposited in electronic form, or will otherwise be delivered to the Underwriters registered as directed by the Underwriters, on the Closing Date. Except in limited circumstances, a purchaser of Units will receive only a customer confirmation from the registered dealer from or through which the Units are purchased and who is a CDS depository service participant. CDS will record the CDS participants who hold Unit Shares and Warrants on behalf of owners who have purchased Units in accordance with the book-based system. No definitive certificates will be issued unless specifically requested or required.

Pursuant to the terms of the Underwriting Agreement, the Corporation has agreed to reimburse the Underwriters for certain expenses incurred in connection with the Offering and to indemnify the Underwriters and their directors, officers, employees, agents, partners and shareholders and each other person, if any, controlling the Underwriters or any of their subsidiaries, against certain liabilities and expenses and to contribute to payments the Underwriters may be required to make in respect thereof.

#### USE OF PROCEEDS

The estimated net proceeds of the Offering, after deducting the Underwriters' Fee and the estimated expenses of the Offering, will be \$70,068,800. The net proceeds of the Offering are currently intended to be used as outlined below:

Use	Allocation of Net Proceeds
Retail expansion	\$35,000,000
Development of cultivation and production facilities	\$12,500,000
Operating cash flow	\$18,000,000
General corporate and other working capital purposes	\$4,568,800
<b>Total</b>	<b>\$70,068,800</b>

The following table outlines the objectives to be pursued by the Corporation in allocating the net proceeds of the Offering noted above towards retail expansion and development of cultivation and production facilities.

Business Objective	Estimated Remaining Budget (\$ millions)	Allocation of Cash on Hand (\$ millions)	Allocation of Net Proceeds (\$ millions)	Project Fully Funded <sup>(1)</sup>
<b>Cultivation and Production Projects</b>				
Completion of cultivation and production facility in California (Desert Hot Springs) – Phase 1 (in process)	\$13.1	\$9.5	\$3.6	Yes
Completion of expansion	\$19.6	\$4.2	\$4.1	No

of cultivation and production facility in Nevada (Mustang) (in process)

Completion of expansion of cultivation and production facility in Eustis, Florida (in process)	\$29.4	\$3.5	\$3.1	No
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Completion of replacement cultivation and production facility in New York (not started)	\$14.8	\$1.8	\$1.7	No
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**Retail Expansion Projects**

Florida: Construction of first 4 stores (in process)	\$16	\$8.0	\$6.8	No
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California: Renovation of 5 stores and construction of 1 store (in process)	\$35.1	\$13.5	\$16.0	No
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Nevada: Renovation of 4 stores (in process)	\$16.7	\$9.5	\$7.2	Yes
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New York: Renovation of 1 store (in process)	\$7.3	\$2.3	\$5.0	Yes
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<b>Total</b>	<b>\$152</b>	<b>\$52.3</b>	<b>\$47.5</b>	
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**Note:**

- (1) The Corporation currently contemplates that additional funds will need to be raised in order to provide for the remaining costs of the projects that are indicated above as not fully funded. Please see “Risk Factors”, including “Risk Factors – Risks Related to the Offering – Additional Financing”.

During the financial year ended June 30, 2018, the Corporation had negative operating cash flows. The Corporation expects to continue to have negative cash flows in the future and \$18.0 million of the net proceeds of the Offering will fund this cash flow need.

If the Over-Allotment Option is exercised in full for Over-Allotment Units, the Corporation will receive additional net proceeds of \$10,577,820, after deducting the Underwriters’ Fee. At present, the Corporation anticipates that any additional net proceeds from the exercise of the Over-Allotment Option would be allocated to one or more of the current projects described above. The specific projects and the specific allocations will be determined once the actual amount of any such additional net proceeds has been determined.

The Corporation seeks to apply capital in a manner that maximizes shareholder value and that generates an attractive return on capital over the longer term. The Corporation operates in a uniquely uncertain environment. Cannabis is highly regulated by multiple state governments and local agencies. Opportunities to sell cannabis in any state or city are governed both by the decisions of regulators and the outcomes of democratic elections. The success of a cannabis referendum can yield significant new opportunities for the Corporation. Executing on new opportunities requires the ability to apply capital opportunistically. The Corporation is in various stages of building out a vertically integrated cannabis cultivation, production and retail business in multiple states in which the medical or retail sale of cannabis has already been approved by voters and implemented by state and local agencies. While seeking to be vertically integrated, the Corporation is focused on its retail operations. At present, the Corporation is allocating the most significant portions of its available capital towards acquiring and building new store locations, and towards completing and expanding, as applicable, its cultivation and production facilities in California, Nevada and Florida, which are the focus of the Corporation’s current and near term retail locations. Four new retail locations in Florida are currently expected to be constructed by the third quarter of fiscal 2019.

While the Corporation currently anticipates that it will use the net proceeds of the Offering as set forth above, the Corporation may re-allocate the net proceeds of the Offering from time to time, giving consideration to its strategy relative to the market, development and changes in the industry and regulatory landscape, as well as other conditions relevant at the applicable time. In the ordinary course, the Corporation is involved in discussions with various parties regarding acquisitions and needs to be able to execute and rapidly deploy capital when these opportunities present themselves. Until utilized, the net proceeds of the Offering will be held in cash balances in the Corporation's bank accounts or invested at the discretion of management. Management will have discretion concerning the use of the net proceeds of the Offering, as well as the timing of their expenditure. See "Risk Factors".

## PRIOR SALES

The following tables set forth details regarding issuances of Subordinate Voting Shares and issuances of securities convertible into or exchangeable, redeemable or exercisable for Subordinate Voting Shares during the 12-month period before the date of this Prospectus up to November 27, 2018.

### Corporation Subordinate Voting Shares

Date	Type of Security Issued	Issuance Price per Security	Number of Securities Issued
28-May-18	Subordinate Voting Shares <sup>(1)</sup>	\$0.695 <sup>(1)</sup>	863,716 <sup>(1)</sup>
28-May-18	Subordinate Voting Shares <sup>(2)</sup>	\$5.25 <sup>(2)</sup>	27,301,729 <sup>(2)</sup>
28-May-18	Subordinate Voting Shares <sup>(3)</sup>	\$5.25 <sup>(3)</sup>	24,155 <sup>(3)</sup>
Various Dates Since Completion of the Business Combination to June 30, 2018	Subordinate Voting Shares <sup>(4)</sup>	N/A <sup>(4)</sup>	16,440,801 <sup>(4)</sup>
27-Sep-18	Subordinate Voting Shares <sup>(5)</sup>	\$5.50 <sup>(5)</sup>	15,681,818 <sup>(5)</sup>
09-Oct-18	Subordinate Voting Shares <sup>(6)</sup>	\$5.77 <sup>(6)</sup>	447,379 <sup>(6)</sup>
05-Nov-18	Subordinate Voting Shares <sup>(7)</sup>	\$6.87 <sup>(7)</sup>	50 <sup>(7)</sup>
16-Nov-18	Subordinate Voting Shares <sup>(8)</sup>	\$5.88 <sup>(8)</sup>	45,027 <sup>(8)</sup>
Various Dates Since June 30, 2018	Subordinate Voting Shares <sup>(9)</sup>	N/A <sup>(9)</sup>	12,617,605 <sup>(9)</sup>

#### Notes:

- (1) See "— Corporation Subscription Receipts".
- (2) Issued to the subscribers under the subscription receipt offering completed on May 25, 2018 by MedMen Acquisition Corp. ("MedMen Acquisition") in connection with the Business Combination (the "May SR Offering"). See "General Development of the Business – Financing Activities – May SR Offering" in the AIF for further details.
- (3) Issued to a consultant in satisfaction of amounts owed in respect of services rendered.
- (4) Issued in connection with the redemption, in accordance with their terms, of 16,440,801 MedMen Corp Redeemable Shares by the holders thereof.
- (5) Issued pursuant to the September Unit Offering. See "General Development of the Business – Financing Activities – September Unit Offering" in the AIF for further details.
- (6) Issued to the vendor of certain intellectual property rights in connection with the purchase thereof by the Corporation.
- (7) Issued upon the exercise of an equivalent number of September Warrants. See "— Corporation Options and Warrants". In connection with these September Warrant exercises, the Corporation subscribed for, and MedMen Corp. issued to the Corporation, an equivalent number of additional MedMen Corp. Voting Shares (as defined herein), and MedMen Corp. subscribed for, and the LLC issued to MedMen Corp., an equivalent number of additional LLC Non-Redeemable Units (as defined herein).
- (8) Issued to a consultant in satisfaction of amounts owed in respect of services rendered.
- (9) Issued in connection with the redemption, in accordance with their terms, of 12,617,605 MedMen Corp Redeemable Shares by the holders thereof.

### Corporation Options and Warrants

Date	Type of Security Issued	Exercise Price per Security	Number of Securities Issued
28-May-18	Compensation Warrants <sup>(1)</sup>	\$5.25 <sup>(1)</sup>	2,415,485 <sup>(1)</sup>
28-May-18	Options <sup>(2)</sup>	\$5.25 <sup>(2)</sup>	8,306,271 <sup>(2)</sup>

Date	Type of Security Issued	Exercise Price per Security	Number of Securities Issued
09-Jul-18	Options <sup>(3)</sup>	\$5.03 <sup>(3)</sup>	200,000 <sup>(3)</sup>
29-Aug-18	Options <sup>(4)</sup>	\$5.24 <sup>(4)</sup>	438,696 <sup>(4)</sup>
27-Sep-18	September Warrants <sup>(5)</sup>	\$6.87 <sup>(5)</sup>	7,840,909 <sup>(5)</sup>
12-Oct-18	Options <sup>(6)</sup>	\$7.44 <sup>(6)</sup>	2,140,122 <sup>(6)</sup>
15-Oct-18	Options <sup>(7)</sup>	\$8.14 <sup>(7)</sup>	138,309 <sup>(7)</sup>
17-Oct-18	Options <sup>(8)</sup>	\$8.99 <sup>(8)</sup>	12,200 <sup>(8)</sup>
19-Oct-18	Options <sup>(9)</sup>	\$9.02 <sup>(9)</sup>	1,200 <sup>(9)</sup>
22-Oct-18	Options <sup>(10)</sup>	\$8.50 <sup>(10)</sup>	28,800 <sup>(10)</sup>
29-Oct-18	Options <sup>(11)</sup>	\$6.11 <sup>(11)</sup>	91,500 <sup>(11)</sup>

**Notes:**

- (1) Issued to a consultant in connection with services rendered. Such warrants (the “**Compensation Warrants**”) have an expiry date of May 28, 2019.
- (2) Issued to employees of certain subsidiaries of the Corporation under the Corporation’s stock and incentive plan. Such options expire in 10 years from the date of grant and generally have the following vesting conditions: 1/4 of the options will vest on the 1st anniversary of the grant date and 1/48 of the options will vest upon each successive month after such 1st anniversary.
- (3) Issued to a consultant in connection with services rendered under the Corporation’s stock and incentive plan. Such options expire in five years from the grant date.
- (4) Issued to certain directors of the Corporation, including the non-executive chairman of the board of directors of the Corporation, under the Corporation’s stock and incentive plan. Such options vest at the end of 3 years of service and expire in 10 years from the date of grant; provided that 61,950 of such options vest at the end of the first year of service and expire in 10 years from the date of grant. See “Directors and Executive Officers” in the AIF.
- (5) Issued pursuant to the September Unit Offering. See “General Development of the Business – Financing Activities – September Unit Offering” in the AIF for further details. 50 September Warrants were exercised by the holders thereof for Subordinate Voting Shares on November 5, 2018.
- (6) Issued to a certain officer of the Corporation and to employees of certain subsidiaries of the Corporation under the Corporation’s stock and incentive plan. Such options expire in 10 years from the date of grant and have the following vesting conditions: 1/4 of the options will vest on the 1st anniversary of the applicable employee’s start date and 1/48 of the options will vest upon each successive month after such 1st anniversary.
- (7) Issued to employees of certain subsidiaries of the Corporation under the Corporation’s stock and incentive plan. Such options expire in 10 years from the date of grant and have the following vesting conditions: 1/4 of the options will vest on the 1st anniversary of the grant date and 1/48 of the options will vest upon each successive month after such 1st anniversary.
- (8) Issued to employees of certain subsidiaries of the Corporation under the Corporation’s stock and incentive plan. See Note (7) above for the term of and vesting conditions in respect of such options.
- (9) Issued to an employee of a certain subsidiary of the Corporation under the Corporation’s stock and incentive plan. See Note (7) above for the term of and vesting conditions in respect of such options.
- (10) Issued to employees of certain subsidiaries of the Corporation under the Corporation’s stock and incentive plan. See Note (7) above for the term of and vesting conditions in respect of such options.
- (11) Issued to employees of certain subsidiaries of the Corporation under the Corporation’s stock and incentive plan. See Note (7) above for the term of and vesting conditions in respect of such options.

**Corporation Subscription Receipts**

Date	Type of Security Issued	Issuance Price per Security	Number of Securities Issued
07-Mar-18	Ladera Subscription Receipts	\$0.695	863,716

**Note:** On March 7, 2018, Ladera completed a subscription receipt offering to raise \$600,000 through the issuance of 8,000,000 subscription receipts (the “**Ladera Subscription Receipts**”) at a price of \$0.075 per Ladera Subscription Receipt. On May 28, 2018, each Ladera Subscription Receipt automatically converted into one unit of Ladera Ventures Corp. for no additional consideration. Each unit consisted of one Ladera Common Share (such class of shares being redesignated to Subordinate Voting Shares on the same day in connection with the Business Combination) and one share purchase warrant, with each share purchase warrant being cancelled in connection with the Business Combination. The number of Ladera Subscription Receipts and the issuance price per Ladera Subscription Receipt are presented in the table above giving effect to the Ladera Consolidation, being the consolidation of the Ladera Common Shares effected in connection with the Business Combination. See “The Corporation — Corporate Structure” for further details as to such consolidation.

## MedMen Corp Redeemable Shares

Date	Type of Security Issued	Issuance/Exercise/ Conversion Price per Security	Number of Securities Issued
28-May-18	MedMen Corp Redeemable Shares <sup>(1)</sup>	N/A <sup>(1)</sup>	381,986,980 <sup>(1)</sup>
27-Jun-18	MedMen Corp Redeemable Shares <sup>(2)</sup>	US\$3.10 <sup>(2)</sup>	415,155 <sup>(2)</sup>
26-Jul-18	MedMen Corp Redeemable Shares <sup>(3)</sup>	\$4.64 <sup>(3)</sup>	602,500 <sup>(3)</sup>
01-Aug-18	MedMen Corp Redeemable Shares <sup>(4)</sup>	\$5.13 <sup>(4)</sup>	194,104 <sup>(4)</sup>
22-Aug-18	MedMen Corp Redeemable Shares <sup>(5)</sup>	\$5.25 <sup>(5)</sup>	72,464 <sup>(5)</sup>
12-Sep-18	MedMen Corp Redeemable Shares <sup>(6)</sup>	US\$3.15 <sup>(6)</sup>	1,587,301 <sup>(6)</sup>
01-Oct-18	MedMen Corp Redeemable Shares <sup>(7)</sup>	US\$4.14 <sup>(7)</sup>	937,500 <sup>(7)</sup>
16-Oct-18	MedMen Corp Redeemable Shares <sup>(8)</sup>	US\$3.03 <sup>(8)</sup>	793,651 <sup>(8)</sup>
Various Dates Since June 30, 2018	MedMen Corp Redeemable Shares <sup>(9)</sup>	US\$3.10 <sup>(9)</sup>	1,891,015 <sup>(9)</sup>

### Notes:

- (1) In connection with the reorganization of the LLC as a part of the Business Combination, certain holders of units of the LLC contributed such units to MedMen Corp. in exchange for an equivalent number of MedMen Corp Redeemable Shares.
- (2) Issued upon the exercise of an equivalent number of February Warrants. See “— MedMen Corp. Warrants and Convertible Notes”. In connection with these February Warrant exercises, MedMen Corp. subscribed for, and the LLC issued to MedMen Corp., an equivalent number of additional non-redeemable common units of the LLC (the “**LLC Non-Redeemable Units**”).
- (3) Issued as satisfaction for a post-closing payment related to a 2017 acquisition, which payment obligation had previously been evidenced by a secured promissory note. In connection with this transaction, MedMen Corp. subscribed for, and the LLC issued to MedMen Corp., an equivalent number of additional LLC Non-Redeemable Units.
- (4) Issued to a consultant in connection with services rendered. In connection with this transaction, MedMen Corp. subscribed for, and the LLC issued to MedMen Corp., an equivalent number of additional LLC Non-Redeemable Units.
- (5) Issued as partial consideration for the exclusive license agreement entered into with Woodstock, granting the Corporation rights to use the Woodstock brand on cannabis products manufactured and sold in certain U.S. states. In connection with this transaction, MedMen Corp. subscribed for, and the LLC issued to MedMen Corp., an equivalent number of additional LLC Non-Redeemable Units. See “General Development of the Business – Brand Investments – Exclusive License Agreement with Woodstock” in the AIF for further details as to such exclusive license agreement.
- (6) Issued upon the conversion in full of the principal amount of the May Convertible Notes. See “— MedMen Corp. Warrants and Convertible Notes”. In connection with the conversion of the May Convertible Notes, MedMen Corp. subscribed for, and the LLC issued to MedMen Corp., an equivalent number of additional LLC Non-Redeemable Units.
- (7) Issued upon the exercise of an equivalent number of May 16 Warrants. See “— MedMen Corp. Warrants and Convertible Notes”. In connection with these May 16 Warrant exercises, MedMen Corp. subscribed for, and the LLC issued to MedMen Corp., an equivalent number of additional LLC Non-Redeemable Units.
- (8) Issued upon the exercise of an equivalent number of May 10 Warrants. See “— MedMen Corp. Warrants and Convertible Notes”. In connection with these May 10 Warrant exercises, MedMen Corp. subscribed for, and the LLC issued to MedMen Corp., an equivalent number of additional LLC Non-Redeemable Units.
- (2) Issued upon the exercise of an equivalent number of February Warrants. See “— MedMen Corp. Warrants and Convertible Notes”. In connection with these February Warrant exercises, MedMen Corp. subscribed for, and the LLC issued to MedMen Corp., an equivalent number of additional LLC Non-Redeemable Units.

## MedMen Corp. Warrants and Convertible Notes

Date	Type of Security Issued	Exercise/Conversion Price per Security	Number of Securities Issued
02-Feb-18	February Warrants <sup>(1)</sup>	US\$3.10 <sup>(1)</sup>	6,060,426 <sup>(1)</sup>
30-Apr-18	April Warrants <sup>(2)</sup>	US\$4.14 <sup>(2)</sup>	483,097 <sup>(2)</sup>

Date	Type of Security Issued	Exercise/Conversion Price per Security	Number of Securities Issued
10-May-18	May Convertible Notes <sup>(3)</sup>	US\$3.15 <sup>(3)</sup>	US\$5,000,000 <sup>(3)</sup>
10-May-18	May 10 Warrants <sup>(4)</sup>	US\$3.03 <sup>(4)</sup>	793,651 <sup>(4)</sup>
16-May-18	May 16 Warrants <sup>(5)</sup>	US\$4.14 <sup>(5)</sup>	1,875,000 <sup>(5)</sup>
01-Oct-18	October 1 Warrants <sup>(6)</sup>	US\$4.97 <sup>(6)</sup>	16,211,284 <sup>(6)</sup>
03-Oct-18	October 3 Warrants <sup>(7)</sup>	US\$4.73 <sup>(7)</sup>	1,023,256 <sup>(7)</sup>

**Notes:**

- (1) Issued in connection with a convertible note financing completed by the LLC. In connection with the reorganization of the LLC as a part of the Business Combination, such warrants (the “**February Warrants**”), which were, when issued, exercisable for units of the LLC, were amended to become warrants exercisable for MedMen Corp Redeemable Shares on economically equivalent terms. The February Warrants had an expiry date of August 22, 2018 and any such warrants outstanding as of such date have now expired.
- (2) Issued to the lenders of certain loans received by certain subsidiaries of the LLC on April 30, 2018. Such warrants (the “**April Warrants**”) have an expiry date of May 29, 2019.
- (3) On May 10, 2018, MedMen Corp. completed a US\$5.0 million non-brokered private placement comprised of US\$5.0 million aggregate principal amount of convertible notes (the “**May Convertible Note Offering**”). Each such convertible note (each, a “**May Convertible Note**”) accrued interest at a rate of 5% per annum and was fully due and payable on May 10, 2020. The outstanding principal amount under the May Convertible Notes was convertible by the holders thereof into MedMen Corp Redeemable Shares at a conversion price of US\$3.15 per MedMen Corp Redeemable Share until May 10, 2020. The principal amount of the May Convertible Notes was converted by the holders thereof in full into MedMen Corp Redeemable Shares on September 12, 2018. Accrued interest on the May Convertible Notes became immediately repayable by MedMen Corp. upon the conversion of the May Convertible Notes.
- (4) Issued to the lenders under the May Convertible Note Offering. Such warrants (the “**May 10 Warrants**”) had an expiry date of May 10, 2023. The May 10 Warrants were exercised by the holders thereof in full for MedMen Corp Redeemable Shares on October 16, 2018.
- (5) Issued to the lenders of certain loans received by the LLC on May 16, 2018. Such warrants (the “**May 16 Warrants**”) have an expiry date of May 29, 2019. 937,500 May 16 Warrants were exercised by the holders thereof for MedMen Corp Redeemable Shares on October 1, 2018.
- (6) Issued to the lenders under the October Term Loan and to Stable Road Capital or its designees in connection with certain advisory services provided by Stable Road Capital. See “General Development of the Business – Financing Activities – October Term Loan” in the AIF for further details. Such warrants (the “**October 1 Warrants**”) have an expiry date of April 1, 2021.
- (7) Issued to the lenders under the October Term Loan and to Stable Road Capital or its designees in connection with certain advisory services provided by Stable Road Capital. See “General Development of the Business – Financing Activities – October Term Loan” in the AIF for further details. Such warrants (the “**October 3 Warrants**”) have an expiry date of April 3, 2021.

**LLC Redeemable Units and LTIP Units**

Date	Type of Security Issued	Issuance Price per Security	Number of Securities Issued
28-May-18	LLC Redeemable Units <sup>(1)</sup>	\$5.25 <sup>(1)</sup>	1,570,065 <sup>(1)</sup>
28-May-18	LTIP Units <sup>(2)</sup>	\$5.25 <sup>(2)</sup>	30,314,334 <sup>(2)</sup>
06-Sep-18	LLC Redeemable Units <sup>(3)</sup>	\$4.01 <sup>(3)</sup>	8,549,132 <sup>(3)</sup>

**Notes:**

- (1) Issued to certain officers of the Corporation as capital interests based on the offering price for the May SR Offering.
- (2) Issued to certain officers of the Corporation based on the offering price for the May SR Offering. On June 8, 2018, the Corporation amended the vesting terms of the LTIP Units granted to the Founders, Mr. Bierman and Mr. Modlin, pursuant to the terms of the A&R LLC Agreement. The vesting of such LTIP Units, being in aggregate 19,323,878 LTIP Units issued to the Founders, was amended to be contingent upon achievement of certain price targets in respect of the Subordinate Voting Shares, whereby one third of such aggregate LTIP Units will vest when the price of the Subordinate Voting Shares reaches \$10 in the open market, another third will vest when such share price reaches \$15 in the open market and the final third will vest when such share price reaches \$20 in the open market. Such share price will be determined as a five-day volume weighted average trading price on any exchange on which the Subordinate Voting Shares are traded. Prior to such amendment, in accordance with the terms of the Founders’ employment contracts, 25% of their LTIP Units were to have vested immediately on issuance (as of May 17, 2018) and the remaining 75% were to vest rateably, on a monthly basis, beginning on May 17, 2018 and concluding with all such LTIP Units being fully vested as of March 15, 2020; provided that any unvested LTIP Units were to immediately vest if the applicable Founder’s

employment were to be terminated without cause. The amendment to the vesting terms of the LTIP Units issued to the Founders did not alter the vesting terms of the LTIP Units issued to the other applicable executive officers of the Corporation, being in aggregate 10,990,455 LTIP Units.

- (3) Issued to Treadwell Nursery as partial consideration in connection with the completion of the acquisition contemplated by the Florida Acquisition Agreement.

## TRADING PRICE AND VOLUME

### Subordinate Voting Shares

The issued and outstanding Subordinate Voting Shares are listed and posted for trading on the CSE under the symbol “MMEN”. The following table sets forth the reported intraday high and low prices and monthly trading volumes of the Subordinate Voting Shares from May 29, 2018 (the date of their initial trading on the CSE upon completion of the Business Combination) up to November 27, 2018 (Source: CSE).

Period	High Trading Price	Low Trading Price	Volume
November 1 – 27, 2018	\$8.29	\$4.33	33,015,590
October 2018	\$9.88	\$4.95	64,737,223
September 2018	\$7.15	\$4.94	29,193,879
August 2018	\$5.52	\$3.70	13,274,131
July 2018	\$5.25	\$4.15	8,375,970
June 2018	\$5.90	\$3.43	30,449,993
May 29 – 31, 2018 <sup>(1)</sup>	\$5.73	\$4.10	3,789,904

On November 8, 2018, the last trading day prior to the announcement of the Offering, the closing price per Subordinate Voting Share on the CSE was \$7.32. On November 27, 2018, the last trading day prior to the date of this Prospectus, the closing price per Subordinate Voting Share on the CSE was \$4.46.

The following table sets forth the reported intraday high and low prices and monthly trading volumes of the Ladera Common Shares on the NEX board of the TSX Venture Exchange (the “TSXV”) from November 2017 up to April 27, 2018 (Source: TMX Data).<sup>(1)</sup>

Period	High Trading Price	Low Trading Price	Volume
April 1 – 27, 2018 <sup>(1)</sup>	\$0.155	\$0.135	18,000
March 2018	\$0.155	\$0.150	4,566
February 2018	\$0.160	\$0.160	900
January 2018	\$0.190	\$0.100	115,699
December 2017	\$0.190	\$0.135	6,557
November 2017	\$0.150	\$0.115	83,300

#### **Note:**

- (1) In connection with the Business Combination, the Ladera Common Shares were halted from trading on April 30, 2018 and subsequently delisted from the NEX board of the TSXV on May 25, 2018. The table above does not give effect to the Ladera Consolidation, being the consolidation of the Ladera Common Shares effected in connection with the Business Combination. See “The Corporation — Corporate Structure” for further details as to such consolidation.

### September Warrants

The issued and outstanding September Warrants are listed and posted for trading on the CSE under the symbol “MMEN.WT”. The following table sets forth the reported intraday high and low prices and monthly trading volumes of the September Warrants from September 27, 2018 (the date of their issuance and initial trading on the CSE upon completion of the September Unit Offering) up to November 27, 2018 (Source: CSE).

Period	High Trading Price	Low Trading Price	Volume
November 1 – 27, 2018	\$2.69	\$0.76	4,324,878
October 2018	\$3.52	\$1.11	4,699,008

**CONSOLIDATED CAPITALIZATION**

The following table summarizes the share and unit capital, as applicable, of the LLC, MedMen Corp. and the Corporation (i) as of June 30, 2018, (ii) as of June 30, 2018, after giving effect to material changes to the share and unit capital since such date up to November 27, 2018, (iii) as of June 30, 2018, after giving effect to material changes to the share and unit capital since such date up to November 27, 2018 and the Offering (assuming exercise of the Over-Allotment Option in full), and (iv) as of June 30, 2018, after giving effect to material changes to the share and unit capital since such date up to November 27, 2018, the Offering (assuming exercise of the Over-Allotment Option in full) and the PharmaCann Acquisition (see also “Prior Sales”):

Description	Amount Outstanding as of June 30, 2018	Amount Outstanding as of June 30, 2018 after Giving Effect to Material Changes to Share and Unit Capital since Such Date	Amount Outstanding as of June 30, 2018 after Giving Effect to Material Changes to Share and Unit Capital since Such Date and the Offering (assuming exercise of the Over-Allotment Option in full)	Amount Outstanding as of June 30, 2018 after Giving Effect to Material Changes to Share and Unit Capital since Such Date, the Offering (assuming exercise of the Over-Allotment Option in full) and the PharmaCann Acquisition <sup>(1)</sup>
<b>LLC</b>				
LTIP Units.....	30,314,334	30,314,334	30,314,334	30,314,334
LLC Redeemable Units.	1,570,065	10,119,197	10,119,197	10,119,197
LLC Non-Redeemable Units.....	411,177,310	432,937,713 <sup>(2)(4)</sup>	448,623,713 <sup>(2)</sup>	605,827,263 <sup>(2)</sup>
<b>MedMen Corp.</b>				
MedMen Corp Redeemable Shares .....	365,961,334	359,422,264 <sup>(5)</sup>	359,422,264	359,422,264
MedMen Corp Voting Shares.....	45,215,976	73,515,449 <sup>(2)(6)</sup>	89,201,449 <sup>(2)</sup>	246,404,999 <sup>(2)</sup>
February Warrants .....	5,645,271	-	-	-
April Warrants.....	483,097	483,097	483,097	483,097
May 10 Warrants.....	793,651	-	-	-
May 16 Warrants.....	1,875,000	937,500 <sup>(7)</sup>	937,500	937,500
October 1 Warrants .....	-	16,211,284 <sup>(8)</sup>	16,211,284	16,211,284
October 3 Warrants .....	-	1,023,256 <sup>(9)</sup>	1,023,256	1,023,256
May Convertible Notes .	US\$5,000,000	-	-	-
<b>Corporation</b>				
Subordinate Voting Shares .....	45,215,976	74,007,855 <sup>(10)</sup>	89,693,855	246,897,405
Super Voting Shares.....	1,630,590	1,630,590	1,630,590	1,630,590
Preferred Shares .....	-	-	-	-
Options .....	8,306,271	8,587,891 <sup>(3)</sup>	8,587,891 <sup>(3)</sup>	8,587,891 <sup>(3)</sup>
Compensation Warrants.....	2,415,485	2,415,485	2,415,485	2,415,485
September Warrants .....	-	7,840,859 <sup>(11)</sup>	7,840,859	7,840,859
Warrants .....	-	-	15,686,000	15,686,000

**Notes:**

- (1) Pursuant to the terms of the PharmaCann Acquisition, PharmaCann units will be exchanged for Subordinate Voting Shares (or the substantial equivalent thereof of a new holding company), which on a *pro forma* basis will, after certain adjustments, equal approximately 25% of the Corporation’s fully-diluted outstanding Subordinate Voting Shares (calculated based on the treasury stock method) at the time of closing of the PharmaCann Acquisition. For purposes of



accounting for the PharmaCann Acquisition within this table, the fully-diluted outstanding Subordinate Voting Shares have been calculated using the treasury stock method as of November 27, 2018. A definitive agreement has not been executed in respect of the PharmaCann Acquisition and as such there is no assurance that the transaction will be consummated on these terms or at all. See “PharmaCann Acquisition – Acquisition” for further details as to the contemplated structure of the PharmaCann Acquisition.

- (2) On October 9, 2018, the Corporation issued 447,379 Subordinate Voting Shares to the vendor of certain intellectual property rights in connection with the purchase thereof by the Corporation. The Corporation anticipates in the near term contributing such intellectual property rights to MedMen Corp. (in exchange for an equivalent number of additional MedMen Corp Voting Shares) and thereafter causing MedMen Corp. to contribute such intellectual property rights to the LLC (in exchange for an equivalent number of additional LLC Non-Redeemable Units). On November 16, 2018, the Corporation issued 45,027 Subordinate Voting Shares to a consultant in satisfaction of amounts owed in respect of services rendered. In connection with such transaction, the Corporation anticipates in the near term subscribing for the equivalent number of additional MedMen Corp Voting Shares and thereafter causing MedMen Corp. to subscribe for an equivalent number of additional LLC Non-Redeemable Units.
- (3) Such number of outstanding options accounts for the cancellation of options since their issuance, for example, as a result of the departure of the applicable employees.
- (4) LLC Non-Redeemable Units issued since June 30, 2018 as a result of additional subscriptions of the same by MedMen Corp. to account for the various transactions under which MedMen Corp Voting Shares and MedMen Corp Redeemable Shares were issued since June 30, 2018. See “Prior Sales”.
- (5) Changes to the number of outstanding MedMen Corp Redeemable Shares since June 30, 2018 account for the various issuances of the same pursuant to the various transactions described in “Prior Sales” and account for the redemption of MedMen Corp Redeemable Shares since June 30, 2018 in exchange for Subordinate Voting Shares described in “Prior Sales”.
- (6) MedMen Corp Voting Shares issued since June 30, 2018 as a result of additional subscriptions of the same by the Corporation to account for the various transactions under which Subordinate Voting Shares were issued since June 30, 2018. See “Prior Sales”.
- (7) 937,500 May 16 Warrants were exercised by the holders thereof for MedMen Corp Redeemable Shares on October 1, 2018. See “Prior Sales”.
- (8) October 1 Warrants issued in connection with the October Term Loan. See “Prior Sales” and “Additional Recent Developments – October Term Loan”.
- (9) October 3 Warrants issued in connection with the October Term Loan. See “Prior Sales” and “Additional Recent Developments – October Term Loan”.
- (10) Changes to the number of Subordinate Voting Shares since June 30, 2018 account for the various issuances of the same pursuant to the various transactions described in “Prior Sales”, including by accounting for the redemption of MedMen Corp Redeemable Shares since June 30, 2018 in exchange for Subordinate Voting Shares described in “Prior Sales”.
- (11) September Warrants issued in connection with the September Unit Offering. See “Prior Sales” and “Additional Recent Developments – September Unit Offering”.

The Offering will result in the issuance of an additional 13,640,000 Subordinate Voting Shares and of 13,640,000 Warrants (15,686,000 Subordinate Voting Shares and 15,686,000 Warrants if the Over-Allotment Option is exercised in full) and the issuance of an additional 13,640,000 Class A Common Shares of MedMen Corp. (the “**MedMen Corp Voting Shares**”) by MedMen Corp. to the Corporation (15,686,000 MedMen Corp Voting Shares if the Over-Allotment Option is exercised in full) and of an additional 13,640,000 LLC Non-Redeemable Units by the LLC to MedMen Corp. (15,686,000 LLC Non-Redeemable Units if the Over-Allotment Option is exercised in full).

Since June 30, 2018, other than the receipt by the Corporation of the October Term Loan, in the aggregate amount of US\$77,675,000, there have not been any material changes in the consolidated loan capitalization of the Corporation. As of June 30, 2018, as set out in the Financial Statements, the Corporation had total current debt of US\$3,593,334 and total debt (including current debt) of US\$57,138,719. Pursuant to terms and conditions of the PharmaCann Acquisition, PharmaCann indebtedness, other than equipment lease financing and capital leases, is expected to be paid off prior to closing the transaction. As of June 30, 2018, PharmaCann had a long-term liability in respect of capital lease obligations as set out in the financial statements of PharmaCann as at and for the three and six months ended June 30, 2018 and 2017, which are attached hereto, in the aggregate amount of US\$45,016,454.

## UNITED STATES REGULATORY ENVIRONMENT

### Federal Regulatory Environment

Under U.S. federal law, marijuana is currently a Schedule I drug. The CSA has five different tiers or schedules. A Schedule I drug means the Drug Enforcement Agency considers it to have a high potential for abuse, no accepted medical treatment, and lack of accepted safety for the use of it even under medical supervision. Other Schedule I

drugs are heroin, LSD and ecstasy. The Corporation believes the CSA categorization as a Schedule I drug is not reflective of the medicinal properties of marijuana or the public perception thereof, and numerous studies show cannabis is not able to be abused in the same way as other Schedule I drugs, has medicinal properties, and can be safely administered. Additionally, while studies show cannabis is less harmful than alcohol,<sup>2</sup> alcohol is not classified under the CSA.

33 states and the District of Columbia, have now legalized adult-use and/or medical marijuana. The federal government sought to provide guidance to enforcement agencies and banking institutions with the introduction of the United States Department of Justice Memorandum drafted by former Deputy Attorney General James Michael Cole in 2013 (the “**Cole Memo**”)<sup>3</sup> and the Department of the Treasury Financial Crimes Enforcement Network (“**FinCEN**”) guidance in 2014.<sup>4</sup>

The Cole Memo offered guidance to federal enforcement agencies as to how to prioritize civil enforcement, criminal investigations and prosecutions regarding marijuana in all states. The memo put forth eight prosecution priorities:

1. Preventing the distribution of marijuana to minors;
2. Preventing revenue from the sale of marijuana from going to criminal enterprises, gangs and cartels;
3. Preventing the diversion of marijuana from states where it is legal under state law in some form to other states;
4. Preventing the state-authorized marijuana activity from being used as a cover or pretext for the trafficking of other illegal drugs or other illegal activity;
5. Preventing the violence and the use of firearms in the cultivation and distribution of marijuana;
6. Preventing the drugged driving and the exacerbation of other adverse public health consequences associated with marijuana use;
7. Preventing the growing of marijuana on public lands and the attendant public safety and environmental dangers posed by marijuana production on public lands; and
8. Preventing marijuana possession or use on federal property.

