

Form 51-102F3

Material Change Report

Item 1 Name and Address of Company

Cannabis Strategies Acquisition Corp. (“**CSAC**”)
c/o 590 Madison Avenue, 26th Floor
New York, New York
10022

Item 2 Date of Material Change

October 17, 2018

Item 3 News Release

A press release describing the material change was disseminated by CSAC on October 17, 2018 through GlobeNewswire and can be found on SEDAR at www.sedar.com.

Item 4 Summary of Material Change

CSAC announced that it has entered into definitive agreements to concurrently acquire the target businesses of Washoe Wellness, LLC (“**Washoe**”), The Canopy NV, LLC (“**Canopy**”), Sira Naturals, Inc. (“**Sira**”), LivFree Wellness, LLC (“**LivFree**”) and CannaPunch of Nevada LLC (“**Cannapunch**”, and collectively with Washoe, Canopy, Sira and LivFree, the “**Target Businesses**” or the “**Anchor Portfolio**”), which are intended to constitute CSAC’s qualifying transaction (the “**Transaction**”). The Transaction, upon closing, will create a combined enterprise with a strong combination of high-quality assets anchoring the Eastern and Western United States. Assuming closing of the Transaction, CSAC will own three cultivation and production facilities, a facility dedicated to cannabis goods manufacturing, and 8 dispensaries, in addition to key licenses. Following successful completion of the Transaction, CSAC plans to seek additional growth opportunities through synergy realization, organic growth, expansion of the existing Anchor Portfolio footprint, securing of new licenses and further acquisition activity. Aggregate consideration for the Transaction payable by CSAC will be comprised of a combination of cash, equity and debt, as follows: (i) approximately US\$75.92 million in cash, which equals approximately C\$99 million as at October 17, 2018; (ii) the issuance of approximately 7.6 million CSAC shares; and (iii) the issuance of promissory notes in an aggregate amount of approximately US\$43.64 million, which equals C\$57 million as at October 17, 2018. As part of the Transaction, CSAC intends to issue approximately 7.6 million exchangeable shares of a wholly-owned Nevada subsidiary to the vendors of the Target Businesses, which are exchangeable on a one-for-one basis, for Class B shares of CSAC (the “**Class B Shares**”) at the option of the holder, subject where applicable to certain contractual lock-up restrictions, and are designed to be economically equivalent (without taking into account tax consequences) to the Class B Shares. True-up provisions apply in certain cases. In Nevada, pending final regulatory approval of certain license transfers, CSAC (or its wholly-owned subsidiary) may enter into management services and related agreements with one or more of the Target Businesses, designed to provide CSAC with economically equivalent interests on an interim basis until such time as all necessary approvals are obtained. The board of directors of CSAC has unanimously approved the Transaction and determined that it is fair and in the company’s best interests. Subject to receipt of applicable regulatory and other approvals, and satisfaction or waiver of all closing conditions, completion of the Transaction is currently expected to occur in the first quarter of 2019. There can be no assurance that closing will occur.

Item 5 Full Description of Material Change

5.1 Full Description of Material Change

CSAC, a special purpose acquisition corporation, or SPAC, that listed in Canada on December 21, 2017, announced that it has entered into definitive agreements to concurrently acquire the target businesses of Washoe, Canopy, Sira, LivFree and CannaPunch, which are intended to constitute CSAC's qualifying transaction.

The Transaction, upon closing, will create a combined enterprise with a strong combination of high-quality assets anchoring the Eastern and Western United States. Assuming closing of the Transaction, CSAC will own three cultivation and production facilities, a facility dedicated to cannabis goods manufacturing, and 8 dispensaries, in addition to key licenses. Summary information, by Target Business, is summarized below:

| Company | Key Assets | Description |
|----------------|--|---|
| Washoe | 1 Cultivation / Production Facility | Washoe is a vertically-integrated cultivator, producer and distributor of cannabis in northern Nevada, focused in Reno in Washoe County and distributing to Las Vegas. Washoe specializes in producing a full spectrum of premium, quality cannabis-based products, including cannabis flower, plant material, concentrates, edibles and topical products through efficient & compliant cultivation, extraction and manufacturing processes. Products include premium cannabis flower, pre-rolls, and a full line of vape pens, disposable vape pens, concentrates, edibles, topicals, & tinctures all made from quality cannabis oil, derived from over 30 different strains of premium THC and CBD cannabis. Washoe is licensed to possess, cultivate, process, and dispense medical and adult-use cannabis throughout Nevada via its well-established KYND brands and through a licensing deal with the recognizable brand --Willies Reserve. Washoe began medical sales in Q1 2016 and recreational sales in Q3 2017. |
| LivFree | 3 Dispensaries 4 Cultivation/Production Facilities (licensed but not operating) | LivFree operates three dispensaries in the state of Nevada: one in Clark County, one in Henderson and one in Reno. In addition, LivFree is separately licensed to operate four additional facilities (two production facilities and two cultivation facilities). LivFree's dispensaries opened in 2016. There will be no impact on the status of the LivFree licenses until the parameters, terms and structure of this transaction is approved by the State of Nevada and all applicable authorities. |
| Canopy | 2 Dispensaries | Canopy operates two dispensaries in the city of Reno, Nevada, one in downtown Reno adjacent to the casino-resort corridor and a second in the North Valleys, both under the MYNT brand, which was named Best Dispensary in Reno in 2018. The first dispensary |

(downtown Reno) opened for medical sales in Q1 2017, with adult use recreational sales following in Q3 2017. Adult use recreational sales for the North Valleys location began in Q3 2018. Canopy is licensed to sell both medical and adult-use cannabis in Nevada.

