



**Annual Information Form**

For the year ended December 31, 2016

Dated March 21, 2018

## TABLE OF CONTENTS

GENERAL.....	3
CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION .....	3
CORPORATE STRUCTURE.....	4
DESCRIPTION OF THE BUSINESS.....	7
GENERAL DEVELOPMENT OF THE BUSINESS .....	18
REGULATORY OVERVIEW.....	26
RISK FACTORS .....	38
DIVIDENDS AND DISTRIBUTIONS.....	52
DESCRIPTION OF CAPITAL STRUCTURE .....	52
MARKET FOR SECURITIES.....	54
ESCROWED SECURITIES.....	55
DIRECTORS AND OFFICERS.....	56
PROMOTER .....	60
LEGAL PROCEEDINGS AND REGULATORY ACTIONS.....	61
AUDIT COMMITTEE.....	62
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS .....	63
TRANSFER AGENT AND REGISTRAR .....	64
MATERIAL CONTRACTS .....	65
EXCEPT FOR CONTRACTS LISTED BELOW, AND THOSE ENTERED INTO BY THE COMPANY IN THE ORDINARY COURSE OF BUSINESS, THERE ARE NO CONTRACTS ENTERED INTO OR CURRENTLY ANTICIPATED TO BE ENTERED INTO BY THE COMPANY WHICH CAN REASONABLY BE REGARDED AS PRESENTLY MATERIAL. ....	65
THE CREDIT AGREEMENT BETWEEN CANNAROYALTY CORP. (AS BORROWER), CANNABIS ROYALTIES & HOLDINGS CORP., ELECTRIC MEDIALAND INC. AND CR ADVISORY SERVICES INC. (AS GUARANTORS), SPROTT CANNA HOLDCO CORP. (AS LENDER), DATED AUGUST 23, 2017 WITH RESPECT TO THE SPROTT FACILITY, AS FURTHER DESCRIBED IN <i>POST-2016</i> <i>DEVELOPMENTS – FINANCING</i> , ABOVE. ....	65
INTERESTS OF EXPERTS .....	65
ADDITIONAL INFORMATION .....	65
GLOSSARY.....	65

## GENERAL

Reference is made in this annual information form (the “AIF”) to the audited consolidated financial statements (the “Financial Statements”) and management’s discussion and analysis (the “MD&A”) for CannaRoyalty Corp. (the “Company” or “CannaRoyalty”) for the financial period ended December 31, 2016, together with the auditors’ report thereon.

The Financial Statements and MD&A are available for review on SEDAR located at [www.sedar.com](http://www.sedar.com) and on the Company’s website at [www.cannaroyalty.com](http://www.cannaroyalty.com).

Unless otherwise noted herein, information in this AIF applies to the business activities and operations of the Company for the year ended December 31, 2016, as updated to March 21, 2018. Unless otherwise indicated, the information in this AIF is given as of March 21, 2018 and references to “\$” are to Canadian dollars.

All references in this AIF to the Company or CannaRoyalty also include references to all subsidiaries of the Company as applicable, unless the context requires otherwise.

### CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

This AIF contains “forward-looking information” within the meaning of applicable Canadian securities legislation, which is based upon the Company’s current internal expectations, estimates, projections, assumptions and beliefs. Often, but not always, forward-looking information can be identified by the use of words and phrases such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates”, or “believes” or similar expressions or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. The forward-looking information included in this AIF is made only as of the date of this AIF. Such forward-looking information may include, but is not limited to, statements with respect to the future financial or operating performance of the Company and its subsidiaries, the Company’s expectations with respect to future growth, the Company’s business objectives, including the growth of the CR Brands portfolio in Canada and the U.S., the Company’s future initiatives in California, the Company’s pursuit of activities to advance its California presence, win CR Advisory mandates, enter strategic relationships and license CR Brands, the dependence of the Company’s cash flow and financial performance on third parties, the future delivery and cultivation costs of cannabis and applicable government taxes thereto, the Company’s lack of control over the operations of certain entities within its investment portfolio, the Company’s ongoing investment strategy, the accuracy of the information and projects provided by entities in the Company’s investment portfolio, changes in laws, regulations and guidelines, regulatory risks associated with the operations of the Company, timing and development of current and future projects, requirements for additional capital, limitations of insurance coverage, limitations from institutional financing, timing and possible outcome of pending regulatory matters in Canada and the United States and the Company’s competitive position.

Forward-looking statements are based on the reasonable assumptions, estimates, analysis and opinions of management 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 at the date that such statements are made, but which may prove to be incorrect. The forward-looking information contained herein is based on certain assumptions, including without limitation: (i) the Company will be able to generate cash flow from operations and obtain necessary financing on acceptable terms; (ii) general economic, financial market, regulatory and political conditions in which the Company operates will remain the same; (iii) the Company will be able to compete in the cannabis industry; (iv) the Company will be able to manage anticipated and unanticipated costs; (v) the Company will be able to maintain internal controls over financial reporting and disclosure, and procedures; consumer interest in Company products; (vi) the timely receipt of any required regulatory approvals; (vii) the Company’s ability to obtain qualified staff, equipment and services in a timely and cost efficient manner; (viii) the Company’s ability to conduct operations in a safe, efficient and effective manner; and (ix) government regulation of the Company’s activities will remain the same.

Although the Company believes that the expectations reflected in such forward-looking information are reasonable, it can give no assurance that such expectations will prove to have been correct. The Company's forward-looking information is expressly qualified in its entirety by this cautionary statement. In particular, but without limiting the foregoing, statements regarding the Company's objectives, plans and goals, including future operating results, economic performance may make reference to or involve forward-looking information. The purpose of forward-looking information is to provide the reader with a description of management's expectations, and such forward-looking information may not be appropriate for any other purpose. Readers should not place undue reliance on forward-looking information contained in this AIF. The Company undertakes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable law. A number of factors could cause actual events, performance or results to differ materially from what is projected in the forward-looking information. Some of the risks and other factors which could cause actual results to differ materially from those expressed in the forward-looking information contained in this AIF include, but are not limited to, the factors included under "*Risk Factors*" herein.

## CORPORATE STRUCTURE

### Name, Address and Incorporation

CannaRoyalty is a reporting issuer in each Province, other than Quebec, listed for trading on the Canadian Securities Exchange ("**CSE**") under the trading symbol "CRZ" since December 8, 2016. During February 2017, CannaRoyalty was listed for trading on the OTCQB exchange in the U.S. under the trading symbol "CNNRF". On April 26, 2017, the Company's U.S. listing was upgraded to the OTCQX exchange.

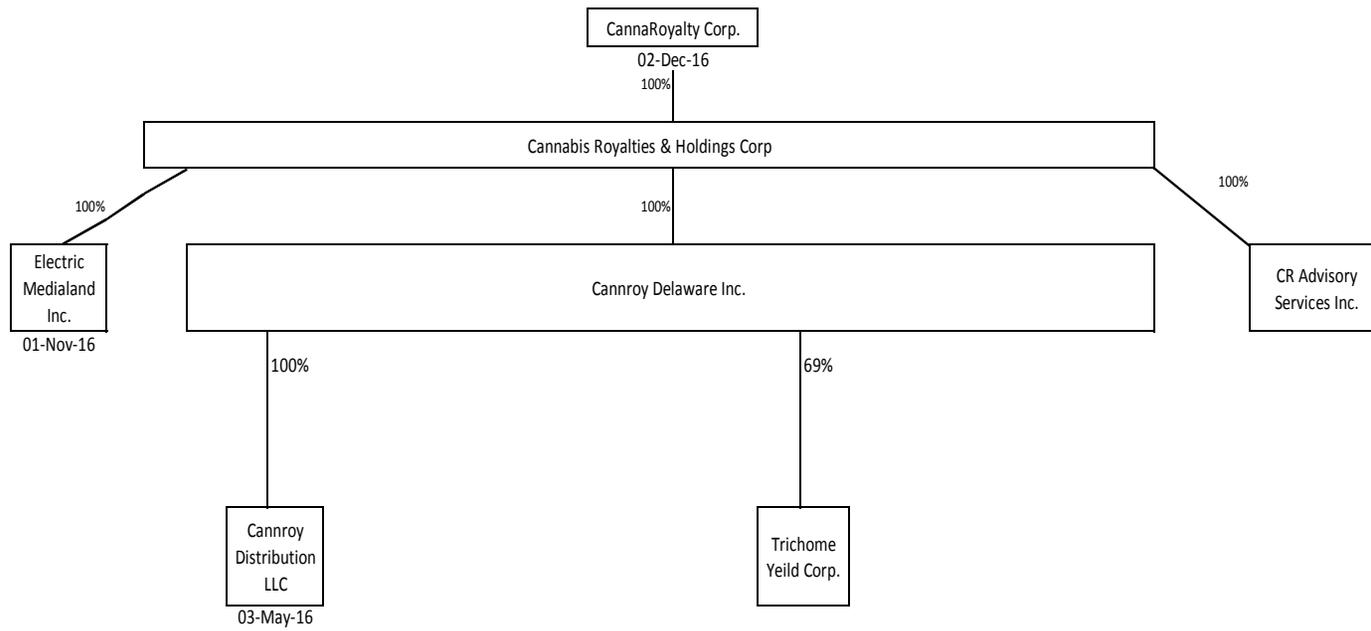
CannaRoyalty was incorporated under the OCBA as "McGarry Minerals Inc." on August 19, 1985. In connection with a corporate reorganization, the Company changed its name to "Bonanza Blue Corp." ("**Bonanza Blue**") on August 16, 2000. The Company subsequently changed its name to "CannaRoyalty Corp." on December 5, 2016, prior to the completion of a reverse takeover transaction ("**RTO**") between Bonanza Blue Corp. and Cannabis Royalties and Holdings Corp. ("**CRHC**"). CannaRoyalty's head office is located at 333 Preston Street, Preston Square Tower 1, Suite 610, Ottawa, Ontario K1S 5N4.

### Intercorporate Relationships

The diagram immediately below presents the corporate subsidiaries of the Company and the diagram on the following page presents certain business interests of the Company. CannaRoyalty's material subsidiaries are incorporated as follows: (i) CRHC is incorporated in Canada under the *Canada Business Corporations Act* (the "**CBCA**"); (ii) Cannroy Delaware Inc. and Cannroy Distribution LLC are incorporated in Delaware; (iii) Electric Medialand Inc., is incorporated in Canada, under the CBCA; (iv) Trichome Yield Corp. ("**Trichome**") is incorporated under the *Business Corporations Act* (Ontario); and (v) CR Advisory Services Inc. ("**CR Advisory**") is incorporated in Canada, under the CBCA. See *General Development of the Business – Three Year History and Significant Acquisitions – Corporate Developments* below.

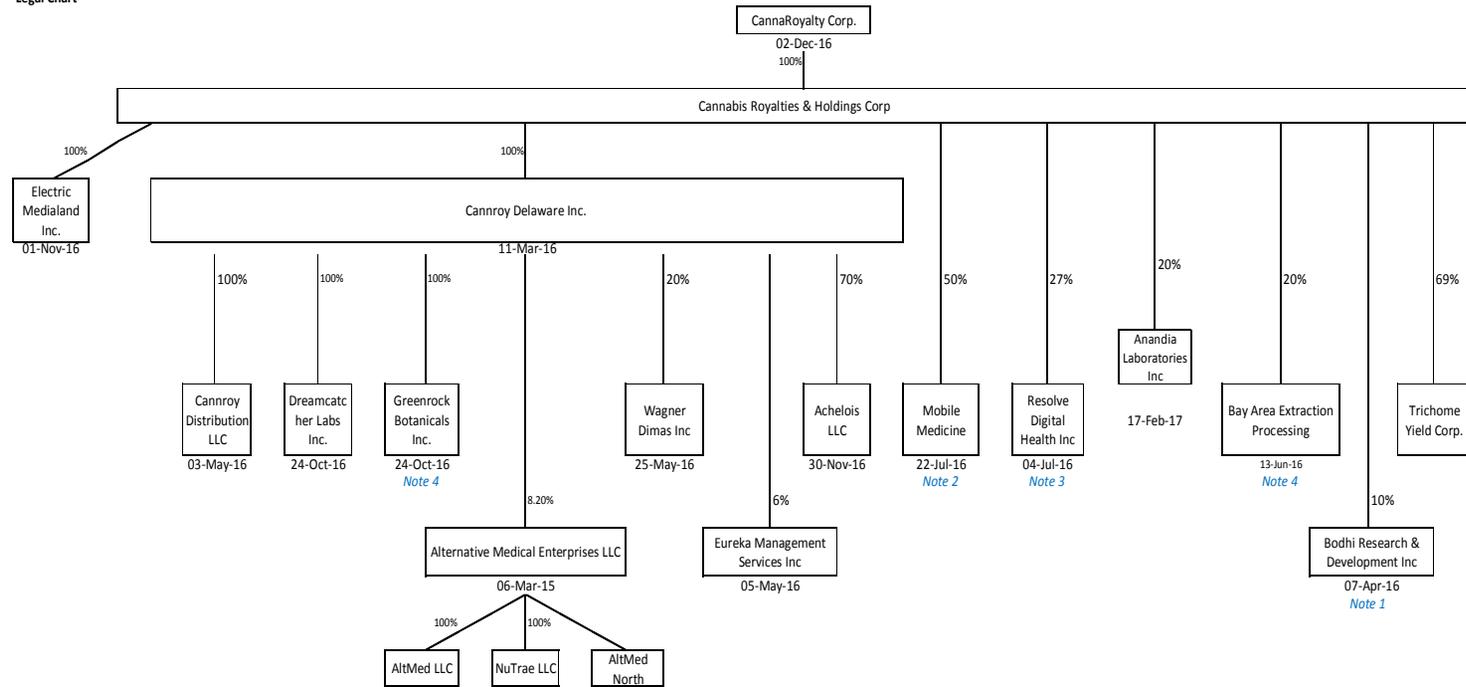
## CR Subsidiaries

CannaRoyalty Corp.  
Legal Chart



## CR Equity Holdings

CannaRoyalty Corp.  
Legal Chart



**Notes:**

1. Bodhi - Option to earn an additional 10% equity interest in the future
2. CannaCraft - Business is conducted under the name Mobile Medicine; currently not operational
3. Resolve - Option to have a CRHC representative on their board of directors
4. Greenrock & Bay Area - Membership interests rather than equity were acquired

## DESCRIPTION OF THE BUSINESS

CannaRoyalty is an active investor and operator in the regulated cannabis industry. The Company's focus is on building and supporting a diversified portfolio of branded cannabis consumer products. Currently, CannaRoyalty is focused on *Phase II* of its business plan: leveraging its current asset base, expertise and portfolio of branded products to build a leading cannabis consumer products business. The Company's primary focus over the next 12 months will be to continue to build, support and grow its product and brand portfolio in California, while actively pursuing opportunities to license or commercialize its broader portfolio into other key jurisdictions such as Canada.

### *Phase I*

Since the inception of CRHC, the Company's private company predecessor, the Company has pursued investment opportunities in the cannabis industry, primarily in U.S. states where cannabis use has been legalized. Many U.S. states have had active and thriving cannabis industries for several years, which presented an opportunity for a nimble finance company to invest in a well-established, albeit historically illicit sector, that existing consumer goods companies and traditional providers of capital had difficulty entering and exploiting. In Phase I of its growth plan, the Company executed on this opportunity, investing in a portfolio of companies in value-added areas of the regulated cannabis market in North America: manufacturing, marketing, technology, research and development, products, brands, and distribution.

### *Phase II*

In Phase II of its plan, the Company will focus on leveraging its current asset base, expertise and portfolio to build a leading cannabis consumer products business, focused principally on in California. CannaRoyalty has already begun this journey. California is a global entertainment and cultural hub, which shapes consumer perceptions for a multitude of commercial products and services. The state transitioned to an adult-use cannabis market in January 2018. It is the largest cannabis market in the world (currently estimated to be USD\$5.2 billion in 2018 according to Forbes magazine) and has a history of over 20 years of approved medical use. In the Company's view, only superior products and brands will be able to succeed in this market over the long term. CannaRoyalty believes that a company that wins in California will have a unique advantage competing not only in other U.S. jurisdictions, but also in Canada and across the globe.

## **General**

### **Business Objectives and Operations**

Prior to the RTO, CannaRoyalty had no active business operations aside from seeking business opportunities. Upon effecting the RTO, CannaRoyalty continued operating the business of CRHC.

#### (i) Organization

CannaRoyalty is a fully integrated, active participant in the regulated cannabis sector, with a focus on building a platform of assets across three business units – CR Holdings; CR Brands; and CR Advisory. CannaRoyalty contributes strategic expertise and functional knowledge to maximize the return potential of its diversified platform of assets.

#### (ii) Business Objectives

CannaRoyalty is building a premium suite of branded cannabis consumer products in California, supported by its existing and growing portfolio of strategic manufacturing and distribution assets. The Company's current portfolio of products includes wholly-owned and licensed products and brands in large and high growth segments of the cannabis industry including vaping, pre-rolls, edibles, topicals, patches, creams, intimacy oils, concentrates, and animal health products.

The Company is focused on continuing to build its leading downstream consumer products business by growing its existing CR Brands portfolio, augmented by judicious acquisitions to bring key products, brands and expertise in-house. The Company will also seek to create synergies and brand out-licensing opportunities among its portfolio companies and CR Brands products in Canada, as well as Washington, Arizona, Oregon, Florida and Puerto Rico. In California, CannaRoyalty will focus on the following primary initiatives over the next 12 months:

- Continue to drive growth of CR Brands product selection and points of distribution, by developing and commercializing new products for its CR Brands product portfolio;
- Make prudent acquisitions of promising products or leading brands;
- Increase commercial production and gradually drive efficiencies; and
- Optimize its investment portfolio by realizing value on non-core assets.

More broadly, over the next 12 months CannaRoyalty will also pursue the following activities:

- Continuing to advance its presence in the California market throughout the supply chain, where accretive opportunities exist;
- Winning additional CR Advisory mandates;
- Entering into strategic relationships that create value by sharing expertise and industry knowledge; and
- Licensing CR Brands products in other jurisdictions, including Canada.

The Company has recently taken the following steps to drive shareholder value from the portion of its portfolio:

- The launch of Trichome Yield Corp. ("**Trichome**") in partnership with Sprott Inc. ("**Sprott**") and Stoic Advisory Inc. ("**Stoic**");
- The signing of a binding letter of intent with Aurora Cannabis Inc. ("**Aurora**") giving Aurora the exclusive right for 90 days to negotiate a final licensing agreement regarding the exclusive rights for Canada, Europe and Australia to the intellectual property, manufacturing procedures, and the sales and marketing rights related to a portfolio of specialty branded cannabis drug delivery technologies from the award-winning MüV brand, to which CannaRoyalty holds the licensing rights;
- The announcement of a collaboration with Aequus Pharmaceuticals Inc. ("**Aequus**") to advance a suite of cannabis-based therapies targeting neurological disorders into clinical trials in Canada, in collaboration with Canadian doctors and key opinion leaders. CannaRoyalty will contribute its position in Bodhi Research to this collaboration and
- Entering into a strategic partnership with a leading premium craft cannabis cultivator in California, Floracal® Farms, to develop and sell branded cannabis products, including a collaboration on the construction and build-out of a 20,000 square foot craft cultivation project with CannaRoyalty.

**CR Brands**

<u>Asset Name, Class and Acquisition Date</u>	Description of Asset	
<p><b>Achelois LLC</b></p> <p><i>IP – Brands</i></p> <p>Q3 2016</p> 	<p>Achelois LLC, which along with CannaRoyalty developed DermaLeaf Skin Care, is a company in the State of California that develops and manufactures cannabis infused skin lotions with fibroblast technology for healing and pain relief. DermaLeaf targets deep skin repair, burns, scar repair, wrinkle reduction and tattoo enhancement.</p>	<p><u>Type of Investment:</u> 70% owned equity position in Achelois LLC.</p>
<p><b>GreenRock Botanical</b></p> <p><i>IP – Brands</i></p> <p>Q3 2016</p> 	<p>A unique marijuana cartridge and battery unit have made GreenRock Botanical's E-Vaporizer. These E-Vaporizers are manufactured and produced by Dreamcatcher. This product is easy-to-use, requires no charging of batteries, and no changing of cartridges.</p> <p>This product is presently being manufactured and distributed in California.</p>	<p><u>Type of Investment:</u> 100% owned controlling membership interest in GreenRock Botanicals.</p>
<p><b>Soul Sugar Kitchen</b></p> <p><i>IP – Brands</i></p>	<p>Soul Sugar Kitchen, award winning edibles and confections producer, markets gourmet quality cannabis edibles, carefully developed and manufactured by a cannabis chef. Initial product categories include homemade peanut butter cups, hand-formed chocolate truffles, and</p>	<p><u>Type of Investment:</u> 100% owned brand.</p>

<p>Developed internally</p> 	<p>premium snack mixes in a variety of flavours.</p> <p>Soul Sugar Kitchen uses only cannabis distillate and quality ingredients which, when combined with expert formulations, produce little or no cannabis taste.</p> <p>This product is presently being manufactured and distributed in California.</p>	
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<u>Asset Name, Class and Acquisition Date</u>	Description of Asset	
<p><b>AltMed</b></p> <p><i>Arizona and Florida</i></p> <p>2015</p> 	<p>Alternative Medical Enterprises, LLC (“<b>AltMed</b>”) is a Florida-based company bringing pharmaceutical industry precision to the development, production and dispensing of medical cannabis. AltMed currently has vertically integrated cannabis operations in Arizona and Florida with a pipeline of expansion opportunities to scale operations significantly in the US medical cannabis market and expand into the international market. Additionally, the company owns MüV™, a full range of premium smoke-free cannabis products designed and produced to the highest standards, including topicals, inhalers, vaping products, shatter and crumble as well as oral sprays and tinctures.</p> <p>CannaRoyalty has the licensing rights to the MüV product line in Canada, Puerto Rico and a variety of US states including California.</p> <p><i>Arizona</i></p> <p>In Arizona, AltMed owns a 30,000-sq. ft. cultivation facility (approved for a 140,000-sq. ft. greenhouse expansion), one dispensary with plans to target 5+ dispensaries across the state, and has presence in over 50% of the state’s dispensaries with MüV™ products.</p>	<p><u>Type of Investment:</u> 8.2% equity position in AltMed and 3.5% royalty on net sales of MüV products until December 2025</p> <p><u>Amount invested:</u> USD\$1.5 million for AltMed Equity and \$1.13 million for MüV Royalty</p> <p><u>Geography:</u> Arizona &amp; Florida, the Company has rights to license MüV in other markets</p> <p><u>Update:</u> In August 2017, AltMed agreed to combine its Florida operations with Plants of Ruskin Inc. (“<b>Ruskin</b>”), a multi-generational Florida cultivator, to form AltMed Florida. Ruskin has been granted one of only thirteen Medical Marijuana Treatment Center licenses in Florida, and in November, AltMed Florida announced that it received all required permits to begin cultivating. In September, AltMed opened its inaugural MOV by AltMed dispensary in Phoenix, Arizona. CR Advisory has completed on its previously disclosed mandate to support</p>

	<p><i>Florida</i></p> <p>On August 2, 2017, AltMed completed a transaction to form AltMed Florida an entity owned 40% by AltMed and 60% by Plants of Ruskin, a licensed operator in the Florida medical cannabis market that is building a 150,000-sq. ft. facility with Phase 1 expected to complete by the end of 2017.</p> <p>AltMed and Plants of Ruskin will leverage AltMed's extensive offering of smoke-free MüV™ products, beginning with 5 dispensaries and targeting a total of 25 dispensaries throughout Florida.</p>	<p>AltMed's corporate activities.</p>
<p><b>AltoTerra Capital Partners Ltd.</b></p> <p><i>Washington</i></p> <p>Q1 2016</p>  <p>ALTOTERRA</p>	<p>Cascadia, a subsidiary of AltoTerra, is incorporated in the state of Washington and is a real estate holdings entity focused on owning and leasing facilities that offer full turnkey, equipped-to-rent solutions to tenants that have a valid license to cultivate and/or extract cannabis in the state of Washington. Specifically, Cascadia provides facility design, assistance with licensing, consulting, and distribution in exchange for a gross rent that is priced at a premium due to the value-add and turnkey nature of its offering to its tenant-clients. The two main real estate holdings include the American Nutraceutical building (9,000 sq. ft.), which it owns, and the Aroma Essential Oil Extractions building (18,000 sq ft.), which it leases and which is currently undergoing an expansion to a total of over 40,000 sq. ft of rentable facility space.</p> <p>The American Nutraceutical facility ("<b>ANI</b>") currently has one tenant occupying the total leasable space of 9,000 square-feet. ANI is a fully equipped facility which allows its tenant to run several cannabis production activities including analytical product testing, extraction, formulation, product development, post-processing, distillation, and packaging for a large portfolio of cannabis products. The tenant produces and sells many of its own cannabis products, and derives significant revenue from co-packing and white-labelling contracts they have with other Washington cannabis companies. Cascadia charges an above market rent per square foot since it has provided the tenant with a fully built up facility capable of producing cannabis finished products.</p> <p>In addition to ANI, Cascadia has an option to lease the nearby Aroma facility at a cost of \$4 per square foot, and then sub-lease to a tenant license holder that would allow it to charge a similar</p>	<p><u>Type of Investment:</u> 30% royalty on gross rental income in perpetuity.</p> <p><u>Amount Invested:</u> USD\$822,000 in Royalty; USD\$270,000 in advances; Royalties receivable of USD\$730,0000 and extraction equipment with a net book value of USD\$192,000</p> <p><u>Update:</u> Subsequent to September 30, 2017, CannaRoyalty began the process of evaluating options for its investment in Cascadia, including but, not limited to, enforcement of its security and legal rights and/or selling its interest and contractual rights to a third party.</p>

