

# **Cannabis Strategies Acquisition Corp.**

*Proposed Qualifying Transaction & Post-Transaction Overview*

**October 2018**

# Disclosure

## Disclaimer

This document is for information purposes only and should not be considered a recommendation to purchase, sell or hold a security. This document does not constitute an offering memorandum or an offer or solicitation in any province or other jurisdiction. A preliminary prospectus is expected to be filed shortly containing important information relating to the securities described in this document with the securities regulatory authorities in each of the provinces and territories of Canada, except Quebec.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This document does not provide full disclosure of all material facts relating to the securities described herein. Investors should read the preliminary prospectus, the final prospectus and any amendment for disclosure of those facts, especially risk factors relating to the securities. This presentation has been prepared in connection with the proposed qualifying transaction of Cannabis Strategies Acquisition Corp. ("CSAC" or the "Company").

## Forward-Looking Statements

Certain information in this presentation may constitute "forward-looking information" within the meaning of applicable securities legislation. Forward-looking information may relate to CSAC, Mercer Park CB L.P. (the "Sponsor"), Mercer Park L.P. ("Mercer Park") or their respective affiliates' future outlook and anticipated events or results and may include statements regarding the financial position, business strategy, growth strategy, budgets, operations, financial results, taxes, dividends, plans and objectives of CSAC, the Sponsor or their respective affiliates, as the case may be. Particularly, statements regarding future results, performance, achievements, prospects or opportunities of CSAC, the Sponsor or their respective affiliates are forward-looking statements. The forward-looking information in this presentation is based on certain assumptions, including, without limitation, the closing of CSAC's qualifying transaction, the receipt all required regulatory approvals, and the expected timing related thereto, CSAC's future objectives and strategies to achieve those objectives, as well as other statements with respect to management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Generally, forward-looking information can be identified by use of words such as "outlook", "target", "objective", "may", "could", "would", "will", "expect", "intend", "estimate", "forecasts", "project", "seek", "anticipate", "believes", "should", "plans" or "continue", and other similar terminology.

Forward-looking statements are based on the opinions and estimates of management of CSAC, the Sponsor or their respective affiliates, as the case may be, as of the date such statements are made, and they are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements of the Company, the Sponsor or their respective affiliates, as the case may be, to be materially different from those expressed or implied by such forward-looking statements. Although management of the Company, the Sponsor or their respective affiliates, as the case may be, believe the assumptions and analysis underlying such statements are reasonable as of the date hereof, you are cautioned not to place undue reliance on these statements.

Although management of CSAC, the Sponsor and their respective affiliates have attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such 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 forward-looking statements. CSAC, the Sponsor and their respective affiliates do not undertake to update any forward-looking statements that are contained herein, except as required by applicable securities laws. See "Risk Factors" in the preliminary prospectus for a description of the risk factors faced by CSAC.

## Cautionary Note Regarding United States Securities Laws

This presentation does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities of the CSAC, in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction. The securities of CSCA have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, "U.S. persons," as such term is defined in Regulation S under the U.S. Securities Act, unless an exemption from such registration is available.

# Disclosure (cont'd)

## Definition and Reconciliation of Non-GAAP Measures

The Target Businesses report certain non-International Financial Reporting Standards (“IFRS”) measures that are used to evaluate the performance of such businesses and the performance of their respective segments, as well as to manage their capital structure. As non-IFRS measures generally do not have a standardized meaning, they may not be comparable to similar measures presented by other issuers. Securities regulations require such measures to be clearly defined and reconciled with their most directly comparable IFRS measure.

## Adjusted EBITDA

Adjusted EBITDA represents income (loss) from operations, as reported, before interest, tax, and adjusted for removing other non-cash items, including stock based compensation expense, depreciation, and the non-cash effects of accounting for biological assets and inventories, and further adjusted to remove acquisition related costs.

The following is an illustration of how CSAC calculates Adjusted EBITDA and reconciles it to IFRS figures, based on illustrative figures only. It does not at this time represent actual results of any of the target companies, which are in the process of being finalized and audited.

