



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018**

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INTRODUCTION

CannaRoyalty Corp. (the “Company” or “CannaRoyalty”) is a publicly traded corporation, incorporated under the *Business Corporations Act* (Ontario), with its head office located at 333 Preston Street, Ottawa, Ontario, Canada. CannaRoyalty’s common shares trade on the Canadian Securities Exchange (“CSE”) under the symbol “CRZ” and in the United States (“U.S.”) trades on the OTCQX market under the symbol “CNNRF”, and certain of the Company’s warrants trade on the CSE under the symbol “CRZ.WT”.

This Management’s Discussion and Analysis (“MD&A”) of the Financial Condition and Results of Operations of CannaRoyalty is dated August 22, 2018. The MD&A should be read in conjunction with the Company’s unaudited condensed interim consolidated financial statements (the “Financial Statements”) for the three and six months ended June 30, 2018, including the accompanying notes.

Unless otherwise indicated, all financial information in this MD&A is reported in Canadian dollars. The Company prepared this MD&A of the Financial Condition and Results of Operations with reference to National Instrument 51-102- Continuous Disclosure Obligations of the Canadian Securities Administrators (“CSA”) and CSA Staff Notice 51-352 (revised) –Issuers with U.S. Marijuana Related Activities (“Staff Notice 51-352”). This MD&A provides information for the three and six months ended June 30, 2018 and up to and including August 22, 2018.

By their nature, the Interim Financial Statements do not include all the information required for full annual financial statements. Accordingly, this MD&A should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the period ended December 31, 2017 and the related management’s discussion and analysis.

The Financial Statements and this MD&A have been approved by the Company’s Board of Directors.

The accompanying Financial Statements were prepared in accordance with International Financial Reporting Standards (“IFRS” or “GAAP”) and include the accounts of the Company and its wholly-owned subsidiaries or controlling equity interests including Cannabis Royalties & Holdings Corp. (“CRHC”), Electric Medialand, Inc. (“EML”), Trichome Financial Corp. (“Trichome”) and CR Advisory Inc. (“CR Advisory”) formed in Canada, Cannroy Delaware, Inc. (“Cannroy Delaware”), Cannroy Distribution LLC (“Cannroy Distribution”), Dreamcatcher Labs, Inc. (“Dreamcatcher”), GreenRock Botanicals, Inc. (“GreenRock”), Achelois LLC (“Achelois”), Kaya Management, Inc. (“Kaya”), Alta Supply, Inc. (“Alta”), and Cali-Antifragile Corp. (“Cali-Antifragile”) formed in the United States of America. All inter-company balances and transactions have been eliminated on consolidation.

Under GAAP, certain expenses and income must be recognized that are not necessarily reflective of the Company’s underlying operating performance. Non-GAAP financial measures exclude the impact of certain items and are used internally when analyzing consolidated operating performance. These non-GAAP financial measures are also helpful in assessing underlying operating performance on a consistent basis. See the “Adjusted EBITDA” section of this MD&A for more information on the Company’s non-GAAP financial measures. [See Adjusted EBITDA reconciliation.](#)

Additional information filed by the Company with the Canadian Securities Administrators is available on-line at www.sedar.com and on the Company’s website at www.cannaroyalty.com.

DESCRIPTION OF THE BUSINESS

OVERVIEW OF CANNAROYALTY

CannaRoyalty is a North American cannabis consumer product company currently focused on building a leading distribution and manufacturing 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 both new and established cannabis brands. The Company's long-term focus is on building and supporting a diversified portfolio of branded cannabis consumer products, focused in California.

California transitioned to a full adult-use cannabis market in January 2018. It is the largest regulated cannabis market in the world (currently estimated to be US\$5.2 billion in 2018 according to Forbes magazine) and has a history of over 20 years of state-legalized medical use. 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. In the Company's view, only superior products and brands will be able to succeed in the global cannabis market over the long term. CannaRoyalty believes that cannabis consumer products that win in California will have a unique advantage competing not only in other U.S. jurisdictions, but also in Canada and across the globe

HIGHLIGHTS FOR THE THREE MONTHS ENDED JUNE 30, 2018

SUMMARY

During the second quarter of 2018, CannaRoyalty continued to build on the substantial progress made in the first quarter. The Company consolidated manufacturing of its diversified brands portfolio in Kaya's manufacturing facility and in July, the Company expanded its operations to complement the existing Kaya and Alta locations with the purchase of a licensed distribution and manufacturing facility in Sonoma County. During the quarter, CannaRoyalty integrated and expanded Alta Supply's distribution network to include over 50 independent brands and a reach that includes the majority of retail dispensaries in California.

Throughout the second quarter of 2018, management continued to build its team and position the Company to capitalize on opportunities in California. This forward spending was critical in preparation for the integration of Alta and Kaya, the upcoming close of the River Distribution ("RVR") acquisition, and for the growth opportunities ahead for the combined organization.

On June 19, 2018, CannaRoyalty announced that it had retained Canaccord Genuity Corp. as lead agent to undertake a fully marketed private placement of unsecured convertible debentures ("Convertible Debentures") on a commercially reasonable efforts basis to raise gross proceeds of up to \$30 million, with the terms and conditions of the Convertible Debentures to be determined in the context of the market.

Subsequent to the end of the second quarter of 2018, CannaRoyalty continued to make progress against its strategic objectives through major announcements and initiatives, detailed below and set out under the heading "Recent Developments".

The Company is focused on continuing to expand its distribution reach, increasing the sales of its owned and distributed product portfolio in the California market, and adding strategic products and brands to its distribution portfolio through investment, acquisition, and other contractual relationships.

CR Brands

CannaRoyalty has built a leading distribution platform in the first two quarters and has positioned the Company to rapidly expand the sales and reach of its distributed and in-house brand portfolio to access shelf-space across the state, as well as for dispensaries seeking access to a full spectrum of top products and brands. On July 1st, 2018 California began enforcing new packaging and regulatory rules. Strategic initiatives undertaken by the Company in the first half of the year has positioned CannaRoyalty as a fully compliant manufacturer and distributor ready to drive significant top line growth during the second half of 2018.

As the close of the Company's acquisition of Kaya took place in the final days of Q1 2018, the Company did not generate material direct revenues from the sale of CR Brands products in that quarter. Kaya now manufactures all CR Brands products, as well as all Bhang® cannabis products sold in the state of California. Starting in Q2, the Company noted that the consolidation of manufacturing operations under Kaya drove substantial quarter-over-quarter growth which is expected to continue through the remainder of 2018.

On February 15, 2018, the Company entered into a strategic partnership with leading premium craft cannabis cultivator in California, FloraCal® Farms (“FloraCal”), to develop and sell branded cannabis products. On April 18, 2018, the Company announced that it has entered into a binding agreement to acquire 100% of FloraCal® Farms for total purchase considerations of US\$1 million in cash and 3,508,772 CannaRoyalty shares on close, in addition to other considerations, based on completion of certain milestones. The addition of FloraCal adds branded premium cannabis flower and pre-roll products to CannaRoyalty’s diverse portfolio. Soon after the end of the second quarter, on July 3, CannaRoyalty announced that it had closed the acquisition of FloraCal Farms. The growing facility currently has 15,000 square feet of purpose-built indoor growing space and is being expanded to approximately 65,000 square feet of growing space. Further details regarding the acquisition close are set out below under the heading “Recent Developments – CR Brands”.

Investing in the expansion of the Company’s California distribution footprint and supporting local entrepreneurs, on May 28, 2018, CannaRoyalty announced that it has partnered with Posh Green Collective delivery (“Posh Green”), a California-based, boutique cannabis delivery service. The strategic partnership will contribute towards the scale-up of Posh Green’s delivery systems in California. Posh Green will in turn provide downstream demand for CannaRoyalty’s distributed product portfolio, along with support on community initiatives.

CR Holdings

The Company’s transformation, which began in the latter half of fiscal 2017, focused in part on rationalizing its diversified portfolio of passive investments. During Q1 and Q2 2018, the Company executed on this strategy, through consolidation of core assets, and realization of assets that are non-core.

Please refer to CannaRoyalty’s most recent annual information form for historical information regarding its CR Holdings portfolio. The updates below have been prepared based in part on information provided by management of the respective companies. The most notable and significant remaining elements of CR Holdings are the following:

Alternative Medical Enterprises LLC (“AltMed”)

On April 26, 2018, the Company announced that its investee, AltMed, has closed a private placement financing of \$35.4 million. CannaRoyalty made a \$1.5 million equity investment in AltMed in 2015.

As of June 30, 2018, the Company has assessed the fair value of its investment in AltMed at \$6.3 million. The assessment is based on observable transaction prices for comparable financings in a non-active market. Subsequent to these financings, CannaRoyalty’s ownership percentage in AltMed has decreased to 6.1% at June 30, 2018.

Anandia Laboratories Inc. (“Anandia”)

Advancing CannaRoyalty’s stated strategy of realizing select assets that the Company has deemed non-core to its go-forward strategy, on June 12, 2018, the Company announced that its investee company Anandia Laboratories Inc. has signed a binding term sheet to be acquired by Aurora Cannabis Inc. (“Aurora”) for approximately \$115 million.

As of June 30, 2018, the Company determined the fair value of its equity investment in Anandia was \$26.4 million based on the value of Aurora shares and warrants it would obtain based on above binding term sheet. As a result, fair value gains of \$15.3 million have been recorded during the second quarter of fiscal 2018. The deal between Anandia and Aurora ultimately closed on August 9, 2018, and the value of the investment had decreased to approximately \$17.0 million based on the decreasing share price of Aurora between June 30 and the close date. This decrease in value will be recorded as a loss in the third quarter.

Resolve Digital Health Inc. (“Resolve”)

As at June 30, 2018, CannaRoyalty held a 26.5% equity interest in Resolve which represents significant unrecognized pent-up value. Resolve closed on a private placement equity financing on March 2, 2018 for gross proceeds of \$1.9 million from the issuance of 1,290,500 Class A common shares at \$1.50 per share. CannaRoyalty owns nearly 14.2 million Class A common shares in Resolve representing an implied value of approximately \$21.3 million in comparison to the carrying value of the investment of \$2.8 million. The Company is considering the disposal of its equity stake in Resolve in keeping with its objective of liquidating non-core assets which could unlock significant value for CannaRoyalty shareholders.

Trichome Financial Corp.

In Q1 2018, the Company, together with Sprott Canna Holdco Corp. (“Sprott”) and Stoic Advisory Corp. (“Stoic”) announced the launch of Trichome (originally named Trichome Yield Corporation). Trichome is a specialty financing company focused on providing tailored credit-based capital solutions to the Canadian and international cannabis industry.

On May 7, 2018, the Company announced that Trichome Financial Corp., appointed Mr. Michael Ruschetta as Trichome’s Chief Executive Officer and to its Board of Directors.

On May 11, 2018, the Company announced that it and its subsidiary, Trichome Financial Corp. closed an initial \$500,000 investment under a credit agreement to provide up to \$2.5 million to 180 Smoke. CannaRoyalty and Trichome each invested \$250,000 under the initial tranche of the agreement, to be followed by additional investments of up to \$2.5 million. Proceeds from the investment will be used to support the rapid expansion of 180 Smoke’s national retail footprint, including Western Canada, subject to approval and permits.

On June 4, 2018, Trichome announced that it had changed its name to Trichome Financial Corp., effective June 1, 2018. The name change was intended to reflect Trichome’s emphasis on being a value-added specialty finance company focused on the cannabis sector. The same announcement also highlighted that Marc Lustig, Chairman and Chief Executive Officer of CannaRoyalty was appointed as Chairman of the Board of Directors of Trichome.

On June 4, 2018, Trichome also announced that it has commenced a non-brokered private placement for gross proceeds of up to \$20.0 million. Proceeds from this financing are intended to be used to deploy into loans to a variety of cannabis sector participants as well as for working capital purposes.

Corporate Financings and Other Matters

On April 13, 2018, CannaRoyalty announced that it has closed a \$15.0 million bought deal prospectus financing, for an aggregate of 3,750,000 units of the Company at a price of \$4.00 Per Unit.

On April 18, 2018, the Company announced that it had exercised an over-allotment option in connection with the \$15.0 million bought deal. CannaRoyalty issued an additional 562,500 units at \$4.00 per Unit for additional gross proceeds of \$2.3 million. Following closing of the over-allotment option, the Company has raised aggregate gross proceeds of \$17.3 million.

On June 19, 2018, the Company announced that it was undertaking a fully marketed brokered private placement of unsecured convertible debentures to raise gross proceeds of up to \$30.0 million, which would be utilized towards fuelling development of seven facilities across California. Further details regarding the financing are set out below under the heading “Recent Developments – Corporate Financings”.

FINANCIAL PERFORMANCE

The following are the major financial highlights of CannaRoyalty’s operating results for the three months ended June 30, 2018, compared to the three months ended June 30, 2017:

- revenues were \$3.5 million as compared to \$960,157, an increase of 266%;
- gross margin was \$820,935 as compared \$421,681, an increase of 95%;
- operating expenses were \$6.3 million as compared to \$2.7 million, an increase of 129%;
- net income of \$9.3 million as compared to a net loss of \$2.0 million;
- net income per basic share of \$0.18 as compared to a net loss per basic share of \$0.05;
- net income per diluted share of \$0.17 as compared to a net loss per diluted share of \$0.05;
- adjusted EBITDA income of \$11.1 million as compared to a loss of \$1.0 million, an increase of \$12.1 million; and
- adjusted EBITDA income per basic share of \$0.21 as compared to a loss of \$0.02, an increase of \$0.23 per basic share.
- adjusted EBITDA income per diluted share of \$0.20 as compared to a loss of \$0.02, an increase of \$0.22 per diluted share.