In January 2018, then United States Attorney General, Jeff Sessions, by way of issuance of a new Department of Justice Memorandum (the “**Sessions Memo**”), rescinded the Cole Memo and thereby created a vacuum of guidance for enforcement agencies and the Department of Justice. As an industry best practice, despite the recent rescission of

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<sup>2</sup> See Lachenmeier, DW & Rehm, J. (2015). Comparative risk assessment of alcohol, tobacco, cannabis and other illicit drugs using the margin of exposure approach. *Scientific Reports*, 5, 8126. doi: 10.1038/srep08126; see also Thomas, G & Davis, C. (2009). Cannabis, Tobacco and Alcohol Use in Canada: Comparing risks of harm and costs to society. *Visions Journal*, 5. Retrieved from [http://www.heretohelp.bc.ca/sites/default/files/visions\\_cannabis.pdf](http://www.heretohelp.bc.ca/sites/default/files/visions_cannabis.pdf); see also Jacobus et al. (2009). White matter integrity in adolescents with histories of marijuana use and binge drinking. *Neurotoxicology and Teratology*, 31, 349-355. <https://doi.org/10.1016/j.ntt.2009.07.006>; Could smoking pot cut risk of head, neck cancer? (2009 August 25). Retrieved from <https://www.reuters.com/article/us-smoking-pot/could-smoking-pot-cut-risk-of-head-neck-cancer-idUSTRE57O5DC20090825>; Watson, SJ, Benson JA Jr. & Joy, JE. (2000). Marijuana and medicine: assessing the science base: a summary of the 1999 Institute of Medicine report. *Arch Gen Psychiatry Review*, 57, 547-552. Retrieved from <https://www.ncbi.nlm.nih.gov/pubmed/10839332>; see also Hoaken, Peter N.S. & Stewart, Sherry H. (2003). Drugs of abuse and the elicitation of human aggressive behavior. *Addictive Behaviours*, 28, 1533-1554. Retrieved from <http://www.ukcia.org/research/AggressiveBehavior.pdf>; and see also Fals-Steward, W., Golden, J. & Schumacher, JA. (2003). Intimate partner violence and substance use: a longitudinal day-to-day examination. *Addictive Behaviors*, 28, 1555-1574. Retrieved from <https://www.ncbi.nlm.nih.gov/pubmed/14656545>.

<sup>3</sup> U.S. Dept. of Justice. (2013 August 29). Memorandum for all United States Attorneys re: Guidance Regarding Marijuana Enforcement. Washington, DC: US Government Printing Office. Retrieved from <https://www.justice.gov/iso/opa/resources/3052013829132756857467.pdf>.

<sup>4</sup> Department of the Treasury Financial Crimes Enforcement Network. (2014 February 14). Guidance re: BSA Expectations Regarding Marijuana-Related Businesses (FIN-2014-G001). Retrieved from <https://www.fincen.gov/resources/statutes-regulations/guidance/bsa-expectations-regarding-marijuana-related-businesses>.

the Cole Memo, the Corporation continues to do the following to ensure compliance with the guidance provided by the Cole Memo:

- Ensure the operations of its subsidiaries (or third parties, in the jurisdictions where the Corporation conducts its business as an ancillary services provider) are compliant with all licensing requirements that are set forth with regards to cannabis operation by the applicable state, county, municipality, town, township, borough, and other political/administrative divisions. To this end, the Corporation retains appropriately experienced legal counsel to conduct the necessary due diligence to ensure compliance of such operations with all applicable regulations;
- The activities relating to cannabis business adhere to the scope of the licensing obtained – for example, in the states where only medical cannabis is permitted, the products are only sold to patients who hold the necessary documentation to permit the possession of the cannabis; and in the states where cannabis is permitted for adult recreational use, the products are only sold to individuals who meet the requisite age requirements;
- In working with licensed operators, such as cultivators and manufacturers in states where programs allow for the wholesaling of products, the Corporation conducts due diligence on the policies and procedures to ensure that the products are not distributed to minors. Additionally, the Corporation employs professional consultants to investigate any past license violations and ensure that the business has not been involved in these types of violations;
- The Corporation only works through licensed operators, which must pass a range of requirements, adhere to strict business practice standards and be subjected to strict regulatory oversight whereby sufficient checks and balances to ensure that no revenue is distributed to criminal enterprises, gangs and cartels. Furthermore, as a part of its due diligence, the Corporation retains professional consultants to vet the ownership of such cannabis businesses to ensure that no profits or revenues are used for the benefit of criminal enterprises;
- As a part of its compliance audit, the Corporation also ensures that the licensed operators have an adequate inventory tracking system and necessary procedures in place to ensure that such compliance system is effective in tracking inventory. This is done to ensure that there is no diversion of cannabis or cannabis products into the states where cannabis is not permitted by state law, or cross the state lines in general;
- The Corporation conducts the necessary review of financial records and where appropriate retains professional third-party consultants to do so, to ensure that the state-authorized cannabis business activity is not used as a cover or pre-text for trafficking of other illegal drugs, is engaged in other illegal activity or any activities that are contrary to any applicable anti-money laundering statutes;
- The Corporation conducts background checks to ensure that the principals and management of the licensed operators are of good character, and have not been involved with other illegal drugs, engaged in illegal activity or activities involving violence, or use of firearms in cultivation, manufacturing or distribution of cannabis;
- The Corporation conducts reviews of activities of the cannabis businesses, the premises on which they operate and the policies and procedures that are related to possession of cannabis or cannabis products outside of licensed premises (including the cases where such possession permitted by regulation – e.g. transfer of products between licensed premises). These activities are done to ensure that no licensed operators possess or use cannabis on federal property or engage in manufacturing or cultivation of cannabis on federal lands;
- The Corporation conducts reviews of products and product packaging to ensure that the products comply with applicable regulations and contain necessary disclaimers about the contents of the products to prevent adverse public health consequences from cannabis use and prevent impaired driving; and
- The Corporation ensures, through policies, procedures, training and technology solutions, that it complies with interstate commerce restrictions.

Due to the CSA categorization of marijuana as a Schedule I drug, U.S. federal law makes it illegal for financial institutions that depend on the Federal Reserve's money transfer system to take any proceeds from marijuana sales as deposits. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses under the United States Currency and Foreign Transactions Reporting Act of 1970 (the "**Bank Secrecy Act**"). Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering or conspiracy.

While there has been no change in U.S. federal banking laws to account for the trend towards legalizing medical and recreational marijuana by U.S. states, FinCEN has issued guidance advising prosecutors of money laundering and other financial crimes not to focus their enforcement efforts on banks and other financial institutions that serve marijuana-related businesses, so long as that business is legal in their state and none of the federal enforcement priorities are being violated (such as keeping marijuana away from children and out of the hands of organized crime). The FinCEN guidance also clarifies how financial institutions can provide services to marijuana-related businesses consistent with their Bank Secrecy Act obligations, including thorough customer due diligence, but makes it clear that they are doing so at their own risk. The customer due diligence steps include:

1. Verifying with the appropriate state authorities whether the business is duly licensed and registered;
2. Reviewing the license application (and related documentation) submitted by the business for obtaining a state license to operate its marijuana-related business;
3. Requesting from state licensing and enforcement authorities available information about the business and related parties;
4. Developing an understanding of the normal and expected activity for the business, including the types of products to be sold and the type of customers to be served (e.g., medical versus recreational customers);
5. Ongoing monitoring of publicly available sources for adverse information about the business and related parties;
6. Ongoing monitoring for suspicious activity, including for any of the red flags described in this guidance; and
7. Refreshing information obtained as part of customer due diligence on a periodic basis and commensurate with the risk. With respect to information regarding state licensure obtained in connection with such customer due diligence, a financial institution may reasonably rely on the accuracy of information provided by state licensing authorities, where states make such information available.

Due to the fear by financial institutions of being implicated in or prosecuted for money laundering, cannabis businesses are often forced into becoming "cash-only" businesses. As banks and other financial institutions in the U.S. are generally unwilling to risk a potential violation of federal law without guaranteed immunity from prosecution, most refuse to provide any kind of services to cannabis businesses. Despite the attempt by FinCEN to legitimize cannabis banking, in practice its guidance has not made banks much more willing to provide services to cannabis businesses. This is because, as described above, the current law does not guarantee banks immunity from prosecution, and it also requires banks and other financial institutions to undertake time-consuming and costly due diligence on each cannabis business they take on as a customer. Recently, some banks that have been servicing cannabis businesses have been closing accounts operated by cannabis businesses and are now refusing to open accounts for new cannabis businesses for the reasons enumerated above.

The few credit unions who have agreed to work with cannabis businesses are limiting those accounts to no more than 5% of their total deposits to avoid creating a liquidity risk. Since the federal government could change the banking laws as it relates to cannabis businesses at any time and without notice, these credit unions must keep sufficient cash on hand to be able to return the full value of all deposits from cannabis businesses in a single day, while also servicing the need of their other customers.

The U.S. Treasury Department, headed by Stephen Mnuchin, has publicly stated they were not informed of the then Attorney General Jeff Sessions' desire to rescind the Cole Memo and do not have a desire to rescind the FinCEN

guidance for financial institutions.<sup>5</sup> Multiple legislators believe that former Attorney General Jeff Sessions' rescinding of the Cole Memo invites an opportunity for Congress to pass more definitive protections for cannabis businesses in states with legal cannabis programs during this Congress.<sup>6</sup> It is unclear what position the new Attorney General will take.

Because the Department of Justice memorandums serve as discretionary agency guidance and do not constitute a force of law, cannabis related businesses have worked to continually renew the Rohrabacher Blumenauer Appropriations Amendment (originally the Rohrabacher Farr Amendment) that has been included in federal annual spending bills since 2014. This amendment restricts the Department of Justice from using federal funds to prevent states with medical cannabis regulations from implementing laws that authorize the use, distribution, possession or cultivation of medical cannabis. In 2017, Senator Patrick Leahy (D-Vermont) introduced a parity amendment to H.R.1625 – a vehicle for the Consolidated Appropriations Act of 2018, preventing federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to Congress restoring such funding (“**Leahy Amendment**”). The Leahy Amendment expired with the 2018 Fiscal Year on September 30, 2018.

While funding restrictions that protect the medical cannabis industry expired at the end of September as a part of the 2018 Fiscal Year cycle, Congress has been negotiating the 2019 Fiscal Year Appropriations since February 2018. The much relied on appropriations protecting the medical cannabis industry was renewed in both the House and Senate versions of the 2019 Fiscal Year Appropriations bills, with the expectation that the language will be enacted in the final 2019 Fiscal Year Appropriations Bill. **However, it should be noted that there is no assurance that the final 2019 Fiscal Year Appropriations Bill will include appropriations protecting the medical cannabis industry.**

If and/or until Congress agrees on the 2019 Fiscal Year Appropriations package, Congress would pass additional Continuing Resolutions from the 2018 Fiscal Year – which provides ongoing and consistent protection for the medical cannabis industry.

Since 2014, Congress has made immense strides in marijuana policy. The bipartisan Congressional Cannabis Caucus launched in 2017 and is headed by Representatives Dana Rohrabacher (CA-48), Earl Blumenauer (OR-03), Don Young (AK-At Large), and Jared Polis (CO-02). The group is “dedicated to developing policy reforms that bridge the gap between federal laws banning marijuana and the laws in an ever-growing number of states that have legalized it for medical or recreational purposes.”<sup>7</sup> Additionally, each year more Representatives and Senators sign on and co-sponsor marijuana legalization bills including the CARERS Act, REFER Act and others. While there are different perspectives on the most effective route to end federal marijuana prohibition, Congressman Blumenauer and Senator Wyden introduced the three-bill package, Path to Marijuana Reform which would fix Section 280E of the United States Internal Revenue Code of 1986, as amended (the “**Code**”), eliminate civil asset forfeiture and federal criminal penalties for businesses complying with state law, reduce barriers to banking, and would de-schedule, tax and regulate marijuana in 2017.<sup>8</sup> Senator Booker has also introduced the Marijuana Justice Act, which would deschedule marijuana, and in 2018 Congresswoman Barbara Lee introduced the House companion.

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<sup>5</sup> Angell, Tom. (2018 February 6). Trump Treasury Secretary Wants Marijuana Money In Banks. Retrieved from <https://www.forbes.com/sites/tomangell/2018/02/06/trump-treasury-secretary-wants-marijuana-money-in-banks/#2848046a3a53>; see also Mnuchin: Treasury is reviewing cannabis policies. (2018 February 7). Retrieved from <http://www.scotsmanguide.com/News/2018/02/Mnuchin--Treasury-is-reviewing-cannabis-policies/>.

<sup>6</sup> Jackson, Chereese. (2018 January 30). State-by-State Analysis of Sessions Move to Rescind Cole Memo. Retrieved from <http://guardianlv.com/2018/01/state-state-analysis-sessions-move-rescind-cole-memo/>; see also Velasquez, Josefa. (2018 January 23). NY Lawmaker Asks US Attorneys to Keep Hands Off State's Med Marijuana Programs. Retrieved from <https://www.law.com/newyorklawjournal/sites/newyorklawjournal/2018/01/22/ny-lawmaker-asks-us-attorneys-to-keep-hands-off-states-med-marijuana-programs/?slreturn=20180205182803>; and see also The Cannabist. (2018 January 4). “This is Outrageous”: Politicians react to news that A.G. Sessions is rescinding Cole Memo. Retrieved from <https://www.thecannabist.co/2018/01/04/sessions-marijuana-cole-memo-politicians/95890/>.

<sup>7</sup> Huddleston, Tom Jr. (2017 February 17). Pro-Pot Lawmakers Launch a Congressional Cannabis Caucus. Retrieved from <http://fortune.com/2017/02/16/congress-cannabis-caucus/>.

<sup>8</sup> Wyden, Blumenauer. (2017 March 30). Wyden, Blumenauer announce bipartisan path to marijuana reform. Retrieved from <https://blumenauer.house.gov/media-center/press-releases/wyden-blumenauer-announce-bipartisan-path-marijuana-reform>.

Additionally, on June 7, 2018, the STATES Act was introduced in the Senate by Republican Senator Cory Gardner of Colorado and Democratic Senator Elizabeth Warren of Massachusetts. A companion bill was introduced in the House by Democratic representative Jared Polis of Colorado. The bill provides in relevant part that the provisions of the CSA, as applied to marijuana, “shall not apply to any person acting in compliance with state law relating to the manufacture, production, possession, distribution, dispensation, administration, or delivery of marihuana.” Even though marijuana will remain within Schedule I under the STATES Act, it makes the CSA unenforceable to the extent it is in conflict with state law. In essence, the bill extends the limitations afforded by the Rohrabacher-Blumenauer protection within the federal budget – which prevents the Department of Justice and the Drug Enforcement Agency from using funds to enforce federal law against state-legal medical cannabis commercial activity – to both medical and recreational cannabis activity in all states where it has been legalized. By allowing continued prohibition to be a choice by the individual states, the STATES Act does not fully legalize cannabis on a national level. In that respect, the bill emphasizes states’ rights under the Tenth Amendment, which provides that “the powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.”

Notwithstanding the foregoing, there is no guarantee that the current presidential administration will not change the stated policy of the previous administration regarding the low-priority enforcement of U.S. federal laws that conflict with state laws. The Trump administration and Congress could decide to enforce U.S. federal laws vigorously. **Accordingly, there are a number of significant risks associated with the business of the Corporation and unless and until the United States Congress amends the CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk that federal authorities may enforce current federal law, and the business of the Corporation may be deemed to be producing, cultivating, extracting, or dispensing cannabis or aiding or abetting or otherwise engaging in a conspiracy to commit such acts in violation of federal law in the United States.**

**As of June 30, 2018, US\$282.19 million of the Corporation’s assets and US\$39.78 million of the Corporation’s revenues (for the year ended June 30, 2018) are exposed to U.S. marijuana related activities. In this respect, all of the Corporation’s assets and operations are currently related to U.S. marijuana related activities.**

An additional challenge to cannabis-related businesses is that the provisions of the Code, Section 280E, are being applied by the United States Internal Revenue Service to businesses operating in the medical and adult use cannabis industry. Section 280E of the Code prohibits cannabis businesses from deducting their ordinary and necessary business expenses, forcing them to pay higher effective federal tax rates than similar companies in other industries. The effective tax rate on a cannabis business depends on how large its ratio of non-deductible expenses is to its total revenues. Therefore, businesses in the legal cannabis industry may be less profitable than they would otherwise be.

Another aspect of federal law is that it provides that cannabis and cannabis products may not be transported across state lines in the United States. As a result all cannabis consumed in a state must be grown and produced in that same state. This dynamic could make it more difficult for the Corporation, in the short term, to maintain a balance between supply and demand. If excess cultivation and production capacity is created in any given state and this is not matched by increased demand in that state, then this could exert downward pressure on the retail price for the products the Corporation sells. If too many retail licenses are offered by state authorities in any given state then this could result in increased competition and exert downward pressure on the retail price for the products the Corporation sells. On the other hand, if cultivation and production in a state fails to match growing demand then, in the short term, there could be insufficient supply of product in a state to meet demand and while the Corporation may be able to raise its prices there could be inadequate product availability in the short term, causing the Corporation’s revenue in that state to fall.

The following table provides a list of the licenses granted to and disclosed as applied for by, and licenses that are subject to pending acquisitions by, each of the Corporation and PharmaCann.<sup>(1)</sup>

Holding Entity	Permit/License	City	State	Expiration/Renewal Date (if applicable) (MM/DD/YYYY)	Description	MedMen / PharmaCann	Status
Advanced Patients’ Collective	A10-18-0000167-TEMP	Los Angeles	CA	2/13/2019	State Temp Adult Use and Medicinal Retail License	MedMen	Granted

	A11-18-0000139-TEMP			12/5/2018	State Temp Adult Use and Medicinal Distributor License		
	0002086145-0001-8. Fund Class J010			12/28/2018	City of Los Angeles – Medical Retail		
	0002086145-0001-8. Fund Class J020			12/28/2018	City of Los Angeles – Adult Use Retail		
	0002086145-0001-8. Fund Class J080			12/28/2018	City of Los Angeles – Medical Distributor		
	0002086145-0001-8. Fund Class J090			12/28/2018	City of Los Angeles – Adult Use Distributor		
The Compassion Network	A10-18-0000165-TEMP			2/13/2019	State Temp Adult Use and Medicinal Retail License	MedMen	Granted
	0002181643-0001-9 Fund Class J010			12/28/2018	City of Los Angeles – Medical Retail		
	0002181643-0001-9 Fund Class J020			12/28/2018	City of Los Angeles – Adult Use Retail		
Cyon Corporation, Inc.	A10-18-0000164-TEMP			2/13/2019	State Temp Adult Use and Medicinal Retail License	MedMen	Granted
	0002053218-0001-8. Fund Class J010			12/28/2018	City of Los Angeles – Medical Retail		
	0002053218-0001-8. Fund Class J020			12/28/2018	City of Los Angeles – Adult Use Retail		
San Diego Health & Wellness	CUP 1291580	San Diego	CA	6/25/2020	City of San Diego – Recorded Conditional Use Permit for Retail	MedMen	Granted
MMOF San Diego Retail, Inc.	A10-17-0000038-TEMP			1/26/2019	State Temp Adult Use and Medicinal Retail License		
	N/A (Form DS-191)			2/22/2019	Medical Marijuana Consumer Cooperative Permit		
Desert Hot Springs Green Horizon, Inc.	CUP 14-16	Desert Hot Springs	CA	9/25/2019	Conditional Use Permit for Cultivation	MedMen	Granted
	CUP 14-16			9/25/2019	Conditional Use Permit for Production		
	CUP 14-16			9/25/2019	Conditional Use Permit for Distribution		
MMOF Vegas Retail, Inc.	2000169.MMR.301	Clark County	NV	12/31/2018	Clark County Business License – Marijuana Master License	MedMen	Granted
	Certificate: 34652970986411553293 ME Code: D078			6/30/2019	State of NV Final Registration Certificate		
	Retail Marijuana Store License, Taxpayer ID: 1037525396-001			6/30/2019	State of NV – Recreational Marijuana Store License		
MMOF Fremont Retail, Inc.	Certificate: 51798010886861416556 Code: D178	Las Vegas	NV	6/30/2019	State of NV Final Registration Certificate	MedMen	Granted

	67501179020484699802				State of NV – Recreational Marijuana Store License		
	License No.: M66-00014			3/28/2019	City of Las Vegas Medical Business License		
	License No.: M66-00015			3/28/2019	City of Las Vegas Retail Business License		
MMNV2 Holdings I, LLC	Certificate: 17870088520850390544 Code: C025	Unincorporated Washoe County	NV	6/30/2019	State of NV Final Registration Certificate	MedMen	Granted
	07912568590104527553			7/31/2019	State of NV Marijuana Cultivation Facility License – Recreational		
	Certificate: 42811321585035807243 Code: P016			6/30/2019	State of NV Final Registration Certificate		
	28332017443877189253			7/31/2019	State of NV Marijuana Production Facility License – Recreational		
	W000009ME-LIC			1/1/2019	Washoe County Medical Marijuana Establishment Business License		
	W000005ME-LIC				Washoe County Medical Marijuana Establishment Business License		
MMNV2 Holdings V, LLC	Certificate: 10617708293398081636 Code: C036	Unincorporated Washoe County	NV	12/31/2018	State of NV Provisional Registration Certificate – Cultivation	MedMen	Granted
MedMen NY	MM0501M	Utica	NY	7/31/2019	Utica – Manufacturing License	MedMen	Granted
	MM0502D	Lake Success		7/31/2019	Lake Success – Dispensary License		
	MM0503D	New York		7/31/2019	New York – Dispensary License		
	MM0504D	Syracuse		7/31/2019	Syracuse – Dispensary License		
	MM0505D	Williamsville		7/31/2019	Williamsville – Dispensary License		
MME Florida, LLC	N/A	Eustis, Florida	FL	1/15/2020	Florida - Cultivation/Processing	MedMen	Granted
MME Florida, LLC	N/A	Various	FL	TBD	Dispensary - up to 30	MedMen	Granted
Advanced Patients' Collective	N/A	Los Angeles	CA	N/A	Distribution	MedMen	Pending Application
MME MFDST, Inc.	N/A	Culver City	CA	N/A	Manufacturing	MedMen	Pending Application
MME MFDST, Inc.	N/A	Culver City	CA	N/A	Distribution	MedMen	Pending Application
MME Culver Retail, Inc.	N/A	Culver City	CA	N/A	Dispensary	MedMen	Pending Application
MME Treehouse, Inc	N/A	West Hollywood	CA	N/A	Consumption Lounge	MedMen	Pending Application



MME SF Retail, Inc.	N/A	San Francisco	CA	N/A	Dispensary	MedMen	Pending Application
MME SF Retail, Inc.	N/A	San Francisco	CA	N/A	Dispensary	MedMen	Pending Application
MME SF Retail, Inc.	N/A	San Francisco	CA	N/A	Dispensary	MedMen	Pending Application
MM of Santa Monica, Inc.	N/A	Santa Monica	CA	N/A	Dispensary	MedMen	Pending Application
MedMen Boston, Inc.	N/A	Boston	MA	N/A	Dispensary	MedMen	Pending Application
MMOF Fremont Retail, Inc.	N/A	City of Las Vegas	NV	N/A	Dispensary	MedMen	Pending Application
MMOF Vegas Retail, Inc.	N/A	Clark County	NV	N/A	Dispensary	MedMen	Pending Application
EBA Holdings, Inc.	N/A	Scottsdale	AZ	N/A	Dispensary	MedMen	Pending Acquisition
EBA Holdings, Inc.	N/A	Tempe	AZ	N/A	Cultivation/Manufacturing	MedMen	Pending Acquisition
Viktoriya's Medical Supplies	N/A	San Jose	CA	N/A	Microbusiness (Retail, Cultivation, Manufacturing, Distribution)	MedMen	Pending Acquisition
The Source Santa Ana	N/A	Santa Ana	CA	N/A	Dispensary	MedMen	Pending Acquisition
Rochambeau, Inc	N/A	Emeryville	CA	N/A	Dispensary	MedMen	Pending Acquisition
CSI Solutions, LLC	N/A	Scottsdale	AZ	N/A	Dispensary	MedMen	Pending Acquisition
CSI Solutions, LLC	N/A	Phoenix	AZ	N/A	Cultivation/Manufacturing	MedMen	Pending Acquisition
Kannaboost Technologies, Inc.	N/A	Tempe	AZ	N/A	Dispensary	MedMen	Pending Acquisition
Kannaboost Technologies, Inc.	N/A	Tempe	AZ	N/A	Cultivation/Manufacturing	MedMen	Pending Acquisition
Kannaboost Technologies, Inc.	N/A	N/A	AZ	N/A	Cultivation/Manufacturing	MedMen	Pending Acquisition
Future Transactions Holdings LLC	N/A	Oak Park	IL	N/A	Dispensary	MedMen	Pending Acquisition
PharmaCann LLC	1503060629	Dwight	IL	3/9/2019	Cultivation/Processing	PharmaCann	Granted
PharmaCann LLC	1503060628	Hillcrest	IL	3/9/2019	Cultivation/Processing	PharmaCann	Granted
PharmaCann LLC	31-001	Arlington Heights	IL	10/27/2019	Dispensary	PharmaCann	Granted
PharmaCann LLC	34-001	Evanston	IL	11/9/2019	Dispensary	PharmaCann	Granted
PharmaCann LLC	26-002	North Aurora	IL	10/27/2019	Dispensary	PharmaCann	Granted
PharmaCann LLC	17-001	Ottawa	IL	10/28/2019	Dispensary	PharmaCann	Granted
PharmaCann's Massachusetts, Inc.	42	Wareham	MA	5/21/2019	Dispensary (Medical)	PharmaCann	Granted
PharmaCann's Massachusetts, Inc.	MR281252	Wareham	MA	8/13/2019	Retail (Adult Use)	PharmaCann	Granted

PharmaCann s Massachusetts, Inc.	42	Franklin	MA	5/21/2019	Dispensary (Medical)	PharmaCann	Granted
PharmaCann s Massachusetts, Inc.	42	TBD	MA	5/21/2019	Dispensary (Medical)	PharmaCann	Granted
PharmaCann s Massachusetts, Inc.	42	Holliston	MA	5/21/2019	Cultivation (Medical)	PharmaCann	Granted
PharmaCann s Massachusetts, Inc.	42	Holliston	MA	5/21/2019	Processing (Medical)	PharmaCann	Granted
PharmaCann LLC	D-18-00042	Rockville	MD	7/26/2024	Dispensary	PharmaCann	Granted
1313 Johnson LLC	740005	Bay City	MI	5/6/2019	Dispensary	PharmaCann	Granted
PharmaCann LLC	MM0101M	Montgomery (Town of Hamptonburg h)	NY	7/31/2019	Cultivation/Processing	PharmaCann	Granted
PharmaCann LLC	MM0104D	Albany	NY	7/31/2019	Dispensary	PharmaCann	Granted
PharmaCann LLC	MM0102D	Amherst	NY	7/31/2019	Dispensary	PharmaCann	Granted
PharmaCann LLC	MM0105D	Bronx	NY	7/31/2019	Dispensary	PharmaCann	Granted
PharmaCann LLC	MM0103D	Liverpool	NY	7/31/2019	Dispensary	PharmaCann	Granted
PharmaCann Ohio LLC	TBD	Village of Buckeye Lake	OH	2/15/2019	Cultivation	PharmaCann	Granted
PharmaCann Ohio LLC	MMD.04030	Columbia	OH	12/4/2018	Dispensary	PharmaCann	Granted
PharmaCann Penn LLC	TBD	TBD	PA	TBD	Dispensary	PharmaCann	Granted
PharmaCann Penn LLC	TBD	TBD	PA	TBD	Dispensary	PharmaCann	Granted
PharmaCann Penn LLC	TBD	Philadelphia	PA	TBD	Dispensary	PharmaCann	Granted
PharmaCann Penn Plant LLC	TBD	Olyphant	PA	TBD	Cultivation/Processing	PharmaCann	Granted
PharmaCann Virginia LLC	TBD	Staunton	VA	TBD	Dispensary	PharmaCann	Granted
PharmaCann Virginia LLC	TBD	Staunton	VA	TBD	Cultivation/Processing	PharmaCann	Granted
PharmaCann New Jersey LLC	N/A	South - Gloucester County	NJ	N/A	Dispensary/Cultivation/Proces sing	PharmaCann	Pending Application
PharmaCann New Jersey LLC	N/A	Central - Hunterdon County	NJ	N/A	Dispensary/Cultivation/Proces sing	PharmaCann	Pending Application
PharmaCann New Jersey LLC	N/A	North	NJ	N/A	Dispensary/Cultivation/Proces sing	PharmaCann	Pending Application
PharmaCann Penn LLC	N/A	Delaware County	PA	N/A	Dispensary	PharmaCann	Pending Application
PharmaCann Penn LLC	N/A	Lackawanna County	PA	N/A	Dispensary	PharmaCann	Pending Application

PharmaCann Penn LLC	N/A	Bedford County	PA	N/A	Dispensary	PharmaCann	Pending Application
PharmaCann Penn LLC	N/A	Northumberland	PA	N/A	Dispensary	PharmaCann	Pending Application
PharmaCann Penn LLC	N/A	Cambria County	PA	N/A	Dispensary	PharmaCann	Pending Application
PharmaCann Penn LLC	N/A	Lawrence County	PA	N/A	Dispensary	PharmaCann	Pending Application
PharmaCann LLC	N/A	N/A	IL	N/A	Dispensary	PharmaCann	Pending Acquisition

**Notes:**

- (1) Disclosure that a license has been granted to or applied for by either the Corporation or PharmaCann does not imply that all required regulatory steps have been satisfied to operate a cannabis facility under that license, as licensing commonly requires multiple levels of approval at the state and local level, as well as securing compliant real estate, and licenses listed as having been granted are often provisional in nature. For a more detailed description of the conditionality and circumstances surrounding individual licenses listed in this table above in respect of PharmaCann granted licenses, please see “United States Regulatory Environment”.
- (2) In respect of the conditional use permits granted to Desert Hot Springs Green Horizon, Inc., these relate to the Corporation’s cultivation, production and distribution facility in California. Receipt of California state cultivation, production and distribution licenses to enable operation is subject to the filing of applications in the ordinary course (which the Corporation anticipates making in the first quarter of calendar 2019) and the receipt of state approvals.
- (3) In respect of the provisional registration certificate granted to MMNV2 Holdings V, LLC, this relates to the Corporation’s proposed cultivation and genetics facility in Nevada. The Nevada Department of Taxation previously released guidance stating that holders of provisional certificates must commence operations at the corresponding facilities by August 31, 2018 and that if holders did not do so, they were deemed to have forfeited their provisional certificate. The operations that were required to have been commenced can be limited and were not required to be the full contemplated operations for the applicable facility. MedMen obtained an extension from the Department of Taxation for this provisional certificate through to December 31, 2018. Receipt of a cannabis cultivation license to enable operation is subject to Nevada Department of Taxation approval, which approval the Corporation expects to receive prior to this provisional certificate’s expiry on December 31, 2018.
- (4) The license listed in the table above for Michigan reflects the acquisition of real property that has local permitting for cannabis retail sales, and is subject to additional licensing requirements as more fully described herein under “United States Regulatory Environment – Michigan”.

The Corporation’s operations are in full compliance with all applicable state laws, regulations and licensing requirements. Additionally, the Corporation uses the same proprietary, best-practices policies and procedures in its managed dispensaries as in its owned dispensaries in order to ensure systematic operations and, as such, to the Corporation’s knowledge, the dispensaries that the Corporation manages are in full compliance with all applicable state laws, regulations and licensing requirements.

The following sections describe the legal and regulatory landscape in the states in which PharmaCann currently operates. Please see “United States Regulatory Environment” in the AIF for a description of the same in respect of the states in which the Corporation currently operates. To the Corporation’s knowledge, PharmaCann’s operations are in full compliance with all applicable state laws, regulations and licensing requirements.

**Nonetheless, for the reasons described above and the risks further described under “Risk Factors” in the AIF and under “Risk Factors” herein, there are significant risks associated with the businesses of the Corporation and PharmaCann. Readers are strongly encouraged to carefully read all of the risk factors contained in the AIF and under “Risk Factors” herein.**

**New York**

***Regulatory Landscape***

In July 2014, the New York Legislature and Governor enacted the Compassionate Care Act (A06357E, S07923) (the “CCA”) to provide a comprehensive, safe and effective medical marijuana program to meet the needs of New Yorkers. The program currently allows 10 Registered Organizations (each, an “RO”) to hold vertically integrated licenses and service qualified patients and caregivers. Limited product types are allowed in the state and smoking of

cannabis flower is prohibited. The New York State Department of Health (the “**NYSDOH**”) is the regulatory agency overseeing the medical marijuana program.

### ***Licenses***

Under New York jurisdictional law, an RO is licensed to operate as a vertically integrated medical marijuana cultivator, manufacturer and retailer. MedMen was issued a vertically integrated license, which allows MedMen to operate one (1) cultivation/manufacturing facility and four (4) medical dispensaries, under the CCA and Medical Use of Marijuana Regulations (Title 10, Chapter XIII, Part 1004) by the NYSDOH, permitting MedMen to possess, cultivate, process, transport, dispense and sell medical cannabis in the State of New York.

Additionally, pursuant to the PharmaCann Acquisition, MedMen is in the process of acquiring interest in one (1) vertically integrated RO. As noted above, each RO is allowed to operate one (1) cultivation/manufacturing facility and four (4) medical dispensaries.

State licenses in New York are renewed every two years. Before the two-year period ends, licensees are required to submit a renewal application per guidelines published by the NYSDOH. While renewals are granted every two years, there is no ultimate expiry after which no renewals are permitted. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner, and there are no material violations noted against the applicable license, the licensee would expect to receive the applicable renewed license in the ordinary course of business.

### ***Regulations***

An RO is permitted to sell NYSDOH approved medical marijuana manufactured products to any New York qualified patient, provided that the patient presents a valid government-issued photo identification, a physician’s recommendation and a NYSDOH-issued Registry Identification Card proving the patient or designated caregiver meets the statutory conditions to be a qualified patient or designated caregiver. Registry Identification Cards are valid for one year after the date the certification is signed. The card contains the recommendation from the physician and the limitation on form or dosage of medical marijuana.

In order for a physician to recommend medical marijuana, the physician must pay for and pass a NYSDOH approved physician certification training program which lasts from two to four hours. The content of the course includes: “pharmacology of marijuana; contraindications; side effects; adverse reactions; overdose prevention; drug interactions; dosing; routes of administration; risks and benefits; warnings and precautions; abuse and dependence; and such other components as determined by the commissioner”.

In order for a patient or registered caregiver to receive dispensed marijuana, the dispensary must check the Prescription Monitoring Program (“**PMP**”) registry to ensure the patient receives appropriately recommended medical marijuana products and does not receive more than a 30-day supply of medical marijuana. The PMP registry is monitored by the NYSDOH and contains controlled substance prescription dispensing history and medical marijuana dispensing history to ensure that patients only receive a maximum of 30 days worth of dispensed product from one RO.

Allowable forms of medical marijuana in New York State are the following:

- “(1) metered liquid or oil preparations;
- (2) solid and semisolid preparations (e.g. capsules, chewable and effervescent tablets, lozenges);
- (3) metered ground plant preparations; and
- (4) topical forms and transdermal patches.”<sup>9</sup>

Medical marijuana may not be incorporated into food products by the RO, unless approved by the Commissioner of Health. Smoking is not an approved route of administration.

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<sup>9</sup> New York State Department of Health. (2018 July). Registered Organizations. Retrieved from [https://www.health.ny.gov/regulations/medical\\_marijuana/application/](https://www.health.ny.gov/regulations/medical_marijuana/application/).

Qualifying conditions in the state of New York are the following: cancer, HIV infection or AIDS, amyotrophic lateral sclerosis (ALS), Parkinson's disease, multiple sclerosis, spinal cord injury with spasticity, epilepsy, inflammatory bowel disease, neuropathy, Huntington's disease, post-traumatic stress disorder, chronic pain, and any condition for which an opioid could be prescribed (provided that the precise underlying condition is expressly stated on the patient's certification). The severe debilitating or life-threatening condition must also be accompanied by one or more of the following associated or complicating conditions: cachexia or wasting syndrome, severe or chronic pain, severe nausea, seizures, or severe or persistent muscle spasms.

The RO is responsible for patient confidentiality. To ensure confidentiality of patients, the RO offers private consultation spaces and keeps all patient data out of plain site during patient check-in and check-out process.

In the state of New York, only cannabis that is grown and manufactured in the state can be sold in the state. New York is a vertically integrated system however it does allow ROs to wholesale manufactured product to one another. Delivery is allowed from dispensaries to patients, however the delivery plan must be pre-approved by the NYSDOH.

### ***Reporting Requirements***

The state of New York has selected BioTrackTHC's solution as the state's T&T system used to track commercial cannabis activity and seed-to-sale. The BioTrackTHC system is required to serve as all ROs' patient verification system, but is optional as the RO facing tracking system. The Corporation currently uses BioTrackTHC as its seed-to-sale tracking system, but is also exploring more robust options for the future that more seamlessly integrate with its tracking systems used in other states as well.

In addition to entering all dispensing transactions into the BioTrackTHC system, every month the NYSDOH requests a dispensing report in Excel format, via email, showing all products dispensed for the month. This is the only report a licensee is required to submit to the NYSDOH. All other data is pulled by the NYSDOH directly from the licensee's seed-to-sale tracking system.

