



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017**

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MESSAGE FROM THE CEO

Fellow Shareholders,

The past four months have been a watershed period for CannaRoyalty. Our team has made substantial progress executing our strategy to build a leading North American, and one day global, cannabis consumer products company. I am pleased to note that we have already made meaningful advancements toward achieving the three primary opportunities that I outlined in my November letter:

- 1) Continue to drive growth of the CR Brands product portfolio and expand points of distribution;
- 2) Make judicious acquisitions of promising products or leading brands; and
- 3) Increase commercial production and gradually drive efficiencies.

Continue to drive growth of the CR Brands product portfolio and expand points of distribution

At this relatively early stage in the growth of our in-house brand portfolio, we are focused primarily on driving distribution reach, brand awareness, and customer loyalty. Our efforts on the brand-building side are beginning to bear fruit and in February 2018 we won six industry awards for our work on Soul Sugar Kitchen. We are also dramatically scaling our distribution and logistics network across California, through our recent acquisition of Alta Supply Inc. (“Alta Supply”) and agreement to merge with River Distribution (“RVR”).

Make judicious acquisitions of promising products or leading brands

In March 2018 we consolidated the California manufacturing and distribution rights to global award-winning Bhang® brand vaporizer and Bhang® edibles products under Kaya Management Inc. (“Kaya”), which is now a wholly-owned subsidiary of CannaRoyalty. Bhang® products are some of the most awarded cannabis products, globally. Combined, Kaya and the former manufacturer of Bhang® edibles produced approximately US\$8.0 million in revenue in 2017.

Increase commercial production and gradually drive efficiencies

In Q1 2018, we moved all CR Brands manufacturing and product development functions to Kaya’s Oakland facility, which currently produces Bhang® products for the California market. We expect the combined manufacturing revenue from Kaya will drive substantial quarter over quarter growth through the remainder of 2018, starting in Q2. Since my last letter, we have also capitalized on a new opportunity with Floracal® Farms (“FloraCal”), a leading premium craft cannabis cultivator in Sonoma County, to develop and sell branded cannabis products as well as to jointly execute an expansion of FloraCal’s cultivation footprint into our Santa Rosa facility.

What’s next in California?

Given the size and scale of the California market, cross-state distribution is a critical element of our platform. We also view distribution as one of the most strategically compelling components of the highly regulated cannabis value chain in California. The acquisitions of Alta Supply and RVR will give CannaRoyalty a leading cannabis distribution and logistics network in the world’s largest regulated cannabis market. Together, these businesses generated revenue of US\$31.9 million in 2017. With our distribution platform, we are well positioned to rapidly expand the sales and reach of existing brands that are looking to access shelf-space across the state, as well as for dispensaries seeking access to a full

spectrum of top products and brands. We can also leverage this infrastructure to do the same for our own brands.

The Canadian Opportunity

As the Canadian market moves closer to the sale of cannabis consumer products, we are assembling substantial know-how, intellectual property, and brands to bring back to Canada. Since November, we have significantly advanced our focus on this area and anticipate a continuation of this in the months to come. Some of the successes we have had in this area include an exclusivity arrangement for the license of MüV products and two deals focused on establishing Canadian retail access for CR Brands products. Recently, we have also established Trichome Yield Corp., to offer secured lending solutions to companies operating across the Canadian cannabis value chain, nominated an experienced board of directors and executed our first deal with a leading Canadian online and retail vaporizer products company.

Focusing our Portfolio

Most of our long-term investors are aware of our roots as a diversified investment vehicle. As I outlined last quarter in my shareholder letter, in Phase I of our growth plan, we invested in a basket of companies in value-added areas of the legal cannabis market in North America. Our shift to Phase II of our plan, which is well underway, has involved consolidation of core assets that further the Company's strategy, and rationalization of assets that are non-core. Our acquisition of 100% of RVR is an example of the former, and the announcement of our joint venture with Aequus Pharmaceuticals, to which we intend to contribute our stake in Bodhi Research & Development Inc., is an example of the latter.

To support the Company's strategic focus and rationalization, we have made some difficult decisions regarding two early CannaRoyalty investments, Rich Extracts and Cascadia. As any early stage growth investor knows, despite the best efforts of a dedicated, professional team, investments don't always work out the way you anticipate they will. While we are working to protect our investments in these situations, substantial capital and human resources would be required to realize returns at this stage. Conversely, we also realized significant gains on other positions such as Anandia and AltMed and a significant increase in the implied value of our Resolve position, supported by a recent equity financing.

Over the next 12 months, I see five key opportunities for our business:

- 1) Integrate the operations of acquired companies, including Kaya, Alta Supply and RVR;
- 2) Make strategic acquisitions of promising products or leading brands;
- 3) Drive growth of distributed and CR Brand products;
- 4) Lay the foundation for sale of CR Brand products in other jurisdictions, beginning in Canada; and
- 5) Portfolio focus and rationalization

Today, I am more confident than ever in our ability to realize our objectives and create significant shareholder value. Our team more than doubled from Q4-2016 to Q4-2017 and I am proud of the contribution of that each of those team members and each member of our team of dedicated advisors, has made to our substantial progress in 2017.

Many thanks for your ongoing support. I can say with confidence that this is just the beginning of our exciting and profitable journey together.

A handwritten signature in black ink, appearing to read 'ML', written in a cursive style.

Marc Lustig, CEO

INTRODUCTION

CannaRoyalty Corp. (“the Company” or “CannaRoyalty”) is a publicly traded corporation, incorporated in Canada, with its head office located at 333 Preston Street, Ottawa, Ontario. CannaRoyalty trades on the Canadian Securities Exchange (“CSE”) under the symbol “CRZ” and in the United States trades on the OTCQX market under the symbol “CNNRF”.

This CannaRoyalty Management’s Discussion and Analysis (“MD&A”) of the Financial Condition and Results of Operations is dated April 3, 2018. The MD&A should be read in conjunction with the Company’s audited annual consolidated financial statements (the “Financial Statements”) for the twelve months ended December 31, 2017, including the accompanying notes.

Unless otherwise indicated, all financial information in this MD&A is reported in Canadian dollars. The Company prepared this MD&A of the Financial Condition and Results of Operations with reference to National Instrument 52-102- Continuous Disclosure Obligations of the Canadian Securities Administrators (CSA) and 51—352 (revised) – CSA Staff Notice - Issuers with US Marijuana Related Activities. This MD&A provides information for the twelve months ended December 31, 2017 and up to and including April 3, 2018.

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

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

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

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

DESCRIPTION OF THE BUSINESS

OVERVIEW OF CANNAROYALTY

CannaRoyalty is a diversified operator in the legal cannabis industry. The Company's focus is on building and supporting a diversified portfolio of branded cannabis consumer products. Currently, CannaRoyalty is focused on *Phase II* of its business plan: leveraging its current asset base, expertise and portfolio of branded products to build a leading cannabis consumer products business. The Company's primary focus over the next 12 months will be to continue to build, support and grow its product and brand portfolio in California, while actively pursuing opportunities to license or commercialize key elements of its portfolio into other strategic jurisdictions such as Canada.

Phase I

Since the inception of CRHC, CannaRoyalty's private company predecessor, the Company has pursued investment opportunities in the cannabis industry, primarily in U.S. states where cannabis use has been legalized. Many U.S. states have had active and thriving cannabis industries for several years, which presented an opportunity for a nimble and well financed company to invest in a well-established, albeit historically illicit sector, that existing consumer goods companies and traditional providers of capital had difficulty entering and exploiting. In Phase I, the Company executed on this opportunity, investing in a basket of companies in value-added areas of the regulated cannabis market in North America: manufacturing, marketing, technology, research and development, products, brands, and distribution.

Phase II

Now, in Phase II of its plan, the Company is focused on leveraging its current asset base, expertise and portfolio to build a leading cannabis consumer products business, centered in California. California is a global entertainment and cultural hub, which shapes consumer perceptions for a multitude of commercial products and services. The state transitioned to a full adult-use cannabis market in January 2018. It is the largest regulated cannabis market in the world (currently estimated to be \$5.2 billion USD in 2018 according to Forbes magazine) and has a history of over 20 years of stated legalized medical use. In the Company's view, only superior products and brands will be able to succeed in this market over the long term. CannaRoyalty believes that a company that wins in California will have a unique advantage competing not only in other U.S. jurisdictions, but also in Canada and across the globe.

HIGHLIGHTS FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2017

Summary

The Company's fiscal year 2017 marked an evolution in the Company's business model, as discussed above, with an increased emphasis on its active CR Brands operations in California. The Company focussed on consolidating its diversified portfolio in California to seize a historic opportunity to become a cannabis brands operator in California as the state prepared to launch adult-use sales in 2018.

Through fiscal 2017, management began building an expert team to position the Company to capitalize on the California opportunity, and conducted substantial R&D and experimentation with the Company's branded products in California. This forward spending was critical preparation for the acquisition, closing and integration of Alta Supply Inc. ("**Alta**") and Kaya Management Inc. ("**Kaya**"), and the more recently

announced acquisition of River Distribution (“RVR”).

The Company is focused on commercializing its product portfolio in the California market, continuing to increase and expand its distribution reach, and adding strategic products and brands to its portfolio through investment and acquisition.

CR Brands

In March 2017, the Company established its CR Brands division, to develop and commercialize its growing portfolio of wholly-owned and licensed cannabis consumer products brands. CannaRoyalty appointed Mr. Dave Vautrin, a seasoned U.S. executive with significant brand development and operational experience to head the Division.

In May 2017, CannaRoyalty completed an agreement regarding a strategic US\$5 million financing and related arrangements with River, a medical cannabis distributor with local permits for medical cannabis wholesale logistics, distribution and transportation in California. River quickly established itself as one of the largest cannabis distributors in California, servicing over 800 retail dispensaries by the end of 2017. Pursuant to the agreement, CannaRoyalty secured a USD\$20 million product purchase commitment over the term of the deal, which expires in December 31, 2024. This arrangement provides a significant channel for CR Brands to access the California market through River’s vast network of dispensaries across the state. The US\$5 million financing is further described below under *CR Holdings*.

Despite being in the initial stages of *Phase II*, the Company has achieved significant milestones in executing its California strategy. In Q4 of 2017, the Company officially launched two product lines in the CR Brands portfolio: Soul Sugar Kitchen™ (“SSK”), a gourmet edibles brand, and GreenRock Botanicals™ (“GRB”), a premium vape pen brand. Both SSK and GRB have experienced rapid retail penetration in California due to River’s widespread distribution channels.

Further, on November 28, 2017, CannaRoyalty signed binding term sheets to acquire two leading California cannabis companies, Alta and Kaya. Both acquisitions were completed on March 27, 2018. Alta is the distributor of Bhang® vaporizer and Bhang® chocolate products, as well as products for over a dozen other well-known third-party branded products throughout California.

Kaya is the exclusive manufacturer and license holder of rights for Bhang® brand vaporizer products in California. On February 22, 2018, the Company acquired exclusive statewide manufacturing and distribution rights to Bhang® edibles products in California, which will now also be manufactured by Kaya. During Q1 2018, and prior to closing of the Company’s acquisition of Kaya, Kaya manufactured the Company’s CR Brands products on a contract manufacturing basis. Following closing, Kaya manufactures all of the Company’s licensed and owned products in California as a wholly-owned and consolidated subsidiary of the Company.

On March 27, 2018, the Company announced that it entered into a binding term sheet for the acquisition of 100% of RVR and its affiliates (“RVR”). The consideration for the RVR acquisition will consist of 5,000,000 common shares, with 1,650,000 of such common shares subject to operational milestones. Additional consideration of 2,000,000 common shares will be issued, subject to the successful completion by RVR of financial milestones to be agreed on by the parties. The RVR acquisition is expected to close by the end of Q2 2018, and is subject to a number of conditions, including due diligence and final CannaRoyalty board approval.

CR Holdings

As part of the Company's transformation in fiscal 2017, it focused on rationalizing non-core elements of its diversified platform. The Company's carrying value of investments continued to expand throughout the year despite impairment losses taken on a few underperforming assets. The write downs are consistent with management's view that it would not be prudent to focus additional company resources on further developing or recovering impaired investments, as so doing will impair the Company's core operating business in California.

Alternative Medical Enterprises Inc. ("AltMed")

Please refer to CannaRoyalty's most recent annual information form for historical information regarding its investment in AltMed. The updates below have been prepared based in part on information provided by AltMed's management.

In August 2017, AltMed agreed to combine its Florida operations with Plants of Ruskin Inc. ("Ruskin"), a multi-generational Florida cultivator, to form AltMed Florida. Ruskin has been granted one of only thirteen Medical Marijuana Treatment Center licenses in Florida, and in November, AltMed Florida announced that it received all required permits to begin cultivating. In September, AltMed opened its inaugural MüV by AltMed dispensary in Phoenix, Arizona.

CannaRoyalty investee AltMed, engaged CR Advisory to assist with creating documents and materials required to assist in the execution of a financing. The engagement included an upfront work fee of USD\$150,000, plus a success fee on corporate transactions undertaken by AltMed during the consulting services agreement or within six months after its termination. CR Advisory has completed on its previously disclosed mandate to support AltMed's corporate activities.

As of December 31, 2017, the Company has assessed the fair value of its investment in Altmed at \$6,277,456 and recognized a fair value gain on investment of \$4,427,386. The assessment is based on observable transaction prices for identical assets in a non-active market. The fair value is based on the closing of several financing transactions within a designated series completed prior to the end of December 31, 2017. Subsequent to these financings, CannaRoyalty's ownership percentage in AltMed has decreased to 7.0% at December 31, 2017.

AltoTerra Capital Partners Ltd. (Alto Terra) / Cascadia Holdings LLC ("Cascadia")

Please refer to CannaRoyalty's most recent annual information form for historical information regarding its investment in Cascadia. The updates below have been prepared primarily based due diligence and information gathered by the Company.

During Q4 2017, CannaRoyalty determined that Cascadia will not likely be in a position to repay CannaRoyalty's advance or meet its Royalty obligations in the foreseeable future unless CannaRoyalty or a third party investor provides further capital to the underlying business occupying Cascadia's facility. In addition to the general principle expressed above relating to further investment in non-core operations, Washington state law strictly limits investment by out-of-state parties, and accordingly, the Company is strictly limited in its ability to provide capital to the underlying business. Consequently, at December 31, 2017:

- Advances: CannaRoyalty has determined that the collectability of its loan advances is highly uncertain and therefore recorded a full impairment loss of \$339,757.

- Royalties receivable: a bad debt expense of \$919,481 was recorded to provide for royalties receivable due from Cascadia. While CannaRoyalty believes it could recover royalties in the future given the perpetual term of the royalty arrangement, this eventuality is contingent upon Cascadia's ability to pay based on the profitability of its licensed tenant, which the Company cannot directly or indirectly provide due to restrictions under Washington state law. In the Company's view, the sustained profitability required for Cascadia to meet its royalty obligations to CannaRoyalty is highly uncertain without incremental investment in Cascadia's licensed tenant.
- Royalty Investment: the Company recorded a full impairment loss of \$1,014,211 on its Royalty investment in Cascadia. However, the royalty investment is both secured and guaranteed by a third party, and accordingly, management believes it can recover a significant portion of its investment in Cascadia. CannaRoyalty is proactively seeking and attempting to secure commercially reasonable offers for its position in Cascadia to maximize recovery of its investment and return to its shareholders.

Anandia Laboratories Inc. ("Anandia")

On February 17, 2017 CannaRoyalty agreed to acquire a 20% fully diluted stake in Anandia, a biotechnology company with a focus on providing leading analytical testing services and developing cannabis strains for safe and effective medical application. The updates below have been prepared based in part on information provided by Anandia's management.

Anandia continues to expand its market leading position as a source of scientific services and products for the cannabis industry. Its quality control testing service is expanding rapidly. Anandia is actively engaged in licensed import / export of cannabis products with global partners. Development of a second licensed laboratory facility is underway to enable increased testing capacity and further expansion of tissue culture technology, R&D on improved genetic strains and extraction services.

CannaRoyalty agreed to provide aggregate consideration of \$4,042,439 in exchange for the equity interest which was satisfied through a combination of \$500,000 in equipment and services to be provided by CannaRoyalty later in fiscal 2017, \$1,521,218 in cash, and 689,568 CannaRoyalty shares.