The following is a summary of key balance sheet totals as at June 30, 2018 compared to December 31, 2017.

- cash was \$15.7 million as compared to \$4.5 million an increase of 248%;
- total assets of \$94.8 million as compared to \$46.1 million, an increase of 105%;
- current assets of \$23.5 million as compared to \$7.9 million, an increase of 196%;
- current liabilities of \$5.9 million as compared to \$2.1 million, an increase of 178%; and
- long-term debt of \$290,457 as compared to \$2.3 million, a decrease of 87%.

RECENT DEVELOPMENTS

Subsequent event highlights:

- On July 2, 2018, the Company acquired 100% of FloraCal, a licensed ultra-premium craft cannabis producer located in Sonoma Country, California.
- On July 12, 2018, the Company announced that it closed a previously announced private placement for gross proceeds of \$33.0 million.
- On August 8, 2018, an investee of the Company, Anandia, was acquired by Aurora Cannabis Inc. for approximately \$115 million. CannaRoyalty's equity stake in Anandia is fair valued at approximately \$17.0 million.
- A payment of \$438,338 was received in connection with the previously impaired BAS Promissory Notes in August 2018.
- On August 13, 2018, the Company closed the sale of a Canadian license to use and commercialize the pre-roll technology developed by Wagner Dimas to Aurora Cannabis Inc. valued at \$7.0 million.

CR Brands

FloraCal

As outlined above, in April 2018, the Company signed a binding term sheet to acquire 100% of branded premium cannabis flower producer FloraCal® Farms. On July 3, 2018, CannaRoyalty announced that it had closed the acquisition of FloraCal Farms for consideration of US\$1 million in cash, and 35,088 CannaRoyalty Class A 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 completion of certain milestones, and other considerations.

CannaRoyalty has commenced approximately US\$10.5 million in capital spending to expand FloraCal's facility from 15,000 square feet to roughly 65,000 square feet of purpose-built growing space.

Pacific Remedy

On July 12, 2018, CannaRoyalty announced that it had acquired the exclusive rights to distribute and manufacture Pacific Remedy LLC's industry-leading infused pre-rolls in California. The Agreement also provides CannaRoyalty with the option to purchase global brand rights for the premium infused pre-roll manufacturer.

CR Holdings

Cotati Facility

On July 6, 2018, as part of the Company's strategy to expand its California footprint, CannaRoyalty announced that it purchased a locally approved distribution and manufacturing facility in the city of Cotati in Sonoma County, California for US\$2.4 million. CannaRoyalty plans to use the Cotati facility as an additional hub for distribution, as well as for supporting manufacturing infrastructure to meet the strong demand for the Company's distributed brand portfolio.

Wagner Dimas

On July 11, 2018, the Company and Aurora announced that they had signed a binding term sheet whereby Aurora would purchase CannaRoyalty's exclusive Canadian license to use and commercialize pre-roll technology developed by Wagner Dimas for an aggregate consideration of \$7.0 million in Aurora common shares.

CannaRoyalty announced on August 14, 2018 that the sale of its Canadian pre-roll technology license to Aurora Cannabis had closed. The value of these shares based on the closing price of Aurora common shares on August 13, 2018, was approximately \$4.5 million.

Anandia Laboratories Inc.

On August 9, 2018, the Company announced the close of the previously announced acquisition of its investee company Anandia, by Aurora, for approximately \$115 million. With the close of the acquisition, CannaRoyalty's equity stake in Anandia is valued at approximately \$17 million, representing a return on investment of approximately 315% for the Company's shareholders.

Corporate Financings

On July 12, 2018, the Company announced that it had closed a fully marketed private placement of unsecured convertible debentures for raising aggregate gross proceeds of \$33.0 million. The financing was comprised of up to 30,000 unsecured convertible debentures of the Company at a price of \$1,000 per Convertible Debenture, as well as proceeds of \$3.0 million from the agents partially exercising their over-allotment option. Canaccord Genuity Corp. acted as lead agent for a syndicate of investment dealers, including Altacorp Capital Inc., Beacon Securities Ltd., Cormark Securities Inc., Sprott Private Wealth LP, Infor Financial Inc., and Mackie Research Capital Corporation also partially exercised their option to arrange for purchases of additional Convertible Debentures raising an additional \$3 million in gross proceeds. The proceeds from the financing will be primarily used by the Company to expand its manufacturing and distribution footprint across California, as well as for general corporate and working capital purposes.

Material Assets and Investments

The following chart is a summary of the Company's material assets and investments. The Company has excluded ancillary intellectual property and other minor transactions and investments, with no such items having more than \$500,000 of tangible or intangible assets on the Company's consolidated balance sheet as of June 30, 2018. Furthermore, investments which have been written-off or fully impaired in prior periods have been excluded. This includes the following investments which were above the threshold of \$500,000 prior to impairment: Eureka Management Services, Rich Extracts LLC, and Cascadia Holdings LLC. References to "Direct", "Indirect" or "Ancillary" classifications of each asset or investment have the meanings ascribed thereto in Staff Notice 51-352 (revised). All of the Company's investments that give the Company "Direct" and "Indirect" involvement (as such terms are defined in the Staff Notice 51-352 (revised)) in the U.S. marijuana industry are included in the chart.

Prior to this fiscal year the Company made certain material investments in equity, loans receivable, and royalties that were fully impaired as of December 31, 2017. These include loans of US\$400,000 to, and equity of US\$100,000 in Eureka Management Services, loans of US\$2.8 million to Rich Extracts LLC, and royalty investments of US\$807,000 in Cascadia Holdings LLC. The Company does not expect to collect on any of these investments and therefore considers them to be inactive. If the Company were to receive loan payments or royalty payments, as applicable, from any of these parties, the investment would be recorded as a material interest at that time and at such time the Company's US cannabis involvement by way of its investment in any of Eureka, Rich Extracts or Cascadia would be considered by the Company to be ancillary, ancillary, or direct, respectively.

| <u>Asset Name, Class and Acquisition Date</u> | <u>Description of Asset</u> | |
|---|---|---|
| <p>AltMed 2015</p>  | <p>Alternative Medical Enterprises, LLC (“AltMed”) 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 U.S. 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. 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><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 Inc. (“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. AltMed and 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><u>Type of Investment:</u> 7% equity position in AltMed and 3.5% royalty on net sales of MüV products until December 2025</p> <p><u>Amount invested:</u> US\$1.5 million for AltMed equity and \$1.13 million for MüV Royalty</p> <p><u>Geography:</u> Arizona & 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 Ruskin, 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 AltMed’s corporate activities. As of June 30, 2018, the Company has assessed the fair value of its investment in AltMed at \$6.3 million, a gain of \$4.4 million from its initial investment. The assessment is based on observable transaction prices for identical assets in a non-active market. The fair value is based on the closing of several financing transactions within a designated series completed during fiscal 2018. Subsequent to these financings, CannaRoyalty’s ownership percentage in AltMed has decreased to 6.1% at June 30, 2018.</p> <p><u>Jurisdiction:</u> Arizona and Florida</p> <p><u>Classification:</u> Indirect (Licensed cultivator and distributor)</p> |

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| <p>Alta Supply Inc. Q1 2018</p>  | <p>Alta has a licensed distribution facility in Oakland, California, a city in the San Francisco Bay Area. CannaRoyalty has acquired the facility for distribution of cannabis products.</p> <p><i>Licensing:</i> Alta holds a Temporary Cannabis Distribution License (Type 11 – Medical), which among other things, allows it to purchase cannabis flower and other products from cultivators and manufacturers, and then resell them to retailers. Alta does not sell cannabis flower or other products directly to consumers.</p> <p>In fiscal 2017, Alta's business generated US\$6.5 million in wholesale revenue (equates to approximately US\$13.0 million in retail sales).</p> | <p><u>Amount Invested:</u> For the combined acquisitions of Kaya (as defined herein) and Alta, an aggregate of 1,254,816 CannaRoyalty common shares and US\$1.53 million in cash has been or will be paid on or after the aforementioned state approval. Payments are subject to post-closing working capital adjustments. As part of the acquisition, additional consideration of 1,605,992 CannaRoyalty common shares could be paid over the next eighteen months, subject to the achievement of certain milestones. As of June 30, 2018, 618,718 of these contingent shares have been earned, and 987,274 are still subject to reaching milestones.</p> <p><u>Jurisdiction:</u> California <u>Classification:</u> Direct (Licensed distributor)</p> |
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Anandia
Q1 2017



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"). 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 clients.

Type of Investment: 16% equity position
Amount Invested: \$4.0 million
Geography: Canada
Jurisdiction: Canada
Classification: N/A (Canada)
Update: At June 30, 2018, the Company determined the fair value of Anandia was \$26.4 million, based on the value of Aurora shares it would receive from a binding term sheet between Anandia to Aurora. As a result, a fair value gain of \$15.3 million was recorded on CannaRoyalty's statement of net income (loss) for the three months ending June 30, 2018. The transaction between Anandia and Aurora was closed on August 9, 2017, and due to a decrease in the value of Aurora shares, the value of the investment decreased to approximately \$17.0 million.

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| <p>Dreamcatcher Labs Inc. <i>IP – Devices</i> Q3 2016</p>  | <p>Dreamcatcher is a technology, brand and IP company which has designed and manufactures a proprietary cartridge for the cannabis sector under the brand name GreenRock Botanicals. The unique cartridge is designed to provide an array of strains that can be delivered in a safe and secure manner.</p> <p>The product is designed with the objective of ensuring 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 bench top filling process and its large-scale filling machines, Dreamcatcher has the ability to 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. 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>The GreenRock Botanicals The GreenRock Botanicals branded product is marketed, manufactured and distributed in California through Kaya and RVR.</p> | <p><u>Type of Investment:</u> 100% equity position <u>Amount Invested:</u> Approximately \$6.0 million (three million shares at \$2 per share). <u>Jurisdiction:</u> California <u>Classification:</u> Ancillary (Device and manufacturing IP)</p> |
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| <p>Kaya Management Inc. Q1 2018</p>  | <p>Kaya has a licensed manufacturing facility in Oakland, California. CannaRoyalty has assumed the facility and consolidated production of Bhang® and CR Brands products into this facility. Kaya is now the exclusive California manufacturer of Bhang® edible and vaporizer product lines in California. Bhang® brand products are highly awarded and widely distributed cannabis branded products.</p> <p>Kaya holds a temporary Cannabis Manufacturing License (Type 6 – Medical), which allows it to, among other things, process cannabis extracts into cannabis consumer products such as edibles and vaporizers, which are then sold to licensed distributors including Alta and RVR. Kaya does not sell directly to retailers or consumers.</p> <p>In fiscal 2017, Kaya's business generated US\$5.2 million in manufacturing revenue from Bhang® vaporizers (equates to approximately US\$13.0 million in retail sales).</p> | <p><u>Amount Invested:</u> Reference the above Alta Supply Inc. section in this table for details on the combined acquisitions of Kaya and Alta.</p> <p><u>Jurisdiction:</u> California</p> <p><u>Classification:</u> Direct (Licensed manufacturer)</p> |
| <p>Resolve Digital Health <i>IP – Devices</i> Q3 2016</p>  | <p>An integrated digital health platform for cannabis use. Resolve Digital Health Inc.'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 & Tracking System keeps track of doses, dose effectiveness, symptoms, medicine,</p> | <p><u>Type of investment:</u> 26.5% 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. (“Vida”)</p> <p><u>Jurisdiction:</u> Canada with LOI for Florida</p> <p><u>Classification:</u> Ancillary (Device IP)</p> <p><u>Update:</u> As at June 30, 2018, CannaRoyalty held a 26.5% equity interest in Resolve which represents significant unrecognized pent-up value. Resolve closed on a private placement equity financing on March 2, 2018 for gross proceeds of \$1.9 million from the issuance of 1,290,500 Class A common shares at \$1.50 per share. CannaRoyalty owns over 14 million Class A</p> |

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| | <p>reporting, lifestyle, retail, supply chain management, and support.</p> <p>Resolve has entered into agreements with licensed counter-parties in Canada, Florida and Australia regarding the sale of its devices in those jurisdictions. As Resolve is a hardware device manufacturer, the Company does not presently expect Resolve will engage in licensed activity.</p> | <p>common shares in Resolve representing an implied value of over \$21 million in comparison to the carrying value of the investment of \$2.8 million. The Company is considering the disposal of its equity stake in Resolve in keeping with its objective of liquidating non-core assets which could unlock significant value for CannaRoyalty shareholders.</p> |
| <p>RVR Q2 2017</p>  | <p>CannaRoyalty completed a royalty and supply agreement with River Wellness, Inc., an affiliate of RVR, the first California based medical cannabis distributor to receive local permits for medical cannabis wholesale logistics, distribution and transportation. RVR 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.</p> <p>RVR 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, RVR is adapting early to anticipated changes in legislation. A good example of this is RVR's zero tolerance policy on pesticide content in the products they distribute. RVR holds several Temporary Cannabis Distribution Licenses (Type 11 – Medical and Type 11 – Adult-Use) for three facilities located across California, which among other things, allows it to purchase cannabis flower and other products from cultivators and manufacturers, and then resell them to retailers. RVR does not sell cannabis flower or other products directly to consumers.</p> | <p><u>Type of Investment:</u> 2.25% revenue royalty to US\$5.0 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</p> <p><u>Amount Invested:</u> US\$5.0 million.</p> <p><u>Jurisdiction:</u> California</p> <p><u>Classification:</u> Currently Indirect (Licensed distributor). Anticipated to be Direct if the Company's acquisition of RVR (as defined below) is completed.</p> <p><u>Update:</u> CannaRoyalty has agreed to acquire RVR pursuant to a binding term sheet dated March 28, 2018.</p> |

| | | |
|--|---|---|
| <p>Wagner Dimas 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. Wagner Dimas has developed a commercially available technology to enable scalable production of pre-rolls. Wagner Dimas is investing significantly in R&D for next generation equipment that is anticipated to significantly increase production capacity further distancing itself from current market alternatives. 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. On August 14, 2018, the Company sold its exclusive rights to Wagner Dimas IP and manufacturing technology in Canada.</p> | <p><u>Type of Investment:</u> 22% equity position; US\$200,000 of debt and right to IP and manufacturing technology in Canada <u>Amount Invested:</u> US\$825,000 in equity, US\$200,000 in debt and \$150,000 for right to a Canadian License for Wagner Dimas IP and technology <u>Update:</u> On August 14, 2018, the Company closed a transaction with Aurora to sell its rights to IP and manufacturing technology in Canada. In return the company received Aurora shares which were valued at \$7.0 million at the date of the binding term sheet and \$4.5 million at the date of closing. <u>Jurisdiction:</u> Nevada and California (IP and technology is exportable) <u>Classification:</u> Ancillary (Technology)</p> |
|--|---|---|

Governance

On May 7, 2018, Mr. Afzal Hasan, previously EVP for Corporate Development and General Counsel, was appointed as President of the Company.