	<p>premium rent as with ANI, for which CannaRoyalty would also receive a 30% royalty stream in accordance with the terms of this agreement. Aroma currently consists of an existing 9,000 square foot facility, plus sufficient land to build an additional purpose-built facility of approximately 45,000 square feet. The existing 9,000 square foot facility requires approximately USD\$750,000 in additional capital for fit-up costs and equipment to be ready for a tenant to occupy and commence commercial operations.</p>	
<p><b>Anandia</b></p> <p>Canada</p> <p>Q1 2017</p> 	<p>Anandia Laboratories Inc. ("Anandia") is a biotechnology company which focuses on leading analytical testing services and developing cannabis strains for safe and effective medical applications. Anandia is the only independent Canadian testing facility specializing exclusively in cannabis. Together with a significant intellectual property position that includes cannabinoid pathway patents and proprietary genetics, Anandia possesses a Health Canada Dealer's License. This license permits Anandia to undertake research and development, and to develop products beyond those currently permitted for licensed producers under Health Canada's Access to Cannabis for Medical Purposes Regulations ("ACMPR").</p> <p>Anandia continues to expand its market leading position as a source of scientific services and products for the cannabis industry. Quality control testing is expanding rapidly with new LP and patient-grower clients, with a focus on high-sensitivity pesticide assays designed to meet the anticipated implementation of mandatory pesticide analysis for ACMPR batch release. Anandia's testing Division has also made available specialized testing services to clients including residual solvent analysis for oil products and breeding assays such as seedling chemotyping and male/female sex determination. Anandia's genetics division continues to build its germplasm collection through international import and increased tissue culture capacity for strain archiving. By leveraging the sales and distribution activities on its Health Canada Dealers Licence, Anandia has started to supply germplasm to licensed producers, via select offerings of certified strains in Q3 2017. Anandia is also actively engaged in licensed import / export of cannabis products with global partners. Planning is underway for a second licensed laboratory facility to enable increased testing capacity and further expansion of tissue culture technology, extraction services, and white-label production for</p>	<p><u>Type of Investment:</u> 17% equity position</p> <p><u>Amount Invested:</u> \$4 million</p> <p><u>Geography:</u> Canada</p>

	clients.	
<p><b>BAS Research</b></p> <p><i>California</i></p> <p>Q3 2016</p> 	<p>BAS is a fully-licensed and compliant lab and manufacturing and processing facility located in Berkeley, CA. which carries out research and genetics work. It consists of PhDs and chemists who have undertaken R&amp;D work regarding advanced tissue culture and genetics. The research work and studies are to determine ailment-specific strains as well as extraction and post-processing. The firm can tailor products to clients' specific needs.</p> <p>In addition to its investment, CannaRoyalty has secured a supplier relationship that includes buying processed cannabis oil at preferred rates, and tailoring the product for its specific requirements.</p>	<p><u>Type of Investment:</u> Secured debt, convertible at 20% discount to Series A financing.</p> <p><u>Update:</u> The Company has not converted this debt, and is in the process of extending the maturity date and permitted convert period.</p>
<p><b>Bodhi Research</b></p> <p><i>IP – Research</i></p> <p>Q2 2015</p> 	<p>Bodhi Research is an Ontario corporation that is conducting research trials for exploring the use of cannabis in the treatment of concussions and post-concussive syndrome.</p> <p>The collaboration involves some of the world's foremost experts in concussions and pain management, including Dr. Neilank Jha (Neurosurgeon and Founder of Konkussion – the largest network of concussion clinics in North America).</p>	<p><u>Type of Investment:</u> 10% equity ownership position.</p> <p><u>Update:</u> CannaRoyalty and Aequus Pharmaceuticals Inc. (TSX-V: AQS) (OTCQB: AQSZF) ("<b>Aequus</b>") formed a collaboration (the "<b>JV</b>") to advance a suite of cannabis-based therapies targeting neurological disorders into clinical trials in Canada, in collaboration with Canadian doctors and key opinion leaders. CannaRoyalty intends to contribute its 10% equity stake in Bodhi Research &amp; Development Inc. into the JV in exchange for an initial ownership position in the JV.</p>
<p><b>Dreamcatcher Labs Inc.</b></p> <p><i>IP – Devices</i></p> <p>Q3 2016</p> 	<p>Rock Vapor supplies e-cigarettes and vaporizers for the tobacco market while Dreamcatcher is an industrial filling and packaging system. The firm has designed and manufactures a proprietary cartridge for the cannabis sector.</p> <p>The unique cartridge provides an array of strains that can be delivered through a unique cartridge and is safe and secure.</p> <p>The product ensures that users have an ability to access a vast array of extracts and oil and can enjoy different types of strains and experiences. Through both small batch benchtop filling process and its large-scale filling machines, Dreamcatcher has the ability to</p>	<p><u>Type of Investment:</u> 100% equity position</p> <p><u>Amount Invested:</u> Approximately \$6 million (three million shares at \$2/share).</p> <p><u>Geography:</u> California</p>

	<p>produce high volume safe, sealed and high-quality extract cartridges for vape pens to meet large-scale mass market demand. The cartridge delivery system provides users with a predictable and consistent experience. Currently the hardware features stainless steel components, a quartz glass tank and ceramic wick technology. The hardware ensures that users have an ability to utilize a vast array of extracts and oil and can enjoy diverse types of strains and experiences. Dreamcatcher also has the capability to sell unfilled cartridges on a “white label” basis on a global scale. “White label” agreements are currently in place in California and Arizona.</p> <p>Dreamcatcher’s unique vape cartridge and battery unit are combined into a finished product electronic vaporizer which is commercialized under the brand name GreenRock Botanicals. This CR Brands product is easy to use and is interchangeable with most common battery systems. The GreenRock brand is sold in both a full starter kit with battery, USB charger and filled cartridge as well as in individual cartridges.</p>	
<p><b>Eureka Management Services</b></p> <p><i>California</i></p> <p>Q1/Q2 2016</p>	<p>Eureka Management Services invested in, and historically operated, the Magnolia Wellness Dispensary in Oakland, CA, which has a fully integrated license relating to cultivation, extraction and a dispensary. Magnolia has 27,000 registered patients and has a revenue forecast of \$7 million for 2016. At present, Magnolia is operated by a third party management company. Eureka remains a secured creditor of Magnolia.</p>	<p><u>Type of Investment:</u> 6% equity and secured debt, which is convertible into an additional 10% equity stake.</p> <p><u>Amount Invested:</u> \$100k for the equity portion and \$400k for the convertible secured debt.</p>
<p><b>Farmacopeia</b></p> <p><i>Canada</i></p>	<p>In July 2017, CannaRoyalty advanced \$250,000 to Farmacopia Inc. Farmacopia is an Ontario-based corporation that is currently in active review as part of its application for a Producer’s License from Health Canada under the Access to Cannabis for Medical Purposes Regulations.</p>	<p><u>Type of Investment:</u> Minority equity position.</p>

<p><b>Mobile Medicine</b></p> <p><i>California</i></p> <p>Q3 2016</p> 	<p>On July 22, 2016, the Company entered into a joint venture with CannaCraft Inc. (“<b>CannaCraft</b>”), a company in California that supplies equipment and cannabis-based medicines. The joint venture is conducted under the name Mobile Medicine, whose purpose is to manufacture and lease mobile gelatin encapsulation machines. CannaCraft will contribute one third of the funds required, and will be responsible for the design and manufacturing of the machines. CannaCraft will also manage and operate the machines. CRHC will contribute two thirds of the funding required for a 50% equity interest, of which USD\$150,000 has been advanced to date. Mobile Medicine is not presently commercially operational.</p>	<p><u>Type of Investment:</u> 50/50 joint venture agreement with CannaCraft.</p>
<p><b>Resolve Digital Health (Breeze)</b></p> <p><i>IP – Devices</i></p> <p>Q3 2016</p> 	<p>An integrated digital health platform for cannabis use. Resolve’s ‘Breeze’ product is a patent-pending dosage control smart inhaler. The Breeze product has been created with proprietary tracking and analytics software. Modular, pre-measured, hygienically packed individual dose of very high pharmaceutical grade cannabis with no need to handle or measure product.</p> <p>Resolve’s so-called “Smart Pods” are measured for users’ specific symptoms, custom formulated by cannabis experts, are geared to specific ailments, including relief, anti-inflammatory, control, sleep, calm, energy and appetite. Each pod has disposable filter tips, which are flavoured or plain, are environmentally friendly, and have magnetic closures. The Breeze product has also been created with a cooling system to ensure that vapour is at a cool temperature. The Resolve Digital Dosing &amp; Tracking System keeps track of doses, dose effectiveness, symptoms, medicine, reporting, lifestyle, retail, supply chain management, and support.</p>	<p><u>Type of investment:</u> 27% equity position</p> <p><u>Amount Invested:</u> \$2.5 million, through a direct investment into Resolve, as well as a transaction with Vida Cannabis Corp.</p> <p><u>Geography:</u> US, Canada &amp; Australia</p>
<p><b>Rich Extracts LLC</b></p> <p><i>Oregon</i></p> <p>Q3 2016</p>	<p>Rich Extracts operated a facility in Oregon to produce cannabis extract products using a variety of extraction processes. Rich Extracts obtained its processing license from the Oregon Liquor Control Commission (OLCC) in summer 2017 and commenced commercial sales in July after undergoing an exhaustive regime of product qualify testing in May and June.</p> <p>During August 2017, a claim was filed against RE by CURA, a raw</p>	<p><u>Type of Investment:</u> Secured debt, convertible into a right to royalties on gross sales in perpetuity; non-interest-bearing secured advances.</p> <p><u>Amount Invested:</u> USD\$2.75 million</p> <p><u>Geography:</u> Oregon</p>



materials supplier for payment of debts owed by RE. The claim also included CannaRoyalty and a subsidiary with respect to any royalty payments made by RE to CannaRoyalty. CannaRoyalty did not have any exposure under this claim as it had not received any royalty payments from RE, and filed a cross-claim to protect its interest.

On November 8, 2017, Rich Wilkinson, the principal of RE, was arrested in Nebraska for possession of marijuana with intent to distribute. On November 15, 2017, the Oregon Liquor Control Commission ("**OLCC**") suspended the Recreational Marijuana processor license of RE based on allegations of several violations. Wilkinson is currently prohibited from allowing the sale, delivery to or from, or receipt of marijuana items at RE until further notice from the OLCC. To the best of CannaRoyalty's knowledge, the licensed premises and all marijuana products located therein remain secured by law enforcement authorities.

CannaRoyalty, through local legal counsel, has been in contact with the OLCC and local law enforcement. As the license has been suspended but not revoked, CannaRoyalty intends to work with the OLCC and relevant state authorities to take all available legal action to realize its security over the license and the Rich Extracts extraction facility.

Although CannaRoyalty believes the underlying asset is sound in terms of its ability to produce licensed cannabis products, the risk adjusted cost of recovery may exceed the expected return from recovery.

**River**

California

Q2 2017



CannaRoyalty completed a royalty and supply agreement with River Wellness, Inc., the first California based medical cannabis distributor to receive local permits for medical cannabis wholesale logistics, distribution and transportation.

River serves the medical cannabis community in California and provides safe storage and transport of medical cannabis products throughout the State in all key regions and urban centres.

River is a highly respected industry leader that manages its operations in a strict, compliant manner, at times exceeding current legislative requirements or regulatory standards. While being socially conscious and environmentally responsible, River is

Type of Investment: 2.25% Revenue Royalty to USD\$5 million, then 1.75% for the duration of the term. Strategic Partner for CR Brands strategy in California with a term expiring in December 2024

Amount Invested: USD\$5 million.

	<p>adapting early to anticipated changes in legislation. A good example of this is River's zero tolerance policy on pesticide content in the products they distribute.</p> <p>CannaRoyalty expects to leverage its strategic relationship with River to sell its branded products through River's extensive distribution network. River has committed to purchase a minimum of USD\$20M worth of CR Brands products over the term of the agreement, subject to certain conditions.</p>	
<p style="text-align: center;"><b>Wagner Dimas</b></p> <p style="text-align: center;">Q2 2016</p> 	<p>Wagner Dimas Inc. is a Nevada registered corporation operating primarily in California that has developed a highly scalable, patent-pending manufacturing platform for creating machine rolled cannabis products. The innovative process creates all-natural uniform and perfectly packaged cigarettes. Wagner Dimas provides contract manufacturing services and has also developed and commercialized its own line of branded pre-rolls that are sold through its California mutual benefit corporation.</p> <p>Wagner Dimas has developed a commercially available technology to enable scalable production of pre-rolls. Wagner Dimas is investing significantly in R&amp;D for next generation equipment that is anticipated to significantly increase production capacity further distancing itself from current market alternatives.</p> <p>By leveraging its leadership position in pre-roll manufacturing equipment and process, Wagner Dimas has seen a sharp rise in demand for co-packing services and now has separate contract manufacturing agreements with 20 cannabis brands and cultivators in California, according to Wagner Dimas.</p>	<p><u>Type of Investment:</u> 22% equity position; USD\$200,000 of debt and right to IP and Manufacturing technology in Canada</p> <p><u>Amount Invested:</u> USD\$825,000 in equity, USD\$200,000 in debt and \$150,000 for right to a Canadian License for WD IP and technology</p> <p><u>Geography:</u> US – IP and technology is exportable</p> <p><u>Update:</u> WD is expanding its portfolio of contract manufacturing agreements which now includes over 20 top cannabis pre-roll brands. CannaRoyalty raised its equity stake by 2% to 22% and has secured an advisory engagement whereby WD appointed CannaRoyalty as its exclusive strategic advisor.</p> <p>In September 2017, CannaRoyalty agreed to advance USD\$200,000 to WD as an operating loan at 12% interest with a three-month maturity. Half the amount (USD\$100,000) was paid in September and the balance of USD\$100,000 was paid in October. CannaRoyalty also secured the right to a Canadian License for WD IP and manufacturing technology.</p>

## GENERAL DEVELOPMENT OF THE BUSINESS

### Three-Year History and Significant Acquisitions

#### *Corporate*

CannaRoyalty has built a platform of assets via royalty agreements, equity interests, convertible and non-convertible debt and licensing agreements with various businesses in Canada, the United States, and Puerto Rico, primarily in the start-up phase, as set forth below.

On March 6, 2015, CannaRoyalty acquired 1,500 Class A units, representing an 8.2% equity interest, in Alternative Medical Enterprises for \$1,850,070. Alternative Medical Enterprises owns 100% of NuTrae LLC, a company operating as MüV, that develops drug delivery systems and products such as the transdermal patch, meter-dosing inhaler and aerosolizer, and creams, lotions, and balms. Alternative Medical Enterprises also has an interest in a 30,000 square foot licensed cultivation operation in Arizona, and an interest in a company with real estate and agriculture assets focused on the cannabis sector in Colorado.

On August 19, 2015, CannaRoyalty entered into a loan agreement with Santa Barbara for USD\$100,000 to assist Santa Barbara in opening a collective and healing center in Santa Barbara, California. Interest is calculated at 20% per annum. The principal and accrued interest was due on August 19, 2016. The loan is unsecured. The Company has provided an allowance of \$132,790 against the entire principal balance. The Company has engaged legal counsel to assist in aggressively pursuing collection of the entire amount of the loan and all accrued interest. The bad debt expense is included in general and administrative expenses. Furthermore, the Company has written off all accrued interest on this loan and reduced interest income accordingly. Payments of \$19,820 have been received and bad debt recoveries of the same amount have been recorded within general and administrative expenses in the Company's financial statements.

On November 16, 2015, a letter of intent was signed between CannaRoyalty, Vida Cannabis Corp. ("**Vida**"), and Resolve Digital Health Inc. ("**Resolve**"), whereby CannaRoyalty invested \$750,000 in Resolve in return for an 11% equity interest.

During February 2016, the Company entered into a loan agreement with Eureka Management Services Inc. ("**Eureka**"), a California corporation that manages Magnolia Wellness, a medical cannabis dispensary in Oakland, California. The loan was provided to assist Eureka in expanding its operations. The loan was made in exchange for a convertible promissory note receivable with a face value of USD\$200,000. During August 2016, the Company advanced a further USD\$200,000 to Eureka as part of a second convertible promissory note. Commencing on the third anniversary of the loans (February 2019 and August 2019 respectively), the Company has the option to convert all or part of the principal and accrued interest into a 5% equity interest for each loan for an aggregate stake of up to 10% in Eureka. If the conversion options are not exercised, commencing on the third anniversary date, principal shall be paid monthly in arrears on the last day of each month in equal monthly instalments of USD\$4,167 for each loan until paid in full at maturity. Interest accrues at 10% per annum. If the conversion options are not exercised, the accrued interest shall be paid monthly in arrears on the last day of each month in equal monthly instalments. Principal and accrued interest can be repaid in advance without penalty. These notes are pari passu to all other unsecured notes that were part of these financings.

Pursuant to a binding letter agreement dated April 1, 2016 between CannaRoyalty and Vida, CannaRoyalty purchased from Vida the following interests: (i) 3.5 % royalty on the net revenue of NuTrae for a period of 10 years, commencing January 1, 2016, for an allocated purchase price of \$1,130,000; (ii) Vida's rights and obligations to acquire a 24% interest (50,531 common shares) of Resolve; and (iii) 20% interest in Bay Area Extraction Processing. In addition, at such time as CannaRoyalty increases the number of directors on its Board or completes a reverse-takeover transaction with a reporting issuer in connection with a going-public transaction, Vida was granted the right to nominate one individual to serve as a member of the Board of CannaRoyalty or the RTO acquirer, as applicable, until the next meeting of

the resulting company's shareholders. In consideration for these interests, CannaRoyalty issued 3,500,000 of its common shares to Vida, valued at \$2,625,000 (\$0.75 per share) on July 4, 2016, and paid cash in the amount of \$200,000. The total consideration for this purchase was \$2,825,000. After the completion of this transaction on July 4, 2016, CannaRoyalty held a 35% equity interest in Resolve as well as an option to have a CannaRoyalty representative on the Resolve board of directors.

On April 1, 2016, CannaRoyalty and CannaCraft, Inc. ("**CannaCraft**"), a California company that supplies equipment and cannabis-based medicines, entered into license agreements for the purpose of facilitating the distribution of vaporizer devices in Canada and the State of Washington. CannaRoyalty advanced funds of USD\$250,000 to CannaCraft on May 16, 2016. This advance has been partially offset by the purchase of equipment and product from CannaCraft, valued at USD\$171,183. The balance of the unsecured loan is USD\$78,817. This advance is not part of the joint venture agreement or license agreements between the two companies.

On April 7, 2016, CannaRoyalty acquired a 10% equity interest in Bodhi for \$250,000, and an option to earn up to an additional 10% equity interest in connection with the provision of future services. The investee is an Ontario corporation that is conducting research trials for exploring the use of cannabis in the treatment of concussions and post-concussive syndrome. The investment of \$250,000 was paid in two instalments and both instalments were paid in full by September 29, 2016.

On May 3, 2016, CannaRoyalty incorporated Cannroy Distribution, a wholly owned subsidiary of Cannroy Delaware.

On May 5, 2016, the Company acquired a 6% equity interest in Eureka. The consideration given was \$128,680 for 350,000 common shares in Eureka. To date CannaRoyalty has advanced USD\$400,000 of loans to Eureka, convertible into an additional 10% equity interest in Eureka.

On May 13, 2016 Aphria acquired a 7.2% equity interest in CannaRoyalty for \$1.5 million. In connection with this investment, Aphria was also issued 750,000 purchase warrants for CRHC common shares, with an exercise price of \$1.50 for each warrant exercised.

On May 15, 2016, CannaRoyalty advanced a total of USD\$118,000 to Natural Ventures, a corporation organized under the laws of Puerto Rico. A promissory note dated June 28, 2016 was taken back with interest charged at 5% per annum. As described below in further detail, on December 20, 2016, CannaRoyalty agreed to enter into a royalty financing arrangement with Natural Ventures.

On May 15, 2016, the Company entered into a letter of intent with Progressive Marketing Partners LLC ("**Stokes Confections**"), which is based in California and produces low dose, cannabis infused edibles. An advance of \$64,820 was made as an up-front fee, but was to be refunded in full with annual interest of 2.5% if a definitive agreement was not finalized by December 31, 2016. At June 30, 2017, the total receivable includes \$1,012 of accrued interest (December 31, 2016 – \$1,050). The advance is unsecured and due on demand. The Company expects to complete a definitive agreement in a future period.

On May 16, 2016 the Company advanced funds of \$324,100 to CannaCraft. This advance has been partially offset by the purchase of equipment and product from CannaCraft valued at \$255,602. The balance of the advance at June 30, 2017, is \$68,498. This advance is not part of the joint venture agreement between the two companies. This advance is non-interest bearing, unsecured and has no set terms for repayment.

On May 25, 2016, CannaRoyalty acquired a 20% equity interest in Wagner Dimas. The Company purchased 2,000,000 shares of Wagner Dimas for \$818,125. CannaRoyalty also has representation on the board of Wagner Dimas and has significant influence over the investee.

On June 30, 2016, in accordance with a private placement on March 17, 2016, in which Three Leaf subscribed to 666,666 common shares in CannaRoyalty for \$500,000, the Company agreed to make an investment in Three Leaf of \$100,000. This investment provides the Company a 1.5% royalty on total

Three Leaf revenue for a period of two years subsequent to March 12, 2016, plus a 2% fee on the gross value of all Three Leaf's referrals for one year subsequent to March 12, 2016.BAS

On June 30, 2016, CannaRoyalty entered into the Definitive Agreement with CRHC.

During July 2016, CannaRoyalty advanced USD\$300,000 to BAS Research ("**BAS**") in two separate tranches of USD\$150,000. BAS is a fully licensed and compliant lab and manufacturing and processing facility located in Berkeley, California. Two secured convertible promissory notes were received in exchange. The loans mature in January 2018 after an eighteen-month term. The notes accrue interest at an annual rate of 7% and can only be prepaid at the option of CannaRoyalty. Upon maturity or at any time after the maturity date, in lieu of demanding payment, CannaRoyalty may at its option and sole discretion, elect to convert all or part of the outstanding principal amount plus any accrued and unpaid interest into a number of shares of BAS common stock or shares of the authorized class of series of preferred stock most recently issued by BAS. If CannaRoyalty elects to convert the notes receivable into common or preferred shares, the potential stake would not result in CannaRoyalty having significant influence over BAS.

On July 8, 2016, CannaRoyalty entered into a royalty agreement with Cascadia, a subsidiary of AltoTerra, in which CannaRoyalty paid a total of \$973,738 and provided the use of its equipment in consideration for a 30% royalty stream on Cascadia's gross revenues. CannaRoyalty has advanced a total of \$349,998 to provide Cascadia additional working capital. These advances are non-interest bearing, unsecured and have no set terms for repayment.

On July 22, 2016, CannaRoyalty entered into a joint venture with CannaCraft. The joint venture is conducted under the name Mobile Medicine, whose purpose is to manufacture and lease mobile gelatin encapsulation machines. CannaCraft will contribute one third of the funds required, and will be responsible for the design and manufacturing of the machines. CannaCraft will also manage and operate the machines. CannaRoyalty will contribute two thirds of the funding required for a 50% equity interest, and has advanced USD\$150,000 to date. The Mobile Medicine joint venture is not yet commercially operational.

During August 2016, CannaRoyalty advanced a further USD\$200,000 to Eureka as part of a second convertible promissory note. The conditions of the first and second convertible promissory notes are the same and the term of each loan is five years. Commencing on the third anniversary (February 2019 and August 2019, respectively), CannaRoyalty has the option to convert the principal and accrued interest into a 5% equity interest in Eureka for each loan for an aggregate stake of up to 10% in Eureka. If the conversion options are not exercised, commencing on the third anniversary date, principal shall be paid monthly in arrears on the last day of each month in equal monthly instalments of USD\$4,167 for each loan until paid in full at maturity. Interest accrues at 10% per annum. If the conversion options are not exercised, the accrued interest shall be paid monthly in arrears on the last day of each month in equal monthly instalments. Principal and accrued interest can be repaid in advance without penalty.