## Illustrative Adjusted EBITDA Reconciliation

(In USD)

## The Year Ended

31-Dec-17

Net income (loss) from operations	2,000,000
<u>Non-cash items accounting for biological assets and inventories</u>	
Fair value changes in biological assets	500,000
Unrealized gain on changes in fair value of biological assets	(600,000)
	(100,000)
Share-based compensation expense	100,000
Acquisition costs	15,000
Depreciation and amortization	275,000
	390,000
Adjusted EBITDA	2,390,000

# CSAC Overview

## **Made an initial public offering of shares in December 2017**

- Raised capital to purchase US Cannabis assets creating the premier US cannabis business of 2019 and beyond
- Based on current timeline, in late 2018 / early 2019, CSAC will trade as a standard public company – any limitations on owning the IPO vehicle fall away

## **Assembled “Anchor Portfolio” focused on current profitability and resulting strength of platform for future growth**

- Positive EBITDA, vertically integrated operators in limited license states with large addressable consumer populations
- Proven operators with deep talent pools to contribute expertise to broader cannabis roll-up
- Anchors in the Western and Eastern US to build into adjacent states, and with intrastate expansion opportunities

## **Built unmatched team of proven leaders in areas essential for future success: marketing, operations and finance**

- Leaders in their fields with proven track records at large blue chip companies as well as entrepreneurial early stage growth companies

# Transaction Details

## Summary

- Acquisition of 5 existing companies to create an Anchor Portfolio of vertically integrated operations in Nevada and Massachusetts
- Total transaction value of C\$241m comprising C\$99m cash, issuance of 7.62m CSAC shares, and C\$57m of promissory notes
- >35% of the consideration is being paid in shares, aligning incentives for all stakeholders
- Anchor Portfolio possesses a strong growth profile on top of existing positive Adjusted EBITDA

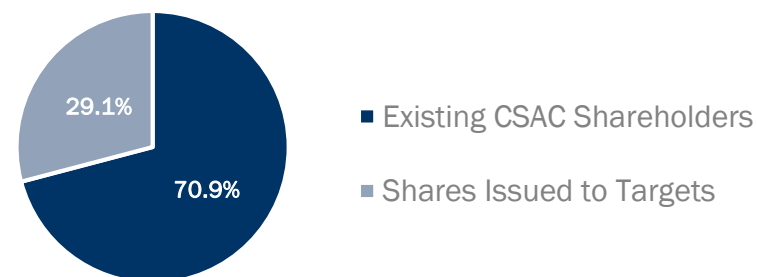
## Key Deal Terms

	2018	2019
Pro-forma Revenue	C\$105.9m	C\$260.9m
Purchase Price / Pro-forma Revenue	2.3x	0.9x
Pro-forma Adj. EBITDA	C\$34.4m	C\$139.4m
Purchase Price / Pro-forma Adj. EBITDA	7.0x	1.7x

## Pro-Forma Capital Structure

Pre-transaction shares	17.2m
Shares issued to vendors	7.6m
Shares from Class A & Class B Rights	1.4m
In-the-money warrants	0.0m
<b>Total shares outstanding</b>	<b>26.2m</b>
Recent share price (17-Oct)	C\$11.49
Fully diluted market capitalisation	C\$301.0m
Pro-forma net cash position <sup>1</sup>	\$30.7m
Pro-forma TEV	C\$270.3m

## Pro-Forma Ownership



\*Assumes nil redemptions

(1) Based on Restricted Cash & Short-Term Investments as at 30 June 2018 of C\$135.4m minus aggregate cash consideration of C\$99.0m and estimated transaction costs of C\$5.7m

# Group Investment Highlights



**Superior management team**

**Exceptional marketing and brand development expertise, proven at multiple \$100bn+ consumer products companies**

**Leading digital marketing technologies driving virtuous circle of increased sales, lower costs of sales and better product development**

**Focus on vertical integration in large addressable consumer, recreationally legal states with limited licenses**

**Best-in-class operators and locations in each state, sharing experience and expertise for synergies, including maximizing the transition from medical to recreational sales**

**Focus on operational excellence, true accountability and governance: effective enterprise-wide proprietary software, oversight and controls, regulatory compliance and human capital protocols**