On June 11, 2018, CannaRoyalty announced the appointment of Daniel O'Neill to the board of directors. Mr. O'Neill is the former CEO and President of Molson and brings over 20 years of experience as a senior leader in the consumer-packaged goods industry. The Company also stated that board member, Peter Kampian, will not be seeking re-election to CannaRoyalty's Board of Directors. On August 9, 2018, CannaRoyalty announced that options to purchase up to 200,000 common shares were granted to Mr. O'Neill, pursuant to the Company's stock option plan, exercisable at a price of CDN\$5.65 per common share. The stock options shall have a term of 10 years and vest in four equal tranches, on the date of grant and the one, two and three-year anniversaries of grant.

On June 13, 2018, CannaRoyalty announced the voting results from its annual and special meeting of shareholders. Subsequent to this meeting, the Board of Directors appointed Marc Lustig to the position of Executive Chairman of the Board and current Board member Dr. Jim Young as Chair of the Governance, Conduct Review and Compensation Committee.

RESULTS OF OPERATIONS

The following tables sets forth consolidated statements of operations data for the three and six months periods ended June 30, 2018 and June 30, 2017:

| | Three months ended | | Six months ended | |
|---|--------------------|---------------|------------------|---------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Consolidated Statements of Net Income (Loss) | | | | |
| Revenue | \$ 3,511,466 | \$ 960,157 | \$ 4,154,903 | \$ 1,261,268 |
| Gross margin | 820,935 | 421,681 | 791,305 | 666,154 |
| Operating expenses | 6,280,216 | 2,741,685 | 10,760,230 | 5,794,446 |
| Loss from operations | (5,459,281) | (2,320,004) | (9,968,925) | (5,128,292) |
| Net income (loss) | 9,298,488 | (2,017,556) | 4,644,015 | (3,984,161) |
| Other income (expense) | 698,464 | (449,955) | 1,244,069 | (537,135) |
| Total comprehensive income (loss) | 9,996,952 | (2,467,511) | 5,888,084 | (4,521,296) |
| Net earnings (loss) per common share - basic | 0.18 | (0.05) | 0.10 | (0.10) |
| Net earnings (loss) per common share - diluted | 0.17 | (0.05) | 0.09 | (0.10) |
| Weighted average common shares - basic | 51,560,197 | 41,829,704 | 48,536,866 | 40,356,024 |
| Weighted average common shares - diluted | 55,308,327 | 41,829,704 | 52,462,527 | 40,356,024 |

REVENUE

The following is a summary of CannaRoyalty's revenue by type for the three and six months periods ended June 30, 2018 and June 30, 2017:

| | Three months ended | | Six months ended | |
|-----------------|---------------------|-------------------|---------------------|---------------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Product sales | \$ 3,110,617 | \$ 372,993 | \$ 3,195,390 | \$ 404,328 |
| Services | 238,344 | 232,574 | 668,161 | 273,142 |
| Royalties | 137,189 | 332,630 | 256,247 | 543,094 |
| Interest income | 25,316 | 21,960 | 35,105 | 40,704 |
| Total | \$ 3,511,466 | \$ 960,157 | \$ 4,154,903 | \$ 1,261,268 |

Historically, and through March 27, 2018, product sales have been mostly attributable to the sale of CannaRoyalty's wholly owned brands of GreenRock Botanicals vape cartridges and Soul Sugar Kitchen edibles. The Kaya and Alta acquisitions took effect on March 27, 2018 and hence the Company only recorded a few days of revenues from product sales from these acquisitions for the three-month period ended March 31, 2018. The Company's revenues from product sales increased substantially in the three-month period ended June 30, 2018 as it benefitted from a full quarter of activity from these acquisitions. The Company's revenues should continue to increase further, beginning in the third quarter of 2018, with the acquisition of FloraCal on July 2, 2018.

Total product revenue for the three months ended June 30, 2018, consist of sales from distribution activities of \$2.4 million, net of intercompany transactions, and sales from CannaRoyalty branded products of \$717,573.

Service revenues for the three and six months periods ended June 30, 2018 were from advisory activities which relate to capital markets expertise provided in connection with clients' equity financing initiatives as well as third-party marketing services provided by the Company's EML subsidiary. The increase from the six-month comparative period ended June 30, 2017 relates to services provided for capital markets expertise and strategic financing.

During the three and six months periods ended June 30, 2018, the Company's Royalty revenues were primarily attributable to RVR, whereas in the comparative periods ended June 30, 2017, these revenues were driven mostly by the Cascadia royalty investment. Due to concerns over the viability of Cascadia's business and issues in connection with the ultimate collection of these revenues, CannaRoyalty ceased recording revenue on this investment which is the main cause for the decrease in royalty revenue in comparison to the same periods last year.

Interest income pertains to loans made to current and potential minority holdings such as BAS Research ("BAS"), Eureka Management Services Inc. ("Eureka"), and Wagner Dimas. In the first two quarters of fiscal 2018, the Company has ceased recording interest income on loans that may be potentially impaired such as Eureka and BAS which explains the decrease from the three and six months periods ended June 30, 2018 in comparison to the same periods last year.

COST OF SALES AND GROSS MARGIN

The following table represents the costs of sales by revenue type for the three and six months periods ended June 30, 2018 and June 30, 2017:

| | Three months ended | | Six months ended | |
|-----------------------|---------------------|-------------------|---------------------|-------------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Cost of product sales | \$ 2,378,378 | \$ 360,931 | \$ 2,454,052 | \$ 360,931 |
| Cost of services | 60,000 | 25,885 | 269,023 | 37,695 |
| Cost of royalties | 252,153 | 151,660 | 640,523 | 196,488 |
| Total | \$ 2,690,531 | \$ 538,476 | \$ 3,363,598 | \$ 595,114 |

Cost of sales were \$2.7 million and \$3.4 million for the three and six months periods ended June 30, 2018, as compared to \$538,476 and \$595,114 for the three and six months ended June 30, 2017.

For the three and six months ended June 30, 2018, the cost of product sales pertained to cost of materials and labour related to the sales generated by the Kaya and Alta subsidiaries.

The costs of sales associated with services revenues were primarily EML labor costs to provide marketing, branding, and promotion services and external consultants engaged to assist in capital markets and strategic financing advisory services.

The cost of royalties pertains to the amortization of the royalty financing arrangement with NuTrae and RVR which are amortized on a straight-line basis over the term of their royalty arrangements, which began in February 2017 and May 2017, respectively. The timing of RVR royalty payments of \$1.5 million in the first quarter of fiscal 2018, resulted in a non-recurring amortization charge of \$152,417.

The following tables represent the gross margin amounts and percentages by revenue type for the three and six months periods ended June 30, 2018 and June 30, 2017:

| | Three months ended | | Six months ended | |
|--------------|--------------------|-------------------|-------------------|-------------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Products | \$ 732,239 | \$ 12,062 | \$ 741,338 | \$ 43,397 |
| Services | 178,344 | 206,689 | 399,138 | 235,447 |
| Royalties | (114,964) | 180,970 | (384,276) | 346,606 |
| Interest | 25,316 | 21,960 | 35,105 | 40,704 |
| Total | \$ 820,935 | \$ 421,681 | \$ 791,305 | \$ 666,154 |

| | Three months ended | | Six months ended | |
|------------------|--------------------|---------------|------------------|---------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Products | 24% | 3% | 23% | 11% |
| Services | 75% | 89% | 60% | 86% |
| Royalties | (84%) | 54% | (150%) | 64% |
| Interest | 100% | 100% | 100% | 100% |
| All Types | 23% | 44% | 19% | 53% |

Gross margin on product revenues increased to 24% and 23% for the three and six months periods ended June 30, 2018 as compared to 3% and 11% for the same periods last year. Margins have increased due to established manufacturing and distribution processes and consistent flow of sales. Furthermore, the Company was able to dispose of its inventory in Achelois, the majority of which had been fully impaired in previous periods in return for the full settlement of a loan payable. The net recovery in cost of sales was \$378,471.

The gross margin percentage on service revenues decreased due to the mix of advisory services provided, which required additional external consultants and lower margin marketing services.

The gross margin percentages related to royalty-based revenues decreased due to the fact that most of the royalty revenue for the three and six months periods ended June 30, 2017 related to Cascadia and was at a relatively high margin. In comparison, most of the royalty revenue recorded in the three and six months periods ended June 30, 2018 was attributable to RVR, which is a fixed-term investment requiring straight-line amortization expense, thereby reducing gross margin. In addition, as noted earlier there was an additional charge of \$152,417 in the first quarter due to the timing of advances.

OPERATING EXPENSES

| | Three months ended | | | Six months ended | | |
|-----------------------------|---------------------|---------------------|-------------|----------------------|---------------------|------------|
| | June 30, 2018 | June 30, 2017 | Change | June 30, 2018 | June 30, 2017 | Change |
| Sales and marketing | \$ 1,219,066 | \$ 409,221 | 198% | \$ 1,697,582 | \$ 646,081 | 163% |
| Research and development | 75,445 | 148,852 | (49%) | 151,410 | 625,093 | (76%) |
| General and administrative | 4,456,638 | 1,977,734 | 125% | 8,207,064 | 4,114,922 | 99% |
| Amortization of intangibles | 529,067 | 205,878 | 157% | 704,174 | 408,350 | n/a |
| Total | \$ 6,280,216 | \$ 2,741,685 | 129% | \$ 10,760,230 | \$ 5,794,446 | 86% |

Total operating expenses increased by 129% and 86% for the three and six months ended June 30, 2018 as compared to the same period last year. This was largely due to increased spending in general and administrative as well as sales and marketing activities, partly offset by a decrease in research and development spending. Increased operating expenses during the quarter were related to supporting the Company's asset growth and the current expansion of operations in California. The Company's assets have increased from \$46.1 million at December 31, 2017 to \$94.8 million at June 30, 2018, an increase of \$48.7 million (105%) over the past six months. Due to the Company's current growth stage in prior periods and rapid pace of development, operating expenses are not yet analyzed as a percentage of total revenues.

Sales and marketing ("S&M") expenses were \$1.2 million and \$1.7 million for the three and six months periods ended June 30, 2018 as compared to \$409,221 and \$646,081 for the same period last year. Marketing costs during the first and second quarter of 2018 related primarily to supporting the continued expansion of the CR Brands Division. This is consistent with the Company's view that comprehensive brand building efforts are fundamental to growing a sustainable base of product revenues.

Research and development (“R&D”) expenses were \$75,445 and \$151,410 for the three and six months ended June 30, 2018 as compared to \$148,852 and \$625,093 for the same periods last year. This is consistent with the Company’s new direction in California, which has resulted in less investment in research-based holdings and future research-based advisory services. The Company has begun to focus on product development related to its newly acquired brands, and in-line with hiring initiatives, product development activities and related spending should increase in the future.

General and administrative (“G&A”) expenses increased to \$4.5 million and \$8.2 million for the three and six months ended June 30, 2018 as compared to \$2.0 million and \$4.1 million for the same periods last year. A significant component of G&A is share-based compensation, which increased by \$139,208 (24%) in the first half of 2018 relative to the first half of 2017. The remaining G&A costs incurred during the three months ended June 30, 2018 were to support a rapidly expanding asset base. These include the costs of new offices in Toronto and California, new employees across corporate support functions and operations management in California, in addition to increased legal and advisory costs related to ongoing acquisition-related activities.

Expenses related to the amortization of brands and technologies were \$529,067 and \$704,174 for the three and six months ended June 30, 2018 as compared to \$205,878 and \$408,350 for the same periods last year. These expenses relate to the intangibles that were acquired from Dreamcatcher and EML in October 2016 and November 2016 respectively as well as those acquired from Kaya and Alta in March 2018. The increase in fiscal 2018 is related to the intangible assets acquired from Kaya and Alta in March of the current year.

Share based compensation, a non-cash expense, was \$0.7 million and \$2.6 million for the three and six - months ended June 30, 2018 as compared to \$0.6 million and \$1.6 million for the same period last year. Restricted share units (“RSUs”) were first issued in April 2016. Since the beginning of fiscal 2018 most share-based grants have been in the form of share options. In the six months ended June 30, 2018, 267,500 share options have been issued. The RSU expenses mostly relate to shares issued under a share unit plan whereby the executive team, the Board of Directors, and new employees were granted RSUs that continue to vest as service conditions are reached. For most RSUs, one-third or one quarter of the shares vested immediately or within one month upon issuance. On December 29, 2017, the Company granted 1,050,000 RSUs for which one-quarter vested on January 31, 2018, generating an expense of \$1.3 million in the first quarter. Due to the grading vesting of RSUs, the expense is expected to decrease in future quarters. Additionally, the Company saw an increase in share-based compensation expense related to accelerated vesting of RSUs upon retirement of an executive team member. These costs have been classified in accordance with the corporate functions of the grantee, the majority of which relate to G&A. The shares options and RSUs are measured at fair value at the date of grant which is based on board approval date.

