

CannaRoyalty Acquires Dominant Online and Retail Canadian Vape Operator, 180 Smoke

- *Customer acquisition will be key to winning in the embryonic Canadian cannabis brands market. Over 80% of 180 Smoke's nicotine vape ("[Vape](#)") consumers are also potential cannabis users¹. This cross-over gives CannaRoyalty's cannabis consumer brand partners access to a rapidly-growing, repeat, online and retail customer base.*
- *Potential for rapid deployment of a cannabis retail footprint in Ontario (Canada's largest market) – Vast majority of 180 Smoke and its subsidiaries' 26 Canadian bricks & mortar locations have cannabis potential.*
- *420 Wellness Inc., ("420 Wellness") a subsidiary of 180 Smoke was recently approved for its first cannabis dispensary location in the City of Calgary, has applied for two additional cannabis dispensary licenses in Alberta and is actively negotiating for additional locations nationally.*
- *180 Smoke has the largest share of the online Vape market in Canada.²*
- *180 Smoke's management team has built a successful, high-margin Vape consumables brand in a highly regulated, competitive and fragmented market.*
- *420 Wellness intends to apply for a cannabis processing license before year-end 2018, which would be run out of existing manufacturing facilities and will give CannaRoyalty global export potential for its portfolio of consumer products.*
- *Rapidly expanding, cash flow positive Vape, e-juice manufacturing and cannabis hardware business generated \$6.78 million in revenue and had positive net income of \$0.1 million from January to August 2018³ in a period where 180 Smoke opened or began construction on 10 new stores; growth of 51%.*

All financial figures in Canadian Dollars (\$) unless otherwise noted.

TORONTO, Sept. 27, 2018 /CNW/ - **CannaRoyalty Corp. (CSE: CRZ)(OTCQX: CNNRF)** ("CannaRoyalty" or the "Company"), a North American cannabis products and brands company, and its subsidiary, Trichome Financial Corp. ("Trichome") announced today that the Company has acquired 100% of investee [180 Smoke](#) and its affiliates ("180 Smoke") for total consideration of \$25 million, as well as an additional \$15 million upon the completion of certain milestones (the "Acquisition").

Afzal Hasan, President and General Counsel, at CannaRoyalty, commented, "180 Smoke is the Canadian cornerstone of the home we have been building to originate the global cannabis brands of the future. Our platform emanates from California, where we have fostered the growth of almost 50 cannabis brands as a manufacturer and distributor into over 450 dispensaries. Customer satisfaction and attachment are the primary determinants of success in a consumer brands business and cannabis is no exception. Looking at the Canadian market and the lack of compelling consumer offerings on the horizon even a year out, we view 180 Smoke as one of the few companies who is doing it 'right'. As a management team, we are drawn to business models that can be rapidly and profitably scaled with the addition of each new customer, brand and dollar of capital, and 180 Smoke fits this formula. The 180 Smoke management team has built a growing, profitable retail and online Vape business along with several strong in-house brands in a fragmented, competitive and highly regulated marketplace. We expect to be in a position to rapidly leverage 180 Smoke's existing platform and additional cannabis locations to drive sustainable, accretive growth in the Canadian market."

Ashutosh Jha, President of 180 Smoke added, "The investments made by CannaRoyalty and Trichome and the strategic counsel both management teams have provided over the past seven

months, have enabled us to begin aggressively expanding our retail footprint and setting the foundation for the consolidation of the fragmented retail and online Vape industry as well as to rapidly grow our retail cannabis exposure. With the positive announcement regarding private cannabis retail out of Ontario on September 26th, we are even more confident that we can drive significant growth and profitability over the next two years, while continuing to focus on harm reduction for consumers. This deal will give 180 Smoke access through CannaRoyalty to the additional capital and expertise both to execute on those plans as well as to become a force in cannabis retail and brands, together."