# Unmatched Management Team

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**Jonathan Sandelman**  
*Chief Executive Officer*

- *30 year veteran of banking and finance, with a history of generating shareholder value*
  - Served as President of Bank of America after building its capital markets businesses through the early 2000s, building Bank of America beyond its roots as a consumer and corporate lender
  - Founder and CEO of multi-billion dollar asset manager Sandelman Partners
- 

**Mark Smith**  
*Executive Vice Chairman*

- *Proven world class cannabis operator*
  - Built a large network of Colorado dispensaries (Tumbleweed), a line of premier edibles brands and concentrates and leading manufacturing capabilities in the Western US
- 

**Chris Burggraeve**  
*Chief Commercial Officer*

- *Award winning global business marketer and active cannabis entrepreneur*
  - Over 30 years of global marketing experience at Procter and Gamble, the Coca Cola Company, and AB InBev, where he was global CMO
  - Chris has also served as a board member and President of the World Federation of Advertisers.
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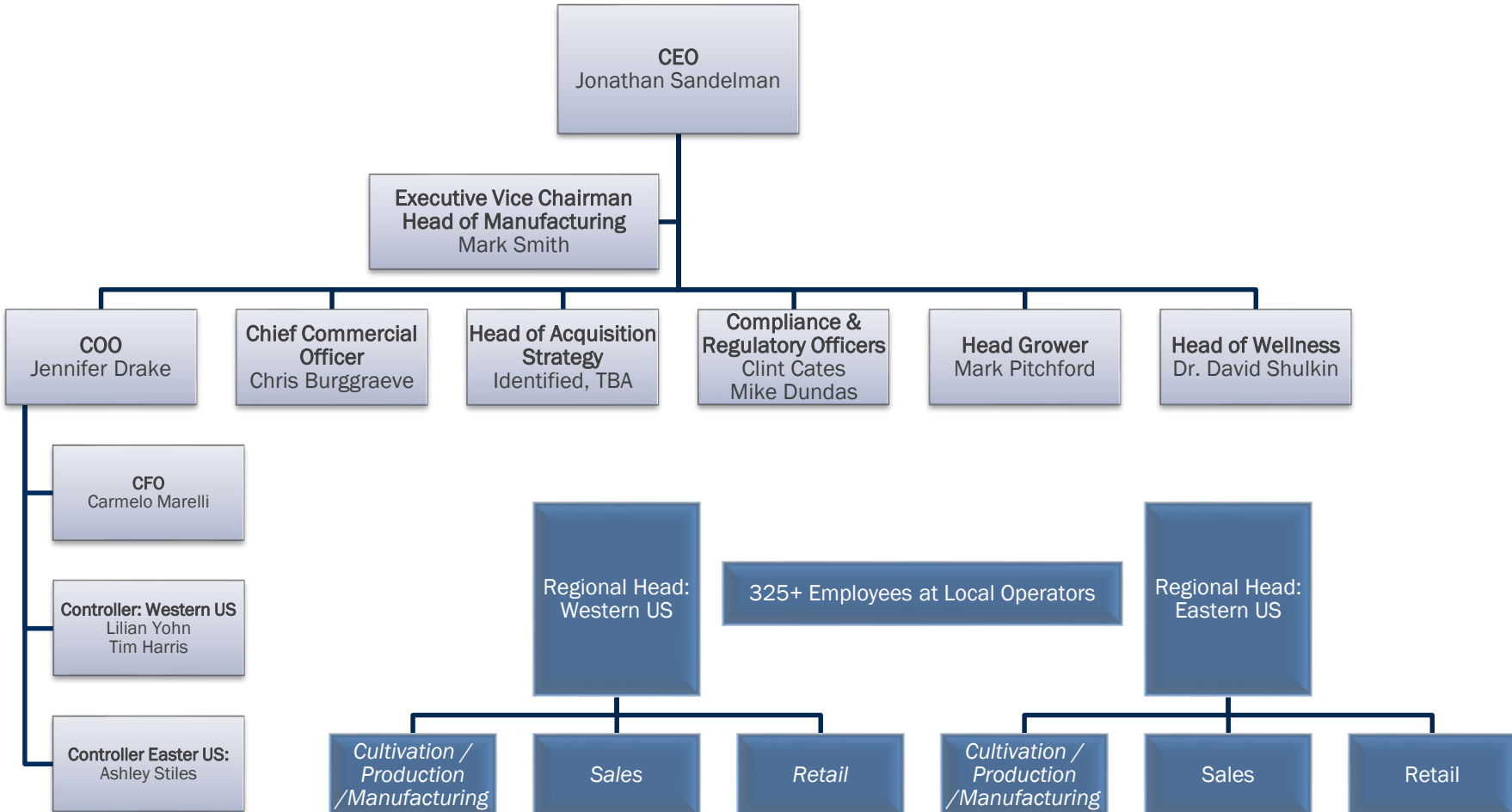
**Jennifer Drake**  
*Chief Operating Officer*