OTHER INCOME AND EXPENSES

| | Three months ended | | Six months ended | |
|---|----------------------|-------------------|----------------------|-------------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Changes in fair value of investments | \$ 15,222,971 | \$ - | \$ 15,565,077 | \$ - |
| Impairment of convertible notes receivable | - | - | (375,472) | - |
| Profit (loss) from equity accounted investees, net of tax | (295,246) | (98,483) | 158,558 | 843,914 |
| Gain (loss) on disposal of equipment | - | (10,000) | - | 88,674 |
| Penalties from non completed transaction | - | (37,578) | - | (221,053) |
| Listing expense | - | - | - | (38,193) |
| Foreign exchange gain | 111,145 | 388,327 | 35,115 | 349,855 |
| Interest expense | (341,293) | (18,499) | (661,283) | (36,119) |
| Total | \$ 14,697,577 | \$ 223,767 | \$ 14,721,995 | \$ 987,078 |

Significant portions of other income are non-recurring or one time in nature and will likely lack consistency across reporting periods.

During the three and six months ended June 30, 2018, the Company recorded a fair value gain on investments of \$15.2 million and \$15.6 million respectively. The recording of these gains was in accordance with IFRS 9 *Financial Instruments* as described in note 4 to the condensed interim consolidated financial statements for the three months ended June 30, 2018. The determination of fair values was based on observable financing transactions within the entities during the quarter. During fiscal 2018, gains in fair value of \$15.6 million have been realized on Anandia. A gain of \$202,184 was also realized with respect to Farmacopeia Inc., now known as Fleurish Cannabis. Equity in Anandia, which was valued at \$26.4 million at June 30, 2018, was settled for approximately \$17.0 million in August 2018 which will result in a fair value loss on this asset in the third quarter of fiscal 2018.

During the first quarter of fiscal 2018, the Company incurred a loss of \$375,472 on the impairment of convertible notes receivable related to convertible notes advanced to BAS Research which are potentially uncollectible. The balance due to CannaRoyalty was ultimately collected in August 2018 and a recovery will be recorded in Q3.

The loss from equity accounted investees was \$295,246 for the three months ended June 30, 2018 as compared to \$98,483 for the three months ended June 30, 2017. The losses were incurred by the associated companies who are still in the early stage of development. The gain from equity accounted investees was \$158,558 for the six months ended June 30, 2018 as compared to a gain of \$843,914 in the comparable prior year period. This resulted from a dilution gain of \$846,926 recorded on CannaRoyalty's investment in Resolve decreasing from 27.7% to 26.5% during the first quarter (June 30, 2017 – gain of \$1.0 million on Resolve dilution from 33.3% to 27.7%).

Management believes both investments still have fair value which exceeds their carrying value. The Company is confident that its 26.5% stake in Resolve, an equity accounted investee, has significant value. Based on the most recent financing of \$1.50 per share in March 2018, CannaRoyalty's stake in Resolve has an implied value of approximately \$21.3 million. The Company would consider disposing of this non-core investment to unlock significant value for CannaRoyalty shareholders. The carrying value of Resolve on CannaRoyalty's balance sheet at June 30, 2018 is \$3.1 million.

A gain of \$88,674 was recorded in the first half of 2017, on a pending disposal of equipment in relation to the acquisition of Anandia equity in February 2017. The equipment was disposed in July 2017.

During the six months ended June 30, 2017, the company incurred a penalty of \$221,053 related to the non-completion of a transaction with Zenabis Limited Partnership.

The listing expense of \$38,193 incurred in the first six months of 2017, consists of legal and filing charges to join the OTCQB market in the U.S. during February 2017.

Interest expense was \$341,293 and \$661,283 for the three and six months ended June 30, 2018 as compared to \$18,499 and \$36,119 for the three and six months ended June 30, 2017. The increase is due to the line of credit obtained during the third quarter of fiscal 2017, which resulted in additional interest as well as the amortization of certain deferred charges. During the current year, amortized charges of \$317,766 relate to the amortization of warrants issued to obtain the line of credit. The interest on the money drawn on the Sprott line of credit was \$60,187 which has been subsequently paid by the issuance of shares. The remainder of the expense mostly pertains to the 5% interest expense and the debt accretion on the \$1.5 million debt with Aphria which was converted into equity in April 2018.

DEFERRED TAX EXPENSE AND RECOVERY

The Company realized a deferred tax recovery of \$176,090 and \$7,277 during the three and six months periods ended June 30, 2018 as compared to recoveries of \$78,681 and \$157,053 for the comparable periods in fiscal 2017. The increased recovery is due to the intangibles acquired on the acquisition of Kaya and Alta in March 2018.

NET INCOME (LOSS) AND EARNINGS PER SHARE

Net income for the three and six months ended June 30, 2018, amounted to \$9.3 million and \$4.6 million compared to losses of \$2.0 million and \$4.0 million for the same periods last year. The increase in income is attributable to the fair value gain in the investment in Anandia as a result of a pending transaction at June 30, 2018 which ultimately closed in August of 2018, as well as an increase in gross margin from product sales. These gains are partially offset by an increase in operating expenses resulting from the company's growth in California.

Due to the increase in Net income in the period, the Company's basic earnings per share ("EPS") has increased to \$0.18 and \$0.10 for the three and six months ended June 30, 2018 as compared to losses of \$0.05 and \$0.10 for the three and six months ended June 30, 2017. Diluted EPS are \$0.17 and \$0.09 for the three and six months ended June 30, 2018. Due to losses prior to fiscal 2018, there was no difference between reported basic and diluted EPS.

OTHER COMPREHENSIVE INCOME

Other comprehensive gain for the three months ended June 30, 2018 was \$698,464, compared to a loss of \$449,955 for the same period last year. These gains and losses relate to foreign currency translation adjustments.

ADJUSTED EBITDA

EBITDA and Adjusted EBITDA are non-GAAP financial measures and accordingly they are not earnings measures recognized by IFRS and do not carry standard prescribed significance. Moreover, our method for calculating Adjusted EBITDA may differ from that used by other companies using the same designation. Management defines Adjusted EBITDA as net income (loss) from operations, as reported, before interest, tax, and adjusted for removing other non-cash items, such as share-based compensation expense and depreciation. In the current quarter, the Company removed gains and losses on investments as management expects these gains and losses to be recurring as non-core assets are divested. Certain comparative amounts have been reclassified to conform to the current presentation. We caution readers that Adjusted EBITDA should not be substituted for determining net income (loss) as an indicator of operating results or as a substitute for cash flows from operating and investing activities.

| | Three months ended | | Six months ended | |
|--|----------------------|-----------------------|---------------------|-----------------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| <i>Add (Subtract)</i> | | | | |
| Net income (loss) for the period | \$ 9,298,488 | \$ (2,017,556) | \$ 4,644,015 | \$ (3,984,161) |
| Amortization of property and equipment | 80,530 | 49,456 | 125,798 | 91,198 |
| Amortization of intangible assets | 537,306 | 205,878 | 704,174 | 408,350 |
| Amortization of royalty investments | 252,153 | 144,271 | 640,523 | 165,392 |
| Interest expense | 341,293 | 18,499 | 661,283 | 36,119 |
| Interest income | (25,316) | (21,960) | (35,105) | (40,704) |
| Current income taxes | 115,898 | - | 116,332 | - |
| Deferred income tax recovery | (176,090) | (78,681) | (7,277) | (157,053) |
| EBITDA | 10,424,262 | (1,700,093) | 6,849,743 | (3,480,859) |
| Listing expense | - | - | - | 38,193 |
| Penalties from non-completion of transactions | - | 37,578 | - | 221,053 |
| Gain on sale of equipment | - | 10,000 | - | (88,674) |
| Recovery on Achelois Inventory | (441,370) | - | (441,370) | - |
| Share based compensation | 1,092,235 | 645,816 | 3,032,278 | 1,804,212 |
| Transaction costs on acquisitions | - | - | 282,126 | - |
| TOTAL ADJUSTED EBITDA | \$ 11,075,127 | \$ (1,006,699) | \$ 9,722,777 | \$ (1,506,075) |
| Weighted average number of common shares outstanding - basic | 51,560,197 | 41,829,704 | 48,536,866 | 40,356,024 |
| Weighted average number of common shares outstanding - diluted | 55,308,327 | 41,829,704 | 52,462,527 | 40,356,024 |
| ADJUSTED EBITDA per share - basic | \$ 0.21 | \$ (0.02) | \$ 0.20 | \$ (0.04) |
| ADJUSTED EBITDA per share - diluted | \$ 0.20 | \$ (0.02) | \$ 0.19 | \$ (0.04) |

The Company believes that Adjusted EBITDA is a meaningful and useful metric to investors, analysts, and other stakeholders for measuring and predicting the operating performance of CannaRoyalty's core business and future cash flows. Adjusted EBITDA excludes interest expense, income taxes, and depreciation, non-cash items such as stock-based compensation and the following charges which are non-recurring:

- \$282,126 in acquisition costs related to the purchase of Kaya and Alta in the first quarter of fiscal 2018
- \$221,053 of charges in the first two quarters of fiscal 2017 related to penalties for the non-completion of a share swap transaction
- \$441,370 cost of sales recovery in the second quarter of fiscal 2018 on the monetization of previously impaired inventory through the cancellation of a debt agreement.
- \$38,193 of listing charges on the OTC markets in the first quarter of fiscal 2017.
- Gain on disposal of equipment of \$88,674 in the six months ending June 30, 2017, related to the provision of equipment to Anandia as part on an equity acquisition transaction.

For the three months ended June 30, 2018, CannaRoyalty had Adjusted EBITDA income of \$11.1 million compared to a loss of \$1.0 million for the same period last year. The increase of \$12.1 million in income between the two periods was due largely to a fair value gain on investments of \$15.2 million, an increase in gross margin of \$0.4 million, which is partially offset by an increase in operating expenses (excluding share-based compensation) of \$3.1 million.

For the six months ended June 30, 2018, CannaRoyalty had Adjusted EBITDA income of \$9.7 million compared to a loss of \$1.5 million for the same period last year. The increase of \$11.2 million in income between the two periods was due largely to a fair value gain of \$15.6 million, which is partially offset by an increase in operating expenses (excluding share-based compensation) of \$3.8 million.

FINANCIAL POSITION

The following table sets forth consolidated statement of financial position data at June 30, 2018 and December 31, 2017:

| | June 30, 2018 | | December 31, 2017 | | Change |
|--|---------------|------------|-------------------|------------|---------------|
| Selected statement of financial position data | | | | | |
| Cash | \$ | 15,724,845 | \$ | 4,522,644 | \$ 11,202,201 |
| Working capital | | 17,558,886 | | 5,813,705 | 11,745,181 |
| Total investments (1) | | 44,096,031 | | 26,674,288 | 17,421,743 |
| Total assets | | 94,791,037 | | 46,139,757 | 48,651,280 |
| Long term and convertible debt | | 290,457 | | 2,258,467 | (1,968,010) |
| Shareholders' equity | | 85,244,780 | | 40,468,344 | 44,776,436 |
| Dividends, per share | | - | | - | - |

(1) This represents the sum of investments, royalty investments, and interests in equity method investees

- The increase in cash of \$11.2 million is due to cash from financing activities of \$22.2 million, offset by cash used in operations of \$6.4 million and investing activities of \$4.8 million. A significant portion of operating cash flows were used to support the operating and development needs of investee businesses.

- Working Capital increased by \$11.8 million due to the increased level of cash of \$11.2 million.
- Total investments increased by \$17.4 million due to the fair value increase in Anandia of \$15.6 million and the additional investment in the RVR Royalty of \$1.9 million.
- Total assets increased by \$48.6 million due largely to the acquisition of Kaya and Alta which increased assets by \$19.8 million, the increase in cash of \$11.2 million, and the increase in the fair value of Anandia by \$15.6 million.
- Shareholders' equity increased by \$44.8 million largely due to increases in share capital of \$31.3 million, net income of \$4.6 million, the issuance of contingent shares on the Kaya and Alta acquisition valued at \$3.8 million and share based compensation of \$3.0 million. Share capital issuances were driven by the April 2018 financing and the exercise of warrants.

In August 2017, the Company closed a financing arrangement with Sprott which provides a secured credit facility (the "Facility") of up to \$12.0 million. At June 30, 2018, the Company had drawn \$2.0 million from the Facility, and had an accrued interest balance of \$60,187. The line of credit is reported net of amortized financing fees on the Company's balance sheet.

LIQUIDITY

The Company's objectives in managing its liquidity and capital structure are to generate sufficient cash to fund the Company's operating, acquisition, organic growth and contractual requirements. The Company monitors its liquidity primarily by focusing on total liquid assets and working capital.

The table below sets out relevant liquidity related financial information at June 30, 2018 and December 31, 2017:

| | June 30, 2018 | December 31, 2017 |
|-----------------------------------|----------------------|-------------------|
| Cash | \$ 15,724,845 | \$ 4,522,644 |
| Liquid assets (1) | 16,488,011 | 5,951,767 |
| Quick ratio (2) | 2.77 | 2.79 |
| Working capital | 17,558,886 | 5,813,705 |
| Working capital ratio (3) | 3.95 | 3.72 |
| Convertible debt | - | 1,431,950 |
| Secured credit facility debt | 2,000,000 | 3,000,000 |
| Secured credit facility available | 10,000,000 | 9,000,000 |

(1) Liquid assets include cash and amounts receivable

(2) Quick ratio is defined as liquid assets divided by current liabilities

(3) Working capital ratio is defined as current assets divided by current liabilities

CannaRoyalty's liquid assets as of June 30, 2018 and December 31, 2017 include cash and amounts receivable. The Company's level of liquid assets is relevant to meet its current operating needs and it uses the quick ratio to measure its short-term liquidity.