On July 25, 2017, the Company received 487,520 shares of Anandia subsequent to the delivery of equipment. This distribution was based on an agreed value of \$340,000 for the equipment delivered to Anandia and a share price consistent with the initial agreement. A further 229,421 shares, representing a value of \$160,000, was delivered in January 2018 in exchange for certain advisory services rendered to Anandia. As at December 31, 2017, CannaRoyalty held 19.4% of the outstanding shares of Anandia and has not held a position on the Anandia Board of Directors.

At December 31, 2017, the Company determined the fair value of Anandia was \$10,465,886 based on a significant private placement financing priced at \$1.88/share at a post-money valuation of \$63 million. As a result, a fair value gain of \$6,583,448 was recorded on CannaRoyalty's statement of loss and comprehensive loss for the year ending December 31, 2017.

Resolve Digital Health Inc. ("Resolve")

Please refer to CannaRoyalty's most recent annual information form for historical information regarding its investment in Resolve. The updates below have been prepared based in part on information provided by Resolve's management.

On March 28, 2017, CannaRoyalty made an additional equity investment of \$80,000 in Resolve in which it already had a 33% equity stake. This investment was part of a \$5,000,000 financing at \$0.50 per unit. As

a result of this financing, CannaRoyalty's total equity interest was reduced to 27% of the basic outstanding shares of Resolve. In accordance with the equity accounting method, this represented a deemed disposal, and the Company recorded a gain of \$1,017,831 which has been included in the profit from equity accounted interests for the year ended December 31, 2017.

On June 27, 2017, Resolve formed a joint venture with Australia's LeafCann Group Pty Ltd. ("LeafCann"), a leading cannabis medication production and development company. The venture granted LeafCann a license to register and promote Resolve's Breeze Smart Inhalers in the Australian market.

On October 11, 2017, Resolve granted Liberty Health Sciences Inc., an investor and operator in the medical cannabis market, exclusive distribution rights to its products in Florida.

On October 31, 2017, Resolve signed an exclusive agreement with Aphria Inc. ("Aphria"), one of Canada's largest licensed medical cannabis producers. The agreement will provide Resolve with a Canadian source of high quality cannabis products, which will be packaged and sold in its proprietary Breeze Smart Inhaler™ metered dosing system pods and cartridges.

As at December 31, 2017, CannaRoyalty held a 27.7% equity interest in Resolve which represents significant unrecognized pent-up value. Resolve closed on a private placement equity financing on March 2, 2018 for gross proceeds of \$1,935,750 from the issuance of 1,290,500 Class A common shares at \$1.50 per share. CannaRoyalty owns over 14 million Class A common shares in Resolve representing an implied value of over \$21 million in comparison to the carrying value of the investment of \$2,538,014. The Company is considering the disposal of its equity stake in Resolve in keeping with its objective of liquidating non-core assets which could unlock significant value for CannaRoyalty shareholders.

Rich Extracts LLC ("Rich Extracts")

Please refer to CannaRoyalty's most recent annual information form for historical information regarding its investment in Rich Extracts. The updates below have been prepared primarily based due diligence and information gathered by the Company.

On February 9, 2017, CannaRoyalty entered into a binding term sheet regarding a royalty financing arrangement with Rich Extracts LLC ("Rich Extracts") whereby the Company would receive a 30% royalty on Rich Extracts' gross revenues in perpetuity. In exchange for the royalty stream CannaRoyalty advanced Rich Extracts with a royalty financing of \$2,702,765 (\$2,150,000 USD). Additional advances of \$754,260 (\$600,000 USD) were made to Rich Extracts in fiscal 2017 into Q2. Rich Extracts obtained its processing license from the Oregon Liquor Control Commission (OLCC) in May 2017 and commenced commercial sales in July after undergoing an exhaustive regime of product quality testing in May and June.

During August 2017, a claim was filed against Rich Extracts by CURA, a raw materials supplier, in the amount of \$220,000 USD for payment of debts owed by Rich Extracts. The claim also included CannaRoyalty and a subsidiary with respect to any royalty payments made by Rich Extracts to CannaRoyalty. CannaRoyalty did not have any exposure under this claim as it had not received any royalty payments from Rich Extracts; in addition, the Company filed a cross-claim to protect its interest.

On November 8, 2017, Rich Wilkinson ("Wilkinson"), the principal of Rich Extracts, was arrested in Nebraska for possession of marijuana with intent to distribute. On November 15, 2017, the OLCC suspended the Recreational Marijuana processor license of Rich Extracts based on allegations of several violations. Wilkinson is currently prohibited from allowing the sale, delivery to or from, or receipt of marijuana items at Rich Extracts until further notice from the OLCC. To the best of CannaRoyalty's

knowledge, the licensed premises and all marijuana products located therein remain secured by law enforcement authorities.

CannaRoyalty, through local legal counsel, has been in contact with the OLCC and local law enforcement. As the license has been suspended but not revoked, CannaRoyalty intends to work with the OLCC and relevant state authorities to take all available legal action to realize its security over the license and the Rich Extracts extraction facility. The OLCC has advised that it is not able to advance enforcement of the Corporation's security rights over Rich Extracts' license until such time that state investigation surrounding Wilkinson has concluded.

Although CannaRoyalty believes the underlying asset is sound in terms of its ability to produce licensed cannabis products, the risk adjusted cost of recovery may exceed the expected return from such recovery. The Company's legal counsel has also recently received notice of a public sale of Rich Extract's equipment and other personal property from Rich Extract's landlord. As a result, a full impairment loss of \$3,457,025 has been recorded at December 31, 2017.

Wagner Dimas Inc. ("WD")

Please refer to CannaRoyalty's most recent annual information form for historical information regarding its investment in WD. The updates below have been prepared based in part on information provided by WD's management.

During 2017 WD expanded its portfolio of contract manufacturing agreements to well over twenty of the top cannabis pre-roll brands. In September 2017, CannaRoyalty raised its equity stake by 2% to 22% and has secured an advisory engagement whereby WD appointed CannaRoyalty as its exclusive strategic advisor. In September 2017, CannaRoyalty agreed to advance \$200,000 USD to WD as an operating loan at 12% interest with a three-month maturity. Half the amount (\$100,000 USD) was paid in September and the balance of \$100,000 USD was paid in October. CannaRoyalty also secured the right to a Canadian License for WD IP and manufacturing technology.

Corporate Financings and Advisory Services

During the fiscal year 2017, CannaRoyalty achieved many key corporate objectives. The Company began the year by closing a \$15 million bought deal offering on February 15, 2017. The proceeds from the offering were in large part used for acquisitions and investments in accretive opportunities in addition to continued funding of its existing holdings. The Company also closed on a \$12 million line of credit financing with a subsidiary of Sprott Inc. ("**Sprott**"), with a three-year term and a 10% annual interest rate. In addition to this financing, Sprott and CannaRoyalty committed to forming a joint venture (the "**JV**") to focus on debt investment opportunities in the rapidly growing legal Canadian cannabis sector. This idea ultimately materialized through the creation of a 100% CannaRoyalty owned subsidiary, Trichome Yield Corp. ("**Trichome**") which was incorporated on September 22, 2017. Trichome was largely inactive until January 2018.

During the year, the Company also launched CR Advisory to provide consulting and advisory services to the global cannabis industry. CR Advisory provides advisory services in corporate finance and capital markets as well as marketing, brand development and promotion through social media platforms. CR Advisory leverages the core competencies of its management team, in-house subject matter experts, and external consultants to enable its clients and partners to create value by building stronger, sustainable businesses and becoming leaders in their respective market segments. Since its launch in June 2017, CR Advisory has executed numerous advisory agreements for both CannaRoyalty investees such as AltMed, Anandia and Wagner Dimas, as well as other leading cannabis companies.

Governance – Board of Directors appointments and resignations

On May 30, 2017, the Company accepted the resignation of Mr. Chuck Rifici as a Director and as the Chair of CannaRoyalty's Audit Committee.

On June 16, 2017, at the Annual Meeting of Shareholders, the shareholders elected Mr. Marc Lustig, Mr. Greg Wilson, Dr. James Young, and Mr. Rob Harris, to the Company's Board of Directors.

On July 5, 2017, following consultation with CannaRoyalty, Sprott exercised its Board nomination right to Mr. Peter Gundy as its Board nominee. The CannaRoyalty Board of Directors appointed Mr. Gundy on closing of the Sprott debenture financing August 23, as a Director and as the Chair of CannaRoyalty's Audit Committee, a position that was vacated in May 2017 resulting from the resignation of Mr. Chuck Rifici.

On December 27, 2017, the Company added two independent members to its Board of Directors, to replace Mr. Peter Gundy and Mr. Greg Wilson. These additions add knowledge and experience to CannaRoyalty's Board ahead of a period of anticipated significant growth for the Company. Oskar Lewnowski brings tremendous expertise to the CannaRoyalty Board with over 20 years of experience as a leading global resource financier, company-builder, and founder and Chief Investment Officer of Orion Resource Partners. Peter Kampian brings significant cannabis experience along with over 30 years of senior financial and corporate governance expertise to CannaRoyalty. Mr. Kampian was the CFO of Mettrum Health Corp. when it was acquired by Canopy Growth Corporation. He is an experienced audit chair and will replace Mr. Peter Gundy as Chair of the Board's Audit Committee.

Financial Performance

As a result of the reverse takeover transaction on December 5, 2016, the Company changed its fiscal year end from March 31 to December 31. This has resulted in the comparable audited period being nine months rather than the current full year period. This presentation is in compliance with the requirements of the Ontario Securities Commission. Readers are cautioned to consider the aforementioned in interpreting the percentage variations expressed in this MD&A.

The following are the major financial highlights of CannaRoyalty's operating results for the twelve months ending December 31, 2017, compared to the nine months ending December 31, 2016:

- revenues were \$3,077,969 as compared to \$642,277, an increase of 379%;
- gross margin was \$905,629 as compared to \$328,490, an increase of 176%;
- operating expenses were \$13,260,897 as compared to \$7,013,726, an increase of 88%;
- net loss of \$9,065,492 as compared to a net loss of \$10,317,479, a decrease of 12%;
- net loss per share of \$0.22 as compared to \$0.41, a decrease of 46%;
- adjusted EBITDA loss of \$7,605,600 as compared to a loss of \$3,648,888, an increase of 108%; and
- adjusted EBITDA loss per share of \$0.18 as compared to a loss a \$0.14, an increase of 27%.

The following is a summary of key balance sheet totals as at December 31, 2017 compared to December 31, 2016.

- cash and cash equivalents were \$4,522,644 as compared to \$2,945,895, an increase of 54%;
- total assets of \$46,139,757 as compared to \$32,197,938, an increase of 43%;

- current assets of \$7,947,975 as compared to \$7,197,410, an increase of 10%;
- current liabilities of \$2,134,270 as compared to \$2,337,807, a decrease of 9%; and
- long-term debt of \$2,258,467 as compared to \$1,376,583, an increase of 64%.

RECENT DEVELOPMENTS

CR Brands

On January 1, 2018, California moved to full-adult use state legalization for cannabis products. The Company is increasingly focusing on its CR Brands portfolio in California to prepare key products for this transition and the growth opportunity it represents.

On January 2, 2018, Alta received a Temporary Cannabis Distribution License (Type 11 – Medical). Vista Distribution Inc. (“**Vista**”), an Oakland distribution company 49% owned by Alta, received the same class of distribution license the date prior (collectively, the “**Vista Licenses**”). These Licenses enable Alta and Vista to engage in commercial cannabis distribution in the state of California, through facilities in Oakland, California. Alta is a distributor of Bhang® vaporizer and Bhang® chocolate products, as well as products for over a dozen other well-known third-party cannabis companies throughout California.

On February 7, 2018, the Company announced the launch of the Bhang® Vaporizer (“Bhang Vape”) product portfolio into the entire Southern California region through CannaRoyalty investee River, one of California’s largest licensed cannabis distributors. This expansion provides hundreds of additional dispensaries in Southern California with access to Bhang Vape’s line of oils, disposable vape pens and cartridge vape kits, through the River Distribution network.

On February 15, 2018, the Company entered into a strategic partnership with leading premium craft cannabis cultivator in California, Floracal® Farms, to develop and sell branded cannabis products, including a collaboration on the construction and build-out of a 20,000 square foot craft cultivation facility.

On February 20, 2018, CR Brands won a total of six 2017 Hempton Cup awards for its Soul Sugar Kitchen brand of edible products. CR Brands also won a number of trophies for its vape products in the 2018 Hempton preliminaries.

On February 22, 2018, the Company announced the acquisition of the exclusive statewide manufacturing and distribution rights to Bhang® edibles and Bhang® concentrates in California (the “**License Agreement**”). The License Agreement also includes a right of first refusal to license other future Bhang® products within the edibles and concentrates categories in California.

On March 27, 2018, the Company announced that it closed its acquisition of both Kaya the exclusive manufacturer and license holder of rights for Bhang® brand vaporizer products in California, and Alta, a distributor of Bhang® vaporizer and Bhang® chocolate products, as well as products for over a dozen other well-known third-party cannabis companies throughout California (together, the “**Kaya/Alta Acquisitions**”). As consideration for the Kaya/Alta Acquisitions, the Company issued an aggregate of 1,254,816 Common Shares and US\$2.165 million in cash, such amounts being subject to post-closing working capital adjustments. Additional consideration of 1,605,992 Common Shares will be paid over the 18 months following the closing date of the Kaya/Alta Acquisitions, subject to the achievement of operational milestones.

On March 27, 2018, the Company announced that it entered into a binding term sheet for the acquisition of 100% of River Distribution and its affiliates (“**RVR**”) (the “**RVR Acquisition**”). RVR represents a number

of California brands sourced from across the state. The consideration for the RVR Acquisition will consist of 5,000,000 Common Shares, with 1,650,000 of such Common Shares subject to operational milestones. Additional consideration of 2,000,000 Common Shares will be issued, subject to the successful completion by RVR of financial milestones to be agreed on by the parties. The RVR Acquisition is expected to close by the end of Q2 2018.

CR Advisory

On February 14, 2018, CR Advisory was contracted to provide strategic consultancy services to Planet 13 related to capital market initiatives and the opening of a Planet 13 dispensary ‘superstore’ located immediately adjacent to the Las Vegas gaming corridor. In addition, Marc Lustig, CEO of CannaRoyalty and Greg Wilson, EVP of CR Advisory were invited to join the Board of Directors of Planet 13.

CR Holdings

On January 11, 2018, the Company announced a collaboration with Aequus to advance a suite of cannabis-based therapies targeting neurological disorders into clinical trials in Canada, in collaboration with Canadian doctors and key opinion leaders. CannaRoyalty will contribute its position in Bodhi Research to this collaboration.

On January 16, 2018, Anandia closed a private placement financing of \$13.4 million at a post-money valuation of \$63 million. The Company invested \$3.9 million in Anandia in February 2017 at a post-money valuation of \$18 million. The post-money valuation of this current financing represents a growth in value of approximately \$7 million or 180% for the Company.

On January 23, 2018, the Company, together with Sprott and Stoic announced the launch of Trichome. Trichome aspires to be the preferred lending partner to emerging and established cannabis companies operating in Canada and globally by providing flexible asset-backed debt financing. As financial and strategic partners in Trichome, the Company, Sprott and Stoic expect to work together to leverage their complementary value-add competencies to assess opportunities for accretive investments in the cannabis industry.

On March 14, 2018, the Company announced that Trichrome had signed its first binding term sheet to jointly provide up to \$2.5 million to 180 Smoke (“**180 Smoke**”), to fund an expansion of its retail footprint (the “**180 Smoke Financing**”) in anticipation of Canadian adult-use cannabis legalization. The 180 Smoke Financing will support 180 Smoke’s retail and cannabis product offering expansion and prepare 180 Smoke for entry into Canada’s cannabis space, once legal, including the opening of 11 new stores and an expansion of 180 Smoke’s cannabis hardware offering, as well as an increase in related inventory. 180 Smoke and the Company’s subsidiary, CR Advisory, will work together to explore commercialization of innovative cannabis products in the Canadian marketplace to support and complement 180 Smokes’ further expansion into the Canadian cannabis retail space.

Corporate Financings

On March 15, 2018, the Company announced that it had entered into an agreement with a syndicate of underwriters, led by Canaccord Genuity Corp. (the “**Underwriters**”), pursuant to which the Underwriters will purchase, on a bought deal basis, an aggregate of 3,750,000 units (the “**Units**”) of the Company at a price of \$4.00 per Unit (the “**Offering Price**”) for aggregate gross proceeds of \$15.0 million (the “**2018 Offering**”).