| | | |
|------|-------------------------------------|---|
| Sira | 1 Cultivation / Production Facility | Sira is a vertically-integrated producer and seller of medical cannabis and related products in Massachusetts. Sira was among the earliest recipients of licenses to cultivate, manufacture, transport and sell medical marijuana in Massachusetts, and is consistently cited as a best-in-class operator in the state. Sira has also secured provisional licenses to cultivate, manufacturing and transport cannabis and cannabis products for adult use purposes in Massachusetts and intends to apply for licenses to operate adult use cannabis retail establishments. Products include cannabis and cannabis products, including oil, edibles, and vaporizer products. |
| | 3 Dispensaries | |

| | | |
|------------|------------------------------|--|
| CannaPunch | 1 Production Facility | CannaPunch is a manufacturer and distributor of cannabis-infused products in Nevada and Colorado, and the CSAC purchase entitles CSAC to the rights to the CannaPunch suite of brands across the U.S. outside of Colorado. CannaPunch's key brands include CannaPunch (beverages), Highly Edible (gummies), Dutch Girl (edible), Nordic Goddess (topical salve), and Tumbleweed (oil and other extracts). CannaPunch is licensed to manufacture cannabis products in Nevada. |
| | Multiple Brands and Licenses | |

All information provided herein is pending Nevada, Massachusetts and Colorado regulatory approvals.

Following successful completion of the Transaction, CSAC plans to seek additional growth opportunities through synergy realization, organic growth, expansion of the existing Anchor Portfolio footprint, securing of new licenses and further acquisition activity.

The Anchor Portfolio possesses a strong growth profile on top of existing positive Adjusted EBITDA¹.

- Target pro forma revenue of C\$100–110 million for 2018, targeted to grow to C\$250–270 million for 2019 (excluding additional acquisitions).
- Pro forma Adjusted EBITDA¹ targeted in the range of C\$30-35 million in 2018, with a goal to grow to C\$130–150 million Adjusted EBITDA¹ for 2019 (excluding additional acquisitions).

¹ See Definition and Reconciliation of Non-IFRS Measures below.

- The Anchor Portfolio is anticipated to produce over 5,600 kilograms of finished flower and over 550,000 grams of cannabis oil extract in 2018, targeted to grow to over 31,000 kilograms of finished flower and 3,100,000 grams annually by 2020.

The revenue and Adjusted EBITDA¹ target ranges for 2019 and 2020 described below incorporate and are meant to illustrate some but not all of the potential areas of future growth for CSAC, and may not be appropriate for other purposes.

| (C\$ million) | Target Revenue | | Target Adjusted EBITDA ¹ | |
|-----------------------------|----------------|--------------|-------------------------------------|--------------|
| | 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 |
| Pro Forma Standalone | 105.9 | 260.9 | 34.4 | 139.4 |

For the year ended 2020, total revenues of C\$500-550 million and total Adjusted EBITDA¹ of C\$300-325 million are targeted from the operations that are proposed to be acquired as part of the Transaction. In addition, CSAC is targeting additional company and license acquisitions in each of 2019 and 2020 to add C\$75-150 million in revenues and C\$30-50 million in Adjusted EBITDA¹ each year.

Combined, CSAC is targeting 2019 total revenues of C\$350-375 million, with 2019 targeted Adjusted EBITDA¹ of C\$170-190 million. In 2020, CSAC's targeted total revenues are in the range of C\$750-825 million and targeted Adjusted EBITDA¹ in the range of C\$375-400 million.

In developing the targets for set forth above, CSAC has made the following assumptions and relied on the following factors and considerations:

- The targets are based on discussions with the management teams of the Target Businesses and their historical results, particularly in respect of 2018 year to date results.
- Revenue growth assumptions at established recreational dispensaries depend on a variety of factors, including among other things, location and degree of seasoning as a recreational dispensary, and vary between 15% and 27% growth year over year, reflecting the current state of rapid growth of the cannabis industry.
- Revenue growth assumptions for dispensaries transitioning from medical status to recreational status are based on anticipated production capacity available from a vertically integrated supply chain. These assumptions include current production levels at cultivation and production facilities, plus production capacity in process of construction and planning, starting from target completion dates. Prices and wholesale/retail sales mix are projected forward at current medical status levels (i.e., not adjusted for price or mix shift as a result of transition from medical to recreational status). The targets are subject to the completion of in place cultivation and product facility expansion plans anticipated to come online in 2019 and 2020, including the relocation of one dispensary and assuming 2/3 capacity utilization of a new facility in 2020.
- In markets transitioning from medical to recreational status, assumptions include sale of excess inventory of processed cannabis oil into the newly recreational market for the first 12 months.
- Cost of goods sold, before taking into account the impact of value changes in biological assets (which are non-cash in nature, and, accordingly, are excluded from calculations of

Adjusted EBITDA¹), has been assumed to grow at a constant percentage of revenue between 2018 and 2019 and between 2019 and 2020, with the exception of cost of goods sold for operations whose inventory was previously purchased from third parties but who, following the consummation of the Transaction, will obtain inventory from a newly vertically integrated supply chain.

- Selling, general and administrative expenses are assumed to increase in dollar terms year over year, but to decrease modestly as a percentage of revenues due to inherent scalability of selling, general and administrative expenses.
- Modest depreciation and amortization is anticipated, on the order of C\$5 million per year.
- Modest interest expense is anticipated, on the order of C\$4 million per year (based on debt of C\$57 million, bearing interest at 6% per annum).
- A US federal income tax rate of 21% is anticipated.
- A currency exchange rate of US\$1 = C\$1.3024 has been assumed.

CSAC management has also assumed that business and economic conditions affecting the Target Businesses will continue substantially in the ordinary course, including, without limitation, with respect to general industry conditions, competition, regulations (including those in respect of the cannabis industry), weather, taxes, that there will be no pandemics or other material outbreaks of disease or safety issues or material recalls required, and that there will be no unplanned material changes in CSAC's facilities, equipment, or customer and employee relations. The Transaction is anticipated to close in the first quarter of 2019 on the terms negotiated, with the contemporaneous acquisition of each of the Target Businesses.

