

CannaRoyalty Closes Acquisition of FloraCal, a Premium Craft Cannabis Producer

- FloraCal generated US\$6.4 million in Revenue¹ US\$3.2 million of EBITDA and US\$2.6 million in net income in fiscal 2017¹
- Demand is currently outpacing supply, with revenue of ~ US\$600,000 in June 2018. CannaRoyalty's distribution subsidiary River Distribution generated US\$939,739 from sales of FloraCal products in month of June
- FloraCal branded flower is fully compliant with the California state regulations regarding product testing and packaging that came into effect on July 1st; Well-positioned to supply a market that may face short-term supply disruption
- Current production capacity of ~1,000 kg of craft cannabis annually. Set to expand up to 3,700 kg in its Phase II expansion and 5,500 kg as part of its Phase III

OTTAWA, July 3, 2018 /CNW/ - **CannaRoyalty Corp. (CSE: CRZ) (OTCQX: CNNRF)** ("CannaRoyalty" or the "Company"), a leading North American cannabis products and brands company, announced today that it has closed the **previously announced** acquisition of FloraCal® Farms ("FloraCal"), a licensed premium craft cannabis producer located in Sonoma County, California.

"The evolution of our relationship with FloraCal to the close of the acquisition today, is directly aligned with the strategic framework we have outlined for shareholders and is a model that we intend to replicate in a targeted fashion across key verticals of the California market in the coming years," said Marc Lustig, CEO of CannaRoyalty. "As one of the state's largest third-party cannabis consumer brand distributors, we are strategically positioned to foster the growth of both our retailer and brand customers' businesses, while generating proprietary market data and consumer insights to ensure we are in a position to acquire or otherwise partner with brand leaders in the space as they establish themselves."

Afzal Hasan, President and General Counsel of CannaRoyalty added, "FloraCal occupies an ultra-premium position in the California market, with THC numbers testing up to 33% and a selling price of up to US\$17.00 per gram. This demonstrates that even in a relatively mature flower market, craft branded flower is able to capture and maintain premium prices and margins. We are confident that between a measured increase in capacity and access to CannaRoyalty's distribution platform, the brand can reach new heights in the California market. In addition, as of July 1st the California market has officially exited the 'grey' market, requiring retailers to cease carrying non-compliant cannabis products. We anticipate this may lead to short-term supply disruption, further increasing the value of compliant brand players like FloraCal, to our network. We look forward to working with Drew, Karen and their team to bring the FloraCal story to a wider audience across California and to leverage FloraCal's IP and premium brand into Canada and other legal jurisdictions."

"We are very excited to join the CannaRoyalty team to continue to drive growth in the FloraCal business," said Drew Duval, CEO of FloraCal. "We are focused on delivering top quality cannabis products to California's discerning consumer base and are confident that CannaRoyalty's platform will give us access to a best-in-class distribution and manufacturing network that will enable FloraCal to scale prudently and efficiently."

FloraCal has a temporary medium indoor cultivation license from the state of California, as well a Type 6 non-volatile manufacturing permit in Sonoma County.

FloraCal is building its Sonoma County facility in three Phases and has been designed to comply with cGMP* (Current Good Manufacturing Process) standards.

- Phase I is licensed and in commercial production, with 15,000 square feet of purpose-built indoor growing in a 64,200 square foot facility.
- Phase II has been licensed and will increase the facility size to 42,200 square feet and targeted annual production of 3,700 kg, with construction expected to be completed by Q1 2019.

- Phase III is under option and would allow further expansion to the full facility size of 64,200 square feet, with targeted annual production of 5,500 kg.
- Capital cost for construction during Phase I and II is estimated to be US\$7.5MM and Phase III has an anticipated budget of US\$4MM for construction.

Transaction Summary

Pursuant to a purchase agreement dated July 2, 2018, the Company has acquired 100% of FloraCal for a total consideration of US\$1 million in cash, subject to a working capital adjustment, and 35,088 CannaRoyalty Class A Compressed Shares⁽²⁾ ("**Compressed Shares**"), as well as up to an additional US\$3 million in cash and 35,088 Compressed Shares to be paid over 3 years, based on the completion of certain milestones, and other considerations.

¹ This financial information has not been audited.

² Each Class A Compressed Share is convertible into 100 common shares of CannaRoyalty ("**Common Shares**"), subject to certain conditions, and carries the right to one vote for each Common Share into which it can be converted into. Class A Compressed Shares are entitled to vote, together with holders of Common Shares, with respect to any question upon which holders of Common Shares have the right to vote.