Each Unit will consist of one CannaRoyalty Share and one-half of one common share purchase warrant (each full common share purchase warrant, a “**Warrant**”) of the Company. Each Warrant will be

exercisable to acquire one common share of the Company for a period of three years following the closing date of the 2018 Offering at an exercise price of \$5.50 per common share, subject to adjustment in certain events. In the event that the volume-weighted average trading price of the Common Shares exceeds \$8.00 for 15 trading days (the “**Acceleration Trigger**”) following the closing date of the Offering, the Company shall be entitled to accelerate the exercise period of the Warrants to a period ending not less than 21 days from the date written notice of such Acceleration Trigger is provided to Warrant holders.

The Company has agreed to grant the Underwriters an over-allotment option to purchase up to an additional 562,500 Units at the Offering Price, exercisable in whole or in part, at any time and from time to time on or prior to the date that is 30 days following the closing of the 2018 Offering. The Underwriters may elect to exercise the over-allotment option to acquire additional Units, Common Shares and/or Warrants. If this option is exercised in full, an additional \$2.25 million in gross proceeds will be raised pursuant to the 2018 Offering and the aggregate gross proceeds of the 2018 Offering will be \$17.25 million.

On March 21, 2018 the Company announced that it intends to implement a warrant incentive program (the “**Program**”) designed to encourage the early exercise of the Company’s 1,942,500 outstanding common share purchase warrants issued under the 2017 Offering (the “**2017 Warrants**”). Under the Program, each 2017 Warrant that is exercised in accordance with its terms between 9:00 AM (EST) on the closing date of the 2018 Offering (the “**Closing Date**”) and 4:30 PM (EST) on the 30th day following the Closing Date (the “**Early Exercise Period**”), will receive one common share of the Company (each, a “**Common Share**”) and one-quarter (¼) of one Common Share purchase warrant (each whole Common Share purchase warrant, an “**Incentive Warrant**”) entitling the holder thereof to purchase one Common Share until the date that is three years following the Closing Date at an exercise price of \$5.50. The Incentive Warrants will be subject to a 15-day accelerated expiry provision if the Company's daily volume weighted average share price is greater than \$8.00 for 15 consecutive trading days following issuance of the Incentive Warrants. The 2018 Offering is scheduled to close on or about April 11, 2018.

RESULTS OF OPERATIONS

The following tables sets forth consolidated statements of operations data for the twelve-month period ending December 31, 2017 and the nine-month period ending December 31, 2016:

	Year ended Dec 31, 2017	Nine months ended Dec 31, 2016
Consolidated Statements of Comprehensive Loss		
Revenue	\$ 3,077,969	\$ 642,277
Gross margin	905,629	328,490
Operating expenses	13,260,897	7,013,726
Loss from operations	(12,355,268)	(6,685,236)
Net loss	(9,065,492)	(10,317,479)
Total comprehensive loss	(9,995,449)	(10,420,241)
Net loss per common share - basic and diluted	(0.22)	(0.41)
Weighted average common shares - basic and diluted	41,439,567	25,237,273

REVENUE

The following is a summary of CannaRoyalty’s revenue by type for the twelve months ended December 31, 2017 and the nine months ended December 31, 2016:

	Year ended December 31, 2017	Nine months ended December 31, 2016
Products	\$ 977,028	\$ 228,081
Services	859,605	38,898
Royalties	1,103,645	348,820
Interest	137,691	26,478
Total	\$ 3,077,969	\$ 642,277

Revenue for the twelve months ended December 31, 2017 was \$3,077,969 as compared to \$642,277 for the nine months ended December 31, 2016.

CannaRoyalty began generating revenue during June 2016 and has grown in all four main revenue streams – i.e., Products, Services, Royalties and Interest. Product sales were mostly attributable to the CR Brands division through the sale of its wholly owned brands of GreenRock Botanicals vape cartridges and Soul Sugar Kitchen edibles. The most significant source of service revenue pertained to the CR Advisory Division’s engagement for AltMed as well as marketing services provided by the EML subsidiary. Royalty income was driven mainly by investments in Cascadia and River. Interest income pertains to loans made to current and potential minority holdings, including loans to BAS Research (“BAS”), Eureka Management Services Inc. (“Eureka”), and Wagner Dimas (“WD”).

The following is a summary of CannaRoyalty’s revenue from advisory services, selling our branded products, and other income from our non-controlled holdings for the twelve months ended December 31, 2017 and the nine months ended December 31, 2016:

	Year ended December 31, 2017	Nine months ended December 31, 2016
Holdings	\$ 1,241,336	\$ 375,298
Brands	977,028	228,081
Advisory	859,605	38,898
Total	\$ 3,077,969	\$ 642,277

Revenues from CR Holdings were mainly derived from royalty arrangements, namely those with Cascadia and River as well as some interest earned on convertible loans receivable from BAS and Eureka. We ceased recording revenues from Cascadia in the fourth quarter of fiscal 2017 due to uncertainty of ultimate collectability.

Revenues from CR Brands were mostly related to the sale of branded products namely GreenRock Botanicals and Soul Sugar Kitchen. The Company’s focus during the first quarter and into the third quarter was on establishing infrastructure, hiring leadership, opening its U.S. offices, securing a purchase agreement and engaging in soft launch commercialization of product sales to River, CannaRoyalty’s strategic partner and California distributor. The Company expects these revenues for both product lines to increase over the next 12 months due to larger scale manufacturing to support production volumes to meet an increasing demand driven by California’s legalization of the adult use recreational market in 2018. In addition, the company’s will generate significant revenue through the acquisition of Kaya Management, Alta Supply and the additional revenue from the recently secured Bhang Concentrates and Bhang Edibles lines.

CR Advisory services was launched midway through the 2017 fiscal year and pertains largely to providing strategic financing and capital markets expertise. In addition, CannaRoyalty’s wholly owned subsidiary,

EML provides digital marketing, branding and services. A significant component of the 2017 advisory revenue was services of \$509,735 provided to one of our non-controlling holdings to advise on matters such as capital markets.

COST OF SALES AND GROSS MARGIN

The following table represents the costs of sales by revenue type for the twelve months ended December 31, 2017 and the nine months ending December 31, 2016:

	Year ended December 31, 2017	Nine months ended December 31, 2016
Products	\$ 1,391,896	\$ 190,505
Services	218,479	27,506
Royalties	561,965	95,776
Total	\$ 2,172,340	\$ 313,787

Cost of sales were \$2,172,340 for the twelve months ended December 31, 2017, as compared to \$313,787 for the nine months ended December 31, 2016.

For the twelve months ended December 31, 2017, the cost of product sales pertained to cost of materials, labour and amortization. The costs of labour and materials were higher than expected from what would otherwise be expected in the normal course of business, mainly due to Research and Development costs and challenges in the Products Sales category which impacted the supply chain and caused higher than expected raw materials and packaging costs. In addition, the use of outsourced labour and facilities for the initial soft launch production resulted in higher costs which should improve over time as we develop and refine our manufacturing capabilities. Furthermore, in the fourth quarter of fiscal 2017 an inventory write-down of \$422,386 was incurred for inventory acquired in connection with the acquisition of Achelois in 2016.

The costs of sales associated with services revenues were primarily direct labor costs of EML employees and outside consultants.

The cost of royalties pertains to the amortization of equipment which has been provided to Cascadia as well as the amortization of the royalty financing arrangement with NuTrae and River which are amortized on a straight-line basis over the term of their royalty arrangements.

The following tables represent the gross margin amounts and percentages by revenue type for the twelve months ended December 31, 2017 and the nine months ended December 31, 2016:

GROSS MARGIN BY TYPE		
	Year ended December 31, 2017	Nine months ended December 31, 2016
Products	\$ (414,868)	\$ 37,576
Services	641,126	11,392
Royalties	541,680	253,044
Interest	137,691	26,478

Total	\$	905,629	\$	328,490
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GROSS MARGIN % BY TYPE

	Year ended December 31, 2017	Nine months ended December 31, 2016
Products	(42%)	16%
Services	75%	29%
Royalties	49%	73%
Interest	100%	100%
All Types	29%	51%

The gross margin percentage in products for the twelve months ended December 31, 2017 was lower as compared to the nine months ended December 31, 2016, due in large part to the write-down of \$422,386 of inventory acquired from Achelois in 2016. The Company determined that the extensive testing and implementation costs associated with commercializing the inventory likely exceeds its realizable value. Other avenues are currently being explored for alternate methods of recovery. Without this inventory write-down product margins would be positive but not at levels acceptable to the Company. The margins are still relatively low due to distribution arrangement and above noted cost of sales factors which led to higher than normal costs. The Company expects the gross margin achieved on product sales will increase in fiscal 2018 due to economies of scale, lower expected packaging and raw materials costs as well as the reduced reliance on contract labour and facilities outsourcing. The acquisitions of Kaya and Alta in March 27, 2017 are expected to significantly contribute to CR's manufacturing and distribution capabilities and expertise as well as economies of scale.

The gross margin percentages related to services revenues in the twelve months ended December 31, 2017 were higher than in the nine months ended December 31, 2016 (i.e. 75% vs. 29%) primarily due to the high margins generated by CR Advisory capital markets projects which generated revenue of \$509,735 with a limited amount of cost of sales.

The gross margins percentages related to royalty-based revenues in the twelve months ended December 31, 2017 were lower than those in the nine months ended December 31, 2016 (i.e. 49% vs. 73%) due to the River royalty which only began in the middle of the second quarter. The Cascadia royalty investment, which has existed for the entire year, is not amortized as it is a perpetual investment. The River royalty investment, is amortized on a straight-line basis as it is a fixed term arrangement. Since the impact on costs of this royalty only began in May 2017 there was be a decrease in margin caused by non-cash amortization charges. As amortization for the River investment is on a straight-line basis and will be flat moving forward, the Company expects the margins from this investment to increase commensurately with River's distribution sales which are expected to significantly increase.

OPERATING EXPENSES

	Year ended Dec 31, 2017	Nine months ended Dec 31, 2016
Sales and marketing	\$ 1,456,874	\$ 573,469
Research and development	931,053	744,762
General and administrative	10,076,087	5,564,274
Amortization of intangibles	796,883	131,221

Total	\$ 13,260,897	\$ 7,013,726
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Total operating expenses increased by 89% for the twelve months ended December 31, 2017, as compared to the nine months ended December 31, 2016. This was largely due to the increased spending in general and administrative expenses and sales and marketing expenses to support the Company's asset growth and the expansion of CR Brands. The Company's assets have increased from \$3.9 million at March 31, 2016 to \$46.1 million at December 31, 2017, an increase of \$42.2 million over the past twenty-one months. Due to the Company's current stage and rapid pace of development, operating expenses are not analyzed as a percentage of total revenues.

For the twelve months ending December 31, 2017 and the nine months ending December 31, 2016, sales and marketing ("S&M") expenses were \$1,456,874 and \$573,469 respectively. Additional marketing costs in the past year resulted primarily from launching new brands and supporting the expansion of the CR Brands Division. This is consistent with the Company's view that comprehensive brand building efforts are fundamental to growing a sustainable base of product revenues.

Research and development ("R&D") expenses were \$931,053 for the twelve months ending December 31, 2017 as compared to \$744,762 for the nine months ending December 31, 2016. The Company researched a variety of intellectual property assets and other related opportunities, including the extraction of cannabis oils and product formulations.

General and administrative ("G&A") expenses increased to \$10,076,087 for the twelve months ending December 31, 2017 as compared to \$5,564,274 for the nine months ending December 31, 2016. A significant component of G&A is share based compensation which has increased from \$2,298,527 for the nine-month period ending December 31, 2016 to \$2,690,148 for the twelve-month period ending December 31, 2017. Additional costs were incurred for the twelve months ended December 31, 2017 to support a rapidly expanding asset base. These include the cost of newly opened offices in Ottawa and California, and the cost of new employees hired to support increased demands in finance, legal, corporate development and operations management.

Expenses related to the amortization of brands and technologies were \$796,883 for the twelve months ending December 31, 2017 as compared to \$131,221 for the nine months ending December 31, 2016. These expenses relate to the intangibles that were acquired from Dreamcatcher and EML in October 2016 and November 2016 respectively.

Share-based compensation, a non-cash expense, was \$3,583,881 for the twelve months ended December 31, 2017 as compared to \$2,486,130 for the nine months ended December 31, 2016. Restricted share units ("RSUs") were first issued in April 2016. The expenses relate to shares issued under a share unit plan whereby the executive team, the board of directors and new employees were granted RSUs that vest as service conditions are reached. For most RSUs, one-third or one quarter of the shares vest immediately or within one month upon issuance. These costs have been classified in accordance with the corporate functions of the grantee, the majority of which is G&A. The shares are measured at fair value at the date of grant. On December 29, 2018, the Company granted 800,000 stock options to board members for which one-quarter vested immediately, and a further quarter would vest each of the next three anniversary periods. Due to the early vesting of the first tranche an expense of \$548,871 was recorded in fiscal 2017

OTHER INCOME AND EXPENSES

	Year ended	Nine months ended
	Dec 31, 2017	Dec 31, 2016

Gain on disposal of equipment	\$	91,674	\$	-
Changes in fair value of investments		10,882,154		-
Impairment of loans and advances		(3,776,081)		-
Impairment of convertible notes receivable		(559,845)		-
Impairment of intangible assets & goodwill		(2,335,000)		-
Impairment of royalty investments		(1,014,211)		-
Profit from equity accounted investees, net of tax		(280,180)		63,401
Gain on investment from change to Equity method		-		26,875
Bargain purchase		-		59,358
Additional expense related to letter of intent transaction		(204,060)		-
Changes in fair value of embedded derivatives		(110,965)		-
Listing expense		-		(3,901,011)
Foreign exchange gain (loss)		(436,555)		243,868
Interest expense		(467,957)		(176,958)
Total	\$	1,788,974	\$	(3,684,467)

A gain of \$91,674 was recorded on the disposal of equipment in relation to the acquisition of Anandia equity in February 2017. The equipment was disposed in July 2017.

During the year ended December 31, 2017, the Company recorded a fair value gain on investments of \$10,882,154. This pertains to a gain of \$6.6 million for Anandia and \$4.4 million for AltMed. These balances were previously recorded at cost due to a lack of readily available and reliable information to make a fair value assessment. For both Anandia and AltMed, significant capital transactions have been completed during the fourth quarter of fiscal 2017, and since the range of values of these transactions is not large, they provide reliable information to make a fair value assessment of the shares.

The company recorded a loss on impairment of loans and advances of \$3,776,081 during the year ended December 31, 2017. This loss pertains largely to the impairment of \$3.4 million to Rich Extracts. The recovery of this balance is highly uncertain, and the potential costs involved in salvaging the business via the use of a general security agreement could be quite onerous for a non-core asset moving forward. The company also recorded a full impairment of \$339,757 for loans to Cascadia. The Company has commenced action to collect this loan and may potentially recover the balance.

The Company incurred a loss on the impairment of convertible notes of \$559,845 largely related to its convertible notes advanced to Eureka. While the underlying assets of Eureka create uncertainty over collection of the balance, the Company believes that a general security agreement with a California license holder may recover this balance in the longer term.

During the year ending December 31, 2017, the Company has recorded losses of \$2,335,000 regarding to the impairment of goodwill and intangibles from the purchase of controlling interests in Dreamcatcher and GreenRock. These losses are largely attributable to contingent share consideration of \$4,020,000 recorded on the purchase date which were never achieved. Excluding these contingent shares which were never issued, the goodwill and intangibles from this purchase exceed the value of share consideration issued.

The loss from equity accounted investees was \$280,180 for the twelve months ended December 31, 2017 as compared to \$63,401 for the nine months ended December 31, 2016. The profit was due to a gain of

\$1,017,831 recorded on the deemed disposition resulting from the dilution of CannaRoyalty's investment in Resolve from 33% to 27% in March. This gain is offset by the net proportionate loss of \$1,298,011 incurred by the Company's associate companies over the past 12-month while the associated companies are still in the early stage of development. Management believes both investments still have fair value which exceeds their carrying value.

The Company is highly confident that its 27.2% stake in Resolve, an equity accounted investee, has significant pent-up value. Management believes that Resolve has a value of approximately \$70 million which implies a value of approximately \$21 million for CannaRoyalty based on its percentage ownership. The Company would consider disposing of this non-core investment to unlock significant value for CannaRoyalty shareholders. The carrying value of Resolve on CannaRoyalty's balance sheet at December 31, 2017 is \$2.5 million.

CannaRoyalty obtained significant influence over Resolve in July 2016 which necessitated a switch to equity accounting. As a result, CannaRoyalty's original share in Resolve needed to be restated at fair value which resulted in a \$26,875 gain.