### ***Storage and Security***

To ensure the safety and security of cannabis business premises and to maintain adequate controls against the diversion, theft, and loss of cannabis or cannabis products, the licensee is required to:

- Maintain a security operations plan that includes the following at a minimum:
  - a perimeter alarm;
  - motion detectors;
  - video cameras in all areas that may contain marijuana and at all points of entry and exit, which shall be appropriate for the normal lighting conditions of the area under surveillance. The manufacturing facility or dispensing facility shall direct cameras at all approved safes, approved vaults, dispensing areas, marijuana sales areas and any other area where marijuana is being manufactured, stored, handled, dispensed or disposed of. At entry and exit points, the manufacturing facility or dispensing facility shall angle cameras so as to allow for the capture of clear and certain identification of any person entering or exiting the facility;
  - twenty-four hour recordings from all video cameras, which the manufacturing facility or dispensing facility shall make available for immediate viewing by the department or the department's authorized representative upon request and shall be retained for at least 90 days. The RO shall provide the department with an unaltered copy of such recording upon request. If an RO is aware of a pending criminal, civil or administrative investigation or legal proceeding for which a recording may contain relevant information, the RO shall retain an unaltered copy of the recording until the investigation or proceeding is closed or the entity conducting the investigation or proceeding notifies the RO that it is not necessary to retain the recording;
  - a duress alarm, which in this context means a silent security alarm system signal generated by the entry of a designated code into an arming station in order to signal that the alarm user is being forced to turn off the system;

- a panic alarm, which in this context means an audible security alarm system signal generated by the manual activation of a device intended to signal a life threatening or emergency situation requiring a law enforcement response;
- a holdup alarm, which in this context means a silent alarm signal generated by the manual activation of a device intended to signal a robbery in progress;
- an automatic voice dialer or digital dialer, which in this context means any electrical, electronic, mechanical, or other device capable of being programmed to send a prerecorded voice message, when activated, over a telephone line, radio or other communication system, to a law enforcement, public safety or emergency services agency requesting dispatch, or other department approved industry standard equivalent;
- a failure notification system that provides an audible, text or visual notification of any failure in the surveillance system. The failure notification system shall provide an alert to the manufacturing facility or dispensing facility within five minutes of the failure, either by telephone, email, or text message;
- the ability to immediately produce a clear color still photo that is a minimum of 9600 dpi from any camera image (live or recorded);
- a date and time stamp embedded on all recordings. The date and time shall be synchronized and set correctly and shall not significantly obscure the picture; and
- the ability to remain operational during a power outage.
- As an RO, ensure that any manufacturing facility and dispensing facility maintains all security system equipment and recordings in a secure location so as to prevent theft, loss, destruction or alterations.
- In addition to the requirements listed in of the first bullet above, ensure each manufacturing facility and dispensing facility shall have a back-up alarm system approved by the department that shall detect unauthorized entry during times when no employees are present at the facility and that shall be provided by a company supplying commercial grade equipment.
- As an RO, limit access to any surveillance areas solely to persons that are essential to surveillance operations, law enforcement agencies, security system service employees, the department or the department's authorized representative, and others when approved by the department. An RO shall make available to the department or the department's authorized representative, upon request, a current list of authorized employees and service employees who have access to any surveillance room. A manufacturing facility and dispensing facility shall keep all on-site surveillance rooms locked and shall not use such rooms for any other function.
- As an RO, keep illuminated the outside perimeter of any manufacturing facility and dispensing facility that is operated under the RO's license.
- Ensure all video recordings shall allow for the exporting of still images in an industry standard image format (including .jpeg, .bmp, and .gif). Exported video shall have the ability to be archived in a proprietary format that ensures authentication of the video and guarantees that no alteration of the recorded image has taken place. Exported video shall also have the ability to be saved in an industry standard file format that can be played on a standard computer operating system. An RO shall erase all recordings prior to disposal or sale of the facility.
- As an RO, keep all security equipment in full operating order and shall test such equipment no less than semi-annually at each manufacturing facility and dispensing facility that is operated under the RO's registration. Records of security tests must be maintained for five years and made available to the department upon request.
- With respect to the manufacturing facility of the RO, it must be securely locked and protected from unauthorized entry at all times. In this regard:

- The RO shall be responsible for ensuring the integrity of the security of the manufacturing facility and the maintenance of sanitary operations when permitting access to the facility.
- The manufacturing facility shall maintain a visitor log of all persons other than RO employees or emergency personnel responding to an emergency that access any secured areas, which shall include the name of the visitor, date, time and purpose of the visit. The visitor log shall be available to the department at all times during operating hours and upon request.
- Ensure all marijuana must be stored in a secure area or location within the RO accessible to the minimum number of employees essential for efficient operation and in such a manner as approved by the department in advance, to prevent diversion, theft or loss.
- Return marijuana to its secure location immediately after completion of manufacture, distribution, transfer or analysis.
- Ensure all medical marijuana is stored in such a manner as to protect against physical, chemical and microbial contamination and deterioration of the product.
- Ensure all approved safes, vaults or any other approved equipment or areas used for the manufacturing or storage of marijuana and approved medical marijuana products are securely locked or protected from entry, except for the actual time required to remove or replace marijuana or approved medical marijuana products.
- Ensure that keys shall not be left in the locks or stored or placed in a location accessible to individuals who are not authorized access to marijuana or manufactured medical marijuana products.
- Ensure that all security measures, such as combination numbers, passwords or biometric security systems, shall not be accessible to individuals other than those specifically authorized to access marijuana or manufactured medical marijuana products.
- Prior to transporting any medical marijuana, an RO shall complete a shipping manifest using a form determined by the department.
- A copy of the shipping manifest must be transmitted to the destination that will receive the products and to the department at least two business days prior to transport unless otherwise expressly approved by the department. In this regard:
  - The RO shall maintain all shipping manifests and make them available to the department for inspection upon request, for a period of five years.
  - Approved medical marijuana products must be transported in a locked storage compartment that is part of the vehicle transporting the marijuana and in a storage compartment that is not visible from outside the vehicle.
- Ensure its employees, when transporting approved medical marijuana products, travel directly to his or her destination(s) and not make any unnecessary stops in between.
- As an RO, ensure that all approved medical marijuana product delivery times are randomized.
- As an RO, staff all transport vehicles with a minimum of two employees. At least one transport team member shall remain with the vehicle at all times that the vehicle contains approved medical marijuana products.
- Ensure its transport team member has access to a secure form of communication with employees at the RO's manufacturing facility at all times that the vehicle contains approved medical marijuana products.
- Ensure its transport team member possesses a copy of the shipping manifest at all times when transporting or delivering approved medical marijuana products and produces it to the applicable regulatory body or law enforcement official upon request.

## **Illinois**

### ***Regulatory Landscape***

In 2013, the Illinois General Assembly passed the Compassionate Use of Medical Cannabis Pilot Program Act (410 ILCS 130), Public Act 98-0122 (the “**Illinois Act**”), which was signed into law by the Governor on August 1, 2013 and went into effect on January 1, 2014. The Illinois Act allows an individual who is diagnosed with a debilitating condition to register with the state to obtain cannabis for medical use. The program currently allows 60 Dispensing Organizations (each, a “**DO**”) and 22 cultivation centers state wide; all separately registered in a non-vertically integrated model. A large variety of medical cannabis products are allowed in the state, including the smoking of cannabis flower. Overall, the program is administered by the Illinois Department of Public Health (the “**IDPH**”), the Illinois Department of Financial and Professional Regulations (the “**IDFPR**”) is the regulatory agency overseeing the medical marijuana program for DOs and the Illinois Department of Agriculture is the regulatory agency overseeing the medical marijuana program for cultivation centers.

### ***Licenses***

Pursuant to the PharmaCann Acquisition, the Corporation is in the process of acquiring PharmaCann’s operational assets in the state. Currently, PharmaCann operates four (4) DOs and two (2) cultivation centers. The related licenses allow PharmaCann to cultivate, harvest, manufacture, distribute and sell medical cannabis in the state of Illinois.

Licensees are required to submit an annual renewal application and fees per guidelines published by the IDFPR and the Department of Agriculture respectively. While renewals are annual, there is no ultimate expiry after which no renewals are permitted. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner, and regulatory requirements are met, the licensee would expect to receive the applicable renewed license in the ordinary course of business.

### ***Regulations***

Under the terms of a DO license, licensees are permitted to sell medical cannabis products to qualified patients provided that the patient presents a valid government-issued photo identification and IDPH-issued Registry Identification Card proving the patient or designated caregiver meets the statutory conditions to be a qualified patient or designated caregiver. Registry Identification Cards are valid for one year after the date of approval. Under the terms of a cultivation center license, licensees are permitted to cultivate, harvest, manufacture and distribute medical cannabis in the state.

In order for a physician to recommend medical marijuana, the physician must be a doctor of medicine or osteopathy licensed under the Medical Practice Act of 1987, have a controlled substances license under Article III of the Illinois Controlled Substances Act, be in good standing to practice medicine in Illinois, and have a bona fide physician-patient relationship with the patient whose debilitating condition they are certifying.

In order for a patient or designated caregiver to be dispensed marijuana, they must be registered in the Medical Cannabis Registry Program, the DO must enter the Registry ID card into the medical cannabis electronic verification system, and verify that dispensing would not exceed dispensing limits. The registry is monitored by the IDPH and contains medical cannabis dispensing history to ensure that only patients receive a maximum of 2.5 ounces of medical cannabis every 14 days.

Allowable forms of medical cannabis in Illinois include smokable dried flower, dried flower for vaporizing, cannabis derivative products (e.g. vape pens, gel caps, tinctures, etc.) and medical cannabis-infused products (e.g. ointments, balms and edible products).

Qualifying conditions in the state of Illinois are the following: agitation of Alzheimer’s disease, HIV/AIDS, amyotrophic lateral sclerosis (ALS), Arnold-Chiari malformation, cancer, causalgia, chronic inflammatory demyelinating polyneuropathy, Crohn’s disease, CRPS (complex regional pain syndrome Type II), dystonia, fibrous dysplasia, glaucoma, Hepatitis C, hydrocephalus, hydromyelia, interstitial cystitis, lupus, multiple sclerosis, muscular dystrophy, myasthenia gravis, myoclonus, nail-patella syndrome, neurofibromatosis, Parkinson’s disease, post-concussion syndrome, post-traumatic stress disorder (PTSD), reflex sympathetic dystrophy, residual limb pain, rheumatoid arthritis, seizures (including those characteristic of epilepsy), severe fibromyalgia, Sjogren’s syndrome, spinal cord disease (including but not limited to arachnoiditis), spinal cord injury where there is damage to the



nervous tissue of the spinal cord with objective neurological indication of intractable spasticity, spinocerebellar ataxia, syringomyelia, tarlov cysts, tourette syndrome, traumatic brain injury and cachexia/wasting syndrome.

In addition to the conditions noted above, on August 28, 2018, the Opioid Alternative Pilot Program, Public Act 100-1114, became effective. While certain provisions can be implemented immediately, the Act requires IDPH and the other agencies involved in the program to adopt emergency administrative rules by December 1, 2018. IDPH will also be required to make changes in the registration process to implement the Opioid Alternative Pilot Program. The provisions of the Act which became effective immediately are:

- Patients and designated caregivers applying for a medical cannabis Registry Identification Card do not need to submit fingerprints or consent to a background check as part of their application;
- No business or person may charge patients for help filling out applications. If a patient needs help with the application process, they may visit a participating local health department for free help. Many medical cannabis dispensaries can also help a patient fill out the application at no charge;
- Certifying physicians are required to have a relationship with the patient established at a physician's office, hospital, or other healthcare facility and the physician must have an ongoing responsibility for the patient's assessment, care, and treatment.

In the state of Illinois, only cannabis that is grown and manufactured in the state can be sold in the state. Illinois is not a vertically integrated system, as a result, DO license holders are provided the ability to dispense medical cannabis and cultivation centers are provided with the ability to cultivate, harvest, process and transport medical cannabis products. Delivery is not allowed from dispensaries to patients. Only designated caregivers may deliver medical cannabis to qualified patients.

### ***Reporting Requirements***

The state of Illinois has selected BioTrackTHC's solution as the state's track and trace system used to track commercial cannabis activity and seed-to-sale. Licensed entities are permitted to choose their own provider, with a requirement that it has the ability integrate with BioTrackTHC via an application program interface ("API"). Currently, the Corporation intends to continue utilizing the incumbent seed-to-sale and POS systems utilized by the applicable licensees to be acquired. The Corporation may explore other options upon closing of the applicable acquisition transactions.

### ***Storage and Security***

To ensure the safety and security of premises where the cultivation, processing, storing, or dispensing of cannabis occurs, and to maintain adequate controls against the diversion, theft, and loss of medical cannabis, a licensee is required to abide by extensive security requirements, some of which are outlined below<sup>1011</sup>:

A dispensing organization shall:

- Implement security measures to deter and prevent entry into and theft from restricted access areas containing cannabis or currency.
- Implement security measures to protect the premises, registered qualifying patients, designated caregivers and dispensing organization agents including, but not limited to the following:

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<sup>10</sup> 8 Ill. Adm. Code §1290.410: Professions and Occupations – Department of Financial and Professional Regulation – Professions and Occupations – Rules for Administration of the Compassionate Use of Medical Cannabis Pilot Program – Security and Recordkeeping – Dispensary Security Requirements. Retrieved from <https://www2.illinois.gov/sites/mcpp/ Documents/FPR%20-%20Final%20Rule.pdf>.

<sup>11</sup> 8 Ill. Adm. Code §1000.445 - 450: Agriculture and Animals – Illinois Department of Agriculture – Licensing and Regulations – Compassionate Use of Medical Cannabis Pilot Program – General Provisions – Cultivation Center Operations. Retrieved from <https://www2.illinois.gov/sites/mcpp/ Documents/AGR%20-%20Final%20Rule.pdf>.

- Establish a locked door or barrier between the facility's entrance and the limited access area;
- When the dispensary is closed, store all cannabis and currency in a secure locked safe or vault and in a manner as to prevent diversion, theft or loss;
- Keep all safes, vaults and any other equipment or cannabis storage areas securely locked and protected from unauthorized entry;
- Keep an electronic daily log of dispensary agents with access to the safe or vault and knowledge of the access code or combination;
- Ensure the security system is operational at all times;
- Prohibit accessibility of security measures, including combination numbers, passwords or electronic or biometric security systems to persons other than specifically authorized agents;
- Ensure that the outside perimeter of the dispensary premises is sufficiently lit to facilitate surveillance; and
- All restricted access areas must be secure, with locking devices that prevent access from the limited access areas.
- Implement an adequate security plan and security system to prevent and detect diversion, theft or loss of cannabis, currency or unauthorized intrusion using commercial grade equipment installed by an Illinois licensed private alarm contractor or private alarm contractor agency that shall, at a minimum, include:
  - A perimeter alarm on all entry points and perimeter windows;
  - A failure notification system that provides an audible, text or visual notification of any failure in the surveillance system. The failure notification system shall provide an alert to designated dispensing organization agents within five minutes after the failure, either by telephone, email or text message;
  - A duress alarm, panic button and alarm, holdup alarm or after-hours intrusion detection alarm that by design and purpose will directly or indirectly notify, by the most efficient means, the public safety answering point for the law enforcement agency having primary jurisdiction;
  - Unobstructed video surveillance of all enclosed dispensary areas, unless prohibited by law, including all points of entry and exit that shall be appropriate for the normal lighting conditions of the area under surveillance. The cameras shall be directed so all areas are captured, including, but not limited to, safes, vaults, sales areas and areas where cannabis is stored, handled, dispensed or destroyed. Cameras shall be angled to allow for facial recognition, the capture of clear and certain identification of any person entering or exiting the dispensary area and in lighting sufficient during all times of night or day;
  - Twenty-four-hour recordings from all video cameras available for immediate viewing by applicable authorities upon request. Recordings shall not be destroyed or altered and retained for at least 90 days. Recordings shall be retained as long as necessary if the dispensing organization is aware of the loss or theft of cannabis or a pending criminal, civil or administrative investigation, or legal proceeding for which the recording may contain relevant information;
  - Electronic monitoring capabilities that include:
    - Monitors that must be 19-inches or greater;
    - Video printer capable of immediately producing a clear still photo from any video camera image;
    - Storage of video recording from the video cameras for at least 90 days; and
    - A failure notification system that provides an audible and visual notification of any failure in the electronic monitoring system.

A cultivation center shall:

- Operate and maintain in good working order a 24 hour, seven days a week, closed-circuit television surveillance system on the premises that complies with the following minimum standards:
  - Visually records and monitors all building entrances and exits, all parking lot areas, and rear alley areas immediately adjacent to the building, and covers the entire inside of the facility, including all limited access areas and all areas where cannabis is produced, stored, shipped or destroyed, but does not include restrooms nor the executive office. Fixed cameras shall be installed to provide a consistent recorded image of these areas. The cultivation center shall instruct the company or individuals installing the surveillance cameras to maximize the quality of facial and body images and to avoid backlighting and physical obstructions.
  - Cameras installed outdoors and in low-light interior areas shall be day/night cameras with a minimum resolution of 600 lines per inch (analog) or D1 (IP) and a minimum light factor requirement of 0.7 LUX.
  - The recording device shall be digital and meet the following minimum standards:
    - Displays a date and time stamp on all recorded video;
    - The ability to remain operational during a power outage;
    - A display monitor with a minimum screen size of 12 inches shall be connected to the electronic recording security system at all times;
    - Security recordings shall be retained by the cultivation center for a minimum of 90 days at the permitted premises and an additional 90 days off site (e.g., cloud storage). The recording system for the security cameras must be located in a locked, tamper-proof compartment. A cultivation center shall be prohibited from taping over existing security video from the last 60 days; and
    - Have available a video printer capable of immediately producing a clear still photo from any video camera image.
- Limit access to surveillance to persons who are essential to surveillance operations, law enforcement agencies, security system service personnel and applicable regulatory authorities. A current list of authorized employees and service personnel that have access to the surveillance room must be available to the applicable regulatory authorities upon request. Surveillance rooms shall remain locked.
- Maintain and use a professionally monitored robbery and burglary alarm system that meets the following requirements:
  - At a minimum, the system shall provide coverage of all facility entrances and exits, rooms with exterior windows, rooms with exterior walls, roof hatches, skylights and storage rooms that contain safes;
  - Duress alarm, which means a silent security alarm system signal generated by the entry of a designated code into an arming station in order to signal that the alarm user is being forced to turn off the system;
  - A failure notification system that provides an audible, text or visual notification of any failure in the surveillance system. The failure notification system shall provide an alert to the cultivation center, within five minutes after the failure, by telephone, email or text message;
  - The ability to remain operational during a power outage and ensure all access doors are not solely controlled by an electronic access panel to ensure that locks are not released during power outage; and
  - The system shall be inspected, and all devices tested annually by a qualified alarm vendor.

## **Massachusetts**

### ***Regulatory Landscape***

The use of cannabis for medical use was legalized in Massachusetts by a voter approval of the Massachusetts Marijuana Initiative in 2012. The law took effect on January 1, 2013, eliminating criminal and civil penalties for the possession and use of up to a 60-day or ten (10) ounce supply of marijuana for medical use for patients possessing a state issued registration card.

On November 8, 2016, Massachusetts voters approved Question 4 of the Massachusetts Marijuana Legalization Initiative, which allowed for recreational or “adult use” cannabis in the Commonwealth.<sup>12</sup> On September 12, 2017, the Cannabis Control Commission (“CCC”) was established under Chapter 55 of the Acts of 2017 (the “**Massachusetts Act**”) to implement and administer laws enabling access to medical and adult-use cannabis.<sup>13</sup>

Under the current program there are no state-wide limits on the total number of licenses permitted however, no individual or entity shall be a controlling person over more than three licenses in a particular class of license. Similarly, no individual, corporation or other entity shall be in a position to control the decision making of more than three licenses in a particular class of license. In addition, all Marijuana Establishments are required to enter into host community agreements with the municipality in which they are located.

### ***Licenses***

Pursuant to the PharmaCann Acquisition, the Corporation is in the process of acquiring three (3) Marijuana Retailer licenses and one (1) Marijuana Cultivation/Manufacturing license allowing the Corporation to cultivate, harvest, manufacture, sell and dispense cannabis to patients and adult-use customers.

Provisional Marijuana Establishment licenses are valid for one (1) year and licenses must be renewed annually thereafter in accordance with CCC guidelines. There is no ultimate expiry after which no renewals are permitted. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner, the licensee provides an accounting of the financial benefits accruing to the municipality as the result of the host community agreement, and regulatory requirements are met, the licensee would expect to receive the applicable renewed license in the ordinary course of business.

### ***Regulations***

Under the terms of the Marijuana Cultivator license the licensee may cultivate, process and package marijuana, to transfer and deliver marijuana products to marijuana establishments, but not to consumers. A Marijuana Product Manufacturer is an entity authorized to obtain, manufacture, process and package marijuana and marijuana products, to deliver marijuana and marijuana products to Marijuana Establishments and to transfer marijuana and marijuana products to other Marijuana Establishments, but not to consumers.<sup>14</sup> A Marijuana Retailer is an entity authorized to purchase and deliver marijuana and marijuana products from Marijuana Establishments and to sell or otherwise transfer marijuana and marijuana products to Marijuana Establishments and to consumers. A Marijuana Retailer provides a retail location which may be accessed by consumers 21 years of age or older or, if the retailer is co-located with a RMD by individuals who are registered qualifying patients with the Medical Use of Marijuana Program with a registration card.<sup>15</sup>

In order for a customer to be dispensed marijuana, they must present a valid government issued photo ID immediately upon entry of the retail facility. If the individual is younger than 21 years old but 18 years of age or

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<sup>12</sup> Massachusetts Legislature. Chapter 334 of the Acts of 2016. Retrieved from <http://malegislature.gov/Laws/SessionLaws/Acts/2016/Chapter334>.

<sup>13</sup> Massachusetts Cannabis Control Commission. About the Commission. Retrieved from <https://mass-cannabis-control.com/about-us-2/>.

<sup>14</sup> Massachusetts Legislature. Chapter 55 of the Acts of 2017: An Act to Ensure Safe Access to Marijuana. Retrieved from <https://malegislature.gov/Laws/SessionLaws/Acts/2017/Chapter55>.

<sup>15</sup> Massachusetts Cannabis Control Commission. Guidance on Types of Marijuana Establishment Licenses. Retrieved from <http://mass-cannabis-control.com/wp-content/uploads/2018/04/Guidance-License-Types.pdf>.

older, he or she shall not be admitted unless they produce an active medical registration card issued by the DPH. If the individual is younger than 18 years old, he or she shall not be admitted unless they produce an active medical registration card and they are accompanied by a personal caregiver with an active medical registration card. In addition to the medical registration card, registered qualifying patients 18 years of age and older and personal caregivers must also produce proof of identification. The state does not monitor dispensing limits, as limits are the responsibility of each Marijuana Retailer. Each recreational customer may be dispensed no more than one ounce of marijuana or five grams of marijuana concentrate per transaction as outlined in 935 CMR 500.140(4). Medical patients may be dispensed up to a 60-day supply of marijuana, or equivalent amount of marijuana in MIPs, that a registered qualifying patient would reasonably be expected to need over a period of 60 calendar days for his or her personal medical use, which is ten ounces, subject to 105 CMR 725.010(I).

Allowable forms of marijuana in Massachusetts include smokable dried flower, dried flower for vaporizing, cannabis derivative products (i.e., vape pens, gel caps, tinctures, etc.) and medical cannabis-infused products, including edibles.

In the state of Massachusetts, only cannabis that is grown and manufactured in the state can be sold in the state. Massachusetts is not a vertically integrated system, as a result a Marijuana Retailer may purchase and transport marijuana products from Marijuana Establishments and to transport, sell or otherwise transfer marijuana products to Marijuana Establishments and to consumers. Licensed cultivators and product manufacturers may cultivate, harvest, process, produce package and sell marijuana products to Marijuana Establishments. Delivery to customers is currently not permitted, however delivery to medical patients is allowed.

### ***Reporting Requirements***

The state of Massachusetts has selected Franwell's Metrc solution as the state's track and trace system used to track commercial cannabis activity and seed-to-sale. Licensed entities are permitted to choose their own provider, upon approval from CCC, with a requirement that it has the ability integrate with Metrc via an application program interface ("API"). Currently, the Corporation intends to continue utilizing the incumbent seed-to-sale and POS systems utilized by the applicable licensees to be acquired pursuant to the PharmaCann Acquisition. The Corporation may explore other options upon closing of the PharmaCann Acquisition. A retailer that is co-located with a medical marijuana treatment center shall maintain and provide to the Commission on a biannual basis accurate sales data collected by the licensee during the six months immediately preceding this application for the purpose of ensuring an adequate supply of marijuana and marijuana products under 935 CMR 500.140(10).

### ***Storage and Security***

To ensure the safety and security of premises where the storing, and dispensing of cannabis occurs, and to maintain adequate controls against the diversion, theft, and loss of medical cannabis, Marijuana Establishments are required to abide extensive security measures in accordance with 935 CMR 500.110, some of which are outlined below:

### **General Requirements**

- A Marijuana Establishment shall implement sufficient safety measures to deter and prevent unauthorized entrance into areas containing marijuana and theft of marijuana at the Marijuana Establishment. Security measures taken by the licensee to protect the premises, employees, consumers and general public shall include, but not be limited to, the following:
  - Positively identifying individuals seeking access to the premises of the Marijuana Establishment or to whom or marijuana products are being transported pursuant to 935 CMR 500.105(14) to limit access solely to individuals 21 years of age or older.
  - Adopting procedures to prevent loitering and ensure that only individuals engaging in activity expressly or by necessary implication permitted by these regulations and its enabling statute are allowed to remain on the premises.
  - Securing all entrances to the Marijuana Establishment to prevent unauthorized access.
  - Establishing limited access areas which shall be accessible only to specifically authorized personnel limited to include only the minimum number of employees essential for efficient operation.

- Storing all finished marijuana products in a secure, locked safe or vault in such a manner as to prevent diversion, theft and loss.
  - Keeping all safes, vaults, and any other equipment or areas used for the production, cultivation, harvesting, processing or storage of marijuana products securely locked and protected from entry, except for the actual time required to remove or replace marijuana.
  - Ensuring that the outside perimeter of the Marijuana Establishment is sufficiently lit to facilitate surveillance, where applicable.
  - Ensuring that all marijuana products are kept out of plain sight and are not visible from a public place without the use of binoculars, optical aids or aircraft.
  - Developing emergency policies and procedures for securing all product following any instance of diversion, theft or loss of marijuana, and conduct an assessment to determine whether additional safeguards are necessary.
- **Security and Alarm Requirements**
    - Perimeter alarm on all building entry and exit points and perimeter windows.
    - A failure notification system that provides an audible, text or visual notification of any failure in the surveillance system.
    - A duress alarm, panic alarm or hold-up alarm connected to local public safety or law enforcement authorities.
    - Video cameras in all areas that may contain marijuana, at all points of entry and exit and in any parking lot which shall be appropriate for the normal lighting conditions of the area under surveillance. The cameras shall be directed at all safes, vaults, sales areas and areas where marijuana is cultivated, harvested, processed, prepared, stored, handled or dispensed. Cameras shall be angled so as to allow for the capture of clear and certain identification of any person entering or exiting the Marijuana Establishment or area.
    - 24-four hour recordings from all video cameras that are available immediate viewing by the Commission upon request and that are retained for at least 90 calendar days.
    - The ability to remain operational during a power outage.
    - All security system equipment and recordings shall be maintained in a secure location so as to prevent theft, loss, destruction and alterations.
    - All security equipment shall be in good working order and shall be inspected and tested at regular intervals, not to exceed 30 calendar days from the previous inspection and test.
  - **Security Audits**
    - A Marijuana Establishment must, on an annual basis, obtain at its own expense, a security system audit by a vendor approved by the Commission. A report of such audit must be submitted, in a form and manner determined by the Commission, no later than 30 calendar days after the audit is conducted. If the audit identifies concerns related to the establishment's security system, the Marijuana Establishment must also submit a plan to mitigate those concerns within ten business days of submitting the audit.

## **Maryland**

### ***Regulatory Landscape***

In 2013, Maryland passed legislation to establish a medical marijuana program. The legislation created the Maryland Medical Cannabis Commission (the “**MMCC**”), under the Department of Health and Mental Hygiene, to oversee a limited medical cannabis program allowing for administration of medical cannabis by physicians and nurses, for

controlled research. On September 14, 2015, the MMCC enacted medical cannabis regulations, codified in the Code of Maryland Regulations (“COMAR”) under Maryland Department of Health, Title 10, Subtitle 62 – Natalie LaPrade Medical Cannabis Commission and under Health-General Article Title 13, Subtitle 33. In the state, an individual diagnosed with a chronic or debilitating disease or medical condition may register with the MMCC to obtain cannabis for medical use. The program currently allows for 15 Grower licenses, 15 processor licenses, 37 dispensary licenses, and ten licensees with both growing and dispensing licensing; all separately registered in a non-vertically integrated model. A large variety of medical cannabis products are allowed in the state, including the smoking of cannabis flower.

### ***License***

Pursuant to the PharmaCann Acquisition, the Corporation is in the process of acquiring one (1) Dispensary license allowing the Corporation to dispense medical cannabis to qualified patients.

Initial dispensary licenses are valid for four (4) year and upon renewal, dispensary licenses must be renewed biennially in accordance with MMCC guidelines. There is no ultimate expiry after which no renewals are permitted. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner, and regulatory requirements are met, the licensee would expect to receive the applicable renewed license in the ordinary course of business.

### ***Regulations***

Under the terms of the Dispensary license, licensees are permitted to sell medical cannabis products to qualified patients provided that the patient is registered with the MMMC, presents a valid written physician certification, presents a valid government-issued photo identification or MMCC-issued Patient Identification Card proving the patient or designated caregiver meets the statutory conditions to be a qualified patient or designated caregiver. Patient Identification Cards are optional however, all patients are issued an MMIC ID number which dispensaries use to verify dispensing qualifications. In order for a physician to provide written certifications for medical cannabis, the physician must be licensed to practice medicine in the state of Maryland, must be registered to prescribe controlled substances by the state, be in good standing to practice medicine in the state, be registered in the Provider’s Registry on the MMCC website and have a bona fide physician-patient relationship with the patient whose chronic or debilitating condition they are certifying.

In order for a patient or designated caregiver to be dispensed marijuana, they must be registered in the MMMC registry, and the dispensary must validate the MMCC patient ID number through the MMCC registry electronic verification system. Although the registry is not monitored by the MMCC for dispensing limits, nor contains dispensing history, each dispensary is required to ensure that it does not violate patient dispensing limits. Dispensing limits are tallied on a 30-calendar day rolling basis. Each patient may be dispensed 120 grams of usable cannabis (primarily dried flower) to not exceed 36 grams of THC, across all allowable products in any 30-day period.

Allowable forms of medical cannabis in Maryland includes smokable dried flower, dried flower for vaporizing, cannabis derivative products (i.e., vape pens, gel caps, tinctures, etc.) and medical cannabis-infused products. Edibles, considered foods, under the current regulatory framework, are currently not permitted.

Qualifying conditions in the state of Maryland are the following:

- Chronic or debilitating disease or medical condition that results in the patient being admitted into hospice or receiving palliative care;
- Chronic or debilitating disease or medical condition or are receiving treatment for a chronic or debilitating disease or medical condition that causes:
  - Cachexia
  - Anorexia
  - Wasting syndrome
  - Severe or chronic pain

- Severe or chronic pain
- Severe nausea
- Seizures
- Severe or persistent muscle spasms
- Glaucoma
- Post-traumatic stress disorder (PTSD)

In the state of Maryland, only cannabis that is grown and manufactured in the state can be sold in the state. Maryland is not a vertically integrated system, as a result, dispensary license holders are provided the ability to dispense medical cannabis and are able to acquire medical cannabis from any Maryland licensed grower and producer. Delivery is permitted from dispensaries to patients.

### ***Reporting Requirements***

The state of Maryland has selected Franwell's Metrc solution as the state's track and trace system used to track commercial cannabis activity and seed-to-sale. Licensed entities are permitted to choose their own provider, with a requirement that it has the ability integrate with Metrc via an application program interface ("API"). Currently, the Corporation intends to continue utilizing the incumbent seed-to-sale and POS systems utilized by the applicable licensees to be acquired pursuant to the PharmaCann Acquisition. The Corporation may explore other options upon closing of the PharmaCann Acquisition.

### ***Storage and Security***

To ensure the safety and security of premises where the storing, and dispensing of cannabis occurs, and to maintain adequate controls against the diversion, theft, and loss of medical cannabis, a Licensee is required to abide by the following security requirements<sup>16</sup>:

- **Secure Room**
  - A licensed dispensary shall contain a secure room to store the medical cannabis inventory.
  - The secure room:
    - Shall be constructed of concrete or similar building material that prevents unauthorized entry;
    - May not be placed adjacent to an exterior wall of the premises; and
    - Shall have only one entrance door that:
      - Meets commercial security standards;
      - Is equipped with a cipher or chip-activated keyed lock or equivalent; and
      - Is not visible from public areas of the premises.
  - Other than while the licensed dispensary is open for business and 1 hour before and 1 hour after, the inventory of medical cannabis shall be stored in the secure room.

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<sup>16</sup> Code of Maryland Regulations, Chapter 10.62.27: Department of Health & Mental Hygiene – Natalie LaPrade Medical Cannabis Commission – Licensed Dispensary Premises. Retrieved from <http://mdrules.elaws.us/comar/10.62.27>.



- **Lighting**

- Lighting fixtures of the licensee shall be designated and installed to ensure proper surveillance.

- **Security Alarm Systems**

- A licensee shall maintain a security alarm system that covers all perimeter entry points, windows and portals at the premises.
- The security alarm system shall be:
  - Continuously monitored;
  - Capable of detecting smoke and fire; and
  - Capable of detecting power loss.
- The security alarm system shall include a panic alarm device mounted at convenient, readily-accessible locations throughout the licensed premises.
- A second, independent alarm system shall be used to protect:
  - The location where records are stored on-site;
  - The location where records are stored off-site; and
  - Any secure room that holds medical cannabis.
- The security alarm system shall remain operational until the premises of the licensee no longer have any medical cannabis on the premises.
- All security alarm systems shall be equipped with auxiliary power sufficient to maintain operation for at least 48 hours.

- **Video Surveillance Systems**

- A licensee shall maintain a motion-activated surveillance recording system at the premises that:
  - Records all activity in images of high quality and high resolution capable of clearly revealing facial detail;
  - Operates 24-hours a day, 365 days a year without interruption; and
  - Provides a date and time stamp for every recorded frame.
- A licensee shall post appropriate notices advising visitors of the video surveillance.
- A surveillance camera shall be located and operated to capture activity at each exit from the premises.
- A surveillance camera shall capture activity at each entrance to an area where medical cannabis is packaged, tested, processed, stored or dispensed.
- A recording of all images captured by each surveillance camera shall be kept at:
  - The licensed premises; and
  - An off-site location.
- Recordings of security video surveillance shall be:
  - Access-limited;

- Secured by a security alarm system that is independent of the main premises security alarm system;
  - In a format that can be easily accessed for investigational purposes; and
  - Retained for a minimum of 30 calendar days.
- Any recording of security video surveillance shall be made available to the MMCC or law enforcement agency for just cause as requested.

## Michigan

### *Michigan Regulatory Landscape*

In November 2008, Michigan residents approved the Michigan Medical Marihuana Act<sup>17</sup> (the “**MMMA**”) to provide a legal framework for a safe and effective medical marijuana program. In September 2016, the Michigan Senate passed the Medical Marihuana Facilities Licensing Act<sup>18</sup> (the “**MMFLA**”) and the Marihuana Tracking Act<sup>19</sup> (the “**MTA**”) and together with the MMMA and the MMFLA, the “**Michigan Cannabis Regulations**”) to provide a comprehensive licensing and tracking scheme, respectively, for the medical marijuana program. Additionally, the Michigan Department of Licensing and Regulatory Affairs and its licensing board (“**LARA**”) has supplemented the Michigan Cannabis Regulations with “Emergency Rules” to further clarify the regulatory landscape surrounding the medical marijuana program.<sup>20</sup> LARA is the main regulatory authority for the licensing of marijuana businesses.

Under the MMFLA, LARA administers five types of “state operating licenses” for medical marijuana businesses: (a) a “grower” license, (b) a “processor” license, (c) a “secure transporter” license, (d) a “provisioning center” license and (e) a “safety compliance facility” license. There are no stated limits on the number of licenses that can be made available on a state level; however, LARA has discretion over the approval of applications and municipalities can pass additional restrictions.

On November 6, 2018, Michigan voters approved Proposal 1, to make marihuana legal under state and local law for adults 21 years of age or older and to control the commercial production and distribution of marihuana under a system that licenses, regulates, and taxes the businesses involved. The act will be known as the Michigan Regulation and Taxation of Marihuana Act<sup>21</sup>. According to Proposal 1, LARA is required to start accepting applications for retail (recreational) dispensaries within 12 months of the measure’s effective date.<sup>22</sup>

### *Michigan License*

PharmaCann has acquired real property in Michigan that has local permitting for cannabis retail sales, which local permitting is a prerequisite to receive a state retail cannabis license. PharmaCann is in the process of entering into a non-binding letter of intent with an individual that holds a provisional Grower local license, which provisional Grower local license is a pre-requisite to obtaining state approval. Obtaining the local and state licenses would allow

<sup>17</sup> Michigan Legislature. Initiated Law 1 of 2008. Retrieved from [http://www.legislature.mi.gov/\(S\(2wgqx52pio2mltrnmi13rr0a\)\)/mileg.aspx?page=getObject&objectName=mcl-Initiated-Law-1-of-2008](http://www.legislature.mi.gov/(S(2wgqx52pio2mltrnmi13rr0a))/mileg.aspx?page=getObject&objectName=mcl-Initiated-Law-1-of-2008).