The ability to convert the Class A Compressed Shares into Common Shares is subject to a restriction that the aggregate number of Common Shares and Class A Compressed Shares held of record, directly or indirectly, by residents of the United States (as determined in accordance with Rules 3b-4 under the Securities Exchange Act of 1934, as amended), may not exceed forty percent (40%) of the aggregate number of Common Shares and Class A Compressed Shares issued and outstanding after giving effect to such conversions. The Class A Compressed Shares are subject to a further conversion restriction whereby the Corporation shall not effect a conversion of Class A Compressed Shares to the extent that after giving effect to any such conversion, a holder thereof would beneficially own greater than 9.99% of the issued and outstanding Common Shares. The Corporation is issuing Compressed Shares to minimize the proportion of the outstanding voting securities of CannaRoyalty that are held by "U.S. persons" for purposes of determining whether CannaRoyalty is a "foreign private issuer" for purposes of United States securities laws.

About FloraCal® Farms

FloraCal® Farms is located in Sonoma County. FloraCal® Farms produces hand grown flowers in small batches. The cultivation facility practices sustainable cultivation techniques and is 100% powered by renewable energy. FloraCal's® team of master cultivators strive to create beautiful consistent cannabis products with a smooth finish, believing it all starts from the seed and are dedicated to hand selecting the finest genetics. Their natural farming techniques allow FloraCal® to consistently produce top shelf flowers at the highest quality for its customers.

FloraCal possesses a unique and rare genetics collection, currently encompassing seven ultra-high-quality cannabis flowers along with rosin and packaged pre-rolls. FloraCal uses proprietary, highly scalable cultivation techniques and related intellectual property that enable the company to achieve consistent, ultra-premium products. Some product highlights include:

- THC between 28-32% for commercial production (have been tested up to 33% THC)
- Very successful line of premium pre-rolls distributed through River
- First cultivation license issued in Sonoma county for cultivation in 2018
- Also licensed for manufacturing and extraction
- 15,000 square feet currently, currently under expansion to a total of 42,200 square feet
- Maximum production for 42,200 square foot facility is 3,700kg annually

About CannaRoyalty

CannaRoyalty is a North American cannabis consumer product company currently focused on building a leading distribution business in California, the world's largest regulated cannabis market. By building a world-class logistics platform and supporting contract manufacturing assets, the Company intends to support the growth of new and established cannabis brands. The Company believes California, home to some of the world's most discerning consumers and a nexus of information and trends, will be the point of inception for the global cannabis brands of the future. CannaRoyalty has developed a diversified portfolio

of assets within the cannabis sector, including research, infrastructure and intellectual property to support our existing brands, partner products and distribution networks. The Company's leadership and staff combines passion and a hands-on understanding of the cannabis industry, with proven financial and legal expertise. CannaRoyalty's Common Shares trade on the Canadian Stock Exchange (CSE) under the symbol CRZ and in the US on the OTCQX under the symbol CNNRF.

Forward Looking Statements

Statements in this news release that are forward-looking statements are subject to various risks and uncertainties concerning the specific factors disclosed here and elsewhere in CannaRoyalty's periodic filings with Canadian securities regulators. When used in this news release, words such as "will, could, plan, estimate, expect, intend, may, potential, believe, should," and similar expressions, are forward-looking statements.

Forward-looking statements may include, without limitation, statements relating to the Acquisitions, the execution of the Company's strategy, new opportunities, future growth and other statements.

Although CannaRoyalty has attempted to identify important factors that could cause actual results, performance or achievements to differ materially from those contained in the forward-looking statements, there can be other factors that cause results, performance or achievements not to be as anticipated, estimated or intended, including, but not limited to: dependence on obtaining regulatory approvals; investing in target companies or projects that are engaged in activities currently considered illegal under US federal law; changes in laws; limited operating history; reliance on management; requirements for additional financing; competition; hindering market growth and state adoption due to inconsistent public opinion and perception of the medical-use and adult-use marijuana industry and; regulatory or political change.

There can be no assurance that such information will prove to be accurate or that management's expectations or estimates of future developments, circumstances or results will materialize. As a result of these risks and uncertainties, the results or events predicted in these forward-looking statements may differ materially from actual results or events.

Accordingly, readers should not place undue reliance on forward-looking statements. The forward-looking statements in this news release are made as of the date of this release. CannaRoyalty disclaims any intention or obligation to update or revise such information, except as required by applicable law, and CannaRoyalty does not assume any liability for disclosure relating to any other company mentioned herein.

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