Deal pricing was based primarily on 2019 Adjusted EBITDA¹ targets, and, accordingly, these targets have been presented to provide investors with the information that was used by CSAC in negotiating the purchase prices of the various Target Businesses.

These targets, and the related assumptions, involve known and unknown risks and uncertainties that may cause actual results to differ materially. CSAC approved these targets on October 17, 2018 and, while CSAC believes that there is a reasonable basis for these targets, such targets may not be met.

These targets represent forward-looking information. Actual results may vary and differ materially from the targets.

Following closing of the Transaction, the board of directors and management team of the resulting issuer are expected to be comprised of a group of successful executives and entrepreneurs who are leaders in their fields, with proven track records at large blue chip companies as well as entrepreneurial early stage growth companies, as outlined below.

Chief Executive Officer, Jonathan Sandelman

Mr. Sandelman is a 30 year veteran of banking and finance, with a history of generating shareholder value. He served as President of Bank of America Securities after building its capital markets businesses through the early 2000s, building Bank of America beyond its roots as a consumer and corporate lender, and subsequently founded and served as CEO of multi-billion dollar asset manager Sandelman Partners.

Executive Vice Chairman, Mark Smith

Starting in 2014 with the legalization of cannabis in Colorado, Mr. Smith has proven himself a world-class cannabis operator. Mr. Smith built a large network of Colorado dispensaries (Tumbleweed), as well as a line of premier edibles and concentrates brands and leading manufacturing capabilities in the Western US.

Chief Commercial Officer, Chris Burggraeve

Mr. Burggraeve is an award winning global business marketer and active cannabis entrepreneur. He has over 30 years of global marketing experience at Proctor 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.

Chief Operating Officer, Jennifer Drake

Ms. Drake is a proven business leader in large blue chip institutions and at lean start-ups. A former Managing Director at Goldman Sachs with extensive M&A experience, Ms. Drake institutionalized the businesses of several multi-billion dollar asset management firms, ensuring compliance with complex regulatory frameworks and creating foundation for accelerated growth.

Head of Wellness (focused exclusively on CBD, Health & Pain Indications), Dr. David Shulkin

Dr. Shulkin is a national thought leader on veterans' health and patient-centered care for all Americans. He is a Former Secretary of the Department of Veterans Affairs under President Trump and Undersecretary under President Obama, with a 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.

Summary of Transaction

Aggregate consideration for the Transaction payable by CSAC will be comprised of a combination of cash, equity and debt, as follows:

- an aggregate of approximately US\$75.92 million in cash, which equals approximately C\$99 million as at October 17, 2018;
- the issuance of approximately 7.6 million CSAC shares; and
- the issuance of promissory notes and the assumption of debt in an aggregate amount of approximately US\$44 million, which equals approximately C\$57 million as at October 17, 2018.

As part of the Transaction, CSAC intends to issue approximately 7.6 million exchangeable shares (the "**Exchangeable Shares**") of a wholly-owned Nevada subsidiary to the vendors of the Target Businesses, which are exchangeable on a one-for-one basis, for Class B Shares at the option of the holder, subject where applicable to certain contractual lock-up restrictions, and are designed to be economically equivalent (without taking into account tax consequences) to the Class B Shares. True-up provisions apply in certain cases.

After the Transaction, assuming no redemptions of any Class A Restricted Voting shares of CSAC (the "**Class A Restricted Voting Shares**"), CSAC expects to have 26.2 million shares outstanding, assuming the exchange of all exchangeable shares. In addition, 16,359,058 warrants of CSAC (the "**Warrants**") with an exercise price of C\$11.50 per share are expected to be outstanding, as are Rights to acquire an additional 1.35 million shares. The fully diluted share count at such date is expected to be approximately 42.6 million shares, as more fully described below, before giving effect to any potential future employee stock option plan.

In Nevada, pending final regulatory approval of certain license transfers, CSAC (or its wholly-owned subsidiary) may enter into management services and related agreements with one or more of the Target Businesses, designed to provide CSAC with economically equivalent interests on an interim basis until such time as all necessary approvals are obtained.

The Transaction is subject to the satisfaction of certain conditions, including United States state and local regulatory, Aequitas NEO Exchange Inc. and Canadian securities regulatory authority approvals², as well as certain third party consents and satisfactory completion by CSAC of due diligence. There can be no assurance that these conditions will be satisfied. The Transaction is also subject to CSAC shareholder approval. All of the directors and executive officers of CSAC, along with Mercer Park CB, L.P. (the "**Sponsor**"), CSAC's sponsor, have agreed to support the Transaction.

The board of directors of CSAC has unanimously approved the Transaction and determined that it is fair and in the company's best interests.

Completion of the Transaction is currently expected to occur, subject to satisfaction of closing conditions, in the first quarter of 2019.

Related Party Transactions

Mark Smith is Managing Member and Chief Operating Officer of Cannapunch, holding a 50% equity ownership percentage therein, and is a director of CSAC. Accordingly, his involvement constitutes a related party transaction. In connection therewith and with the benefit of independent financial advice, (i) the board of directors of CSAC determined that the fair market value of Cannapunch is less than 25% of CSAC's market capitalization, and (ii) Mark Smith abstained from voting in respect of the approval of the acquisition of Cannapunch in connection with the Transaction. The Cannapunch transaction was also supported by the Sponsor, which is a control person which is not an interested party and is at an arm's length to Mark Smith.

CSAC's Qualifying Transaction

The Transaction, if closed, will constitute CSAC's qualifying transaction and must be approved by CSAC shareholders at a special meeting of shareholders (the "**Meeting**").

The founders of CSAC previously agreed to vote their Class B Shares and any Class A Restricted Voting Shares they have acquired in favour of the Transaction. In addition to CSAC shareholder approvals by majority vote (with both classes voting together), as well as any other CSAC shareholder approval that may be required by law or by the Aequitas NEO Exchange Inc., completion of the Transaction will be subject to the approval of applicable regulatory approvals, including from the Ontario Securities Commission, the Aequitas NEO Exchange Inc. and applicable United States state and local regulators. There can be no assurance that these approvals will be obtained.