CannaRoyalty recognized a bargain purchase gain of \$59,358 related to the acquisition in 2016 of Achelois as the fair value of tangible net assets assumed from Achelois exceeded the purchase consideration.

In the twelve months ended December 31, 2017, the Company recorded a penalty of \$204,060 related to the non-completion of a transaction with Zenabis Limited Partnership ("Zenabis"). The penalty was paid via the issuance of 89,500 shares of the Company on August 24, 2017 and an expense of \$204,060 was recorded based on the closing price of the Company's shares on the prior date.

The unrealized loss on embedded derivatives of \$110,965 is largely due to the change in the fair value of the derivative asset related to the convertible note receivable from Eureka. As the underlying equity is impaired the Company has ceased to assign value to the derivative asset.

Listing expense was \$3,901,011 for the nine-month period ending December 31, 2016. This expense includes a \$3,698,618 non-cash charge relating to the issuance of 1,813,574 shares to the former shareholders and directors of Bonanza Blue prior to the RTO transaction. These shares were valued at \$2.00 per share which was the fair value of the shares at the time of the completion of the RTO. When the binding RTO agreement was signed, CannaRoyalty shares were valued at \$0.75, which indicates that most this expense has been caused by the significant increase in the value of CannaRoyalty shares. The remaining expense relates to legal fees incurred with respect to the listing.

The Company incurred a foreign exchange loss of \$436,555 for the twelve months ended December 31, 2017 and a gain of \$243,868 for the nine months ended December 31, 2016. The company has a net asset position with regards to US-based monetary assets and the decrease in the USD to CAD exchange rate since December 31, 2016 led to these losses.

Interest expense was \$467,957 for the twelve months ended December 31, 2017 as compared to \$176,958 for the nine months ended December 31, 2016. Amortized charges of \$294,727 related to the line of credit with Sprout have been recorded in interest expense, including the costs related to issuing warrants to obtain a line of credit at 10%. A further \$130,367 of interest expense has been recorded on the convertible debt with Aphria of which \$75,000 pertains to the 5% interest, and the remaining \$55,367 pertains to the accretion related to the conversion feature of the debt. Interest expense was higher in fiscal 2016 due to the need for short term financing during prior to going public.

CURRENT TAX EXPENSE AND DEFERRED TAX RECOVERY

The Company realized deferred tax recoveries of \$1,605,823 and \$52,224 during the year ended December 31, 2017 and the nine months ended December 31, 2016 respectively. These recoveries relate to the deferred tax liability established on the acquisition of intangible assets from Dreamcatcher and EML which were acquired in late fiscal 2016. As the Company recognizes amortization on these intangible assets as well as impairment, an offsetting deferred tax recovery is recorded based on the current tax rates. Due to the significant decline in enacted US corporate tax rates the deferred tax liability has declined, resulting in a larger additional gain of approximately \$800,000 in the current year.

The Company has current tax expense of \$105,021 related to income earned by Electric Medialand and 280e tax incurred by US based operating subsidiaries. The Company does not meet the attributes necessary under IFRS to recognize deferred tax assets for its losses to date.

TOTAL COMPREHENSIVE LOSS

Other comprehensive loss was \$929,957 for the year ended December 31, 2017 as compared to a loss of \$102,762 for the nine months ended December 31, 2016. These gains and losses relate to foreign currency translation

The total comprehensive loss for the twelve months ended December 31, 2017, amounted to \$9,995,449 as compared to losses of \$10,420,241 for the nine months ended December 31, 2016. The decrease in losses is largely due to gains recorded on the Anandia and AltMed investments, offset by impairment losses, and listing expenses recorded in the prior period.

ADJUSTED EBITDA

EBITDA and adjusted EBITDA are non-GAAP financial measures and accordingly they are not earnings measures recognized by IFRS and do not carry standard prescribed significance. Moreover, our method for calculating Adjusted EBITDA may differ from that used by other companies using the same designation. Accordingly, we caution readers that Adjusted EBITDA should not be substituted for determining net income (loss) as an indicator of operating results or as a substitute for cash flows from operating and investing activities.

	Year ended	Nine months ended
	December 31, 2017	December 31, 2016
Net loss for the period	\$ (9,065,492)	\$ (10,317,479)
<i>Add (Subtract)</i>		
Amortization of property and equipment	178,821	111,331
Amortization of intangible assets	796,883	131,221
Amortization of royalty investments	493,961	-
Interest expense	467,957	176,958
Interest income	(137,691)	(26,478)
Current income taxes	(105,021)	-
Deferred income tax recovery	(1,605,823)	(52,224)
EBITDA	(8,976,405)	(9,976,671)
Gains on investments	(10,882,154)	-
Impairment of loans and advances	3,776,081	-
Impairment of convertible notes receivable	559,845	-

Impairment of intangible assets & goodwill	2,335,000	-
Impairment of royalty investments	1,014,211	-
Listing expense	-	3,901,011
Bargain purchase	-	(59,358)
Additional expense related to letter of intent transaction	204,060	-
Gain on disposal of equipment	(91,674)	-
Write-off of Achelois inventory	422,386	-
Bad debt expense – Cascadia royalties	919,481	-
Share based compensation	3,583,881	2,486,130
Loss related to change in fair value of embedded derivatives	110,965	-
Gain on dilution of equity accounted investment	(1,017,831)	-
Foreign exchange	436,555	(243,868)
TOTAL ADJUSTED EBITDA	\$ (7,605,600)	\$ (3,648,888)
Weighted average number of common shares outstanding - basic and diluted	41,439,567	25,237,273
ADJUSTED EBITDA per share - basic and diluted	\$ (0.18)	\$ (0.14)

The Company believes that Adjusted EBITDA is a useful financial metric and is meaningful and useful to investors, analysts, and other stakeholders for measuring and predicting CannaRoyalty's operating performance of its core business by excluding interest expense, income taxes, and depreciation as well as the following charges which are non-recurring or can highly fluctuating in nature:

- \$10,882,154 of gains for the year ended December 31, 2017 related to increases in the investment value of AltMed and Anandia calculated from transactions which were observable and reliably measurable.
- \$3,776,081 of losses for the year ended December 31, 2017 related to the impairment of loans and advances, the majority belonging to Rich Extracts a non-core asset moving forward
- \$559,845 of losses for the year ended December 31, 2017 related to the impairment of convertible notes receivable, the majority belonging to Eureka, a non-core asset.
- \$3,901,011 of losses for the nine months ended December 31, 2016, related to the deemed acquisition of Bonanza Blue under reverse takeover accounting.
- \$59,358 of gains pertaining to a bargain purchase of Achelois during the months ended December 31, 2016. The gain was from excess inventory received.
- \$204,060 of penalties recorded in the year ended December 31, 2017, arising from the cancellation of a letter of intent which led to a \$204,060 penalty to Zenabis paid via additional shares.
- \$91,674 gain for the year ended December 31, 2017 due to a gain on disposal of equipment as part of the acquisition of equity in Anandia.
- \$110,965 of losses for the year ended December 31, 2017 related to the valuation of the derivative assets in Eureka and BAS.
- \$1,017,831 gain on the deemed disposal for the year ended December 31, 2017 of Resolve shares resulting from an additional financing which reduced CannaRoyalty's equity interest from 33% to 27%.
- \$422,386 loss for the year ended December 31, 2017, due to an Inventory write-off related to Achelois product that the Company has decided not to sell for cautionary reasons. The Company will try to recover on this inventory in fiscal 2018.
- \$919,481 loss for the year ended December 31, 2017, related to the provision of Cascadia royalties receivable

Share based compensation is non-cash compensation that the company uses to incentivize employees and management, preserve its cash resources and to encourage growth.

On a per share basis the Adjusted EBITDA loss has increased from \$0.14 to \$0.22 for the year ended December 31, 2017 as compared to the nine months ended December 31, 2016.

For the year ended December 31, 2017, CannaRoyalty incurred an Adjusted EBITDA loss of \$7,605,600, as compared to a loss of \$3,648,888 in the prior nine-month period. The increased Adjusted EBITDA loss of \$3,956,712 in the year ended December 31, 2017 was due largely to the increase in G&A and sales and marketing expense. This was offset by an increase in gross margin of \$999,525, if adjusted for above noted write-down of inventory of \$422,386.

FOURTH QUARTER REVIEW

The following is a summary of the results for the final quarter of the twelve-month period ending December 31, 2017 as compared to the final quarter of the nine-month period ending December 31, 2016:

December 31, 2017 as compared to the final quarter of the nine-month period ending December 31, 2016:

	Three months ended December 31, 2017	Three months ended December 31, 2016
Consolidated Statements of Comprehensive Loss		
Revenue	\$ 1,072,399	\$ 502,152
Gross margin	111,465	236,787
Operating expenses	4,631,512	4,161,119
Loss from operations	(4,520,047)	(3,924,332)
Other income (expense)	2,001,228	(3,535,036)
Net loss	(1,143,698)	(7,407,144)
Total comprehensive income (loss)	(1,213,036)	(7,510,123)
Net loss per common share - basic and diluted	(0.03)	(0.24)
Weighted average common shares - basic and diluted	41,439,567	31,475,058

- Revenue for the three months ended December 31, 2017 was \$1,072,399 compared to \$502,152 for the three months ended December 31, 2016, an increase of \$570,247 or 114%. The increase in revenues was from advisory services pertaining to strategic financing advice and from increased product sales.
- Gross margin was \$111,465 for the quarter ending December 31, 2017 and \$236,787 for the quarter ending December 31, 2016, a decrease of \$125,322 or 53%. This was driven by an inventory write-off of \$422,386 related to inventory acquired in 2016 that will not be sold by CannaRoyalty. Excluding this write-off, the gross margin was 50% for the quarter ending December 31, 2017.
- Operating expenses increased by 10% or \$405,994 in the final quarter of the period ending December 31, 2017 compared to final quarter of the period ending December 31, 2016. The increase in expenses is primarily related to additional G&A and S&M expenses from the growth of the organization including payroll from additional employees as well as a charge of \$919,481 related to the write-off of a royalty receivable balance. This was partially offset by significant costs incurred in the final quarter of fiscal 2016 which were related to the going public transaction as well as costs incurred on issuing RSU's to new employees a third of which vested immediately. A reduction in operating expenses is expected in the first quarter of fiscal 2018 due to the elimination

of certain non-recurring charges such as the above noted charge of \$919,481.

- Loss from operations increased from \$3,924,332 for the final quarter of the period ending December 31, 2016, to \$4,520,047 for the final quarter of the period ending December 31, 2017. This increase is primarily related to one-time charges, namely bad debt expense and an inventory write-off, that caused a lower gross margin and increased G&A expenses.
- Other income (expense) for the three months ended December 31, 2017 was \$2,001,228 in income compared to an expense of \$3,535,036 for the three months ended December 31, 2016, an increase of \$5,536,264 or 157%. The increase is mainly attributable to fair value gains on investments made in 2017 of \$10.9 million, which was only partially offset by impairments of loans of \$3.8 million, as well as the listing expense of \$3.9 million incurred in 2016.
- Net loss per share decreased to \$0.03 in the final quarter of the period ending December 31, 2017, as compared to a loss of \$0.24 per share in the final quarter of the period ending December 31, 2016. If the loss per share is adjusted for the one-time listing expense related to the RTO of \$3,901,011, the loss per share for the quarter ending December 31, 2016 would have decreased from \$0.24 per share to \$0.11 per share.

SELECTED CONSOLIDATED QUARTERLY RESULTS

	31-Dec 2015	31-Mar 2016	30-Jun 2016	30-Sep 2016	31-Dec 2016	31-Mar 2017	30-Jun 2017	30-Sep 2017	31-Dec 2017
Revenue	\$ -	\$ -	\$ 12,418	\$ 127,707	\$ 502,152	\$ 301,111	\$ 960,157	\$ 744,302	\$ 1,072,399
Gross margin	-	-	434	91,269	236,787	244,473	421,681	128,010	111,465
Operating expenses	495,995	1,679,848	927,655	1,924,952	4,161,119	3,052,761	2,741,685	2,834,939	4,631,512
Loss from operations	(495,995)	(1,679,848)	(927,221)	(1,833,683)	(3,924,332)	(2,808,288)	(2,320,004)	(2,706,929)	(4,520,047)
Net loss	(511,201)	(1,843,747)	(1,043,273)	(1,866,845)	(7,404,357)	(2,053,785)	(2,467,511)	(3,295,477)	(1,143,698)
Total comprehensive loss	(511,201)	(1,843,747)	(1,043,770)	(1,866,131)	(7,507,336)	(2,140,965)	(2,917,466)	(3,618,961)	(1,213,036)
Net loss per share - basic and diluted	\$ (0.04)	\$ (0.14)	\$ (0.06)	\$ (0.07)	\$ (0.23)	\$ (0.05)	\$ (0.06)	\$ (0.08)	\$ (0.03)
Weighted average shares - basic and diluted	12,956,967	13,532,830	18,242,358	25,814,087	31,475,058	38,865,970	41,829,704	42,156,344	42,876,608

FINANCIAL POSITION

The following table sets forth consolidated statement of financial position data at December 31, 2017 and December 31, 2016:

	Dec 31, 2017	Dec 31, 2016	Change
Selected statement of financial position data			
Cash and cash equivalents	\$ 4,522,644	\$ 2,945,895	\$ 1,576,749
Working capital	5,813,705	4,859,603	954,102
Total investments (1)	26,674,288	8,363,922	18,310,366
Total assets	46,139,757	32,197,938	13,941,819
Long term and convertible debt	2,258,467	1,376,583	55,367
Shareholder's equity	40,468,344	25,481,782	14,986,562
Dividends, per share	-	-	-

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

The increase in cash of \$1.6 million, is due to cash from financing activities of \$19.6 million, offset by cash used in operations of \$8.6 million and investments of \$9.4 million. A significant portion of operating cash flows were used to support the operating and development needs of investee businesses.

- Total investments have increased by \$18.3 million due to new investments in Anandia and River,

which have carrying values of \$10.5 million and \$4.4 million respectively, and a gain in fair value of \$4.4 million related to AltMed.

- Total assets have increased by \$13.9 million due largely to the above noted increase in investments, which is partially offset by a decrease in loans receivable as a result of impairment.

Beyond the long-term debt, in August the Company closed a financing arrangement with Sprott which provides a secured credit facility (the “Facility”) of up to \$12.0 million. At December 31, 2017, the Company had drawn \$3.0 million from the Facility.

LIQUIDITY

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

The table below sets out relevant liquidity related financial information at December 31, 2017 and December 31, 2016:

	December 31, 2017	December 31, 2016
Cash and cash equivalents	\$ 4,522,644	\$ 2,945,895
Liquid assets (1)	5,951,767	3,502,065
Quick ratio (2)	2.79	1.50
Working capital	5,813,705	4,859,603
Working capital ratio (3)	3.72	3.08
Convertible debt	2,258,467	1,376,583
Secured credit facility debt	3,000,000	-
Secured credit facility available	9,000,000	-

(1) Liquid assets include cash and amounts receivable

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

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

CannaRoyalty’s liquid assets as of December 31, 2017 and December 31, 2016 include cash and cash equivalents and amounts receivable. The Company’s level of liquid assets is relevant to meet its current operating needs and it uses the quick ratio to measure its short-term liquidity.

As of December 31, 2017, the Company had liquid assets of \$6.0 million compared to \$3.5 million at December 31, 2016. Over the same period the quick ratio has decreased from 1.50 to 1.43, which is due to the \$1.5 million of payment obligations related to the River financing. With a quick ratio of 1.43, the Company may be required to use financing to meet some of its short-term liquidity needs. This financing can be obtained through drawing on the \$12.0 million secured credit facility arrangement with Sprott that was closed on August 23, 2017. While the Company has incurred cash losses to date, management anticipates eventual cash profitability of the business will increase its liquid assets. However, at this early stage of CannaRoyalty’s development, there can be no assurance that the Company will gain adequate market acceptance for its products or be able to generate sufficient positive cash flow to reach sustained profitability.

CannaRoyalty monitors its level of working capital and working capital ratio to assess its ability to enter into strategic opportunities such as equity investments, royalty financing arrangements and providing start-up working capital to its existing and/or future business units. The level of working capital surplus has

increased from \$4.4 million at December 31, 2016 to \$5.4 million at December 31, 2017. The surplus at December 31, 2017 might not be sufficient on its own for the Company to fully undertake the level of cash based strategic opportunities it would like to pursue over the next 12 months without incremental financing. The Company has recently been receipted for a filed a preliminary prospectus for an equity raise for gross proceeds of \$15.0 million; the majority of the net proceeds from this raise would be used to finance new acquisitions and to invest additional cash into CannaRoyalty's existing investments in California. Management will continue to monitor and assess its acquisition activities to ensure that operating requirements are met over the next 12 months.