On September 9, 2016 CannaRoyalty entered into a term sheet to subscribe for a 50% equity stake in Rich Extracts, a corporation engaged in the business of using a variety of proprietary extraction processes to produce premium cannabis concentrate and cannabis distillate products in the State of Oregon. The parties agreed to change the structure of the transaction into a royalty financing arrangement on February 9, 2017, as described below.

On October 19, 2016, CannaRoyalty entered into a license and royalty agreement with Aphria whereby CannaRoyalty agreed to license to Aphria to sell or produce, in Canada, the products that CannaRoyalty owns the rights to through its various investments. A 5% royalty on gross revenue from the sale of the products will be paid on a quarterly basis in exchange for the license.

On October 24, 2016, CannaRoyalty entered into the DC SPA with Dreamcatcher and GreenRock to purchase all of the issued and outstanding shares of Dreamcatcher and the controlling governing membership interest in GreenRock. Pursuant to the DC SPA, the Dreamcatcher shareholders and

GreenRock governing member were issued 2,625,000 common shares in the capital of CannaRoyalty, representing an implied value of \$5,250,000.00 (based on a valuation of \$2.00 per common share).

Also on October 24, 2016, CannaRoyalty entered into a definitive asset purchase agreement with Rock Vapor for the purchase of certain assets of Rock Vapor for 375,000 common shares in the capital of CannaRoyalty representing an implied value of \$750,000.00 (based on a valuation of \$2.00 per common share).

Effective November 1, 2016, CannaRoyalty acquired all of the issued and outstanding shares in Electric Medialand. The purchase price of Electric Medialand was \$200,000 cash and 750,000 common shares of CannaRoyalty valued at \$2.00 per share.

On November 7, 2016 CannaRoyalty entered into a binding letter of intent with Zenabis, a biopharmaceutical company with a focus on medical marijuana research and development. The letter of intent includes a share purchase, a share exchange and other commercial arrangements. Pursuant to the terms of the letter of intent, CannaRoyalty made a penalty payment of \$183,475 to Zenabis, which it satisfied via the issuance of an additional 89,500 shares to Zenabis.

On November 30, 2016, CannaRoyalty acquired a 70% equity interest in Achelois, a company in the State of California that develops and manufactures cannabis infused skin lotions with fibroblast technology for healing and pain relief. Consideration for the shares in Achelois is comprised of funding commitments, and the provision of services. As part of the funding commitments, CannaRoyalty has provided funding to Achelois on an as needed basis to allow Achelois to become commercially operational.

In December 2016, Resolve entered into a subscription agreement with an independent investor which reduced CannaRoyalty's equity interest to 33.3%. In accordance with the equity accounting method this represented a deemed disposal and the Company recorded a gain of \$238,050.

On December 6, 2016, the Company completed a three-cornered amalgamation with CRHC, resulting in the RTO of CannaRoyalty by CRHC. Pursuant to the RTO, the issued and outstanding securities of CRHC were exchanged for equivalent securities of CannaRoyalty on a one-for-one basis. Prior to the RTO, CannaRoyalty changed its name from Bonanza to CannaRoyalty and completed a 5 for 1 share consolidation.

On December 8, 2016, CannaRoyalty commenced trading on the CSE under the symbol "CRZ".

On December 20, 2016, CannaRoyalty entered into a binding term sheet with Natural Ventures regarding a royalty financing arrangement of \$336,025. Pursuant to the arrangement, Natural Ventures granted CannaRoyalty a 2.5% royalty on Natural Ventures' net income, and a further 10% referral royalty on revenue generated from products licensed by Natural Ventures from CannaRoyalty over a 10-year term. The 10-year period began when Natural Ventures commenced commercial sales during the first quarter of fiscal 2017.

### ***Financings***

On April 24, 2015, CRHC issued 1,750,000 common shares in CRHC ("**CRHC Shares**") in connection with a non-brokered financing at a price of \$0.50 per share for aggregate proceeds of \$875,000.

On September 30, 2015, CRHC issued 2,070,000 CRHC Shares in connection with a non-brokered financing at a price of \$0.50 per share for aggregate proceeds of \$1,035,000.00. Insiders purchased an aggregate of 200,000 CannaRoyalty Shares for aggregate gross proceeds of \$100,000 to CannaRoyalty.

On October 29, 2015, CRHC issued 200,000 CRHC Shares in connection with a non-brokered financing at a price of \$0.50 per share for aggregate proceeds of \$100,000.

On March 17, 2016, CRHC issued 3,333,333 CRHC Shares in connection with a non-brokered financing at a price of \$0.75 per share for aggregate proceeds of approximately \$2,500,000.

On June 7, 2016, CRHC issued 3,000,000 Units in connection with a non-brokered financing at a price of \$1.00 per unit for aggregate proceeds of \$3,000,000. The whole share purchase warrants underlying the Units of this financing expire December 7, 2017. As part of this financing, Aphria, a publicly traded, licensed medical marijuana producer in Ontario, subscribed for 1,500,000 Units.

On June 17, 2016, CRHC entered into a loan agreement with a shareholder for \$450,730 with maturity on October 31, 2016, bearing interest at 14.29% for the term of the loan. The loan is secured by an 8.2% equity interest in Alternative Medical Enterprises, 3.5% royalty interest in NuTrae, 35% equity interest in Resolve, and CO2 supercritical extractors. An amount of USD\$200,000 has been paid by November 23, 2016.

On July 15, 2016, CRHC issued 665,000 Units in connection with a non-brokered financing at a price of \$0.75 per Unit for aggregate proceeds of \$498,750.

On July 28, 2016, CRHC issued 1,072,735 Units in connection with a non-brokered financing at a price of \$0.75 per Unit for aggregate proceeds of \$804,551. The whole share purchase warrants underlying each Unit in this financing expire January 29, 2018.

On August 18, 2016, CRHC issued 220,000 CRHC Shares in satisfaction of amounts owing under an outstanding loan agreement dated February 19, 2016 at a conversion price of \$0.75 per CannaRoyalty Share for aggregate proceeds of \$165,000.

On August 24, 2016, CRHC issued 750,000 CRHC Shares and generated gross proceeds of \$1,125,000 as Aphria exercised its 750,000 common share purchase warrants for \$1.50 per warrant.

On September 28, 2016, CRHC issued 250,000 CRHC Shares in connection with a non-brokered financing at a price of \$2.00 per share for aggregate proceeds of \$500,000.

On October 4, 2016, in connection with the RTO, CRHC completed a brokered offering of 2,502,000 subscription receipts (the "**Subscription Receipts**") at a price of \$2.00 per Subscription Receipt for total gross proceeds of \$5,004,000 through a syndicate of agents co-led by Clarus Securities Inc. and Spratt Private Wealth LP (together, the "**Co-Lead Agents**"), and including Bloom Burton & Co. and KES 7 Capital Inc (collectively with the Co-Lead Agents, the "**Agents**"). The proceeds from this subscription receipt offering (less 50% of the fees and expenses payable to the Agents) were released and were automatically converted into CannaRoyalty Shares. In connection with this financing, the Agents were issued 175,140 warrants (equal to 7% of the number of Subscription Receipts sold pursuant to the offering), exercisable to acquire one CannaRoyalty Share at a price of \$2.00 for a period of 24 months from the closing date of the financing (the "**Broker Warrants**").

On October 19, 2016, CRHC issued and sold a secured convertible debenture to Aphria for \$1,500,000. The debenture matures on October 19, 2019 and is secured by the assets of CannaRoyalty, and bears interest at 5% per annum payable annually. It is convertible by Aphria, in whole or in part, into CannaRoyalty Shares at a conversion rate of \$2.00 per share at any time prior to maturity. CannaRoyalty also has the option to redeem the principal and accrued interest at any time prior to maturity.

On December 5, 2016, CannaRoyalty completed a non-brokered private placement of 120,000 CannaRoyalty Shares for gross proceeds of \$90,000 in satisfaction of a condition to the RTO.

Details regarding additional subsequent financings are detailed below under *Post-2016 Developments, Financings*.

## Post-2016 Developments

### Corporate

CannaRoyalty has continued to advance CR Advisory. CR Advisory was formed in July 2017 to capture increased value from the consulting and advisory services that the Company has been providing to its investees since its inception. CR Advisory provides a full suite of consulting and advisory services within three areas: Corporate Finance & Capital Markets, Marketing & Brand Development, and Cultivation & Extraction. CR Advisory leverages the core competencies of its management team, in-house subject matter experts, and external consultants to deliver value that enables our clients to create further value by building stronger, sustainable businesses and becoming leaders in their respective market segments.

CR Advisory has signed 4 engagements since its formation.

- CannaRoyalty investee, AltMed. AltMed engaged CR Advisory to assist with creating documents and materials required to assist in the execution of a financing. The engagement included an upfront work fee of USD\$150,000, plus a success fee on corporate transactions undertaken by AltMed during the consulting services agreement or within six months after its termination.
- CannaRoyalty investee Wagner Dimas, an industry-leading cannabis pre-roll technology company, engaged the Company to provide strategic advisory services. In addition to the engagement, CannaRoyalty acquired the exclusive Canadian license for the entire portfolio of Wagner Dimas technology. Additionally, the Company made a further investment into Wagner Dimas to increase its ownership position to 22%.
- CannaRoyalty investee Anandia, completed a financing on January 16, 2018. CR Advisory, a wholly-owned business unit of the Company, has an ongoing engagement with Anandia Labs. CR Advisory received 229,421 Anandia shares and a cash payment of \$240,000 in connection with services provided.
- CR Advisory was contracted to provide strategic consultancy services to Planet 13 related to capital market initiatives and the opening of a Planet 13 dispensary 'superstore' located immediately adjacent to the Las Vegas gaming corridor. In addition, Marc Lustig and Greg Wilson have been invited to join the Board of Directors of Planet 13.

On January 9, 2017, CannaRoyalty signed a letter of intent to acquire a 20% equity interest in Anandia, a biotechnology company with a focus on providing leading analytical testing services and developing cannabis strains for safe and effective medical applications. CannaRoyalty has agreed to provide aggregate consideration of \$4,000,000 in exchange for a 20% equity interest in Anandia, which will be satisfied through a combination of \$500,000 in equipment and services to be provided by CannaRoyalty, \$1,500,000 in cash, and the balance in CannaRoyalty shares at a deemed price per CannaRoyalty share equal to the lesser of: (a) \$3.10 being the closing price of the CannaRoyalty share on January 6, 2017, the last trading day prior to the announcement of this transaction; and (b) the volume weighted average price of the CannaRoyalty shares on the CSE for the 10 consecutive trading days immediately preceding the date of closing.

On February 9, 2017, CannaRoyalty entered into a binding term sheet regarding a royalty financing arrangement with Rich Extracts whereby CannaRoyalty will receive a 30% royalty on Rich Extracts' gross revenues in perpetuity. Please see the *Business Objectives and Operations* section above for an update on Rich Extracts, which includes information regarding (a) the arrest of a principal of Rich Extracts; (b) the Company taking steps to enforcing its security; and (c) the suspending of the Rich Extracts processing license.

On February 17, 2017 CannaRoyalty closed its acquisition of a 20% stake in Anandia Laboratories, Inc. ("Anandia"), a biotechnology company with a focus on providing leading analytical testing services and developing cannabis strains for safe and effective medical applications, in exchange for aggregate

consideration of C\$4,042,439.09. CannaRoyalty and Anandia agreed on the following closing terms: CannaRoyalty acquired an aggregate of 5,079,441 shares in Anandia (representing a 17.97% equity interest in Anandia) in exchange for C\$1,521,217.55 in cash, 682,097 Cannaroyalty Shares at a deemed price per CR Share equal to \$2.93214, being the volume weighted average price of the CR Shares on the CSE for the 10 consecutive trading days immediately preceding the date hereof, and 7,471 CR Shares at a deemed price per CR Share equal to \$2.84, being the closing price of the CR Shares on the trading day prior to the date of the announcement of the transaction. A further 716,941 shares of Anandia were to be issued to CannaRoyalty on delivery and acceptance of certain equipment and related services valued at \$500,000. On July 25, 2017, the Company received 487,520 shares of Anandia on the delivery of equipment. This distribution was based on an agreed value of \$340,000 for the equipment delivered and a share price consistent with the initial agreement. Issuance of the additional 487,520 shares of Anandia increased CannaRoyalty's ownership position to 5,666,961 shares, or a 19.69% equity interest.

On February 21, 2017, CannaRoyalty received approval for trading on the OTCQB Venture Market. The Company commenced trading under the symbol "CNNRF" as markets opened on February 21. This approval provided U.S. investors with improved access to invest in CannaRoyalty.

On March 1, 2017, the Company entered into a revenue royalty and product distribution agreement by way of a binding term sheet with River Wellness Inc. ("River"), a leading licensed medical cannabis distribution company based out of California.

On March 28, 2017, CannaRoyalty made an additional equity investment of \$80,000 in Resolve. This investment was part of a \$5,000,000 financing round at \$0.50/unit. As a result of this financing, CannaRoyalty currently owns a total of 27.2% of the non-diluted shares of Resolve or a total of 14,160,738 shares.

On May 15, 2017, CannaRoyalty completed an agreement regarding a strategic financing and related arrangements with River, a medical cannabis distributor with local permits for medical cannabis wholesale logistics, distribution and transportation in California. The agreement includes a: i) promissory note financing, ii) consulting services arrangement and iii) preferred product distribution arrangement. In May 2017, CannaRoyalty advanced USD\$2 million to River pursuant to a secured promissory note, and will advance a further USD\$3 million in two equal tranches during 2017, subject to the satisfaction of certain financial milestones. Repayment of principal and 15% annual interest commences in January 2018. The consulting services agreement ensures that the net compensation payable for consulting services to CannaRoyalty preserves the original economic arrangement, being equal to 2.25% of River's gross revenues until repayment of the \$5M invested and 1.75% thereafter until December 31, 2024. A preferred product distribution arrangement which provides a significant channel for CannaRoyalty's new CR Brands Division to access the California market and commits River to acquire USD\$20 million of CannaRoyalty branded products over the term of the agreement subject to certain conditions.

On November 7, 2017, CannaRoyalty and Æther Gardens ("**AEG**") signed an LOI for the launch of CR Brands into the Nevada market with a focus on Las Vegas. The LOI focuses on the launch of CR Brands products into the Nevada market through AEG with a focus on Las Vegas and includes the assistance of CR Advisory for the production and launch of products.

On November 28, 2017, the Company announced it had executed a binding term sheet to acquire Kaya Management Inc. ("Kaya") which is the exclusive manufacturer and license holder of rights for Bhang® brand vaporizer products in California. The Company has concurrently signed a binding term sheet to acquire Alta Supply Inc. ("Alta") (together, the "Acquisitions"), which is a distributor of Bhang® vaporizer and Bhang® chocolate products, as well as products for over a dozen other well-known third-party cannabis companies throughout California. The Acquisitions will give CannaRoyalty the right to produce and market one of the most awarded brands in the global cannabis space as well as access to an extensive network of California dispensaries. The acquisition of Bhang® vaporizer products in California further strengthens the Company's market position in the vape/cartridge sector and provides a strong complement to its launch of GreenRock Botanicals®.

On December 12, 2017, Aurora Cannabis (“**Aurora**”) and the Company signed a letter of intent for an international drug delivery agreement, giving Aurora the exclusive right for 90 days to negotiate a final licensing agreement. The letter of intent contemplates Aurora obtaining exclusive rights for Canada, Europe and Australia to the intellectual property, manufacturing procedures, and the sales and marketing rights related to a portfolio of specialty branded cannabis drug delivery technologies from the award-winning MüV brand, to which the Company holds licensing rights.

On December 27, 2017, the Company added two independent directors to its board of directors, to replace Mr. Peter Gundy and Mr. Greg Wilson. These additions bring further knowledge and experience to CannaRoyalty’s board ahead of a period of anticipated significant growth for the Company. Oskar Lewnowski brings tremendous expertise to the CannaRoyalty Board with over 20 years of experience as a leading global resource financier, company-builder, and founder and Chief Investment Officer of Orion Resource Partners. Peter Kampian brings significant cannabis experience along with over 30 years of senior financial and corporate governance expertise to CannaRoyalty. Mr. Kampian was the CFO of Mettrum Health Corp when it was acquired by Canopy Growth Corporation. He is an experienced audit chair and will replace Peter Gundy as chair of the board’s audit committee.

On January 1, 2018, California moved to full-adult use state legalization for cannabis products. The Company has placed an increased focus on its CR Brands division in California to prepare key products for this transition and the growth opportunity it represents for CannaRoyalty. The Company is focused on:

1. Driving growth of CR Brands product portfolio and points of distribution through River and other distribution channels;
2. Making prudent acquisitions of promising products or leading brands; and
3. Increasing commercial production and gradually driving efficiencies.

On January 2, 2018, Alta Supply received a Temporary Cannabis Distribution License (Type 11 – Medical). Vista Distribution Inc. (“**Vista**”), an Oakland distribution company 49% owned by Alta Supply, received the same class of distribution license the date prior (collectively, the “**Licenses**”). These Licenses enable Alta Supply and Vista to engage in commercial cannabis distribution in the state of California, through facilities in Oakland, California. Alta Supply is a distributor of Bhang® vaporizer and Bhang® chocolate products, as well as products for over a dozen other well-known third-party cannabis companies throughout California.

On January 11, 2018, the Company announced a collaboration with Aequus Pharmaceuticals Inc. (“**Aequus**”) to advance a suite of cannabis-based therapies targeting neurological disorders into clinical trials in Canada, in collaboration with Canadian doctors and key opinion leaders. CannaRoyalty will contribute its position in Bodhi Research to this collaboration.

On January 16, 2018, Anandia Laboratories Inc. (“**Anandia Labs**”) closed a private placement financing of \$13.4 million at a post-money valuation of \$63 million. The Company invested \$3.9 million in Anandia Labs in February 2017 at a post-money valuation of \$18 million. The post-money valuation of this current financing represents a growth in value of approximately \$7 million or 180% for the Company.

On January 23, 2018, the Company, together with Sprott and Stoic Advisory Inc. (“**Stoic**”) announced the launch of Trichome Yield Corp. (“**Trichome**”). Trichome aspires to be the preferred lending partner to emerging and established cannabis companies operating in Canada and globally by providing flexible asset-backed debt financing. As financial and strategic partners in Trichome, the Company, Sprott and Stoic expect to work together to leverage their complementary value-add competencies to assess opportunities for accretive investments in the cannabis industry.

On February 22, 2018, the Company announced the acquisition of the exclusive statewide manufacturing and distribution rights to Bhang® edibles and Bhang® concentrates in California (the “**Distribution Agreement**”). The Distribution Agreement also includes a right of first refusal to license other future Bhang® products within the edibles and concentrates categories in California.

On March 14, 2018, the Company announced that Trichrome had signed its first binding term sheet to jointly provide up to \$2.5 million to 180 Smoke ("180 Smoke"), to fund an expansion of its retail footprint (the "Financing") in anticipation of Canadian adult-use cannabis legalization. The Financing will support 180 Smoke's retail and cannabis product offering expansion and prepare 180 Smoke for entry into Canada's cannabis space, once legal, including the opening of 11 new stores and an expansion of 180 Smoke's cannabis hardware offering, as well as an increase in related inventory. 180 Smoke and the Company's subsidiary, CR Advisory, will work together to explore commercialization of innovative cannabis products in the Canadian marketplace to support and complement 180 Smokes' further expansion into the Canadian cannabis retail space.

### **Financings**

On January 19, 2017, CannaRoyalty entered into an agreement, with a syndicate of underwriters, led by Canaccord Genuity Corp. (the "**Underwriters**"), pursuant to which the Underwriters agreed to purchase, on a bought deal basis pursuant to a short form prospectus, an aggregate of 5,000,000 units (the "**CR Units**") at a price of \$3.00 per CR Unit for aggregate gross proceeds to CannaRoyalty of \$15,000,000. Each Unit was comprised of one CannaRoyalty Share and half of one CannaRoyalty Share purchase warrant (each whole common share purchase warrant, a "**Warrant**"). The equity financing closed on February 15, 2017.

On June 19, 2017, the Company executed a binding term sheet with Sprott to complete a \$12.0M financing and form a joint venture to finance opportunities in the Canadian cannabis market. The joint venture culminated in the formation of Trichome, as discussed above in *Recent Developments, Corporate*. On August 23, 2017, the two parties executed a \$12.0M secured credit facility with a three-year term ("**Sprott Facility**"). The facility bears interest at an annual rate of 10%, payable quarterly in cash or CannaRoyalty shares. If the interest is repaid in CannaRoyalty shares, the share price will be determined based on a 10% discount of the volume weighted average price in the five trading days immediately prior to the second last business day of the quarter. CannaRoyalty issued Sprott 1,800,000 non-transferable common share purchase warrants, which were valued at \$1,922,400. The warrants will be exercisable for \$2.05 per warrant, in whole or in part for a 36-month period following the date of issuance.

The Company drew \$3.0 million on November 23, 2017 from the Sprott Facility, to be used for general corporate purposes, related to Canadian operations and/or investments.

On January 26, 2018, the Company announced that it had received approval from the CSE to implement a warrant incentive program (the "**Program**") designed to encourage the early exercise of the Company's 1,942,500 outstanding common share purchase warrants ("**Warrants**"). The Warrants are exercisable until February 15, 2019 at a price of \$4.50 per share and have a \$6.00 acceleration trigger in place. The Program will be open for a 30-day period.

### **Specialized Skills and Knowledge**

As a leader in its field, CannaRoyalty believes that commercial success will be driven by financial acumen, creative innovation, and a steadfast commitment to excellence in all aspects of the Company's operations. CannaRoyalty's management team has special skills and industry knowledge to help its clients navigate license approvals and to shape new investment opportunities in the cannabis market. The CannaRoyalty team includes a diverse group of people who individually possess unique skills in management, consulting, branding, and political activism, as well as cultivation and extraction.

## **Regulatory Overview**

In accordance with the Canadian Securities Administrators ("**CSA**") Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities* ("**Staff Notice 51-352**"), below is a discussion of the current federal and state-level U.S. regulatory regimes in those jurisdictions where the Company is

currently indirectly involved through its subsidiaries and investments. In accordance with Staff Notice 51-352, the Company will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation.

## United States

### **Summary of CannaRoyalty's United States Cannabis Activity**

CannaRoyalty has exposure to U.S. cannabis-related activities through (i) the sale of its cannabis consumer products in the State of California, (ii) the licensed production of its cannabis consumer products in the Territory of Puerto Rico and (iii) investments in companies it does not control that operate in the States of California, Washington, Oregon, Arizona and Florida.

Historically, the Company has manufactured its cannabis consumer products in the State of California through licensed third-party contract manufacturers. The finished products have been primarily sold through licensed distributors to licensed retailers, although some direct sales to licensed retailers were completed through a California cannabis collective controlled by the Company. All such activity is recorded through U.S. operating subsidiaries in which the Company has a controlling interest and is also reflected in the Company's financial statements as intangible assets arising from acquisitions.

More recently, the Company has agreed to acquire licensed manufacturers and distributors in the State of California, and will be directly engaged in the licensed manufacture and distribution of the Company's cannabis consumer products.

The non-controlling investments held by the Company include equity-accounted investments, royalty investments and receivables, loans and advances receivable, and convertible notes receivable.

The following table is a summary of CannaRoyalty's balance sheet exposure to U.S. cannabis-related activities as of September 30, 2017:

	<b>Operating Subsidiaries</b>		<b>Non-controlling Investments</b>		<b>Total</b>
Current assets	\$	1,263,611	\$	5,413,249	\$ 6,676,860
Non-current assets		7,248,567		12,378,820	19,627,387
Total assets	\$	8,512,179	\$	17,792,069	\$ 26,304,248
Current liabilities	\$	338,592	\$	3,165,170	\$ 3,503,762
Non-current liabilities				2,588,528	2,588,528
Total liabilities	\$	338,592	\$	5,753,698	\$ 6,092,290

The liabilities above do not include any payables to the Canadian parent corporation which are eliminated on consolidation. Furthermore, goodwill is recorded at the corporate level and is not included in the above assets.

The following is a summary of operating losses from U.S. cannabis-related activities for the nine months ending September 30, 2017:

	<b>Operating Subsidiaries</b>	<b>Non-controlling Investments</b>	<b>Total</b>
Revenue	\$ 703,193	\$ 984,327	\$ 1,687,520
Cost of sales	(688,917)	(460,833)	(1,149,750)
Gross margin	14,276	523,494	537,770
Operating expenses			2,315,660
Net operating loss			\$ (1,777,890)

The operating expenses above include expenses directly incurred by U.S. subsidiaries, the Company's U.S. corporate office, and the amortization of intangible assets. These operating expenses do not include any allocation of costs incurred at our Canadian head office and for Canadian employees. They also exclude any share-based compensation, and service charges from the Company's Canadian marketing subsidiary which would be eliminated on consolidation.

### ***United States Federal Overview***

In the United States, twenty-nine states and Washington D.C. have legalized medical marijuana, and nine states and Washington D.C. have legalized recreational marijuana. At the federal level, however, cannabis currently remains a Schedule I drug under the Controlled Substances Act of 1970. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use, or distribution of cannabis, remain illegal under United States federal law.