Pursuant to the Definitive Agreements, CSAC and the vendors of the Target Businesses have each agreed to use commercially reasonable efforts to complete the Transaction. CSAC has agreed, among other things, to take certain steps to implement the Transaction, to file and to seek to obtain a receipt for a final prospectus and to seek to obtain all other approvals required in connection with the Transaction. The vendors of the Target Businesses have also agreed to operate their respective businesses in the ordinary course pending completion of the Transaction. The Definitive Agreements contain various closing conditions, and therefore closing cannot be assured.

Existing Warrants entitle the holder thereof to purchase, for a period of five years, one Class A Restricted Voting Share (and commencing 65 days following the closing of the Transaction, each Warrant would represent the entitlement to purchase one Class B Share). It is intended that subsequent to the completion of the Transaction, the Warrants will remain in place and become

² CSAC is currently seeking regulatory relief for one Target Business whose 2016 data was lost due to the industry-wide issue involving 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 such Target Business. This relief cannot be assured.

exercisable for Class B Shares. Existing rights of CSAC (the “Rights”) represent the entitlement to automatically receive, for no additional consideration, one-tenth (1/10) of one Class A Restricted Voting Share (and following the closing of the Transaction, each Right would represent the entitlement to receive one-tenth (1/10) of a Class B Share). Any Right that has not been converted within two years after completion of the Transaction will be null and void.

Timing and Additional Information

Pursuant to applicable rules, CSAC has agreed to file with the Canadian securities regulatory authorities in each of the provinces and territories of Canada, except Quebec, a non-offering prospectus containing disclosure regarding the Transaction and the resulting issuer assuming completion of the Transaction. The preliminary prospectus is currently expected to be filed with Canadian securities regulatory authorities in November 2018. Subject to the issuance of a receipt for the final prospectus, CSAC intends to file an information circular in connection with the Meeting.

Subject to the required approvals, CSAC intends to mail the information circular to its shareholders by December 2018 and it is anticipated that the Meeting will take place in January 2019. Closing of the Transaction is expected to occur shortly after the Meeting, subject to satisfaction of the conditions in the Definitive Agreements, including receipt of required regulatory approvals. There can be no assurance that these approvals will be obtained.

The founders of CSAC, being Mercer Park CB, L.P. and Kamaldeep Thindal and Charles Miles (or persons or companies controlled by them), previously agreed to vote their Class B Shares and any Class A Restricted Voting Shares they have acquired in favour of the Transaction.

Holders of Class A Restricted Voting Shares will have a right to redeem all or a portion of their Class A Restricted Voting Shares, provided that they deposit their shares for redemption prior to 5:00 p.m. (Toronto time) on the fifth business day before the Meeting with the redemption being effective, subject to applicable law, immediately prior to the closing of the Transaction. Holders of Class A Restricted Voting Shares may elect to redeem their shares whether they vote for or against, or do not vote on, the Transaction.

The Definitive Agreements will be available shortly on under CSAC’s profile on SEDAR. CSAC’s preliminary prospectus and information circular are expected to be filed in due course.

Forward-Looking Statements

Certain information contained in this report may be forward-looking statements within the meaning of Canadian securities laws. Forward-looking statements are often, but not always identified by the use of words such as “target”, “expect”, “anticipate”, “believe”, “foresee”, “could”, “estimate”, “goal”, “intend”, “plan”, “seek”, “will”, “may” and “should” and similar expressions or words suggesting future outcomes. With respect to the forward-looking statements included in this report, CSAC has made certain assumptions with respect to, among other things, the Transaction, the receipt of necessary approvals for the Transaction, holding the Meeting and completion of the Transaction, certain anticipated strategic, operational, and competitive advantages and benefits created by Transaction and future opportunities for CSAC.

Numerous risks and uncertainties relating to the Target Businesses’ businesses could cause actual events and results to differ materially from the estimates, beliefs and assumptions expressed or implied in the forward-looking statements, including, without limitation, risks related to: cannabis is a controlled substance under the United States *Federal Controlled Substances Act*; any potential future legalization of adult-use and/or medical marijuana under U.S. Federal law; enforcement of cannabis laws could change; renewal of the Leahy Amendment; the differing regulatory and legal environment relating to the cannabis in the United States and Canada; the market for cannabis could decline due to regulatory changes; the unpredictable nature of the cannabis industry; regulatory scrutiny; the

impact of regulatory scrutiny on the ability to raise capital; anti-money laundering laws and regulations; any-reclassification of cannabis or changes in U.S. controlled substances and regulations; risk of civil asset forfeiture; lack of access to U.S. bankruptcy protection; enforceability of contracts; changes in regulation or a failure to comply; general regulatory and licensing risks; limitations on ownership of licenses; and regulatory action and approvals from the Food and Drug Administration. Furthermore, risks and uncertainties relating to the Transaction could cause actual events and results to differ materially from the estimates, beliefs and assumptions expressed or implied in the forward-looking statements, including, but not limited to: the conditions to the consummation of the Transaction may not be satisfied or waived; risks relating to the failure to obtain necessary shareholder, court, third party and regulatory approvals for the Transaction; the risk of high levels of redemptions by CSAC shareholders; anticipated strategic, operational and competitive benefits may not be realized; the Transaction may be modified, restructured or terminated; events or series of events may cause business interruptions; and CSAC's ability to raise additional capital.

Definition and Reconciliation of Non-IFRS 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 <u>31-Dec-17</u> |
|---|------------------------------------|
| Net income (loss) from operations | 2,000,000 |
| Non-cash items accounting for biological assets and inventories | |
| Fair value changes in biological assets | 500,000 |
| Unrealized gain on changes in fair value of biological assets | (600,000) |
| | <u>(100,000)</u> |
| Share-based compensation expense | 100,000 |
| Acquisition costs | 15,000 |
| Depreciation and amortization | 275,000 |
| | <u>390,000</u> |
| Adjusted EBITDA | 2,390,000 |

Unless otherwise indicated, all historical financial information included herein was prepared in accordance with IFRS but is unaudited and this subject to change.