In April 2018, the Company completed an equity raise for gross proceeds of \$17.3 million (including an over-allotment option); the majority of the net proceeds from this raise are planned for use to develop and expand existing investments in California and to finance new acquisitions. Of this amount, \$1.0 million was used to reduce the existing facility line of credit from \$3.0 million to \$2.0 million.

As of June 30, 2018, the Company had liquid assets of \$16.5 million compared to \$6.0 million at December 31, 2017. The increase in liquid assets is largely related to the bought deal financing completed in April 2018 which generated gross proceeds of \$17.3 million. Over the same period last year, the quick ratio has remained steady at 2.77 compared to 2.79, which is due largely to the accounts payable assumed from the Kaya and Alta acquisition. With a quick ratio below 1.00, the Company may be required to use financing to meet some of its short-term liquidity needs; however, the current quick ratio of 2.77 does not indicate any short-term liquidity issues. If there were to be short term financing requirements, financing is available to CannaRoyalty in the form of a line of credit. As of June 30, 2018, CannaRoyalty can draw up to \$10.0 million on its \$12.0 million secured credit Facility with Sprott. Furthermore, a private placement debt transaction was completed in July 2018 which generated gross proceeds of \$33.0 million. This financing is expected to significantly increase the quick ratio. These financings will be used primarily to fund CannaRoyalty's ongoing California expansion and to meet the short-term needs of new investees such as Kaya, Alta, FloraCal and eventually RVR. While the Company has incurred cash losses to date, management anticipates that eventual cash profitability will increase its liquid assets. However, at this relatively early stage of CannaRoyalty's development, there cannot be absolute assurance that the Company will be able to generate sufficient positive cash flows to reach sustained profitability.

CannaRoyalty monitors its level of working capital and working capital ratio to assess its ability to enter into strategic opportunities such as equity investments, royalty financing arrangements, and providing start-up working capital to its existing and future business units. The level of working capital surplus has increased from \$5.8 million at December 31, 2017 to \$17.6 million at June 30, 2018. This is largely the result of the bought deal financing completed in April 2018. The surplus at June 30, 2018 will not be sufficient on its own for the Company to fully undertake the level of cash based strategic opportunities it would like to pursue over the next twelve months without incremental financing. These known opportunities include:

- a) A term sheet to complete an acquisition of RVR Distribution, which would require the issuance of 3.65 million shares and up to 3.35 million in contingent shares
- b) The acquisition of FloraCal, which required \$1.3 million in cash and the issuance of 3.8 million shares on the July 2, 2018, closing date. The acquisition agreement also includes contingent elements which require cash payments of US\$4.0 million and the issuance of 3.8 million shares if fully met.
- c) Significant capital project investments in FloraCal, Kaya, and Alta.

Through each of the above acquisitions, the Company has minimized its working capital needs via making share consideration a significant element of the overall purchase consideration. Beyond the cash elements of the purchase price, the Company will make significant capital investment outlays in some of the above acquisitions to increase or accelerate their growth potential.

To meet the significant capital investment outlays anticipated for these recent acquisitions, as well as anticipating future acquisitions, the Company completed a private placement on July 11, 2018, which generated gross proceeds of \$33.0 million. This debt bears interest at 8%, and it is potentially convertible by debt holders into 4,800,000 shares based on an exercise price of \$6.25.

While the Company has historically issued shares as part of the compensation for significant acquisitions, however, there can be no assurance that the Company will be able to continue to finance its strategic opportunities via the issuance of shares or debt. Management will continue to monitor and assess its acquisition activities to ensure that operating requirements are met over the next twelve months.

The chart below highlights the Company's cash flows during the three and six months ended June 30, 2018 and June 30, 2017.

| Six months ended June 30 | 2018 | | 2017 |
|---|------|-------------------|----------------|
| Net cash provided (used) by | | | |
| Operating activities | \$ | (6,350,875) | \$ (4,864,753) |
| Financing activities | | 22,262,132 | 13,984,824 |
| Investing activities | | (4,766,885) | (5,624,663) |
| Effect on movements in foreign exchange on cash | | 57,829 | - |
| Cash, beginning | | 4,522,644 | 2,945,895 |
| Cash, end | \$ | 15,724,845 | \$ 6,441,303 |

CASH USED IN OPERATING ACTIVITIES

Cash used in operating activities during the six months ended June 30, 2018 was \$6.4 million as compared to \$4.9 million for the six months ended June 30, 2017. The outflow of cash from operating activities is primarily due to cash-based operating expenses, which in the current stage of business, are not offset by gross margins earned from revenues. Due to the growth of the company's headcount in anticipation of significant growth and operational investments in newly acquired subsidiaries, the Company has used more operating cash flows in fiscal 2018 as compared to fiscal 2017.

CASH USED IN INVESTING ACTIVITIES

The cash used in investing activities during the six months ended June 30, 2018 was \$4.8 million as compared to \$5.6 million for the six months ended June 30, 2017. For the six months ended June 30, 2018, loans of \$2.2 million have been granted, including \$1.5 million to Kaya, Alta, and RVR. A further amount of \$1.3 million was invested into the RVR royalty stream and \$1.0 million of cash, net of cash assumed on acquisition, was paid to purchase Kaya and Alta.

For the six months ended June 30, 2017, cash of \$2.8 million was invested into royalty streams, the majority related to RVR. In addition, cash payments of \$1.6 million were made for equity investments, including \$1.5 million in Anandia and \$0.1 million in Resolve, and loans of \$1.1 million were granted, largely to Rich Extracts.

CASH PROVIDED BY FINANCING ACTIVITIES

The cash provided by financing activities during the six months ended June 30, 2018 was \$22.3 million. The largest sources of cash were \$15.6 million of net proceeds from a bought deal financing in April 2018, and \$7.4 million from the exercise of warrants. This was partially offset by a \$1.0 million payment towards the Company's line of credit.

The cash provided by financing activities for the six months ended June 30, 2017 was \$14.0 million. The largest sources of cash were \$13.7 million of net proceeds from a bought deal financing in February 2017, and \$0.3 million from the exercise of warrants.

FINANCING AND CAPITAL RESOURCES

The Company is subject to risks including, but not limited to, its ability to raise additional funds through debt and/or equity financing to support development via acquisition, investment, continued operations, and to meet liabilities and commitments. Specifically, as of June 30, 2018 the Company has a history of losses with an accumulated deficit of \$17.9 million, share capital of \$81.4 million and working capital of \$17.6 million. This compares to an accumulated deficit of \$22.4 million, share capital of \$50 million and working capital of \$5.8 million as at December 31, 2017.

CAPITAL ACTIVITIES

The Company manages its capital with the objective of maximizing shareholder value and sustaining future development of the business. The Company defines capital as the Company's equity and any debt it may issue. The Company manages its capital structure based on the funds available to support its activities. Upon approval from the Board, management will undertake to balance its overall capital structure through new share issues, the issue of debt or by undertaking other activities as deemed appropriate under specific circumstances including the potential divestiture of non-core assets.

The Company's principal capital needs are for funds to use towards its current investments, pipeline projects, upcoming product launches, and general working capital requirements to support growth. These currently include the March 2018 acquisition of Kaya and Alta, the July 2018 acquisition of FloraCal, as well as potential term sheet acquisition of RVR as noted in the liquidity section of this document. Since its formation, the Company has financed its cash requirements primarily through the issuance of capital stock.

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its investment growth strategy and undertake selective acquisitions, while at the same time taking a conservative approach toward financial leverage and management of financial risk. The Company's capital is composed primarily of equity of \$85.2 million and a secured credit facility of \$12.0 million, of which \$10.0 million remains undrawn. On July 11, 2018, the Company completed a private placement to issue convertible debt of \$33.0 million. The Company's primary uses of capital are to invest in the expansion of its manufacturing and distribution footprint in California, in the commercialization of its brands and the development and acquisition of other branded products. The Company also uses capital to finance operating losses, capital expenditures and increases in non-cash working capital. The Company's objectives when managing capital are to ensure that the Company will continue to have enough liquidity to help build its investments to ultimately generate above market returns.

The Company monitors its capital based on the adequacy of its cash resources to fund its business plan. To maximize flexibility to finance the Company's ongoing growth, CannaRoyalty does not currently pay a dividend to holders of its common shares. Other than refocusing efforts on its California expansion and moving away from passive investments which are now considered non-core, the Company did not institute any changes to its capital management strategy during this fiscal year.

Outstanding and potentially dilutive share count information

The Company's authorized share capital is an unlimited number of common shares of which 53,694,947 were issued and outstanding as at June 30, 2018 (December 31, 2017 – 43,898,445 common shares). The Company has issued 3,842,990 RSUs that have not been exercised as at June 30, 2018 including 2,203,345 that have vested (December 31, 2017 – 4,153,150 including 1,933,587 that had vested). As of June 30, 2018, there are share purchase warrants and broker warrants outstanding that can potentially be converted to 4,491,866 shares (December 31, 2017 – 4,112,712). The Company has issued 967,500 share options that have not been exercised as at June 30, 2018 including 308,250 that have vested (December 31, 2017 – 850,000 including 212,500 that had vested).

ACCOUNTING MATTERS

Internal Controls Over Financial Reporting

The Chief Executive Officer and Chief Financial Officer, in accordance with National Instrument 52-109 ("NI 52-109"), have both certified that they have reviewed the interim financial report and this interim MD&A (the "Interim Filings") and that, based on their knowledge having exercised reasonable diligence, (a) the Interim Filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the filings; and (b) the Interim Filings together with the other financial information included in these Interim Filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the Interim Filings. The Company was a venture issuer as of June 30, 2018. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost-effective basis Disclosure Controls and Procedures and Internal Controls Over Financial Reporting as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Adoption of New Accounting Standards

IFRS 9, Financial Instruments (“IFRS 9”)

IFRS 9 is required to be applied for reporting periods beginning on or after January 1, 2018, with retrospective application. The new standard includes a model for the classification and measurement of financial instruments and a single forward-looking expected loss impairment model. The Company’s financial performance and financial position is currently not materially affected by the retrospective application of the standard.

The table below outlines the impact of implementing IFRS 9:

| | As reported at December 31, 2017 | Estimated adjustment due to adoption of IFRS 9 | Estimated adjusted opening balance at January 1, 2018 |
|--|-------------------------------------|--|---|
| Allowance for doubtful trade receivables | \$ (28,026) | \$ (109,138) | \$ (137,164) |
| Accumulated deficit | (22,381,817) | (109,138) | (22,490,955) |

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)

IFRS 15 is required to be applied for years beginning on or after January 1, 2018. The International Accounting Standards Board and the Financial Accounting Standards Board of the United States worked on this joint project to clarify the principles for the recognition of revenue. The new standard was released in May 2014 and supersedes existing standards and interpretations including IAS 18, *Revenue*. The Company has applied IFRS 15, subject to permitted and elected practical expedients. The effects of the new standard and the materiality of those effects will vary by industry and entity. The effect on CannaRoyalty is not significant, and as such retrospective adjustments were not material.

Future Accounting Pronouncements

IFRS 16, Leases (“IFRS 16”)

This standard specifies the recognition, measurement, presentation and disclosure of leases. This standard is effective for annual periods beginning on or after January 1, 2019. The Company currently has a long-term lease agreement for office space in Ottawa, as well as manufacturing and distribution spaces in California. Under IFRS 16, these leases would result in an additional right of use asset and lease liability being recorded on the Company’s balance sheet. The Company is currently evaluating the impact of adopting this standard; however, it expects the adoption of this standard to increase assets and liabilities as it will be required to record a right-of-use asset and a corresponding lease liability in its financial statements.

Related Party Transactions

The company has had the following related party transactions during the six months ended June 30, 2018:

- a) As part of the acquisition of Kaya and Alta on March 27, 2018, the Company inherited two loans worth \$72,905 (US\$ 55,500) to the former majority shareholder of the companies. This individual is now a member of the Company's key management. These loans are due on December 31, 2018 and bear no interest.
- b) As of June 30, 2018, \$41,742 has been accrued for travel reimbursements due to key management of the Company (December 31, 2017 - \$14,640).
- c) During the second quarter the company issued 484,042 common shares to a member of key management. These were issued based on Alta and Kaya reaching certain post acquisition performance milestones.
- d) The Company has an agreement with an exclusive distributor that is partially owned by a member of key management, whereby the Company guarantees royalty payments of US\$3.6 million based on a separate quarterly guarantee over a 5-year period ending December 31, 2022. As part of this agreement, CannaRoyalty was required to issue 125,022 shares to this distributor for a value of \$480,450, of which \$426,920 (US\$325,000) serve as prepaid royalty payments. During the second quarter, the distributor earned royalties of \$42,570. The Company also agreed to deploy no less than US\$ 1.0 million on operational infrastructure and S&M prior to the end of February 2020.

Financial instruments

In the normal course of business, the Company uses various financial instruments which by their nature involve risk, including market risk, interest rate risk, liquidity risk and credit risk of non-performance by counter parties. These financial instruments are subject to normal credit standards, financial controls, risk management as well as monitoring procedures.