- *Proven business leader in large blue chip institutions and at lean start-ups*
  - Former Managing Director at Goldman Sachs with extensive M&A experience
  - Institutionalized the businesses of several multi-billion dollar asset management firms, ensuring compliance with complex regulatory frameworks and creating foundation for accelerated growth
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**Dr David Shulkin**  
*Head of Wellness*

- *National thought leader on veterans' health and patient-centered care for all Americans*
  - Former Secretary of the Department of Veterans Affairs under President Trump and Undersecretary under President Obama
  - History of leadership in healthcare organizations including the University of Pennsylvania Health System, Temple University Hospital, Beth Israel Medical Center, and the Morristown Medical Center
-

# Deepest Talent Pool at Executive & Operator Level





# **CSAC Overview**

# Group Financial Overview

***Exceptional operating portfolio generating positive EBITDA today and poised for growth***

## Current Portfolio

- Acquiring 5 positive 2018 EBITDA businesses resulting in vertically integrated operations in Massachusetts and Nevada to serve as anchors for future expansion in the Western and Eastern US
- Targeted 2018 Revenue and Adjusted EBITDA of C\$105m and C\$34m, respectively, from operations
- Targeted 2019 Revenue and Adjusted EBITDA in the range of C\$350–375m and C\$170–190m, respectively
- In 2020, CSAC's targeted total revenues are in the range of Cdn. \$750-825 million and targeted Adjusted EBITDA in the range of Cdn. \$375-400 million





## Selected 2018 – 2019 Targeted Consolidated Financials <sup>1</sup>

	Target Revenue		Target Adjusted EBITDA	
	2018	2019	2018	2019
Washoe	14.2	40.5	6.1	21.8
LivFree	44.3	56.4	13.2	28.2
Canopy	19.5	23.8	6.2	8.2
Sira	19.9	117.0	4.6	65.0
CannaPunch	8.0	23.2	4.4	16.2
<b>Pro Forma Standalone Before Acquisition</b>	<b>105.9</b>	<b>260.9</b>	<b>34.4</b>	<b>139.4</b>
<b>Target Contributions from Company &amp; License Acquisitions</b>		75 – 150		30 – 50
<b>CSAC Total</b>	<b>105.9</b>	<b>350 – 375</b>	<b>34.4</b>	<b>170 – 190</b>