The Company has lease commitments related to head office rent and subsidiary rent as follows:

2018	\$	359,944
2019		361,969
2020		292,170
2021		107,429
2022		2,599
Total	\$	1,124,111

The Company has successfully pursued strategic opportunities in the 12 months ending December 31, 2017. This is largely due to proceeds of \$13.7 million from share and share purchase warrant issuances, \$3.1 million from the exercise of warrants and stock options, and \$3.0 million of draws on the line of credit during the past 12-month period. Furthermore, the company has historically issued shares as part of the compensation for significant acquisitions. Including Dreamcatcher, EML, and Anandia in the past, and for Kaya and Alta in future periods. The February 2017 bought deal financing helped the Company pursue two significant transactions in fiscal 2017, namely Anandia and River and allowed for additional financing of its business partners and early development stage subsidiaries. The Company anticipates that the bought deal financing announced on March 19, 2018, will allow the company to pursue similar strategic opportunities over the next 12 months. However, there can be no assurance that the Company will be able to continue to finance its strategic opportunities via the issuance of shares or debt.

The chart below highlights the Company's cash flows during the twelve months ended December 31, 2017 and the nine months ended December 31, 2016.

Net cash provided (used by)	Year ended	
	December 31, 2017	Nine months ended December 31, 2016
Operating activities	\$ (8,619,492)	\$ (3,911,694)
Financing activities	19,599,638	13,618,806
Investing activities	(9,417,118)	(6,767,374)
Cash, beginning	2,945,895	6,157
Cash, end	\$ 4,522,644	\$ 2,945,895

CASH USED IN OPERATING ACTIVITIES

The cash used in operating activities during the twelve months ended December 31, 2017 was \$8.6 million as compared to \$3.9 million for the nine months ended December 31, 2016. The use of cash from operating

activities is primarily due to cash based operating expenses which in the current business stage are not offset by the gross margin earned from revenues. The increase in cash used in the current period was driven by cash used by developing and supporting operations of our CR Brand subsidiaries, professional and consulting services required for increased acquisition and financing activities, the cost of opening offices in Ottawa, Toronto and California, and the cost of new employees to enhance our marketing, operations, legal, finance and corporate development teams.

CASH FROM FINANCING ACTIVITIES

The cash provided by financing activities during the twelve months ended December 31, 2017 was \$19.6 million as compared to \$13.6 million for the nine months ended December 31, 2016. The largest sources of financing in the current fiscal year was the issuance of shares and share purchase warrants in a February bought deal financing which generated cash of \$13.7 million, proceeds from the exercise of warrants of \$3.1 million, and \$3.0 million of draws on a line of credit.

In 2016, the largest source of financing was the issuance of shares and warrants in private placements which generated cash of \$9.7 million, proceeds from exercise of warrants of \$2.1 million and the issuance of convertible debt to Aphria of \$1.5 million.

CASH USED IN INVESTING ACTIVITIES

The cash used in investing activities during the year ended December 31, 2017 was \$9.4 million. The largest uses of cash were the advances to River of \$4.8 million to acquire a future stream of royalty-based payments, investments of \$2.1 million in equity interests (Anandia \$1.5 million, Farmacopeia \$0.3 million, WD \$0.2 million, Resolve \$0.1 million, EML \$0.1 million), and advances to debtors of \$2.2 million of which \$1.2 million were to Rich Extracts and \$0.6 million were to investments in Kaya and Alta. During 2017, CannaRoyalty provided working capital to assist start up interests to become commercially operational or to expand operations. These loans and advances are classified as investment activities as they are extended to businesses that are expected to become future revenue sources.

The cash used in investing activities for the nine months ended December 31, 2016 was \$6.8M. The most significant uses of cash were net cash outflows of \$2.9 million related to loans and advances to current or prospective business units, cash investments of \$1.9 million in equity interests of less than 50% (Resolve, Wagner Dimas, Bodhi and Eureka), and \$0.8 million related to the issuance of convertible debt. CannaRoyalty provides working capital to assist these interests in their early business stage to become commercially operational. These loans and advances are classified as investment activities as they are extended to businesses that are expected to become future revenue sources.

FINANCING AND CAPITAL RESOURCES

The Company is subject to risks including, but not limited to, its ability to raise additional funds through debt and/or equity financing to support development via acquisition, continued operations and to meet the liabilities and commitments as they come due. Specifically, as of December 31, 2017 the Company has a history of losses with an accumulated deficit of \$22.4 million, share capital of \$50.0 million and working capital of \$5.8 million This compares to an accumulated deficit of \$13.5 million, share capital of \$31.4 million and working capital of \$4.9 million as at December 31, 2016.

CAPITAL ACTIVITIES

The Company manages its capital with the objective of maximizing shareholder value and sustaining future development of the business. The Company defines capital as the Company's equity and any debt it may

issue. The Company manages its capital structure based on the funds available to support its activities. Upon approval from the Board, management will undertake to balance its overall capital structure through new share issues, the issue of debt or by undertaking other activities as deemed appropriate under specific circumstances including the potential divestiture of non-core assets.

The Company's principal capital needs are for funds to use towards its current investments, pipeline projects, upcoming product launches, and general working capital requirements to support growth. Since its formation, the Company has financed its cash requirements primarily through the issuance of capital stock.

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its investment growth strategy and undertake selective acquisitions, while at the same time taking a conservative approach toward financial leverage and management of financial risk. The Company's capital is composed primarily of equity of \$40.5 million, convertible debt \$1.4 million, and a secured credit facility of \$12.0 million, of which \$9.0 million remains undrawn. The Company's primary uses of capital are to invest in brands and supporting assets and provide royalty financing in the cannabis industry. The Company also uses capital to finance operating losses, capital expenditures and increases in non-cash working capital. The Company's objectives when managing capital are to ensure that the Company will continue to have enough liquidity to help build its investments into successful businesses that will ultimately generate above market returns.

The Company monitors its capital based on the adequacy of its cash resources to fund its business plan. To maximize flexibility to finance the Company's ongoing growth, CannaRoyalty does not currently pay a dividend to holders of its common shares. The Company did not institute any changes to its capital management strategy during this fiscal year.

The Company's authorized share capital is an unlimited number of common shares of which 43,898,445 were issued and outstanding as at December 31, 2017 (December 31, 2016 – 36,006,956 common shares). The Company has issued 4,153,150 RSUs that have not been exercised as at December 31, 2017 including 1,933,587 that have vested (December 31, 2016 – 2,774,800 including 1,065,637 that had vested). As of December 31, 2017, there are share purchase warrants and broker warrants outstanding that can potentially be converted to 4,112,712 shares (December 31, 2016 – 1,113,633).

ACCOUNTING MATTERS

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer, in accordance with National Instrument 52-109 ("NI 52-109"), have both certified that they have reviewed the financial report and this MD&A (the "Filings") and that, based on their knowledge having exercised reasonable diligence, (a) the Filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made with respect to the period covered by the filings; and (b) the financial report together with the other financial information included in the Filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the Filings. The Company was a venture issuer as of December 31, 2017. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost-effective basis Disclosure Controls and Procedures and Internal Controls Over Financial Reporting as defined in NI 52-

109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Estimated useful lives and depreciation/amortization of property and equipment, intangible assets and royalty investments

Depreciation/amortization of property and equipment and intangible assets is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Royalty investments are amortized from the time revenue begins to be earned until the end of the period for which the Company is entitled to royalty payments. As a delay in amortization could indicate impairment, all royalty investments which are not generating revenue or significant revenues are tested for impairment on an annual basis considering market trends and the stage of product development. Royalties that are for a term of perpetuity are not amortized but are tested for impairment annually. In certain instances, the Company may receive a base guarantee of income in a royalty arrangement and will only record additional revenue once the amount has surpassed the value of the guarantee. If it is determined that the Company will need to rely on the guarantee to get a return on its investment, the Company assesses the likelihood whether the underlying party will be able to make the payment despite a delay in revenue generation.

Critical Accounting Estimates

The Financial Statements include certain amounts that are inherently uncertain and judgmental in nature. As a result, management is required to make assumptions and best estimates to determine the reported values. The Company considers an accounting estimate to be critical if: (1) it requires that significant assumptions be made to deal with uncertainties; and (2) changes in the estimate could have a material impact on operating results, financial condition or liquidity. The Company believes that the material items requiring such subjective and complex estimates, as disclosed in the note 3 to the consolidated financial statements for the year ended December 31, 2017, are:

- fair values recorded on acquisition of subsidiaries
- valuation of assets, including assets held for sale, intangibles, goodwill, and royalty investments with a perpetual royalty stream
- recoverability of loans and advances
- estimates of the fair value of derivatives
- estimates and assumptions used in applying IFRS 2 “Share Based Payment”

The Company believes that the amounts included in the Financial Statements reflect management’s best judgment. However, factors including, without limitation, those noted under “Risks and Uncertainties” in our Annual MD&A could cause actual events or results to differ materially from our underlying assumptions and estimates. Accordingly, this could lead to a material adverse impact on our results of operations, financial condition and/or liquidity.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Party Transactions

The following is a summary of the related party balances payable as at December 31, 2017 and December 31, 2016:

	December 31, 2017	December 31, 2016
Purchase consideration owing to key management	\$ -	\$ 133,333
Management bonus and vacation payable	565,638	247,467
Travel reimbursements	15,473	21,105
Management bonus assumed on EML acquisition	-	165,427
Total	\$ 581,111	\$ 567,332

The management bonus and vacation payable are included in accounts payable and accrued liabilities balance and included within other accrued liabilities (note 13).

The following is a summary of the related party transactions, including key management compensation for the year ended December 31, 2017 and the nine months ended December 31, 2016.

	Year ended December 31, 2017	Nine months ended December 31, 2016
Consulting fees (i)	\$ -	\$ 376,068
Professional fees (ii)	-	131,871
Salaries and short-term benefits (iii)	1,875,321	352,050
Share-based compensation - key management and board (iv)	3,138,116	2,377,133
Rent and occupancy costs (v)	26,007	-
Total	\$ 5,039,444	\$ 3,237,122

(i) During the nine months ended December 31, 2016, a Company owned by the Chief Executive Officer provided services to the Company for which compensation was settled through the issuance of 500,000 common shares at a value of \$0.75 per common share. This was settled during 2017. As at December 31, 2017, an obligation of \$nil (2016 - \$375,000) was included in accrued liabilities.

(ii) These fees are for services provided by Companies owned by the current and former Chief Financial Officers during the respective periods.

During the nine months ended December 31, 2016, a company owned by the former Chief Financial Officer provided services to the Company for which compensation was settled through the issuance of 50,000 common shares at a value of \$0.75 per common share. This was settled during 2017. As at December 31, 2017, an obligation of \$nil (2016 - \$37,500) was included in accrued liabilities.

(iii) Key executive management became employees of CannaRoyalty on November 1, 2016. Prior to this date, the Chief Executive Officer, the Chief Operating Officer, and the Chief Financial Officer acted as consultants to the company.

(iv) Includes share-based compensation issued to key management and Board of Directors (note 21).

(v) A subsidiary uses a building unit which is owned by the Company's Chief Marketing Officer. For use of the unit the subsidiary pays the mortgage and occupancy costs related to the unit.

Adoption of New Accounting Standards

Effective January 1, 2017, the Company has adopted the amended disclosure requirements for IAS 7 – Statement of Cash Flows. This results in additional disclosures for liabilities arising from financing activities. Since the amendments were issued one year before the effective date, comparative information is not necessary in the first year of application. These updated disclosures are reflected in note 14 and note 15 of the Company’s financial statements as at December 31, 2017.

None of the new accounting standards adopted during the twelve months ended December 31, 2017 resulted in a change in accounting policies.

Future Accounting Pronouncements

A number of new standards, amendments to standards and interpretations applicable to the Company are not yet effective for the year ended December 31, 2017 and have not been applied in preparing these consolidated financial statements. The Company is currently considering the possible effects of the new and revised standards which will be effective to the Company’s consolidated financial statements for the year ended December 31, 2018 or later:

IFRS 2 – Share-based Payment, effective January 1, 2018, with early adoption permitted, introduces new requirements for the classification and measurement of share-based payment transactions. The Company does not anticipate any significant changes resulting from the changes to IFRS 2.

IFRS 9 “Financial Instruments” (“IFRS 9”) –IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement” and is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

IFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, we will not restate our prior period comparative consolidated financial statements when we adopt the requirements of the new standard. Any differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 will be recognized in our opening January 1, 2018 retained earnings and AOCI as if we had always followed the new requirements.

The Company is assessing the impact of the standard, specifically on its investments held at cost and the impact of the new impairment model on its financial assets.

Investments at cost:

Some of the Company’s equity investments are currently recorded at cost, as these are private companies that lack reliably measurable information to accurately assess fair value. Upon implementation of IFRS 9, which will be the reporting period ending March 31, 2018, these investments must be recorded at fair value. The Company intends to use a market approach to value these transactions relying on recent transactions of identical or similar instruments in the investee. Given the recent transaction activity in our investees this approach should provide a fair value for most of our investments. However, if necessary the Company intends to consider comparable company valuation multiples.

The Company continues to evaluate the effect of this standard on its investments at cost. Due to the volatility in the cannabis market, this standard could result in significant changes in the value of some of our assets.

Impairment:

IFRS 9 introduces a new single expected credit loss (“ECL”) impairment model for all financial assets and certain off-balance sheet loan commitments and guarantees. The new ECL model will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event. This could have an impact on the Company’s loans and amounts receivable. The expected credit loss model requires the recognition of credit losses based on 12 months of expected losses for performing loans and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination. As a result of the forward-looking nature of the standard, it is expected that the provision for credit losses will become more responsive to changes in the economic environment.

IFRS 9 outlines a three-stage approach to recognizing ECL which is intended to reflect the deterioration in credit quality of a financial instrument. CannaRoyalty will apply the three-stage approach on assessing the impairment on loans and advances as follows:

- Stage 1 is comprised of all financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date. CannaRoyalty will be required to recognize impairment for Stage 1 financial instruments based on the expected losses over the expected life of the instrument arising from loss events that could occur during the 12 months following the reporting date.
- Stage 2 is comprised of all financial instruments that have deteriorated significantly in credit quality since initial recognition but that do not have objective evidence of a credit loss event. For Stage 2 financial instruments the impairment is recognized based on the expected losses over the expected life of the instrument arising from loss events that could occur over the expected life. CannaRoyalty is required to recognize a lifetime ECL for Stage 2 financial instruments.
- Stage 3 is comprised of all financial instruments that have objective evidence of impairment at the reporting date. CannaRoyalty is required to recognize impairment based on a lifetime ECL for Stage 3 financial instruments.

The Company does not expect the ECL impairment model under IFRS 9 to have a material impact to our consolidated financial statements as a result of adopting this standard.

IFRS 15 – Revenue from Contracts with Customers: This standard establishes a comprehensive framework for determining whether, how much, and when revenue is recognized. It replaces existing revenue guidance including IAS 18 *Revenue*. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company will adopt the standard for the annual period beginning January 1, 2018 and will apply the modified retrospective method. The Company has determined there is no impact on current contracts and on revenues recorded prior to December 31, 2017. Accordingly, no adjustments to opening retained earnings are expected to be required.

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

RISKS, UNCERTAINTIES AND FORWARD-LOOKING STATEMENTS

Cautionary Note Regarding Forward-Looking Statements

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

REGULATORY OVERVIEW

In accordance with the Canadian Securities Administrators (“CSA”) Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities* (“**Staff Notice 51-352**”), below is a discussion of the current federal and state-level U.S. regulatory regimes in those jurisdictions where the Company is currently directly and indirectly involved through its subsidiaries and investments. In accordance with Staff Notice 51-352, the Company will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation.

United States

Summary of CannaRoyalty’s United States Cannabis Activity

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

Historically, the Company has manufactured its cannabis consumer products in the State of California through licensed third-party contract manufacturers. The finished products have been primarily sold through licensed distributors to licensed retailers, although some direct sales to licensed retailers were completed through a California cannabis collective controlled by the Company. All such activity is recorded through U.S. operating subsidiaries in which the Company has a controlling interest and is also reflected in the Company’s financial statements as intangible assets arising from acquisitions.