Although federally illegal, the U.S. federal government's approach to enforcement of such laws has at least until recently trended toward non-enforcement. On August 29, 2013, the U.S. Department of Justice ("DOJ"), issued a memorandum known as the "Cole Memorandum" to all U.S. Attorneys' offices (federal prosecutors). The Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal marijuana laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly-regulated medical or recreational cannabis programs. While not legally binding, and merely prosecutorial guidance, the Cole Memorandum laid a framework for managing the tension between state and federal laws concerning state-regulated marijuana businesses.

However, on January 4, 2018 the Cole Memorandum was revoked by Attorney General Jeff Sessions, a longtime opponent of state-regulated medical and recreational cannabis. While this did not create a change in federal law, as the Cole Memorandum was not itself law, the revocation removed the DOJ's guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandum's guidelines should not be a prosecutorial priority.

This does not, however, indicate that marijuana industry prosecutions are now affirmatively a priority for the DOJ. In addition to his revocation of the Cole Memorandum, A.G. Sessions also issued a one-page memorandum known as the "Sessions Memorandum." The Sessions Memorandum confirmed the rescission of the Cole Memorandum and explained the rationale of the DOJ in doing so: the Cole Memorandum, according to the Sessions Memorandum, was "unnecessary" due to existing general enforcement guidance adopted in the 1980s, as set forth in the U.S. Attorney's Manual (the "USAM"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the federal government's limited resources, and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community."

While the Sessions Memorandum emphasizes that marijuana is a Schedule I controlled substance, and reiterates the statutory view that cannabis is a "dangerous drug and that marijuana activity is a serious crime," it does not otherwise indicate that the prosecution of marijuana-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether or not to prosecute

marijuana-related offenses. U.S. Attorneys could individually continue to exercise their discretion in a manner similar to that displayed under the Cole Memorandum's guidance. Dozens of U.S. Attorneys across the country have affirmed their commitment to proceeding in this manner, or otherwise have affirmed that their view of federal enforcement priorities has not changed, although a few have displayed greater ambivalence. Our outside U.S. counsel, Vicente Sederberg LLC, continuously monitors all U.S. Attorney comments related to regulated medical and adult-use cannabis laws to assess various risks and enforcement priorities within each jurisdiction. In California, at least one U.S. Attorney has made comments indicating a desire to enforce the Controlled Substances Act: Adam Braverman, Interim U.S. Attorney for the Southern District of California, has been viewed as a potential enforcement hawk after stating that the rescission of the Cole Memorandum "returns trust and local control to federal prosecutors" to enforce the Controlled Substances Act. Additionally, Greg Scott, the Interim U.S. Attorney for the Eastern District of California, has a history of prosecuting medical cannabis activity: his office published a statement that cannabis remains illegal under federal law, and that his office would "evaluate violations of those laws in accordance with our district's federal law enforcement priorities and resources."

While it is too soon to determine what prosecutorial effects will be created by the rescission of the Cole Memorandum, a nationwide "crackdown" is unlikely. The sheer size of the cannabis industry, in addition to participation by state and local governments and investors, suggests that a large-scale enforcement operation would more than likely create unwanted political backlash for the DOJ and the Trump Administration. It is also possible that the rescission of the Cole Memorandum could motivate Congress to finally reconcile federal and state laws.

Regardless, marijuana remains a Schedule I controlled substance at the federal level, and neither the Cole Memorandum nor its rescission has altered that fact. The federal government of the United States has always reserved the right to enforce federal law in regard to the sale and disbursement of medical or recreational marijuana, even if state law sanctioned such sale and disbursement. From a purely legal perspective, the criminal risk today remains identical to the risk on January 3, 2018. It remains unclear whether the risk of enforcement has been altered.

Additionally, under U.S. federal law it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from marijuana sales or any other Schedule I substance. Canadian banks are also hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. 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. Despite these laws, the U.S. Department of the Treasury issued a memorandum in February of 2014 (the "FinCEN Memorandum") outlining the pathways for financial institutions to bank state-sanctioned marijuana businesses. Under these guidelines, financial institutions must submit a "suspicious activity report" ("**SAR**") as required by federal money laundering laws. These marijuana related SARs are divided into three categories: marijuana limited, marijuana priority, and marijuana terminated, based on the financial institution's belief that the marijuana business follows state law, is operating out of compliance with state law, or where the banking relationship has been terminated.

On the same day the FinCEN Memorandum was published, the DOJ issued a memorandum (the "2014 Cole Memo") directing prosecutors to apply the enforcement priorities of the Cole Memorandum in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of marijuana-related conduct. The 2014 Cole Memo has been rescinded as of January 4, 2018, along with the Cole Memorandum, removing guidance that enforcement of applicable financial crimes was not a DOJ priority.

However, Attorney General Sessions' revocation of the Cole Memorandum and the 2014 Cole Memo has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the 2014 Cole Memo and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum can act as a standalone document which explicitly lists the eight enforcement priorities originally cited in the

Cole Memorandum. As such, the FinCEN Memorandum remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance.

In the U.S., a bill has been tabled in Congress to grant banks and other financial institutions immunity from federal criminal prosecution for servicing marijuana-related businesses if the underlying marijuana business follows state law. This bill has not been passed and there can be no assurance with that it will be passed in its current form or at all. In both Canada and the United States, transactions involving banks and other financial institutions are both difficult and unpredictable under the current legal and regulatory landscape. Legislative changes to help reduce these challenges would eliminate these challenges for companies in the cannabis space and would improve the efficiency of both significant and minor financial transactions.

Although the Cole Memorandum and 2014 Cole Memo have been rescinded, one legislative safeguard for the medical marijuana industry remains in place: Congress has used a rider provision in the FY 2015, 2016 and 2017 Consolidated Appropriations Acts (currently the "**Rohrabacher-Farr Amendment**") to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. Since October 1, 2017, the start of FY 2018, the U.S. federal government has been temporarily appropriated under a series of continuing budget resolutions. Because the 2017 Consolidated Appropriations Act has been extended until March 23, 2018 under a continuing budget resolution, the Rohrabacher-Farr Amendment is still in effect as of today's date. Should Congress pass a budget resolution for FY 2018, some version of the Rohrabacher-Farr Amendment may or may not be included in its final form.

Despite the legal, regulatory, and political obstacles the marijuana industry currently faces, the industry has continued to grow. It is anticipated that the federal government will eventually repeal the federal prohibition on cannabis and thereby leave the states to decide for themselves whether to permit regulated cannabis cultivation, production and sale, just as states are free today to decide policies governing the distribution of alcohol or tobacco. Given current political trends, however, these expected developments are unlikely in the near-term future.

### ***State-Level Overview***

The following sections present an overview of market and regulatory conditions for the marijuana industry in U.S. states in which CannaRoyalty has a substantial operating presence and is presented as of January 2018, unless otherwise indicated.

#### Arizona Summary

Arizona has a medical marijuana law and voted on, but failed to pass an adult-use marijuana ballot initiative in November of 2016. In 2010, Arizona voters approved the "Arizona Medical Marijuana Act" (Proposition 203) ("**AMMA**"). The law permits physicians to recommend cannabis for an inclusive set of qualifying conditions including severe and chronic pain and created a regulatory system for a limited number of non-profit medical marijuana dispensaries.

The Arizona Department of Health Services regulates medical marijuana businesses in the state. The Department issues one type of primary license, a nonprofit medical marijuana dispensary license, and additional permits for cultivation sites and registrations to produce edible products. Residency is not required to operate a medical marijuana business in Arizona. Arizona limits the total number of non-profit medical marijuana dispensary registration certificates by Community Health Analysis Area ("**CHAA**"). Although vertical integration is not required for medical marijuana businesses in Arizona (a dispensary could only sell and not produce cannabis), a dispensary license is required if a business wants to cultivate or produce edible products. The application for a dispensary registration certificate is competitive and applications are accepted on a limited basis.

Although Arizona Proposition 205 to legalize and regulate marijuana like alcohol failed to pass by 48.7%, the medical marijuana program in the state has remained strong and is currently one of the largest in the

country with over 114 thousand patients. As of November 2017, there were approximately 130 dispensaries licensed by state, following the most recent licensing process conducted in July 2016 in which the Department of Health accepted applications for an additional 31 dispensary licenses. It is unknown at this time when or whether the Department will again accept new applications. As of November 2017, there were approximately 150,000 registered patients in the state.

### California Summary

In 1996, California voters passed a medical marijuana law allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain. The law established a not-for-profit patient/caregiver system but there was no state licensing authority to oversee the businesses that emerged as a result of the system. In September of 2015, the California legislature passed three bills, collectively known as the “Medical Marijuana Regulation and Safety Act” (“**MCRSA**”). In 2016, California voters passed “The Adult Use of Marijuana Act” (“**AUMA**”), which legalized adult-use cannabis for adults 21 years of age and older and created a licensing system for commercial cannabis businesses. On June 27, 2017, Governor Brown signed SB-94 into law. SB-94 combines California’s medicinal and adult-use cannabis regulatory frameworks into one licensing structure under the Medicinal and Adult-Use of Cannabis Regulation and Safety Act (“**MAUCRSA**”).

Pursuant to MAUCRSA: (1) the California Department of Food and Agriculture, via CalCannabis, issues licenses to cannabis cultivators; (2) the California Department of Public Health, via the Manufactured Cannabis Safety Branch (the “**MCSB**”), issues licenses to cannabis manufacturers and (3) the California Department of Consumer Affairs, via the Bureau of Cannabis Control (the “**BCC**”), issues licenses to cannabis distributors, testing laboratories, retailers, and microbusinesses. These agencies also oversee the various aspects of implementing and maintaining California’s cannabis landscape, including the statewide track and trace system. All three agencies released their emergency rulemakings at the end of 2017 and have begun issuing licenses.

To operate legally under state law, cannabis operators must obtain a state license and local approval. Local authorization is a prerequisite to obtaining state licensure, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. The state license approval process is not competitive and there is no limit on the number of state licenses an entity may hold. Although vertical integration across multiple license types is allowed under MAUCRSA, testing laboratory licensees may not hold any other licenses aside from a laboratory license. There are also no residency requirements for ownership under MAUCRSA.

The Company is “directly” involved in the cultivation and distribution of cannabis in California as a result of the acquisition of Kaya Management Inc. and Alta Supply Inc. (“**the California Operators**”). The California Operators have represented to the Company that all of their business was conducted in compliance with the regulatory framework enacted by the State of California. To the best of the Company’s knowledge, the California Operators are in compliance or in the process of being assessed for compliance with all applicable California laws, regulations, and guidelines.

California has implemented a robust regulatory system designed to ensure, monitor, and enforce compliance with all aspects of a cannabis operator’s licensed operations. Compliance with local law is a prerequisite to obtaining and maintaining state licensure, and all three state regulatory agencies require confirmation from the locality that the operator is operating in compliance with local requirements and was granted authorization to continue or commence commercial cannabis operations within the locality’s jurisdiction. Applicants are required to comply with all local zoning and land use requirements and provide written authorization from the property owner where the commercial cannabis operations are proposed to take place, which must dictate that the applicant has the property owner’s authorization to engage in the specific state-sanctioned commercial cannabis activities proposed to occur on the premises. California’s state license application process additionally requires comprehensive criminal history, regulatory history, financial and personal disclosures, coupled with stringent monitoring and continuous reporting requirements designed to ensure only good actors are granted licenses and that licensees continue to operate in compliance with the State regulatory program. Applicants must submit standard operating procedures describing how the operator will, among other requirements, secure the facility, manage

inventory, comply with the State's seed-to-sale tracking requirements, dispense cannabis, and handle waste, as applicable to the license sought. Once the standard operating procedures are determined compliant and approved by the applicable state regulatory agency, the licensee is required to abide by the the processes described and seek regulatory agency approval before any changes to such procedures may be made. Licensees are additionally required to train their employees on compliant operations and are only permitted to transact with other legal and licensed businesses. The California Operators will not be able to obtain or maintain state licensure, and thus engage in commercial cannabis activities in the state of California without satisfying and maintaining compliance with state and local law. As a condition of state licensure, operators must consent to random and unannounced inspections of the commercial cannabis facility as well as all of the facility's books and records to monitor and enforce compliance with state law. Many localities have also enacted similar standards for inspections, and the state has already commenced site-visits and compliance inspections for operators who have received state temporary or annual licensure.

The California Operators utilize Simplifya, an enterprise compliance platform, which integrates the California Operators' inventory management program and standard operating procedures with the software's compliance checklists and auditing features to facilitate continued compliance with state and local requirements. Simplifya is a comprehensive compliance software solution that was developed specifically for the cannabis industry in collaboration with the nation's premier marijuana law firm, Vicente Sederberg LLC, who has been instrumental in the drafting and implementation of state and local cannabis regulatory programs across the country and in multiple California municipalities. The software features a robust auditing system that allows for both internal as well as third-party compliance auditing, covering all state and municipal, facility and operational requirements. Regulations are monitored in real-time and software updates are timely released to account for any changes. Simplifya offers standard operating procedure building tools to facilitate the implementation and maintenance of compliant operations and tracks all required licensing maintenance criteria, which include countdown features and automatically generated reminders for initiating renewals and required reporting.

The Company's purchase of the California Operators was contingent on both companies' continued ability to operate in compliance with state and local law. The Company has the right to visit and inspect the California Operators' facilities and operations to monitor and ensure continued compliance. The Company has developed a robust Compliance Program designed to ensure operational and regulatory requirements continue to be satisfied, and has retained Vicente Sederberg LLC, as local outside counsel to monitor the Company's compliance with U.S. state law on an ongoing basis. The Company will continue to work closely with Vicente Sederberg LLC to develop and improve its internal Compliance Program, and will defer to their legal opinions and risk mitigation guidance regarding California's complex regulatory framework. The internal Compliance Program, including the use of Simplifya, requires continued monitoring by managers and executives of the California Operators' to ensure all operations conform with legally compliant standard operating procedures. The Company further requires its California Operators to report and disclose all instances of non-compliance, regulatory, administrative, or legal proceedings that may be initiated against them.

### Puerto Rico Summary

In May of 2015 the Governor Alejandro Garcia Padilla of Puerto Rico signed an executive order legalizing medical cannabis. The Puerto Rico Health Department ("PRHD") was tasked with developing regulations for the production, manufacturing, and sales of medical cannabis and medical cannabis products. In January of 2016, the PRHD published their initial set of regulations governing the medical program. Puerto Rico permits the use of medical cannabis pills, creams, patches, tinctures, and whole plant cannabis for vaporization only. Smoking medical cannabis is prohibited in Puerto Rico. The program has a wide range of qualifying conditions including chronic pain, severe nausea, and migraines as well as cancer, HIV, AIDs, Crohn's disease and other conditions often included in state medical marijuana programs. Further regulations were promulgated by the Regulations of Puerto Rico Department of Health No. 8766 in July of 2017.

Puerto Rico has strict residency requirements for medical cannabis business ownership that stipulate the business entity must be held at least 51% by Puerto Rican residents. The medical marijuana program

does not require cultivation and dispensing operations to be vertically integrated, but also does not prohibit a single entity from holding a cultivation, manufacturing, and dispensing license.

The Puerto Rican medical marijuana program experienced reasonably successful implementation, with 29 dispensaries licensed and over 16,000 patients registered throughout the territory. However, extensive setbacks occurred due to Hurricane Maria in late 2017. As of January 2018, 20 of the 29 dispensaries had re-opened, under a set of temporary rules designed to promote access to medical marijuana during the hurricane's aftermath.

#### Florida Summary

Florida previously had only a limited low-THC cannabis program, which was signed into law on June 16, 2014. On November 8, 2016, Florida passed, by voter initiative with over 71% of the electorate voting in favour, a medical marijuana law that will expand both the range of conditions and types of medical marijuana and medical marijuana products available to patients. Florida's existing low-THC cannabis law included only cancer, medical conditions that result in chronic seizures or severe muscle spasms, or a terminal condition that causes significant functional impairment with a diagnosis of less than one year of life. In addition, the low-THC cannabis law only permitted product be sold in non-smokable forms, which remains true under the new state law. Under the existing law "Low-THC cannabis" means a cannabis plant with dried flowers containing 0.8% or less of tetrahydrocannabinol ("THC") and more than 10% of CBD. Florida ended its competitive application process on July 8, 2015 and licensed six low-THC cannabis dispensing organizations throughout the state. Under the low-THC cannabis program, the limited number of qualifying conditions, available types of medical cannabis, and number of dispensing locations resulted in a relatively small number of registered patients. That said, since the passage of the new state law and expanded qualifying conditions, the most recent update from the Florida Department of Health's Office of Medical Marijuana Use states that there are 67,385 patients registered, 45, 204 of which have approved ID card applications.

Florida's newer and more expansive medical marijuana program increases the number of qualifying conditions to include: epilepsy, glaucoma, positive status for human immunodeficiency virus (HIV), acquired immune deficiency syndrome (AIDS), posttraumatic stress disorder (PTSD), amyotrophic lateral sclerosis (ALS), Crohn's disease, Parkinson's disease, multiple sclerosis, and other debilitating medical conditions "of the same kind or class as or comparable to those enumerated, and for which a physician believes that the medical use of marijuana would likely outweigh the potential health risks for a patient." In addition, medical cannabis will no longer be restricted to just those forms with less than 0.8% THC. At this time, it is unclear whether or not symptoms such as chronic pain and severe nausea will be included as qualifying conditions, although chronic non-malignant pain due to another qualifying condition does itself qualify.

Regulations for the new program were required to be finalized within six months of June 2017, and the program has partially been implemented, with at least 13 approved medical marijuana treatment centers and 25 approved retail dispensing locations in Florida so far under the new program. Up to four more licenses for treatment centers will likely be approved at current patient levels, with another four required to be licensed once patient registration exceeds 100,000. However, the program has experienced substantial difficulties in implementation, largely stemming from a lawsuit concerning a provision requiring that at least one license be granted to a black farmer meeting certain criteria, and related legislative responses to a resulting court injunction. A separate hearing is scheduled for January 25, 2018 concerning a ban on smokable forms of marijuana implemented by the Florida legislature.

#### Oregon Summary

Oregon has both medical and adult-use marijuana programs. In 1998, Oregon voters passed a limited non-commercial patient/caregiver medical marijuana law with an inclusive set of qualifying conditions that include chronic pain. In 2013, the legislature passed, and governor signed, House Bill 3460 to create a regulatory structure for existing unlicensed medical marijuana businesses. However, the original regulations created by the Oregon Health Authority ("**OHA**") after the passage of House Bill 3460 were

minimal and only regulated storefront dispensaries, leaving cultivators and infused-product manufacturers within the unregulated patient/caregiver system.

On June 30, 2015, Gov. Kate Brown signed House Bill 3400 into law, which improved on the existing regulatory structure for medical marijuana businesses and created a licensing process for cultivators and processors. In November of 2014, Oregon voters passed Measure 91, "Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act", creating a regulatory system for individuals 21 years of age and older to purchase marijuana for personal use from licensed marijuana businesses.

The Oregon Health Authority licenses and regulates medical marijuana businesses and the Oregon Liquor Control Commission ("**OLCC**") licenses and regulates adult-use marijuana businesses. There are six distinct types of license types available for medical and adult-use businesses: cultivation, manufacturing ("processing"), wholesaling, dispensing, testing and research. Vertical integration between cultivation, processing, and sales is permissible, but not required, for both medical and adult-use.

The law does not impose a limit on the number of licenses and applications are currently being accepted for both medical and adult-use businesses on a rolling basis. Local governments may restrict the number of both medical or adult-use marijuana businesses. Laws passed during the 2016 legislative session removed the two-year residency requirement that existed within House Bill 3400.

### Washington Summary

Washington State has both medical and adult-use marijuana programs. The original medical law, passed by voters in 1998, allows physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and created a patient/caregiver system without explicitly permitting businesses. But, unlike Colorado, the legislature was unable to pass laws regulating the medical marijuana businesses that developed around 2008.

When Initiative 502 legalized marijuana for adults 21 years of age and older in 2012, it regulated adult-use marijuana businesses and left the unregulated medical marijuana establishments in a precarious situation. The Governor of Washington then signed, Senate Bill 5052 in 2015, which forced the closure of existing unregulated medical dispensaries and allows existing adult-use retail marijuana stores to apply for a "medical marijuana endorsement" to sell medical marijuana tax free to registered qualifying patients and their designated caregivers.

The Washington State Liquor and Cannabis Board ("**WSLCB**") regulates adult-use marijuana businesses and those with a medical endorsement. The WSLCB licenses cultivation facilities, product manufacturing facilities ("processors"), retail stores, transportation licensees, and testing facilities. All individuals and entities considered a "true party of interest" in a marijuana business license must have at least six months of Washington residency.

Unlike many other states, Washington prohibits vertical integration between adult-use marijuana retailers and cultivators. Common ownership between cultivation and processors is permitted. A single entity, and/or principals within an entity, are limited to no more than three marijuana producer licenses, and/or three marijuana processor licenses, or five retail marijuana licenses.

The WSLCB re-opens its application process for growers, processors or retail stores at its discretion, taking into consideration factors such as patient consumption data and population dynamics. The state is currently not accepting new applications for growers, processors or retail stores.

### Nevada Summary

Nevada has a medical marijuana program and passed an adult-use legalization through the ballot box in November 2016. In 2000, Nevada voters passed a medical marijuana initiative allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and created a limited non-commercial medical marijuana patient/caregiver system. Senate Bill 374, which passed the legislature and was signed by the Governor in 2013, expanded this program and established a for-profit regulated medical marijuana industry.

The Nevada Division of Public and Behavioral Health licensed medical marijuana establishments up until July 1, 2017 when the state's medical marijuana program merged with adult-use marijuana enforcement under the Nevada Department of Taxation. In 2014, Nevada accepted medical marijuana business applications and a few months later the Division approved 182 cultivation licenses, 118 licenses for the production of edibles and infused products, 17 independent testing laboratories, and 55 medical marijuana dispensary licenses. The number of dispensary licenses was then increased to 66 by legislative action in 2015. The application process is merit-based, competitive, and is currently closed. Residency is not required to own or invest in a Nevada medical cannabis business. In addition, vertical integration is neither required nor prohibited. Nevada's medical law includes patient reciprocity, which permits medical patients from other states to purchase marijuana from Nevada dispensaries. Nevada also allows for dispensaries to deliver medical marijuana to patients.

Under Nevada's adult-use marijuana law, the Department of Taxation licenses marijuana cultivation facilities, product manufacturing facilities, distributors, retail stores and testing facilities. After merging medical and adult-use marijuana regulation and enforcement, the single regulatory agency is now known as the "Marijuana Enforcement Division of the Department of Taxation." For the first 18 months, applications to the Department for adult-use establishment licenses can only be accepted from existing medical marijuana establishments and existing liquor distributors for the adult-use distribution license. The issuance of retail marijuana distribution licenses has been subject to an ongoing legal battle after the Department of Taxation opened distribution licenses to existing medical marijuana establishments based on the premises that there were an insufficient number of applications from existing liquor distributors to service the new adult-use cannabis market. There are currently 24 licensed distributors that are medical marijuana establishments and six licensed distributors that are liquor distributors.

In February 2017, the Nevada Department of Taxation announced plans to issue "early start" recreational marijuana establishment licenses in the summer of 2017. These licenses will expire at the end of the year and, beginning on July 1, 2017, allowed marijuana establishments holding both a retail marijuana store and dispensary license to sell their existing medical marijuana inventory as either medical or adult-use marijuana. All cannabis cultivated and infused products produced under the adult-use program that were not existing inventory at a medical marijuana dispensary must be transported to retail marijuana stores utilizing a licensed retail marijuana distributor. Starting July 1, 2017, medical and adult-use marijuana will incur a 15% excise tax on the first wholesale sale (calculated on the fair market value) and adult-use cannabis will incur an additional 10% special retail marijuana sales tax in addition to any general state and local sales and use taxes.

## **Canada**

On August 24, 2016, the Access to Cannabis for Medical Purposes Regulations ("**ACMPR**") was introduced to allow for reasonable access to cannabis for medical purposes for Canadians who have been authorized to use cannabis by their health care practitioner. The ACMPR will replace the Marijuana for Medical Purposes Regulations ("**MMPR**"), introduced in June 2013, reflecting the federal government's evolving view on medical marijuana policy. MMPR and the Marijuana Medical Access Regulations ("**MMAR**") are both legislative schemes that were important early steps in the Canadian government's legislative path towards legalizing and regulating medical marijuana.

Despite MMAR being repealed on March 31, 2014, and MMPR ceasing to be in effect on August 24, 2016; the marijuana medical research and patient treatment industries have grown rapidly. The introduction of ACMPR further regulates the production and distribution of medical cannabis, demonstrating Health Canada's commitment to improving the regulatory landscape surrounding medical marijuana use, in addition to ensuring that production occurs under secure and regulated commercial production facilities. Under the ACMPR, Canadians who have been authorized by their health care practitioner will continue to have the option of purchasing safe, quality-controlled cannabis from one of the 34 producers licensed by Health Canada. Canadians will also be able to produce a limited amount of cannabis for their own medical purposes, or designate someone to produce it for them.