<sup>18</sup> Michigan Legislature. Act 281 of 2016. Retrieved from [http://www.legislature.mi.gov/\(S\(xy4vurthgtuob3hr0napuhxv\)\)/mileg.aspx?page=getObject&objectName=mcl-Act-281-of-2016](http://www.legislature.mi.gov/(S(xy4vurthgtuob3hr0napuhxv))/mileg.aspx?page=getObject&objectName=mcl-Act-281-of-2016).

<sup>19</sup> Michigan Legislature. Act 282 of 2016. Retrieved from [http://www.legislature.mi.gov/\(S\(zup32t1bwxxnrdaix0r4ji2p\)\)/mileg.aspx?page=getObject&objectname=mcl-Act-282-of-2016&query=on&highlight=marihuana%20AND%20tracking](http://www.legislature.mi.gov/(S(zup32t1bwxxnrdaix0r4ji2p))/mileg.aspx?page=getObject&objectname=mcl-Act-282-of-2016&query=on&highlight=marihuana%20AND%20tracking).

<sup>20</sup> LARA’s “Emergency Rules” were filed on May 30, 2018 and updated in September and October 2018. “Department of Licensing and Regulatory Affairs, Bureau of Medical Marihuana Regulation, Medical Marihuana Facilities Licensing Act, Emergency Rules Filed with the Secretary of State.” (2018 September 11). Retrieved from [https://www.michigan.gov/documents/lara/Medical\\_Marihuana\\_Facilities\\_Licensing\\_Emergency\\_Rules\\_9-7-18\\_634831\\_7.pdf](https://www.michigan.gov/documents/lara/Medical_Marihuana_Facilities_Licensing_Emergency_Rules_9-7-18_634831_7.pdf).

<sup>21</sup> Coalition to Regulate Marijuana Like Alcohol. Initiative Text. Retrieved from <https://www.regulatemi.org/initiative/>.

<sup>22</sup> Michigan Proposal 1, Marijuana Legalization Initiative (2018). Retrieved from [https://ballotpedia.org/Michigan\\_Proposal\\_1,\\_Marijuana\\_Legalization\\_Initiative\\_\(2018\)](https://ballotpedia.org/Michigan_Proposal_1,_Marijuana_Legalization_Initiative_(2018)).

PharmaCann (and consequently the Corporation upon completion of the PharmaCann Acquisition) to cultivate, harvest, and sell cannabis to a processor or provisioning center (dispensary) and transfer approved cannabis and cannabis-infused products to registered qualified patients or registered primary caregivers connected to a registered qualifying patient (each, a “**Michigan Qualified Purchaser**”).

State operating licenses for marijuana businesses have a 1 year term and are annually renewable if certain conditions are met: (a) the renewal application is submitted prior to the date the license expires, or within sixty (60) days of expiration if all other conditions are met and a late fee is paid, (b) the licensee pays the regulatory assessment fee set by LARA and (c) the licensee continues to meet the requirements to be a licensee under the Michigan Cannabis Regulations. Each renewal application is reviewed by LARA, but there is no guarantee of a timely renewal. There is no ultimate expiry after which no renewals are permitted.

### ***Michigan Regulations***

Michigan Marijuana Products may be purchased in a retail setting from a provisioning center by a Michigan Qualified Purchaser; in each case, Michigan Qualified Purchasers must present a valid registry identification card issued by LARA (a “**Michigan Registry ID**”). For a Michigan Qualified Purchaser to receive Michigan Marijuana Products, provision centers must deploy an inventory control and tracking system that is capable of interfacing with the statewide monitoring system to determine (a) whether a Michigan Qualified Purchaser holds a Michigan Registry ID and (b) whether the sale or transfer will exceed the then-current daily and monthly purchasing limit for the holder of the Michigan Registry ID.<sup>23</sup>

In order to receive a Michigan Registry ID, an applicant must provide: a completed application dated within one year of submission, a written certification from a physician with a bona-fide physician-patient relationship to the underlying patient, the application or renewal fee, contact information for the patient, caregiver (if applicable) and physician, as well as proof of Michigan residency.

For registered qualifying patients, the daily purchasing limit is 2.5 ounces, and for registered primary caregivers, the daily purchasing limit is 2.5 ounces per underlying registered qualifying patient that the registered primary caregiver is connected with through the registration process. Finally, the licensee shall verify in the statewide monitoring system that the sale or transfer does not exceed the monthly purchasing limit of ten (10) ounces of marihuana product per month to a qualifying patient, either directly or through the qualifying patient’s registered primary caregiver.<sup>24</sup>

Allowable forms of medical marihuana includes smokable dried flower, dried flower for vaporizing and marihuana-infused products, which are defined under the Act to include topical formulations, tinctures, beverages, edible substances or similar products containing usable marijuana that is intended for human consumption in a matter other than smoke inhalation. Under the Michigan Cannabis Regulations, marijuana-infused products shall not be considered food.

Qualifying conditions for the medical marijuana program in Michigan are the following:

- Cancer, glaucoma, positive status for human immunodeficiency virus, acquired immune deficiency syndrome, hepatitis C, amyotrophic lateral sclerosis, Crohn's disease, agitation of Alzheimer's disease, nail patella or the treatment of these conditions;
- A chronic or debilitating disease or medical condition or its treatment that produces 1 or more of the following: cachexia or wasting syndrome; severe and chronic pain; severe nausea; seizures, including but not limited to those characteristic of epilepsy; or severe and persistent muscle spasms, including but not limited to those characteristic of multiple sclerosis;
- Post-Traumatic Stress Disorder (PTSD); and/or

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<sup>24</sup> Michigan Department of Licensing and Regulatory Affairs. Medical Marihuana Regulation, Rule 41: Daily Purchasing Limits; Provisioning Center. Retrieved from [https://www.michigan.gov/lara/0,4601,7-154-79571\\_83994-454569--,00.html](https://www.michigan.gov/lara/0,4601,7-154-79571_83994-454569--,00.html).

- Any other medical condition or its treatment approved by the department under the Michigan Cannabis Regulations.

In the state of Michigan, only cannabis that is grown and manufactured in the state can be sold in the state. Maryland is not a vertically integrated system, as a result, dispensary license holders are provided the ability to dispense medical cannabis and are able to acquire medical cannabis from any Maryland licensed grower and producer. Delivery is permitted from dispensaries to patients.

### ***Reporting Requirements***

Pursuant to the requirements of the MTA, Michigan selected Franwell's METRC software as the state's third-party solution for integrated marijuana industry verification. Using METRC, regulators are able to track third party inventory, permissible sales and seed-to-sale information. Additionally, provisioning centers can use the METRC API to connect their own inventory management and/or point-of-sale systems to verify the identity as well as permissible sales for Michigan Qualified Purchasers.<sup>25</sup>

### ***Storage and Security***

To ensure the safety and security of cannabis business premises and to maintain adequate controls against the diversion, theft, and loss of cannabis or cannabis products, a provisioning center is required to:

- Maintain and submit a security operations plan that includes the following at a minimum:<sup>26</sup>
  - Escorts for all non-employee personnel in limited access areas.
  - Secure locks for all interior rooms, windows and points of entry and exits with commercial grade, non-residential door locks.
  - An alarm system. Licensees will make all information related to the alarm system including monitoring and alarm activity available to LARA.
  - A video surveillance system that, at a minimum, consists of digital or network video recorders, cameras, video monitors, digital archiving devices and a color printer capable of delivering still photos.
  - 24-hour surveillance footage with fixed, mounted cameras, tamper/theft proof secured storage mediums and a notification system for interruption or failure of surveillance footage or storage of surveillance footage. All surveillance footage must be of sufficient resolution to identify individuals, have accurate time/date stamps and be stored for a minimum of 14 days unless state regulators notify that such recordings may be destroyed. Surveillance footage must cover:
    - All activity within 20 feet of all points of entry and exit to a facility.
    - Any areas where marijuana products are weighed, packed, stored loaded, and unloaded for transportation, prepared or moved within the marijuana facility.
    - Limited-access areas and security rooms. Transfers between rooms must be recorded.
    - Areas storing a surveillance system storage device with at least 1 camera recording the access points to the secured surveillance recording area.
    - All entrances and exists to the building must be recorded from both indoor and outdoor vantage points. The areas of entrance and exit between marijuana facilities at the same location if applicable, including any transfers between marijuana facilities.

<sup>25</sup> Michigan Department of Licensing and Regulatory Affairs. "LARA - UPDATED - LARA Announces Medical Marihuana Educational Sessions." (2017 October 9). Retrieved from [https://www.michigan.gov/lara/0,4601,7-154-10573\\_11472-449362--,00.html](https://www.michigan.gov/lara/0,4601,7-154-10573_11472-449362--,00.html).

<sup>26</sup> Michigan Department of Licensing and Regulatory Affairs. Medical Marihuana Regulation, Rule 27: Security Measures; Required Plan; Video Surveillance System. Retrieved from [https://www.michigan.gov/lara/0,4601,7-154-79571\\_83994-454548--,00.html](https://www.michigan.gov/lara/0,4601,7-154-79571_83994-454548--,00.html).

- Point of sale areas where Michigan Marijuana products are sold and displayed for sale.
- State access to view and obtain copies of any surveillance footage through LARA or related investigators, agents, auditors and/or state police. A facility shall also provide copies of recordings to LARA upon request.
- Logs of the following:
  - The identities of the employee or employees responsible for monitoring the video surveillance system.
  - The identity of the employee who removed the recording from the video surveillance system storage device and the time and date removed.
  - The identity of the employee who destroyed any recording.
- Maintain marijuana storage plan for provisioning centers that includes the following at a minimum:
  - A secured limited access area for inventories of Michigan Marijuana Products.
  - Clearly labeled containers (a) marked, labeled or tagged, (b) enclosed on all sides and (c) latched or locked to keep all contents secured within. All such containers must be identified and tracked in accordance with the MTA.
  - A locked area for chemical and solvents separate from Michigan Marijuana Products.
  - Separation of marijuana-infused products from toxic or flammable materials.
  - A sales or transfer counter or barrier separated from stock rooms to ensure registered qualifying patients or registered primary caregivers do not have direct access to Michigan Marijuana Products.

## Ohio

### *Ohio Regulatory Landscape*

The regulatory landscape for medical marijuana regulation in the state of Ohio is governed by 2016 House Bill 523<sup>27</sup> (the “**OH MM Law**”) and Ohio Administrative Code<sup>28</sup> (the “**OH Administrative Code**” and, together with the OH MM Law, the “**OH Regulations**”).<sup>29</sup> On September 8, 2016, the Ohio Legislature passed the OH MM Law authorizing the use of marijuana for medical purposes. The implementation of a medical marijuana program was scheduled for a September 2018 roll-out; however, there have been delays in the process. The primary regulatory authority in Ohio is the Medical Marijuana Control Program (the “**MMCP**”) which is overseen by the Ohio Department of Commerce (the “**OHDOC**”), the Ohio Board of Pharmacy (the “**BOP**”) and the Ohio Medical Board (the “**OH Medical Board**” and, together with the OHDOC and the OH Pharmacy Board, the “**OH Marijuana Authorities**”).

The medical marijuana program in Ohio provides for four types of licenses: (a) cultivator, (b) processor, (c) dispensary and (d) testing laboratory. The table below details the type and number of allowable licenses under the OH Regulations.

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<sup>27</sup> The Ohio Legislature. House Bill 523 – Summary. Retrieved from <https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-523>.

<sup>28</sup> Ohio Administrative Code. Retrieved from <http://codes.ohio.gov/oac/>.

<sup>29</sup> Ohio Medical Marijuana Control Program. Ohio’s Official Resource for the Medical Marijuana Control Program. Retrieved from <https://www.medicalmarijuana.ohio.gov/>.

### **Ohio License Types**

Ohio License Type	Number Allowed
Cultivation	Level I (25,000 sq. ft.) – 13 Level II (3,000 sq. ft.) – 13
Processing	40
Dispensary	60
Testing Laboratory	No Limit

### ***Ohio License***

Pursuant to the PharmaCann Acquisition, the Corporation is in the process of acquiring one (1) Dispensary provisional license and one (a) Cultivation Level I provisional license, allowing the Corporation to cultivate, harvest, purchase and dispense medical cannabis and medical cannabis products to qualified patients and qualified caregivers.

However, PharmaCann Ohio will need to obtain certificates of operation from the OHDOC (cultivation facility) and from the OH Pharmacy Board (dispensary facility) to operate. PharmaCann Ohio has until February 2019 to complete the certification process for the proposed cultivation facility and December 2018 for the proposed dispensary facility. The certification process has an extension/variance process and PharmaCann Ohio plans to extend the certification deadline for the proposed dispensary facility. PharmaCann Ohio has been in communication with OH Marijuana Authorities regarding an extension for the proposed dispensary.

Certificate of operations have a 1-year term and must be renewed annually on the date they were issued. Each licensee must submit a renewal application for each certificates of operation to the applicable OH Marijuana Authority along with the renewal fee and pass an inspection of the applicable facility. There is no ultimate expiry after which no renewals are permitted. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner, and regulatory requirements are met, the licensee would expect to receive the applicable renewed license in the ordinary course of business.

### ***Ohio Regulations***

Under the terms of approved, post-provisional licenses, the Cultivation license holders have the ability to cultivate approved strains of medical marijuana and Dispensary license holders are permitted to dispense or sell medical marijuana products to OH Qualified Purchasers, provided that the OH Qualified Purchasers provide current, valid identification<sup>30</sup> and a written recommendation issued by a physician certified under the OH Regulations. Each certified physician and qualifying patient will be recorded in a state registry. In order for a physician to recommend medical marijuana, the physician must (a) demonstrate they have no ownership, investment interest or compensation arrangement with any medical marijuana entity licensed or seeking licensure in Ohio, and (b) complete at least 2 hours of continuing medical education courses in diagnosing and treating qualifying medical conditions. All such continuing medical education courses must be certified by the Ohio State Medical Association or the Ohio Osteopathic Association.<sup>31</sup>

When dispensing medical marijuana, each dispensary must validate that the qualified purchaser does not violate dispensing limits. As outlined in the Ohio Administrative Code Chapter 3796:8-2 Form of Doses<sup>32</sup>, dispensing limits are based daily limits and 90-day limits tracked on a rolling basis. A patient and a patient's caregiver(s) may

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<sup>30</sup> Ohio has provided for the creation of registry identification cards. However, it is not clear if a program to produce such registry identification cards has been put into effect. Ohio Administrative Code, Chapter 3796:7-2-01: Patients – Registration of Patients and Caregivers – Registration of Patients and Caregivers. Retrieved from <http://codes.ohio.gov/oac/3796%3A7-2>.

<sup>31</sup> Ohio Administrative Code, Chapter 4731-32: State Medical Board – Medical Marijuana. Retrieved from <http://codes.ohio.gov/oac/4731-32>.

<sup>32</sup> Ohio Administrative Code, Chapter 3796:8-2-04: Administration – Form of Doses – Quantity of medical marijuana that may be purchased by a patient or caregiver. Retrieved from <http://codes.ohio.gov/oac/3796:8-2-04v1>.

collectively purchase no less than a whole day unit at a single item. A whole day unit shall equal the following amounts for each authorized form of medical marijuana: (a) one-tenth of an ounce of plant material (b) 295 mg of THC contained in a patch, lotion, cream, or ointment (c) 110 mg of THC contained in an oil, tincture, capsule, or edible for oral administration (d) 590 mg of THC contained in oil for vaporization. A 90-day supply may consist of multiple forms of medical marijuana, but the total 90-day supply shall not exceed a 90-day supply whether purchased as a single form or aggregate across forms of the following: (1) plant material: a. no more than 8 ounces of tier I medical marijuana b. 5 3/8th ounces of tier II medical marijuana, (2) 26 55/110th grams of THC content in patches for transdermal administration or lotions, creams, or ointments for topical administration, (3) 9 9/10th grams of THC in oil, tincture, capsule or edible for oral administration, (4) 53 1/10th grams of THC content in medical marijuana oil for vaporization. Dispensing limits must meet requirements noted above and other requirements in line with promulgated regulations.

Strains of medical marijuana and specific medical marijuana products must be registered with and approved by the OH Marijuana Authorities prior to cultivation and sale. Allowable forms of medical marijuana in Ohio includes medical marijuana for vaporizing, marijuana derivative products (i.e., vape pens, tinctures) and medical cannabis-infused edibles. The smoking or combustion of medical marijuana is prohibited. Qualifying conditions for the medical marijuana program are the following: amyotrophic lateral sclerosis, cancer, chronic traumatic encephalopathy, Crohn's disease, epilepsy or another seizure disorder, fibromyalgia, glaucoma, hepatitis C, inflammatory bowel disease, multiple sclerosis, pain (chronic and severe, or intractable), Parkinson's disease, HIV, post-traumatic stress disorder, sickle cell anemia, spinal cord disease or injury, Tourette's syndrome, traumatic brain injury, ulcerative colitis.

In the state of Ohio, only cannabis that is grown and manufactured in the state can be sold in the state. Ohio is not a vertically integrated state, as a result, dispensary license holders are provided the ability to dispense medical cannabis qualified purchasers and growers are permitted to cultivate, harvest, and sell medical cannabis to dispensaries and processors.

### ***Reporting Requirements***

The MMCP requires dispensaries to submit sales data through two platforms integrated into point-of-sale systems: Franwell's METRC software and the Ohio Automated Rx Reporting System ("OARRS"). Using METRC, regulators track third party inventory and permissible sales to ensure seed-to-sale compliance. Sales data from licensees will also be transferred to OARRS through Ohio's Prescription Monitoring Program. The OH Pharmacy Board manages the collection of data for all drugs, including medical marijuana, through OARRS data. Licensees must submit data in real-time.<sup>33</sup>

### ***Storage and Security***

To ensure the safety and security of cannabis business premises and to maintain adequate controls against the diversion, theft, and loss of cannabis or cannabis products, each cultivator and dispensary is required to maintain and submit an extensive security operations plan. An excerpt of the requirements are noted below:

- **Cultivator**<sup>34</sup>
  - An adequate security alarm system using commercial grade equipment to prevent loss and adequate lighting around the perimeter of the facility in accordance with the cultivator's application plan.
  - Fencing to prevent unauthorized entry or access to waste disposal containers, disposal areas or compost areas located outside the facility.

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<sup>33</sup> State of Ohio Board of Pharmacy. "Dispensary Point-of-Sale System Interface Requirements." (2018). Retrieved from <https://medicalmarijuana.ohio.gov/Documents/LicenseeResources/Dispensary%20Licensee%20Resources/DISPENSARY%20TECHNOLOGY%20&%20SYSTEMS/Dispensary%20Point-of-Sale%20System%20Interface%20Requirements.pdf>.

<sup>34</sup> Ohio Administrative Code, Chapter 3796:2-2-05: Cultivators – Cultivator Operations – Cultivator Security. Retrieved from <http://codes.ohio.gov/oac/3796%3A2-2>.

- A silent alarm which notifies law enforcement, to be used in event of a hold-up or other instance of duress.
- A fail-safe system that allows the cultivator to comply with the security requirements of this rule for a period of at least 48 hours during a power outage.
- A redundant, back-up alarm system approved by the OHDOC that shall detect unauthorized entry during times when no employees are present at the facility. The system shall be provided by a company supplying commercial grade equipment, which shall not be the same company supplying the primary security system.
- A video surveillance recording system installed by a vendor approved by the OHDOC. Such system shall meet the standards to prevent and detect diversion, theft or loss of medical marijuana. Each such system shall include:
  - Systems to detect motion and identify unauthorized access to the facility.
  - Video surveillance capturing the entire facility with direct placement near points of entry and parking areas. Such surveillance system will be able to capture clear and certain identification of any individual entering or exiting the facility.
  - Video surveillance for all approved vaults, safes and any area where medical marijuana is cultivated, harvested, stored or handled.
  - 24-hour live feed with motion-activated recording capabilities from all cameras.
  - Direct live feed and login capabilities for the OHDOC. Access to recordings should be immediately provided.
  - A 12-inch display monitor connected to the electronic recording system at all times.
  - Installation that prevents the camera from being readily obstructed, tampered with or disabled.
  - Video surveillance resolution with a minimum resolution of 9600 dpi from live or recorded camera image. Security recordings shall have resolution of at least D1 at 30 frames per second during alarm or motion-based recording.
  - Synchronized date and time stamping on all recordings that does not obscure captured images.
  - Outdoor and low-light interior recording day/night cameras with a minimum resolution of 600 lines per inch or D1, and a minimum light factor requirement of 0.7 LUX. Cameras shall be calibrated and focused to maximize image quality.
  - Retainment procedures lasting at least 45 days. If the cultivator is aware of a pending criminal, civil/administrative investigation or legal proceeding related to the recording, unaltered recordings shall be retained until notified by the relevant authorities.
- A secure location for all video surveillance and security systems with limited access to: type 1 key employees essential to surveillance operations, law enforcement agencies, security system service employees, OHDOC and other state approved personnel. The secure location should be kept locked and single-purpose. A list personnel with access to the room shall be kept current.
- **Dispensary**<sup>35</sup>
  - A security plan with protocols for patient, caregiver, and employee safety and management and security of medical marijuana and currency including:

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<sup>35</sup> Ohio Administrative Code, Chapter 3796:6-3-16: Dispensaries – Operations – Monitoring, Surveillance, and Security Requirements. Retrieved from <http://codes.ohio.gov/oac/3796:6-3-16>.



- Restricted access to the areas in the dispensary that contain medical marijuana to authorized employees.
- Identification of authorized employees through means including a current employee identification card in the employee's immediate possession whenever the employee is present at the dispensary.
- Conducting electronic monitoring.
- Use of a panic button.
- Security measures to protect the premises, patients, caregivers and employees, including the following measures:
  - Prevent unauthorized access to the dispensary department, establish a locked door or barrier between the facility's entrance and the dispensary department.
  - Maintenance of a supply of medical marijuana that is not more than the quantity required for normal, efficient operation.
  - Keep all safes, vaults and any other equipment or medical marijuana storage areas securely locked and protected from unauthorized entry.
  - Keep a daily log of dispensary employees with access to the safe or vault and knowledge of the access code or combination.
  - Keep all locks and security equipment in good working order. All security equipment must be inspected and tested at regular intervals, not to exceed 30 calendar days from the previous inspection and test to ensure the systems remain functional. A dispensary must maintain a log documenting such inspections and tests.
  - Develop emergency policies and procedures for securing all product and currency following any instance of diversion, theft or loss of medical marijuana, and conduct an assessment to determine whether additional safeguards are necessary.
- All licensed dispensaries shall have a security system that is operational at all times and that uses commercial grade equipment to prevent and detect diversion, theft, or loss of medical marijuana, including:
  - A perimeter alarm and motion detectors.
  - Video cameras in all areas, unless prohibited by law, including all points of entry and exit from the dispensary, the dispensary department, and restricted access areas which shall be appropriate for the normal lighting conditions of the area under surveillance, so as to allow for the capture of clear and certain identification of any person located in the surveillance area. Such surveillance shall be sufficient to distinctly view the entire area under surveillance.
  - A video camera or cameras recording at each point of sale location allowing for the identification of the dispensary employee dispensing the medical marijuana and any patient or caregiver purchasing the medical marijuana. The camera or cameras shall capture the sale, the individuals and the computer monitors used for the sale.
  - In accordance with OH Regulations, a minimum of constant streaming from all video cameras during hours when a dispensary is closed.
  - Recording from all video cameras during hours of operation, which the dispensary shall make available for immediate viewing by the OH Pharmacy Board or the board's authorized representative upon request and shall be retained for at least six months.
  - Unaltered copies of such recordings shall be made available upon request.

- A duress alarm, which for purposes of this rule means a silent security alarm system signal generated by the entry of a designated code into an arming station to signal that the alarm user is being forced to turn off the system.
- A panic alarm, which for purposes of this section, means an audible security alarm system signal generated by the manual activation of a device intended to signal a life threatening or emergency requiring a law enforcement response.
- A hold-up alarm, which for purposes of this section, means a silent alarm signal generated by the manual activation of a device intended to signal a robbery in progress.
- The ability to immediately produce a clear color still photo that is a minimum of 9600 dpi from any camera image, either live or recorded. All cameras shall be capable of capturing at least 30 frames per second.
- A date and time stamp embedded on all recordings. The date and time shall be synchronized and set correctly and shall not significantly obscure the picture.
- The ability to remain operational during a power outage and ensure that all access doors are not solely controlled by an electronic access panel to ensure that locks are not released during a power outage.
- All video surveillance equipment shall allow for the exporting of still images in an industry standard image format, including .jpg, .bmp, and .gif. Exported video shall have the ability to be archived in a proprietary format that ensures authentication of the video and guarantees that no alteration of the recorded image has taken place. Exported video shall also have the ability to be in an industry standard file format that can be played on a standard computer operating system. All recordings shall be erased or destroyed prior to disposal.
- A surveillance system at a dispensary shall have electronic monitoring capacity including:
  - Monitors that are each at least 19 inches or greater.
  - A video printer capable of immediately producing a clear still photo from any video image.
  - A failure notification system that provides an audible and visual notification of any failure in the electronic monitoring system.
- If diversion, theft or loss of medical marijuana has occurred from a dispensary, the OH Pharmacy Board shall review and approve the improvements in the appropriate storage and security requirements for all medical marijuana in such dispensary and may require additional safeguards to ensure security of the medical marijuana.
- Preventative maintenance must be performed on a dispensary's surveillance system at least annually by a vendor approved by the OH Pharmacy Board.

## **Pennsylvania**

### ***Pennsylvania Regulatory Landscape***

Pennsylvania's medical marijuana program was signed into law in April 2016, and became available to patients at statewide dispensaries beginning in February 2018.<sup>36</sup> The Department of Health of the Commonwealth (the "Department"), Office of Medical Marijuana is the regulatory agency overseeing the program. The department will issue permits initially for no more than 50 dispensaries. Each dispensary may have no more than three separate locations. The department may also issue permits for no more than 25 growers/processors. No more than five grower/processors may also be issued a dispensary permit.

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<sup>36</sup> Commonwealth of Pennsylvania. Getting Medical Marijuana. (2018). Retrieved from <https://www.pa.gov/guides/pennsylvania-medical-marijuana-program/>.

## ***Permits***

Pursuant to the PharmaCann Acquisition, the Corporation is in the process of acquiring one (a) Medical Marijuana Grower/Processor Permit and one (1) Medical Marijuana Dispensary Permit.

Permits are valid for one (1) year and must be renewed annually. There is no ultimate expiry after which no renewals are permitted. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner, and regulatory requirements are met, the licensee would expect to receive the applicable renewed license in the ordinary course of business.

## ***Regulations***

Under the terms of the grower / processor permit allows a person<sup>37</sup> to grow and process medical marijuana. A dispensary permit allows a person to dispense medical marijuana to qualified patients and caregivers, provided that the patient present a valid medical marijuana ID card, physician's recommendation and are registered with the Pennsylvania Medical Marijuana Registry. In order to participate in the Medical Marijuana Program, a physician must create a profile in the Department of Health Physician Registry, validate the physician's Pennsylvania medical license with the Department of State, complete the required 4-hour training provided by a Department of Health approved training entity, and pass a final review and approval by the Department of Health in order to become a Practitioner who can issue patient certifications.

In order for a patient or designated caregiver to be dispensed medical marijuana, they must register with the Pennsylvania Medical Marijuana Registry, have a physician certify that you suffer from one of the medical conditions that qualify for medical marijuana, pay for a medical marijuana ID card, and get medical marijuana from an approved dispensary in Pennsylvania. The following outlines dispensing limits and guidelines:

- If a practitioner sets forth recommendations, requirements or limitations as to the form or dosage of a medical marijuana product on the patient certification, the medical marijuana product dispensed to a patient or a caregiver by a dispensary must conform to those recommendations, requirements or limitations.
- If a practitioner does not set forth recommendations, requirements or limitations as to the form or dosage of a medical marijuana product on the patient certification, the physician, pharmacist, physician assistant or certified registered nurse practitioner employed by the dispensary and working at the facility shall consult with the patient or the caregiver regarding the appropriate form and dosage of the medical marijuana product to be dispensed.
- A dispensary may not dispense an amount of medical marijuana product greater than a 30-day supply to a patient or caregiver until the patient has exhausted all but a 7-day supply provided pursuant to the patient certification currently on file with the Department.

A grower/processor may not process medical marijuana to dispense in dry leaf, plant form, or edibles. Pursuant to §1151.28, a grower/processor may only process medical marijuana for dispensing to a patient or caregiver in the following forms: pill, oil, topical forms (gel, cream, ointment), tincture, liquid, or a form medically appropriate for administration by vaporization or nebulization, including dry leaf or plant for administration by vaporization.

Currently, only patients suffering from one of the following medical conditions may participate in Pennsylvania's medical marijuana program<sup>38</sup>:

- Amyotrophic lateral sclerosis.
- Autism.

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<sup>37</sup> *Person*—A natural person, corporation, foundation, organization, business trust, estate, limited liability company, licensed corporation, trust, partnership, limited liability partnership, association or other form of legal business entity. 28 Pa. Code § 1141.21: General Provisions – Temporary Regulations – Definitions. Retrieved from [https://www.pacode.com/secure/data/028/chapter1141/028\\_1141.pdf](https://www.pacode.com/secure/data/028/chapter1141/028_1141.pdf).

<sup>38</sup> Commonwealth of Pennsylvania. (2018). Getting Medical Marijuana. Retrieved from <https://www.pa.gov/guides/pennsylvania-medical-marijuana-program/>.

- Cancer, including remission therapy.
- Crohn's disease.
- Damage to the nervous tissue of the central nervous system (brain-spinal cord) with objective neurological indication of intractable spasticity, and other associated neuropathies.
- Dyskinetic and spastic movement disorders.
- Epilepsy.
- Glaucoma.
- HIV / AIDS.
- Huntington's disease.
- Inflammatory bowel disease.
- Intractable seizures.
- Multiple sclerosis.
- Neurodegenerative diseases.
- Neuropathies.
- Opioid use disorder for which conventional therapeutic interventions are contraindicated or ineffective, or for which adjunctive therapy is indicated in combination with primary therapeutic interventions.
- Parkinson's disease.
- Post-traumatic stress disorder.
- Severe chronic or intractable pain of neuropathic origin or severe chronic or intractable pain.
- Sickle cell anemia.
- Terminal illness.

In the state of Pennsylvania, only cannabis that is grown and manufactured in the state can be sold in the state. Pennsylvania is not a vertically integrated system, as a result, dispensary license holders are provided the ability to dispense medical marijuana and are able to acquire medical marijuana from any Pennsylvania licensed grower/processor. Delivery is permitted from dispensaries to qualifying patients and caregiver.

### ***Reporting Requirements***

The state of Pennsylvania has selected MJ Freeway as the state-mandated electronic inventory tracking system for grower/processor and dispensaries. The system must be implemented prior to becoming operational. The system will be directly accessible to the department through its electronic database that electronically tracks all medical marijuana on a daily basis. Within one year of the issuance of the first permit to a grower/processor or dispensary, and every three months thereafter in a form and manner prescribed by the department, the following information shall be provided to the department, which shall compile the information and post it on the department's publicly accessible Internet website:

- The amount of medical marijuana sold by a grower/processor during each three-month period.
- The price of amounts of medical marijuana sold by grower/processors as determined by the department.
- The amount of medical marijuana purchased by each dispensary in this Commonwealth.

- The cost of amounts of medical marijuana to each dispensary in amounts as determined by the department.
- The total amount and dollar value of medical marijuana sold by each dispensary in the three-month period.

### ***Storage and Security***

To ensure the safety and security of cannabis business premises and to maintain adequate controls against the diversion, theft, and loss of cannabis or cannabis products, the Corporation is required to abide by extensive requirements in accordance with the Pennsylvania Code §1151.26, some of which are noted below:

- Follow proper storage protocol, which includes:
  - Having separate and locked limited access areas for storage of medical marijuana products that are expired, damaged, deteriorated, mislabeled, contaminated, recalled, or whose containers or packaging have been opened or breached until the medical marijuana products are returned to a grower/processor, destroyed or otherwise disposed of as required under § 1151.40 (relating to management and disposal of medical marijuana waste).
- Follow proper security and surveillance protocol, which includes:
  - A dispensary shall have security and surveillance systems, utilizing commercial-grade equipment, to prevent unauthorized entry and to prevent and detect an adverse loss. The security and surveillance systems must include all of the following:
    - A professionally-monitored security alarm system that includes the following:
      - Coverage of all facility entrances and exits; rooms with exterior windows, exterior walls, roof hatches or skylights; storage rooms, including those that contain medical marijuana and safes; and the perimeter of the facility.
      - A silent security alarm system signal, known as a duress alarm, generated by the entry of a designated code into an arming station in order to signal that the alarm user is being forced to turn off the system.
      - An audible security alarm system signal, known as a panic alarm, generated by the manual activation of a device intended to signal a life-threatening or emergency situation requiring law enforcement response.
      - A silent alarm signal, known as a holdup alarm, generated by the manual activation of a device intended to signal a robbery in progress.
      - A failure notification system that provides an audible, text or visual notification of any failure in the systems. The failure notification system must provide by telephone, e-mail or text message an alert to a designated security person within the facility within 5 minutes after the failure.
      - Auxiliary power sufficient to maintain security and surveillance systems for at least 48 hours following a power outage.
      - The ability to ensure all access doors are not solely controlled by an electronic access panel to prevent locks from becoming released during a power outage.
      - Motion detectors.
    - A professionally-monitored security and surveillance system that is operational 24 hours per day, 7 days per week and records all activity in images capable of clearly revealing facial detail. The security and surveillance system must include all of the following:
      - Fixed camera placement that allows for a clear image of all individuals and activities in and around the following:

- Any area of a facility where medical marijuana products are loaded or unloaded into or from transport vehicles.
  - Entrances to and exits from a facility. Entrances and exits must be recorded from both indoor and outdoor vantage points.
  - Rooms with exterior windows, exterior walls, roof hatches or skylights and storage rooms, including those that may contain medical marijuana products and safes.
  - Five feet from the exterior of the perimeter of a facility.
  - All limited access areas.
- Auxiliary power sufficient to maintain security and surveillance systems for at least 48 hours following a power outage.
- The ability to immediately produce a clear, color, still photograph in a digital format that meets the requirements of this subsection.
- The ability to clearly and accurately display the date and time. The date and time must be synchronized and set correctly and may not significantly obscure the picture.
- The ability to record and store all images captured by each surveillance camera for a minimum of 2 years in a format that may be easily accessed for investigative purposes. The recordings must be kept:
  - At the facility:
    - In a locked cabinet, closet or other secure place to protect it from tampering or theft.
    - In a limited access area or other room to which access is limited to authorized individuals.
  - At a secure location other than the location of the facility if approved by the Department.
- A security alarm system separate from the facility's primary security system covering the limited access area or other room where recordings are stored. The separate security alarm system must meet the same requirements as the facility's primary security alarm system.
- The following apply regarding the inspection, servicing or alteration of, and the upgrade to, the dispensary facility's security and surveillance systems:
  - The systems shall be inspected and all devices tested once every year by a qualified alarm system vendor and a qualified surveillance system vendor, as approved by the Department.
  - The dispensary shall conduct maintenance inspections once every month to ensure that any repairs, alterations or upgrades to the security and surveillance systems are made for the proper operation of the systems.
  - The dispensary shall designate an employee to continuously monitor the security and surveillance systems at the facility.
- A dispensary shall install commercial-grade, nonresidential steel doors and door locks on each room where medical marijuana products are stored and on each external door of the facility. Keys or key codes for all doors shall remain in the possession of designated authorized individuals.

- During all nonworking hours, all entrances to and exits from the facility must be securely locked.
- A dispensary shall have an electronic back-up system for all electronic records.
- A dispensary shall install lighting to ensure proper surveillance inside and outside of the facility.

A dispensary shall limit access to a room in a facility containing security and surveillance monitoring equipment to persons who are essential to maintaining security and surveillance operations; Federal, State and local law enforcement; security and surveillance system service employees; the Department or its authorized agents; and other persons with the prior written approval of the Department.

## **Virginia**

### ***Regulatory Landscape***

Virginia legalized medical marijuana for the treatment of glaucoma and cancer as part of a sweeping overhaul of the state's drug laws in 1979. In 2015, state legislation provided an affirmative defense for the possession of cannabidiol or THC-A oil pursuant to a valid written certification for patient use of the oils from a physician to alleviate intractable epilepsy but made no provision for a patient to acquire these substances.<sup>39</sup>

Legislation passed in 2016 and 2017 authorized five pharmaceutical processors, one in each Health Service Area, to produce and dispense these oils, under a permit issued by the Board of Pharmacy (“**BOP**”).<sup>40</sup> Legislation in 2018 expanded the use of these oils to any diagnosed condition or disease, upon recommendation from any physician, and required that dispensing of these oils be reported to the Prescription Monitoring Program (“**PMP**”), and that physicians request information from the PMP prior to issuing written certifications.<sup>41</sup> As set forth in §54.1-3442.6 of the Code of Virginia, the Board may issue or renew in any year a maximum of five pharmaceutical processor permits, one for each health service area established by the Board of Health. Currently, the program only allows for two types of products, cannabidiol oil and THC-A oil.

### ***Permits***

Pursuant to the PharmaCann Acquisition, the Corporation is in the process of acquiring one (1) conditionally approved Pharmaceutical Processor permit to operate in the state as a Pharmaceutical Processor.