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

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

The non-controlling investments held by the Company include equity-accounted investments, royalty investments and receivables, loans and advances receivable, and convertible notes receivable.

The following table is a summary of CannaRoyalty's balance sheet exposure to U.S. cannabis-related activities as of December 31, 2017:

	Operating Subsidiaries	Non-controlling Investments	Total
Current assets	\$ 659,756	\$ 1,696,032	\$ 2,355,788
Non-current assets	9,075,324	13,615,248	22,690,572
Total Assets	\$ 9,735,080	\$ 15,311,280	\$ 25,046,360
Current liabilities	\$ 3,279,730	\$ 255,601	\$ 3,535,331
Non-current liabilities	1,278,676	-	1,278,676
Total Liabilities	\$ 4,558,406	\$ 255,601	\$ 4,814,007

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

The following is a summary of operating losses from U.S. cannabis-related activities for the nine months ending December 31, 2017:

	Operating Subsidiaries	Non-controlling Investments	Total
Revenue	\$ 977,028	\$ 1,228,507	\$ 2,205,535
Cost of sales	(1,391,896)	(443,952)	(1,835,848)
Gross margin	\$ (414,868)	\$ 784,555	\$ 369,687
Less - Operating expenses			4,676,313
			\$ (4,306,627)
<i>Other Income</i>			
Changes in fair value of investments			4,298,706
Impairment of loans and advances			(3,776,081)
Impairment of convertible notes receivable			(559,845)
Impairment of intangible assets & goodwill			(2,335,000)
Impairment of royalty investments			(1,014,211)
Loss from equity accounted investees, net of tax			(148,992)
Changes in fair value of embedded derivatives			(110,965)
Net Loss			\$ (7,953,015)

The operating expenses above include expenses directly incurred by U.S. subsidiaries, the Company's U.S. corporate office, and the amortization of intangible assets. These operating expenses do not include any allocation of

costs incurred at our Canadian head office and for Canadian employees. They also exclude any share-based compensation, and service charges from the Company's Canadian marketing subsidiary which would be eliminated on consolidation.

During the year, the Company's Canadian based subsidiaries have provided services of \$694,374 to non-related companies in the U.S. cannabis sector.

The following represents the portion of certain assets on CannaRoyalty's consolidated balance sheet that pertain to U.S. Cannabis activity as at December 31, 2017:

Balance Sheet Line Item	Percentage which Relates to Investments/Holdings with U.S. marijuana-related activities
Loans receivable	100%
Convertible notes receivable	100%
Interest in equity accounted investees	29%
Investments	36%
Royalty investments	93%
Intangible assets and goodwill	83%

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

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

United States Federal Overview

In the United States, twenty-nine states, Washington D.C. and Puerto Rico have legalized medical marijuana, and nine states and Washington D.C. have legalized recreational marijuana. At the federal level, however, cannabis currently remains a Schedule I drug under the Controlled Substances Act of 1970. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use, or distribution of cannabis, remain illegal under United States federal law.

Although federally illegal, the U.S. federal government's approach to enforcement of such laws has at least until recently trended toward non-enforcement. On August 29, 2013, the U.S. Department of Justice ("DOJ"), issued a memorandum known as the "Cole Memorandum" to all U.S. Attorneys' offices (federal prosecutors). The Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal marijuana laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly-regulated medical or recreational cannabis programs. While not legally binding, and merely prosecutorial guidance, the Cole Memorandum laid a framework for managing the tension between state and federal laws concerning state-regulated marijuana businesses.

However, on January 4, 2018 the Cole Memorandum was revoked by Attorney General Jeff Sessions, a longtime opponent of state-regulated medical and recreational cannabis. While this did not create a change in federal law, as the Cole Memorandum was not itself law, the revocation removed the DOJ's guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandum's guidelines should not be a prosecutorial priority.

In addition to his revocation of the Cole Memorandum, A.G. Sessions also issued a one-page memorandum known as the "Sessions Memorandum." The Sessions Memorandum confirmed the rescission of the Cole Memorandum and explained the rationale of the DOJ in doing so: the Cole Memorandum, according to the Sessions Memorandum, was "unnecessary" due to existing general enforcement guidance adopted in the 1980s, as set forth in

the U.S. Attorney's Manual (the "USAM"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the federal government's limited resources, and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community."

While the Sessions Memorandum emphasizes that marijuana is a Schedule I controlled substance, and reiterates the statutory view that cannabis is a "dangerous drug and that marijuana activity is a serious crime," it does not otherwise indicate that the prosecution of marijuana-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether or not to prosecute marijuana-related offenses. Our outside U.S. counsel, Vicente Sederberg LLC, continuously monitors all U.S. Attorney comments related to regulated medical and adult-use cannabis laws to assess various risks and enforcement priorities within each jurisdiction. Dozens of U.S. Attorneys across the country have affirmed that their view of federal enforcement priorities has not changed, although a few have displayed greater ambivalence. In California, at least one U.S. Attorney has made comments indicating a desire to enforce the Controlled Substances Act: Adam Braverman, Interim U.S. Attorney for the Southern District of California, has been viewed as a potential enforcement hawk after stating that the rescission of the Cole Memorandum "returns trust and local control to federal prosecutors" to enforce the Controlled Substances Act. Additionally, Greg Scott, the Interim U.S. Attorney for the Eastern District of California, has a history of prosecuting medical cannabis activity: his office published a statement that cannabis remains illegal under federal law, and that his office would "evaluate violations of those laws in accordance with our district's federal law enforcement priorities and resources."

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

Regardless, marijuana remains a Schedule I controlled substance at the federal level, and neither the Cole Memorandum nor its rescission has altered that fact. The federal government of the United States has always reserved the right to enforce federal law in regard to the sale and disbursement of medical or recreational marijuana, even if state law sanctioned such sale and disbursement. From a purely legal perspective, the criminal risk today remains identical to the risk on January 3, 2018. It remains unclear whether the risk of enforcement has been altered.

Additionally, under U.S. federal law it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from marijuana sales or any other Schedule I substance. Canadian banks are also hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering or conspiracy. Despite these laws, the U.S. Department of the Treasury issued a memorandum in February of 2014 (the "**FinCEN Memorandum**") outlining the pathways for financial institutions to bank state-sanctioned marijuana businesses. Under these guidelines, financial institutions must submit a "suspicious activity report" ("**SAR**") as required by federal money laundering laws. These marijuana related SARs are divided into three categories: marijuana limited, marijuana priority, and marijuana terminated, based on the financial institution's belief that the marijuana business follows state law, is operating out of compliance with state law, or where the banking relationship has been terminated.

On the same day the FinCEN Memorandum was published, the DOJ issued a memorandum (the "2014 Cole Memo") directing prosecutors to apply the enforcement priorities of the Cole Memorandum in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of marijuana-related conduct. The 2014 Cole Memo has been rescinded as of January 4, 2018, along with the Cole Memorandum, removing guidance that enforcement of applicable financial crimes was not a DOJ priority.

However, Attorney General Sessions' revocation of the Cole Memorandum and the 2014 Cole Memo has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the 2014 Cole Memo and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum can act as a standalone document which explicitly lists the eight enforcement priorities originally cited in the Cole Memorandum. As such, the FinCEN Memorandum remains intact.

Enforcement of U.S. Federal Laws

For the reasons set forth above, the Company's existing investments in the United States, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the United States or any other jurisdiction. See "Risk Factors".

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations. See "Risk Factors".

Further, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such 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. See "Risk Factors".

U.S. Enforcement Proceedings

Although the Cole Memorandum and 2014 Cole Memo have been rescinded, one legislative safeguard for the medical marijuana industry remains in place: Congress has used a rider provision in the FY 2015, 2016 and 2017 Consolidated Appropriations Acts (currently the "**Leahy Amendment**") to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. The Leahy Amendment was included in the FY 2018 budget passed on March 23, 2018, meaning that, the Leahy Amendment is still in effect as of today's date and will remain in effect until September 30, 2018, when FY 2019 begins.

Ability to Access Public and Private Capital

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

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

Commercial banks, private equity firms and venture capital firms have approached the cannabis industry cautiously to date. However, there are increasing numbers of high net worth individuals and family offices that have made meaningful investments in companies and projects similar to the Company's projects. Although there has been an increase in the amount of private financing available over the last several years, there is neither a broad nor deep

pool of institutional capital that is available to cannabis license holders and license applicants. There can be no assurance that additional financing, if raised privately, will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability. See "Risk Factors - Banking" and "Risk Factors – Additional Financing".

State-Level Overview

The following sections present an overview of market and regulatory conditions for the marijuana industry in U.S. states in which CannaRoyalty has a substantial operating presence and is presented as of January 2018, unless otherwise indicated. Although the Company's activities are compliant with applicable United States state and local law, strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under United States federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company.

California Summary

In 1996, California voters passed a medical marijuana law allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain. The law established a not-for-profit patient/caregiver system but there was no state licensing authority to oversee the businesses that emerged as a result of the system. In September of 2015, the California legislature passed three bills, collectively known as the "Medical Marijuana Regulation and Safety Act" ("MCRSA"). In 2016, California voters passed "The Adult Use of Marijuana Act" ("AUMA"), which legalized adult-use cannabis for adults 21 years of age and older and created a licensing system for commercial cannabis businesses. On June 27, 2017, Governor Brown signed SB-94 into law. SB-94 combines California's medicinal and adult-use cannabis regulatory frameworks into one licensing structure under the Medicinal and Adult-Use of Cannabis Regulation and Safety Act ("MAUCRSA").

Pursuant to MAUCRSA: (1) the California Department of Food and Agriculture, via CalCannabis, issues licenses to cannabis cultivators; (2) the California Department of Public Health, via the Manufactured Cannabis Safety Branch (the "MCSB"), issues licenses to cannabis manufacturers and (3) the California Department of Consumer Affairs, via the Bureau of Cannabis Control (the "BCC"), issues licenses to cannabis distributors, testing laboratories, retailers, and micro-businesses. These agencies also oversee the various aspects of implementing and maintaining California's cannabis landscape, including the statewide track and trace system. All three agencies released their emergency rulemakings at the end of 2017 and have begun issuing licenses.

To operate legally under state law, cannabis operators must obtain a state license and local approval. Local authorization is a prerequisite to obtaining state licensure, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. The state license approval process is not competitive and there is no limit on the number of state licenses an entity may hold. Although vertical integration across multiple license types is allowed under MAUCRSA, testing laboratory licensees may not hold any other licenses aside from a laboratory license. There are also no residency requirements for ownership under MAUCRSA.

The Company is "directly" involved in the cultivation and distribution of cannabis in California as a result of the acquisition of Kaya and Alta ("the California Operators"). The California Operators have represented to the Company that their business was conducted in compliance with the regulatory framework enacted by the State of California. The California Operators are in compliance with all applicable California laws, regulations, and guidelines.

California has implemented a robust regulatory system designed to ensure, monitor, and enforce compliance with all aspects of a cannabis operator's licensed operations. Compliance with local law is a prerequisite to obtaining and maintaining state licensure, and all three state regulatory agencies require confirmation from the locality that the operator is operating in compliance with local requirements and was granted authorization to continue or commence commercial cannabis operations within the locality's jurisdiction.

Under California state law, all state licensed cannabis businesses are entitled to rely on certain transition provisions until June 30, 2018. These provisions were included to ease the transition of businesses into the new regulatory regime introduced on January 1, 2018 in California. The provisions grandfather the sale of certain products

compliantly produced prior to January 1, 2018, and, among other things, also allow state licensees to transact with other state licensees regardless of the parties' adult-use (A) or medical (M) license until July 1, 2018.

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

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

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

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

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

Zoning and Land Use Requirements

Applicants are required to comply with all local zoning and land use requirements and provide written authorization from the property owner where the commercial cannabis operations are proposed to take place, which must dictate that the applicant has the property owner's authorization to engage in the specific state-sanctioned commercial cannabis activities proposed to occur on the premises.

Record-Keeping and Continuous Reporting Requirements

California's state license application process additionally requires comprehensive criminal history, regulatory history, financial and personal disclosures, coupled with stringent monitoring and continuous reporting requirements designed to ensure only good actors are granted licenses and that licensees continue to operate in compliance with the State regulatory program.

Operating Procedure Requirements

Applicants must submit standard operating procedures describing how the operator will, among other requirements, secure the facility, manage inventory, comply with the State's seed-to-sale tracking requirements, dispense cannabis, and handle waste, as applicable to the license sought. Once the standard operating procedures are determined compliant and approved by the applicable state regulatory agency, the licensee is required to abide by the processes described and seek regulatory agency approval before any changes to such procedures may be made. Licensees are additionally required to train their employees on compliant operations and are only permitted to transact with other legal and licensed businesses.

Site-Visits & Inspections

The California Operators will not be able to obtain or maintain state licensure, and thus engage in commercial cannabis activities in the state of California without satisfying and maintaining compliance with state and local law.

As a condition of state licensure, operators must consent to random and unannounced inspections of the commercial cannabis facility as well as all of the facility's books and records to monitor and enforce compliance with state law. Many localities have also enacted similar standards for inspections, and the state has already commenced site-visits and compliance inspections for operators who have received state temporary or annual licensure.

Compliance Procedures

The California Operators utilize Simplifya, an enterprise compliance platform, which integrates the California Operators' inventory management program and standard operating procedures with the software's compliance checklists and auditing features to facilitate continued compliance with state and local requirements. Simplifya is a comprehensive compliance software solution that was developed specifically for the cannabis industry in collaboration with the nation's premier marijuana law firm, Vicente Sederberg LLC, who has been instrumental in the drafting and implementation of state and local cannabis regulatory programs across the country and in multiple California municipalities. The software features a robust auditing system that allows for both internal as well as third-party compliance auditing, covering all state and municipal, facility and operational requirements. Regulations are monitored in real-time and software updates are timely released to account for any changes. Simplifya offers standard operating procedure building tools to facilitate the implementation and maintenance of compliant operations and tracks all required licensing maintenance criteria, which include countdown features and automatically generated reminders for initiating renewals and required reporting.

The Company's purchase of the California Operators was contingent on both companies' continued ability to operate in compliance with state and local law. The Company has the right to visit and inspect the California Operators' facilities and operations to monitor and ensure continued compliance. The Company has developed a robust Compliance Program designed to ensure operational and regulatory requirements continue to be satisfied, and has retained Vicente Sederberg LLC, as local outside counsel to monitor the Company's compliance with U.S. state law on an ongoing basis. The Company will continue to work closely with Vicente Sederberg LLC to develop and improve its internal Compliance Program, and will defer to their legal opinions and risk mitigation guidance regarding California's complex regulatory framework. The internal Compliance Program, including the use of Simplifya, requires continued monitoring by managers and executives of the California Operators' to ensure all operations conform with legally compliant standard operating procedures. The Company further requires its California Operators to report and disclose all instances of non-compliance, regulatory, administrative, or legal proceedings that may be initiated against them.

Arizona Summary

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

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

Once an applicant has been issued a Certificate, they are allowed to establish one physical retail dispensary location, one cultivation location which is co-located at the dispensary's retail site (if allowed by local zoning) and one additional off-site cultivation location. None of these sites can be operational, however, until the Dispensary receives an approval to operate from AZDHS for the applicable site. This approval to operate requires: (i) an

application on the AZDHS form, (ii) demonstration of compliance with local zoning regulations, (iii) a site plan and floor plan for the applicable property, and (iv) an in-person inspection by AZDHS of the applicable location to ensure compliance with the Rules and consistency with the Dispensary's applicable policies and procedures.

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

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

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

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

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

Florida Summary

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

Applicants must demonstrate (and licensed MMTC's must maintain) that: (i) they have been registered to do business in the State of Florida for the previous five years, (ii) they possess a valid certificate of registration issued by the Florida Department of Agriculture, (iii) they have the technical and technological ability to cultivate and produce cannabis, including, but not limited to, low-THC cannabis, (iv) they have the ability to secure the premises, resources, and personnel necessary to operate as an MMTC, (v) they have the ability to maintain accountability of all raw materials, finished products, and any byproducts to prevent diversion or unlawful access to or possession of these substances, (vi) they have an infrastructure reasonably located to dispense cannabis to registered qualified patients statewide or regionally as determined by the Department, (vii) they have the financial ability to maintain operations for the duration of the 2-year approval cycle, including the provision of certified financial statements to the department, (viii) all owners, officers, board members and managers have passed a Level II background screening, inclusive of fingerprinting, and ensure that a medical director is employed to supervise the activities of the MMTC, and (ix) they have a diversity plan and veterans plan accompanied by a contractual process for establishing business relationships with veterans and minority contractors and/or employees.