Source: CSAC and Target Company estimates

\*Assumes CAD/USD exchange rate of 0.7678

# Anchor Portfolio Overview

Target Name	Key Assets	Description
	<ul style="list-style-type: none"> <li>• 1 Cultivation / Production Facility</li> <li>• 3 Dispensaries</li> </ul>	<ul style="list-style-type: none"> <li>• Producer and seller of medical cannabis products in Massachusetts</li> <li>• Licensed to operate as an RMD allowing the company to possess, cultivate, process, dispense and sell medical and adult-use cannabis</li> <li>• Products include cannabis and cannabis products, including oil, edibles, and vaporizers</li> </ul>
	<ul style="list-style-type: none"> <li>• 1 Cultivation / Production Facility</li> </ul>	<ul style="list-style-type: none"> <li>• Cultivator, producer &amp; distributor of cannabis in Nevada, specializing in premium products</li> <li>• Licensed to possess, cultivate, process, and dispense medical and adult-use cannabis</li> <li>• Products include cannabis and cannabis oil, derived from &gt; 30 different strains of cannabis</li> </ul>
<p>Canopy NV</p>	<ul style="list-style-type: none"> <li>• 2 Dispensaries</li> </ul>	<ul style="list-style-type: none"> <li>• Two dispensaries in the city of Reno, Nevada</li> <li>• The first dispensary (downtown Reno) opened for medical sales in Q1 2017, with adult use recreational sales following in Q3 2017</li> <li>• Adult use recreational sales for the North Valleys location began in Q3 2018.</li> <li>• Licensed to sell both medical and adult-use cannabis in Nevada.</li> </ul>
<p>LivFree Wellness</p> 	<ul style="list-style-type: none"> <li>• 3 Dispensaries</li> </ul>	<ul style="list-style-type: none"> <li>• Operates three dispensaries in the state of Nevada</li> <li>• Separately licensed to operate 3 additional facilities (two production facilities and two cultivation facilities).</li> <li>• Dispensaries opened throughout 2016 and 2017</li> </ul>
	<ul style="list-style-type: none"> <li>• 1 production Facility</li> <li>• Multiple brands and Licences</li> </ul>	<ul style="list-style-type: none"> <li>• Manufacturer and distributor of cannabis-infused products in Nevada and Colorado</li> <li>• CSAC purchase entitles CSAC the rights to CannaPunch brands across the U.S. outside of Colorado</li> <li>• Key brands include CannaPunch (beverages), Highly Edible (gummies), Dutch Girl (edible), Nordic Goddess (topical salve), and Tumbleweed (oil and other extracts).</li> <li>• CannaPunch is licensed to manufacture cannabis products in Nevada</li> </ul>

# Best in Class Quality and Control in US Cannabis

**CSAC was only able to include businesses in the Anchor Portfolio that had sufficient processes and controls to pass a 3yr audit<sup>1</sup>**

**CSAC Anchor Portfolio has access to standard banking solutions on a fully transparent and compliant basis**

- Banking access enhances security, delivery models and capital allocation flexibility between regions
- CSAC target is fully transparent with the banking institution in question (the “Compliant Bank”), naming cannabis as the target’s source of revenue
- The Compliant Bank files regular Suspicious Activity Reports (“SARs”) in compliance with the Bank Secrecy Act
- Relationship with the Compliant Bank geographically covers 75% of proforma CSAC revenue

**CSAC has developed technology to bridge disparate Anchor Portfolio Company POS, inventory, regulatory and financial systems to provide a bird’s eye view of combined Anchor Portfolio**

(1) CSAC is currently seeking regulatory relief for one target whose 2016 data was lost due to the industry-wide issue a cannabis technology service provider in 2016, whereby the technology service provider suffered a complete data loss; it is anticipated that audits will be completed for years excluding 2016 for the Target Business. This relief cannot be assured.


# CSAC Going Forward




# Focus on Brand and Consumer Experience




Future of cannabis is in branded consumer products (in both recreation and wellness)



As the industry matures, certain verticals are likely to become commoditized, while brands increasingly drive growth and represent the higher margin segment of the cannabis industry (as in tobacco, alcohol and other consumer products)



Superior marketing talent and a brand mindset are required to win today and stay relevant in the future



Sophisticated marketing technology (proprietary to CSAC) will drive feedback loop between sales growth and product development

# Leading with a Branding Focus

## **Grow & process raw cannabis**

**Branding:** High quality and consistency made possible by controlling raw materials

**Impact:** *Reliable product for consumes on a daily, weekly and monthly basis*

## **Manufacture & package cannabis consumer goods**

**Branding:** Interaction between product development and brand development to react to consumer preferences

**Impact:** Consistently fresh product, potential to be first mover in new markets

## **Focused distribution of cannabis consumer goods**

**Branding:** Controlling presentation of brands within stores imperative

**Impact:** Ability to leverage multiple distribution channels, more flexible business model

## **Sell high quality cannabis goods in an exciting, inclusive environment**

**Branding:** Position company brand, dispensary brand, consumer goods brands with every interaction

**Impact:** Customer loyalty and wallet share

## **Substantial marketing & research initiatives driving brand development**

- Market research and segmentation informing product and brand development
- State of the art digital marketing technology applied to cannabis
- Technology facilitating timely assessment of efficacy for our marketing efforts, our products and our customer experience