This press release makes reference to certain non-IFRS measures and cannabis industry metrics. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these are provided as additional information to complement those IFRS measures by providing further understanding of the Target Businesses' results of operations from management's perspective. Accordingly, these measures should not be considered in isolation, nor as a substitute for analysis of the Target Businesses' financial information reported under IFRS. Non-IFRS measures used to analyze the performance of the Target Businesses include "Adjusted EBITDA".

CSAC believes that these non-IFRS financial measures provide meaningful supplemental information regarding the Target Businesses' performances and may be useful to investors because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making. These financial measures are intended to provide investors with supplemental measures of the Target Businesses' operating performances and thus highlight trends in the Target Businesses' core businesses that may not otherwise be apparent when solely relying on the IFRS measures.

Risk Factors

The following are certain factors relating to the business of CSAC. These risks and uncertainties are not the only ones facing CSAC. The following information is a summary only of certain risk factors. Additional risks and uncertainties not presently known to CSAC or currently deemed immaterial by CSAC may also impair the operations of CSAC. If any such risks actually occur, shareholders of CSAC could lose all or part of their investment and CSAC and the ability of CSAC to implement its growth plans could be adversely affected.

The acquisition of any of the securities of CSAC is speculative, involving a high degree of risk and should be undertaken only by persons whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. An investment in the securities of CSAC should not constitute a major portion of an individual's investment portfolio and should only be made by persons who can afford a total loss of their investment. CSAC's shareholders should evaluate carefully the following risk factors associated with CSAC's securities.

While legal under applicable U.S. State law, CSAC's targets' business activities are illegal under U.S. Federal law.

Investors are cautioned that in the United States, cannabis is largely regulated at the State level. To CSAC's knowledge, some form of cannabis has been legalized in 31 States, the District of Columbia, Guam and Puerto Rico as of October 2018. Additional States have pending legislation regarding the same. Although each State in which CSAC will operate authorizes, as applicable, medical and/or adult-use cannabis production and distribution by licensed or registered entities, and numerous other States have legalized cannabis in some form, under U.S. Federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal, and any such acts are criminal acts under Federal law under any and all circumstances under the U.S. *Controlled Substances Act* (the "**Substances Act**"). The concepts of "medical cannabis", "retail cannabis" and "adult-use cannabis" do not exist under U.S. Federal law. The Substances Act classifies "marijuana" as a Schedule I drug. Under U.S. Federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the U.S., and a lack of safety for the use of the drug under medical supervision. Although CSAC believes that the business activities of the Target Businesses are compliant with applicable U.S. State and local law, strict compliance with State and local laws with respect to cannabis may neither absolve CSAC or the Target Businesses of liability under U.S. Federal law, nor may it provide a defense to any Federal proceeding which may be brought against

CSAC. Any such proceedings brought against CSAC or the Target Businesses may result in a material adverse effect on CSAC.

Since the possession and use of cannabis and any related drug paraphernalia is illegal under U.S. Federal law, CSAC may be deemed to be aiding and abetting illegal activities. The Target Businesses manufacture and/or distribute medical and adult-use cannabis. As a result, U.S. law enforcement authorities, in their attempt to regulate the illegal use of cannabis and any related drug paraphernalia, may seek to bring an action or actions against CSAC or the Target Businesses, including, but not limited to, a claim regarding the possession, use and sale of cannabis, and/or aiding and abetting another's criminal activities. The U.S. Federal aiding and abetting statute provides that anyone who "commits an offense or aids, abets, counsels, commands, induces or procures its commission, is punishable as a principal." As a result, the Department of Justice, under the current administration, could allege that CSAC has "aided and abetted" violations of Federal law by providing financing and services to the Target Businesses. Under these circumstances, the Federal prosecutor could seek to seize the assets of CSAC, and to recover the "illicit profits" previously distributed to shareholders resulting from any of the foregoing. In these circumstances, CSAC's operations would cease, shareholders may lose their entire investment and directors, officers and/or shareholders may be left to defend any criminal charges against them at their own expense and, if convicted, be sent to Federal prison. Such an action would result in a material adverse effect on CSAC.

U.S. Customs and Border Protection ("**CBP**") enforces the laws of the United States. Crossing the border while in violation of the Substances Act and other related Federal laws may result in denied admission, seizures, fines and apprehension. CBP officers administer the Immigration and Nationality Act to determine the admissibility of travelers, who are non-U.S. citizens, into the United States. An investment in CSAC, if it became known to CBP, could have an impact on a shareholder's admissibility into the United States and could lead to a lifetime ban on admission.

The Target Businesses derive 100% of their revenues from the cannabis industry in certain States, which industry is illegal under U.S. Federal law. While the Target Businesses' business activities are believed to be compliant with applicable State and local law, such activities remain illegal under U.S. Federal law. The enforcement of relevant laws is a significant risk.