An operational Pharmaceutical Processor permit is awarded once the following steps are completed:

- Designation of a Pharmacist-in-Charge (PIC)
- Evidence of criminal background checks for all employees and agents of the processor
- Evidence of utilization of an electronic tracking system
- A satisfactory inspection of the facility conducted by the board or its agents

The Pharmaceutical Processor permits allow the cultivation of Cannabis plants, pursuant to § 54.1-3408.3, for the production of CBD oil and/or THC-A oil, and the dispensation of oils to patients registered by the BOP and who have obtained a written certification from a board-registered physician. Permits are renewed annually in accordance with BOP guidelines. There is no ultimate expiry after which no renewals are permitted. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner, and regulatory requirements are met, the licensee would expect to receive the applicable renewed license in the ordinary course of business.

A pharmaceutical processor shall initially cultivate only the number of Cannabis plants necessary to produce cannabidiol oil or THC-A oil for the number of patients anticipated within the first nine months of operation. Thereafter, the processor shall:

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<sup>39</sup> Virginia Department of Health Professions. Pharmaceutical Processors in the Commonwealth of Virginia. (2018 September). Retrieved from <https://www.dhp.virginia.gov/pharmacy/PharmaceuticalProcessing/docs/PPReferenceSept2018.pdf>.

<sup>40</sup> Virginia Department of Health Professions. Pharmaceutical Processors in the Commonwealth of Virginia. (2018 September).

<sup>41</sup> Virginia Department of Health Professions. Pharmaceutical Processors in the Commonwealth of Virginia. (2018 September).

- Not maintain more than 12 Cannabis plants per patient at any given time based on dispensing data from the previous 90 days;
- Not maintain cannabidiol oil or THC-A oil in excess of the quantity required for normal, efficient operation;

### ***Regulations***

Under the terms of the Permit, the pharmaceutical processor shall dispense or deliver cannabidiol oil or THC-A oil only in person to (i) a patient who is a Virginia resident, has been issued a valid written certification, and is registered with the Board pursuant to § 54.1-3408.3 or (ii) if such patient is a minor or an incapacitated adult as defined in § 18.2-369, such patient's parent or legal guardian who is a Virginia resident and is registered with the Board pursuant to § 54.1-3408.3.<sup>42</sup>

Prior to the initial dispensing of each written certification, the pharmacist or pharmacy technician at the location of the pharmaceutical processor shall make and maintain for two years a paper or electronic copy of the written certification that provides an exact image of the document that is clearly legible; shall view a current photo identification of the patient, parent, or legal guardian; and shall verify current board registration of the practitioner and the corresponding patient, parent, or legal guardian.<sup>43</sup> Prior to any subsequent dispensing of each written certification, the pharmacist, pharmacy technician, or delivery agent shall view the current written certification; a current photo identification of the patient, parent, or legal guardian; and the current board registration issued to the patient, parent, or legal guardian. No pharmaceutical processor shall dispense more than a 90-day supply for any patient during any 90-day period.

Allowable forms of medical cannabis in Virginia are limited to cannabidiol oil and THC-A oil. “Cannabidiol oil”<sup>44</sup> means a processed Cannabis plant extract that contains at least 15 percent cannabidiol but no more than five percent tetrahydrocannabinol, or a dilution of the resin of the Cannabis plant that contains at least five milligrams of cannabidiol per milliliter but not more than five percent tetrahydrocannabinol. “THC-A oil”<sup>45</sup> means a processed Cannabis plant extract that contains at least 15 percent tetrahydrocannabinol acid but not more than five percent tetrahydrocannabinol, or a dilution of the resin of the Cannabis plant that contains at least five milligrams of tetrahydrocannabinol acid per milliliter but not more than five percent tetrahydrocannabinol. The state has not clarified delivery methods of oil at this time.

A practitioner in the course of his professional practice may issue a written certification for the use of cannabidiol oil or THC-A oil for treatment or to alleviate the symptoms of any diagnosed condition or disease determined by the practitioner to benefit from such use. The written certification shall be on a form provided by the Office of the Executive Secretary of the Supreme Court developed in consultation with the Board of Medicine. Such written certification shall contain the name, address, and telephone number of the practitioner, the name and address of the patient issued the written certification, the date on which the written certification was made, and the signature of the practitioner. Such written certification expires no later than one year after its issuance unless the practitioner provides in such written certification an earlier expiration.<sup>46</sup>

In the state of Virginia, a pharmaceutical processor shall dispense only cannabidiol oil and THC-A oil that has been cultivated and produced on the premises of such pharmaceutical processor.<sup>47</sup> Virginia is a vertically integrated

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<sup>42</sup> Va. Code Ann. § 54.1-3442.7.(A): Professions and Occupations – Professions and Occupations Regulated by Boards within the Department of Health Professions – Drug Control Act – Permitting of Pharmaceutical Processors to Produce and Dispense Cannabidiol Oil and Thc-A oil – Dispensing cannabidiol oil and THC-A oil; report.

<sup>43</sup> Va. Code Ann. § 54.1-3442.7.(A).

<sup>44</sup> Va. Code Ann. §54.1-3408.3.(A): Professions and Occupations – Professions and Occupations Regulated by Boards within the Department of Health Professions – Drug Control Act – General Provisions – Certification for use of cannabidiol oil or THC-A oil for treatment.

<sup>45</sup> Va. Code Ann. §54.1-3408.3.(A).

<sup>46</sup> Va. Code Ann. §54.1-3408.3.(A).

<sup>47</sup> Va. Code Ann. § 54.1-3442.7.(B): Professions and Occupations – Professions and Occupations Regulated by Boards within the Department of Health Professions – Drug Control Act – Permitting of Pharmaceutical Processors to Produce and Dispense Cannabidiol Oil and Thc-A oil – Dispensing cannabidiol oil and THC-A oil; report.



system, as a result, permit holders are provided the ability to cultivate, harvest, process and dispense approved medical cannabis products. Delivery is permitted.

### ***Reporting Requirements***

Pursuant to emergency state regulation 18VAC110-60-240, Virginia shall use an electronic tracking system to monitor commercial cannabis activity.

“Electronic tracking system” is defined as an electronic radio-frequency identification (RFID) seed-to-sale tracking system that tracks the Cannabis from either the seed or immature plant stage until the cannabidiol oil and THC-A oil are sold to a registered patient, parent, or legal guardian or until the Cannabis, including the seeds, parts of plants, and extracts, are destroyed. The electronic tracking system must include, at a minimum, a central inventory management system and standard and ad hoc reporting functions and must be capable of otherwise satisfying required recordkeeping.

Upon completion of the PharmaCann Acquisition, the Corporation will integrate an RFID system to comply with the state’s electronic tracking requirements. At this time, the state has not selected a state-wide seed-to-sale electronic tracking system.

### ***Storage and Security***

To ensure the safety and security of cannabis business premises and to maintain adequate controls against the diversion, theft, and loss of cannabis or cannabis products, the Corporation is required, pursuant to emergency state regulation 18VAC110-60-240, to do the following:

- **Storage**
  - Maintain all Cannabis plants, seeds, parts of plants, extracts, cannabidiol oil, and THC-A oil in a secure area or location accessible only by the minimum number of authorized employees essential for efficient operation;
  - Store all cut parts of Cannabis plants, extracts, cannabidiol oil, or THC-A oil in an approved safe or approved vault within the pharmaceutical processor and shall not sell cannabidiol oil or THC-A oil products when the pharmaceutical processor is closed;
  - Keep all approved safes, approved vaults, or any other approved equipment or areas used for the production, cultivation, harvesting, processing, manufacturing, or storage of cannabidiol oil or THC-A oil securely locked or protected from entry, except for the actual time required to remove or replace the Cannabis, seeds, parts of plants, extracts, cannabidiol oil, or THC-A oil;
  - Keep all locks and security equipment in good working order;
  - Restrict access to keys or codes to all safes, approved vaults, or other approved equipment or areas to pharmacists practicing at the pharmaceutical processor; and
  - Not allow keys to be left in the locks or accessible to non-pharmacists.
- **Security Systems**
  - The pharmaceutical processor shall have:
    - An adequate security system to prevent and detect diversion, theft, or loss of Cannabis seeds, plants, extracts, cannabidiol oil, or THC-A oil.
      - A device for the detection of breaking and a back-up alarm system with an ability to remain operational during a power outage shall be installed in each pharmaceutical processor. The installation and the device shall be based on accepted alarm industry standards and shall be subject to the following conditions: The device shall be a sound, microwave, photoelectric, ultrasonic, or any other generally accepted and suitable device; The device shall be monitored

in accordance with accepted industry standards, maintained in operating order, have an auxiliary source of power, and be capable of sending an alarm signal to the monitoring entity when breached if the communication line is not operational; The device shall fully protect the entire processor facility and shall be capable of detecting breaking by any means when activated; The device shall include a duress alarm, a panic alarm, and automatic voice dialer; and Access to the alarm system for the pharmaceutical processor shall be restricted to the pharmacists working at the pharmaceutical processor and the system shall be activated whenever the pharmaceutical processor is closed for business.

- **Lighting**

- A pharmaceutical processor shall keep the outside perimeter of the premises well-lit.

- **Video Surveillance**

- A processor shall have video cameras in all areas that may contain Cannabis plants, seeds, parts of plants, extracts, cannabidiol oil, or THC-A oil and at all points of entry and exit, which shall be appropriate for the normal lighting conditions of the area under surveillance.
- The processor shall direct cameras at all approved safes, approved vaults, dispensing areas, cannabidiol oil, or THC-A oil sales areas and any other area where Cannabis plants, seeds, extracts, cannabidiol oil, or THC-A oil are being produced, harvested, manufactured, stored, or handled. At entry and exit points, the processor shall angle cameras so as to allow for the capture of clear and certain identification of any person entering or exiting the facility;
- The video system shall have:
  - A failure notification system that provides an audible, text, or visual notification of any failure in the surveillance system. The failure notification system shall provide an alert to the processor within five minutes of the failure, either by telephone, email, or text message;
  - The ability to immediately produce a clear color still photo that is a minimum of 9600 dpi from any camera image (live or recorded);
  - A date and time stamp embedded on all recordings. The date and time shall be synchronized and set correctly and shall not significantly obscure the picture; and
  - The ability to remain operational during a power outage;
- All video recording shall allow for the exporting of still images in an industry standard image format. Exported video shall have the ability to be archived in a proprietary format that ensures authentication of the video and guarantees that no alteration of the recorded image has taken place. Exported video shall also have the ability to be saved in an industry standard file format that can be played on a standard computer operating system.
- A pharmaceutical processor shall erase all recordings prior to disposal or sale of the facility. The processor shall make 24-hour recordings from all video cameras available for immediate viewing by the board or the board's agent upon request and shall retain the recordings for at least 30 days. If a processor is aware of a pending criminal, civil, or administrative investigation or legal proceeding for which a recording may contain relevant information, it shall retain an unaltered copy of the recording until the investigation or proceeding is closed or the entity conducting the investigation or proceeding notifies the pharmaceutical processor PIC that it is not necessary to retain the recording.
- The processor shall maintain all security system equipment and recordings in a secure location so as to prevent theft, loss, destruction, or alterations. All security equipment shall be maintained in good working order and shall be tested no less than two times per year.

- A pharmaceutical processor shall limit access to surveillance areas to persons who are essential to surveillance operations, law-enforcement agencies, security system service employees, the board or the board's agent, and others when approved by the board. A processor shall make available a current list of authorized employees and security system service employees who have access to the surveillance room to the processor. The pharmaceutical processor shall keep all onsite surveillance rooms locked and shall not use such rooms for any other function.
- If diversion, theft, or loss of Cannabis plants, seeds, parts of plants, extracts, cannabidiol oil, or THC-A oil has occurred from a pharmaceutical processor, the board may require additional safeguards to ensure the security of the products.

### **Compliance Program**

The Corporation's VP of Compliance oversees, maintains, and implements the compliance program and personnel in conjunction with the SVP of Legal and the General Counsel. In addition to the Corporation's robust legal and compliance departments, the Corporation also has local regulatory/compliance counsel engaged in every jurisdiction (state and local) in which it operates. Such counsel regularly provides legal advice to the Corporation regarding compliance with state and local laws and regulation and the Corporation's legal and compliance exposures under United States federal law. The VP of Compliance and Compliance Managers serve as the liaison to state and local regulators during both regular business hours and after hours. The compliance department is responsible for ensuring operations and employees strictly comply with applicable laws, regulations and licensing conditions and ensure that operations do not endanger the health, safety or welfare of the community. The VP of Compliance coordinates with the Chief Security Officer to ensure that the operation and all employees are following and complying with the Corporation's written security procedures.

The compliance department oversees training for all employees, including on the following topics:

- Compliance with State and local laws
- Safe Cannabis Use
- Dispensing Procedures
- Security & Safety Policies and Procedures
- Inventory Control
- Track-and-Trace Training Session
- Quality Control
- Transportation Procedures

The Corporation's compliance program emphasizes security and inventory control to ensure strict monitoring of cannabis and inventory from delivery by a licensed distributor to sale or disposal. Only authorized, properly trained employees are allowed to access the Corporation's computerized seed-to-sale system and strict controls will be implemented when California releases the statewide T&T system.

The VP of Compliance monitors all compliance notifications from the statewide T&T systems, timely resolving any issues identified. The Corporation keeps records, on its computerized seed-to-sale system, of all compliance notifications received from the statewide T&T system and how and when the issue was resolved. If the Corporation is unable to resolve the issue within 12 hours of notice, the Corporation notifies the state immediately.

The Corporation has created comprehensive standard operating procedures that include detailed descriptions and instructions for receiving shipments of inventory, inventory tracking, recordkeeping and record retention practices related to inventory, as well as procedures for performing inventory reconciliation and ensuring the accuracy of inventory tracking and recordkeeping. The Corporation maintains accurate records of its inventory at all licensed facilities. Adherence to the Corporation's standard operating procedures is mandatory and ensures that the Corporation's operations are compliant with the rules set forth by the applicable state and local laws, regulations, ordinances, licenses and other requirements.

In addition to the above disclosure, please see “Risk Factors” in the AIF and “Risk Factors” herein for further risk factors associated with the operations of the Corporation.

### **Service Providers**

As a result of any adverse change to the approach in enforcement of United States cannabis laws, adverse regulatory or political change, additional scrutiny by regulatory authorities, adverse change in public perception in respect of the consumption of marijuana or otherwise, third party service providers to the Corporation could suspend or withdraw their services, which may have a material adverse effect on the Corporation’s business, revenues, operating results, financial condition or prospects.

In addition to the above disclosure, please see “Risk Factors – Risks Associated with the Business of the Company – Service Providers” in the AIF.

### **Ability to Access Public and Private Capital**

The Corporation has historically, and continues to have, robust access to equity and debt financing from the public and private markets in Canada and private markets in the United States and internationally. While the Corporation is not able to obtain bank financing in the U.S. or financing from other U.S. federally regulated entities, it currently has access to such equity and debt financing in Canada, the United States and internationally, both on a brokered and non-brokered basis. The Corporation’s executive team and the board of directors of the Corporation have extensive relationships with sources of private capital (such as funds and high net worth individuals), which has facilitated its ability to complete non-brokered financing transactions. Further, the Corporation is actively pursuing sale and leaseback transactions to divest itself of certain of its portfolio real estate assets and currently plans to endeavour to complete similar transactions in the future. Proceeds from the sale of such assets would be used to finance the continued growth of the Corporation’s business.

If such equity and/or debt financing was no longer available in the public markets in Canada due to changes in applicable law or on terms which are acceptable, then the Corporation currently expects that it would have the ability to raise equity and/or debt financing privately. Commercial banks, private equity firms and venture capital firms have approached the cannabis industry cautiously to date. However, there are increasing numbers of high net worth individuals and family offices that have made meaningful investments in cannabis companies similar to the Corporation. Although there has been an increase in the amount of private financing available to cannabis companies over the last several years, there can be no assurance that additional financing will be available to the Corporation when needed or on terms which are acceptable.

The Corporation’s inability to raise financing to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon the Corporation’s business, financial condition, cash flows, results of operations or prospects.

In addition to the above disclosure, please see “Risk Factors – Risks Related to the Offering – Additional Financing” herein and “Risk Factors – Risks Associated with the Business of the Company – Going Concern Risk” in the AIF.

See also “General Development of the Business – Financing Activities” and “General Development of the Business – Pipeline Transactions – Sale and Leaseback Transactions” in the AIF.

## **CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

The following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable to a purchaser who acquires Units pursuant to the Offering. For purposes of this summary, references to Subordinate Voting Shares include Unit Shares and Warrant Shares unless otherwise indicated. This summary applies only to a purchaser who is a beneficial owner of Subordinate Voting Shares and Warrants acquired pursuant to the Offering and who, for the purposes of the Tax Act, and at all relevant times: (i) deals at arm’s length and is not affiliated with the Corporation or the Underwriters; and (ii) acquires and holds the Unit Shares and Warrants, and will hold the Warrant Shares issuable on the exercise of the Warrants as capital property (a “Holder”).

Subordinate Voting Shares and Warrants will generally be considered to be capital property to a Holder unless they are held in the course of carrying on a business of trading or dealing in securities or were acquired in one or more transactions considered to be an adventure in the nature of trade.

This section of the summary is not applicable to a Holder: (i) that is a “financial institution” within the meaning of section 142.2 of the Tax Act; (ii) that is a “specified financial institution” as defined in the Tax Act; (iii) that has made a “functional currency” reporting election under section 261 of the Tax Act; (iv) an interest in which is, or for whom a Subordinate Voting Share or Warrant would be, a “tax shelter investment” for the purposes of the Tax Act; (v) that has entered into a “derivative forward agreement” or “synthetic disposition arrangement”, as those terms are defined in the Tax Act, in respect of Subordinate Voting Shares or Warrants; (vi) that receives dividends on the Subordinate Voting Shares under or as part of a “dividend rental arrangement”, as defined in the Tax Act; or (vii) that is a corporation resident in Canada, and is, or becomes as part of a transaction or event or series of transactions or events that includes the acquisition of the Units, controlled by a non-resident corporation for purposes of the “foreign affiliate dumping” rules in section 212.3 of the Tax Act. Such Holders should consult their own tax advisors.

This summary is based upon: (i) the current provisions of the Tax Act and the regulations thereunder (“**Regulations**”) in force as of the date hereof; (ii) all specific proposals (“**Proposed Amendments**”) to amend the Tax Act or the Regulations that have been publicly announced by, or on behalf of, the Minister of Finance (Canada) prior to the date hereof; and (iii) counsel’s understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the “**CRA**”). This summary takes into account all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the “**Tax Proposals**”) and assumes that the Tax Proposals will be enacted in the form proposed, although no assurance can be given that the Tax Proposals will be enacted in their current form or at all. This summary does not otherwise take into account any changes in law or in the administrative policies or assessing practices of the CRA, whether by legislative, governmental or judicial decision or action, nor does it take into account or consider any other federal or any provincial, territorial or foreign income tax considerations, which considerations may differ significantly from the Canadian federal income tax considerations discussed in this summary.

**This summary is of a general nature only, is not exhaustive of all possible Canadian federal income tax considerations and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder. Accordingly, Holders should consult their own tax advisors with respect to their particular circumstances.**

#### ***Allocation of Cost***

A Holder who acquires Units pursuant to the Offering will be required to allocate the purchase price paid for each Unit on a reasonable basis between the Unit Share and the Warrant comprising each Unit in order to determine their respective costs to such Holder for the purposes of the Tax Act.

For its purposes, the Corporation has advised counsel that, of the \$5.50 subscription price for each Unit, it intends to allocate \$4.7222 to each Unit Share and \$0.7778 to each Warrant and believes that such allocation is reasonable. The Corporation’s allocation, however, is not binding on the CRA or on a Holder.

The adjusted cost base to a Holder of each Unit Share comprising a part of a Unit acquired pursuant to the Offering will be determined by averaging the cost of such Unit Share with the adjusted cost base to such Holder of all other Subordinate Voting Shares (if any) held by the Holder as capital property immediately prior to the acquisition.

#### ***Exercise of Warrants***

No gain or loss will be realized by a Holder of a Warrant upon the exercise of such Warrant to acquire a Warrant Share. When a Warrant is exercised, the Holder’s cost of the Warrant Share acquired thereby will be equal to the adjusted cost base of the Warrant to such Holder, plus the amount paid on the exercise of the Warrant. For the purpose of computing the adjusted cost base to a Holder of each Warrant Share acquired on the exercise of a Warrant, the cost of such Warrant Share must be averaged with the adjusted cost base to such Holder of all other Subordinate Voting Shares (if any) held by the Holder as capital property immediately prior to the exercise of the Warrant.

#### ***Holders Resident in Canada***

This section of the summary applies to a Holder who, at all relevant times, is, or is deemed to be, resident in Canada for the purposes of the Tax Act (“**Resident Holder**”).

A Resident Holder whose Subordinate Voting Shares might not otherwise qualify as capital property may be entitled to make the irrevocable election provided by subsection 39(4) of the Tax Act to have the Subordinate Voting Shares and every other “Canadian security” (as defined in the Tax Act) owned by such purchaser in the taxation year of the election and in all subsequent taxation years deemed to be capital property. Resident Holders should consult their own tax advisors for advice as to whether an election under subsection 39(4) of the Tax Act is available and/or advisable in their particular circumstances. Such election is not available in respect of Warrants.

### ***Expiry of Warrants***

In the event of the expiry of an unexercised Warrant, a Resident Holder generally will realize a capital loss equal to the Resident Holder’s adjusted cost base of such Warrant. The tax treatment of capital gains and capital losses is discussed in greater detail below under the subheading “*Holders Resident in Canada — Taxable Capital Gains and Capital Losses*”.

### ***Dividends***

A Resident Holder will be required to include in computing its income for a taxation year any taxable dividends received or deemed to be received on the Subordinate Voting Shares. In the case of a Resident Holder that is an individual (other than certain trusts), such dividends will be subject to the gross-up and dividend tax credit rules applicable to taxable dividends received from taxable Canadian corporations (as defined in the Tax Act). Taxable dividends received from a taxable Canadian corporation which are designated by such corporation as “eligible dividends” will be subject to an enhanced gross-up and dividend tax credit regime in accordance with the rules in the Tax Act.

In the case of a Resident Holder that is a corporation, the amount of any such taxable dividend that is included in its income for a taxation year will generally be deductible in computing its taxable income for that taxation year. In certain circumstances a dividend or deemed dividend received by a Resident Holder that is a corporation may be treated as a capital gain or proceeds of disposition. Resident Holders should contact their own tax advisors in this regard.

A Resident Holder that is a “private corporation” or a “subject corporation”, as defined in the Tax Act, will generally be liable to pay a refundable tax under Part IV of the Tax Act on dividends received on the Subordinate Voting Shares to the extent such dividends are deductible in computing the Resident Holder’s taxable income for the year. A “subject corporation” is generally a corporation (other than a private corporation) controlled directly or indirectly by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts).

### ***Dispositions of Subordinate Voting Shares and Warrants***

A Resident Holder who disposes of or is deemed to have disposed of a Subordinate Voting Share or Warrant (other than on the exercise of a Warrant) will generally realize a capital gain (or capital loss) in the taxation year of the disposition equal to the amount by which the proceeds of disposition, net of any reasonable costs of disposition, are greater (or are less) than the adjusted cost base to the Resident Holder of the Subordinate Voting Share or Warrant immediately before the disposition or deemed disposition.

### ***Taxable Capital Gains and Losses***

A Resident Holder will generally be required to include in computing its income for the taxation year of disposition, one-half of the amount of any capital gain (a “**taxable capital gain**”) realized in such year. Subject to and in accordance with the provisions of the Tax Act, a Resident Holder will be required to deduct one-half of the amount of any capital loss (an “**allowable capital loss**”) against taxable capital gains realized in the taxation year of disposition. Allowable capital losses in excess of taxable capital gains for the taxation year of disposition may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years, to the extent and under the circumstances specified in the Tax Act.

The amount of any capital loss realized on the disposition or deemed disposition of a Subordinate Voting Share by a Resident Holder that is a corporation may, in certain circumstances, be reduced by the amount of dividends received or deemed to have been received by it on such Subordinate Voting Shares to the extent and under the circumstances specified in the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary

of a trust that owns Subordinate Voting Shares, directly or indirectly, through a partnership or trust. Resident Holders to whom these rules may be relevant should consult their own tax advisors.

### ***Other Income Taxes***

A Resident Holder that is throughout the relevant taxation year a “Canadian-controlled private corporation” (as defined in the Tax Act) may be liable to pay a refundable tax on its “aggregate investment income” (as defined in the Tax Act) for the year, including taxable capital gains.

Generally, a Resident Holder that is an individual (other than certain trusts) that receives or is deemed to have received taxable dividends on the Subordinate Voting Shares or realizes a capital gain on the disposition or deemed disposition of Subordinate Voting Shares or Warrants may be liable for alternative minimum tax under the Tax Act. Resident Holders that are individuals should consult their own tax advisors in this regard.

### **Holders Not Resident in Canada**

This portion of the summary is generally applicable to a Holder who, at all relevant times, for purposes of the Tax Act: (i) is not, and is not deemed to be, resident in Canada at any time while they hold the Subordinate Voting Shares or Warrants; and (ii) does not use or hold the Subordinate Voting Shares or Warrants in connection with carrying on a business in Canada (“**Non-Resident Holder**”). This summary does not apply to a Holder that carries on, or is deemed to carry on, an insurance business in Canada and elsewhere or that is an “authorized foreign bank” (as defined in the Tax Act). Such Holders should consult their own tax advisors.

### ***Expiry of Warrants***

The tax consequences of the expiry of a Warrant held by a Non-Resident Holder are generally that such Non-Resident Holder will realize a capital loss equal to the Non-Resident Holder’s adjusted cost base of such Warrant. The tax treatment of capital losses is discussed in greater detail below under “— Holders Not Resident in Canada — Dispositions of Subordinate Voting Shares and Warrants”.

Non-Resident Holders should consult their own tax advisors with respect to the expiry of Warrants.

### ***Dividends***

Dividends paid or credited or deemed under the Tax Act to be paid or credited by the Corporation to a Non-Resident Holder on the Subordinate Voting Shares will be subject to Canadian withholding tax at the rate of 25% on the gross amount of the dividend, subject to any reduction in the rate of withholding to which the Non-Resident Holder is entitled to under any applicable income tax convention between Canada and the country in which the Non-Resident Holder is resident. For example, where a Non-Resident Holder is a resident of the United States, is fully entitled to the benefits under the *Canada-United States Tax Convention (1980)*, as amended, and is the beneficial owner of the dividend, the applicable rate of Canadian withholding tax is generally reduced to 15%. Non-Resident Holders should consult their own tax advisors.

### ***Dispositions of Subordinate Voting Shares and Warrants***

A Non-Resident Holder will not be subject to tax under the Tax Act in respect of any capital gain realized on a disposition or deemed disposition of a Subordinate Voting Share or Warrant, nor will capital losses arising therefrom be recognized under the Tax Act, unless the Subordinate Voting Share or Warrant (as applicable) is, or is deemed to be, “taxable Canadian property” of the Non-Resident Holder for the purposes of the Tax Act and the Non-Resident Holder is not entitled to an exemption under an applicable income tax convention between Canada and the country in which the Non-Resident Holder is resident.

Generally, a Subordinate Voting Share or Warrant (as applicable) will not constitute taxable Canadian property of a Non-Resident Holder provided that the Subordinate Voting Shares are listed on a “designated stock exchange” for the purposes of the Tax Act (which currently includes the CSE), unless at any time during the 60 month period ending at the time of the disposition, (i) at least 25% of the issued shares of any class or series of the capital stock of the Corporation were owned by or belonged to any combination of (a) the Non-Resident Holder, (b) persons with whom the Non-Resident Holder did not deal at arm’s length, and (c) partnerships in which the Non-Resident Holder or a person described in (b) holds a membership interest directly or indirectly through one or more partnerships; and (ii) at such time, more than 50% of the fair market value of such shares was derived, directly or indirectly, from any

combination of real or immovable property situated in Canada, “Canadian resource property” (as defined in the Tax Act), “timber resource property” (as defined in the Tax Act), or options in respect of, interests in, or for civil law rights in such properties, whether or not such property exists. Notwithstanding the foregoing, a Subordinate Voting Share or Warrant may also be deemed to be taxable Canadian property to a Non-Resident Holder under other provisions of the Tax Act.

In cases where a Non-Resident Holder disposes (or is deemed to have disposed) of a Subordinate Voting Share or Warrant that is taxable Canadian property to that Non-Resident Holder, and the Non-Resident Holder is not entitled to an exemption under an applicable income tax convention, the consequences described above under “— Holders Resident in Canada — Dispositions of Subordinate Voting Shares and Warrants” and “— Holders Resident in Canada — Taxable Capital Gains and Losses” will generally be applicable to such disposition.

Non-Resident Holders whose Subordinate Voting Shares or Warrants are taxable Canadian property should consult their own tax advisors.

## **RISK FACTORS**

An investment in the Units is speculative and involves certain risks. Before making an investment decision, prospective purchasers of Units should carefully consider the information described in this Prospectus and the documents incorporated by reference herein (including the AIF and subsequently filed documents incorporated by reference herein), including the risk factors described herein and therein. Some of the risk factors described herein and in the documents incorporated by reference herein (including subsequently filed documents incorporated by reference herein) are interrelated and, consequently, investors should treat such risk factors as a whole. If any of these risks materialize, the Corporation’s business, prospects, financial condition, results of operations and cash flows, and an investment in the Units, could be materially adversely affected. Additional risks and uncertainties of which the Corporation is currently unaware or that are unknown or that the Corporation currently deems to be immaterial could have a material adverse effect on the Corporation’s business, prospects, financial condition, results of operations or cash flows. The Corporation cannot provide any assurances that it will successfully address any or all of these risks.

### **Risks Related to the Offering**

#### ***Founder Voting Control***

As a result of the Super Voting Shares, as of November 27, 2018, Adam Bierman, the Chief Executive Officer and a director of the Corporation, and Andrew Modlin, the President and a director of the Corporation, exercise approximately 95.7% of the voting power in respect of the Corporation’s outstanding shares. The Subordinate Voting Shares are entitled to one vote per share and the Super Voting Shares are entitled to 1,000 votes per share. As a result, Mr. Bierman and Mr. Modlin, and potentially either one of them alone, have the ability to control the outcome of matters submitted to the Corporation’s shareholders for approval, including the election and removal of directors and any arrangement, sale of all or substantially all of the assets, fundamental change or change of business of the Corporation. If Mr. Bierman’s or Mr. Modlin’s employment with the Corporation is terminated or they resign from their positions with the Corporation, they will continue to have the ability to exercise the same significant voting power. Additionally, each Super Voting Share, while transferable only if it is transferred concurrently with 50 MedMen Corp Redeemable Shares and/or LLC Redeemable Units, they may be so transferred to the holder’s immediate family members or an affiliated entity or a transfer to the other Founder or an entity affiliated with the other Founder. Accordingly, upon a transfer by a Founder of some or all of his Super Voting Shares to the other Founder, the other Founder could individually control nearly all of the voting power of the Corporation’s outstanding shares.

In addition, because the number of Super Voting Shares held by a holder thereof from time to time is dependent upon the number of MedMen Corp Redeemable Shares and/or LLC Redeemable Units beneficially owned, directly or indirectly, or deemed to be so beneficially owned by such holder from time to time, should the Corporation cause the LLC to issue additional LLC Redeemable Units in the future to a Founder in connection with employee equity incentive programs, it would prolong the Founder’s voting control.

Under the provisions of the Super Voting Shares and Subordinate Voting Shares, in the event that a take-over bid is made for the Super Voting Shares, the holders of Subordinate Voting Shares would not be entitled to participate in such offer and would not be entitled to tender their shares into any such offer, whether under the terms of the



Subordinate Voting Shares or under any coattail trust or similar agreement, and would be excluded from any control premium paid for the Super Voting Shares. See “Description of Share Capital of the Corporation”.

The concentrated control through the Super Voting Shares could delay, defer, or prevent a change of control of the Corporation, arrangement involving the Corporation, sale of all or substantially all of the assets of the Corporation, a fundamental change of the Corporation or a change of business of the Corporation that its other shareholders support. Conversely, this concentrated control could allow the Founders to consummate such a transaction that the Corporation’s other shareholders do not support. In addition, the Founders may make long-term strategic investment decisions and take risks that may not be successful and may seriously harm the Corporation’s business.

As directors and officers of the Corporation, the Founders have control over the day-to-day management and the implementation of major strategic decisions of the Corporation, subject to authorization and oversight by the board of directors of the Corporation. As directors and officers of the Corporation, the Founders owe a fiduciary duty to the Corporation and are obligated to act honestly and in good faith with a view to the best interests of the Corporation. As shareholders, even controlling shareholders, Mr. Bierman and Mr. Modlin will be entitled to vote their shares, and shares over which they have voting control, in their own interests, which may not always be in the interests of the Corporation or the other shareholders of the Corporation.

#### ***Unpredictability Caused by the Capital Structure and Founder Voting Control***

Although other Canadian-based companies have dual class or multiple voting share structures, given the concentration of voting control that is held by the Founders and given the other unique features of the capital structure of the Corporation, including the existence of a significant amount of redeemable equity securities that have been issued by, and are issuable pursuant to the exercise, conversion or exchange of the applicable convertible securities of, certain subsidiaries of the Corporation, such subsidiaries being MedMen Corp. and the LLC, which equity securities are redeemable from time to time for Subordinate Voting Shares or cash, in accordance with their terms, the Corporation is not able to predict whether this structure and control will result in a lower trading price for or greater fluctuations in the trading price of the Subordinate Voting Shares or will result in adverse publicity to the Corporation or other adverse consequences.

#### ***Discretion in the Use of Proceeds***

Management of the Corporation will have discretion concerning the use of the proceeds of the Offering as well as the timing of their expenditure. As a result, an investor will be relying on the judgment of management for the application of the proceeds of the Offering. Management may use the net proceeds of the Offering other than as described under the heading “Use of Proceeds” if they believe it would be in the Corporation’s best interest to do so and in ways that an investor may not consider desirable. The results and the effectiveness of the application of the proceeds are uncertain. If the proceeds are not applied effectively, the Corporation’s results of operations may suffer.

#### ***Additional Issuance of Subordinate Voting Shares and Subsidiary Securities May Result in Dilution***

The Corporation may issue additional securities in the future, which may dilute a shareholder’s holdings in the Corporation. The Corporation’s articles permit the issuance of an unlimited number of Subordinate Voting Shares, and shareholders will have no pre-emptive rights in connection with such further issuance. The board of directors of the Corporation has discretion to determine the price and the terms of further issuances. As part of the Offering, the Corporation will issue 13,640,000 Units (or 15,686,000 Units if the Over-Allotment Option is exercised in full). The Corporation may issue additional Subordinate Voting Shares in subsequent offerings (including through the sale of securities convertible into or exchangeable or exercisable for Subordinate Voting Shares). Moreover, additional Subordinate Voting Shares will be issued by the Corporation on the exercise, conversion or redemption of certain outstanding securities of the Corporation, MedMen Corp. and the LLC in accordance with their terms. The Corporation may also issue Subordinate Voting Shares to finance future acquisitions. The Corporation cannot predict the size of future issuances of Subordinate Voting Shares or the effect that future issuances and sales of Subordinate Voting Shares will have on the market price of the Subordinate Voting Shares. Issuances of a substantial number of additional Subordinate Voting Shares, or the perception that such issuances could occur, may adversely affect prevailing market prices for the Subordinate Voting Shares. With any additional issuance of Subordinate Voting Shares, investors will suffer dilution to their voting power and the Corporation may experience dilution in its revenue per share.

Additionally, the subsidiaries of the Corporation, such as MedMen Corp. and the LLC, may issue additional securities, including MedMen Corp Redeemable Shares, LLC Redeemable Units and LTIP Units to new or existing shareholders or members, including in exchange for services performed or to be performed on behalf of such entities or to finance future acquisitions. Any such issuances could result in substantial dilution to the indirect equity interest of the holders of Subordinate Voting Shares in the LLC.

### ***Additional Financing***

The continued development of the Corporation will require additional financing. There is no guarantee that the Corporation will be able to achieve its business objectives. The Corporation intends to fund its business objectives by way of additional offerings of equity and/or debt financing. The failure to raise or procure such additional funds could result in the delay or indefinite postponement of current business objectives. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, will be on terms acceptable to the Corporation. If additional funds are raised by offering equity securities or convertible debt, existing shareholders could suffer significant dilution. Any debt financing secured in the future could involve the granting of security against assets of the Corporation and also contain restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Corporation to obtain additional capital and to pursue business opportunities, including potential acquisitions. The Corporation has completed the sale and leaseback of two properties and is contemplating completing the same in respect of additional properties. The reduction in the Corporation's real estate assets could cause securing any additional debt financing to be more difficult or on less favourable terms to the Corporation, such as on higher interest rates, than as otherwise may have been expected. The Corporation will require additional financing to fund its operations until positive cash flow is achieved.

See "Additional Recent Developments — Real Estate Sales and Leaseback" and "— Additional Issuance of Subordinate Voting Shares and Subsidiary Securities May Result in Dilution" and "— Negative Cash Flow from Operations".

### ***No Current Market for Warrants***

The Corporation has given notice to the CSE to list the Warrants. Listing will be subject to the Corporation fulfilling all of the listing requirements of the CSE. While the Corporation will use its reasonable efforts to list the Warrants on the CSE, there is no assurance that such listing will be obtained. There is currently no market through which the Warrants may be sold and no market may develop for the Warrants and purchasers may not be able to resell such Warrants purchased under this Prospectus. This may affect the pricing of the Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of the Warrants, and the extent of issuer regulation.