# Leading Digital Marketing Technologies

## **Limitations on marketing has kept cannabis companies from innovating**

- Lack of sophisticated technology providers and strict regulatory limitations around marketing have constrained cannabis companies
- Companies are falling back on outdated methodologies – delivering ads on cannabis websites, or remarketing to existing customers via unsophisticated SMS and email campaigns

## **Advanced location-based CSAC technology to reach high value audiences, at the right time and place with lower CACs**

- Location-based strategies allow for more precise targeting and ensure regulatory compliance
- Layering audience modeling allows cannabis brands to market beyond existing cannabis websites
- Technology facilitates research and measurement- maximizing marketing dollars spent and providing real-time feedback on efficiency
- Leading technology not only in the cannabis industry, but for all customer acquisition businesses
- Broad data collection provides real-time insights to inform business decisions, product development and marketing plans
- Utilizes machine learning to optimize in-store and online experiences, tailoring messaging and content to customers
- Allows CSAC to obtain new customers at a rapid and cost effective pace



# Key Drivers of Growth: Invest in Existing & New Markets

## Drivers of growth in anchor portfolio

- Bringing additional capacity online to meet growing demand and prepare for the market to transition to legal adult-use
- Management team's experience (from CO and NV) during the transitions to legal adult-use will be critical in MA
- Targeting additional dispensaries, including Nevada's Round 2 licensing, and beyond
- Consolidating existing manufacturing and cultivation operations to drive higher efficiencies

## Focused M&A Strategy

- Focus on expanding into new markets or expanding footprint in existing markets with limited licenses
- Look for operational and product expertise that can be deployed in other markets and drive EBITDA growth across CSAC's portfolio
- Emphasis on existing operations that add material EBITDA within 12 months, especially when enhanced access to capital is critical to realizing full potential
- Strong preference for sellers to take a significant portion of the consideration in the form of equity—want sellers to be aligned with existing shareholders

# Peer Trading Analysis

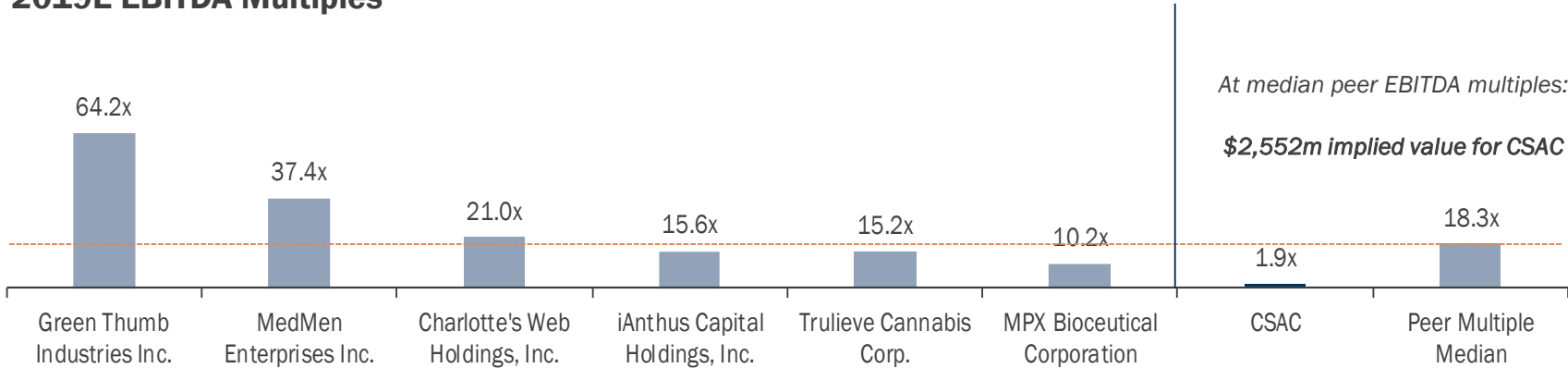
## U.S. Licensed Operators with C\$150m 2019E EBITDA