The following table sets out the fair values of recognized financial instruments using the valuation methods and assumptions described below. Unless otherwise noted, carrying values approximate fair values for each financial instrument:

| | June 30, 2018 | December 31, 2017 |
|--|---------------|-------------------|
| Fair value through profit or loss assets (liabilities): | | |
| Cash | \$ 15,724,845 | \$ 4,522,644 |
| Investments | 33,379,709 | 17,243,342 |
| Loans and receivables: | | |
| Loans receivable | 1,902,913 | 1,102,168 |
| Amounts receivable | 763,166 | 1,429,123 |
| Convertible notes receivable | - | 373,127 |
| Financial liabilities at amortized cost: | | |
| Amounts payable | 5,374,501 | 1,606,689 |
| Line of credit | 290,457 | 826,517 |
| Convertible debt | - | 1,431,950 |
| Loans payable | 90,166 | 425,345 |

Determination of fair value

The estimated fair values of cash, trade and amounts receivable, loans receivable, loans payable, and trade and amounts payable approximate their carrying values due to the relatively short-term nature of the instruments.

Fair value measurements recognized in the consolidated statements of financial position must be categorized in accordance with the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial instruments carried at fair value consist of cash (Level 1), and investments (Level 2). The embedded derivatives are valued using observable market inputs such as prime rate of borrowing and the Company's stock price. Level 2 valuations have been completed for investments using observable share price data from completed financing transactions. The Company has not transferred any financial instruments between Level 1, 2 or 3 of the fair value hierarchy

REGULATORY OVERVIEW

Staff Notice 51-352 is a discussion of the current federal and state-level U.S. regulatory regimes in those jurisdictions where the Company is currently directly and 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.

Summary of U.S. Cannabis Activity

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

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.

With the Company's acquisition of Kaya and Alta and the proposed acquisition of RVR, the Company has acquired and agreed to acquire, respectively, licensed manufacturers and distributors in the State of California, and, as a result, will be directly engaged in the licensed manufacture and distribution of the Company's cannabis consumer products.

Resolve is not included as a U.S.-based investment as its assets are predominantly intellectual property and, with the exception of a letter of intent in Florida, it was not directly or indirectly engaged in cannabis-related activity in the U.S. as at December 31, 2017.

The non-controlling investments held by the Company include equity-accounted investments, investments without significant influence, 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 June 30, 2018:

| | Operating Subsidiaries | Non-controlling Investments | Total |
|-------------------------|---------------------------|--------------------------------|----------------|
| Current assets | \$ 4,590,525 | \$ 1,630,237 | \$ 6,220,762 |
| Non-current assets | 24,825,578 | 14,634,347 | 39,459,925 |
| Total Assets | \$ 29,416,103 | \$ 16,264,584 | \$ 45,680,687 |
| Current liabilities | (1,765,059) | (948,446) | (2,713,505) |
| Non-current liabilities | (3,697,841) | - | (3,697,841) |
| Total Liabilities | \$ (5,462,900) | \$ (948,446) | \$ (6,411,346) |

Goodwill and intangibles related to the acquisition of U.S.-based subsidiaries are included within the operating subsidiaries non-current assets balance.

The following is a summary of operating losses from U.S. cannabis-related activities for the three months ended June 30, 2018:

| | Operating Subsidiaries | Non-controlling Investments | Total |
|--|---------------------------|--------------------------------|----------------|
| Revenue | \$ 3,113,398 | \$ 142,134 | \$ 3,255,532 |
| Cost of sales | (2,384,943) | (245,587) | (2,630,530) |
| Gross margin | 728,455 | (103,453) | 625,002 |
| Less - Operating expenses | | | (3,156,858) |
| | | | \$ (2,531,856) |
| <i>Other Income</i> | | | |
| Changes in fair value of investments | | | (2,514) |
| Impairment of convertible notes receivable | | | (3,888) |
| Loss from equity accounted investees, net of tax | | | (19,873) |
| Net Loss | | | \$ (2,558,131) |

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.

During the three and six months ended June 30, 2018, the Company's Canadian-based subsidiaries have provided services of \$602,049 and \$733,292, respectively to non-related companies in the U.S. cannabis sector (\$120,878 and \$352,265, respectively in 2017).

The following represents the portion of certain assets on CannaRoyalty's consolidated balance sheet that pertain to U.S. Cannabis activity as at June 30, 2018:

| Balance Sheet Line Item | Percentage which Relates to Investments/Holdings with U.S. marijuana- related activities |
|--|--|
| Loans receivable | 64% |
| Interest in equity accounted investees | 78% |
| Investments | 19% |
| Royalty investments | 95% |
| Intangible assets and goodwill | 93% |

The Company has looked at all its holdings that are based in the United States and given that none of these holdings have any Canadian operating activity, the Company's full investment in such entities was included in its assets.

Readers are cautioned that the foregoing financial information, though extracted from the Company's financial systems that support its Annual Financial Statements, has not been audited in its presentation format and accordingly is not in compliance with IFRS based on consolidation principles.

United States Federal Overview

In the United States, thirty states, Washington D.C. and Puerto Rico 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 long-time 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.

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. 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. Dozens of U.S. Attorneys across the country have affirmed that their view of federal enforcement priorities has not changed, although a few have displayed greater ambivalence. 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.”

It is too soon to determine what prosecutorial effects will be created by the rescission of the Cole Memorandum. While initial fears of a nationwide “crackdown” have not yet materialized, considerable uncertainty remains.

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, aiding and abetting, 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. Like the (now rescinded) Cole Memorandum, the FinCEN Memorandum is not law, but enforcement guidance, and would not protect a cannabis business if a prosecution were to materialize.

Enforcement of U.S. Federal Laws

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. See “Risk Factors”.

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. See “Risk Factors”.

Further, 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 matter 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. See “Risk Factors”.

U.S. Enforcement Proceedings

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 “Leahy 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.

The Leahy Amendment was included in the FY 2018 budget passed on March 23, 2018, meaning that the Leahy Amendment is still in effect as of today’s date and will remain in effect until September 30, 2018, when FY 2019 begins. At such time, there are several possibilities: Congress could pass a FY 2019 budget, in which case it could either include the Leahy Amendment (or a similar amendment), or not; Congress could pass a Continuing Resolution extending the FY 2018 budget, in which case the Leahy Amendment would be automatically renewed; or Congress could fail to pass any kind of a budget, in which case a government shutdown would result and the protections of the Leahy Amendment would end.

Ability to Access Public and Private Capital

The Company has had historically, and continues to have, robust access to equity and debt financing from the public and prospectus exempt (private placement) markets in Canada. While the Company is not able to obtain bank financing in the U.S. or financing from other U.S. federally regulated entities, it currently has: (i) access to equity financing through the public markets in Canada, and (ii) a \$12 million credit facility available from Sprott Canna Holdco Corp. The Company’s executive team and board also have extensive relationships with sources of private capital (such as funds and high net worth individuals), that could be investigated at a higher cost of capital. Further, the Company is actively pursuing an asset rationalization strategy to divest itself of portfolio assets that do not relate to its core business. Proceeds from the sale of such assets would be used to finance the continued growth of the Company’s business.

If such equity and/or debt financing were no longer available in the public markets in Canada due to changes in applicable law, then the Company expects that it would have access to raise equity and/or debt financing privately.

Commercial banks, private equity firms and venture capital firms have approached the cannabis industry cautiously to date. However, there are increasing numbers of high net worth individuals and family offices that have made meaningful investments in companies and projects similar to the Company’s projects. Although there has been an increase in the amount of private financing available over the last several years, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants. There can be no assurance that additional financing, if raised privately, will be available to the Company when needed or on terms which are acceptable. The Company’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. See “Risk Factors - Banking” and “Risk Factors – Additional Financing”.

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 June 30, 2018, unless otherwise indicated. 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 would neither absolve the Company of liability under United States federal law, nor provide a defense to any federal proceeding which may be brought against the Company.

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 micro-businesses. 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 and Alta Supply ("the California Operators"). The California Operators have represented to the Company that their business was conducted in compliance with the regulatory framework enacted by the State of California. The California Operators are in 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.

Under California state law, all state licensed cannabis businesses are entitled to rely on certain transition provisions until June 30, 2018. These provisions were included to ease the transition of businesses into the new regulatory regime introduced on January 1, 2018 in California. The provisions grandfather the sale of certain products compliantly produced prior to January 1, 2018, and, among other things, also allow state licensees to transact with other state licensees regardless of the parties' adult-use (A) or medical (M) license until July 1, 2018.

While the Company has not produced products pursuant to any A class license, certain of Company's distributors may be transacting in Company's products with A class retailers.

The Company closed the acquisition of Alta Supply (which is an M-Class Licensed Distributor) and Kaya (which holds a temporary M-Class 6 Licensed Manufacturer license) on March 27, 2018. Also, the Corporation is in the process of preparing applications in California for A and M class licenses.

Further, on March 26, 2018 the Company announced its intention to acquire RVR, which holds several A and M class distribution licenses.

Below is an overview of some of the principal license types issued in California (each of which can be issued with a Medical (M-Class) or Adult-Use (A-Class) designation):

- Type 6: authorized to manufacture cannabis products using mechanical or non-volatile solvent extractions.
- Type 7: authorized to manufacture cannabis products using volatile solvent extractions.
- Type N: authorized to manufacture cannabis products (other than extracts or concentrates) using infusion processes but does not conduct extractions.
- Type P: authorized to only package or repackage cannabis products or relabel the cannabis product container.
- Type 8: authorized to test the chemical composition of cannabis and cannabis products.
- Type 9: authorized to conduct retail cannabis sales exclusively by delivery.
- Type 10: authorized to sell cannabis goods to customers.
- Type 11: authorized to transport and store cannabis goods purchased from other licensed entities, and sell them to licensed retailers, and is responsible for laboratory testing and quality assurance to ensure packaging and labeling compliance.
- Type 13: authorized to transport cannabis goods between licensed cultivators, manufacturers, and distributors.

Zoning and Land Use Requirements

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.

Record-Keeping and Continuous Reporting Requirements

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.

Operating Procedure Requirements

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 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.

Site-Visits & Inspections

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.

Compliance Procedures

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.

Arizona Summary

Arizona citizens adopted the Arizona Medical Marijuana Act ("AMMA") via citizens' initiative in November 2010. The AMMA is codified in Arizona Revised Statutes ("ARS") § 36-2801 et. seq. The AMMA also appointed the Arizona Department of Health Services ("AZDHS") as the regulator for the program and authorized AZDHS to promulgate, adopt and enforce regulations for the AMMA. These AZDHS Regulations are embodied in the Arizona Administrative Code ("AAC") Title 9 Chapter 17 (the "Rules"). ARS § 36-2801(11) defines a "non-profit medical cannabis dispensary" as not-for-profit entity that acquires, possesses, cultivates, manufactures, delivers, transfers, transports, supplies, sells or dispenses cannabis or related supplies and educational materials to cardholders (a "Dispensary").

In order for an applicant to receive a Dispensary Registration Certificate (a "Certificate") they must: (i) fill out an application on the form proscribed by AZDHS, (ii) submit the applying entity's articles of incorporation and by-laws, (iii) submit fingerprints for each principal officer or board member of the applicant for a background check to exclude felonies, (iv) submit a business plan and policies and procedures for inventory control, security, patient education, and patient recordkeeping that are consistent with the AMMA and the Rules to ensure that the Dispensary will operate in compliance and (v) designate an Arizona licensed physician as the Medical Director for the Dispensary. Certificates are renewed annually so long as the Dispensary is in good standing with AZDHS and pays the renewal fee and submits an independent third-party financial audit.

Once an applicant has been issued a Certificate, they are allowed to establish one physical retail dispensary location, one cultivation location which is co-located at the dispensary's retail site (if allowed by local zoning) and one additional off-site cultivation location. None of these sites can be operational, however, until the Dispensary receives an approval to operate from AZDHS for the applicable site. This approval to operate requires: (i) an application on the AZDHS form, (ii) demonstration of compliance with local zoning regulations, (iii) a site plan and floor plan for the applicable property, and (iv) an in-person inspection by AZDHS of the applicable location to ensure compliance with the Rules and consistency with the Dispensary's applicable policies and procedures.

Any Dispensary facility (both retail and cultivation) must abide by the following security requirements: (i) ensure that access to the facilities is limited to authorized Dispensary Agents who are in possession of a Dispensary Agent card, (ii) equip the facility with: (a) intrusion alarms and surveillance equipment, (b) exterior and interior lighting to facilitate surveillance, (c) at least one 19-inch monitor for surveillance and a video capable of printing a high resolution still image, (d) high resolution video cameras at all points of sale, entrances, exits, and limited access areas, both in and around the building, (e) 30 days' video storage, (f) failure notifications and battery backups for the security system and (g) panic buttons inside each building.

Dispensaries may transport medical cannabis between their own sites or between their sites and another Dispensary's sites and must comply with the following Rules: (i) prior to transportation, the Dispensary's agent must complete a trip plan showing: (a) the name of the dispensary agent in charge of transporting the cannabis, (b) the date and start time of the trip, (c) a description of the cannabis, cannabis plants, or cannabis paraphernalia being transported; and (d) the anticipated route of transportation, (ii) during transport the Dispensary Agent shall: (a) carry a copy of the trip plan at all times, (b) use a vehicle with no medical cannabis identification, (c) carry a cell phone, and (d) ensure that no cannabis is visible, and (iii) Dispensaries must maintain trip plan records.

AZDHS may inspect a facility at any time upon five days' notice to the Dispensary. However, if someone has alleged that the Dispensary is not in compliance with the AMMA or the Rules, AZDHS may conduct an unannounced inspection. AZDHS will provide written notice to the Dispensary of any violations found during any inspection and the Dispensary then has 20 working days to take corrective action and notify AZDHS.

AZDHS must revoke a Certificate if a Dispensary: (i) operates before obtaining approval to operate a dispensary from the Department, (ii) dispenses, delivers, or otherwise transfers cannabis to an entity other than another dispensary with a valid dispensary registration certificate issued by the Department, a qualifying patient with a valid registry identification card, or a designated caregiver with a valid registry identification card, (iii) acquires usable cannabis or mature cannabis plants from any entity other than another dispensary with a valid dispensary registration certificate issued by the Department, a qualifying patient with a valid registry identification card, or a designated caregiver with a valid registry identification card, or (iv) if a principal officer or board member has been convicted of an excluded felony offense.