On April 13, 2017, Government of Canada introduced legislation to legalize, strictly regulate and restrict access to cannabis. The proposed Cannabis Act would create a strict legal framework for controlling the

production, distribution, sale and possession of cannabis in Canada. Following Royal Assent, the proposed legislation would allow adults to legally possess and use cannabis. This would mean that possession of small amounts of cannabis would no longer be a criminal offence and would prevent profits from going into the pockets of criminal organizations and street gangs. The Bill would also, for the first time, make it a specific criminal offence to sell cannabis to a minor and create significant penalties for those who engage young Canadians in cannabis-related offences. In addition to legalizing and strictly regulating cannabis, the Government is toughening laws around alcohol- and drug-impaired driving. Under the Government's proposed legislation, new offences would be added to the *Criminal Code* to enforce a zero tolerance approach for those driving under the influence of cannabis and other drugs. Additionally, the proposed legislation would authorize new tools for police to better detect drivers who have drugs in their body. Subject to Parliamentary approval and Royal Assent, the Government of Canada intends to provide regulated and restricted access to cannabis in 2018.

Health Canada estimates that close to 70,000 patients in Canada used doctor prescribed medical marijuana in 2015, establishing a market worth in excess of \$100 million. By 2024, Health Canada estimates that the number of patients using medical marijuana will grow to 450,000, creating a market worth an estimated \$1.3 billion.

### ***Competitive Conditions and Environment***

The Company expects that the implementation of Bill C-45 (Cannabis Act), which aims to legalize, control, and regulate the recreational use of cannabis, will completely transform the competitive landscape of the Canadian cannabis industry. Currently, there are 90 Licensed Producers in Canada that are authorized to produce and sell dried or fresh cannabis, cannabis oil, or starting materials to eligible individuals. Many Canadian Licensed Producers, that operate exclusively in federally regulated markets, are listed on the TSX, and include, but are not limited to, market leaders such as Canopy Growth Corp., Aurora Cannabis Inc., and Aphria Inc. In anticipation of legalization on July 1, 2018, an influx of emerging companies is creating high demand for the necessary production and retail ACMPR licenses.

Further, as more U.S. jurisdictions pass state legislation allowing recreational use of cannabis, the Company expects an increased level of competition in the U.S. market. As of January 1, 2018, the legalization of recreational cannabis in California, in which the Company has a majority of its holdings, has spurred an increase of new entrants. A number of companies listed on the CSE have already begun expanding operations to states that have decriminalized cannabis consumption. These include, but are not limited to, iAnthus Holdings, Lifestyle Delivery Systems Inc., and Nutritional High Inc. The increasingly competitive Canadian and U.S. markets may adversely affect the financial conditions and operations of the Company.

Although the flood of new entrants is increasing competition, the Company believes the adopted cultivation-oriented strategy does not capture the entire market space. Due to unclear regulatory frameworks regarding alternative cannabis product categories, many companies have placed an overwhelming emphasis on the cultivation of raw flower. Consequently, a unique opportunity has emerged as consumers demand alternative methods of cannabis consumption. As the nascent cannabis industry has developed over the last decade, consumers have become more knowledgeable on the products they are purchasing, and as a result, demand greater variety and accessibility.

The Company has capitalized on this gap by concentrating its efforts on different value-add segments of the supply chain, including IP/research, extraction, isolation, manufacturing and distribution. Through a number of strategic investments and high-value acquisitions, the Company has built a diverse portfolio of premium, award-winning cannabis products, supported by state-of-the-art infrastructure, that meet consumer's expectations. This portfolio covers a variety of in-demand product categories, including vaporizers, pre-rolls, edibles, topicals, animal health and wellness.

With active operations in the United States, specifically in Arizona, California, Colorado, Florida, and Washington, the Company's premium product portfolio has been rigorously tested in the fastest growing and most mature cannabis markets. The Company will leverage its functional expertise and knowledge in

key areas, including genetics, cultivation, extraction and post-processing, to remain an active, competitive player in the global cannabis market. The Company believes that its innovative strategy, diverse product portfolio, and strategic supporting infrastructure, will help solidify a leadership position in the cannabis industry.

## **Employees**

The Company had 9 full-time employees at December 31, 2016 as well as an additional 21 full and part-time contract resources located primarily in Ontario, Canada and the State of California, supplemented by a vast array of specialized consulting firms in various domains of expertise. As of December 31, 2017, the Company had 20 full time employees.

## **Foreign Operations**

CannaRoyalty's investments are predominantly located in the U.S. rendering the Company heavily reliant on its U.S. operations. See "Risk Factors" and "Trends – United States".

## **Lending**

CannaRoyalty invests flexibly, assembling its platform of holdings by way of royalty agreements, equity interests, personal guarantees and secured convertible debt where possible, in various businesses in Canada and the United States. The Company offers licensed cannabis companies the upfront capital required to begin operations, as well as secured loans to help them purchase additional equipment, lease retail space, or to expand their business, in exchange for a royalty on their revenues. From time to time, the Company may enter into transactions to acquire assets which may be financed wholly or partially with convertible debt. The Company may provide an investment in the form of a secured convertible debt where a royalty interest is not available and where taking a direct equity stake may not initially be advisable given existing cannabis regulations and/or tax consequences.

## **Bankruptcy and Similar Proceedings**

There have been no bankruptcy, receivership or similar proceedings against CannaRoyalty or any of its subsidiaries, or any voluntary bankruptcy, receivership or similar proceedings by CannaRoyalty or any of its subsidiaries, within the three most recently completed financial years or during or proposed for the current financial year.

## **Reorganizations**

On June 30, 2016, CannaRoyalty (formerly Bonanza) entered into a Definitive Agreement, which provided for the reverse takeover of Bonanza by CRHC by way of a "three-cornered" amalgamation under the provisions of the CBCA, pursuant to which CRHC and AcquisitionCo, a wholly owned subsidiary of Bonanza, amalgamated to form an entity that would continue operating the business of CRHC as a wholly-owned subsidiary of Bonanza.

In connection with the RTO, Bonanza completed:

- (a) the assignment of the outstanding related party debt of Bonanza in the aggregate amount of \$61,930 by the creditors thereunder for normal consideration to parties designated by CRHC;
- (b) the sale for normal consideration by certain significant shareholders of Bonanza of such number of Bonanza Shares for purchase by parties designated by CRHC (the "**Introduced Parties**") that results in the Introduced Parties holding up to a maximum of 1,000,000 Bonanza Shares; and
- (c) a private placement of 120,000 common shares of Bonanza for gross proceeds of \$90,000.

On December 2, 2016, CannaRoyalty received conditional approval for listing on the CSE. On December 5, 2016, the Company filed articles of amendment to change its name to "CannaRoyalty Corp." and consolidate its issued and outstanding shares on the basis of five to one. Also on December 6, 2016, the RTO closed under the provisions of the CBCA, pursuant to which CRHC and AcquisitionCo amalgamated. The existing shareholders of CRHC became shareholders of CannaRoyalty, and the amalgamated entity continued as a subsidiary of CannaRoyalty.

In connection with the RTO, on October 4, 2016 CRHC completed a private placement of 2,502,000 Subscription Receipts, each entitling the holder to one common share of CannaRoyalty following and assuming the completion of the RTO, at \$2.00 per Subscription Receipt for aggregate gross proceeds of \$5.004 million, which were held in escrow pending completion of the Escrow Release Conditions. On December 5, 2016, all of the Escrow Release Conditions were satisfied, the Subscription Receipts were exchanged for common shares of CannaRoyalty on a 1 to 1 basis and the Escrowed Funds were released to CannaRoyalty. In connection with this financing, the Agents also received the Broker Warrants as compensation.

## RISK FACTORS

The following are certain risk factors relating to the business carried on by the Company that prospective holders of CannaRoyalty Shares should carefully consider.

### *Regulatory Risks*

The Company's investments operate in a new industry which is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements.

The Company's investments incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company's investments and, therefore, on the Company's prospective returns. Further, the Company may be subject to a variety of claims and lawsuits. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business. The litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. A material adverse impact on our financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of the Company's investments and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Company's investments' earnings and could make future capital investments or the Company's investments' operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

**This AIF involves an entity that is expected to continue to derive a portion of its revenues from the cannabis industry in certain states of the United States, which industry is illegal under United States federal law.** CannaRoyalty is involved in the cannabis industry in the United States where local and state laws permit such activities or provide limited defenses to criminal prosecutions. Currently, the Company is indirectly and directly engaged in the manufacture and possession of cannabis in the medical and recreational cannabis marketplace in the United States. **The enforcement of relevant laws is a significant risk.**

Over half of the states in the United States have enacted legislation to regulate the sale and use of medical cannabis without limits on THC, while other states have regulated the sale and use of medical cannabis with strict limits on the levels of THC. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a Schedule 1 controlled substance under the United States Controlled Substances Act of 1970. As such, cannabis-related practices or activities, including without limitation, the cultivation, manufacture, importation, possession, use or distribution of cannabis, are illegal under United States federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under United States federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company's operations and financial performance.

Because of the conflicting views between state legislatures and the federal government of the United States regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation, regulation, and enforcement. Unless and until the United States Congress amends the United States Controlled Substances Act with respect to cannabis or the Drug Enforcement Agency reschedules or de-schedules cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, which would adversely affect the current and future investments of the Company in the United States. As a result of the tension between state and federal law, there are a number of risks associated with the Company's existing and future investments in the United States.

For the reasons set forth above, the Company's existing interests in the United States cannabis market may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. It has been reported by certain publications in Canada that the Canadian Depository for Securities Limited may implement policies that would see its subsidiary, CDS Clearing and Depository Services Inc. ("**CDS**"), refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada's central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. The TMX Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, despite media reports to the contrary and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time.

On February 8, 2018, following discussions with the Canadian Securities Administrators ("**CSA**") and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("**MOU**") with Aequis NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the United States. The MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to effect a trade of the Common Shares through the facilities of a stock exchange. The Company has obtained eligibility with the Depository Trust Company ("**DTC**") for its Common Share quotation on the OTCQB and such DTC eligibility provides another possible avenue to clear Common Shares in the event of a CDS ban.

The activities of CannaRoyalty's investments are, and will continue to be, subject to evolving regulation by governmental authorities. The Company's investments are directly or indirectly engaged in the medical and recreational cannabis industry in Canada and the United States where local state law permits such activities. The legality of the production, extraction, distribution and use of cannabis differs among North American jurisdictions.

CannaRoyalty's investments have been focused in states that have legalized the recreational use of cannabis. Currently, the states of Alaska, California, Colorado, Maine, Massachusetts, Nevada, Oregon, Vermont, Washington and the District of Columbia have legalized recreational use of cannabis. Over half of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis without limits on THC, while other states have legalized and regulated the sale and use of medical cannabis with strict limits on the levels of THC. However, the U.S. federal government has not enacted similar legislation. As such, the cultivation, manufacture, distribution, sale and use of cannabis remains illegal under U.S. federal law.

Further, on January 4, 2018, U.S. Attorney General Jeff Sessions formally rescinded the standing U.S. Department of Justice federal policy guidance governing enforcement of marijuana laws, as set forth in a series of memos and guidance from 2009-2014, principally the Cole Memorandum. The Cole Memorandum generally directed U.S. Attorneys not to enforce the federal marijuana laws against actors who are compliant with state laws, provided enumerated enforcement priorities were not implicated. The rescission of this memo and other Obama-era prosecutorial guidance did not create a change in federal law as the Cole Memorandums were never legally binding; however, the revocation removed the DOJ's guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandum's guidelines should not be a prosecutorial priority. The federal government of the United States has always reserved the right to enforce federal law regarding the sale and disbursement of medical or recreational marijuana, even if state law sanctioned such sale and disbursement. Although the rescission of the above memorandums does not necessarily indicate that marijuana industry prosecutions are now affirmatively a priority for the DOJ, there can be no assurance that the federal government will not enforce such laws in the future.

Additionally, there can be no assurance 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. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that could make it extremely difficult or impossible to transact business in the cannabis industry. If the federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, the Company's investments in such businesses would be materially and adversely affected notwithstanding the fact that the Company is not directly engaged in the sale or distribution of cannabis. Federal actions against any individual or entity engaged in the marijuana industry or a substantial repeal of marijuana related legislation could adversely affect the Company, its business and its investments.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum discussed above, on February 8, 2018 the CSA published a staff notice (Staff Notice 51-352) setting out the CSA's disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry. The Company views this staff notice favourably, as it provides increased transparency and greater certainty regarding the views of its exchange and its regulator of existing operations and strategic business plan as well as the Company's ability to pursue further investment and opportunities in the United States.

CannaRoyalty's funding of the activities of investments involved in the medical and recreational cannabis industry through loans, royalties or other forms of investment, may be illegal under the applicable federal laws of the United States and other applicable law. There can be no assurances the federal government of the United States or other jurisdictions will not seek to enforce the applicable laws against the Company. The consequences of such enforcement would be materially adverse to the Company and the Company's business and could result in the forfeiture or seizure of all or substantially all of the Company's assets.

The concepts of "medical cannabis" and "retail cannabis" do not exist under United States federal law because the U.S. Controlled Substances Act classifies "marijuana" as a Schedule I drug. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis remain illegal under United States federal law. Although the Company's activities are compliant with applicable United States state and local law, strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under United States federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company's operations and financial performance.

Violations of any United States federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the United States 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 Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

There is still uncertainty surrounding the Trump Administration and Attorney General Jeff Sessions and their influence and policies in opposition to the cannabis industry as a whole.

Many factors could cause the Company's actual results, performances and achievements to differ materially from those expressed or implied by the forward-looking statements and forward-looking information, including without limitation, the following factors, which are discussed in greater detail in this AIF, which should be reviewed in detail by all readers:

- The Company has several investments into businesses that operate in the U.S., where cannabis is federally illegal;
- The activities of the Company are subject to evolving regulation that is subject to changes by governmental authorities in Canada and the U.S.;
- Third parties with which the Company does business, including banks and other financial intermediaries, may perceive that they are exposed to legal and reputational risk because of the Company's cannabis business activities;
- The Company's ability to repatriate returns generated from investments in the U.S. may be limited by anti-money laundering laws;
- Under Section 280E of the Internal Revenue Code, normal business expenses incurred in the business of selling marijuana and its derivatives are not deductible in calculating income tax liability. Therefore, the Company will be precluded from claiming certain deductions otherwise available to non-marijuana businesses. As a result, an otherwise profitable, business may in fact operate at a loss after taking into account its income tax. expenses. There is no certainty that the Company will not be subject to 280E in the future, and accordingly, there is no certainty that the impact that 280E has on the Company's margins will ever be reduced;

- Federal prohibitions result in marijuana businesses being potentially restricted from accessing the U.S. federal banking system, and the Company and its subsidiaries may have difficulty depositing funds in federally insured and licensed banking institutions. This may lead to further related issues, such as the potential that a bank will freeze the Company's accounts and risks associated with uninsured deposit accounts. There is no certainty that Company will be able to maintain its existing accounts or obtain new accounts in the future; and
- CDS may be considering a policy change with respect to issuers with U.S. cannabis assets. A policy change, if implemented, could affect the Company's current operations and/or disqualify its ability to settle its securities with CDS.

*The Company's investments in the United States are subject to applicable anti-money laundering laws and regulations.*

The Company is subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the U.S. Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada. Further, 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, aiding and abetting, or conspiracy.

Despite these laws, FinCEN issued a memorandum on February 14, 2014 outlining the pathways for financial institutions to bank marijuana businesses in compliance with federal enforcement priorities (the "**FinCEN Memorandum**"). The FinCEN Memorandum states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. It refers to supplementary guidance that Deputy Attorney General Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the United States Controlled Substances Act on the same day (the "2014 Cole Memo"). The 2014 Cole Memo has been rescinded as of January 4, 2018, along with the Cole Memorandum, removing guidance that enforcement of applicable financial crimes was not a DOJ priority.

Attorney General Sessions' revocation of the Cole Memorandum and the 2014 Cole Memo has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the 2014 Cole Memo and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum appears to remain in effect as a standalone document which explicitly lists the eight enforcement priorities originally cited in the rescinded Cole Memorandum. Although the FinCEN Memorandum remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance, it is unclear whether the current administration will continue to follow the guidelines of the FinCEN Memorandum.

The Company's investments, and any proceeds thereof, are considered proceeds of crime due to the fact that cannabis remains illegal federally in the United States. This restricts the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while the Company has no current intention to declare or pay dividends on its shares in the foreseeable future, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

*The Company's investments in the United States may be subject to heightened scrutiny.*

For the reasons set forth above, the Company's existing investments in the United States, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the United States or any other jurisdiction, in addition to those described herein.

Given the heightened risk profile associated with cannabis in the United States, CDS may implement procedures or protocols that would prohibit or significantly curtail the ability of CDS to settle trades for cannabis companies that have cannabis businesses or assets in the United States. It is not certain whether CDS will decide to enact such measures, nor whether it has the authority to do so unilaterally. However, if CDS were to decide that it will not handle trades in our securities, it could have a material adverse effect on the ability of investors to make and settle trades and on the liquidity of the Company's securities generally. In particular, the Common Shares would become highly illiquid because, until an alternative was implemented, investors would have no ability to effect a trade of the Common Shares through the facilities of a stock exchange. While there can be no assurance that this would occur, and while it would be subject to regulatory approval, a third party has publicly expressed interest in providing clearing services should CDS decide not to do so.

The Company has obtained eligibility with The Depository Trust Company ("**DTC**") for its Common Share quotation on the OTCQB and such DTC eligibility provides another possible avenue to clear Common Shares in the event of a CDS ban.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations.

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of medical cannabis under the Access to Cannabis for Medical Purposes Regulations, investors are cautioned that in the United States, cannabis is largely regulated at the state level. To the Company's knowledge, there are to date a total of 48 states, plus the District of Columbia, that have legalized cannabis in some form, including Arizona and Florida as noted above in connection with the investments in Copperstate and Liberty. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act in the United States and as such, may be in violation of federal law in the United States.

As previously stated, the United States Congress has passed appropriations bills (currently the Rohrabacher-Farr Amendment) each of the last three years to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. The 2017 Consolidated Appropriations Act has been extended until March 23, 2018 under a continuing budget resolution, and as such, the Rohrabacher-Farr Amendment is still in effect as of today's date. It will continue to be re-authorized if the 2017 Consolidated Appropriations Act is again extended with a continuing resolution. Should Congress pass a budget resolution for FY 2018, some version of the Rohrabacher-Farr Amendment may or may not be included in its final form.

American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the U.S. Controlled Substances Act,

any individual or business—even those that have fully complied with state law—could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the Rohrabacher-Farr Amendment in the 2018 budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government will have the authority to prosecute individuals for violations of the law before it lacked funding under the five-year statute of limitations applicable to non-capital Controlled Substances Act violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations, and provide no protection against businesses operating in compliance with a state's recreational cannabis laws.

As previously stated, 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 Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

The approach to the enforcement of cannabis laws may be subject to change, or may not proceed as previously outlined.

#### *Change in Laws, Regulations and Guidelines*

Each investment's current and proposed operations are subject to a variety of laws, regulations and guidelines, including, but not limited to, those relating to the manufacture, management, transportation, storage and disposal of cannabis, as well as laws and regulations relating to health and safety (including those for consumable products), the conduct of operations and the protection of the environment. These laws and regulations are broad in scope and subject to evolving interpretations. If any changes to such laws, regulations and guidelines occur, which are matters beyond the control of the Company, the Company may incur significant costs in complying with such changes or it may be unable to comply therewith, which in turn may result in a material adverse effect on the Company's business, financial condition and results of operation. In addition, violations of these laws, or allegations of such violations, could disrupt certain aspects of the Company's business plan and result in a material adverse effect on certain aspects of its planned operations.

#### *Investments May be Pre-Revenue*

The Company may make investments in entities that have no significant sources of operating cash flow and no revenue from operations. As such, the Company's investments are subject to risks and uncertainties that new companies with no operating history may face. In particular, there is a risk that the Company's investments will not be able to:

- implement or execute their current business plan, or create a business plan that is sound;
- maintain their anticipated management team; and/or
- raise sufficient funds in the capital markets or otherwise to effectuate their business plan.

If the Company's investments cannot execute any one of the foregoing, their businesses may fail, which could have a materially adverse impact on the business, financial condition and operating results of the Company.

#### *Lack of Control Over Operations of Investments*

The Company relies on the its investments to execute on their business plans and produce medical and/or recreational cannabis products, and holds contractual rights and minority equity interest relating to the operation of the Company's investments. The operators of the Company's investments have significant influence over the results of operations of the Company's investments. Further, the interests of the Company and the operators of the Company's investments may not always be aligned. As a result, the cash flows of the Company are dependent upon the activities of third parties which creates the risk that at any time those third parties may: (i) have business interests or targets that are inconsistent with those of the Company; (ii) take action contrary to the Company's policies or objectives; (iii) be unable or unwilling to fulfill their obligations under their agreements with the Company; or (iv) experience financial, operational or other difficulties, including insolvency, which could limit or suspend a third party's ability to perform its obligations. In addition, payments may flow through the Company's investments, and there is a risk of delay and additional expense in receiving such revenues. Failure to receive payments in a timely fashion, or at all, under the agreements to which the Company is entitled may have a material adverse effect on the Company. In addition, the Company must rely, in part, on the accuracy and timeliness of the information it receives from the Company's investments, and uses such information in its analyses, forecasts and assessments relating to its own business. If the information provided by investment entities to the Company contains material inaccuracies or omissions, the Company's ability to accurately forecast or achieve its stated objectives, or satisfy its reporting obligations, may be materially impaired.

#### *Private Companies and Illiquid Securities*

The Company may invest in securities of private companies. In some cases, the Company may be restricted by contract or generally by applicable securities laws from selling such securities for a period of time. Such securities may not have a ready market and the inability to sell such securities or to sell such securities on a timely basis or at acceptable prices may impair the Company's ability to exit such investments when the Company considers it appropriate.

#### *Unfavourable Publicity or Consumer Perception*

The regulated cannabis industry in the United States and Canada is at an early stage of its development. The Company believes the medical and recreational cannabis industry is highly dependent on consumer perception regarding the safety and efficacy of recreational and medical cannabis. Consumer perceptions regarding legality, morality, consumption, safety, efficacy and quality of cannabis are mixed and evolving. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for cannabis and on the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding cannabis in general, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect on the business of the Company. Such adverse

publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consumer such products legally, appropriately or as directed.

Public opinion and support for medical and recreational cannabis use has traditionally been inconsistent and varies from jurisdiction to jurisdiction. Legalization of medical and recreational cannabis remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, legalization of medical marijuana as opposed to legalization in general).

Each of CannaRoyalty's investment's ability to gain and increase market acceptance of its products may require it, and/or CannaRoyalty, to establish and maintain brand names and reputation. In order to do so, substantial expenditures on product development, strategic relationships and marketing initiatives may be required. There can be no assurance that these initiatives will be successful and their failure may have an adverse effect on the Company.

#### *Limited Operating History*

CannaRoyalty and its investments have varying and limited operating histories, which can make it difficult for investors to evaluate the Company's operations and prospects and may increase the risks associated with investment into the Company.

CannaRoyalty has not generated significant profits or revenues in the periods covered by its financial statements included herein, and, as a result, has only a very limited operating history upon which its business and future prospects may be evaluated. Although the Company expects to generate some revenues from its investments, many of the investments will only start generating revenues in future periods and accordingly, the Company is therefore expected to remain subject to many of the risks common to early-stage enterprises for the foreseeable future, including challenges related to laws, regulations, licensing, integrating and retaining qualified employees; making effective use of limited resources; achieving market acceptance of existing and future solutions; competing against companies with greater financial and technical resources; acquiring and retaining customers; and developing new solutions. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

#### *Competition*

The Company competes with other companies for financing and investment opportunities in the cannabis industry. Some of these companies may possess greater financial resources than the Company. Such competition may result in the Company being unable to enter into desirable strategic agreements or similar transactions, to recruit or retain qualified employees or to acquire the capital necessary to fund its investments. Existing or future competition in the cannabis industry could materially adversely affect the Company's prospects for entering into additional agreements in the future. In addition, the Company currently competes with other cannabis streaming and royalty companies, some of which may possess greater financial resources than the Company.

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and experience than the Company. Increased competition by larger and better financed competitors, including competitors to the Company's investments, could materially and adversely affect the business, financial condition and results of operations of the Company.

It is possible that larger competitors could establish price setting and cost controls which would effectively "price out" certain of the Company's investments operating within and in support of the medical and recreational cannabis industry.

Because of the early stage of the industry in which the Company will operate, the Company expects to face additional competition from new entrants. To become and remain competitive, the Company will require research and development, marketing, sales and support. CannaRoyalty may not have sufficient resources to maintain research and development, marketing, sales and support efforts on

a competitive basis, which could materially and adversely affect the business, financial condition and results of operations of the Company.