### ***Volatile Market Price of the Subordinate Voting Shares***

The market price of the Subordinate Voting Shares cannot be predicted and has been and may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Corporation's control. This volatility may affect the ability of holders of Subordinate Voting Shares to sell their securities at an advantageous price. Market price fluctuations in the Subordinate Voting Shares may be due to the Corporation's operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or competitive, regulatory or economic trends, adverse changes in the economic performance or market valuations of companies in the industry in which the Corporation operates, acquisitions, dispositions, strategic partnerships, joint ventures, capital commitments or other material public announcements by the Corporation or its competitors or government and regulatory authorities, operating and share price performance of the companies that investors deem comparable to the Corporation, addition or departure of the Corporation's executive officers and other key personnel, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the Subordinate Voting Shares.

Financial markets have at times historically experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Subordinate Voting Shares may decline even if the Corporation's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and

market turmoil continue or arise, the Corporation's operations may be adversely impacted and the trading price of the Subordinate Voting Shares may be materially adversely affected.

### ***Negative Cash Flow from Operations***

During the financial year ended June 30, 2018, the Corporation had negative operating cash flows. To the extent that the Corporation has negative cash flow from operating activities in any future period, certain of the net proceeds from the Offering may be used to fund such negative cash flow.

### ***A Significant Portion of the LLC's, MedMen Corp.'s and the Corporation's Outstanding Securities are Restricted from Immediate Resale but May be Sold in the Near Future***

Certain unitholders of the LLC and shareholders of MedMen Corp., including the Significant Shareholders, agreed in connection with the May SR Offering not to sell their securities of the LLC, MedMen Corp. or the Corporation, including Subordinate Voting Shares, for a period of six months ending as of the close of business on November 25, 2018, without the consent of the lead agents in respect of the May SR Offering, such consent not to be unreasonably withheld. Pursuant to the Underwriting Agreement, the Corporation has caused certain parties, including the Significant Shareholders with respect to the period from November 25, 2018 until and including the 30th business day after November 25, 2018, to enter into lock-up agreements pursuant to which, subject to certain limited exceptions, such parties are required to not, directly or indirectly, sell or enter into an arrangement the consequence of which is to alter economic exposure to any Subordinate Voting Shares or securities convertible into, exchangeable for, or otherwise exercisable to acquire Subordinate Voting Shares or other equity securities of the Corporation, without the consent of the Lead Underwriter, such consent not to be unreasonably withheld. The sale of a substantial number of such securities, or the perception in the market that holders of a large number of securities intend to sell securities, could reduce the market price of the Subordinate Voting Shares and could impair the Corporation's ability to raise capital through the sale of additional equity securities. The effect of any such sales on the prevailing market price of the Subordinate Voting Shares is not predictable. See "Plan of Distribution" for further details as to the lock-up agreements executed in connection with Offering.

### ***Risks Related to the Business of the Corporation***

#### ***Cannabis Continues to be a Controlled Substance under the United States Federal Controlled Substances Act***

The Corporation both directly and indirectly engages in the medical and adult-use marijuana industry in the United States where local state law permits such activities. Investors are cautioned that in the United States, cannabis is largely regulated at the state level. To the Corporation's knowledge, there are to date a total of 33 states, and the District of Columbia, that have now legalized cannabis in some form, including California, Nevada, New York and Florida. Notwithstanding the permissive regulatory environment of cannabis at the state level, cannabis continues to be categorized as a controlled substance under the CSA and as such, cultivation, distribution, sale and possession of cannabis violates federal law in the United States. The inconsistency between federal and state laws and regulations is a major risk factor.

As a result of the Sessions Memo, federal prosecutors are free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws that may be inconsistent with federal prohibitions. No direction was given to federal prosecutors in the Sessions Memo as to the priority they should ascribe to such cannabis activities, and resultantly it is uncertain how active federal prosecutors will be in relation to such activities. Due to the ambiguity of the Sessions Memo, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law.

Federal law pre-empts state law in these circumstances, so that the federal government can assert criminal violations of federal law despite state law. The level of prosecutions of state-legal cannabis operations is entirely unknown, nonetheless the stated position of the current administration is hostile to legal cannabis, and furthermore may be changed at any time by the Department of Justice, to become even more aggressive. The Sessions Memo lays the groundwork for United States Attorneys to take their cues on enforcement priority directly from the Attorney General's office by referencing federal law enforcement priorities set by former Attorney General Jeff Sessions. It is unclear what position the new Attorney General will take. If the Department of Justice policy were to be to aggressively pursue financiers or equity owners of cannabis-related business, and United States Attorneys followed such Department of Justice policies through pursuing prosecutions, then the Corporation could face (i) seizure of its cash and other assets used to support or derived from its cannabis subsidiaries; and (ii) the arrest of its employees,

directors, officers, managers and investors, who could face charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA by virtue of providing financial support to state-licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis. Additionally, as has recently been affirmed by U.S. Customs and Border Protection, employees, directors, officers, managers and investors of the Corporation who are not U.S. citizens face the risk of being barred from entry into the United States for life.

Now that the Cole Memo has been rescinded by former Attorney General Jeff Sessions, the Department of Justice under the current administration or an aggressive federal prosecutor could allege that the Corporation and its board of directors and, potentially its shareholders, “aided and abetted” violations of federal law by providing finances and services to its operating subsidiaries. Under these circumstances, it is possible that the federal prosecutor would seek to seize the assets of the Corporation, and to recover the “illicit profits” previously distributed to shareholders resulting from any of the foregoing financing or services. In these circumstances, the Corporation’s operations would cease, shareholders may lose their entire investment and directors, officers and/or shareholders may be left to defend any criminal charges against them at their own expense and, if convicted, be sent to federal prison.

Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Corporation, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical and adult-use cannabis licenses in the United States, the listing of its securities on the CSE or other applicable exchanges, its financial position, operating results, profitability or liquidity or the market price of the Subordinate Voting Shares.

Overall, an investor’s contribution to and involvement in the Corporation’s activities may result in federal civil and/or criminal prosecution, including forfeiture of his, her or its entire investment.

#### ***The Leahy Amendment Must be Renewed to Protect the Medical Cannabis Industry***

The Leahy Amendment, as discussed above, prohibits the Department of Justice from spending funds appropriated by Congress to enforce the tenets of the CSA against the medical cannabis industry in states which have legalized such activity. This amendment has historically been passed as an amendment to omnibus appropriations bills, which by their nature expire at the end of a fiscal year or other defined term. The Leahy Amendment expired with the 2018 Fiscal Year on September 30, 2018 and may or may not be included in the final 2019 Fiscal Year Appropriations Package or a continuing budget resolution, and its inclusion or non-inclusion, as applicable, is subject to political changes.

#### ***Risks Associated with Acquisitions***

As part of the Corporation’s overall business strategy, the Corporation intends to pursue select strategic acquisitions, vertical integrations and a stronger presence in both existing and new jurisdictions. The success of any such acquisitions will depend, in part, on the ability of the Corporation to realize the anticipated benefits and synergies from integrating the applicable acquired entities or assets into the businesses of the Corporation. Future acquisitions may expose it to potential risks, including risks associated with: (i) the integration of new operations, services and personnel; (ii) unknown or undisclosed liabilities; (iii) the diversion of resources from the Corporation’s existing businesses; (iv) potential inability to generate sufficient revenue to offset new costs; (v) the expenses of acquisitions; and (vi) the potential loss of or harm to relationships with both employees and consultants and existing customers, vendors, suppliers, contractors and other applicable parties resulting from its integration of new businesses. In addition, any proposed acquisitions may be subject to regulatory approval.

While the Corporation intends to conduct reasonable due diligence in connection with such strategic acquisitions, there are risks inherent in any acquisition. Specifically, there could be unknown or undisclosed risks or liabilities of such entities or assets for which the Corporation is not sufficiently indemnified. Any such unknown or undisclosed risks or liabilities could materially and adversely affect the Corporation’s financial performance and results of operations. The Corporation could encounter additional transaction and integration related costs or other factors such as the failure to realize all of the benefits from the acquisition. All of these factors could cause dilution to the Corporation’s revenue per share or decrease or delay the anticipated accretive effect of the acquisition and cause a decrease in the market price of the Subordinate Voting Shares.

The Corporation may not be able to successfully integrate and combine the operations, personnel and technology infrastructure of any such strategic acquisition with its existing operations. If integration is not managed successfully

by the Corporation's management, the Corporation may experience interruptions in its business activities, deterioration in its employee, customer or other relationships, increased costs of integration and harm to its reputation, all of which could have a material adverse effect on the Corporation's business, prospects, financial condition, results of operations and cash flows.

#### ***The Corporation may be Subject to Costly Legal Proceedings***

The Corporation may be subject to regulatory investigations, civil claims, lawsuits and other proceedings in the ordinary course of its business, across the various aspects of the Corporation's business, including securities, employment, regulatory, intellectual property, commercial, real estate and other matters. In this regard, while Mr. Parker has resigned as Chief Financial Officer, he has claimed he was constructively dismissed. His employment agreement provides for the payment of severance in the event of termination without cause. The Corporation disputes his claim. See Section 15 of the Listing Statement for a summary of certain terms of Mr. Parker's employment agreement. The results of any legal proceedings to which the Corporation is or may become subject cannot be predicted with certainty due to the uncertainty inherent in regulatory actions and litigation, the difficulty of predicting decisions of regulators, judges and juries and the possibility that decisions may be reversed on appeal. Defense and settlement costs of legal disputes can be substantial, even with claims that have no merit. There can be no assurance that any pending or future litigation, regulatory, agency or civil proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources. The cannabis industry is a new industry and the Corporation is a fast growing and relatively new enterprise. It is therefore more difficult to predict the types of claims and proceedings and the quantum of costs related to such claims and proceedings that the Corporation may face. Management is committed to conducting business in an ethical and responsible manner, which it believes will reduce the risk of legal disputes. However, if the Corporation is subject to legal disputes, there can be no assurances that these matters will not have a material adverse effect on the Corporation's business, financial condition, capital, results of operations, cash flows or prospects.

#### **Risks Associated with the PharmaCann Acquisition**

##### ***No Assurance Regarding the PharmaCann Acquisition***

The specific PharmaCann Acquisition structure is subject to ongoing tax, financial and regulatory advice. The transaction is also subject to, among other things, execution of definitive documentation, regulatory approvals by various local and state authorities in each of the U.S. states where PharmaCann's assets and licenses are held, all debt of PharmaCann being repaid, other than equipment lease financing and capital leases, any applicable securityholder approvals being obtained and other customary closing conditions. The transaction closing is expected to take 6-12 months from announcement based on the receipt of such regulatory approvals.

Overall, while the Corporation is diligently pursuing the PharmaCann Acquisition, there is no assurance that definitive documentation in respect of the same will be entered into, that such transaction will be successfully completed on the proposed terms and conditions or contemplated timeline or at all, as to whether conditions, including the receipt of applicable regulatory approvals, to the consummation of such transaction will be satisfied or that any additional conditions or limitations will not be prescribed in connection with such conditions and approvals, as to the acquisition structure pursuant to which it will be completed or as to the resulting benefits or consequences of completion of such transaction on the business, financial condition, results of operations or prospects of the Corporation. Compliance with such additional conditions or limitations may have a material adverse effect on the prospects for the completion of the PharmaCann Acquisition or impose additional obligations or compliance costs on the combined business or have a material adverse effect on the business, financial condition, results of operations or prospects of the combined business.

##### ***Failure to Realize the Anticipated Benefits of the PharmaCann Acquisition***

Achieving the benefits of the PharmaCann Acquisition depends in part on successfully supporting PharmaCann's growth initiatives and operations in a timely and efficient manner, as well as the Corporation's ability to realize the anticipated growth opportunities. The process will require the dedication of management effort, time and resources which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. These decisions and completion of the PharmaCann acquisition will present challenges to management and special risks pertaining to possible unanticipated liabilities, unanticipated costs, and the potential loss of key employees. This process may result in the loss and the disruption of ongoing business and customer and employee relationships that may adversely affect the Corporation's ability to achieve the anticipated benefits of the

PharmaCann Acquisition, and as a result of these factors, it is possible that the anticipated benefits of the PharmaCann Acquisition and the growth of the Corporation and PharmaCann will not be realized as anticipated.

Additionally, PharmaCann's business is subject to substantially the same risks as the Corporation's business.

#### ***PharmaCann Acquisition will Cause Dilution***

Under the terms of the binding letter of intent with PharmaCann, PharmaCann units will be exchanged for Subordinate Voting Shares (or the substantial equivalent thereof of a new holding company), and which on a *pro forma* basis will, after certain adjustments, equal approximately 25% of the Corporation's fully-diluted outstanding Subordinate Voting Shares (calculated based on the treasury stock method) at the time of closing of the transaction. The issuance of Subordinate Voting Shares (or the substantial equivalent thereof of a new holding company) to the vendors of PharmaCann will dilute the ownership interest of holders of Subordinate Voting Shares. A definitive agreement has not been executed in respect of the PharmaCann Acquisition and as such there is no assurance that the transaction will be consummated on these terms or at all. See "PharmaCann Acquisition – Acquisition" for further details as to the contemplated structure of the PharmaCann Acquisition.

#### ***Potential Undisclosed PharmaCann Liabilities***

In the event that the PharmaCann Acquisition is completed, PharmaCann will continue to have the liabilities that existed prior to completion of the same. The Corporation will also face the risks associated with the business of PharmaCann. There may be liabilities and risks of PharmaCann that the Corporation failed to discover or was unable to accurately assess or quantify in its due diligence.

### **LEGAL MATTERS**

Certain legal matters relating to the Offering will be passed upon on behalf of the Corporation by Cassels Brock & Blackwell LLP, and on behalf of the Underwriters by Borden Ladner Gervais LLP. As of the date hereof, Cassels Brock & Blackwell LLP, and its partners and associates, and Borden Ladner Gervais LLP, and its partners and associates, beneficially own, directly or indirectly, in their respective groups, less than 1% of any class of outstanding securities of the Corporation, MedMen Corp. and the LLC.

### **AUDITORS, TRANSFER AGENT AND REGISTRAR**

MNP LLP is the auditor of the Corporation and has confirmed that they are independent within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulations. Macias, Gini & O'Connell, LLP and Martin Hood LLC have performed the audit in respect of certain financial statements incorporated by reference herein or attached hereto. As of the date hereof, Macias, Gini & O'Connell, LLP, and its partners and associates, and Martin Hood LLC, and its partners and associates, beneficially own, directly or indirectly, in their respective groups, less than 1% of any class of outstanding securities of the Corporation, MedMen Corp. and the LLC.

The transfer agent and registrar for the Subordinate Voting Shares is Odyssey Trust Company at its principal offices in Calgary, Alberta.

### **PURCHASERS' STATUTORY RIGHTS**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

In an offering of Warrants, investors are cautioned that the statutory right of action for damages for a misrepresentation contained in this Prospectus is limited, in certain provincial securities legislation, to the price at which the Warrant is offered to the public under the prospectus offering. This means that, under the securities legislation of certain provinces, if the purchaser pays additional amounts upon conversion, exchange or exercise of

the security, those amounts may not be recoverable under the statutory right of action for damages that applies in those provinces. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of this right of action for damages or consult with a legal adviser.

#### **ENFORCEMENT OF JUDGMENTS AGAINST FOREIGN PERSONS**

The directors, chief executive officer, interim chief financial officer and promoters of the Corporation, being Adam Bierman, Andrew Modlin, James Miller, Ben Cook, Christopher Ganan, Lisa Sergi Trager, Benjamin Rose, Mark Hutchison, Andrew Rayburn, Stacey Hallerman, Jay Brown and Antonio Villaraigosa reside outside of Canada and each has appointed Cassels Brock & Blackwell LLP, Suite 2200, HSBC Building, 885 West Georgia Street, Vancouver, British Columbia V6C 3E8, as his or her agent for service of process in Canada. Macias, Gini & O'Connell, LLP, the auditor in respect of the financial statements of the Corporation, prepared on a combined basis, as at and for the year ended June 30, 2017, is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction. Martin Hood LLC, the auditor in respect of the consolidated financial statements of PharmaCann as at and for the years ended December 31, 2017 and 2016, which are attached hereto, is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that resides outside of Canada or is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction, even if the party has appointed an agent for service of process.

**APPENDIX A**  
**AUDITED ANNUAL FINANCIAL STATEMENTS OF PHARMACANN**

See attached.



PHARMACANN LLC AND SUBSIDIARIES

Oak Park, Illinois

**Consolidated Financial Statements**

For the Years Ended

December 31, 2017 and 2016

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Members  
PharmaCann LLC and Subsidiaries  
Oak Park, Illinois

We have audited the accompanying consolidated financial statements of PharmaCann LLC and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the

appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PharmaCann LLC and Subsidiaries as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1 to the consolidated financial statements, the Company's business operations are in the medical cannabis industry which is currently considered illegal under federal law. If the federal government or the states in which the Company operates change the laws with respect to the medical cannabis industry and/or the federal government elects to enforce existing laws, it could be financially harmful to the Company as it could be prosecuted and result in the Company being liquidated.

A handwritten signature in black ink that reads "Martin Hood LLC". The signature is written in a cursive, flowing style.

Champaign, Illinois

March 20, 2018

PHARMACANN LLC AND SUBSIDIARIES  
Consolidated Balance Sheets  
December 31, 2017 and 2016

ASSETS

	2017	2016
<b>Current Assets</b>		
Cash	\$ 20,208,499	\$ 20,775,333
Cash Held in Escrow	234,920	200,000
Accounts Receivable	426,537	57,958
Notes Receivable, Net	-	199,100
Inventory	20,543,035	5,965,188
Prepaid Expenses	987,585	727,434
Deposits	-	81,000
Total Current Assets	<u>42,400,576</u>	<u>28,006,013</u>
<b>Property and Equipment, Net</b>	<u>52,111,098</u>	<u>51,874,031</u>
<b>Other Assets</b>		
Restricted Cash	301,000	301,000
Intangibles, Net	157,591	18,841
Goodwill	253,375	-
Deferred Loss on the Sale of Property	952,754	1,020,808
Deposits	2,583,490	2,292,309
Total Other Assets	<u>4,248,210</u>	<u>3,632,958</u>
Total Assets	<u><u>\$ 98,759,884</u></u>	<u><u>\$ 83,513,002</u></u>

LIABILITIES AND MEMBERS' EQUITY

<b>Current Liabilities</b>		
Accounts Payable	\$ 1,970,352	\$ 759,875
Construction Payable	317,086	757,910
Accrued Expenses	3,142,791	1,129,602
Notes Payable, Current	999,995	1,999,989
Capital Lease Obligation, Current	395,437	203,434
Convertible Notes Payable, Current	43,782,437	4,650,606
Total Current Liabilities	<u>50,608,098</u>	<u>9,501,416</u>
<b>Long-Term Liabilities</b>		
Note Payable, Net of Current Portion	-	999,995
Note Payable, Member	500,000	-
Capital Lease Obligation	28,892,276	29,318,611
Convertible Notes Payable	-	23,582,437
Contingent Consideration on Business Combination	550,000	-
Total Long-Term Liabilities	<u>29,942,276</u>	<u>53,901,043</u>
Total Liabilities	<u>80,550,374</u>	<u>63,402,459</u>
<b>Members' Equity</b>		
Members' Capital	52,664,266	37,794,957
Retained Deficit	(34,454,756)	(17,684,414)
Total Members' Equity	<u>18,209,510</u>	<u>20,110,543</u>
Total Liabilities and Members' Equity	<u><u>\$ 98,759,884</u></u>	<u><u>\$ 83,513,002</u></u>

See Accompanying Notes

PHARMACANN LLC AND SUBSIDIARIES  
Consolidated Statements of Income  
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Revenues</b>		
Net Sales	\$ 12,214,436	\$ 3,622,993
Management Services Revenue, including Interest Income of \$445,851	<u>1,644,091</u>	<u>-</u>
Total Revenues	<u>13,858,527</u>	<u>3,622,993</u>
<b>Cost of Sales</b>		
Cost of Sales	7,584,430	2,503,871
Loss on Inventory Adjustment to Lower of Cost or Market	<u>736,283</u>	<u>3,343,710</u>
Total Cost of Sales	<u>8,320,713</u>	<u>5,847,581</u>
Gross Profit (Loss)	<u>5,537,814</u>	<u>(2,224,588)</u>
<b>Operating Expenses</b>		
Compensation & Benefits	7,043,746	4,346,669
Professional Fees	5,066,299	2,204,862
Bad Debt Expense	4,184,512	-
Occupancy	1,137,244	687,243
Unit Option Based Compensation	1,024,617	-
Marketing	709,423	1,274,305
Depreciation and Amortization	531,131	390,507
Licenses & Permits	454,493	273,450
Travel & Entertainment	366,967	165,075
Insurance	227,736	176,831
Business Development	59,731	25,597
Interest Expense	-	574,634
Other	511,242	265,340
Total Operating Expenses	<u>21,317,141</u>	<u>10,384,513</u>
Income (Loss) from Operations	<u>(15,779,327)</u>	<u>(12,609,101)</u>
<b>Other Income (Expense)</b>		
Interest Expense	(993,535)	(430,720)
Interest Income	12,993	9,126
Loss on the Sale of Property	(68,054)	(214,773)
Other Income (Expense)	<u>57,581</u>	<u>6,362</u>
Total Other Income (Expense)	<u>(991,015)</u>	<u>(630,005)</u>
<b>Net Income (Loss)</b>	<u><u>\$ (16,770,342)</u></u>	<u><u>\$ (13,239,106)</u></u>

See Accompanying Notes

PHARMACANN LLC AND SUBSIDIARIES  
Consolidated Statements of Members' Equity  
For the Years Ended December 31, 2017 and 2016

	Series A Preferred	Class A	Purchase of Member Units on Subscription	Unit Option Based Compensation	Total Members' Capital	Retained Deficit	Total Members' Equity
<b>Members' Equity, December 31, 2015</b>	\$ 40,646,976	\$ 1,000	\$ -	\$ -	\$ 40,647,976	\$ (4,445,308)	\$ 36,202,668
Contributions from Members	-	4,979,475	(4,979,975)	-	(500)	-	(500)
Redemption of Members	-	(4,979,975)	-	-	(4,979,975)	-	(4,979,975)
Distribution to Members	(10,954)	-	-	-	(10,954)	-	(10,954)
Payments on Subscriptions	-	-	2,138,410	-	2,138,410	-	2,138,410
Net Income (Loss)	-	-	-	-	-	(13,239,106)	(13,239,106)
<b>Members' Equity, December 31, 2016</b>	40,636,022	500	(2,841,565)	-	37,794,957	(17,684,414)	20,110,543
Series A Preferred Units Purchased	12,900,000	-	-	-	12,900,000	-	12,900,000
Re-Purchase of Members Units	(999,926)	(98)	-	-	(1,000,024)	-	(1,000,024)
Distribution to Members	(1,038)	-	-	-	(1,038)	-	(1,038)
Payments on Subscriptions	-	-	1,945,754	-	1,945,754	-	1,945,754
Vested Unit Options (Unit Based Compensation)	-	-	-	1,024,617	1,024,617	-	1,024,617
Net Income (Loss)	-	-	-	-	-	(16,770,342)	(16,770,342)
<b>Members' Equity, December 31, 2017</b>	<u>\$ 52,535,058</u>	<u>\$ 402</u>	<u>\$ (895,811)</u>	<u>\$ 1,024,617</u>	<u>\$ 52,664,266</u>	<u>\$ (34,454,756)</u>	<u>\$ 18,209,510</u>

See Accompanying Notes

PHARMACANN LLC AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
For the Years Ended December 31, 2017 and 2016

	2017	2016
<b>Cash Flows from Operating Activities</b>		
Net Income (Loss)	\$ (16,770,342)	\$ (13,239,106)
Adjustments to Reconcile Net Income (Net Loss) to		
Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	531,131	390,507
Loss on Sale of Property	68,054	214,773
Provision for Allowances on Notes Receivable	4,184,512	-
Vested Unit Options (Unit Based Compensation)	1,024,617	-
(Increase) Decrease in Assets:		
Escrow	(34,920)	4,087,282
Restricted Cash	-	125,000
Receivables	(368,579)	191,507
Inventory	(11,509,303)	(4,621,871)
Prepaid Expenses	(260,151)	(178,951)
Deposits	(210,181)	(141,217)
Increase (Decrease) in Liabilities:		
Accounts Payable	1,210,477	546,452
Accrued Expenses	2,013,189	568,723
Net Adjustments	(3,351,154)	1,182,205
Net Cash Provided by (Used in) Operating Activities	(20,121,496)	(12,056,901)
<b>Cash Flows from Investing Activities</b>		
Payments on Construction Payables	(440,824)	(6,089,636)
Proceeds on the Sale of Property and Equipment	-	30,000,000
Issuance of Notes Receivable	(2,910,685)	(199,100)
Acquisition of Business	(963,102)	-
Purchases of Property and Equipment	(3,790,492)	(12,768,103)
Net Cash Provided by (Used in) Investing Activities	(8,105,103)	10,943,161
<b>Cash Flows from Financing Activities</b>		
Principal Advances on Convertible Note Payable	15,549,394	23,582,437
Receipts from Subscriptions Receivable	1,945,754	2,138,410
Payments on Notes Payable	(1,999,989)	(999,995)
Principal Advances on Note Payable, Member	500,000	5,000,000
Payments on Notes Payable, Member	-	(5,000,000)
Payments on Capital Lease Obligation	(234,332)	(32,755)
Deferred Loss on the Sale of Property	-	(1,020,808)
Security Deposit related to Capital Lease Obligation	-	(2,112,474)
Re-Purchase of Member Units	(1,000,024)	-
Redemption of Members	-	(979,996)
Series A Preferred Units Purchased	12,900,000	-
Distribution to Members	(1,038)	(11,454)
Net Cash Provided by (Used in) Financing Activities	27,659,765	20,563,365
<b>Net Change in Cash</b>	(566,834)	19,449,625
<b>Cash, Beginning of Year</b>	20,775,333	1,325,708
<b>Cash, End of Year</b>	\$ 20,208,499	\$ 20,775,333

See Accompanying Notes



PHARMACANN LLC AND SUBSIDIARIES  
Consolidated Statements of Cash Flows (Continued)  
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash Paid During the Year for Interest	<u>\$ 5,131,998</u>	<u>\$ 579,583</u>
<b>Supplemental Disclosure of Non-Cash Financing Information</b>		
Purchases of Property and Equipment via Construction Payable	<u>\$ -</u>	<u>\$ 757,910</u>
Interest Expense Capitalized into Property and Equipment	<u>\$ 44,389</u>	<u>\$ 673,689</u>
Purchase of Property and Equipment via Capital Lease Obligation	<u>\$ -</u>	<u>\$ 29,554,800</u>
Issuance of Members' Capital through Subscription Receivable	<u>\$ -</u>	<u>\$ 4,979,975</u>
Redemption of Members through Notes Payable	<u>\$ -</u>	<u>\$ 3,999,979</u>
<b>Acquisition of Business</b>		
Net Identifiable Assets Acquired	\$ 1,074,727	\$ -
Non-Compete Agreements	185,000	-
Goodwill Acquired	<u>253,375</u>	<u>-</u>
Net Assets Acquired	1,513,102	-
Contingent Consideration	<u>(550,000)</u>	<u>-</u>
Cash Consideration for Acquisition of Business	<u>\$ 963,102</u>	<u>\$ -</u>

See Accompanying Notes

PHARMACANN LLC AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
December 31, 2017 and 2016

**1. Nature of Activities**

PharmaCann LLC and Subsidiaries' (the Company) principle activities include cultivating, distributing and dispensing medical cannabis to be used by qualified patients for medical use. PharmaCann, LLC is an Illinois limited liability company established in 2014 for the purpose of fulfilling the principle activities.

The Company has established the following wholly-owned subsidiaries (year of formation) that will be used to fulfill the principle activities:

- 2015 – PharmaCann of New York, LLC, a wholly owned subsidiary of PharmaCann LLC, is a New York limited liability company established in 2015, but did not have any activity for the years ended December 31, 2017 and 2016 as the transactions flow through PharmaCann LLC,
- 2016 – PharmaCann Mass LLC (referred to as “MASS”), a wholly owned subsidiary of PharmaCann LLC, is a Massachusetts limited liability company established in 2016 to act as a management company for future cultivation and dispensary locations in Massachusetts licensed to a third party not-for-profit,
- 2017 – PharmaCannis Labs LLC, an Illinois limited liability company, with the primary purpose of research and development of pharmaceutical cannabis strains,
- 2017 – Sunbiz Acquisition LLC, a Florida limited liability company, which purchased Breakthrough Junction Corp., a Florida corporation that was subsequently converted to PharmaCann Florida LLC, a Florida limited liability company,
- 2017 – PharmaCann DC LLC, a District of Columbia limited liability company, which has applied for a dispensary license,
- 2017 – PharmaCann Ohio LLC, an Ohio limited liability company, which has plans for cultivation, processing and dispensing upon receiving licenses,
- 2017 – PharmaCann Penn LLC, a Pennsylvania limited liability company, was awarded a dispensary license in Pennsylvania, which will allow them to operate up to three dispensary locations near Philadelphia,
- 2017 – PharmaCann Michigan LLC, a Michigan limited liability company, which is in the application process to obtain licenses to operate in Michigan.
- 2017 – PCL Management LLC, an Illinois limited liability company, which will act as the entity for processing payroll for all employees of the Company.

All transactions and balances between these entities have been eliminated upon consolidation.

The Company is currently applying for and has been granted licenses in other states, but only operates in Illinois and New York exclusively as of December 31, 2017, with the exception of the management agreement for PharmaCann Mass LLC.

In Illinois, the Company operates two cultivation centers permitted to grow and process medical cannabis products, which are distributed to Illinois registered medical cannabis dispensaries, both owned and third-party. The Company operates four registered medical cannabis dispensaries in Illinois that sell medical cannabis and ancillary products to patients that have been certified by the State of Illinois to use medical cannabis.

In New York, the Company is a registered organization and operates one manufacturing facility to grow and process medical cannabis products which are distributed to four New York dispensaries operated by the Company. The Company's New York dispensaries sell medical cannabis and ancillary products to patients that have been certified by the New York State Department of Health to use medical cannabis.

## **2. Summary of Significant Accounting Policies**

- a. Inventories are valued at lower of cost or market. Cost is determined using the first-in first-out (FIFO) method.
- b. Property and equipment is recorded at cost. Minor additions are expensed in the year incurred. Major additions over \$5,000 are capitalized and depreciated over their estimated useful lives using straight-line or accelerated methods. Useful lives are 5-12 years for equipment, 10 years for furniture and fixtures, 15 years for leasehold improvements, and 39 years for buildings.
- c. The Company reduces notes receivable by a valuation allowance that reflects management's best estimate of probable losses determined principally on historical experience and operations for the debtor. As of December 31, 2017 and 2016, the total allowance was \$4,184,512 and \$0, respectively. The entire allowance is related to the not-for-profit entity discussed in Note 5.
- d. Intangibles include non-compete agreements. The non-compete agreements are being amortized over 3 years. The Company will test its intangibles for impairment upon the occurrence of an event or circumstance that may indicate the fair value is less than its carrying amount. Amortization expense related to the intangibles was \$46,250 for the year ended December 31, 2017.
- e. Goodwill is reviewed for possible impairment at least annually, or more frequently upon the occurrence of an event or circumstances indicate that the carrying amount is greater than the fair value. Management has determined that there is no impairment for the year ended December 31, 2017.
- f. The Company recognizes revenue when the transaction is completed upon delivery of the final product to the customers at the point of sale.
- g. The Company expenses shipping and handling costs as they are incurred. Shipping and handling expenses incurred on products sold are included in cost of sales.

- h. Illinois cultivation tax is 7 percent of cannabis sales on wholesale sales to third parties and the Company's sales to their own dispensaries from cultivation facilities based on the selling price attributed to the amount of cannabis in the product. The Company is paying the cultivation tax on the sales from the cultivation facilities to the owned dispensaries under protest because it is not a true sale. The tax is included in cost of goods sold and totaled \$247,674 and \$57,452 for the years ended December 31, 2017 and 2016, respectively. In New York, there is no cultivation tax, but there is a 7 percent excise tax on sales at the dispensaries that is remitted to the state of New York.
- i. Advertising costs are charged to operations when incurred. Advertising expenses totaled \$233,224 and \$21,165 for the years ended December 31, 2017 and 2016.
- j. Losses from sale-leaseback transactions are deferred and recognized over the life of the underlying leased asset as disclosed in Note 17.
- k. As a limited liability company, the Company's taxable income or loss is allocated to members in accordance with the Company's member agreement. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements. On or before March 31 of each year, the Company is required to make mandatory tax distributions on a pro-rata basis in accordance with the member agreement based upon thirty-six percent of the Company's net taxable income for the previous calendar year. The Company is in the process of amending the member agreement to extend the tax distribution deadline to April 10 of each year.
- l. The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Compensation expense recognized related to the issuance of member unit options is based on the intrinsic method of valuing the underlying options in relation to the estimated value of the Company. Allocation of overhead costs to work in process is based on an estimate of time and resources dedicated to the production of inventory, and the estimate of per unit material costs to be relieved into cost of goods sold upon product sales. Due to the uncertainties inherent in the estimation process, it is at least reasonably possible that compensation expense and the overhead cost allocation will be revised.

As discussed in the Emphasis of Matter paragraph, cannabis is still considered a Schedule 1 substance under the Controlled Substance Act. As such, there is an inherent risk related to the federal government's position on cannabis; however, the Company has deemed it not reasonable to estimate a potential liability related to the possible enforcement of laws against the medical cannabis industry.

- m. As of December 31, 2017, the federal and Illinois tax filings since inception remain open for review by tax authorities.

### **3. Collateralization of Deposits**

Cash is a financial instrument that potentially subjects the Company to a concentration of credit risk. As of December 31, 2017, the Company has bank deposits in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation in the amount of \$20,443,377, including cash held in escrow and restricted cash balances.

### **4. Cash Held in Escrow and Restricted Cash**

Cash held in escrow consists of four escrow accounts for \$50,000 each related to one of four dispensary locations totaling \$200,920 and \$200,000 as of December 31, 2017 and 2016, respectively, as required by the Illinois Division of Financial and Professional Regulation for medical cannabis dispensaries in Illinois. The balance must remain in escrow as long as the Company maintains its license to operate the dispensaries in Illinois. The Company had an additional \$34,000 held in three other miscellaneous escrow accounts.

Restricted cash consists of cash deposits serving as collateral for the two surety bonds in the amount of \$250,000 at December 31, 2017 and 2016, respectively, and secured credit facilities in the amount of \$51,000 at December 31, 2017 and 2016. The Company also held an irrevocable letter of credit in the amount of \$250,000 as of December 31, 2016 through December 9, 2017, which served as collateral for the balance of the surety bonds. The letter of credit was not renewed upon expiration on December 9, 2017.

### **5. Notes Receivable**

In 2016, the Company issued a line of credit to a not-for-profit entity (NFP) in the amount of \$350,000. As of December 31, 2017, the outstanding balance on the line of credit was \$396,440, of which the additional \$49,027 is interest receivable. As of December 31, 2016, the outstanding balance on the line of credit was \$199,100. The note matures on December 31, 2018 and bears interest of 16 percent, which is added to the principal balance. Interest payments will be payable in cash each month starting March 1, 2018, which is 365 days after the interest commencement date. This note is secured by all assets and all personal property of the borrowers. MASS holds a management services agreement with the NFP after the business acquisition disclosed in Note 21.

On January 27, 2017, the Company issued a working capital loan to the same NFP for an amount not to exceed \$4,000,000 with a maturity of January 2027. The NFP can use this working capital line for normal operations, including personnel charges at set rates for various assistance for Company employees, payment of prorated annual royalties of \$250,000 to MASS, and a 15 percent surcharge on the cost of any good or services provided by MASS on behalf of the NFP. Interest accrues monthly at 18 percent and is

added to the principal balance. Interest payments will be payable in cash each month starting two years after the commencement date. As of December 31, 2017, the outstanding balance on the working capital note receivable was \$2,570,977. The Company also purchased a note receivable in the business acquisition disclosed in Note 21 with a balance as of \$1,217,095, which includes \$447,537 of interest receivable. The note matures on January 1, 2021 and bears interest of 18.5 percent.

Due to the unlikeliness of repayment, the Company has recorded an allowance for the entire balance of the three notes and related interest in the amount of \$4,184,512 as of December 31, 2017.

## 6. Inventory

The major classes of inventory are as follows as of December 31:

	2017	2016
Materials Inventory	\$ 573,538	\$ 185,275
Work in Process	19,522,426	5,447,173
Finished Goods	447,071	332,740
Total Inventory	<u>\$ 20,543,035</u>	<u>\$ 5,965,188</u>

Due to the federal laws against cannabis, the Company is unable to move inventory across state lines to their other locations.