Furthermore, AZDHS may revoke a Certificate if a Dispensary does not: (i) comply with the requirements of the AMMA or the Rules, (ii) implement the policies and procedures or comply with the statements provided to the Department with the dispensary's application.

Florida Summary

The State of Florida Statutes 381.986(8)(a) provides a regulatory framework that requires licensed producers, which are statutorily defined as "Medical Marijuana Treatment Centers" ("MMTC"), to both cultivate, process and dispense medical cannabis in a vertically integrated marketplace.

Applicants must demonstrate (and licensed MMTC's must maintain) that: (i) they have been registered to do business in the State of Florida for the previous five years, (ii) they possess a valid certificate of registration issued by the Florida Department of Agriculture, (iii) they have the technical and technological ability to cultivate and produce cannabis, including, but not limited to, low-THC cannabis, (iv) they have the ability to secure the premises, resources, and personnel necessary to operate as an

MMTC, (v) they have the ability to maintain accountability of all raw materials, finished products, and any by-products to prevent diversion or unlawful access to or possession of these substances, (vi) they have an infrastructure reasonably located to dispense cannabis to registered qualified patients statewide or regionally as determined by the Department, (vii) they have the financial ability to maintain operations for the duration of the 2-year approval cycle, including the provision of certified financial statements to the department, (viii) all owners, officers, board members and managers have passed a Level II background screening, inclusive of fingerprinting, and ensure that a medical director is employed to supervise the activities of the MMTC, and (ix) they have a diversity plan and veterans plan accompanied by a contractual process for establishing business relationships with veterans and minority contractors and/or employees.

Upon approval of the application by the Department, the applicant must post a performance bond of up to US\$5 million, which may be reduced by meeting certain criteria.

An MMTC may not dispense more than a 70-day supply of cannabis to any patient within such time frame. The MMTC employee who dispenses the cannabis must enter into the registry his or her name or unique employee identifier. The MMTC must verify that: (i) the qualified patient and the caregiver, if applicable, each has an active registration in the registry and active and valid medical cannabis use registry identification card, (ii) the amount and type of cannabis dispensed matches the physician certification in the registry for the qualified patient, and (iii) the physician certification has not already been filled. An MMTC may not dispense to a qualified patient younger than 18 years of age, only to such patient's caregiver. An MMTC may not dispense or sell any other type of cannabis, alcohol, or illicit drug-related product, except a cannabis delivery device as specified in the physician certification. An MMTC must, upon dispensing, record in the registry: (i) the date, time, quantity and form of cannabis dispensed, (ii) the type of cannabis delivery device dispensed, and (iii) the name and registry identification number of the qualified patient or caregiver to whom the cannabis delivery device was dispensed. An MMTC must ensure that patient records are not visible to anyone other than the patient, caregiver, and MMTC employees.

With respect to security requirements for cultivation, processing and dispensing facilities, an MMTC must maintain a fully operational alarm system that secures all entry points and perimeter windows, and is equipped with motion detectors, pressure switches, and duress, panic and hold-up alarms. The MMTC must also have a 24-hour video surveillance system with specified features. MMTCs must retain video surveillance recordings for at least 45 days, or longer upon the request of law enforcement.

An MMTC's outdoor premises must have sufficient lighting from dusk until dawn. An MMTC's dispensing facilities must include a waiting area with sufficient space and seating to accommodate qualified patients and caregivers and at least one private consultation area and such facilities may not display products or dispense cannabis or cannabis delivery devices in the waiting area and may not dispense cannabis from its premises between the hours of 9:00 p.m. and 7:00 a.m. but may perform all other operations and deliver cannabis to qualified patients 24-hours a day.

Cannabis must be stored in a secured, locked room or a vault. An MMTC must have at least two employees, or two employees of a security agency, on the premises at all times where cultivation, processing, or storing of cannabis occurs. MMTC employees must wear an identification badge and visitors must wear a visitor pass at all times on the premises. An MMTC must report to law enforcement within 24 hours after the MMTC is notified of or becomes aware of the theft, diversion or loss of cannabis. A cannabis transportation manifest must be maintained in any vehicle transporting cannabis

or a cannabis delivery device. The manifest must be generated from the MMTC's seed-to-sale tracking system and must include the: (i) departure date and time, (ii) name, address, and license number of the originating MMTC, (iii) name and address of the recipient, (iv) quantity and form of any cannabis or cannabis delivery device being transported, (v) arrival date and time, (vi) delivery vehicle make and model and license plate number; and (vii) name and signature of the MMTC employees delivering the product. Further, a copy of the transportation manifest must be provided to each individual, MMTC that receives a delivery. MMTCs must retain copies of all cannabis transportation manifests for at least three years. Cannabis and cannabis delivery devices must be locked in a separate compartment or container within the vehicle and employees transporting cannabis or cannabis delivery devices must have their employee identification on them at all times. Lastly, at least two people must be in a vehicle transporting cannabis or cannabis delivery devices, and at least one person must remain in the vehicle while the cannabis or cannabis delivery device is being delivered.

The Department shall conduct announced or unannounced inspections of MMTCs to determine compliance with the laws and rules. The Department shall inspect an MMTC upon receiving a complaint or notice that the MMTC has dispensed cannabis containing mold, bacteria, or other contaminants that may cause an adverse effect to humans or the environment. The Department shall conduct at least a biennial inspection of each MMTC to evaluate the MMTC's records, personnel, equipment, security, sanitation practices, and quality assurance practices.

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, suppositories, and 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 before being amended and then repealed.

Puerto Rico's medical cannabis system is now governed by Ley 42-2017, which will be accompanied by Reglamento 9038, to be implemented July 2, 2018. These changes have created and will create a better-regulated system of medical cannabis for Puerto Rico. Puerto Rico will have five distinct classes of traditional business licenses: cultivation, manufacturing, dispensing, transportation, and laboratory. Occupational licenses are also issued to (and required for) those working in the industry, all of whom are subject to background check. Research institutions are also licensed. PRHD will have the authority to determine the number of licensees in each category within statutory limitations, taking into account the geographic distribution of dispensaries, among other factors.

Dispensaries are limited to dispensing a 30-day supply of medical cannabis, to be defined as 1.5 ounces or its equivalent, which will be enforced through the use of a patient database to ensure that one patient does not obtain more than the allowed amount by visiting multiple dispensaries. Patients must have a valid medical card issued by PRHD in order to obtain any medical cannabis from a licensed dispensary.

Medical cannabis licensees in Puerto Rico must comply with strict operating requirements to maintain their licensure. Licensees must implement an inventory tracking system capable of tracking medical cannabis from seed to sale and must also use a required tracking system to protect against the laundering of money. The premises of any licensed business must have appropriate access restrictions, including developments of limited access areas to ensure that only authorized individuals may be present. Licensees must also ensure that their premises meet strict requirements for sanitation and safety, included but not limited to ensuring that adequate first-aid precautions are taken. Premises are subject to inspection by the PRHD to ensure compliance with all of these rules.

Security regulations will be extensive. Ley 42-2017 requires that licensees have a security system capable of continuous 24/7 monitoring and transmitting videos and photos in real time to a central location from which the system is monitored. All licensees must have at least one security guard during all hours of operations or when otherwise open to the public.

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.

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 eighteen 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.

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, 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, and expired at the end of the year. Starting July 1, 2017, medical and adult-use marijuana have incurred a 15% excise tax on the first wholesale sale (calculated on the fair market value) and adult-use cannabis have incurred an additional 10% special retail marijuana sales tax in addition to any general state and local sales and use taxes.

On January 16, 2018, the Marijuana Enforcement Division of the Department of Taxation issued final rules governing its adult-use marijuana program, pursuant to which up to sixty-six (66) permanent adult-use marijuana dispensary licenses will be issued. Existing adult-use marijuana licensees under the "early start" regulations must re-apply for licensure under the permanent rules in order to continue adult-use sales.

The Company has no investments in Nevada; rather, the Company has entered into consulting services arrangement with several parties, which involve brand and advisory services that are primarily performed remotely. The chart of the Company's material assets and investments set out above does not include any of the Company's Nevada-based investments because the Company's involvement in Nevada is limited to the provision of immaterial ancillary consulting services.

Compliance with Applicable State Law in the United States

Each of the Company's investees that is involved in the U.S. marijuana industry (which are identified on the Company's material assets and investments set out above as having "Direct" or "Indirect" involvement in the U.S. marijuana industry) (collectively, the "Licensed Entities") hold licenses that are in good standing to cultivate, possess and/or distribute marijuana in its respective state in the United States. Each of the Company's investees currently classified as having a "Direct" involvement in the U.S. marijuana industry (being the California Operators) is in compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state. With respect to the Company's investees currently classified as having an "Indirect" involvement in the U.S. marijuana industry (being AltMed and RVR), the Company is not aware of any non-compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state. Additionally, the Company is not aware of: (i) any non-compliance by any Licensed Entity with respect to its marijuana-related activities, or (ii) any notices of violation with respect to any Licensed Entity's marijuana-related activities by its respective regulatory authority. For a description of the compliance program for the Company's investees currently classified as having "Direct" involvement in the U.S.

marijuana industry (being the California Operators) please see the section entitled “State Level Overview – California Summary – Compliance Procedures”.

Except as otherwise disclosed herein, for each of the Company’s investees that is involved in the U.S. marijuana industry listed in the chart of the Company’s material assets and investments set out above and classified as having anything other than “Direct” or “Indirect” involvement in the U.S. marijuana industry (including, for greater certainty, Rich Extracts and Natural Ventures) (the “Non-Licensed Entities”), to the best of the Company’s knowledge, the Company is not aware of any non-compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state for any of such Non-Licensed Entity’s business and the Company is not aware of: (i) any non-compliance by that Non-Licensed Entity with respect to its marijuana-related activities, or (ii) any notices of violation with respect to any Non-Licensed Entity’s marijuana-related activities by its respective regulatory authority.

While the Company’s business activities are compliant with applicable state and local law, such activities remain illegal under United States federal law.

Canada

On August 24, 2016, the 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 June 30, 2016, the Government of Canada established the Task Force on Cannabis Legalization and Regulation (the “Task Force”) to seek input on the design of a new system to legalize, strictly regulate and restrict access to adult-use recreational cannabis. On December 13, 2016, the Task Force completed its review and published a report outlining its recommendations.

On June 18, 2018, the Canadian Federal Government passed legislation, the *Cannabis Act*, outlining the framework for the legalization of adult-use cannabis, as well as laws to address drug-impaired driving, protect public health and safety and prevent youth access to cannabis. The Federal Government has announced that the Cannabis Act is intended to come into effect October 17, 2018.

Pursuant to the *Cannabis Act*, individuals over the age of 18 will be able to purchase fresh cannabis, dried cannabis, cannabis oil, and cannabis plants or seeds and will be able to possess 30 grams of dried cannabis, or the equivalent amount in fresh cannabis or cannabis oil. The *Cannabis Act* also permits households to grow a maximum of four plants. This limit applies regardless of the number of adults that reside in the household. In addition, the *Cannabis Act* provides provincial and municipal governments the authority to prescribe regulations regarding retail and distribution, as well as the ability to alter some of the existing baseline requirements, such as increasing the minimum age for purchase and consumption.

In connection with the new framework for regulating cannabis in Canada, the Federal Government has introduced new penalties under the *Criminal Code* (Canada), including penalties for the illegal sale of cannabis, possession of cannabis over the prescribed limit, production of cannabis beyond personal cultivation limits, taking cannabis across the Canadian border, giving or selling cannabis to a youth and involving a youth to commit a cannabis-related offence.

While the production of cannabis will be under the regulatory oversight of the Government of Canada, the distribution of adult-use recreational cannabis will be the responsibility of the provincial and territorial governments. All of the provinces in Canada have announced that the wholesale distribution of cannabis will fall under the responsibility of their provincial liquor authorities. The legal retail business for adult-use recreational cannabis will initially fall under a framework of new provincially owned and run stand-alone cannabis outlets in Ontario, Quebec, New Brunswick, Nova Scotia and Prince Edward Island. Crown corporation run retail outlets will thus have a monopoly over the legal retailing and distribution of cannabis in these provinces, which represent a significant percentage of the Canadian population. The provinces of Saskatchewan and Newfoundland and Labrador have indicated they would allow private retailers to manage the retail sales of cannabis in their provinces, while Alberta, Manitoba and British Columbia will allow a mix of private and Crown corporation run retail stores.

RISKS, UNCERTAINTIES AND FORWARD-LOOKING STATEMENTS

The words “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates”, or “believes” or variation (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 to achieve are all forward-looking statements. Forward-looking statements are based on the reasonable assumptions, estimates, internal and external analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section entitled “RISKS AND UNCERTAINTIES”. Although the Company has attempted to identify key factors that could cause actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events, or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as at the date of the MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements. The Company does not undertake to update any forward-looking statements except as required by applicable securities laws.

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

Risks Specifically Related to the United States Regulatory System

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.

The Company 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. While the Company's business activities are compliant with applicable state and local law, such activities remain 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.**

Thirty of the states in the United States, Washington D.C. and Puerto Rico have enacted comprehensive legislation to regulate the sale and use of medical cannabis. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a Schedule I 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 ("TMX MOU") with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The TMX 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 TMX 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 the United States, where local state law permits such activities, and in the legal medical cannabis industry in Canada, where recreational cannabis is not expected to be legalized until the Cannabis Act comes into force. 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. 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 the annual information form filed with securities regulators and available on www.sedar.com, which risk factors are incorporated by reference into this document and 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
- Although the TMX MOU confirms that there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, there can be no guarantee that this approach to regulation will continue in the future.