(C\$ millions)

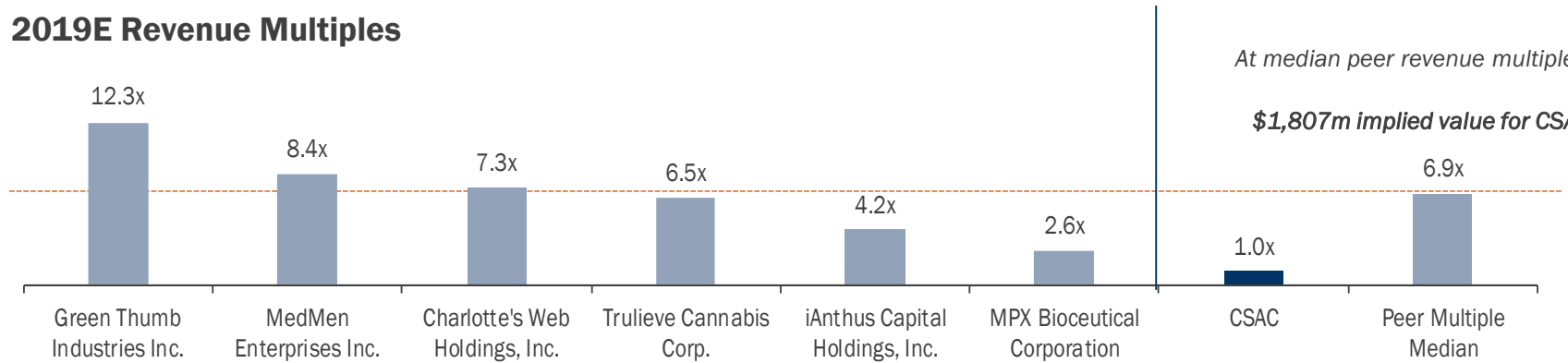
Company	Mkt. Cap.	TEV	TEV / Revenue			TEV / EBITDA			Revenue CAGR	EBITDA Margin	
			CY18E	CY19E	CY20E	CY18E	CY19E	CY20E	20E/19E	CY19E	CY20E
<b>Trading Comps: CSE-Listed US Operators</b>											
MedMen Enterprises Inc.	\$4,169	\$3,998	24.3x	8.4x	4.8x	nmf	37.4x	17.8x	73%	22%	27%
Green Thumb Industries Inc.	\$3,241	\$2,994	35.9x	12.3x	6.3x	na	64.2x	19.3x	nmf	19%	33%
Trulieve Cannabis Corp.	\$2,042	\$2,010	13.8x	6.5x	5.6x	32.0x	15.2x	13.0x	17%	43%	43%
Charlotte's Web Holdings, Inc.	\$1,735	\$1,616	15.5x	7.3x	4.2x	43.8x	21.0x	12.5x	75%	35%	33%
iAnthus Capital Holdings, Inc.	\$721	\$641	31.7x	4.2x	3.0x	neg	15.6x	10.3x	39%	27%	29%
MPX Bioceutical Corporation	\$445	\$434	5.2x	2.6x	2.0x	47.2x	10.2x	6.5x	31%	25%	30%
<b>Mean:</b>	<b>\$2,059</b>	<b>\$1,949</b>	<b>21.1x</b>	<b>6.9x</b>	<b>4.3x</b>	<b>41.0x</b>	<b>27.3x</b>	<b>13.2x</b>	<b>47%</b>	<b>29%</b>	<b>33%</b>
<b>Median:</b>	<b>\$1,888</b>	<b>\$1,813</b>	<b>19.9x</b>	<b>6.9x</b>	<b>4.5x</b>	<b>43.8x</b>	<b>18.3x</b>	<b>12.8x</b>	<b>39%</b>	<b>26%</b>	<b>31%</b>