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

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

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

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

Cannabis must be stored in a secured, locked room or a vault. An MMTC must have at least two employees, or two employees of a security agency, on the premises at all times where cultivation, processing, or storing of cannabis occurs. MMTC employees must wear an identification badge and visitors must wear a visitor pass at all times on the premises. An MMTC must report to law enforcement within 24 hours after the MMTC is notified of or becomes aware of the theft, diversion or loss of cannabis. A cannabis transportation manifest must be maintained in any vehicle transporting cannabis or a cannabis delivery device. The manifest must be generated from the MMTC's seed-to-sale tracking system and must include the: (i) departure date and time, (ii) name, address, and license number of the originating MMTC, (iii) name and address of the recipient, (iv) quantity and form of any cannabis or cannabis delivery device being transported, (v) arrival date and time, (vi) delivery vehicle make and model and license plate number, and (vii) name and signature of the MMTC employees delivering the product. Further, a copy of the transportation manifest must be provided to each individual, MMTC that receives a delivery. MMTCs must retain copies of all cannabis transportation manifests for at least three years. Cannabis and cannabis delivery devices must be locked in a separate compartment or container within the vehicle and employees transporting cannabis or cannabis delivery devices must have their employee identification on them at all times. Lastly, at least two people must be in a vehicle transporting cannabis or cannabis delivery devices, and at least one person must remain in the vehicle while the cannabis or cannabis delivery device is being delivered.

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

Puerto Rico Summary

In May of 2015 the Governor Alejandro Garcia Padilla of Puerto Rico signed an executive order legalizing medical cannabis. The Puerto Rico Health Department ("PRHD") was tasked with developing regulations for the production, manufacturing, and sales of medical cannabis and medical cannabis products. In January of 2016, the

PRHD published their initial set of regulations governing the medical program. Puerto Rico permits the use of medical cannabis pills, creams, patches, tinctures, and whole plant cannabis for vaporization only. Smoking medical cannabis is prohibited in Puerto Rico. The program has a wide range of qualifying conditions including chronic pain, severe nausea, and migraines as well as cancer, HIV, AIDs, Crohn's disease and other conditions often included in state medical marijuana programs. Further regulations were promulgated by the Regulations of Puerto Rico Department of Health No. 8766 in July of 2017.

Puerto Rico has strict residency requirements for medical cannabis business ownership that stipulate the business entity must be held at least 51% by Puerto Rican residents. The medical marijuana program does not require cultivation and dispensing operations to be vertically integrated, but also does not prohibit a single entity from holding a cultivation, manufacturing, and dispensing license.

Oregon Summary

Oregon has both medical and adult-use marijuana programs. In 1998, Oregon voters passed a limited non-commercial patient/caregiver medical marijuana law with an inclusive set of qualifying conditions that include chronic pain. In 2013, the legislature passed, and governor signed, House Bill 3460 to create a regulatory structure for existing unlicensed medical marijuana businesses. However, the original regulations created by the Oregon Health Authority (“OHA”) after the passage of House Bill 3460 were minimal and only regulated storefront dispensaries, leaving cultivators and infused-product manufacturers within the unregulated patient/caregiver system.

On June 30, 2015, Gov. Kate Brown signed House Bill 3400 into law, which improved on the existing regulatory structure for medical marijuana businesses and created a licensing process for cultivators and processors. In November of 2014, Oregon voters passed Measure 91, “Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act”, creating a regulatory system for individuals 21 years of age and older to purchase marijuana for personal use from licensed marijuana businesses.

The Oregon Health Authority licenses and regulates medical marijuana businesses and the Oregon Liquor Control Commission (“OLCC”) licenses and regulates adult-use marijuana businesses. There are six distinct types of license types are available for medical and adult-use businesses: cultivation, manufacturing (“processing”), wholesaling, dispensing, testing and research. Vertical integration between cultivation, processing, and sales is permissible, but not required, for both medical and adult-use.

The law does not impose a limit on the number of licenses and applications are currently being accepted for both medical and adult-use businesses on a rolling basis. Local governments may restrict the number of both medical or adult-use marijuana businesses. Laws passed during the 2016 legislative session removed the two-year residency requirement that existed within House Bill 3400.

Washington Summary

Washington State has both medical and adult-use marijuana programs. The original medical law, passed by voters in 1998, allows physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and created a patient/caregiver system without explicitly permitting businesses. But, unlike Colorado, the legislature was unable to pass laws regulating the medical marijuana businesses that developed around 2008.

When Initiative 502 legalized marijuana for adults 21 years of age and older in 2012, it regulated adult-use marijuana businesses and left the unregulated medical marijuana establishments in a precarious situation. The Governor of Washington then signed, Senate Bill 5052 in 2015, which forced the closure of existing unregulated medical dispensaries and allows existing adult-use retail marijuana stores to apply for a “medical marijuana endorsement” to sell medical marijuana tax free to registered qualifying patients and their designated caregivers.

The Washington State Liquor and Cannabis Board (“WSLCB”) regulates adult-use marijuana businesses and those with a medical endorsement. The WSLCB licenses cultivation facilities, product manufacturing facilities (“processors”), retail stores, transportation licensees, and testing facilities. All individuals and entities considered a “true party of interest” in a marijuana business license must have at least six months of Washington residency.

Unlike many other states, Washington prohibits vertical integration between adult-use marijuana retailers and cultivators. Common ownership between cultivation and processors is permitted. A single entity, and/or principals

within an entity, are limited to no more than three marijuana producer licenses, and/or three marijuana processor licenses, or five retail marijuana licenses.

The WSLCB re-opens its application process for growers, processors or retail stores at its discretion, taking into consideration factors such as patient consumption data and population dynamics. The state is currently not accepting new applications for growers, processors or retail stores.

Nevada Summary

Nevada has a medical marijuana program and passed an adult-use legalization through the ballot box in November 2016. In 2000, Nevada voters passed a medical marijuana initiative allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and created a limited non-commercial medical marijuana patient/caregiver system. Senate Bill 374, which passed the legislature and was signed by the Governor in 2013, expanded this program and established a for-profit regulated medical marijuana industry.

The Nevada Division of Public and Behavioral Health licensed medical marijuana establishments up until July 1, 2017 when the state's medical marijuana program merged with adult-use marijuana enforcement under the Nevada Department of Taxation. In 2014, Nevada accepted medical marijuana business applications and a few months later the Division approved 182 cultivation licenses, 118 licenses for the production of edibles and infused products, 17 independent testing laboratories, and 55 medical marijuana dispensary licenses. The number of dispensary licenses was then increased to 66 by legislative action in 2015. The application process is merit-based, competitive, and is currently closed. Residency is not required to own or invest in a Nevada medical cannabis business. In addition, vertical integration is neither required nor prohibited. Nevada's medical law includes patient reciprocity, which permits medical patients from other states to purchase marijuana from Nevada dispensaries. Nevada also allows for dispensaries to deliver medical marijuana to patients.

Under Nevada's adult-use marijuana law, the Department of Taxation licenses marijuana cultivation facilities, product manufacturing facilities, distributors, retail stores and testing facilities. After merging medical and adult-use marijuana regulation and enforcement, the single regulatory agency is now known as the "Marijuana Enforcement Division of the Department of Taxation." For the first 18 months, applications to the Department for adult-use establishment licenses can only be accepted from existing medical marijuana establishments and existing liquor distributors for the adult-use distribution license.

In February 2017, the Nevada Department of Taxation announced plans to issue "early start" recreational marijuana establishment licenses in the summer of 2017. These licenses, beginning on July 1, 2017, allowed marijuana establishments holding both a retail marijuana store and dispensary license to sell their existing medical marijuana inventory as either medical or adult-use marijuana, and expired at the end of the year. Starting July 1, 2017, medical and adult-use marijuana have incurred a 15% excise tax on the first wholesale sale (calculated on the fair market value) and adult-use cannabis have incurred an additional 10% special retail marijuana sales tax in addition to any general state and local sales and use taxes.

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

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

Compliance with Applicable State Law in the United States

Each of the Company's investees that is involved in the U.S. marijuana industry (which are identified on the Company's material assets and investments set out in the Company's 2017 annual information form (the "AIF") as having "Direct" or "Indirect" involvement in the U.S. marijuana industry) (collectively, the "**Licensed Entities**") hold

licenses that are in good standing to cultivate, possess and/or distribute marijuana in its respective state in the United States. The Company is not aware of: (i) any non-compliance by any Licensed Entity with respect to its marijuana-related activities, or (ii) any notices of violation with respect to any Licensed Entity's marijuana-related activities by its respective regulatory authority. Further, each of the Company's investees currently classified as having "Direct" involvement in the U.S. marijuana industry (being the California Operators) is in compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state.

Except as otherwise disclosed in the AIF, for each of the Company's investees that is involved in the U.S. marijuana industry, is listed in the chart of the Company's material assets and investments set out in the AIF and classified as having anything other than "Direct" or "Indirect" involvement in the U.S. marijuana industry (including, for greater certainty, Rich Extracts and Natural Ventures) (the "**Non-Licensed Entities**"), the Company is not aware of: (i) any non-compliance by that Non-Licensed Entity with respect to its marijuana-related activities, or (ii) any notices of violation with respect to any Non-Licensed Entity's marijuana-related activities by its respective regulatory authority.

Canada

On August 24, 2016, the ACMPR was introduced to allow for reasonable access to cannabis for medical purposes for Canadians who have been authorized to use cannabis by their health care practitioner. The ACMPR will replace the Marijuana for Medical Purposes Regulations ("**MMPR**"), introduced in June 2013, reflecting the federal government's evolving view on medical marijuana policy. MMPR and the Marijuana Medical Access Regulations ("**MMAR**") are both legislative schemes that were important early steps in the Canadian government's legislative path towards legalizing and regulating medical marijuana.

Despite MMAR being repealed on March 31, 2014, and MMPR ceasing to be in effect on August 24, 2016; the marijuana medical research and patient treatment industries have grown rapidly. The introduction of ACMPR further regulates the production and distribution of medical cannabis, demonstrating Health Canada's commitment to improving the regulatory landscape surrounding medical marijuana use, in addition to ensuring that production occurs under secure and regulated commercial production facilities. Under the ACMPR, Canadians who have been authorized by their health care practitioner will continue to have the option of purchasing safe, quality-controlled cannabis from one of the 34 producers licensed by Health Canada. Canadians will also be able to produce a limited amount of cannabis for their own medical purposes, or designate someone to produce it for them.

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

- On April 13, 2017, Government of Canada introduced legislation to legalize, strictly regulate and restrict access to cannabis. The proposed *Cannabis Act* would create a strict legal framework for controlling the production, distribution, sale and possession of cannabis in Canada. Following Royal Assent, the proposed legislation would allow adults to legally possess and use cannabis. This would mean that possession of small amounts of cannabis would no longer be a criminal offence and would prevent profits from going into the pockets of criminal organizations and street gangs. The Bill would also, for the first time, make it a specific criminal offence to sell cannabis to a minor and create significant penalties for those who engage young Canadians in cannabis-related offences. In addition to legalizing and strictly regulating cannabis, the Government is toughening laws around alcohol- and drug-impaired driving. Under the Government's proposed legislation, new offences would be added to the *Criminal Code* to enforce a zero tolerance approach for those driving under the influence of cannabis and other drugs. Additionally, the proposed legislation would authorize new tools for police to better detect drivers who have drugs in their body. Subject to Parliamentary approval and Royal Assent, the Government of Canada intends to provide regulated and restricted access to cannabis in 2018.

- Several recommendations made by the Task Force reflected in the *Cannabis Act* could materially and adversely affect the business, financial condition and results of operations of the Company. These recommendations include, but are not limited to, permitting home cultivation, potentially easing barriers to entry into a Canadian recreational cannabis market and restrictions on advertising and branding. Their advice will be considered

by the Government of Canada as a new framework for recreational cannabis is developed and it remains possible that such developments could significantly and adversely affect the business, financial condition and results of operations of the Company.

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

- On October 3, 2017, the Parliamentary Standing Committee on Health proposed amendments to the *Cannabis Act*, which if approved would allow for cannabis edibles and concentrates to be available for sale within 12 months of the *Cannabis Act* coming into force. Health Canada launched a 60-day public consultation on the proposed approach to the regulation of cannabis on November 21, 2017. On March 22, 2018, the *Cannabis Act* passed its second reading at the Senate and was referred to the Standing Senate Committee on Social Affairs, Science and Technology.

RISK FACTORS

An investment in the securities of the Company is speculative and subject to risks and uncertainties. The occurrence of any one or more of these risks or uncertainties could have a material adverse effect on the value of any investment in the Company and the business, prospects, financial position, financial condition or operating results of the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair the Company's business operations.

Investors should carefully consider all information contained in the Company's public disclosures, and in particular should give special consideration to the risk factors under the section titled "Risk Factors" in the AIF, which may be accessed on the Company's SEDAR profile at www.sedar.com.

The risks and uncertainties described or incorporated by reference in this MD&A are not the only ones the Company may face. Additional risks and uncertainties that the Company is unaware of, or that the Company currently deems not to be material, may also become important factors that affect the Company. If any such risks actually occur, the Company's business, financial condition or results of operations could be materially adversely affected, with the result that the trading price of the common shares could decline and purchasers could lose all or part of their investment. Additionally, purchasers should consider the following risk factors:

- *Risks Specifically Related to the United States Regulatory System*

The Company's investments operate in a new industry which is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements.

The Company's investments incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company's investments and, therefore, on the Company's prospective returns. Further, the Company may be subject to a variety of claims and lawsuits. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business. The litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. A material adverse

impact on our financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of the Company's investments and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Company's investments' earnings and could make future capital investments or the Company's investments' operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

This MD&A involves an entity that is expected to continue to derive a portion of its revenues from the cannabis industry in certain states of the United States, which industry is illegal under United States federal law. While the Company's business activities are compliant with applicable state and local law, such activities remain illegal under United States federal law. CannaRoyalty is involved in the cannabis industry in the United States where local and state laws permit such activities or provide limited defenses to criminal prosecutions. Currently, the Company is indirectly and directly engaged in the manufacture and possession of cannabis in the medical and recreational cannabis marketplace in the United States. **The enforcement of relevant laws is a significant risk.**

Twenty-nine of the states in the United States have enacted comprehensive legislation to regulate the sale and use of medical cannabis. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a Schedule 1 controlled substance under the United States Controlled Substances Act of 1970. As such, cannabis-related practices or activities, including without limitation, the cultivation, manufacture, importation, possession, use or distribution of cannabis, are illegal under United States federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under United States federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company's operations and financial performance.

Because of the conflicting views between state legislatures and the federal government of the United States regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation, regulation, and enforcement. Unless and until the United States Congress amends the United States Controlled Substances Act with respect to cannabis or the Drug Enforcement Agency reschedules or de-schedules cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, which would adversely affect the current and future investments of the Company in the United States. As a result of the tension between state and federal law, there are a number of risks associated with the Company's existing and future investments in the United States.

For the reasons set forth above, the Company's existing interests in the United States cannabis market may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. It has been reported by certain publications in Canada that the Canadian Depository for Securities Limited may implement policies that would see its subsidiary, CDS Clearing and Depository Services Inc. ("CDS"), refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada's central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. The TMX Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, despite media reports to the contrary and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time.

On February 8, 2018, following discussions with the Canadian Securities Administrators ("CSA") and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("TMX MOU") with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The TMX MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the United States. The TMX MOU confirms, with respect to the clearing of listed

securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to effect a trade of the Common Shares through the facilities of a stock exchange. The Company has obtained eligibility with the Depository Trust Company (“DTC”) for its Common Share quotation on the OTCQB and such DTC eligibility provides another possible avenue to clear Common Shares in the event of a CDS ban.

The activities of CannaRoyalty’s investments are, and will continue to be, subject to evolving regulation by governmental authorities. The Company’s investments are directly or indirectly engaged in the medical and recreational cannabis industry in the United States, where local state law permits such activities, and in the legal medical cannabis industry in Canada, where recreational cannabis is not expected to be legalized until the Cannabis Act comes into force. The legality of the production, extraction, distribution and use of cannabis differs among North American jurisdictions.

CannaRoyalty’s investments have been focused in states that have legalized the recreational use of cannabis. Currently, the states of Alaska, California, Colorado, Maine, Massachusetts, Nevada, Oregon, Vermont, Washington and the District of Columbia have legalized recreational use of cannabis. Over half of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis. However, the U.S. federal government has not enacted similar legislation. As such, the cultivation, manufacture, distribution, sale and use of cannabis remains illegal under U.S. federal law.