Medical cannabis has been and is currently protected against enforcement by enacted legislation from the U.S. Congress in the form of the Rohrabacher-Blumenauer Amendment, which prevents Federal prosecutors from using Federal funds to impede the implementation of medical cannabis laws enacted at the State-level, subject to Congress restoring such funding. This amendment has historically been passed as an amendment to omnibus appropriations bills, which by their nature expire at the end of a fiscal year or other defined term. Subsequent to the issuance of the Sessions Memo on January 4, 2018, the U.S. Congress passed its omnibus appropriations bill, SJ 1662, which for the fourth consecutive year contained the Rohrabacher-Blumenauer Amendment language (referred to in 2018 as the Leahy Amendment) and continued the protections for the medical cannabis marketplace and its lawful participants from interference by the DOJ up and through the 2018 appropriations deadline of September 30, 2018. The deadline has passed, but the Leahy Amendment has remained in effect by virtue of a continuing resolution under which the entire 2018 budget is currently operating. The current continuing resolution is effective through December 7, 2018, at which time Congress must either pass an omnibus appropriations bill for fiscal year 2019 or pass another continuing resolution of the 2018 budget, or it will face a shutdown of the Federal government, at which time the Leahy Amendment would no longer be in effect. The Leahy Amendment is currently included in both the House version (referred to therein as the Joyce Amendment) and the Senate version (referred to therein as the Leahy Amendment) of the 2019 omnibus appropriations bill. However, it may or may not be included in the final appropriations package, and its inclusion or non-inclusion, as applicable, is subject to political changes. Should the Leahy Amendment expire and not be renewed, there can be no assurance that the Federal government will not seek to prosecute cases involving medical cannabis businesses that are otherwise compliant with State law. Such potential proceedings could involve significant restrictions being imposed upon CSAC or third parties, while diverting the attention of key executives. Such

proceedings could have a material adverse effect on CSAC, even if such proceedings were concluded successfully in favour of CSAC.

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 CSAC, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical and adult-use cannabis licenses in the United States, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for CSAC 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.

Prohibition on public company ownership under local law.

At least one U.S. county currently prohibits the ownership of cannabis businesses by public companies. If other U.S. counties or localities have adopted or adopt a similar prohibition this could limit CSAC's ability to expand.

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

As a result of the conflicting views between State legislatures and the Federal government regarding cannabis, investments in cannabis businesses in the U.S. are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in the Cole Memo addressed to all United States district attorneys acknowledging that notwithstanding the designation of cannabis as a controlled substance at the Federal level in the United States, several States have enacted laws relating to cannabis for medical purposes.

The Cole Memo outlined certain priorities for the Department of Justice (“**DOJ**”) relating to the prosecution of cannabis offenses. In particular, the Cole Memo noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the Federal level. Notably, however, the DOJ has never provided specific guidelines for what regulatory and enforcement systems it deems sufficient under the Cole Memo standard.

In light of limited investigative and prosecutorial resources, the Cole Memo concluded that the DOJ should be focused on addressing only the most significant threats related to cannabis. States where medical cannabis had been legalized were not characterized as a high priority. In March 2017, newly appointed Attorney General Jeff Sessions again noted limited Federal resources and acknowledged that much of the Cole Memo had merit; however, he disagreed that it had been implemented effectively and, on January 4, 2018, Attorney General Jeff Sessions issued the Sessions Memo, which rescinded the Cole Memo. The Sessions Memo rescinded previous nationwide guidance specific to the prosecutorial authority of United States Attorneys relative to cannabis enforcement on the basis that they are unnecessary, given the well-established principles governing Federal prosecution that are already in place. Those principles are included in chapter 9.27.000 of the USAM and require Federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including Federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community.

As a result of the Sessions Memo, Federal prosecutors are now free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of State-level laws

that may be inconsistent with Federal prohibitions. No direction was given to Federal prosecutors in the Sessions Memo as to the priority they should ascribe to such cannabis activities, and resultantly it is uncertain how active Federal prosecutors will be in relation to such activities.

As discussed above, should the Rohrabacher-Leahy Amendment not be renewed, there can be no assurance that the Federal government will not seek to prosecute cases involving medical cannabis businesses that are otherwise compliant with State law.

Due to the ambiguity of the Sessions Memo in relation to medical and adult-use cannabis, there can be no assurance that the Federal government will not seek to prosecute cases involving medical or adult-use cannabis businesses that are otherwise compliant with State law.

Such potential proceedings could involve significant restrictions being imposed upon CSAC or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on CSAC, as well as CSAC's reputation, even if such proceedings were concluded successfully in favour of CSAC. In the extreme case, such proceedings could ultimately involve the prosecution of key executives of CSAC or the seizure of corporate assets; however as of the date hereof, CSAC believes that proceedings of this nature are remote.

There is no certainty as to how the DOJ, Federal Bureau of Investigation and other government agencies will handle cannabis matters in the future. There can be no assurances that the Trump administration would not change the current enforcement policy and decide to strongly enforce the Federal laws. CSAC regularly monitors the activities of the current administration in this regard.

Risk of legal, regulatory or other political change.

The success of the business strategy of CSAC depends on the legality of the cannabis industry. The political environment surrounding the cannabis industry in general can be volatile and the regulatory framework remains in flux. To CSAC's knowledge, some form of cannabis has been legalized in 31 States, the District of Columbia, Guam and Puerto Rico as of October 2018; however, the risk remains that a shift in the regulatory or political realm could occur and have a drastic impact on the industry as a whole, adversely impacting CSAC's business, results of operations, financial condition or prospects.

Delays in enactment of new State or Federal regulations could restrict the ability of CSAC to reach strategic growth targets. The growth strategy of CSAC is contingent upon certain Federal and State regulations being enacted to facilitate the legalization of medical and adult-use marijuana. If such regulations are not enacted, or enacted but subsequently repealed or amended, or enacted with prolonged phase-in periods, the growth targets of CSAC, and thus, the effect on the return of investor capital, could be detrimental. CSAC is unable to predict with certainty when and how the outcome of these complex regulatory and legislative proceedings will affect its business and growth.

Further, there is no guarantee 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, including prohibiting ownership of cannabis businesses by public companies. 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 applicable State laws are repealed or curtailed, CSAC's business, results of operations, financial condition and prospects would be materially adversely affected. It is also important to note that local and city ordinances may strictly limit and/or restrict disbursement of marijuana in a manner that will make it extremely difficult or impossible to transact business in that jurisdiction, which may adversely affect CSAC's continued operations. Federal actions against individuals or entities engaged in the cannabis industry or a repeal of applicable marijuana legislation could adversely affect CSAC and its business, results of operations, financial condition and prospects.