#### *Banking*

Since the production and possession of cannabis is currently illegal under U.S. federal law, it is possible that banks may refuse to open bank accounts for the deposit of funds from businesses involved with the cannabis industry. The inability to open bank accounts with certain institutions could materially and adversely affect the business of the Company.

#### *Additional Financing*

CannaRoyalty may require equity and/or debt financing to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms that are commercially viable. CannaRoyalty's inability to raise financing to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability.

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

#### *Currency Fluctuations*

CannaRoyalty's revenues and expenses are expected to be primarily denominated in U.S. dollars, and therefore may be exposed to significant currency exchange fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar may have a material adverse effect on the Company's business, financial condition and operating results. CannaRoyalty may, in the future, establish a program to hedge a portion of its foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements; however, there can be no assurance that such a program will effectively mitigate currency risks.

#### *Risks Associated with Acquisitions*

As part of the Company's overall business strategy, the Company intends to pursue select strategic acquisitions, which would provide additional product offerings, vertical integrations, additional industry expertise, and a stronger industry presence in both existing and new jurisdictions. The success of any such acquisitions will depend, in part, on the ability of the Company to realize the anticipated benefits and synergies from integrating those companies into the businesses of the Company. Future acquisitions may expose it to potential risks, including risks associated with: (a) the integration of new operations, services and personnel; (b) unforeseen or hidden liabilities; (c) the diversion of resources from the Company's existing business and technology; (d) potential inability to generate sufficient revenue to offset new costs; (e) the expenses of acquisitions; and (f) the potential loss of or harm to relationships with both employees and existing users resulting from its integration of new businesses. In addition, any proposed acquisitions may be subject to regulatory approval.

While the Company 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 companies for which the Company is not sufficiently indemnified. Any such unknown or undisclosed risks or liabilities could materially and adversely affect the Company's financial performance and results of operations. The Company 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 Company's earnings per share or decrease or delay the anticipated accretive effect of the acquisition and cause a decrease in the market price of the CannaRoyalty Shares.

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

#### *Bankruptcy or Insolvency of Investments*

There is no guarantee that the Company will be able to effectively enforce any interests it may have in the Company's investments. A bankruptcy or other similar event related to an investment of CannaRoyalty that precludes a party from performing its obligations under an agreement may have a material adverse effect on the Company. Further, as an equity investor, should an investment have insufficient assets to pay its liabilities, it is possible that other liabilities will be satisfied prior to the liabilities owed to the Company. In addition, bankruptcy or other similar proceedings are often a complex and lengthy process, the outcome of which may be uncertain and could result in a material adverse effect on the Company.

#### *Research and Market Development*

Although the Company, itself and through its investments, is committed to researching and developing new markets and products and improving existing products, there can be no assurances that such research and market development activities will prove profitable or that the resulting markets and/or products, if any, will be commercially viable or successfully produced and marketed.

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the medical cannabis industry domestically in Canada and in other international jurisdictions.

The Company is operating its business in a relatively new medical cannabis industry and market. Accordingly, there are no assurances that this industry and market will continue to exist or grow as currently estimated or anticipated, or function and evolve in a manner consistent with management's expectations and assumptions. Any event or circumstance that affects the recreational or medical cannabis industry or market could have a material adverse effect on the Company's business, financial condition and results of operations. Due to the early stage of the regulated cannabis industry, forecasts regarding the size of the industry and the sales of products by the Company's investments are inherently difficult to prepare with a high degree of accuracy and reliability. A failure in the demand for products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company's investments, and consequently, the Company.

#### *Reliance on Management*

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements or management agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Qualified individuals are in high demand, and the Company may incur significant costs to attract and retain them. In addition, the Company's lean management structure may be strained as the Company pursues growth opportunities in the future. The loss of the services of such individuals or an inability to attract other suitably qualified persons when needed, could have a material adverse effect on the Company's ability to execute on its business plan and strategy, and the Company may be unable to find adequate replacements on a timely basis, or at all.

CannaRoyalty's future success depends substantially on the continued services of its executive officers, its key research and development personnel and its key growth and extraction personnel. If one or more of its executive officers or key personnel were unable or unwilling to continue in their present positions, the Company might not be able to replace them easily or at all. In addition, if any of its executive officers or key employees joins a competitor or forms a competing company, the Company may

lose know-how, key professionals and staff members. These executive officers and key employees could compete with and take customers away.

#### *Operation Permits and Authorizations*

The Company's investments may not be able to obtain or maintain the necessary licenses, permits, authorizations or accreditations, or may only be able to do so at great cost, to operate their respective businesses. In addition, the Company's investments may not be able to comply fully with the wide variety of laws and regulations applicable to the cannabis industry. Failure to comply with or to obtain the necessary licenses, permits, authorizations or accreditations could result in restrictions on an investment's ability to operate in the cannabis industry, which could have a material adverse effect on the Company's business.

#### *Liability, Enforcement Complaints, etc.*

CannaRoyalty's participation in the cannabis industry may lead to litigation, formal or informal complaints, enforcement actions, and inquiries by various federal, state, or local governmental authorities against the Company or its investments. Litigation, complaints, and enforcement actions involving either of the Company or its investments could consume considerable amounts of financial and other corporate resources, which could have an adverse effect on the Company's future cash flows, earnings, results of operations and financial condition.

#### *Product Liability*

Certain of the Company's investments manufacture, process and/or distribute products designed to be ingested by humans, and therefore face an inherent risk of exposure to product liability claims, regulatory action and litigation if products are alleged to have caused significant loss or injury. In addition, previously unknown adverse reactions resulting from human consumption of cannabis alone or in combination with other medications or substances could occur. A product liability claim or regulatory action against an investment entity of CannaRoyalty could result in increased costs, could adversely affect the Company's reputation, and could have a material adverse effect on the results of operations and financial condition of the Company.

#### *Reliance on Key Inputs*

The cultivation, extraction and processing of cannabis and derivative products is dependent on a number of key inputs and their related costs including raw materials, electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results of the Company's investments. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, the relevant investment entity might be unable to find a replacement for such source in a timely manner or at all. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of an investment, and consequently, the Company.

#### *Resale of Shares*

Although the Common Shares are listed on the CSE, there can be no assurance that, an active and liquid market for the Company Shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company. In addition, there can be no assurance that the publicly-traded stock price of the Company will be high enough to create a positive return for investors. Further, there can be no assurance that the stock of the Company will be sufficiently liquid so as to permit investors to sell their position in the Company without adversely affecting the stock price. In such event, the probability of resale of the Company's shares would be diminished.

### *Price Volatility of Publicly Traded Securities*

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continuing fluctuations in price will not occur. It may be anticipated that any quoted market for the shares of CannaRoyalty will be subject to market trends generally, notwithstanding any potential success of CannaRoyalty in creating revenues, cash flows or earnings. The value of the Company's shares will be affected by such volatility. An active public market for the Company's shares might not develop or be sustained. If an active public market for the Company's shares does not develop, the liquidity of a shareholder's investment may be limited and the share price may decline.

### *Management of Growth*

CannaRoyalty may experience a period of significant growth in the number of personnel that will place a strain upon its management systems and resources. Its future will depend in part on the ability of its officers and other key employees to implement and improve financial and management controls, reporting systems and procedures on a timely basis and to expand, train, motivate and manage the workforce. CannaRoyalty's current and planned personnel, systems, procedures and controls may be inadequate to support its future operations.

### *Dividends*

CannaRoyalty has not paid dividends in the past, and the Company does not anticipate paying any dividends in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

Any decision to declare and pay dividends in the future will be made at the discretion of the Company's board of directors and will depend on, among other things, financial results, cash requirements, contractual restrictions and other factors that the Company's board of directors may deem relevant. As a result, investors may not receive any return on an investment in the Common Shares unless they sell their shares of the Company for a price greater than that which such investors paid for them.

### *Intellectual Property*

The success of the Company will depend, in part, on the ability of the Company's investments to maintain and enhance trade secret protection over the various existing and potential proprietary techniques and processes of the Company's investments. The Company's investments may be vulnerable to competitors who develop competing technology, whether independently or as a result of acquiring access to the proprietary products and trade secrets of the Company's investments. In addition, effective future patent, copyright and trade secret protection may be unavailable or limited in certain foreign countries and may be unenforceable under the laws of certain jurisdictions.

In addition, other parties may claim that an investment's products infringe on their proprietary and perhaps patent protected rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, legal fees, result in injunctions, temporary restraining orders and/or require the payment of damages.

### *Insurance Coverage*

CannaRoyalty will require insurance coverage for a number of risks. Although the management of the Company believes that the events and amounts of liability covered by its insurance policies will be reasonable, taking into account the risks relevant to its business, and the fact that agreements with users contain limitations of liability, there can be no assurance that such coverage will be available or sufficient to cover claims to which the Company may become subject. If insurance coverage is unavailable or

insufficient to cover any such claims, the Company's financial resources, results of operations and prospects could be adversely affected.

#### *Costs of Maintaining a Public Listing*

As a public company, there are costs associated with legal, accounting and other expenses related to regulatory compliance. Securities legislation and the rules and policies of the CSE and the OTC require listed companies to, among other things, adopt corporate governance and related practices, and to continuously prepare and disclose material information, all of which add to a company's legal and financial compliance costs. CannaRoyalty may also elect to devote greater resources than it otherwise would have as a private company on communication and other activities typically considered important by publicly traded companies.

#### *Litigation*

CannaRoyalty may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the market price for CannaRoyalty Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant resources. Litigation may also create a negative perception of the Company's brand.

#### *Operational Risks*

CannaRoyalty and its investments may be affected by a number of operational risks and may not be adequately insured for certain risks, including: labour disputes; catastrophic accidents; fires; blockades or other acts of social activism; changes in the regulatory environment; impact of non-compliance with laws and regulations; natural phenomena, such as inclement weather conditions, floods, earthquakes and ground movements. There is no assurance that the foregoing risks and hazards will not result in damage to, or destruction of, the Company's investments' properties, grow facilities and extraction facilities, personal injury or death, environmental damage, adverse impacts on the Company's investments' operations, costs, monetary losses, potential legal liability and adverse governmental action, any of which could have an adverse impact on the Company's future cash flows, earnings and financial condition on the Company. Also, the Company's investments may be subject to or affected by liability or sustain loss for certain risks and hazards against which they may elect not to insure because of the cost. This lack of insurance coverage could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

#### *Holding Company*

CannaRoyalty is a holding company and essentially all of its assets are the capital stock of its material subsidiaries. As a result, investors in CannaRoyalty are subject to the risks attributable to its subsidiaries. Consequently, CannaRoyalty's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and investments and the distribution of those earnings to CannaRoyalty. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of CannaRoyalty's material subsidiaries, holders of indebtedness and trade creditors may be entitled to payment of their claims from the assets of those subsidiaries before CannaRoyalty.

#### *Difficulty Implementing Business Strategy*

The growth and expansion of the Company is heavily dependent upon the successful implementation of its business strategy. There can be no assurance that the Company will be successful in the implementation of its business strategy.

### *Conflicts of Interest*

Certain of the Company's directors and officers are, and may continue to be, involved in other business ventures through their direct and indirect participation in, among other things, corporations, partnerships, joint ventures, that may become potential competitors of the technologies, products and services the Company intends to provide. Situations may arise in connection with potential acquisitions or opportunities where the other interests of these directors and officers conflict with or diverge from the Company's interests. In accordance with applicable corporate law, directors who have a material interest in or who are parties to a material contract or a proposed material contract with the Company are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the transaction. In addition, the directors and officers are required to act honestly and in good faith with a view to the Company's best interests. However, in conflict of interest situations, the Company's directors and officers may owe the same duty to another company and will need to balance their competing interests with their duties to the Company. Circumstances (including with respect to future corporate opportunities) may arise that may be resolved in a manner that is unfavourable to the Company.

### *Available Talent Pool*

As the Company grows, it will need to hire additional human resources to continue to develop the business. However, experienced talent in the areas of medical marijuana research and development, growing marijuana and extraction is difficult to source, and there can be no assurance that the appropriate individuals will be available or affordable to the Company. Without adequate personnel and expertise, the growth of the Company's business may suffer.

### *Risk that we will not succeed in securing or transferring the Rich Extracts license.*

After Mr. R. Wilkinson, the principal of Rich Extracts, was arrested, the Oregon Liquor Control Commission (OLCC) suspended the Rich Extracts license. Although CannaRoyalty has contacted the OLCC and state authorities to ensure the license is not permanently revoked, there is no certainty that the license suspension will be lifted and/or that CannaRoyalty will be successful in acquiring control or direction over the license.

### *Risk of criminal charges against CRZ*

Mr. Wilkinson, the principal of Rich Extracts, was arrested in Nebraska for possession of marijuana with intent to distribute. The possession and distribution of marijuana are illegal in Nebraska. Although CannaRoyalty was unaware of Mr. Wilkinson's criminal activities, there is a risk that CannaRoyalty could face allegations, criminally or otherwise, in connection with Mr. Wilkinson actions.

## **DIVIDENDS AND DISTRIBUTIONS**

CannaRoyalty does not intend, and is not required, to pay any dividends on the CannaRoyalty Shares. Any decision to pay dividends will be made on the basis of the Company's earnings, financial requirements and other conditions existing at the time. CannaRoyalty's ability to pay dividends may be affected by U.S. state and federal regulations. See "Risk Factors".

## **DESCRIPTION OF CAPITAL STRUCTURE**

### *General*

CannaRoyalty is authorized to issue an unlimited number of common shares (the "CannaRoyalty Shares") and 2,000,000 special redeemable, voting, non-participating preference shares (the "Preference Shares"). As of December 31, 2016, there were 36,006,956 CannaRoyalty Shares and no Preference Shares issued and outstanding. As of March 20, 2018, there are 46,870,975 CannaRoyalty Shares issued and outstanding.

The holders of CannaRoyalty Shares are entitled to receive notice of and to attend and vote at all meetings of the shareholders of the Company and each CannaRoyalty Share confers the right to one vote in person or by proxy at all meetings of the shareholders of the Company. The holders of the CannaRoyalty Shares are entitled to receive such dividends in any financial year as the board of directors of the Company may by resolution determine. In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, subject to prior rights of the holders of the Preference Shares, the holders of the CannaRoyalty Shares are entitled to receive the remaining property and assets of the Company.

No dividend at any time shall be declared, set aside or paid on the Preference Shares. The Company may not redeem the Preference Shares or any of them prior to the expiration of five years from the respective dates of issuance thereof, without the prior consent of the holders of the Preference Shares to be redeemed. No shareholder shall be entitled to sell, assign, transfer, or otherwise dispose of any Preference Shares or CannaRoyalty Shares without (a) the previous express consent of the Directors of the Company expressed by a resolution passed at a meeting of the Board of the Company or consented to by an instrument in writing signed by a majority of the Directors; and (b) the prior written consent of the OSC.

The number of Preference Shares issuable by the Company at any time shall be limited such that at no time shall more than 500,000 Preference Shares be issued and outstanding.

#### *Prior Sales*

On January 17, 2017, CannaRoyalty issued 25,000 common shares to a former director on the exercise of 25,000 options, for gross proceeds of \$25,000.

On February 15, 2017, CannaRoyalty issued 5,000,000 units for \$3.00 each as part of a bought deal financing. Each unit consisted of one common share and a ½ share purchase warrant. A full share purchase warrant could subsequently be exercised for \$4.50 prior to February 15, 2020. The gross proceeds from the financing were \$15,000,000 and the issuance costs were \$1,249,951.

On February 17, 2017, CannaRoyalty issued 689,567 common shares to Anandia Labs Inc. ("Anandia"), in connection with a transaction to purchase 20% of the diluted shares of Anandia. These shares were valued at \$2,021,222.

During fiscal 2017, CannaRoyalty issued 93,921 common shares subsequent to the exercise of broker warrants at \$2.00 each. Total proceeds were \$187,842.

During fiscal 2017, CannaRoyalty issued 749,500 common shares subsequent to the exercise of share purchase warrants of \$1.50 each. These share purchase warrants were originally issued as part of private placements during June 2016 and July 2016. Total proceeds were \$1,124,250.

During fiscal 2017, CannaRoyalty issued 88,333 common shares subsequent to the conversion of 88,333 RSUs by employees, consultants and a former Board member.

On July 10, 2017, CannaRoyalty issued 11,765 common shares to a consultant for services. These shares had an aggregate value of \$30,000.

On August 24, 2017, CannaRoyalty issued 243,902 common shares to Zenabis Limited Partnership in relation to shares which were subscribed to in November 2016 for an aggregate value of \$500,000

On August 24, 2017, CannaRoyalty issued 89,500 common shares to Zenabis Limited Partnership in relation to the termination of a letter of intent.

On November 28, 2017, CannaRoyalty issued 1,254,816 common shares to Kaya Management Inc. and Alta Supply Inc. in relation to a term sheet for a proposed asset purchase. These shares will be returned to CannaRoyalty if a transaction is not completed and are currently held in escrow.

On December 6, 2017, CannaRoyalty issued 900,000 common shares to Sprott. Sprott exercised 900,000 share purchase warrants at \$2.05 per share for total proceeds of \$1,845,000.

On December 5, 2016, CannaRoyalty completed a non-brokered private placement of 120,000 common shares of CannaRoyalty for gross proceeds of \$90,000 in satisfaction of a condition to the RTO.

On December 5, 2016, CannaRoyalty issued 82,574 common shares to settle certain related party debt, in satisfaction of a condition of the RTO.

On December 5, 2016, CannaRoyalty issued 2,502,000 common shares to former holders of Subscription Receipts in satisfaction of a condition of the RTO.

On December 5, 2016, CannaRoyalty issued 31,641,653 common shares to former holders of CRHC common shares in connection with the RTO.

On December 9, 2016, CannaRoyalty issued 25,000 common shares to a former director on the exercise of 25,000 options, for gross proceeds of \$25,000.

On December 13, 2016, CannaRoyalty issued 25,000 common shares to a former director on the exercise of 25,000 options, for gross proceeds of \$25,000.

#### **MARKET FOR SECURITIES**

The CannaRoyalty Shares are listed for trading on the CSE under the trading symbol "CRZ". The following table sets forth the price range per share and trading volume for the CannaRoyalty Shares on the CSE for the most recently completed financial year ended December 31, 2016 as well as the periods up to the date of this AIF:

<b>Period</b>	<b>High Trading Price</b>	<b>Low Trading Price</b>	<b>Volume (#)</b>
March 2018 <sup>(1)</sup>	\$4.40	\$3.85	3,232,294
February 2018	\$4.70	\$3.32	6,505,096
January 2018	\$5.75	\$3.60	20,016,638
December 2017	\$3.88	\$2.36	10,798,571
November 2017	\$3.62	\$2.57	8,707,350
October 2017	\$3.13	\$2.47	4,215,645
September 2017	\$2.57	\$2.09	2,813,597
August 2017	\$2.79	\$1.86	2,032,217
July 2017	\$2.88	\$2.20	1,227,355
June 2017	\$2.45	\$1.55	4,125,230
May 2017	\$2.60	\$1.50	3,520,953
April 2017	\$3.05	\$2.12	4,409,105

March 2017	\$3.33	\$2.40	3,032,087
February 2017	\$3.40	\$2.71	3,700,532
January 2017	\$3.40	\$2.81	2,144,298
December 2016 <sup>(2)</sup>	\$5.00	\$2.50	4,106,608

Notes:

(1) Data provided from March 1, 2018 to the date of this AIF.

(2) CannaRoyalty common shares commenced trading on the CSE December 8, 2016.

### **ESCROWED SECURITIES**

As required under the policies of the CSE, principals of CannaRoyalty entered into an escrow agreement (the “**Escrow Agreement**”) as if it was subject to the requirements of NP 46-201. The escrow agent is TSX Trust Company. Escrow releases will be scheduled at periods specified in NP 46-201 for emerging issuers.

The form of the Escrow Agreement must be as provided in NP 46-201, subject to the aforementioned modifications. The table below includes the details of escrowed securities held by current principals of CannaRoyalty.

The following is current to March 20, 2018:

<b>Name, Position(s) with CannaRoyalty, and Municipality of Residence of Security Holder</b>	<b>Number of Securities Held in Escrow<sup>(1)</sup></b>	<b>Percentage of Class of Shares – Undiluted<sup>(2)</sup></b>	<b>Percentage of Class of Shares – Partially Diluted<sup>(3)</sup></b>
Marc Lustig President, CEO and Director West Vancouver, British Columbia	2,022,652 <sup>(4)</sup> CannaRoyalty Shares	4.32%	7.12% <sup>(4)</sup>
	1,416,500 RSUs		
James Gregory Wilson EVP, CR Advisory Ottawa, Ontario	180,000 CannaRoyalty Shares	0.38%	2.06%
	800,000 RSUs		
Todd Marcotte Creative Director	780,000 <sup>(5)</sup> CannaRoyalty Shares	1.66%	2.19%
	250,000 RSUs		
<b>Total:</b>	<b>2,982,652 CannaRoyalty Shares</b>	<b>6.36%</b>	<b>11.04%</b>
	<b>2,466,500 RSUs</b>		

Notes:

(1) TSX Trust Company acts as depositary.

(2) Based on 46,870,975 CannaRoyalty Shares outstanding, on an undiluted basis.

(3) Based on CannaRoyalty Shares outstanding on a partially-diluted basis, assuming for each individual that all RSUs held by such individual have vested and been converted into CannaRoyalty Shares.

(4) Mr. Lustig has entered into a conversion blocker with respect to his RSUs, which restricts him from converting any RSUs into CannaRoyalty Shares if such conversion would result in Mr. Lustig holding 10% or more of the issued and outstanding CannaRoyalty Shares.

(5) This includes 180,000 CannaRoyalty Shares held by Mr. Marcotte's spouse, Janine Marcotte.

## DIRECTORS AND OFFICERS

The following table sets forth the name of all directors and officers of the Company, their municipalities of residence, their current positions with the Company, their principal occupations during the past five years and the number and percentage of CannaRoyalty Shares beneficially owned, directly or indirectly, or over which control or direction is exercised as at the date of this AIF. Such persons were appointed to the positions indicated below immediately following the completion of the RTO. The following is current as of March 20, 2018.

<b>Name, Municipality of Residence<sup>(1)</sup>, Proposed Position with the Company<sup>(2)</sup></b>	<b>Term<sup>(3)</sup></b>	<b>Principal Occupation or Employment</b>	<b>Number<sup>(4)</sup> and Percentage of CannaRoyalty Shares Held<sup>(5)</sup></b>
Marc Lustig West Vancouver, British Columbia Canada Director, President and Chief Executive Officer	December 5, 2016 to Current	Chief Executive Officer of CannaRoyalty.	3,371,085 <sup>(6)</sup> 7.19%
François Perrault Ottawa, Ontario Canada Chief Financial Officer	December 5, 2016 to Current	Chief Financial Officer of the Company; Conseil Francois Perrault Consulting Inc.; Computer Sciences Canada Inc.; Conseil Francois Perrault Consulting Inc.	Nil <sup>(7)</sup>
Rob Harris <sup>(11)(13)(14)(15)</sup> Milton, Ontario Canada Director	December 5, 2016 to Current	Director of Aralez Pharmaceuticals Inc.; President, Chief Executive Officer of Tribute Pharma Canada Inc. and Tribute Pharmaceuticals Canada Ltd., December 2011 to February 2016.	Nil <sup>(8)(9)</sup>
Dr. Jim Young <sup>(11)(13)(14)(15)(16)</sup> Potomac, Maryland United States Director	December 5, 2016 to Current	Chairman at Novavax, Inc.; Chairman at Targeted Microwave Solutions, Inc.; Director at 3-V Biosciences, Inc.	250,000 <sup>(10)</sup> 0.53%
Peter Kampian <sup>(11)(12)(13)(15)</sup> Cambridge, Ontario Canada Director	December 27, 2017 to Current	Founder and Chief Investment Officer of Orion Resource Partners.	Nil <sup>(17)</sup>
Oskar Lewnowski Rye, New York United States Director	December 27, 2017 to Current	Former Chief Financial Officer of Mettrum Health Corp from 2014 to its acquisition by Canopy Growth Corporation in 2017.	Nil <sup>(18)</sup>
<b>TOTAL:</b>			<b>3,621,085</b> <b>7.73%</b>

Notes:

- (1) The information as to municipality of residence and principal occupation, not being within the knowledge of CannaRoyalty, has been furnished by the respective directors and officers individually.
- (2) Greg Wilson (Ottawa, Ontario, Canada) served as Chief Operating Officer of the Company from December 5, 2016 through to January 31, 2018. During such time, Mr. Wilson's principal occupation the the preceding five years included Chief Operating Officer of CannaRoyalty, EMT Capital Corp. and Chief Executive Officer of Vida Cannabis Corp.
- (3) The term of each director of CannaRoyalty will expire on the date of the next annual meeting of shareholders of the Company.
- (4) The information as to shares beneficially owned or over which a director or officer exercises control or direction, not being within the knowledge of CannaRoyalty, has been furnished by the respective directors and officers individually.
- (5) Based on an issued and undiluted basis (i.e., 46,870,975) CannaRoyalty Shares).
- (6) This does not include vested and deferred RSUs or unvested RSUs currently held but this does include 171,335 CannaRoyalty Shares held by Lustig HoldCo. Additionally, Mr. Lustig owns 1,416,500 RSUs, of which 812,750 have vested.