Strategic Rationale:

- **Already approved for one cannabis location, marquee GTA retail locations and actively negotiating additional locations, nationally.** In addition to 420 Wellness' [recently approved](#) Calgary location, the company is actively looking to expand its cannabis footprint by applying for and acquiring cannabis retail licenses across Canada. 180 Smoke believes that the vast majority of its Ontario retail locations would fit within a conservative Ontario framework regarding private cannabis retail in the province.
- **Leverages CannaRoyalty's distribution and brand support platform in California across Canada and globally.** True consumer brands transcend physical borders and cost little incremental capital to apply to a new market, like Canada. 180 Smoke currently has 26 tier-1 locations that it expects will be suitable for cannabis across three provinces and the largest share of the online Vape market in Canada. 420 Wellness expects to apply for a Canadian cannabis processing license by year-end 2018. The approval of a processing license would give CannaRoyalty export access to global markets.
- **Access to an established, repeat customer base both online and in bricks & mortar locations, with a high propensity to use cannabis.** Over 80% of 180 Smoke's nicotine vape consumers are also potential cannabis users.
- **Restrictive advertising and branding rules in the cannabis industry will push the responsibility of building brands to the retail level.** 180 Smoke is well positioned to be a major influencer of consumer trends and preferences in this new industry. The management team is currently operating in a highly regulated environment, has been a driving force in Canadian Vape legislation and has developed several successful lines of consumable goods in a fragmented and competitive space.
- **Vape industry is ripe for consolidation.** The Vape industry is currently fragmented. By number of operating locations, 180 Smoke is one of the key players in the Canadian market. 180 Smoke estimates there are approximately 1,000 Vape stores in the Canadian market, currently, with the majority of those stores owned by small owner/operators. 180 Smoke is ideally situated to make accretive acquisitions while driving cannabis optionality with each transaction. A dominant Canadian Vape business is expected to be an attractive acquisition target to large, global nicotine companies.
- **Strong financial performance.** The senior management team at 180 Smoke has grown revenues 51% year-over-year to \$6.78 million for the eight-month period ended August 2018, for an annualized revenue pace of \$11 million⁴. In 2017, 180 Smoke generated \$7.8 million in revenue with net income of \$0.4 million, while investing heavily in growth.

Retail Portfolio Summary:

The Company expects that based on regulations adopted in other Canadian jurisdictions, the vast majority of 180 Smoke and subsidiaries' retail portfolio, including its GTA stores, will be eligible for retail cannabis distribution.

- *15 profitable Greater Toronto Area ("GTA") locations*
- *6 Tier-1 leases in Hamilton Region, ON*
- *1 Tier-1 lease in Niagara Falls, ON*
- *1 approved cannabis Development Permit for Tier-1 lease in Calgary, AB*

- 2 Tier-1 leases in in Edmonton, AB
- 1 Tier-1 lease in in Chilliwack, BC
- 1 profitable location in Buffalo, NY

Transaction Summary:

The total consideration for the Acquisition shall be \$25 million dollars (the "**Purchase Price**"), plus up to an additional \$15 million dollars upon the successful completion of certain milestones (the "**Milestone Payments**") by December 31, 2020.

Purchase Price

The breakdown of the Purchase Price is as follows:

- \$22.5 million in CannaRoyalty common shares that will be priced based on the 15-day VWAP to market close on September 26, 2018 (the "Acquisition Share Price").
- \$2.5 million in cash to be paid on the Closing Date.

Purchase Price Adjustment

If CannaRoyalty's average VWAP during the 3-month period of October 1, 2020 and December 31, 2020 does not trade 15% above the Acquisition Share Price, 180 will receive an additional issuance of \$10 million of CannaRoyalty common shares, calculated as \$10 million divided by the Acquisition Share Price. (the "Purchase Price Adjustment").

The Purchase Price Adjustment is contingent on 180 Smoke meeting or exceeding \$25 million in exit rate revenues in 2019 (the "2019 Revenue Target"). If the 2019 Revenue Target is not achieved, the Purchase Price Adjustment will not be issued.