## 7. Property and Equipment, Net

Property and equipment consist of the following as of December 31:

	2017	2016
Land	\$ 516,946	\$ -
Building	14,289,185	12,893,730
Leasehold Improvements	6,684,585	6,632,705
Equipment	4,176,948	2,633,355
Furniture and Fixtures	186,981	171,133
Construction in Progress	1,567,115	1,300,347
Capital Leased Asset	29,554,800	29,554,800
Total Property and Equipment	<u>56,976,560</u>	<u>53,186,070</u>
Less: Accumulated Depreciation and Amortization	<u>(4,865,462)</u>	<u>(1,312,039)</u>
Property and Equipment, Net	<u>\$ 52,111,098</u>	<u>\$ 51,874,031</u>

Depreciation and amortization expense was \$3,599,675 and \$1,173,424 for the years ended December 31, 2017 and 2016, of which \$3,068,544 and \$782,917 related to the production of inventory was capitalized into work in process, respectively.

Interest expense was \$5,980,697 for the year ended December 31, 2017, of which \$44,389 was capitalized into Construction in Progress, respectively. Of the total interest expense for 2017, \$4,942,773 is related to the capital lease disclosed in Note 17.

Interest expense was \$1,689,043 for the year ended December 31, 2016, of which \$673,689 was capitalized into Construction in Progress, respectively.

## 8. Prepaid Expenses

Prepaid expenses consist of the following as of December 31:

	2017	2016
Insurance	\$ 331,061	\$ 291,936
Licenses and Fees	429,888	260,162
Other Prepaids	226,636	175,336
Total Prepaid Expenses	<u>\$ 987,585</u>	<u>\$ 727,434</u>

## 9. Accrued Expenses

Accrued expenses consist of the following as of December 31:

	2017	2016
Accrued Interest	\$ 1,387,089	\$ 538,390
Accrued Settlement	677,000	-
Accrued Compensation	661,743	406,631
Accrued Consulting	200,000	-
Accrued Sales Tax	55,149	8,271
Other Accrued Expenses	161,810	176,310
Total Accrued Expenses	<u>\$ 3,142,791</u>	<u>\$ 1,129,602</u>

## 10. Note Payable, Member

The Company has a \$1,000,000 revolving note agreement with a related party, at a fixed interest rate of 10 percent. The line of credit is payable in arrears on the first day of each calendar quarter beginning July 1, 2017. The principal portion of the revolving line-of-credit is payable in full upon maturity on May 4, 2019. At December 31, 2017, the line of credit had a balance of \$500,000 outstanding. Per the permitted use of the funds under this agreement, no additional funds may be drawn under this revolving note.

## **11. Convertible Notes Payable**

During 2016, the Company had convertible notes payable with six parties with balances totaling \$23,782,437 as of December 31, 2017. The notes accrue interest at 3.0 percent annually with lump payment due on February 28, 2018. These notes are convertible at maturity or change in control into Series A preferred member units, of which the number will be determined by a strike price of the lesser of (A) quotient of \$175,000,000 divided by all issued and outstanding units of the Company as of immediately prior to the Maturity Date on a Fully Diluted Basis, or (B) per unit price of the most recently completed sale of Equity Securities by the Company pursuant to a bona fide arm's length transaction. The notes are also convertible automatically in the event of Qualified Equity Financing (QEF). In the event of a QEF, the noteholder will receive equity securities in the amount of principal and accrued but unpaid interest at the discounted per unit price equivalent to the QEF price per unit plus a 20 percent discount, unless the amount of the discounted per-unit price for conversion of the note is greater than the per unit cap price, then the per unit cap price is used for conversion.

As of December 31, 2017, the Company had entered into nine new convertible notes payable in 2017 with one party with balances totaling \$20,000,000. The notes accrue interest at 3.0 percent annually with lump payment due on December 31, 2018. These notes are convertible at maturity or change in control into Series A preferred member units, of which the number will be determined by a strike price of the lesser of (A) quotient of \$218,750,000 divided by all issued and outstanding units of the Company as of immediately prior to the Maturity Date on a Fully Diluted Basis, or (B) per unit price of the most recently completed sale of Equity Securities by the Company pursuant to a bona fide arm's length transaction. The notes are also convertible automatically in the event of Qualified Equity Financing (QEF). In the event of a QEF, the noteholder will receive equity securities in the amount of principal and accrued but unpaid interest at the discounted per unit price equivalent to the QEF price per unit plus a 20 percent discount, unless the amount of the discounted per-unit price for conversion of the note is greater than the per unit cap price, then the per unit cap price is used for conversion.

Each of the convertible notes payable is due to mature in 2018; thus, the full balance of \$43,782,437 is presented as a current liability on Exhibit A.

## **12. Member Agreement**

The Company and its members have entered into an agreement which, among other matters, governs the distributions, liquidation preferences, and transferability of its membership interests.

The Class A Unit holders' distribution and liquidation rights are subject to and qualified by the rights, powers and preferences of the holders of Series A Preferred Units as summarized below.



### *Distributions and Conversion*

The holders of Series A Preferred Units participate in all distributions of net cash flow on an as-if-converted to Class A Units basis. Each Series A Preferred Unit is convertible (upon the election of the holders of a majority of the Series A Preferred Units) into one Class A Unit at the time of issuance, subject to certain adjustments for unit splits or combinations. The Company's Amended and Restated Certificate of Designation for the Series A Preferred Units sets forth the mechanics for such conversion.

Holders of Series A Preferred Units are not entitled to any form of dividend.

### *Liquidation Preferences*

In the event of any liquidation event or deemed liquidation event, the holders of Series A Preferred Units shall be entitled to receive, prior and in preference to any proceeds of the liquidation to the holders of Class A Units the greater of (1) the original issue price of the Series A Preferred Units or (2) the distribution they would be entitled to receive on an as-if-converted to Class A Unit basis. If liquidation proceeds are insufficient to cover all members, holders of the Series A Preferred Units will be distributed the full proceeds ratably among themselves.

### *Transferability*

In the event that any Class A Member wishes to transfer any or all of its membership interest in the Company, the Class A Member must first offer to sell the membership interest to the Company and then to the Series A Preferred Members by providing written notice of intent.

## **13. Redemption of Members**

In 2016, the Company entered into purchase agreements with two significant members. Under agreements, the Company redeemed 100 percent of the members' units for \$4,979,975, which was based on the estimated fair value of the Company as agreed upon by the parties. The purchase was paid \$979,996 in cash and the remaining \$3,999,979 of the purchase price was paid through issuance of promissory notes.

As of December 31, 2017, the Company had paid a total of \$2,999,984, of which \$1,999,989 was paid in 2017 on these notes, leaving a balance of \$999,995 at year end to be paid in 2018.

## **14. Re-Purchase of Member Units**

During 2017, the Company exercised its option to repurchase 98,133 Class A units from a founding member for a per unit purchase price of \$10.1905 and an aggregate purchase price of \$1,000,024.

## 15. Member Unit Options

During the year, the Company has granted 21,791 options to six employees for the purchase of common B member units with per-unit strike prices ranging from \$59.14 to \$76.71. These options vest over a period up to three or four years and expire ten years from the date of issuance.

A summary of the unit options for the years ended December 31, 2017 and 2016 is as follows:

	2017		2016	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Common Stock options:				
Outstanding at beginning of year	111,309	\$ 48.80	46,391	\$ 58.20
Granted	21,791	73.55	69,579	49.45
Exercised	-	-	-	-
Expired	-	-	-	-
Forfeited	(17,005)	58.20	(4,661)	48.48
Outstanding at December 31	<u>116,095</u>	\$ 66.31	<u>111,309</u>	\$ 55.77

As of December 31, 2017				
	Options Outstanding		Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life	Number Outstanding	Weighted-Average Remaining Contractual Life
Options exercisable at year end:				
Member Unit Stock options	<u>116,095</u>	8.23 years	<u>44,976</u>	8.58 years

The Company has elected to value these options using the intrinsic method. Under this method, the options are valued at the date of issuance and any excess of the current per unit value of the Company over the strike price of the options is recognized as compensation expense over the vesting period. Compensation expense of \$1,024,617 and \$0 was recognized for these options for the years ended December 31, 2017 and 2016, respectively.

## 16. Operating Lease Commitments

The Company has various non-cancellable operating leases for equipment, land, parking lots and office space, with monthly payments ranging from \$167 to \$21,124, expiring through June 2054.

Future minimum lease payments under operating leases as of December 31, 2017 are as follows:

<u>Year</u>	
2018	\$ 1,209,439
2019	580,259
2020	548,058
2021	445,425
2022	312,430
Thereafter	1,134,086
Total Future Minimum Lease Payments	<u>\$ 4,229,697</u>

Rental expense from the operating leases noted above and other month-to-month leases amounted to \$1,008,073 and \$732,499 for the years ended December 31, 2017 and 2016, respectively.

## 17. Capital Lease and Sale-Leaseback

During 2016, the Company sold their New York cultivation plant and specified equipment for \$30,000,000 at a loss of \$1,235,581, of which \$214,773 was recognized immediately and \$1,020,808 will be recognized over the term of the lease. As of December 31, 2017 and 2016, the deferred loss on the sale was \$952,754 and \$1,020,808, respectively; therefore, \$68,054 was recognized for the year ended December 31, 2017.

Upon the sale in 2016, the Company immediately entered into an agreement to lease the property with an initial lease term of 15 years with two options to extend for five years each. The lease requires monthly payments of the following: \$319,580 for base rent, \$105,477 for supplemental rent in the first five years of the lease, and 1.5 percent of the current base rent as additional rent for a management fee. The base rent will increase each year at either 4 percent, or 75 percent of the Consumer Price Index, whichever is greater. The total monthly rent payment for the first twelve months is \$429,907.

In relation to the lease, the Company has a security deposit of \$2,112,474. Between month seven and month sixty of the lease, the security deposit will be reduced to \$1,056,237 if the Company achieves annualized EBITDA of \$10,000,000, measured over a continuous six-month period.

For the year ended December 31, 2017, payments totaled \$5,184,723, of which \$4,942,773 was applied to interest, and capitalized into Work in Process inventory. The balance of the lease as of December 31, 2017 was \$29,287,713.

Future minimum lease payments under capital lease as of December 31, 2017 are as follows:

2018	\$ 4,884,576
2019	5,489,868
2020	5,658,835
2021	5,729,082
2022	4,751,588
Thereafter	51,494,877
Net Minimum Capital Lease Payments	<u>78,008,826</u>
Less: Amount Representing Interest	<u>(48,721,113)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$ 29,287,713</u></u>

#### 18. Related-Party Transactions

The Company contracts architectural and construction services to companies related through common ownership. The following is a summary of the related party activities for the years ended December 31, 2017 and 2016:

	2017		2016	
	Payments	Accounts Payable	Payments	Accounts Payable
Vendor A	\$ -	\$ -	\$ 214,678	\$ -
Vendor B	731,416	-	225,385	30,082
Vendor C	1,211,977	-	16,538,250	699,962

A related party was also created during 2017, PharmaCannis Foundation, Inc., an Illinois not-for-profit organization, with the primary purpose of educating the public about the legal, regulated, and responsible use of high quality medical cannabis for legally-registered medical cannabis patients.

#### 19. Significant Concentrations

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash. At times, cash in banks is in excess of the FDIC insurance limit. The Company has not experienced any loss as a result of those deposits and does not expect any in the future.

The Company has been granted a license to cultivate and distribute cannabis for medical purposes pursuant to the laws of Illinois, Massachusetts, and New York. The Company has also been granted a dispensary licenses in Maryland and Pennsylvania. Presently, this industry is illegal under federal law. The Company has and intends to continue to adhere strictly to the statutes in the states in which it operates.

## **20. Commitments and Contingencies**

During 2017, the Company started the process to cancel a lease agreement in Massachusetts due to the landlord's unwillingness to fix a leaking roof. The landlord was demanding a settlement to cancel the lease that was still being negotiated as of December 31, 2017; however, the Company accrued \$677,000 that they believe was the best estimate based on the status of the negotiations.

The Company has entered into certain construction and project contracts related to the building of cultivation centers and the development of a new ERP system. The remaining commitment associated with these contracts totaled approximately \$3,755,000 as of December 31, 2017.

As part of the sale-leaseback transaction in Note 17, the Company is required to perform specified improvements to build-out greenhouse zones that are not yet completed. These improvements do not qualify as continued involvement for sales-leaseback treatment because the sale is not contingent on the improvements being completed. The improvements must be completed no later than June 30, 2020 but can be deferred until June 30, 2022 if the Company achieves annualized EBITDA of \$10,000,000, measured over a trailing six-month period on the date ninety days prior to June 30, 2020. Due to uncertainty in construction costs over the next 6 years, the Company is not able to accurately estimate the commitment; however, the Company believes that improvements will cost approximately \$4,500,000 based on a current estimate. This estimate could change significantly over the four-year period.

In late 2017, the Company entered into a consulting agreement with an investment manager (IM) for fundraising purposes. Of the amount raised by the IM, the IM is to receive cash equal 1 percent of the amount raised less the monthly retainer of \$12,000, and 1 percent of the amount raised in "at-the-money" Series A Preferred Units. As of December 31, 2017, the IM was responsible for raising \$12,400,000 of the \$15,000,000 necessary for a QEF event, noted in the subsequent section. As such, the Company accrued \$200,000 for the amounts due to the IM.

In June 2017, PharmaCann Ohio LLC, a wholly owned subsidiary of the Company, entered into an agreement to purchase 25 acres for \$700,000 for a cultivation site contingent on due diligence inspections. If the Company is dissatisfied with the inspections for any reason, the agreement could be terminated within 195 days. After the 195-day period, the due diligence period can be extended for an additional six months for \$10,000 per month. The Company exercised the first extension option in January 2018 and intends to extend the option until receipt of licenses in Ohio.

The Company entered into and executed an Option and Purchase Agreement for a 15-acre property in Massachusetts for \$3,000,000 in order to build a cultivation facility. The initial term of this purchase option expired October 12, 2017. However, the Company had two, 30-day optional extensions that it may elect not later than 10 days prior to the then expiration date, of which the Company exercised both extension options for \$20,000 each. Only one extension was able to be applied against the purchase price. The other extension payment was expensed. The Company then exercised the purchase option and was required to deliver a non-refundable deposit in the amount of \$250,000. The Company is still working through the conditions to close, in which \$2,730,000 payment is required.

In October and November 2017, the Company entered into four purchase agreements totaling \$2,245,000, one purchase option for \$300,000, and one lease option for monthly rent of \$8,500 with a 3 percent annual increase. All six of the agreements are located in Ohio and are contingent upon receiving a license to dispense medical marijuana from the State of Ohio Board of Pharmacy.

In September 2017, PharmaCann Florida LLC, a wholly owned subsidiary of the Company, entered into an agreement to purchase a property in Florida for \$1,450,000 to develop a Medical Marijuana Treatment Center (MMTC). As part of the agreement, \$25,000 was to be paid within 7 days of executing the agreement, and \$120,000 is to be paid within 7 days of the Company being awarded a license to operate a MMTC in the state of Florida. The remaining balance will be paid at closing, which is contingent upon being awarded the license.

## **21. Acquisition of Business**

On January 19, 2017, MASS entered into an asset purchase agreement with the owners of Massachusetts Recovery Services Inc., a Massachusetts corporation. The total consideration included \$963,102 in cash and \$550,000 related to a contingent consideration.

The contingent consideration is to be paid by means of “Holdback Units” totaling 6,279, which are Class A units in PharmaCann LLC. Within the first 60 days after receipt of first final Certificate of Registration from Massachusetts Department of Public Health, 3,767 units must be delivered. After receiving the second and third Certificate of Registration, 1,256 units must be delivered each time within 60 days of receiving the respective certificates. If no Certificates of Registration are received, the units remain within the Company.

As of the date of the asset purchase, the Company performed an analysis to determine that the fair value of the total contingent consideration was \$550,000, or \$87.59 a unit. The Company has classified contingent consideration as a liability on Exhibit A.

The Acquisition was accounted for in accordance with the FASB guidance related to Business Combination, which requires the Company to measure and record all of the identifiable assets acquired and liabilities assumed at their fair value on the Acquisition Date. Goodwill is recognized as the excess of consideration paid over fair value of the net identifiable assets acquired, which is attributable to synergies gained from the acquisition related to potential cannabis licenses. The Non-Compete Agreement is being amortized over 3 years, which coincides with the term of the agreement.

The following table summarizes the fair value of the consideration paid and the assets acquired and liabilities assumed at the acquisition date:

Consideration:

Cash	\$ 963,102
Contingent Consideration	550,000
Total Consideration	<u>\$ 1,513,102</u>

Recognized amount of identifiable assets acquired:

Note Receivable	\$ 769,558
Interest Receivable	305,169
Non-Compete Agreement	185,000
Total Identifiable Assets Acquired	<u>1,259,727</u>
Goodwill	253,375
	<u>\$ 1,513,102</u>

## 22. Subsequent Events

Subsequent to year-end in January 2018, the Company paid-off the full balance of \$500,000 on the Note Payable, Member due in Note 10.

In January 2018 the Company entered into a contract for HVAC installation at one of the Illinois cultivation centers for approximately \$2,000,000.

On January 17, 2018, the Company executed a purchase agreement for a 4.7-acre plot in Michigan for \$590,000, with a deposit of \$35,000. The agreement is contingent upon the seller obtaining appropriate municipal and governmental approvals required for the build-out and the Company being duly authorized to transact business in the State of Michigan.

PharmaCann LLC assigned the \$3,000,000 purchase option in Note 20 to Brighton Health Advocates, Inc., a Massachusetts not-for-profit managed by PharmaCann Mass LLC. On February 28, 2018, the property was sold via a purchase agreement to IIP-MA 1 LLC for \$3,000,000, contingent upon inspections. This sale will close no later than March 30, 2018; however, the Company is in negotiations to extend the closing date. After the sale

is complete, the Company plans to enter into a Lease Agreement with the purchaser, with a security deposit of \$108,750 and a monthly rent expense of \$36,250. This lease provides two options to extend for five years each.

In addition to the \$12,900,000 of Series A Preferred Units purchased during 2017, the Company received the funding for an additional \$2,100,000 in Series A Preferred that was committed as of year-end, with the last portion received January 18, 2018. The receipt of remainder of the funding to result in \$15,000,000 total raised triggered a conversion event defined as a QEF in Note 11. As such, the full \$43,782,437 of Convertible Notes Payable outstanding at December 31, 2017 converted to Series A Preferred Units, as well.

On February 2, 2018, the Company received a commitment to purchase an additional \$505,000 of Series-A Preferred units at \$114.10 per unit.

On February 15, 2018, the Company provided a notice to exercise its option to purchase a property that was being leased for cultivation purposes in Illinois. This purchase included four parcels of land, totaling \$1,798,500.

During February 2018, the Company settled the Massachusetts landlord issue for \$950,000, which included \$677,000 due from the Company and accrued as of year-end plus a \$273,000 security deposit from Brighton Health Advocates (the tenant).

Initially, the Company was not granted licenses for the state of Ohio; however, they challenged the decision. In February 2018, Ohio released a statement that the scoring used in the licensing process was incorrect due to a clerical error, and the Company should have been granted licenses to operate in the state. Ohio is still working through the steps to remediate the error; however, the Company believes that they should receive the licenses no later than September 2018 when the medical cannabis program is started in Ohio.

On February 22, 2018, the Company started the process to convert Brighton Health Advocates to a for-profit entity. Initially, licenses in Massachusetts were to be held by a not-for-profit entity by state law; however, the state granted this option for conversion after the medical cannabis program was already in progress. As of the date of this report, the not-for-profit was converted to a corporation, in which PharmaCann Mass owns all 1,000 of the common shares. The entity name was also changed from Bright Health Advocates to PharmaCannis Massachusetts Inc. Due to the equity impact, this is a non-recognized subsequent event in the financial statements as of December 31, 2017.

The Company has evaluated subsequent events through March 20, 2018, the date which the consolidated financial statements were available to be issued.



**APPENDIX B**  
**UNAUDITED INTERIM FINANCIAL STATEMENTS OF PHARMACANN**

See attached.

PHARMACANN LLC AND SUBSIDIARIES

Oak Park, Illinois

**Consolidated Financial Statements**

For the Three and Six Months Ended

June 30, 2018 and 2017

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PHARMACANN LLC AND SUBSIDIARIES  
Consolidated Balance Sheets  
(Unaudited)

	June 30, 2018	December 31, 2017
<b>Current Assets</b>		
Cash	\$ 12,757,277	\$ 20,208,499
Cash Held in Escrow	1,827,520	234,920
Accounts Receivable	579,458	426,537
Other Receivables	11,744,184	-
Inventory	27,700,298	20,543,035
Prepaid Expenses	874,886	987,585
Total Current Assets	<u>55,483,623</u>	<u>42,400,576</u>
<b>Property and Equipment, Net</b>	61,215,337	52,111,098
<b>Other Assets</b>		
Restricted Cash	250,000	301,000
Intangibles, Net	126,758	157,591
Goodwill	253,375	253,375
Deferred Loss on the Sale of Property	918,727	952,754
Deposits	2,638,086	2,583,490
Total Other Assets	<u>4,186,946</u>	<u>4,248,210</u>
Total Assets	<u>\$ 120,885,906</u>	<u>\$ 98,759,884</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 4,613,785	\$ 2,287,438
Accrued Expenses	1,877,436	3,142,791
Notes Payable	-	999,995
Capital Lease Obligation	393,786	395,437
Convertible Notes Payable	1,380,000	43,782,437
Total Current Liabilities	<u>8,265,007</u>	<u>50,608,098</u>
<b>Long-Term Liabilities</b>		
Note Payable, Member	-	500,000
Capital Lease Obligation	45,016,454	28,892,276
Contingent Consideration on Business Combination	219,982	550,000
Total Long-Term Liabilities	<u>45,236,436</u>	<u>29,942,276</u>
Total Liabilities	<u>53,501,443</u>	<u>80,550,374</u>
<b>Members' Equity</b>		
Members' Capital	110,195,331	52,664,266
Retained Deficit	(42,810,868)	(34,454,756)
Total Equity	<u>67,384,463</u>	<u>18,209,510</u>
Total Liabilities and Members' Equity	<u>\$ 120,885,906</u>	<u>\$ 98,759,884</u>

See Accompanying Notes

PHARMACANN LLC AND SUBSIDIARIES  
Consolidated Statements of Income  
(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
<b>Revenues</b>				
Net Sales	\$ 6,167,901	\$ 2,487,771	\$ 11,009,453	\$ 4,285,694
Management Services Revenue	-	525,747	761,527	793,610
Total Revenues	<u>6,167,901</u>	<u>3,013,518</u>	<u>11,770,980</u>	<u>5,079,303</u>
<b>Cost of Sales</b>				
Cost of Sales	2,798,416	1,508,701	5,219,028	2,703,597
Write down on Inventory	-	-	2,378,691	-
Loss on Inventory Adjustment to Lower of Cost or Market	-	30,514	19,343	169,980
Total Cost of Sales	<u>2,798,416</u>	<u>1,539,215</u>	<u>7,617,062</u>	<u>2,873,577</u>
Gross Profit	3,369,485	1,474,303	4,153,918	2,205,726
<b>Expenses:</b>				
General & Administrative	5,598,556	3,908,533	5,205,113	8,595,032
Sales & Marketing	116,565	236,206	302,186	409,886
Depreciation & Amortization	<u>969,996</u>	<u>894,628</u>	<u>1,920,236</u>	<u>1,767,505</u>
<b>Total Expenses</b>	<b>6,685,117</b>	<b>5,039,367</b>	<b>7,427,535</b>	<b>10,772,423</b>
Income (Loss) from Operations	(3,315,632)	(3,565,065)	(3,273,617)	(8,566,697)
<b>Other Income (Expense)</b>				
Interest Expense	(31,050)	(224,192)	(42,514)	(407,027)
Interest Income	12,970	-	12,975	429
Gain (Loss) on the Sale of Property	2,987	(17,013)	(14,026)	(34,027)
Other Income (Expense)	<u>1,776</u>	<u>31,724</u>	<u>9,908</u>	<u>32,961</u>
Total Other Income (Expense)	<u>(13,317)</u>	<u>(209,482)</u>	<u>(33,657)</u>	<u>(407,665)</u>
<b>Net Income (Loss)</b>	<b><u>\$ (3,328,949)</u></b>	<b><u>\$ (3,774,547)</u></b>	<b><u>\$ (3,307,274)</u></b>	<b><u>\$ (8,974,362)</u></b>

See Accompanying Notes

PHARMACANN LLC AND SUBSIDIARIES  
Consolidated Statements of Members' Equity  
For the Six Months Ended June 30, 2018 and 2017  
(Unaudited)

	Series A Preferred	Class A	Purchase of Member Units on Subscription	Unit Option Based Compensation	Total Members' Capital	Retained Deficit	Total Members' Equity
<b>Members' Equity, January 1, 2017</b>	\$ 40,636,022	\$ 500	\$ (2,841,565)	\$ -	\$ 37,794,957	\$ (17,684,414)	\$ 20,110,543
Series A Preferred Units Issued	-	-	-	-	-	-	-
Re-Purchase of Members Units	(499,958)	(49)	-	-	(500,007)	-	(500,007)
Distribution to Members	-	-	-	-	-	-	-
Payments on Subscriptions	-	-	979,198	-	979,198	-	979,198
Net Income (Loss)	-	-	-	-	-	(8,974,362)	(8,974,362)
<b>Members' Equity, June 30, 2017</b>	<u>\$ 40,136,064</u>	<u>\$ 451</u>	<u>\$ (1,862,367)</u>	<u>\$ 799,599</u>	<u>\$ 39,073,747</u>	<u>\$ (26,658,776)</u>	<u>\$ 12,414,971</u>
<b>Members' Equity, January 1, 2018</b>	\$ 52,535,058	\$ 402	\$ (895,811)	\$ 1,024,617	\$ 52,664,266	\$ (34,454,756)	\$ 18,209,510
Series A Preferred Units Issued	11,455,355	-	-	-	11,455,355	-	11,455,355
Class A Units Issued in Relation to Contingent Consideration on Business Combination	-	330,018	-	-	330,018	-	330,018
Issuance of Units on Conversion of Debt	45,176,822	-	-	-	45,176,822	-	45,176,822
Distribution to Members	(1,018,164)	-	-	-	(1,018,164)	-	(1,018,164)
Payments on Subscriptions	-	-	894,152	-	894,152	-	894,152
Convert Managed NFP to For-Profit Entity	-	-	-	-	-	(5,048,838)	(5,048,838)
Unit Option-Based Compensation	-	-	-	692,882	692,882	-	692,882
Net Income (Loss)	-	-	-	-	-	(3,307,274)	(3,307,274)
<b>Members' Equity, June 30, 2018</b>	<u>\$ 108,149,071</u>	<u>\$ 330,420</u>	<u>\$ (1,659)</u>	<u>\$ 1,717,499</u>	<u>\$ 110,195,331</u>	<u>\$ (42,810,868)</u>	<u>\$ 67,384,463</u>

See Accompanying Notes

PHARMACANN LLC AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
(Unaudited)

	For the six months ended June 30,	
	2018	2017
<b>Cash Flows from Operating Activities</b>		
Net Income (Loss)	\$ (3,307,274)	\$ (8,974,362)
Adjustments to Reconcile Net Income (Loss) to		
Net Cash Used in Operating Activities:		
Depreciation and Amortization	1,073,456	288,695
Loss on Sale of Property, net	14,026	34,027
Write down on Inventory	2,378,691	169,980
Provision for Allowances on Notes Receivable	(4,134,234)	2,846,967
Interest on Capital Lease Obligations	222,785	-
Unit Based Option Compensation	692,882	799,599
(Increase) Decrease in Assets:		
Cash Held in Escrow	(1,592,600)	(805,250)
Restricted Cash	51,000	-
Accounts Receivable and Other Receivables	1,161,348	(65,877)
Inventory	(9,535,954)	(7,822,394)
Prepaid Expenses	112,699	(200,888)
Deposits	(54,596)	1,107
Increase (Decrease) in Liabilities:		
Accounts Payable	2,326,343	(585,696)
Accrued Expenses	(735,294)	241,237
Net Adjustments	(8,019,447)	(5,098,493)
Net Cash Used in Operating Activities	(11,326,721)	(14,072,855)
<b>Cash Flows from Investing Activities</b>		
Proceeds on the Sale of Property and Equipment	3,000,000	-
Issuance of Notes Receivable	(50,437)	(1,492,140)
Acquisition of Business	-	(963,102)
Purchases of Property and Equipment	(10,086,188)	(37,278)
Net Cash Used in Investing Activities	(7,136,625)	(2,492,520)
<b>Cash Flows from Financing Activities</b>		
Proceeds from Issuance of Series A Preferred Shares	11,455,355	-
Proceeds from Issuance of Convertible Notes Payable	1,380,000	7,149,394
Receipts from Subscriptions Receivable	894,152	979,198
Proceeds on issuance of Notes Payable, Member	-	500,000
Payments on Notes Payable	(1,499,995)	(999,995)
Payments on Capital Lease Obligations	(199,224)	(100,012)
Re-Purchase of Member Units	-	(500,007)
Distribution to Members	(1,018,164)	-
Net Cash Provided by Financing Activities	11,012,124	7,028,579
<b>Net Change in Cash</b>	(7,451,222)	(9,536,796)
<b>Cash, Beginning of Period</b>	20,208,499	20,775,333
<b>Cash, End of Period</b>	\$ 12,757,277	\$ 11,238,536

See Accompanying Notes

PHARMACANN LLC AND SUBSIDIARIES  
Consolidated Statements of Cash Flows (Continued)  
(Unaudited)

	For the six months ended June 30, 2018	2017
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash Paid During the Year for Interest	\$ 2,446,836	\$ 2,651,329
<b>Supplemental Disclosure of Non-Cash Financing Information</b>		
Purchases of Property and Equipment via Capital Lease Obligation	\$ 60,674	\$ -
Purchase of Property and Equipment and Increase in Other Receivables via Capital Lease Obligation	\$ 16,098,967	\$ -
Class A Units Issued in Relation to Contingent Consideration on Business Combination	\$ 330,018	\$ -
<b>Acquisition of Business</b>		
Net Identifiable Assets Acquired	\$ -	\$ 1,074,727
Non-Compete Agreements	-	185,000
Goodwill Acquired	-	253,375
Net Assets Acquired	-	1,513,102
Contingent Consideration	-	(550,000)
Cash Consideration for Acquisition of Business	\$ -	\$ 963,102

See Accompanying Notes



PHARMACANN LLC AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
June 30, 2018  
(Unaudited)

**1. Nature of Activities**

PharmaCann LLC and Subsidiaries' (the "Company") principal activities include cultivating, distributing and dispensing medical cannabis to be used by qualified patients for medical use. PharmaCann LLC is an Illinois limited liability company established in 2014 for the purpose of fulfilling the principal activities.

The Company is currently applying for and has been granted licenses in other states, but only operates in Illinois, New York and Massachusetts exclusively as of June 30, 2018.

In Illinois, the Company operates two cultivation centers permitted to grow and process medical cannabis products, which are distributed to Illinois registered medical cannabis dispensaries, both owned and third-party. The Company operates four registered medical cannabis dispensaries in Illinois that sell medical cannabis and ancillary products to patients that have been certified by the State of Illinois to use medical cannabis.

In New York, the Company is a registered organization and operates one manufacturing facility to grow and process medical cannabis products which are distributed to four New York dispensaries operated by the Company and beginning in 2018 to third parties. The Company's New York dispensaries sell medical cannabis and ancillary products to patients that have been certified by the New York State Department of Health to use medical cannabis.

In Massachusetts, the Company is a registered organization and operates one dispensary that sells medical cannabis and ancillary products to patients that have been certified by the State of Massachusetts to use medical cannabis.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. While the Company has been successful in raising capital in the past, there is no assurance it will be successful in closing further financing transactions in the future.

See Note 23 in regards to the binding letter of intent to acquire 100 percent of the Company.

**2. Summary of Significant Accounting Policies**

*a. Basis of Consolidation*

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and include the accounts of the Company and its subsidiaries. All transactions and balances between these entities have been eliminated upon consolidation.

As of June 30, 2018, the Company has established the following wholly and majority-owned subsidiaries that will be used to fulfill the principal activities:

<b>Entity Name</b>	<b>Principal Activity</b>
PharmaCann of New York LLC	N/A for the six months ended June 30, 2018 and 2017 (no activity)
PharmaCann Mass LLC ("MASS")	Management company for future cultivation and dispensary locations in Massachusetts, 100% owner of PharmaCannis Massachusetts Inc.
PharmaCannis Labs LLC	Research and development of pharmaceutical cannabis strains
Sunbiz Acquisition LLC	Acquired Breakthrough Junction Corporation, which converted to PharmaCann Florida LLC
PharmaCann Florida LLC	Applied for a license to operate a medical marijuana treatment facility in Florida
PharmaCann DC LLC	Applied for a dispensary license in Washington DC
PharmaCann Ohio LLC	Granted provisional licenses, subject to final state review and approval for dispensary and cultivation activities in Ohio in May 2018
PharmaCann Penn LLC	Awarded a dispensary license in Pennsylvania, which allows for the operation of up to three dispensary locations near Philadelphia
PharmaCann Michigan LLC	In application process to obtain licenses to operate in Michigan
PCL Management LLC	Plan for entity to act as payroll processing entity for all employees
PharmaCannis Massachusetts Inc.	Formerly known as Brighton Health Advocates Inc. ("BHA"), which was a not-for-profit entity operating dispensary locations in Massachusetts. Converted to for-profit in March 2018
PharmaCann Holdings LLC	Holding company set up as 100% owner of PC 16280 East Twombly LLC and PC 1200 East Mazon LLC
PC 16280 East Twombly LLC	Set up to hold real estate in Illinois (currently no holdings)
PC 1200 East Mazon LLC	Set up to hold real estate in Illinois (currently no holdings)
PharmaCann Penn Plant LLC	Licensed grower and processor in the Commonwealth of Pennsylvania. Company owns 98%, while an affiliated company owns remaining 2%
PharmaCann Virginia LLC	In application process to obtain licenses to operate in Virginia
1313 Johnson LLC	Subsidiary of PharmaCann Michigan LLC. Owns property for future dispensary

b. *Inventory*

Inventories are valued at the lower of cost or net realizable value. Cost is determined using the first-in first-out (“FIFO”) method. The direct and indirect cost of inventories includes costs of materials, labor and depreciation related to such goods. Such costs are capitalized as incurred, and subsequently included within cost of goods sold within the consolidated statements of income, at the time the products are sold. Net realizable value is determined as the estimated selling price in the ordinary course of business, less reasonable costs associated with the sale.

In calculating final inventory values, management is required to compare the inventory cost to estimated market value.

c. *Property and equipment*

Property and equipment is recorded at cost. Minor additions are expensed in the year acquired. Major additions over \$5,000 are capitalized and depreciated over their estimated useful lives using straight-line or accelerated methods. Useful lives are 5-12 years for equipment, 10 years for furniture and fixtures and 39 years for buildings. The useful lives of leasehold improvements are the lower of the life of the leasehold or the life of the lease.

Property and equipment classified as construction in progress are transferred when available for use, and depreciation of the assets begins at that point.

d. *Notes Receivable*

The Company reduces notes receivable by a valuation allowance that reflects management’s best estimate of probable losses determined principally on historical experience and operations for the debtor. As of June 30, 2018, there was a valuation allowance totaling \$50,279, which represented the full note receivable balance at such date.

e. *Intangible Assets*

Intangibles include non-compete agreements. The non-compete agreements are being amortized over 3 years. The Company will test its intangibles for impairment upon the occurrence of an event or circumstance that may indicate the fair value is less than its carrying amount. Amortization expense related to the intangibles was \$15,417 and \$30,833 for the three and six months ended June 30, 2018, respectively and \$15,417 for the three and six months ended June 30, 2017.

f. *Goodwill*

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired. Goodwill is reviewed for possible impairment at least annually, or more frequently upon the

occurrence of an event or circumstances that indicates the carrying amount is greater than the fair value. Management has determined that there is no impairment for the six months ended June 30, 2018.

g. *Revenue and Cost of Goods Sold*

Revenue comprises the fair value of consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is shown net of any discounts and New York excise taxes. The Company recognizes revenue when the transaction is completed upon delivery of the final product to the customers at the point of sale or when the product is shipped from the Company's cultivation facilities to third party customer locations.

The Company expenses shipping and handling costs as they are incurred. Shipping and handling expenses incurred on products sold are included in cost of sales.

Illinois cultivation tax is 7 percent of cannabis sales on wholesale sales to third parties and the Company's sales to their own dispensaries from cultivation facilities based on the selling price attributed to the amount of cannabis in the product. The Company is paying the cultivation tax on the sales from the cultivation facilities to the owned dispensaries under protest because it is not a true sale. The tax is included in cost of goods sold and totaled \$137,638 and \$279,551 for the three and six months ended June 30, 2018, respectively, and \$28,590 and \$62,110 for the three and six months ended June 30, 2017, respectively. In New York, there is no cultivation tax, but there is a 7 percent excise tax on sales at the dispensaries that is remitted to the state of New York.

h. *Advertising*

Advertising costs are charged to operations when incurred. Advertising expenses totaled \$22,246 and \$35,551 for the three and six months ended June 30, 2018, respectively, and \$88,751 and \$108,751 for the three and six months ended June 30, 2017, respectively.

i. *Sales-Leasebacks*

Losses from sale-leaseback transactions are deferred and recognized over the life of the underlying leased asset as disclosed in Note 17.

j. *Income Taxes*

As a limited liability company, the Company's taxable income or loss is allocated to members in accordance with the Company's member agreement. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements. On or before April 10 of each year, the Company is required to make mandatory tax distributions on a pro-rata basis in accordance with the member agreement based upon thirty-six percent of the Company's net taxable income for the previous calendar year.