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 banks which provide services to cannabis-related businesses will not be an enforcement priority for FinCEN in connection with the attendant 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.

Risk of RICO prosecution or civil liability

The Racketeer Influenced Corrupt Organizations Act ("RICO") criminalizes the use of any profits from certain defined "racketeering" activities in interstate commerce. While intended to provide an additional cause of action against organized crime, due to the fact that cannabis is illegal under U.S. federal law, the production and sale of cannabis qualifies cannabis related businesses as "racketeering" as defined by RICO. As such, all officers, managers and owners in a cannabis related business could be subject to criminal prosecution under RICO, which carries substantial criminal penalties.

RICO can create civil liability as well: persons harmed in their business or property by actions which would constitute racketeering under RICO often have a civil cause of action against such "racketeers," and can claim triple their amount of estimated damages in attendant court proceedings. The Company as well as its officers, managers and owners could all be subject to civil claims under RICO, which would be expected to have a material adverse effect on the operations of the Company.

Enforceability of Contracts

It is a fundamental principle of law that a contract will not be enforced if it involves a violation of law or public policy. Notwithstanding that cannabis-related businesses operate pursuant to the laws of states in which such activity is legal under state law, judges have on a number of occasions refused to enforce contracts for the repayment of money when the loan was used in connection with activities that violate federal law, even if there is no violation of state law. There remains doubt and uncertainty that the Company will be able to legally enforce contracts it enters into if necessary. If borrowers fail or refuse to repay loans and the Company is unable to legally enforce its contracts, the Company may suffer substantial losses for which it has no legal remedy, which would be expected to have a material adverse effect on the operations of the Company.

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

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.

Although the TMX MOU has confirmed that there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, 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 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 46 states, plus the District of Columbia, that have legalized cannabis in some form, including Arizona and Florida as noted above in connection with the investment in AltMed. 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 "Leahy Amendment") each of the last four 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 2018 Consolidated Appropriations Act was passed by Congress on March 23, 2018 and included the re-authorization of the Leahy Amendment. It will continue in effect until September 30, 2018, the last day of FY 2018. At such time, there are several possibilities: Congress could pass a FY 2019 budget, in which case it could either include the Leahy Amendment (or a similar amendment), or not; Congress could pass a Continuing Resolution extending the FY 2018 budget, in which case the Leahy Amendment would be automatically renewed; or Congress could fail to pass any kind of a budget, in which case a government shutdown would result and the protections of the Leahy Amendment would end.

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 Leahy

Amendment in the 2019 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.

Changes in regulations, more vigorous enforcement thereof, the imposition of restrictions on the Company's ability to operate in the U.S. as a result of the federally illegal nature of cannabis in the U.S. or other unanticipated events could require extensive changes to the Company's 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.

Reliance on third-party suppliers, manufacturers and contractors

The Company intends to maintain a full supply chain for the provision of products and services to the regulated cannabis industry. Due to the uncertain regulatory landscape for regulating cannabis in Canada and the United States, the Company and its investee's third party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the Company's

operations. Loss of these suppliers, manufacturers and contractors may have a material adverse effect on the Company's business and operational results.

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 or more of the foregoing, its 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 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 investments' ability to gain and increase market acceptance of its products may require it, and/or CannaRoyalty, to establish and maintain brand names and reputation. Federal protection of trademarks may be difficult or impossible for CannaRoyalty to obtain in the United States, given the federal illegality of cannabis and the necessity of making "lawful use" of the trademark in commerce to obtain federal protection. While state-level protection is available, this nevertheless increases the risks in protecting CannaRoyalty's brands until such time as the Controlled Substances Act is amended by federal legislation. Furthermore, in order to obtain such protection, 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.

Internal Controls Over Financial Reporting

The Company has identified material weaknesses in its internal control over financial reporting and if the Company fails to remediate these weaknesses and maintain proper and effective internal controls, its ability to produce accurate and timely financial statements could be impaired, which could harm the Company's operating results, its ability to operate the business and investors' views of the Company.

Ensuring that the Company has adequate internal financial and accounting controls and procedures in place so that it can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be evaluated frequently. In connection with the audit of the Company's Annual Financial Statements, it has identified material weaknesses in certain internal controls over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's consolidated financial statements will not be prevented or detected on a timely basis.

The specifically identified weakness relates to internal control deficiencies in two areas: non-timely impairment assessment of investments and foreign exchange accounting.

Material weaknesses relating to non-timely impairment assessment of our Investments portfolio and for the application of foreign exchange accounting during the year ending December 31, 2017.

Non-timely impairment assessment of our investments portfolio: The Company's financial investments were not formally assessed for impairment on a timely basis. This area of the Company's business has complexities that require a significant amount of monitoring by management. A certain level of management effort is required for each material investment no matter the relative size, which has not been consistently completed on a timely basis. This prevents the Company from actively tracking the accounting performance of each investment and anticipating, at financial reporting dates, whether a write down (or write up) is necessary.

Foreign exchange accounting: There have been instances where foreign exchange accounting was not appropriately or consistently applied from period to period. The foreign exchange exposure was not correctly classified between net income/ net loss and other comprehensive income/loss. This is in part due to limitations on multicurrency functionality in our existing accounting systems. Not applying foreign exchange accounting correctly could result in the misstatement of the stand-alone and consolidated financial statements.

Adjustments and analysis were completed subsequent to December 31, 2017 to ensure that the consolidated financial statements were not materially misstated as at December 31, 2017. However, the controls and processes over impairment assessment and foreign exchange accounting were not effectively during the year ending December 31, 2017, and accordingly a reasonable possibility exists

that material misstatements in the Company's financial statements will not be prevented or detected on a timely basis if not remediated in future periods.

Remediation Plan and Activities

Non-timely impairment assessment of our investments portfolio:

1. Developing a quarterly impairment assessment review of all investments in the portfolio to assess the risk of impairment on each investment.
2. Perform impairment testing on each asset that has been highlighted as having an indicator of impairment under IAS 36 at each quarterly reporting date. Leverage and customize the impairment models developed for December 31, 2017 reporting date to perform this exercise on a quarterly basis.
3. The Company has hired additional accounting resources with IFRS expertise and experience to augment the Finance function's capacity to perform the work involved on a timely basis.
4. Seeking the input from external advisors and experts to ensure that that conclusions reached by management on the carrying value of assets in the impairments is reasonable and supportable.

Foreign exchange accounting

1. Implementing an accounting system or Enterprise Resource Planning ("ERP"), that will more effectively handle the Company's functionality requirements, including the ability to accurately distinguish between realized and unrealized foreign exchange gains and losses.
2. An enhanced reconciliation process to assess the split of the foreign currency translation and foreign exchange gain (loss) balance.
3. Developing policies and procedures specifically related to foreign exchange translation in order to ensure a better common understanding of the Company's practice and to ensure successful transition in case of staff turnover.
4. The Company has engaged advisors to assess the implementation of an ERP system. In April 2018, the Company began the process of ERP system selection, and will be commencing implementation of the selected ERP in August 2018. The project is a major initiative that is utilizing third party consultants and will expand the depth and breadth of the finance and information technology organizations.
5. The Company has hired new employees in the finance department that have direct practical experience with the implementation of ERP systems.

Senior management has discussed the material weaknesses with the Audit Committee, and the Board will continue to review progress on these remediation activities on a regular and ongoing basis.

The material weaknesses cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. Failure to implement actions and remediation efforts that will effectively remediate the material weaknesses described above may have a material adverse effect on the Company.

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, including, without limitation, the entry of large multinational entities into the 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.

The Company has historically, and continues to have, robust access to equity and debt financing from the public and prospectus exempt (private placement) markets in Canada. While the Company is not able to obtain bank financing in the U.S. or financing from other U.S. federally regulated entities, it currently has: (i) access to equity financing through the public markets in Canada, and (ii) a \$12 million credit facility available from Sprott Canna Holdco Corp. The Company's executive team and board also have extensive relationships with sources of private capital (such as funds and high net worth individuals), that could be investigated at a higher cost of capital. Further, the Company is actively pursuing an asset rationalization strategy to divest itself of portfolio assets that do not relate to its core business. Proceeds from the sale of such assets would be used to finance the continued growth of the Company's business.

If such equity and/or debt financing was no longer available in the public markets in Canada due to changes in applicable law, then the Company expects that it would have access to raise equity and/or debt financing privately.

Commercial banks, private equity firms and venture capital firms have approached the cannabis industry cautiously to date. However, there are increasing numbers of high net worth individuals and family offices that have made meaningful investments in companies and projects similar to the Company's projects. Although there has been an increase in the amount of private financing available over the last several years, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants. There can be no assurance that additional financing, if raised privately, will be available to the Company when needed or on terms which are acceptable. The Company'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.

Management of foreign exchange currency exposure is governed by the Company's foreign exchange policy as approved by its Board. The objective of the policy is to minimize the earnings impact of foreign currency gains and losses associated with foreign exchange rate fluctuations and to maintain purchasing power within U.S. operations; however, there can be no assurance that such a program will effectively mitigate all currency risks. When the Company obtains financing, a significant portion is transferred to US based subsidiaries who have upcoming financial commitments, including acquisitions and capital investments.

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.

Passive Foreign Investment Company

There is a risk that the Company may, in the future, be construed as a passive foreign investment company ("PFIC"). If the Company is a passive foreign investment company, its shareholders in the U.S. are likely subject to adverse U.S. tax consequences. Under U.S. federal income tax laws, if a company is a PFIC for any year, it could have adverse U.S. federal income tax consequences to a U.S. shareholder with respect to its investment in the Company's shares. The Company earns significant royalty and franchise revenue which may be treated as passive income unless the royalty and franchise revenue is derived in the active conduct of a trade or business. Assessing whether royalty or franchise revenue received by the Company and its subsidiaries is derived in the active conduct of a trade or business involves substantial factual and legal ambiguity. Based on current business plans and financial expectations, the Company expects that it will not be a PFIC for its current tax year. PFIC classification is fundamentally factual in nature, generally cannot be determined until the close of the tax year in question and is determined annually. Furthermore, because PFIC determinations are made annually, it is possible that the Company will meet the requirements to be treated as a PFIC in one or more years, but not meet such requirements in other years. U.S. shareholders should consult their own tax advisors regarding the

potential adverse tax consequences to owning PFIC stock, and whether they are able to and should make any elections or take other actions to mitigate such potential adverse tax consequences.

If the Company is deemed to be an investment company under the United States Investment Company Act of 1940, as amended (the "Investment Company Act"), it may be required to institute burdensome compliance requirements and its activities may be restricted.

The Company intends to conduct its operations so that it is not required to register as an investment company under the United States Investment Company Act of 1940, as amended, which we refer to as the Investment Company Act. Section 3(a)(1)(C) of the Investment Company Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40.0% of the value of the issuer's total assets (exclusive of government securities and cash items) on an unconsolidated basis. However, any issuer primarily engaged, directly or through a wholly-owned subsidiary or subsidiaries, in a business or businesses other than that of investing, reinvesting, owning, holding, or trading in securities is exempt from the requirements of the Investment Company Act under Section 3(b)(1).

The Company's historical business model consisted of making investments in a broad portfolio of cannabis-related assets and, in some cases, taking minority stakes in business ventures, which may have resembled certain aspects of an investment company within the definition of the Investment Company Act. However, the Company believes that its current mix of controlled holdings and wholly-owned brands, in addition to its current focus on being an operator in the legal cannabis space, is not that of an investment company and it is the Company's intent that its business continues to evolve in this direction. As a result, the Company believes that it is not "primarily engaged" in the business of investing, reinvesting, owning, holding or trading in securities and thus qualifies for the exemption under Section 3(b)(1) of the Investment Company Act. Nevertheless, the Company's substantial investments, including those in minority companies, royalty interests and diverse portfolio of other assets may leave it vulnerable to being classified as an investment company in the future should its asset mix change.

If the Company is deemed to be an investment company under the Investment Company Act, its activities may be restricted, including restrictions on the nature of the Company's investments and restrictions on the issuance of securities. In addition, the Company may have imposed upon it burdensome requirements, including:

- registration as an investment company;
- adoption of a specific form of corporate structure; and
- reporting, record keeping, voting, proxy and disclosure requirements and other rules and regulations.

In sum, if the Company were to be characterized as an investment company, the inability of the Company to satisfy such regulatory requirements, whether on a timely basis or at all, could, under certain circumstances, have a material adverse effect on the Company and its ability to continue pursuing its business plan could be limited. Furthermore, if the Company is deemed to be an investment company, its existing contracts may be voided, and it may be unable to continue its existing business.

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. Because cannabis is federally illegal in the United States, bankruptcy proceedings will be unavailable in the event of a plant-touching subsidiary's insolvency. 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. Furthermore, to the extent that the senior management of the Company is involved with any subsidiary licensed in the United States to do business as a cannabis company, there is a risk that such managers or officers could be disqualified from such operations, particularly if such managers or officers were

convicted of certain types of felonies. This would be expected to have a material adverse effect on the operations of the Company.

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 the United States, federal trademark protections are unavailable to those who cannot make "lawful use" of such trademarks, creating a risk that state-level trademark protections will be insufficient for the Company's needs.

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.

The Company's legal counsel has also recently received notice of a public sale of Rich Extract's equipment and other personal property from Rich Extract's landlord. The Company has retained local legal counsel to discuss and assess potential options to ensure its security interest in certain of Rich Extracts' property may be enforced with priority, however there is no guarantee that the Company will be able to enforce its collateral interest in Rich Extracts without the initiation of litigation against Rich Extracts (or certain of its related parties), if at all.

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's actions.