- (7) Mr. Perrault owns 375,000 RSUs, of which 175,000 have vested.
- (8) Mr. Harris owns 100,000 RSUs, of which 66,667 have vested.
- (9) Mr. Harris has also been granted 200,000 options, of which 50,000 have vested.
- (10) Additionally, Dr. Young owns 100,000 RSUs, of which 33,334 have vested. Dr. Young also has been granted 200,000 options.
- (11) Member of the Audit Committee.
- (12) Chair of the Audit Committee.
- (13) Member of Compensation and Governance Committee.
- (14) Chair of Compensation and Governance Committee.
- (15) Member of Regulatory Committee.
- (16) Chair of Regulatory Committee.
- (17) Mr. Kampian has been granted 200,000 options, of which 50,000 have vested.
- (18) Mr. Lewnowski has been granted 200,000 options, of which 50,000 have vested.

The following are brief biographical descriptions of the management and directors of the Company.

*Marc Lustig (age 44)*

Mr. Lustig holds MSc and MBA degrees from McGill University. He began his professional career in the pharmaceutical industry at Merck & Co. In 2000, he started his capital markets career in institutional equity research in the Life Sciences sector at Orion Securities. For the next 14 years, Mr. Lustig worked as a top producer at GMP Securities L.P. and as Head of Capital Markets at Dundee Capital Markets before becoming Principal at KES 7 Capital. Mr. Lustig founded Cannabis Royalties & Holdings Corp. in early 2015.

*François Perrault (age 53)*

Mr. Perrault is a CPA, CA and holds a Bachelor of Commerce (Honours) from the University of Ottawa. He has over twenty five years of experience in finance, management consulting, business development, service delivery and operations in a variety of industries in the public and private sectors. He was CFO for several subsidiaries and divisions of Computer Sciences Corporation (NYSE: CSC) where he spent over twelve years. Mr. Perrault also held senior positions with PwC, ProMetic Life Sciences and MCI Systemhouse.

*Rob Harris (age 62)*

Mr. Harris has served as a director of Aralez Pharmaceuticals Inc. since February 5, 2016. He previously served as Founder, President, Chief Executive Officer and a director of Tribute Pharmaceuticals Canada Inc. from December 1, 2011 to February 2016 when it was amalgamated with POZEN Pharma to form Aralez Pharmaceuticals. Mr. Harris brings to the Board over 35 years of pharmaceutical industry experience in both Canada and the United States in sales, marketing, business development and general management in both human and animal health markets.

*Dr. Jim Young (age 65)*

Dr. Young is the Chairman at Novavax, Inc., Chairman at Targeted Microwave Solutions, Inc. and sits on the board of directors at 3-V Biosciences, Inc. Dr. Young has over 30 years of experience in the fields of molecular genetics, microbiology, immunology and pharmaceutical development. Prior to being acquired by Astra Zeneca, Dr. Young was MedImmune's President of Research and Development. Dr. Young received his doctorate in microbiology and immunology from Baylor College of Medicine in Houston, Texas, and in 2005 was awarded the Albert B. Sabin Humanitarian Award.

*Peter Kampian (age 59)*

Peter Kampian was the Chief Financial Officer of Mettrum Health Corp from 2014 to its acquisition by Canopy Growth Corporation in 2017. He is an energetic financial executive with over 30 years' experience in investment, infrastructure, electrical generation, and manufacturing, with both private and publicly-trading corporate entities. Mr. Kampian is an experienced board audit chair and has held many directorships and offices such as Chief Financial Officer at Algonquin Power Systems to 2007. He is currently the Chief Financial Officer of DionyMed Inc., a U.S. cannabis marketing and distribution

company. Mr. Kampian was admitted as a Chartered Accountant in 1986 and is a BBA (Business) graduate of Wilfred Laurier University.

*Oskar Lewnowski (age 52)*

Mr. Lewnowski is the founder and Chief Investment Officer of Orion Resource Partners. Prior to Orion, Mr. Lewnowski was a founding partner of the Red Kite Group and Chief Investment Officer of the mine finance business. Before this, Mr. Lewnowski was Director for Corporate Development at Varomet Ltd, a metals processor and merchant firm in excess of \$1 billion in revenues formed to purchase certain of Enron's metals and mining assets. While at Varomet, he was responsible for seven acquisitions and divestitures totaling over \$130 million and business operations (offtake agreements, mining and processing) with annual revenues exceeding \$1 billion. He was also responsible for structuring metal offtake agreements and other physical market transactions. Until 1993, he held various positions in trading as well as mergers and acquisitions at Deutsche Bank both in New York and Frankfurt culminating in his founding membership of the Deutsche Capital Markets Division. Lewnowski earned a BS/BA in Business Administration from Georgetown University and an MBA from the Leonard Stern School of Business (New York University).

### **Corporate Cease Trade Orders**

To the Company's knowledge, no director or executive officer of the Company is, as of the date hereof, or was within ten years before the date hereof, a director, chief executive officer or chief financial officer of any company (including the Company), that:

- (a) was subject to a cease trade order, an order similar to a cease trade order, or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or
- (b) was subject to a cease trade order, an order similar to a cease trade order, or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

### **Bankruptcies and Other Proceedings**

Other than as set forth below, to the Company's knowledge, no director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

- (a) is, as of the date hereof, or has been within the ten years before the date hereof, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has, within the ten years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Mr. Kampian was employed from October of 2009 to July 31, 2011 by Oneworld Energy Inc. (“**Oneworld**”) as Chief Financial Officer. Oneworld was a renewable energy developer of wind and solar projects.

In October of 2010, Mr. Kampian was asked by the Oneworld Board of Directors to act as a director of Oneworld. The Chief Executive Officer, who was a Canadian director, was terminated on October 20, 2010, which left three directors from the United Kingdom and one other director from Canada. Mr. Kampian agreed to act as a director to satisfy the Canadian director requirements and help the company organize its affairs.

During 2011, obtaining funding for the renewable energy business proved to be very difficult. At the end of July of 2011, Mr. Kampian resigned his post as Chief Financial Officer and accepted a position with Riverbank Power Corporation. Mr. Kampian remained as a director of Oneworld to assist Oneworld until October 9, 2011, at which time Mr. Kampian resigned as director and had no further involvement in Oneworld.

On June 5, 2012, Mr. Kampian was advised that Oneworld filed for bankruptcy as Oneworld was unable to obtain additional financing to continue its development operations.

### **Penalties or Sanctions**

To the Company’s knowledge, no director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Conflicts of Interest**

To the best knowledge of the Company and other than as disclosed herein, there are no known existing or potential material conflicts of interest between the Company, or a subsidiary of the Company, and a director, officer or promoter of the Company except that certain of the directors, officers and promoters of CannaRoyalty serves as directors, officers and promoters of other companies and therefore it is possible that a conflict may arise between their duties as a director, officer or promoter of CannaRoyalty and their duties as a director, officer and promoter of such other companies. See “Risk Factors”.

The directors, officers and promoters of CannaRoyalty are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosure by directors of conflicts of interest and CannaRoyalty will rely upon such laws in respect of any directors’ and officers’ conflict of interest or in respect of any breaches of duty by any of its directors or officers. All such conflicts will be disclosed by such directors or officers in accordance with applicable law and they will govern themselves in respect thereof to the best of their ability in accordance with the obligation imposed upon them by law.

### **PROMOTER**

Lustig HoldCo, a corporation wholly-owned and controlled by Marc Lustig, director and CEO of CannaRoyalty, may be considered a promoter of the Company, as this entity has taken the initiative in reorganizing and financing the Company. Other than disclosed herein, there is nothing of value, including money, property, contracts, options or rights of any kind received or to be received by Lustig HoldCo directly or indirectly from the Company or from a subsidiary of the Company, nor any assets, services or

other consideration received or to be received by the Company or a subsidiary of the Company in return. Other than as disclosed herein, no asset has been acquired, within the two years before the date of this document, or is to be acquired by the Company or any subsidiary of the Company, from Lustig HoldCo.

Lustig HoldCo is not, as at the date hereof, and was not within 10 years before the date hereof, a director, chief executive officer, or chief financial officer of any person or issuer that, (i) was subject to any cease trade order, order similar to a cease trade order or an order that denied the relevant person or issuer access to any exemption under securities legislation, and was in effect for a period of more than 30 consecutive days, that was issued while Lustig HoldCo was acting in the capacity as director, chief executive officer or chief financial officer; or (ii) was subject to any cease trade order, order similar to a cease trade order or an order that denied the relevant person or issuer access to any exemption under securities legislation, and was in effect for a period of more than 30 consecutive days, that was issued after Lustig HoldCo ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while Lustig HoldCo was acting in the capacity as director, chief executive officer or chief financial officer.

Lustig HoldCo is not, as at the date hereof, nor has it been within the 10 years before the date hereof, a director or executive officer of any person or company that, while Lustig HoldCo was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets. Nor has Lustig HoldCo, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the promoter, state the fact.

Lustig HoldCo has not been subject to any penalties or sanctions imposed by a court relating to provincial and territorial securities legislation or by a provincial and territorial securities regulatory authority nor has it entered into a settlement agreement with a provincial and territorial securities regulatory authority. Lustig HoldCo is also not subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor in making an investment decision.

#### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

As of the date of this AIF, there are no legal proceedings material, and no contemplated legal proceedings known to be material, to the Company or its expected subsidiaries, to which the Company or its expected subsidiaries is a party or of which any of the Company or its expected subsidiaries' respective property is the subject matter.

As of the date of this AIF, none of the Company nor any of its expected subsidiaries has been subject to any penalties or sanctions imposed by any court or regulatory authority relating to provincial and territorial securities legislation or by a securities regulatory authority, within the three years immediately preceding the date hereof, nor has any party entered into a settlement agreement with a securities regulatory authority within the three years immediately preceding the date hereof, or been subject to any other penalties or sanctions imposed by a court or regulatory body or self-regulatory authority that are necessary to provide full, true and plain disclosure of all material facts relating to the Company's securities or would be likely to be considered important to a reasonable investor making an investment decision.

## AUDIT COMMITTEE

### Audit Committee Charter

The Audit Committee has adopted a written charter setting out its mandate and responsibilities. The Audit Committee is responsible for assisting the Board in fulfilling its oversight responsibilities relating to financial accounting and reporting processes and internal controls. The Audit Committee's primary duties and responsibilities are to: (i) conduct reviews and discussions with management and the external auditors relating to the audit and financial reporting as are deemed appropriate by the Audit Committee; (ii) assess the integrity of internal controls and financial reporting procedures of the Company and ensure implementation of such controls and procedures; (iii) ensure appropriate standards of corporate conduct for senior financial personnel and employees and, if necessary, adopt a corporate code of ethics; (iv) review the quarterly and annual Financial Statements and MD&A of the Company's consolidated financial position and operating results and report thereon to the Board for approval; (v) select and monitor the independence and performance of the Company's external auditors and approve their remuneration; (vi) provide oversight to related party transactions entered into by the Company; and (vii) provide oversight of all disclosure relating to Financial Statements, MD&A and information derived therefrom. The Audit Committee is responsible for inquiring of management and the external auditors about significant risks or exposures, both internal and external to which the Company may be subject and assessing the steps management has taken to minimize such risks. The Audit Committee is also responsible for establishing and implementing procedures in respect of complaints and submissions relating to accounting matters and the approval of non-audit services by the external auditors.

The Charter of the Company's Audit Committee is set forth in Appendix "A" hereto.

### Composition of the Audit Committee

The Audit Committee has been constituted to oversee the financial reporting processes of the Company and is comprised of three independent directors; namely Messrs. Kampian (Chair), Harris, and Young. Each member of the Audit Committee is financially literate and possesses extensive financial knowledge, experience and comprehension of financial statements.

### Relevant Education and Experience

Each member of the Audit Committee has experience relevant to his responsibilities as an Audit Committee member.

### Reliance on Certain Exemptions

The Company is relying on the exemption in Section 6.1 of National Instrument 52-110 — *Audit Committees ("NI 52-110") (Venture Issuers)*. The Company is not relying on any additional exemptions with respect to NI 52-110.

### Pre-Approval Policies and Procedures

The Audit Committee charter sets out procedures regarding the provision of non-audit services by the Company's independent chartered professional accountants. This policy encourages consideration of whether the provision of services other than audit services is compatible with maintaining the auditor's independence and requires Audit Committee pre-approval of permitted non-audit and non-audit-related services.

### External Auditor Service Fees

The following table sets forth, by category, the fees for all services rendered by the Company's external auditors, Jackson & Company, Chartered Accountants, located at 800 – 1199 West Hastings Street, Vancouver, British Columbia V6E 3T5, for the financial period ended December 31, 2015 and 2016, and

for CRHC's external auditors for the financial years ended March 31, 2015, and 2016, prior to the completion of the RTO, as set out below (including estimates).

	<b>March 31 2015</b> <b>(\$)</b>	<b>March 31 2016</b> <b>(\$)</b>	<b>December 31</b> <b>2015<sup>(4)</sup></b> <b>(\$)</b>	<b>December 31</b> <b>2016</b> <b>(\$)</b>
Audit Fees <sup>(1)</sup>	9,371	27,563	2,000	66,150
Audit Related Fees <sup>(2)</sup>	551	2,481	Nil	9,647
Tax Fees <sup>(3)</sup>	551	1,103	500	4,410
All Other Fees	Nil	Nil	1,200	Nil

Notes:

- (1) Includes fees necessary to perform the annual audit and quarterly reviews of the Company's financial statements. Audit Fees include fees for review of tax provisions and for accounting consultations on matters reflected in the financial statements. Audit Fees also include audit or other attest services required by legislation or regulation, such as comfort letters, consents, reviews of securities filings and statutory audits.
- (2) Includes services that are traditionally performed by the auditor. These audit-related services include employee benefit audits, due diligence assistance, accounting consultations on proposed transactions, internal control reviews and audit or attest services not required by legislation or regulation.
- (3) Includes fees for all tax services other than those included in "Audit Fees" and "Audit-Related Fees". This category includes fees for tax compliance, tax planning and tax advice. Tax planning and tax advice includes assistance with tax audits and appeals, tax advice related to mergers and acquisitions, and requests for rulings or technical advice from tax authorities.
- (4) Includes the balances of Bonanza, the predecessor of CannaRoyalty immediately prior to the completion of the RTO.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than services as directors, executive officers and employees of CannaRoyalty or as disclosed below, CannaRoyalty has not acquired any assets or been provided any services in any material transaction, or in any proposed material transaction, from any director, executive officer, insider or promoter of CannaRoyalty, the proposed nominees for election as directors of the Company, the proposed executive officers, insiders or promoters of the Company, or their associates and affiliates. Other than as disclosed below, no director, executive officer, insider or promoter of CannaRoyalty or any associate or affiliate of any such person or company has or had any material interest, direct or indirect, in any transaction that has materially affected or will materially affect CannaRoyalty.

On October 27, 2015, CannaRoyalty entered into a convertible loan payable with a shareholder for \$134,410 with maturity on May 16, 2016, bearing interest at 10% for the term of the loan. This loan is secured by the equity interest in AME and royalty stream investment in Cascadia. On May 16, 2016 the principal and interest was repaid.

On December 29, 2015, CannaRoyalty entered into a loan agreement with a shareholder for \$672,050 with maturity of USD\$575,000 on January 22, 2016. The loan was secured by the 8.2% equity interest in Alternative Medical Enterprises, signed and funded subscription agreements for the March 17, 2016 equity financing, CO2 supercritical extractors, the royalty interest in NuTrae, and the equity interest in Resolve. CannaRoyalty repaid this loan in full.

On February 19, 2016, CannaRoyalty entered into a convertible loan payable with a shareholder for \$150,000 with maturity on August 18, 2016, bearing interest at 10% for the term of the loan. The loan was secured by the equity interest in Alternative Medical Enterprises, all CO2 extraction equipment, and the royalty stream in Cascadia. On August 18, 2016 the principal and interest on this loan was settled with the issuance of 220,000 common shares of CannaRoyalty valued at \$0.75 per share.

On April 12, 2016, CannaRoyalty issued 1,300,000 common shares valued at \$975,000 to certain CannaRoyalty officers and consultants in consideration for services rendered prior to March 31, 2016.

On April 13, 2016, CannaRoyalty entered into a loan agreement with a shareholder for \$403,230 with maturity on May 13, 2016, bearing interest at 15% for the term of the loan. The loan was secured by CannaRoyalty's 8.2% equity interest in Alternative Medical Enterprises, signed and funded subscription agreements for the June 7, 2016 equity financing, CO2 supercritical extractors, CannaRoyalty's royalty interest in NuTrae, and the CannaRoyalty's equity interest in Resolve. The loan was repaid on May 16, 2016.

On April 21, 2016, CannaRoyalty entered into a loan agreement with a shareholder for \$200,000 with maturity on June 30, 2016, bearing interest at 10% for the term of the loan. The loan was repaid with interest of \$20,000.

On June 17, 2016, CannaRoyalty entered into a loan agreement with a shareholder for \$470,435 with maturity on October 31, 2016, bearing interest at 14.29% for the term of the loan. The loan was secured by an 8.2% equity interest in Alternative Medical Enterprises, 3.5% royalty interest in NuTrae, 35% equity interest in Resolve, and CO2 supercritical extractors. The loan was repaid in full.

On June 28, 2016, CannaRoyalty issued 83,500 common shares in CannaRoyalty to the CEO and 16,700 common shares in CannaRoyalty to the prior CFO under CannaRoyalty's Share Unit Plan.

On August 17, 2016, a shareholder loaned CannaRoyalty \$100,000, which was repaid on August 24, 2016. The loan was non-interest bearing.

During the 2015 fiscal year, CannaRoyalty sold some equipment due to technological obsolescence, to a company owned by a director of the Company for proceeds of \$110,053. A loss of \$42,135 was recorded as the cost of the equipment sold was \$152,188.

During the 2016 fiscal year, a related company, controlled by a director of CannaRoyalty, provided an unsecured, non-interest bearing loan, due on demand, to CannaRoyalty in the amount of \$1,758. The advance was repaid in full.

During the 2016 fiscal year, a director provided an unsecured, non-interest bearing loan, due on demand, to CannaRoyalty in the amount of \$20,848. The advance was repaid in full.

During the 2016 fiscal year, CannaRoyalty settled debt of \$192,251 by issuance of 256,335 common shares valued at \$0.75 to a company controlled by a director of CannaRoyalty.

During the third quarter of fiscal 2016, Resolve, an equity investee of CannaRoyalty, provided \$100,000 of consulting services to CannaRoyalty.

#### **TRANSFER AGENT AND REGISTRAR**

TSX Trust Company, located at 200 University Avenue, Suite 300, Toronto, Ontario, M5H 4H1, is the transfer agent and registrar for the Company.

## MATERIAL CONTRACTS

Except for contracts listed below, and those entered into by the Company in the ordinary course of business, there are no contracts entered into or currently anticipated to be entered into by the Company which can reasonably be regarded as presently material.

The Credit Agreement between Cannaroyalty Corp. (as Borrower), Cannabis Royalties & Holdings Corp., Electric Medialand Inc. and Cr Advisory Services Inc. (as Guarantors), Sprott Canna Holdco Corp. (as Lender), dated August 23, 2017 with respect to the Sprott Facility, as further described in *Post-2016 Developments – Financing*, above.

## INTERESTS OF EXPERTS

Jackson & Company (“**Jackson**”) is the independent auditor of the Company and is independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario.

Vicente Sederberg LLC (“**Vicente**”) is the Company’s counsel with respect to U.S. regulatory matters herein.

Neither Jackson or Vicente has, and neither is entitled to receive, any registered or beneficial interest, direct or indirect, in the property of the Company and neither is expected to own any securities of the Company or any associate, affiliate or Related Person of the Company.

## ADDITIONAL INFORMATION

There are no other material facts about the Company or CannaRoyalty Shares that are not disclosed under any other item of this AIF and are necessary in order for this AIF to contain full, true and plain disclosure of all material facts relating to the Company or the CannaRoyalty Shares. Additional information relating to the Company can be found on SEDAR located at [www.sedar.com](http://www.sedar.com).

## GLOSSARY

In this AIF, the following words and terms shall have the following meanings:

“**Achelois**” means Achelois LLC;

“**ACMPR**” has the meaning described thereto under *Trends - Canada*;

“**AcquisitionCo**” means 9995471 Canada Corp., a wholly-owned subsidiary of Bonanza;

“**ADHS**” has the meaning described thereto under *State-Level Overview - Arizona Summary*;

“**Agency Agreement**” means the agreement entered into by CannaRoyalty and a syndicate of agents co-led by Clarus Securities Inc. and Sprott Private Wealth LP., and including Bloom Burton & Co. and KES 7 Capital Inc. in connection with the CannaRoyalty SR Financing;

“**Agents**” has the meaning described thereto under *Three-Year History and Significant Acquisitions – Selected Financings*;

“**AIF**” means annual information form;

“**AIDS**” means acquired immune deficiency syndrome;

“**ALS**” means amyotrophic lateral sclerosis;

“**Alternative Medical Enterprises**” means Alternative Medical Enterprises, LLC (formerly WP&RS Enterprises, LLC);

“**AltoTerra**” means AltoTerra Capital Partners Ltd.;

**“Amalgamation”** means the amalgamation of CannaRoyalty and AcquisitionCo, in accordance with the terms of the Amalgamation Agreement;

**“Amalgamation Agreement”** means the agreement to be entered into by Bonanza, CannaRoyalty, and AcquisitionCo to effect the Amalgamation pursuant to the terms of the Definitive Agreement;

**“AMMA”** has the meaning described thereto under *State-Level Overview - Arizona Summary*;

**“Anandia”** means Anandia Laboratories Inc.;

**“Aphria”** means Aphria Inc.;

**“Audit Committee”** means the audit committee of the Company, as defined by NI 52-110;

**“AUMA”** has the meaning described thereto under *State-Level Overview - California Summary*;

**“BAS”** means BAS Research;

**“Bay Area Extraction”** means Bay Area Extraction Processing;

**“Best Buds”** means Best Buds Animal Health Co.;

**“BHO”** means Butane hash oil;

**“BPG”** means Berkley Patient Group;

**“Board”** means the board of directors of CannaRoyalty;

**“Bohdi”** means Bohdi Research Development Inc.;

**“Bonanza”** means Bonanza Blue Corp.;

**“Bonanza Shares”** means the common shares in the capital of Bonanza, on a post-Consolidation basis;

**“CannaCraft”** means CannaCraft Inc.;

**“CannaRoyalty”** refers to CannaRoyalty Corp. and its subsidiaries;

**“CannaRoyalty Board”** means the board of directors of CannaRoyalty;

**“CannaRoyalty Shareholders”** means the shareholders of CannaRoyalty;

**“CannaRoyalty Shares”** means the common shares in the capital of CannaRoyalty;

**“CannaRoyalty SR Financing”** has the meaning described thereto under *Three-Year History and Significant Acquisitions – Selected Financings*;

**“Cannroy Delaware”** means Cannroy Delaware Inc.;

**“Cannroy Distribution”** means Cannroy Distribution LLC;

**“Cannroy Oregon”** means Cannroy Oregon LLC;

**“Cascadia”** means Cascadia Holdings LLC;

**“CBCA”** means the *Canada Business Corporations Act*, as amended;

**“CBD”** means Cannabidiol;

**“CDS”** means CDS Clearing and Depository Services, Inc.;

“**CERSA**” has the meaning described thereto under *Competitive Conditions – Hydrocarbon Solvent Extraction*;

“**Certificate**” means a certificate of amalgamation issued by the Director pursuant to Section 185 of the CBCA;

“**CHAA**” has the meaning described thereto under *State-Level Overview - Arizona Summary*;

“**Closing**” means the closing of the RTO, being when a Certificate giving effect to the Amalgamation is issued, with the Amalgamation being effective on the date of such Certificate;

“**Co-Lead Agents**” has the meaning described thereto under *Three-Year History and Significant Acquisitions – Corporate - Selected Financings*;

“**Cole Memorandum**” has the meaning described thereto under *Trends – United States*;

“**CRHC**” means Cannabis Royalties & Holdings Corp.;

“**CR Units**” has the meaning as described thereto under *General Development of the Business – Three-Year History and Significant Acquisition – Selected Financings*;

“**CSE**” means the Canadian Securities Exchange;

“**DC SPA**” means the definitive share purchase agreement dated October 24, 2016 between CannaRoyalty, Dreamcatcher and GreenRock regarding the purchase of all issued and outstanding shares of Dreamcatcher;

“**Definitive Agreement**” means the agreement dated June 30, 2016 between CannaRoyalty (formerly Bonanza) and CRHC regarding the terms of the RTO;

“**Derma Leaf**” means Derma Leaf Skin Care;

“**Desert Growers**” means Desert Growers Association LLC;

“**DOJ**” means the Department of Justice

“**Dreamcatcher**” means Dreamcatcher Labs Inc.;

“**DTC**” means the Depository Trust Company.