As of June 30, 2018, the federal and Illinois tax filings since the year ended December 31, 2015 remain open for review by tax authorities.

k. *Functional Currency*

The Company's functional currency, as determined by management, is the United States ("U.S.") dollar. These consolidated financial statements are presented in U.S. dollars.

l. *Change in Accounting Policy*

In March 2018, the Company implemented a new enterprise resource planning ("ERP") system at two of its cultivation sites and began the process of transitioning all of its locations to the new ERP system. In conjunction with this implementation, the Company changed its methodology for allocating overhead costs related to the production of inventory to be capitalized to work in-process inventory (the "WIP policy change").

The WIP policy change transitioned the Company from capitalizing costs incurred by or allocated to the cultivation facilities based on costs incurred directly by the cultivation facility and estimates of support costs, to a standard cost accounting methodology, which is the manufacturing industry standard. Under the new method, the Company determines the estimated cost of the manufacturing process under normal conditions to determine the standard cost of inventory. Such costs are capitalized to work in-process inventory, based on monthly production, and relieved to cost of sales as inventory is sold. The Company reviews the standard cost of production on a quarterly basis, and updates such costs, as applicable.

The major impact of the WIP policy change was a non-cash write down of inventory of \$2.4 million in the first quarter of 2018. Additionally, for all periods presented, the general and administrative expense line item includes a credit for the full amount capitalized to inventory, including any portion of these estimated amounts that may relate to depreciation and amortization or sales and marketing expense.

The Company has applied such change in accounting policy on a prospective basis. Such prospective treatment is based on the impracticality of applying the new standard cost methodology to prior periods in which activities were just being initiated, cultivation facilities were not working near full capacity, and the Company lacked the ability to track allocated overhead costs in a consistent manner, as it can with its new ERP system.

m. *Reclassification*

In conjunction with the WIP policy change, the Company also reclassified certain expense balances in order to be consistent with current year classifications. Amounts presented in 2017 related to expense items that had been capitalized into inventory and were previously included in the depreciation and amortization and sales and marketing expense line items are now classified in the general and administrative expense line item.

n. *Estimates*

The preparation of consolidated financial statements in conformity with GAAP requires management to make judgments, estimates and assumptions about future events that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

In calculating the value of inventory, management is required to make a number of estimates, including standard costs allocated to work in-process inventory, estimates of the amount of spoiled or expired inventory and comparisons of the inventory cost to estimated net realizable value.

Compensation expense recognized related to the issuance of member unit options is based on the intrinsic value of the underlying options. Such calculations require management to make estimates as to the overall value of the Company, based on industry and historical capital raises.

Allocation of overhead costs to work in process is based on an estimate of a standard cost of inventory based on normal conditions. Due to the uncertainties inherent in the estimation process and changes to normal conditions as the Company continues to grow, it is at least reasonably possible that the capitalized overhead cost allocation will be revised.

Cannabis is still considered a Schedule 1 substance under the Controlled Substance Act. As such, there is an inherent risk related to the federal government's position on cannabis; however, the Company has deemed it not reasonable to estimate a potential liability related to the possible enforcement of laws against the medical cannabis industry.

o. *New Standards and interpretations not yet adopted*

**Revenue from Contracts with Customers (Accounting Standards Codification ("ASC") 606):** In May 2014 the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09. This ASU, as amended, provides comprehensive guidance for recognizing revenue. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March 2016, the FASB issued an ASU to clarify guidance on principal versus agent evaluation considerations and whether an entity reports revenue on a gross or net basis. These ASUs will be effective for the Company for interim and annual reporting periods beginning after December 15, 2018. The Company does not expect the guidance to have a material impact on its consolidated statements of income.

**Leases (ASC 842):** In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” This ASU requires lessees to recognize a right-to-use asset and a lease obligation for all leases. Lessees are permitted to make an accounting policy election to not recognize an asset and liability for leases with a term of twelve months or less. Additional qualitative and quantitative disclosures, including significant judgments made by management, will be required. The guidance is effective for reporting periods beginning after December 15, 2018 and early adoption is permitted under a modified retrospective approach. The Company is evaluating the impact of this ASU on its consolidated financial statements.

**Simplifying the Test for Goodwill Impairment (ASC 350):** In January 2017, the FASB issued ASU No. 2017-04, “Intangibles – Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment.” This ASU eliminates the two-step process that required identification of potential impairment and a separate measure of the actual impairment. Goodwill impairment charges, if any, would be determined by reducing the goodwill balance by the difference between the carrying value and the reporting unit’s fair value. The impairment charge would be limited to the carrying value of goodwill. This ASU is effective for annual and interim impairment tests for periods beginning after December 15, 2021. Early adoption is allowed for annual and interim impairment tests occurring after January 1, 2017. The Company does not expect the adoption of this ASU to have a significant impact on its consolidated financial statements.

### **3. Collateralization of Deposits**

Cash is a financial instrument that potentially subjects the Company to a concentration of credit risk. As of June 30, 2018, the Company has bank deposits in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC). The bank balances in excess of the FDIC limit are adjusted for outstanding items to a net book balance of \$13,241,301, including cash held in escrow and restricted cash balances.

### **4. Cash Held in Escrow and Restricted Cash**

Cash held in escrow is \$1,827,520 and \$234,920 at June 30, 2018 and December 31, 2017, respectively. The June 30, 2018 balance includes \$1,567,600 related to the Company’s applications for licenses in the state of Pennsylvania. The balance at both June 30, 2018 and December 31, 2017 also includes four escrow accounts related to each of the four Illinois dispensary locations totaling \$200,920, as required by the Illinois Division of Financial and Professional Regulation for medical cannabis dispensaries. The balance must remain in escrow as long as the Company maintains its license to operate the dispensaries in Illinois. The Company had an additional \$59,000 held in four other miscellaneous escrow accounts at June 30, 2018 and \$34,000 held in three other miscellaneous accounts at December 31, 2017.

Restricted cash consists of cash deposits serving as collateral for the two surety bonds in the amount of \$250,000 at both June 30, 2018 and December 31, 2017, respectively, and secured credit facilities in the amount of \$51,000 at December 31, 2017.

## 5. Notes Receivable

In 2016 and 2017, the Company issued separate lines of credit and working capital loans to BHA. BHA, as a result of the acquisition described in Note 21, is the company managed by MASS. In March 2018, BHA was converted from a not-for-profit entity (“NFP”) to a for-profit corporation. As a result of such conversion, all outstanding common shares of BHA were owned by MASS, and BHA (which, prior to conversion, changed its name to Pharmacannis Massachusetts Inc. (“PCMASS Inc.”)) became part of the Company’s consolidated financial statements. Therefore, all outstanding loan balances at June 30, 2018 have been eliminated.

In 2016, the Company issued a line of credit to a BHA in the amount of \$350,000. As of December 31, 2017, the outstanding balance on the line of credit was \$396,440, of which \$49,027 is interest receivable. The note matures on December 31, 2018 and bears interest at an annual rate of 16 percent, which is added to the principal balance. Interest payments are payable in cash each month starting March 1, 2018, which is 365 days after the interest commencement date. This note is secured by all assets and all personal property of the borrowers.

On January 27, 2017, the Company issued a working capital loan to BHA for an amount not to exceed \$4,000,000 with a maturity of January 2027. BHA, and now PCMASS Inc., can use this working capital line for normal operations, including personnel charges at set rates for various assistance for Company employees, payment of prorated annual royalties of \$250,000 to MASS, and a 15 percent surcharge on the cost of any good or services provided by MASS on behalf of BHA, and now PCMASS Inc. Interest accrues monthly at 18 percent and is added to the principal balance. Interest payments will be payable in cash each month starting two years after the commencement date. As of December 31, 2017, the outstanding balance on the working capital note receivable was \$2,570,977.

The Company also purchased a note receivable in the business acquisition disclosed in Note 21 with a balance as of December 31, 2017 of \$1,217,095, which includes \$447,537 of interest receivable. The note matures on January 1, 2021 and bears interest of 18.5 percent.

Due to the unlikeliness of repayment, the Company recorded an allowance for the entire balance of the three notes and related interest in the amount of \$4,184,512 as of December 31, 2017, \$709,233 and \$2,846,967 of which was recorded in the three and six months ended June 30, 2017, respectively. Such full allowance was reversed in 2018 in anticipation of the conversion of BHA/PC MASS Inc. to a corporation. Such expense and reversal is included within General and Administrative expenses on the consolidated statements of income for the periods presented.

In 2018, the Company issued a note receivable to a third-party dispensary in the state of Florida. The balance of such receivable, including interest is \$50,279. The loan is due March 22, 2023 with a maximum principal balance of \$500,000, accruing interest at the March 2018 applicable federal rate, which is 2.57 percent. Due to the unlikeliness of repayment, the Company recorded an allowance for the entire balance of the note as of June 30, 2018.



## 6. Inventory

The major classes of inventory are as follows:

	June 30, 2018	December 31, 2017
Raw Materials	\$ 775,917	\$ 573,538
Intermediate Materials	14,924,727	-
Work in Process	8,679,514	19,522,426
Finished Goods	3,320,140	447,071
Total Inventory	<u>\$ 27,700,298</u>	<u>\$ 20,543,035</u>

Due to the WIP policy change in 2018, it is now possible for the Company to determine the value of standard costs at each stage of production. Prior to such detail being available, including at December 31, 2017, such balance was all included in the Work in Process total.

Due to the state and federal laws against cannabis, the Company is unable to move inventory across state lines to their other locations.

## 7. Property and Equipment, Net

Property and equipment consist of the following:

	June 30, 2018	December 31, 2017
Land	\$ 516,946	\$ 516,946
Building	14,946,792	14,289,185
Leasehold Improvements	6,695,421	6,684,585
Equipment	5,085,718	4,176,948
Furniture and Fixtures	240,970	186,981
Construction in Progress	5,920,823	1,567,115
Capital Leased Assets	<u>34,563,532</u>	<u>29,554,800</u>
Total Property and Equipment	67,970,202	56,976,560
Less: Accumulated Depreciation and Amortization	<u>(6,754,865)</u>	<u>(4,865,462)</u>
Property and Equipment, Net	<u>\$ 61,215,337</u>	<u>\$ 52,111,098</u>

For the three months ended June 30, 2018 and 2017, depreciation and amortization expense related to property and equipment was \$954,579 and \$872,877, respectively. For the six months ended June 30, 2018 and 2017, depreciation and amortization expense related to property and equipment was \$1,889,402 and \$1,745,754, respectively. A portion of each of these amounts have been capitalized into work in process. See Note 2 for additional details about the Company's standard cost methodology and WIP policy change.

## 8. Prepaid Expenses

Prepaid expenses consist of the following:

	June 30, 2018	December 31, 2017
Licenses and Fees	\$ 485,095	\$ 429,888
Insurance	220,950	331,061
Other Prepays	168,841	226,636
Total Prepaid Expenses	<u>\$ 874,886</u>	<u>\$ 987,585</u>

## 9. Accrued Expenses

Accrued expenses consist of the following:

	June 30, 2018	December 31, 2017
Accrued Compensation	\$ 687,618	\$ 661,743
Accrued Consulting	419,948	200,000
Accrued Sales Tax	96,171	55,149
Accrued Interest	-	1,387,089
Accrued Settlement	-	677,000
Other Accrued Expenses	673,699	161,810
Total Accrued Expenses	<u>\$ 1,877,436</u>	<u>\$ 3,142,791</u>

The balances included within accrued interest and accrued settlement at December 31, 2017 have both been settled during the six months ended June 30, 2018. The accrued interest related to the \$43,782,437 convertible note balance that was converted to equity in 2018, while the accrued settlement balance relates to the cancellation of a lease in Massachusetts. The Company settled its \$677,000 settlement accrual as a result of the resolution of such dispute in 2018. For further discussion related to the convertible notes, see Note 11.

## 10. Note Payable, Member

The Company had a \$1,000,000 revolving note agreement with a related party, at a fixed interest rate of 10 percent. The line of credit was payable in arrears on the first day of each calendar quarter beginning July 1, 2017. The principal portion of the revolving line-of-credit is payable in full upon maturity on May 4, 2019. At June 30, 2018, the line of credit had a balance of \$0 outstanding. The outstanding balance was repaid in full in the first quarter of 2018, and at that time, the credit facility was terminated.

## 11. Convertible Notes Payable

During 2016, the Company issued convertible notes payable to six parties with balances totaling \$23,782,437 as of December 31, 2017. The notes accrued interest at 3.0 percent annually with a lump payment due on February 28, 2018. These notes are convertible at maturity or change in control into Series A Preferred Units, of which the number will be determined by a strike price of the lesser of (A) quotient of \$175,000,000 divided by all issued and outstanding units of the Company as of immediately prior to the Maturity Date on a Fully Diluted Basis, or (B) per unit price of the most recently completed sale of Equity Securities by the Company pursuant to a bona fide arm's length transaction. The notes are also convertible automatically in the event of Qualified Equity Financing ("QEF"). In the event of a QEF, the noteholder will receive Series A Preferred Units in the amount of principal and accrued but unpaid interest at the discounted per unit price equivalent to the QEF price per unit plus a 20 percent discount, unless the amount of the discounted per-unit price for conversion of the note is greater than the per unit cap price, then the per unit cap price is used for conversion.

As of December 31, 2017, the Company had entered into nine new convertible notes with one party with balances totaling \$20,000,000. The notes accrued interest at 3.0 percent annually with a lump payment due on December 31, 2018. These notes are convertible at maturity or change in control into Series A Preferred Units, of which the number will be determined by a strike price of the lesser of (A) quotient of \$218,750,000 divided by all issued and outstanding units of the Company as of immediately prior to the Maturity Date on a Fully Diluted Basis, or (B) per unit price of the most recently completed sale of Equity Securities by the Company pursuant to a bona fide arm's length transaction. The notes are also convertible automatically in the event of a QEF. In the event of a QEF, the noteholder will receive Series A Preferred Units in the amount of principal and accrued but unpaid interest at the discounted per unit price equivalent to the QEF price per unit plus a 20 percent discount, unless the amount of the discounted per-unit price for conversion of the note is greater than the per unit cap price, then the per unit cap price is used for conversion.

Each of the convertible notes payable were due to mature in 2018; thus, the full balance of \$43,782,437 was presented as a current liability on the consolidated balance sheet at December 31, 2017.

As discussed in Note 14, in the first quarter of 2018, the Company completed an equity fundraising where it issued Series A Preferred Units. Such issuance qualified as a QEF, which triggered a conversion event for each of the previously described convertible notes. As such, the full balance of the convertible notes, of \$43,782,437 plus accrued, but unpaid interest totaling \$1,394,386, were converted into Series A Preferred Units. The conversion price per unit was equivalent to this most recent QEF price per unit plus a 20 percent discount.

In May of 2018, the Company entered into a convertible note with one party totaling \$1,380,000. The note accrues interest at 18 percent per annum, with interest payments due quarterly beginning on July 1, 2018. The note has a maturity date of May 14, 2019. If the note has not been repaid prior to its maturity date, the principal balance plus any accrued and

unpaid interest may be converted into Series A Preferred Units at a per unit price equal to \$114.10 at the issuer's option. For the three and six months ended June 30, 2018, the Company has recorded and paid \$31,050 of interest expense in relation to this note.

The proceeds of the note have been used as a deposit with the Pennsylvania Department of Health, in connection with certain licenses the Company has applied for in the state. As discussed in Note 4, such cash is included in Cash Held in Escrow on the June 30, 2018 consolidated balance sheet.

## 12. Share Capital and Member Agreement

### *Share Capital*

The Company's units authorized and issued as of June 30, 2018 and December 31, 2017 is as follows:

	June 30, 2018		December 31, 2017	
	Authorized	Issued and Outstanding	Authorized	Issued and Outstanding
Class A Units	2,362,272	886,968	2,362,272	883,201
Series A Preferred Units	1,817,965	1,717,638	1,380,938	1,129,335
Class B Units	375,000	-	160,077	-

### *Member Agreement*

The Company and its members have entered into an agreement which, among other matters, governs the distributions, liquidation preferences, and transferability of its membership interests.

The Class A Unit holders' distribution and liquidation rights are subject to and qualified by the rights, powers and preferences of the holders of Series A Preferred Units as summarized below.

### *Distributions and Conversion*

The holders of Series A Preferred Units participate in all distributions of net cash flow on an as-if-converted to Class A Units basis. Each Series A Preferred Unit is convertible (upon the election of the holders of a majority of the Series A Preferred Units) into one Class A Unit at the time of issuance, subject to certain adjustments for unit splits or combinations. The Company's Amended and Restated Certificate of Designation for the Series A Preferred Units sets forth the mechanics for such conversion.

Holders of Series A Preferred Units are not entitled to any form of dividend.

### *Liquidation Preferences*

In the event of any liquidation event or deemed liquidation event, the holders of Series A Preferred Units shall be entitled to receive, prior and in preference to any proceeds of the

liquidation to the holders of Class A Units the greater of (1) the original issue price of the Series A Preferred Units or (2) the distribution they would be entitled to receive on an as-if-converted to Class A Unit basis. If liquidation proceeds are insufficient to cover all members, holders of the Series A Preferred Units will be distributed the full proceeds ratably among themselves.

### *Transferability*

In the event that any Class A Member wishes to transfer any or all of its membership interest in the Company, the Class A Member must first offer to sell the membership interest to the Company and then to the Series A Preferred Members by providing written notice of intent.

## **13. Redemption of Members**

In 2016, the Company entered into purchase agreements with two significant members. Under the agreements, the Company redeemed 100 percent of the members' units for \$4,979,975, which was based on the estimated fair value of the Company as agreed upon by the parties. The purchase was paid \$979,996 in cash and the remaining \$3,999,979 of the purchase price was paid through issuance of promissory notes.

As of December 31, 2017, the Company had paid a total of \$2,999,984, of which \$1,999,989 was paid in 2017 on these notes, leaving a balance of \$999,995 at year end. As a result of payments totaling \$999,995 during the six months ended June 30, 2018, the full balance of this note payable has been extinguished.

## **14. Issuance and Re-Purchase of Member Units**

In the first quarter of 2018, the Company finalized a QEF with the receipt of \$2,605,073. This QEF totaled \$15.5 million (as the additional \$12.9 million was collected at the end of 2017) and triggered the conversion of the Company's notes as discussed in Note 11.

In the second quarter of 2018, the Company received \$8,850,282 in exchange for Series A Preferred Units, with an additional \$21,618,126 committed as part of this round of equity financing.

As discussed in Note 21, as a result of the Company's receipt of its first Certificate of Registration from Massachusetts Department of Public Health in June 2018, 3,767 Class A Units were issued to the former owners of the acquired entity, at a total value of \$330,018. During 2017, the Company exercised its option to repurchase 98,133 Class A Units from a founding member for a per unit purchase price of \$10.1905 and an aggregate purchase price of \$1,000,024, \$500,007 of which was purchased in the six months ended June 30, 2017.

## 15. Member Unit Options

The Company has an employee unit option plan. The Company's policy is to grant options to purchase shares of the Company's Class B member units. The unit options have been granted with an exercise price not less than its estimated market value, as determined by the Company, on grant date. The options generally vest ratably over a three or four-year time period and expire on the tenth anniversary of grant date.

During the six months ended June 30, 2018, the Company granted 100,275 options to employees for the purchase of Class B member units with per-unit strike prices ranging from \$66.85 to \$81.16. These options vest over a period of three years and expire ten years from the date of issuance. However, any unvested options will become vested and exercisable under certain circumstances including, but not limited to, a sale of the equity and voting interests in the Company or a qualifying merger or asset sale (as defined in the employee unit option plan).

A summary of the unit options for the six months ended June 30, 2018 is as follows:

Unit Options	Units	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Outstanding at January 1, 2018	116,095	\$ 58.95	
Granted	100,275	73.61	
Exercised	-	-	
Expired	-	-	
Forfeited	-	-	
Outstanding at June 30, 2018	<u>216,370</u>	\$ 65.75	8.61
Exercisable at June 30, 2018	<u>71,674</u>	\$ 57.44	7.29

The Company has elected to value its options using the intrinsic method. Under this method, the options are valued at the date of issuance and any excess of the current per unit value of the Company over the strike price of the options is recognized as compensation expense over the vesting period. Compensation expense for the three and six months ended June 30, 2018 was \$651,370 and \$692,882, respectively. Compensation expense for the three and six months ended June 30, 2017 was \$712,419 and \$799,599, respectively.

## 16. Operating Lease Commitments

The Company has various non-cancellable operating leases for equipment, land, parking lots and office space, with monthly payments ranging from \$167 to \$21,124, expiring through June 2054.

Future minimum lease payments under operating leases as of June 30, 2018 are as follows:

For the six months ended June 30, 2018	\$	633,509
For the year ended December 31, 2019		667,650
For the year ended December 31, 2020		638,371
For the year ended December 31, 2021		540,416
For the year ended December 31, 2022		418,852
Thereafter		1,512,035
Total Future Minimum Lease Payments	\$	<u>4,410,833</u>

Rental expense from the operating leases noted above and other month-to-month leases amounted to \$379,754 and \$316,174 for the three months ended June 30, 2018 and 2017, respectively and \$794,181 and \$517,416 for the six months ended June 30, 2018 and 2017, respectively.

## 17. Sale-Leaseback and Capital Lease

### Sales-Leaseback

During 2016, the Company sold its New York cultivation plant and specified equipment for \$30,000,000 at a loss of \$1,235,581, of which \$214,773 was recognized immediately and \$1,020,808 will be recognized over the term of the lease. As of June 30, 2018 and December 31, 2017, the deferred loss on the sale was \$918,727 and \$952,754, respectively; therefore, \$34,027 was recognized for the six months ended June 30, 2018.

Upon the sale in 2016, the Company immediately entered into an agreement to lease the property with an initial lease term of 15 years with two options to extend for five years each. The lease meets the requirements of a sales-leaseback transaction and is being accounted for as such. The lease requires monthly payments of the following: \$319,580 for base rent, \$105,477 for supplemental rent in the first five years of the lease, and 1.5 percent of the current base rent as additional rent for a management fee. The base rent will increase each year at either 4 percent, or 75 percent of the Consumer Price Index, whichever is greater. The total monthly rent payment for the first twelve months was \$429,907.

In relation to the lease, the Company has a security deposit of \$2,112,474. Between month seven and month sixty of the lease, the security deposit will be reduced to \$1,056,237 if the Company achieves annualized EBITDA of \$10,000,000, measured over a continuous six-month period.

For the six months ended June 30, 2018, payments totaled \$5,184,723, of which \$2,457,978 was applied to interest. The balance of the lease as of June 30, 2018 was \$29,088,488.

### Capital Leases

In 2017, the Company exercised its option to acquire property in Massachusetts in order to build a cultivation facility. The total cost of the property was \$3,000,000. In May 2018, the property was acquired and then sold via a purchase agreement to a third party for \$3,000,000. After the sale, the Company entered into a lease agreement with the purchaser. As part of this lease agreement, the lessor agreed to contribute \$15,500,000 towards the development of a cultivation facility on the property. The Company has determined that it does not meet the requirements of sales-leaseback transaction due to its continuing involvement in the property, and is therefore accounting for the lease as a capital lease.

The lease agreement has a term of approximately 15 years with two options to extend for five years each. The lease requires monthly payments of the following: \$223,542 for base rent and 1.5 percent of the current base rent as additional rent for a management fee. The base rent will increase each year at either 3.25 percent, or 75 percent of the Consumer Price Index, whichever is greater. The total monthly rent payment for the first twelve months is \$226,895.

In relation to the lease, the Company is required to fund a security deposit totaling \$670,625, of which \$108,750 has been funded. The remaining portion of the security deposit will be funded in proportion to the payments from the lessor in regards to the agreed upon build out of the cultivation facility.

As there is a six-month rent abatement period for such lease, there have been no payments made in regards to this capital lease, however \$222,785 has been applied to interest expense. The balance of the lease as of June 30, 2018 was \$16,261,078. Additionally, the Company has recorded a receivable of \$11,038,356 in regards to the build out of the cultivation facility, which, along with an additional \$693,223 due from the lessor, is included within Other Receivables on the June 30, 2018 consolidated balance sheet.

In addition to the capital lease related to the Massachusetts cultivation facility, the Company entered into a capital lease for equipment in June 2018. For the six months ended June 30, 2018, payments totaled \$1,426, of which \$659 was applied to interest expense. The balance of the lease as of June 30, 2018 was \$60,674.



Future minimum lease payments under all capital leases as of June 30, 2018 are as follows:

For the six months ended June 30, 2018	\$ 2,466,776
For the year ended December 31, 2019	8,289,240
For the year ended December 31, 2020	8,548,374
For the year ended December 31, 2021	8,697,125
For the year ended December 31, 2022	7,805,330
Thereafter	90,934,284
Net Minimum Capital Lease Payments	126,741,129
Less: Amount representing interest	(81,330,889)
Present Value of Net Minimum Lease Payments	<u>\$ 45,410,240</u>

## 18. Related-Party Transactions

The Company contracts architectural and construction services to companies related through common ownership. The following is a summary of the related party activities as of and for the six months ended June 30:

	2018		2017	
	Payments	Accounts Payable	Payments	Accounts Payable
Vendor A	\$ 964,172	\$ 45,729	\$ 1,182,219	\$ -
Vendor B	175,818	263,054	342,558	6,526
Vendor C	23,925	-	-	-
Vendor D	84,000	-	-	-

Vendor A and B are both construction companies that perform services for the Company, and their respective owners hold member units of the Company. Vendor C is a leasing company with owners who hold member units of the Company. Vendor D is an investment management company, that, as part of its payments is due Series A Preferred Units (see Note 20).

A related party was also created during 2017, PharmaCannis Foundation, Inc., an Illinois not-for-profit organization, with the primary purpose of educating the public about the legal, regulated, and responsible use of high-quality medical cannabis for legally-registered medical cannabis patients. The Company has not had any activity related to this entity through June 30, 2018.

## 19. Significant Concentrations

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash. At times, cash in banks is in excess of the FDIC insurance limit. The Company has not experienced any loss as a result of those deposits and does not expect any in the future.

The Company has been granted a license to cultivate and distribute cannabis for medical

purposes pursuant to the laws of Illinois, Massachusetts, and New York. The Company has also been granted dispensary licenses in Maryland, Ohio and Pennsylvania. Presently, this industry is illegal under federal law. The Company has and intends to continue to adhere strictly to the statutes in the states in which it operates.

## **20. Commitments and Contingencies**

The Company has entered into certain construction and project contracts related to the building of a cultivation center. The remaining commitment associated with these contracts totaled approximately \$1,500,000 as of June 30, 2018.

As part of the sale-leaseback transaction in Note 17, the Company is required to perform specified improvements to build-out greenhouse zones that are not yet completed. These improvements do not qualify as continued involvement for sales-leaseback treatment because the sale is not contingent on the improvements being completed. The improvements must be completed no later than June 30, 2020 but can be deferred until June 30, 2022 if the Company achieves annualized EBITDA of \$10,000,000, measured over a trailing six-month period on the date ninety days prior to June 30, 2020. Due to uncertainty in construction costs over the next 6 years, the Company is not able to accurately estimate the commitment; however, the Company believes that improvements will cost approximately \$11,500,000 based on a current estimate, which includes certain improvements to the existing greenhouse facility that would be made simultaneously to any work initiated to build-out the greenhouse zones that are not yet completed. This estimate could change significantly over the four-year period.

In late 2017, the Company entered into a consulting agreement with an investment manager (“IM”) for fundraising purposes. Of the amount raised by the IM, the IM is to receive cash equal 1 percent of the amount raised less the monthly retainer of \$12,000, and 1 percent of the amount raised in “at-the-money” Series A Preferred Units. As of June 30, 2018, the IM was responsible for raising a total of \$26,997,380 in two separate QEF events. As such, the Company accrued \$419,948 for the amounts due to the IM.

In June 2017, PharmaCann Ohio LLC, a wholly owned subsidiary of the Company, entered into an agreement to purchase 25 acres for \$700,000 for a cultivation site in Ohio contingent on due diligence inspections. If the Company is dissatisfied with the inspections for any reason, the agreement could be terminated within 195 days. After the 195-day period, the due diligence period can be extended for an additional six months for \$10,000 per month. The Company exercised its extension options through June 2018 and intends to extend the option until the purchase of land is consummated.

In May 2018, the Company entered into 10 purchase agreements totaling \$4,200,880 for properties to be used for cultivation and dispensaries in Pennsylvania. Such purchases are contingent upon, among other things, obtaining all government approvals for use and development of property for medical marijuana activities. The right to cancel such agreements is at the discretion of the Company, based on the outcomes of due diligence on each property.

In the second quarter of 2018, the Company entered into 14 agreements for dispensary locations in Pennsylvania, Florida and Massachusetts. The agreements are in place to reserve the properties, so that the landlords do not seek other lessees during the term of the agreements. Initial payments at execution for all agreements in total was approximately \$70,000. Each monthly extension payment, up to six months, is a nominal amount.

## **21. Acquisition of Business**

On January 19, 2017, MASS entered into an asset purchase agreement with the owners of Massachusetts Recovery Services Inc., a Massachusetts corporation, which closed on March 22, 2017. The total consideration included \$963,102 in cash and \$550,000 related to a contingent consideration. The primary activity of MASS is as a management company for a not-for-profit entity (“NFP”). Such NFP, Brighton Health Advocates, Inc. (“BHA”) had been set up for future cultivation and dispensary activities in the state of Massachusetts, for which it has obtained licenses.

In the first quarter of 2018, the Company converted BHA to a for-profit corporation. Initially, licenses in Massachusetts were to be held by a not-for-profit entity by state law; however, the state granted this option for conversion after the medical cannabis program was already in progress. The NFP was converted to a corporation, in which MASS owns all 1,000 of the common shares. The entity name was also changed from Bright Health Advocates to PharmaCannis Massachusetts Inc.

The contingent consideration is to be paid by means of “Holdback Units” totaling 6,279, which are Class A units in PharmaCann LLC. Within the first 60 days after receipt of first final Certificate of Registration from Massachusetts Department of Public Health, 3,767 units must be delivered. After receiving the second and third Certificate of Registration, 1,256 units must be delivered each time within 60 days of receiving the respective certificates.

As of the date of the asset purchase, the Company performed an analysis to determine that the fair value of the total contingent consideration was \$550,000, or \$87.59 a unit. The Company has classified contingent consideration as a liability on Exhibit A.

As disclosed in Note 14, the first Certificate of Registration from Massachusetts Department of Public Health was received in the second quarter of 2018. As a result, the 3,767 units were delivered with a value of \$330,018. As a result, the remaining balance of contingent consideration was \$219,982 at June 30, 2018. If no further Certificates of Registration are received, the units remain within the Company.

The acquisition was accounted for in accordance with the GAAP guidance related to business combinations, which requires the Company to measure and record all of the identifiable assets acquired and liabilities assumed at their fair value on the acquisition date. Goodwill is recognized as the excess of consideration paid over fair value of the net identifiable assets acquired, which is attributable to synergies gained from the acquisition related to potential cannabis licenses. The non-compete agreement is being amortized over 3 years, which coincides with the term of the agreement.

The following table summarizes the fair value of the consideration paid and the assets acquired and liabilities assumed at the acquisition date:

Consideration:	
Cash	\$ 963,102
Contingent Consideration	550,000
Total Consideration	<u>\$ 1,513,102</u>
Recognized amount of identifiable net assets acquired:	
Note Receivable	\$ 769,558
Interest Receivable	305,169
Non-Compete Agreement	185,000
Total Identifiable Net Assets Acquired	<u>1,259,727</u>
Goodwill	253,375
	<u>\$ 1,513,102</u>

## 22. General and Administrative

For the three and six months ended June 30, 2018 and 2017 general and administrative expenses comprised:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Compensation & Benefits	\$ 4,892,016	\$ 3,503,483	\$ 9,119,628	\$ 6,471,472
Professional Fees	2,043,433	970,527	3,273,650	2,088,254
Interest Expense on Capital Leases	1,450,813	1,238,622	2,681,422	2,479,332
Occupancy	1,277,941	1,008,256	2,561,654	1,698,260
Bad Debt Expense	50,279	709,233	(4,134,233)	2,846,967
Other	1,255,730	732,131	2,440,314	1,395,721
WIP capitalized to Inventory	(5,371,656)	(4,253,719)	(10,737,322)	(8,384,974)
Total Operating Expense	<u>\$ 5,598,556</u>	<u>\$ 3,908,533</u>	<u>\$ 5,205,113</u>	<u>\$ 8,595,032</u>

Bad debt expense primarily relates to notes receivable from BHA. As discussed in Note 5 as of December 31, 2017, due to the unlikelihood of repayment of the BHA notes receivable, the Company recorded an allowance for the entire balance of the three notes and related interest in the amount of \$4,184,512 as of December 31, 2017, \$709,233 and \$2,846,967 of which was recorded in the three and six months ended June 30, 2017, respectively. Such full allowance was reversed in 2018 in anticipation of the conversion of BHA/PC MASS Inc. to a corporation.

## 23. Subsequent Events

In addition to the \$8,850,282 of Series A Preferred Units issued during the second quarter of 2018, and disclosed in Note 14, the Company received the funding for an additional \$21,618,126 in Series A Preferred Units that was committed as of June 30, 2018, with the last portion received in August 2018.

Since June 30, 2018, the Company has received the following provisional licenses, subject to final state review and approval: (i) Pennsylvania Grower / Processor; and (ii) Virginia Dispensary and Cultivation.

In July 2018, the Company entered into a purchase option totaling \$5,000 plus monthly renewals beginning in September totaling \$1,500 per month. The agreement relates to the purchase of land in the state of Virginia for a purchase price of \$212,480. Such agreement is contingent upon, among other things, obtaining all gov't approvals in the state and approval for use and development of property for medical marijuana activities. The right to cancel such agreements is at the discretion of the Company, based on the outcomes of due diligence on each property.

In August 2018, the Company entered into new convertible notes with two parties with balances totaling \$12,000,000. The notes accrue interest at 13.0 percent annually and are payable on demand any time after June 30, 2019. At the noteholder's discretion, such notes plus any accrued but unpaid interest, may be converted into Series A Preferred Units at any time at a price per unit of \$125.47. Additionally, at the discretion of the noteholders due to the occurrence of a QEF, the notes may be converted into Series A Preferred Units at a price equal to the lower of (A) \$125.47, or (B) 80 percent of the price per unit of the most recent QEF transaction.

In August 2018, the Company finalized the financing of certain equipment it had previously purchased and has recorded it as a capital lease. The total amount financed was \$421,132, of which the Company received cash of \$289,879 with the remaining balance going directly to the vendor.

In August 2018, the Company purchased a property that was being leased by the Company for cultivation purposes in Illinois. This purchase included four parcels of land, totaling \$1,908,500.

In August 2018, the Company signed a six-year lease to move its headquarters from Oak Park, IL, to downtown Chicago. The rent payments will escalate over the six-year period, and will range from approximately \$32,000 to \$35,800 per month over the life.

In August 2018, the Company executed a licensing agreement with another cannabis company for use of their branding on products and extraction products. The agreement included a \$50,000 fee at execution. The license fees owed by the Company will be 8 percent of net sales attributable to the products sold each month.

In September 2018, the Company exercised a purchase option for a property in Massachusetts for \$450,000 and closed on the acquisition of this property on September 14, 2018.

Since June 30, 2018, the Company has received \$1,000,000 in refunds on its escrow balances relating to licenses which were not granted in Pennsylvania. Additionally, an amount of \$200,000, representing the amount deposited for a license that was granted, was transferred from an escrow account to a prepaid asset.

In September 2018, the Company entered into a stock purchase agreement to acquire an entity holding a medical dispensary license in Illinois and the related dispensary. The total purchase price for such acquisition is \$7,500,000 plus a contingent payment of \$1,000,000, which is contingent upon being awarded an adult-use license in Medical Cannabis District 29 in Illinois within five years of the acquisition closing date.

On October 11, 2018, the Company signed a binding letter of intent with MedMen Enterprises Inc. (“MedMen”) whereby MedMen would acquire 100 percent of the Company. Per the binding letter of intent, MedMen will deliver to the unit-holders of the Company MedMen stock in an amount equivalent to 25 percent of the fully-diluted shares of MedMen at the time of the close. Such transaction is subject to regulatory approvals by various state and local authorities in each of the markets where the Company’s assets and licenses are held, and other customary closing conditions.

The Company has evaluated subsequent events through November 5, 2018, the date which the consolidated financial statements were available to be issued.

## **CERTIFICATE OF THE CORPORATION**

Dated: November 28, 2018

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada, except Québec.

(Signed) ADAM BIERMAN  
Chief Executive Officer

(Signed) JAMES MILLER  
Interim Chief Financial Officer

On behalf of the Board of Directors

(Signed) LISA SERGI TRAGER  
Director

(Signed) MARK HUTCHISON  
Director

## **CERTIFICATE OF THE PROMOTERS**

Dated: November 28, 2018

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada, except Québec.

(Signed) ADAM BIERMAN  
Promoter

(Signed) ANDREW MODLIN  
Promoter

(Signed) CHRISTOPHER GANAN  
Promoter



## **CERTIFICATE OF THE UNDERWRITERS**

Dated: November 28, 2018

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada, except Québec.

### **CANACCORD GENUITY CORP.**

(Signed) Steve Winokur  
Managing Director, Investment Banking

### **EIGHT CAPITAL**

(Signed) Patrick McBride  
Head of Origination

### **CORMARK SECURITIES INC.**

(Signed) Chris Shaw  
Managing Director, Head of Investment Banking