CSAC is also aware that multiple States are considering special taxes or fees on businesses in the cannabis industry. It is a potential yet unknown risk at this time that other States are in the process of reviewing such additional fees and taxation. Should such special taxes or fees be adopted, this could have a material adverse effect upon CSAC's business, results of operations, financial condition or prospects.

Overall, the medical and adult-use cannabis industry is subject to significant regulatory change at both the State and Federal level. The inability of CSAC to respond to the changing regulatory landscape may cause it to not be successful in capturing significant market share and could otherwise harm its business, results of operations, financial condition or prospects.

CSAC's operations in the U.S. cannabis market may become the subject of heightened scrutiny.

For the reasons set forth above, CSAC's operations in the U.S., and any future operations or investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, CSAC 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 CSAC's ability to operate or invest in the U.S. or any other jurisdiction, in addition to those described herein.

Given the heightened risk profile associated with cannabis in the U.S., CDS Clearing and Depository Services Inc. ("**CDS**"), Canada's central securities depository, may implement procedures or protocols that would prohibit or significantly curtail the ability of CDS to settle trades for cannabis companies that have cannabis businesses or assets in the U.S. On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("**TMX MOU**") with the NEO Exchange, the Canadian Stock Exchange, 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 U.S. 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 U.S. 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 CSAC shares to make and settle trades. In particular, CSAC shares would become highly illiquid as until an alternative was implemented, investors would have no ability to effect a trade of CSAC shares through the facilities of a stock exchange.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memo discussed above, on February 8, 2018, the Canadian Securities Administrators revised their previously released CSA Staff Notice 51-352 *Issuers with U.S. Marijuana-Related Activities* setting out their disclosure expectations for specific risks facing issuers with cannabis-related activities in the U.S. The Staff Notice confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. The Staff Notice 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. CSAC views the 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 CSAC's ability to pursue further investment and opportunities in CSAC.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the U.S. or elsewhere. A negative shift in the public's

perception of medical and/or adult-use cannabis in the U.S. 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 and/or adult-use cannabis, thereby limiting the number of new State jurisdictions into which CSAC could expand. Any inability to fully implement CSAC's expansion strategy may result in a material adverse effect on CSAC's business, financial condition, results of operations or prospects.

Regulatory scrutiny of CSAC's industry may negatively impact its ability to raise additional capital.

CSAC's business activities rely on newly established and/or developing laws and regulations in the various States in which CSAC operates. These laws and regulations are rapidly evolving and subject to change with minimal notice. Regulatory changes may adversely affect CSAC's profitability or cause it to cease operations entirely. The cannabis industry may come under the scrutiny or further scrutiny by the U.S. Food and Drug Administration ("FDA"), Securities and Exchange Commission, the DOJ, the Financial Industry Regulatory Advisory or other Federal, State or non-governmental regulatory authorities or self-regulatory organizations that supervise or regulate the production, distribution, sale or use of cannabis for medical and/or adult-use purposes in the U.S. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any proposals will become law. The regulatory uncertainty surrounding CSAC's industry may adversely affect the business and operations of CSAC, including without limitation, the costs to remain compliant with applicable laws and the impairment of its ability to raise additional capital, create a public trading market in the U.S. for securities of CSAC or to find a suitable acquirer, which could reduce, delay or eliminate any return on investment in CSAC.

CSAC's investments in the U.S. are subject to applicable anti-money laundering laws and regulations.

Because the manufacture, distribution, and dispensation of cannabis remains illegal under the Substances Act, banks and other financial institutions providing services to cannabis-related businesses risk violation of Federal anti-money laundering statutes (18 U.S.C. §§ 1956 and 1957), the unlicensed money-remitter statute (18 U.S.C. § 1960) and the U.S. 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, the *Criminal Code* (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada. These statutes can impose criminal liability for engaging in certain financial and monetary transactions with the proceeds of a "specified unlawful activity" such as distributing controlled substances which are illegal under Federal law, including cannabis, and for failing to identify or report financial transactions that involve the proceeds of cannabis-related violations of the Substances Act. As a result, 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 CSAC.

In February 2014, the U.S. Department of the Treasury's Financial Crimes Enforcement Network issued the FCEN Memo providing instructions to banks seeking to provide services to cannabis-related businesses. The FCEN Memo states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of Federal money laundering laws. It refers to supplementary guidance that Deputy Attorney General Cole issued to Federal prosecutors in the now repealed 2014 Cole Memo relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the Substances Act. It is unclear at this time whether the current administration will follow the guidelines of the FCEN Memo.

In the event that any of CSAC's or the Target Businesses' operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the U.S. were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of CSAC to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while CSAC has no current intention to declare or pay dividends on the CSAC Shares in the foreseeable future, in the event that a determination was made that CSAC's proceeds from operations (or any future operations or investments in the U.S.) could reasonably be shown to constitute proceeds of crime, CSAC may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Any re-classification of cannabis or changes in U.S. controlled substance laws and regulations may affect CSAC's business.

If cannabis and/or CBD is re-categorized as a Schedule II or lower controlled substance, the ability to conduct research on the medical benefits of cannabis would most likely be simpler and more accessible; however, if cannabis is re-categorized as a Schedule II or other controlled substance, and the resulting re-classification would result in the requirement for FDA approval if medical claims are made for CSAC's products such as medical cannabis. As a result, the manufacture, importation, exportation, domestic distribution, storage, sale and use of such products may be subject to a significant degree of regulation by the Drug Enforcement Administration ("DEA"). In that case, CSAC may be required to be registered (licensed) to perform these activities and have the security, control, recordkeeping, reporting and inventory mechanisms required by the DEA to prevent drug loss and diversion. Obtaining the necessary registrations may result in delay of the manufacturing or distribution of CSAC's anticipated products. The DEA conducts periodic inspections of certain registered establishments that handle controlled substances. Failure to maintain compliance could have a material adverse effect on CSAC's business, financial condition and results of operations. The DEA may seek civil penalties, refuse to renew necessary registrations, or initiate proceedings to restrict, suspend or revoke those registrations. In certain circumstances, violations could lead to criminal proceedings.