“**Earn-Out Shares**” has the meaning described thereto under *Three-Year History and Significant Acquisitions – Corporate*;

“**Earn-Out Release Conditions**” has the meaning described thereto under *Three-Year History and Significant Acquisitions – Corporate*;

“**Electric Medialand**” means Electric Medialand Inc.;

“**Escrow Agreement**” has the meaning ascribed thereto under Escrowed Securities;

“**Escrowed Funds**” means the funds from the sale of the subscription receipts that will be deposited in escrow until the escrow release conditions have been satisfied;

“**Escrow Release Conditions**” means, together, (i) the completion, satisfaction or waiver, as the case may be, of all conditions precedent to the business combination of CannaRoyalty (formerly Bonanza) and CRHC set forth in the Letter Agreement, to the satisfaction of the Co-Lead Agents, acting reasonably, other than the filing of the articles of amalgamation; (ii) the receipt of all required shareholder, third party (as applicable) and regulatory approvals in connection with the RTO; (iii) the listing of the CannaRoyalty Shares on the CSE shall have been conditionally approved; and (iv) the representations and warranties of CannaRoyalty in the agency agreement dated October 4, 2016 between CannaRoyalty and the Agents

are true and correct as of the Closing and as of the date of the release certificate, and without giving effect to any limitation indicated by the words “material adverse effect”, “in all material respects”, or “material” except where the failure of such representations and warranties to so be true and correct as of the Closing or as of the date of the release certificate, as the case may be, in the aggregate, would not have a material adverse effect;

“**Eureka**” means Eureka Management Services;

“**FDA**” means Food and Drug Administration;

“**FinCEN Memorandum**” has the meaning described thereto under *Trends – United States*;

“**Freya**” means Freya Intimacy Oil;

“**Green Rock**” means Green Rock Botanicals;

“**HIV**” means human immunodeficiency virus;

“**IFRS**” means the International Financial Reporting Standards, as issued by the International Accounting Standards Board;

“**IHL**” has the meaning described thereto under *Description of Business – Business Objectives and Operations - Strategic Partnerships – Zenabis*;

“**IHMML**” has the meaning described thereto under *Description of Business – Business Objectives and Operations - Strategic Partnerships – Zenabis*;

“**Introduced Parties**” has the meaning described thereto under *Reorganizations*;

“**Lustig HoldCo**” means AJKNJ Corp., a corporation controlled by the CEO of the Company, Marc Lustig;

“**Magnolia**” means Magnolia Wellness Dispensary (Eureka Management Services);

“**MCRSA**” has the meaning described thereto under *State-Level Overview - California Summary*;

“**MD&A**” means management discussion and analysis;

“**MMAR**” has the meaning described thereto under *Trends - Canada*;

“**MMPR**” has the meaning described thereto under *Trends - Canada*;

“**Natural Ventures**” means Natural Ventures PR, LLC;

“**NP 46-201**” means National Policy 46-201 – Escrow for Initial Public Offerings;

“**NuTrae**” means NuTrae LLC;

“**OBCA**” means the *Ontario Business Corporations Act*, as amended;

“**OHA**” has the meaning described thereto under *State-Level Overview - Oregon Summary*;

“**OLCC**” has the meaning described thereto under *State-Level Overview - Oregon Summary*;

“**OTC**” means over-the-counter;

“**Preference Shares**” has the meaning described thereto under *Description of Capital Structure- General*;

“**PRHD**” has the meaning described thereto under *State-Level Overview – Puerto Rico Summary*;

“**PTSD**” means post-traumatic stress disorder;

**“Related Person”** means, (i) each director and executive officer, or (ii) an associate or permitted assign of such director or executive officer;

**“Resolve”** means Resolve Digital Health Inc.;

**“Rich Extracts”** means Rich Extracts LLC;

**“Rock Vapor”** means Rock Vapor Technologies Inc.;

**“RSU”** means a restricted share unit issued pursuant to the Share Unit Plan;

**“RTO”** means the business combination of CannaRoyalty (formerly Bonanza), CRHC and AcquisitionCo by way of a “three-cornered” amalgamation under the provisions of the CBCA;

**“Santa Barbara”** means Santa Barbara Patients Collective Healing Centre;

**“SAR”** means suspicious activity report;

**“Sessions Memorandum”** has the meaning described thereto under *Trends – United States*;

**“Share Unit Plan”** has the meaning described thereto under *General Development of the Business – Recent Developments*;

**“Stokes”** means Progressive Marketing Partners LLC;

**“Subscription Receipts”** has the meaning described thereto under *Reorganizations*;

**“THC”** has the meaning described thereto under *State-Level Overview - Florida Summary*;

**“Three Leaf”** means Three Leaf Holdings Corporation;

**“Tweed”** means Tweed Marijuana Inc.;

**“Underwriters”** has the meaning as described thereto under *General Development of the Business – Three-Year History and Significant Acquisition – Selected Financings*;

**“Unit”** means one CannaRoyalty Share and one half warrant at a price of \$1.50;

**“USAM”** has the meaning described thereto under *Trends – United States*;

**“Vida”** means Vida Cannabis Corp.;

**“Wagner Dimas”** means Wagner Dimas Inc.;

**“Warrant”** has the meaning as described thereto under *General Development of the Business – Three-Year History and Significant Acquisition – Selected Financings*;

**“Warrant Shares”** has the meaning as described thereto under *General Development of the Business – Three-Year History and Significant Acquisition – Selected Financings*;

**“WSLCB”** has the meaning described thereto under *State-Level Overview - Washington Summary*; and

**“Zenabis”** means Zenabis Limited Partnership.

## APPENDIX "A" – CHARTER OF THE AUDIT COMMITTEE

### CANNAROYALTY

#### CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

##### 1. PURPOSE OF THIS CHARTER

The Audit Committee (the "**Committee**") is appointed by the Board of Directors (the "**Board**") of CannaRoyalty Resources Inc. (the "**Corporation**") to assist the Board in fulfilling its oversight responsibilities relating to financial accounting, reporting and internal controls for the Corporation. The Committee's primary duties and responsibilities are to:

- a) conduct such reviews and discussions with management and the external auditors relating to the audit and financial reporting as are deemed appropriate by the Committee;
- b) assess the integrity of internal controls and financial reporting procedures of the Corporation and ensure implementation of such controls and procedures;
- c) review the quarterly and annual financial statements and management's discussion and analysis of the Corporation's financial position and operating results and in the case of the annual financial statements and related management's discussion and analysis, report thereon to the Board for approval of same;
- d) select and monitor the independence and performance of the Corporation's external auditors, including attending at private meetings with the external auditors and reviewing and approving all renewals or dismissals of the external auditors and their remuneration; and
- e) provide oversight of all disclosure relating to, and information derived from, financial statements, management's discussion and analysis and information.

The Committee has the authority to conduct any investigation appropriate to its responsibilities, and it may request the external auditors, as well as any officer of the Corporation, or outside counsel for the Corporation, to attend a meeting of the Committee or to meet with any members of, or advisors to, the Committee. The Committee shall have unrestricted access to the books and records of the Corporation and has the authority to retain, at the expense of the Corporation, special legal, accounting, or other consultants or experts to assist in the performance of the Committee's duties.

The Committee shall review and assess the adequacy of this Charter annually and submit any proposed revisions to the Board for approval.

In fulfilling its responsibilities, the Committee will carry out the specific duties set out in Part 4 of this Charter.

##### 2. AUTHORITY OF THE AUDIT COMMITTEE

The Committee shall have the authority to:

- a) engage independent counsel and other advisors as it determines necessary to carry out its duties;
- b) set and pay the compensation for advisors employed by the Committee; and
- c) communicate directly with the internal and external auditors.

### 3. COMPOSITION AND MEETINGS

The Committee and its membership shall meet all applicable legal, regulatory and listing requirements, including, without limitation, those of the Ontario Securities Commission (“**OSC**”), the Toronto Stock Exchange, the *Business Corporations Act* (Ontario) and all applicable securities regulatory authorities.

- a) The Committee shall be composed of three or more directors as shall be designated by the Board from time to time. Unless a Chair is elected by the Board, the members of the Committee shall designate from amongst themselves by majority vote of the full Committee a member who shall serve as Chair. The position description and responsibilities of the Chair are set out in Schedule “A” attached hereto.
- b) Each member of the Committee shall be “independent” and “financially literate”. An “independent” director is a director who has no direct or indirect material relationship with the Corporation. A “material relationship” is a relationship which, in the view of the Board, could be reasonably expected to interfere with the exercise of the director’s independent judgement or a relationship deemed to be a material relationship pursuant to Sections 1.4 and 1.5 of National Instrument 52-110 — *Audit Committees*, as set out in Schedule “B” hereto. A “financially literate” director is a director who has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the accounting issues that can be reasonably expected to be raised in the Corporation’s financial statements.
- c) Each member of the Committee shall sit at the pleasure of the Board, and in any event, only so long as he or she shall be independent. The Committee shall report to the Board.
- d) The Committee shall meet at least quarterly, at the discretion of the Chair or a majority of its members, as circumstances dictate or as may be required by applicable legal or listing requirements. A minimum of two and at least 50% of the members of the Committee present, either in person or by telephone, shall constitute a quorum.
- e) If within one hour of the time appointed for a meeting of the Committee, a quorum is not present, the meeting shall stand adjourned to the same hour on the next business day following the date of such meeting at the same place. If at the adjourned meeting a quorum as hereinbefore specified is not present within one hour of the time appointed for such adjourned meeting, such meeting shall stand adjourned to the same hour on the second business day following the date of such meeting at the same place. If at the second adjourned meeting a quorum as hereinbefore specified is not present, the quorum for the adjourned meeting shall consist of the members then present (a “Reduced Quorum”).
- f) If, and whenever a vacancy shall exist, the remaining members of the Committee may exercise all of its powers and responsibilities so long as a quorum remains in office or a Reduced Quorum is present in respect of a specific Committee meeting.
- g) The time and place at which meetings of the Committee shall be held, and procedures at such meetings, shall be determined from time to time by the Committee. A meeting of the Committee may be called by letter, telephone, facsimile, email or other communication equipment, by giving at least 48 hours’ notice, provided that no notice of a meeting shall be necessary if all of the members are present either in person or by means of conference telephone or if those absent have waived notice or otherwise signified their consent to the holding of such meeting.
- h) Any member of the Committee may participate in the meeting of the Committee by means of conference telephone or other communication equipment, and the member participating in a meeting pursuant to this paragraph shall be deemed, for purposes hereof, to be present in person at the meeting.

- i) The Committee shall keep minutes of its meetings which shall be submitted to the Board. The Committee may, from time to time, appoint any person who need not be a member, to act as a secretary at any meeting.
- j) Any director of the Corporation may attend meetings of the Committee, and the Committee may invite such officers and employees of the Corporation and its subsidiaries as the Committee may see fit, from time to time, to attend at meetings of the Committee.
- k) Any matters to be determined by the Committee shall be decided by a majority of votes cast at a meeting of the Committee called for such purpose. Actions of the Committee may be taken by an instrument or instruments in writing signed by all of the members of the Committee, and such actions shall be effective as though they had been decided by a majority of votes cast at a meeting of the Committee called for such purpose. The Committee shall report its determinations to the Board at the next scheduled meeting of the Board, or earlier as the Committee deems necessary. All decisions or recommendations of the Committee shall require the approval of the Board prior to implementation, other than those relating to non-audit services and annual audit fees which do not require the approval of the Board. The Board can delegate, as appropriate, the approval of the quarterly unaudited financial statements, management's discussion and analysis and news release to the Committee.
- l) The Committee members will be elected annually at the first meeting of the Board following the annual general meeting of shareholders.
- m) The Board may at any time amend or rescind any of the provisions hereof, or cancel them entirely, with or without substitution.

#### **4. RESPONSIBILITIES**

- a) Financial Accounting and Reporting Process and Internal Controls
  - i) The Committee shall review the annual audited and interim financial statements and related management's discussion and analysis before the Corporation publicly discloses this information to satisfy itself that the financial statements are presented in accordance with applicable accounting principles and in the case of the annual audited financial statements and related management's discussion and analysis, report thereon and recommend to the Board whether or not same should be approved prior to their being filed with the appropriate regulatory authorities. With respect to the annual audited financial statements, the Committee shall discuss significant issues regarding accounting principles, practices, and judgments of management with management and the external auditors as and when the Committee deems it appropriate to do so. The Committee shall consider whether the Corporation's financial disclosures are complete, accurate, prepared in accordance with International Financial Reporting Standards and fairly present the financial position of the Corporation. The Committee shall also satisfy itself that, in the case of the annual financial statements, the audit function has been effectively carried out by the auditors and, in the case of the interim financial statements, that the review function has been effectively carried out.
  - ii) The Committee shall ensure internal control procedures are reviewed at least twice annually.
  - iii) The Committee shall be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, management's discussion and analysis and annual and interim earnings press releases, and periodically

assess the adequacy of these procedures in consultation with any disclosure committee of the Corporation.

- iv) The Committee shall review any press releases containing disclosure regarding financial information that are required to be reviewed by the Committee under any applicable laws or otherwise pursuant to the policies of the Corporation (including before the Corporation publicly discloses this information).
- v) The Committee shall meet no less than annually with the external auditors and the Chief Financial Officer or, in the absence of a Chief Financial Officer, with the officer of the Corporation in charge of financial matters, to review accounting practices, internal controls and such other matters as the Committee, Chief Financial Officer or, in the absence of a Chief Financial Officer, the officer of the Corporation in charge of financial matters, deem appropriate.
- vi) The Committee shall inquire of management and the external auditors about significant financial and internal control risks or exposures and assess the steps management has taken to minimize such risks.
- vii) The Committee shall review the post-audit or management letter, if any, containing the recommendations of the external auditors and management's response and subsequent follow-up to any identified weaknesses.
- viii) The Committee shall periodically review and make recommendations regarding the Code of Business Conduct and Ethics adopted by the Board;
- ix) The Committee shall follow procedures established as set out in the Whistleblower Policy of the Corporation, for:
  - the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, auditing matters or violations to the Corporation's Code of Business Conduct and Ethics; and
  - the submission by employees, consultants, contractors, directors or officers of the Corporation, on a confidential and anonymous basis, of concerns regarding questionable accounting, auditing matters or violations to the Corporation's Code of Business Conduct and Ethics.
- x) The Committee shall ensure that management establishes and maintains an appropriate budget process, which shall include the preparation and delivery of periodic reports from the Chief Financial Officer to the Committee comparing actual spending to the budget. The budget shall include assumptions regarding economic parameters that are well supported and shall take into account the risks facing the Corporation.
- xi) The Committee shall have the authority to adopt such policies and procedures as it deems appropriate to operate effectively.

**b) Independent Auditors**

- i) The Committee shall recommend to the Board the external auditors to be nominated for the purpose of preparing or issuing an auditors' report or performing other audit, review or attest services for the Corporation, shall set the compensation for the external auditors, provide oversight of the external auditors and shall ensure that the external auditors' report directly to the Committee.

- ii) The Committee shall ensure that procedures are in place to assess the audit activities of the independent auditors and the internal audit functions.
- iii) The pre-approval of the Committee shall be required as further set out in Schedule "C" prior to the undertaking of any non-audit services not prohibited by law to be provided by the external auditors in accordance with this Charter.
- iv) The Committee shall monitor and assess the relationship between management and the external auditors and monitor, support and assure the independence and objectivity of the external auditors and attempt to resolve disagreements between management and the external auditors regarding financial reporting.
- v) The Committee shall review the external auditors' audit plan, including the scope, procedures and timing of the audit.
- vi) The Committee shall review the results of the annual audit with the external auditors, including matters related to the conduct of the audit.
- vii) The Committee shall obtain timely reports from the external auditors describing critical accounting policies and practices, alternative treatments of information within International Financial Reporting Standards that were discussed with management, their ramifications, and the external auditors' preferred treatment and material written communications between the Corporation and the external auditors.
- viii) The Committee shall review fees paid by the Corporation to the external auditors and other professionals in respect of audit and non-audit services on an annual basis.
- ix) The Committee shall review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former auditors of the Corporation.
- x) The Committee shall have the authority to engage the external auditors to perform a review of the interim financial statements.

c) Other Responsibilities

The Committee shall perform any other activities consistent with this Charter and governing law, as the Committee or the Board deems necessary or appropriate.

## **SCHEDULE “A”**

### **CANNAROYALTY CORP.**

#### **POSITION DESCRIPTION FOR THE CHAIRMAN OF THE AUDIT COMMITTEE**

##### **1. PURPOSE**

The Chairman of the Committee shall be an independent director who is elected by the Board or designated by majority vote of the Committee to act as the leader of the Committee in assisting the Board in fulfilling its financial reporting and control responsibilities to the shareholders of the Corporation.

##### **2. WHO MAY BE CHAIRMAN**

The Chairman will be selected from amongst the independent directors of the Corporation who have a sufficient level of financial sophistication and experience in dealing with financial issues to ensure the leadership and effectiveness of the Committee.

The Chairman will be selected annually at the first meeting of the Board following the annual general meeting of shareholders or designated by majority vote of the Committee.

##### **3. RESPONSIBILITIES**

The following are the primary responsibilities of the Chairman:

- a) chair all meetings of the Committee in a manner that promotes meaningful discussion;
- b) ensure adherence to the Committee’s Charter and that the adequacy of the Committee’s Charter is reviewed annually;
- c) provide leadership to the Committee to enhance the Committee’s effectiveness, including:
  - i) act as liaison and maintain communication with the Board to optimize and coordinate input from directors, and to optimize the effectiveness of the Committee. This includes ensuring that Committee materials are available to any director upon request and reporting to the Board on all decisions of the Committee at the first meeting of the Board after each Committee meeting and at such other times and in such manner as the Committee considers advisable;
  - ii) ensure that the Committee works as a cohesive team with open communication, as well as to ensure open lines of communication among the independent auditors, financial and senior management and the Board for financial and control matters;
  - iii) ensure that the resources available to the Committee are adequate to support its work and to resolve issues in a timely manner;
  - iv) ensure that the Committee serves as an independent and objective party to monitor the Corporation’s financial reporting process and internal control systems, as well as to monitor the relationship between the Corporation and the independent auditors to ensure independence;

- v) ensure that procedures as determined by the Committee are in place to assess the audit activities of the independent auditors and the internal audit functions; and
- vi) ensure that procedures as determined by the Committee are in place to review the Corporation's public disclosure of financial information and assess the adequacy of such procedures periodically, in consultation with any disclosure committee of the Corporation;
- d) ensure that procedures as determined by the Committee are in place for dealing with complaints received by the Corporation regarding accounting, internal controls and auditing matters, and for employees to submit confidential anonymous concerns;
- e) manage the Committee, including:
  - i) adopt procedures to ensure that the Committee can conduct its work effectively and efficiently, including committee structure and composition, scheduling, and management of meetings;
  - ii) prepare the agenda of the Committee meetings and ensuring pre-meeting material is distributed in a timely manner and is appropriate in terms of relevance, efficient format and detail;
  - iii) ensure meetings are appropriate in terms of frequency, length and content;
  - iv) obtain a report from the independent auditors on an annual basis, review the report with the Committee and arranging meetings with the auditors and financial management to review the scope of the proposed audit for the current year, its staffing and the audit procedures to be used;
  - v) oversee the Committee's participation in the Corporation's accounting and financial reporting process and the audits of its financial statements;
  - vi) ensure that the auditor's report directly to the Committee, as representatives of the Corporation's shareholders; and
  - vii) annually review with the Committee its own performance, report annually to the Board on the role of the Committee and the effectiveness of the Committee in contributing to the effectiveness of the Board; and
  - viii) together with the Board, oversee the structure, composition and membership of, and activities delegated to, the Committee from time to time; and
- f) perform such other duties as may be delegated from time to time to the Chairman by the Board.

## SCHEDULE "B"

### CANNAROYALTY CORP.

#### NATIONAL INSTRUMENT 52-110 AUDIT COMMITTEES ("NI 52-110")

##### Section 1.4 — Meaning of Independence

- (1) An audit committee member is independent if he or she has no direct or indirect material relationship with the issuer.
- (2) For the purposes of subsection (1), a "material relationship" is a relationship which could, in the view of the issuer's board of directors, be reasonably expected to interfere with the exercise of a member's independent judgment.
- (3) Despite subsection (2), the following individuals are considered to have a material relationship with an issuer:
  - (a) an individual who is, or has been within the last three years, an employee or executive officer of the issuer;
  - (b) an individual whose immediate family member is, or has been within the last three years, an executive officer of the issuer;
  - (c) an individual who:
    - (i) is a partner of a firm that is the issuer's internal or external auditor,
    - (ii) is an employee of that firm, or
    - (iii) was within the last three years a partner or employee of that firm and personally worked on the issuer's audit within that time;
  - (d) an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual:
    - (i) is a partner of a firm that is the issuer's internal or external auditor,
    - (ii) is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or
    - (iii) was within the last three years a partner or employee of that firm and personally worked on the issuer's audit within that time;
  - (e) an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the issuer's current executive officers serves or served at that same time on the entity's compensation committee; and
  - (f) an individual who received, or whose immediate family member who is employed as an executive officer of the issuer received, more than \$75,000 in direct compensation from the issuer during any 12 month period within the last three years.
- (4) Despite subsection (3), an individual will not be considered to have a material relationship with the issuer solely because

- (a) he or she had a relationship identified in subsection (3) if that relationship ended before March 30, 2004; or
  - (b) he or she had a relationship identified in subsection (3) by virtue of subsection (8) if that relationship ended before June 30, 2005.
- (5) For the purposes of clauses (3)(c) and (3)(d), a partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.
- (6) For the purposes of clause (3)(f), direct compensation does not include:
- (a) remuneration for acting as a member of the board of directors or of any board committee of the issuer, and
  - (b) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.
- (7) Despite subsection (3), an individual will not be considered to have a material relationship with the issuer solely because the individual or his or her immediate family member
- (a) has previously acted as an interim chief executive officer of the issuer, or
  - (b) acts, or has previously acted, as a chair or vice-chair of the board of directors or of any board committee of the issuer on a part-time basis.
- (8) For the purpose of section 1.4, an issuer includes a subsidiary entity of the issuer and a parent of the issuer.

#### Section 1.5 — Additional Independence Requirements for Audit Committee Members

- (1) Despite any determination made under section 1.4 of NI 52-110, an individual who
- (a) accepts, directly or indirectly, any consulting, advisory or other compensatory fee from the issuer or any subsidiary entity of the issuer, other than as remuneration for acting in his or her capacity as a member of the board of directors or any board committee, or as a part-time chair or vice-chair of the board or any board committee; or
  - (b) is an affiliated entity of the issuer or any of its subsidiary entities,
- is considered to have a material relationship with the issuer.
- (2) For the purposes of subsection (1), the indirect acceptance by an individual of any consulting, advisory or other compensatory fee includes acceptance of a fee by
- (a) an individual's spouse, minor child or stepchild, or a child or stepchild who shares the individual's home; or
  - (b) an entity in which such individual is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and

which provides accounting, consulting, legal, investment banking or financial advisory services to the issuer or any subsidiary entity of the issuer.

- (3) For the purposes of subsection (1), compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.

## **SCHEDULE “C”**

### **CANNAROYALTY CORP.**

#### **PROCEDURES FOR APPROVAL OF NON-AUDIT SERVICES**

1. The Corporation’s external auditors shall be prohibited from performing for the Corporation the following categories of non-audit services:
  - (a) bookkeeping or other services related to the Corporation’s accounting records or financial statements;
  - (b) appraisal or valuation services, fairness opinion or contributions-in-kind reports;
  - (c) actuarial services;
  - (d) internal audit outsourcing services;
  - (e) management functions;
  - (f) human resources;
  - (g) broker or dealer, investment adviser or investment banking services;
  - (h) legal services; and
  - (i) any other service that the Canadian Public Accountability Board or International Accounting Standards Board or other analogous board which may govern the Corporation’s accounting standards, from time to time determines is impermissible.
2. In the event that the Corporation wishes to retain the services of the Corporation’s external auditors for tax compliance, tax advice or tax planning, the Chief Financial Officer of the Corporation shall consult with the Chair of the Committee, who shall have the authority, subject to confirmation that such services will not compromise the independence of the Corporation’s external auditors, to approve or disapprove on behalf of the Committee, such non-audit services. All other non-audit services shall be approved or disapproved by the Committee as a whole.
3. The Chief Financial Officer of the Corporation shall maintain a record of non-audit services approved by the Chair of the Committee or the Committee for each fiscal year and provide a report to the Committee no less frequently than on a quarterly basis.