# Peer Trading Analysis

## 2019E EBITDA Multiples



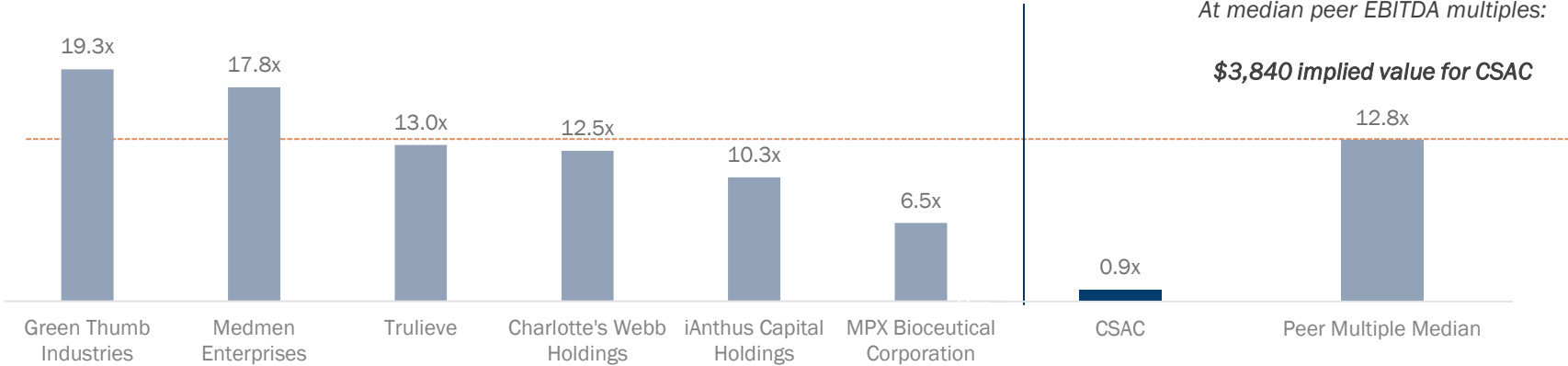
## 2019E Revenue Multiples



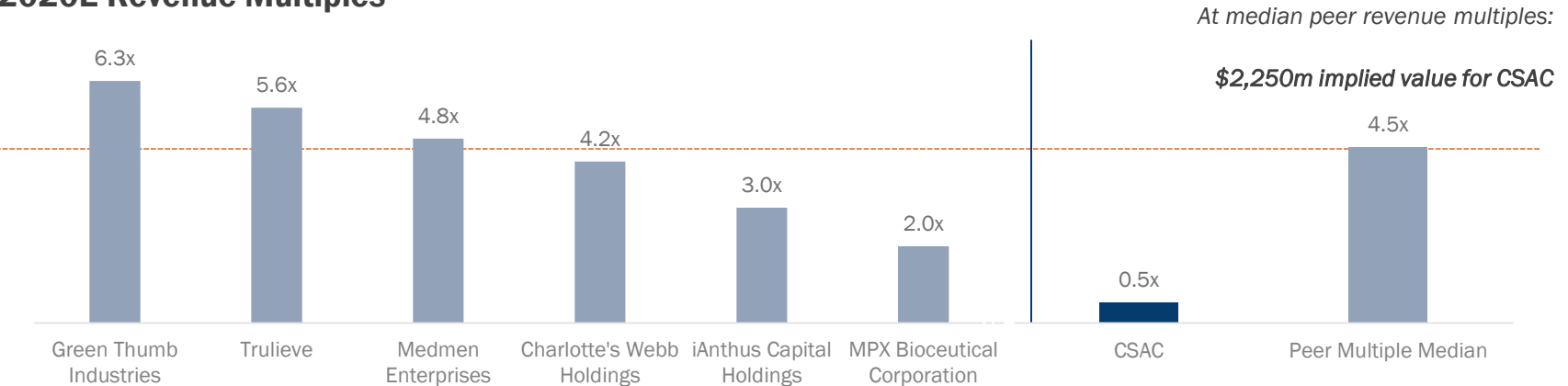
Note: Adjusted for subsequent events from most recent filings  
 Source: Company Filings, Capital IQ, Public Disclosure, as at October 12, 2018

# Peer Trading Analysis (cont'd)

## 2020E EBITDA Multiples



## 2020E Revenue Multiples



Note:

Note: Adjusted for subsequent events from most recent filings  
Source: Company Filings, Capital IQ, Public Disclosure, as at October 12, 2018

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