Milestone Payments

- New Cannabis Licenses**
A payment of \$300,000, payable to the shareholders of 180 Smoke in CannaRoyalty common shares, per Cannabis Store opened prior to December 31, 2020, up to a maximum of \$9 million.
- Vape Stores**
A payment of \$120,000, payable to the shareholders of 180 Smoke in CannaRoyalty common shares, per Vape Store opened prior to December 31, 2020, up to a maximum of \$6 million.
- Acquired Vape Stores**
A payment of \$60,000, payable to the shareholders of 180 Smoke in CannaRoyalty common shares, per Vape Store acquired prior to December 31, 2020, up to a maximum of \$3 million.
- Processing License in Canada**
A payment of \$2.5 million, payable to the shareholders of 180 Smoke in CannaRoyalty common shares for the obtainment of an Indoor Standard Processing License.

The Milestone Payments referred to above in section a, b, and c are further subject to a total cumulative cap of \$12.5 million.

About 180 Smoke

[180 Smoke](#) is a leading Canadian Vape product retailer that is considered the Gold Standard for Vape store operations and customer service. 180 Smoke sells Vape and nicotine-related products, herbal vaporizer products and parts. With the corporate mission of "significantly reducing harm done to human health from addictive substances," 180 Smoke's vision is to become a multi-region, omni-channel, vertically integrated market leader servicing the end-to-end needs of Canadian nicotine and cannabis consumers.

About Trichome

Trichome is a majority-owned subsidiary of CannaRoyalty and was formed to offer credit-based capital solutions to companies operating across the Canadian cannabis value chain. Trichome expects to offer creative credit-based capital solutions to cannabis companies in need of capital for a broad array of requirements. Trichome is focused primarily on addressing the largely underserved Canadian cannabis market and expects to expand to meet the needs of companies

operating in fully legal international markets as those jurisdictions develop.

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

This press release contains "forward looking information" within the meaning of applicable Canadian securities legislation. Forward-looking information contains statements that are not historical facts and is generally, but not always, identified by the use of forward-looking terminology such as "plans", "expects", "is expected", "budget", "scheduled", "targeted", "estimates", "forecasts", "intends", "anticipates", "projects", "potential", "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "should", "might" or "will be taken", "occur" or "be achieved" or the negative connotation of such terms. Forward-looking information include estimates, plans, expectations, opinions, forecasts, projections, targets, guidance or other statements that are not statements of fact. Statements containing forward-looking information are made as of the date of this news release and include, but are not limited to, statements with respect to: timing and implementation of 180 Smoke's opening of new store locations; anticipated CannaRoyalty shareholder value generation as a result of its investment in 180 Smoke; 180 Smoke and 420 Wellness' positioning to capture a significant portion of the Canadian cannabis and vaporizer market; leading REIT investment interest in 180 Smoke; 180 Smoke's establishment of a presence in Ontario; timing with respect to certain legislative amendments, including the legalization of recreational cannabis in Canada; the execution of the Company's strategy, new opportunities, future growth; and other statements.

All forward-looking information contained is based upon management's opinions, estimates and assumptions in light of the Company's experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management currently believes are appropriate and reasonable in the circumstances, many of which are beyond CannaRoyalty's ability to control or predict. Although the assumptions were considered reasonable by management of the Company at the time the forward-looking information was given, there can be no assurance that such underlying opinions, estimates and assumptions will prove to be accurate or correct. In particular, assumptions have been made in respect of: the expected legalization of an adult-use market for cannabis in Canada; the growth of the Company and 180 Smoke's business and expansion into new markets; the ability to retain key personnel; the ability to continue investing in infrastructure to support growth; the ability to obtain and maintain financing on acceptable terms; the impact of competition; the changes and trends in the regulated cannabis industry; and changes in laws, rules and regulations.

Forward looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of CannaRoyalty, its subsidiaries, or its affiliates to be materially different from any future results, performance or

achievements expressed or implied by the forward-looking information. 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 information, there can be other factors and assumptions 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, state adoption and provincial regulation 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 this forward-looking information may differ materially from actual results or events. Accordingly, readers should not place undue reliance on forward-looking information. The forward-looking information in this news release is 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.

¹ 180 Smoke customer survey

² Based on analytics provided by SEVRush

³ Based on unaudited, internal numbers from 180 Smoke

⁴ Based on unaudited, internal numbers from 180 Smoke

SOURCE CannaRoyalty Corp.

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CNW 15:41e 27-SEP-18