CSAC may be subject to the risk of civil asset forfeiture.

Because the cannabis industry remains illegal under U.S. Federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

CSAC may lack of access to U.S. bankruptcy protections.

Because the use of cannabis is illegal under Federal law, many courts have denied cannabis businesses bankruptcy protections, thus making it very difficult for lenders to recoup their investments in the cannabis industry in the event of a bankruptcy. If CSAC or the Target Businesses were to experience a bankruptcy, there is no guarantee that U.S. Federal bankruptcy protections would be available, which could have a material adverse effect on CSAC.

CSAC may be subject to the risk of an inability to enforce its 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. Because cannabis remains illegal at a Federal level, judges in multiple States 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 CSAC will be able to legally enforce contracts it enters into if necessary. CSAC cannot be assured that it will have a remedy for breach of contract, which would have a material adverse effect on CSAC.

CSAC may be subject to the risk of changes in Canadian laws or regulations, or a failure to comply with any such laws and regulations.

CSAC is subject to laws and regulations enacted by the Federal and provincial governments of Canada. In particular, CSAC will be required to comply with certain Canadian securities law, income tax law and the NEO Exchange and other legal and regulatory requirements. Compliance with, and monitoring of, applicable laws and regulations may be difficult, time consuming and costly. Those laws and regulations and their interpretation and application also may change from time to time and those changes could have a material adverse effect on CSAC business, investments and results of operations. In addition, a failure to comply with applicable laws or regulations, as interpreted and applied, could result in a material adverse effect on CSAC.

CSAC is subject to general regulatory and licensing risks.

The Target Businesses are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of marijuana, including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. Achievement of CSAC's business objectives are contingent, in part, upon compliance with applicable regulatory requirements and obtaining all requisite regulatory approvals. Changes to such laws, regulations and guidelines due to matters beyond the control of CSAC may result in a material adverse effect on CSAC.

The Target Businesses are required to obtain or renew further government permits and licenses for its current and contemplated operations. Obtaining, amending or renewing the necessary governmental permits and licenses can be a time-consuming process potentially involving numerous regulatory agencies, involving public hearings and costly undertakings on the Target Businesses' part. The duration and success of the Target Businesses' efforts to obtain, amend and renew permits and licenses are contingent upon many variables not within its control, including the interpretation of applicable requirements implemented by the relevant permitting or licensing authority. The Target Businesses may not be able to obtain, amend or renew permits or licenses that are necessary to its operations or to achieve the growth of its business. Any unexpected delays or costs associated with the permitting and licensing process could impede the ongoing or proposed operations of the Target Businesses. To the extent necessary permits or licenses are not obtained, amended or renewed, or are subsequently suspended or revoked, the Target Businesses may be curtailed or prohibited from proceeding with its ongoing operations or planned development and commercialization activities. Such curtailment or prohibition may result in a material adverse effect on CSAC.

Several of the licenses held by the Target Businesses are subject to renewal on an annual or periodic basis; however, they are generally renewed, as a matter of course, if the license holder continues to operate in compliance with applicable legislation and regulations and without any material change to its operations.

While CSAC believes that the Target Businesses' compliance controls have been developed to mitigate the risk of any material violations of any licenses they hold arising, there is no assurance that the Target Businesses' licenses will be renewed by each applicable regulatory authority in the future in a timely manner. Any unexpected delays or costs associated with the licensing renewal process for any of the licenses held by the Target Businesses could impede the ongoing or planned operations of the Target Businesses and have a material adverse effect on CSAC.

CSAC or the Target Businesses may become involved in a number of government or agency proceedings, investigations and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm CSAC's or the Target Businesses'

reputation, require CSAC or the Target Businesses to take, or refrain from taking, actions that could harm its operations or require CSAC or the Target Businesses to pay substantial amounts of money, harming its financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources or have a material adverse impact on CSAC.

Limitations on ownership of licenses.

In certain States, the cannabis laws and regulation limit, not only the number of cannabis licenses issued, but also the number of cannabis licenses that one person may own. For example, in Massachusetts, no person may have an ownership interest, or control over, more than three license holders in any category – cultivation, processing or dispensing. CSAC believes that, where such restrictions apply, it may still capture significant share of revenue in the market through the provision of management or support services and similar arrangement with other operators. Nevertheless, such limitations on the acquisition of ownership of additional licenses within certain States may limit CSAC's ability to grow organically or to increase its market share in such States. In Henderson, Nevada, public company ownership of a licensee is currently restricted. If not changed, this may prevent a portion of the LivFree transaction.

Regulatory action and approvals from the Food and Drug Administration.

The Target Business' cannabis-based products are supplied to patients diagnosed with certain medical conditions. However, the Target Businesses' cannabis-based products are not approved by the Food and Drug Administration ("FDA") as "drugs" or for the diagnosis, cure, mitigation, treatment, or prevention of any disease. Accordingly, the FDA may regard any promotion of the cannabis-based products as the promotion of an unapproved drug in violation of the Food, Drug and Cosmetic Act ("FDCA").

In recent years, the FDA has issued letters to a number of companies selling products that contain CBD oil derived from hemp warning them that the marketing of their products violates the FDCA. FDA enforcement action against the Target Businesses could result in a number of negative consequences, including fines, disgorgement of profits, recalls or seizures of products, or a partial or total suspension of the Target Businesses' production or distribution of its products. Any such event could have a material adverse effect on CSAC.

5.2 Disclosure for Restructuring Transactions

Not applicable.

Item 6 Reliance on subsection 7.1(2) of National Instrument 51-102

Not applicable.

Item 7 Omitted Information

Not applicable.

Item 8 Executive Officer

Further information regarding the matters described in this report may be obtained from:

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Item 9 Date of Report

October 29, 2018