Further, on January 4, 2018, U.S. Attorney General Jeff Sessions formally rescinded the standing U.S. Department of Justice federal policy guidance governing enforcement of marijuana laws, as set forth in a series of memos and guidance from 2009-2014, principally the Cole Memorandum. The Cole Memorandum generally directed U.S. Attorneys not to enforce the federal marijuana laws against actors who are compliant with state laws, provided enumerated enforcement priorities were not implicated. The rescission of this memo and other Obama-era prosecutorial guidance did not create a change in federal law as the Cole Memorandums were never legally binding; however, the revocation removed the DOJ’s guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandum’s guidelines should not be a prosecutorial priority. The federal government of the United States has always reserved the right to enforce federal law regarding the sale and disbursement of medical or recreational marijuana, even if state law sanctioned such sale and disbursement. Although the rescission of the above memorandums does not necessarily indicate that marijuana industry prosecutions are now affirmatively a priority for the DOJ, there can be no assurance that the federal government will not enforce such laws in the future.

Additionally, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that could make it extremely difficult or impossible to transact business in the cannabis industry. If the federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, the Company’s investments in such businesses would be materially and adversely affected notwithstanding the fact that the Company is not directly engaged in the sale or distribution of cannabis. Federal actions against any individual or entity engaged in the marijuana industry or a substantial repeal of marijuana related legislation could adversely affect the Company, its business and its investments.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum discussed above, on February 8, 2018 the CSA published a staff notice (Staff Notice 51-352) setting out the CSA’s disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry. The Company views this staff notice favourably, as it provides increased

transparency and greater certainty regarding the views of its exchange and its regulator of existing operations and strategic business plan as well as the Company's ability to pursue further investment and opportunities in the United States.

CannaRoyalty's funding of the activities of investments involved in the medical and recreational cannabis industry through loans, royalties or other forms of investment, may be illegal under the applicable federal laws of the United States and other applicable law. There can be no assurances the federal government of the United States or other jurisdictions will not seek to enforce the applicable laws against the Company. The consequences of such enforcement would be materially adverse to the Company and the Company's business and could result in the forfeiture or seizure of all or substantially all of the Company's assets.

The concepts of "medical cannabis" and "retail cannabis" do not exist under United States federal law because the U.S. Controlled Substances Act classifies "marijuana" as a Schedule I drug. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis remain illegal under United States federal law. Although the Company's activities are compliant with applicable United States state and local law, strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under United States federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company's operations and financial performance.

Violations of any United States federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the United States federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

There is still uncertainty surrounding the Trump Administration and Attorney General Jeff Sessions and their influence and policies in opposition to the cannabis industry as a whole.

Many factors could cause the Company's actual results, performances and achievements to differ materially from those expressed or implied by the forward-looking statements and forward-looking information, including without limitation, the following factors, which are discussed in greater detail in the annual information form filed with securities regulators and available on www.sedar.com, which risk factors are incorporated by reference into this document and should be reviewed in detail by all readers:

The Company has several investments into businesses that operate in the U.S., where cannabis is federally illegal;

The activities of the Company are subject to evolving regulation that is subject to changes by governmental authorities in Canada and the U.S.;

Third parties with which the Company does business, including banks and other financial intermediaries, may perceive that they are exposed to legal and reputational risk because of the Company's cannabis business activities;

The Company's ability to repatriate returns generated from investments in the U.S. may be limited by anti-money laundering laws;

Under Section 280E of the Internal Revenue Code, normal business expenses incurred in the business of selling marijuana and its derivatives are not deductible in calculating income tax liability. Therefore, the Company

will be precluded from claiming certain deductions otherwise available to non-marijuana businesses. As a result, an otherwise profitable, business may in fact operate at a loss after taking into account its income tax expenses. There is no certainty that the Company will not be subject to 280E in the future, and accordingly, there is no certainty that the impact that 280E has on the Company's margins will ever be reduced;

Federal prohibitions result in marijuana businesses being potentially restricted from accessing the U.S. federal banking system, and the Company and its subsidiaries may have difficulty depositing funds in federally insured and licensed banking institutions. This may lead to further related issues, such as the potential that a bank will freeze the Company's accounts and risks associated with uninsured deposit accounts. There is no certainty that Company will be able to maintain its existing accounts or obtain new accounts in the future; and

Although the TMX MOU confirms that there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, there can be no guarantee that this approach to regulation will continue in the future.

The Company's investments in the United States are subject to applicable anti-money laundering laws and regulations.

The Company is subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the U.S. Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy.

Despite these laws, FinCEN issued a memorandum on February 14, 2014 outlining the pathways for financial institutions to bank marijuana businesses in compliance with federal enforcement priorities (the "**FinCEN Memorandum**"). The FinCEN Memorandum states that 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 relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the United States Controlled Substances Act on the same day (the "2014 Cole Memo"). The 2014 Cole Memo has been rescinded as of January 4, 2018, along with the Cole Memorandum, removing guidance that enforcement of applicable financial crimes was not a DOJ priority.

Attorney General Sessions' revocation of the Cole Memorandum and the 2014 Cole Memo has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the 2014 Cole Memo and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum appears to remain in effect as a standalone document which explicitly lists the eight enforcement priorities originally cited in the rescinded Cole Memorandum. Although the FinCEN Memorandum remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance, it is unclear whether the current administration will continue to follow the guidelines of the FinCEN Memorandum.

The Company's investments, and any proceeds thereof, are considered proceeds of crime due to the fact that cannabis remains illegal federally in the United States. This restricts the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while the Company has no current intention to declare or pay dividends on its shares in the foreseeable future, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

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

For the reasons set forth above, the Company's existing investments in the United States, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the United States or any other jurisdiction, in addition to those described herein.

Although the TMX MOU has confirmed that there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to effect a trade of the Common Shares through the facilities of a stock exchange. The Company has obtained eligibility with the Depository Trust Company ("DTC") for its Common Share quotation on the OTCQB and such DTC eligibility provides another possible avenue to clear Common Shares in the event of a CDS ban.

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Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations.

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of medical cannabis under the Access to Cannabis for Medical Purposes Regulations, investors are cautioned that in the United States, cannabis is largely regulated at the state level. To the Company's knowledge, there are to date a total of 46 states, plus the District of Columbia, that have legalized cannabis in some form, including Arizona and Florida as noted above in connection with the investment in AltMed. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act in the United States and as such, may be in violation of federal law in the United States.

As previously stated, the United States Congress has passed appropriations bills (currently the "**Leahy Amendment**") each of the last four years to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. The 2018 Consolidated Appropriations Act was passed by Congress on March 23, 2018, and included the re-authorization of the Leahy Amendment. It will continue in effect until September 30, 2018, the last day of FY 2018.

American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the U.S. Controlled Substances Act, any individual or business—even those that have fully complied with state law—could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the Leahy Amendment in the 2019 budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government will have the authority to prosecute individuals for violations of the law before it lacked funding under the five-year statute of limitations applicable to non-capital Controlled Substances Act violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations, and provide no protection against businesses operating in compliance with a state's recreational cannabis laws.

As previously stated, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

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

- *Change in Laws, Regulations and Guidelines*

Each investment's current and proposed operations are subject to a variety of laws, regulations and guidelines, including, but not limited to, those relating to the manufacture, management, transportation, storage and disposal of cannabis, as well as laws and regulations relating to health and safety (including those for consumable products), the conduct of operations and the protection of the environment. These laws and regulations are broad in scope and subject to evolving interpretations. If any changes to such laws, regulations and guidelines occur, which are matters beyond the control of the Company, the Company may incur significant costs in complying with such changes or it may be unable to comply therewith, which in turn may result in a material adverse effect on the Company's business, financial condition and results of operation. In addition, violations of these laws, or allegations of such violations, could disrupt certain aspects of the Company's business plan and result in a material adverse effect on certain aspects of its planned operations.

Changes in regulations, more vigorous enforcement thereof, the imposition of restrictions on the Company's ability to operate in the U.S. as a result of the federally illegal nature of cannabis in the U.S. or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Additional Financing

The continued development of the Company will require additional financing. There is no guarantee that the Company will be able to achieve its business objectives. The Company intends to fund its future business activities by way of additional offerings of equity and/or debt financing as well as through anticipated positive cash flow from operations in the future. The failure to raise or procure such additional funds or the failure to achieve positive cash flow could result in the delay or indefinite postponement of current business objectives. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, will be on terms acceptable to the Company. If additional funds are raised by offering equity securities, existing shareholders could suffer significant dilution. Any debt financing secured in the future could involve the granting of security against assets of the Company and also contain restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. The Company will require additional financing to fund its operations until positive cash flow is achieved.

- *Reliance on third-party suppliers, manufacturers and contractors*

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

time, to decline or withdraw services necessary for the Company's operations. Loss of these suppliers, manufacturers and contractors may have a material adverse effect on the Company's business and operational results.

- *Investments May be Pre-Revenue*

- The Company may make investments in entities that have no significant sources of operating cash flow and no revenue from operations. As such, the Company's investments are subject to risks and uncertainties that new companies with no operating history may face. In particular, there is a risk that the Company's investments will not be able to:

- implement or execute their current business plan, or create a business plan that is sound;
- maintain their anticipated management team; and/or
- raise sufficient funds in the capital markets or otherwise to effectuate their business plan.

- If the Company's investments cannot execute any one of the foregoing, their businesses may fail, which could have a materially adverse impact on the business, financial condition and operating results of the Company.

- *Lack of Control Over Operations of Investments*

- The Company relies on its investments to execute on their business plans and produce medical and/or recreational cannabis products, and holds contractual rights and minority equity interest relating to the operation of the Company's investments. The operators of the Company's investments have significant influence over the results of operations of the Company's investments. Further, the interests of the Company and the operators of the Company's investments may not always be aligned. As a result, the cash flows of the Company are dependent upon the activities of third parties which creates the risk that at any time those third parties may: (i) have business interests or targets that are inconsistent with those of the Company; (ii) take action contrary to the Company's policies or objectives; (iii) be unable or unwilling to fulfill their obligations under their agreements with the Company; or (iv) experience financial, operational or other difficulties, including insolvency, which could limit or suspend a third party's ability to perform its obligations. In addition, payments may flow through the Company's investments, and there is a risk of delay and additional expense in receiving such revenues. Failure to receive payments in a timely fashion, or at all, under the agreements to which the Company is entitled may have a material adverse effect on the Company. In addition, the Company must rely, in part, on the accuracy and timeliness of the information it receives from the Company's investments, and uses such information in its analyses, forecasts and assessments relating to its own business. If the information provided by investment entities to the Company contains material inaccuracies or omissions, the Company's ability to accurately forecast or achieve its stated objectives, or satisfy its reporting obligations, may be materially impaired.

- *Private Companies and Illiquid Securities*

- The Company may invest in securities of private companies. In some cases, the Company may be restricted by contract or generally by applicable securities laws from selling such securities for a period of time. Such securities may not have a ready market and the inability to sell such securities or to sell such securities on a timely basis or at acceptable prices may impair the Company's ability to exit such investments when the Company considers it appropriate.

- *Unfavourable Publicity or Consumer Perception*

The regulated cannabis industry in the United States and Canada is at an early stage of its development. The Company believes the medical and recreational cannabis industry is highly dependent on consumer perception regarding the safety and efficacy of recreational and medical cannabis. Consumer perceptions regarding legality, morality, consumption, safety, efficacy and quality of cannabis are mixed and evolving. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the cannabis market or any particular product, or consistent with earlier publicity. Future research

reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for cannabis and on the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding cannabis in general, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect on the business of the Company. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consumer such products legally, appropriately or as directed.

Public opinion and support for medical and recreational cannabis use has traditionally been inconsistent and varies from jurisdiction to jurisdiction. Legalization of medical and recreational cannabis remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, legalization of medical marijuana as opposed to legalization in general).

- Each of CannaRoyalty's investments' ability to gain and increase market acceptance of its products may require it, and/or CannaRoyalty, to establish and maintain brand names and reputation. Federal protection of trademarks may be difficult or impossible for CannaRoyalty to obtain in the United States, given the federal illegality of cannabis and the necessity of making "lawful use" of the trademark in commerce to obtain federal protection. While state-level protection is available, this nevertheless increases the risks in protecting CannaRoyalty's brands until such time as the Controlled Substances Act is amended by federal legislation. Furthermore, in order to obtain such protection, substantial expenditures on product development, strategic relationships and marketing initiatives may be required. There can be no assurance that these initiatives will be successful and their failure may have an adverse effect on the Company.

- *Limited Operating History*

CannaRoyalty and its investments have varying and limited operating histories, which can make it difficult for investors to evaluate the Company's operations and prospects and may increase the risks associated with investment into the Company.

CannaRoyalty has not generated significant profits or revenues in the periods covered by its financial statements included herein, and, as a result, has only a very limited operating history upon which its business and future prospects may be evaluated. Although the Company expects to generate some revenues from its investments, many of the investments will only start generating revenues in future periods and accordingly, the Company is therefore expected to remain subject to many of the risks common to early-stage enterprises for the foreseeable future, including challenges related to laws, regulations, licensing, integrating and retaining qualified employees; making effective use of limited resources; achieving market acceptance of existing and future solutions; competing against companies with greater financial and technical resources; acquiring and retaining customers; and developing new solutions. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

- *Competition*

The Company competes with other companies for financing and investment opportunities in the cannabis industry. Some of these companies may possess greater financial resources than the Company. Such competition may result in the Company being unable to enter into desirable strategic agreements or similar transactions, to recruit or retain qualified employees or to acquire the capital necessary to fund its investments. Existing or future competition in the cannabis industry, including, without limitation, the entry of large multinational entities into the industry, could materially adversely affect the Company's prospects for entering into additional agreements in the future. In addition, the Company currently competes with other cannabis streaming and royalty companies, some of which may possess greater financial resources than the Company.

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and experience than the Company. Increased competition by larger and better financed competitors, including competitors to the Company's investments, could materially and adversely affect the business, financial condition and results of operations of the Company.

It is possible that larger competitors could establish price setting and cost controls which would effectively “price out” certain of the Company’s investments operating within and in support of the medical and recreational cannabis industry.

Because of the early stage of the industry in which the Company will operate, the Company expects to face additional competition from new entrants. To become and remain competitive, the Company will require research and development, marketing, sales and support. CannaRoyalty may not have sufficient resources to maintain research and development, marketing, sales and support efforts on a competitive basis, which could materially and adversely affect the business, financial condition and results of operations of the Company.

- *Banking*

Since the production and possession of cannabis is currently illegal under U.S. federal law, it is possible that banks may refuse to open bank accounts for the deposit of funds from businesses involved with the cannabis industry. The inability to open bank accounts with certain institutions could materially and adversely affect the business of the Company.

- *Additional Financing*

CannaRoyalty may require equity and/or debt financing to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms that are commercially viable. CannaRoyalty’s inability to raise financing to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability.

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

- *Currency Fluctuations*

CannaRoyalty’s revenues and expenses are expected to be primarily denominated in U.S. dollars, and therefore may be exposed to significant currency exchange fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar may have a material adverse effect on the Company’s business, financial condition and operating results. CannaRoyalty may, in the future, establish a program to hedge a portion of its foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements; however, there can be no assurance that such a program will effectively mitigate currency risks.

- *Risks Associated with Acquisitions*

As part of the Company’s overall business strategy, the Company intends to pursue select strategic acquisitions, which would provide additional product offerings, vertical integrations, additional industry expertise, and a stronger industry presence in both existing and new jurisdictions. The success of any such acquisitions will depend, in part, on the ability of the Company to realize the anticipated benefits and synergies from integrating those companies into the businesses of the Company. Future acquisitions may expose it to potential risks, including risks associated with: (a) the integration of new operations, services and personnel; (b) unforeseen or hidden liabilities; (c) the diversion of resources from the Company’s existing business and technology; (d) potential inability to generate sufficient revenue to offset new costs; (e) the expenses of acquisitions; and (f) the potential loss of or harm to relationships with both employees and existing users resulting from its integration of new businesses. In addition, any proposed acquisitions may be subject to regulatory approval.

While the Company intends to conduct reasonable due diligence in connection with such strategic acquisitions, there are risks inherent in any acquisition. Specifically, there could be unknown or undisclosed risks or liabilities of such companies for which the Company is not sufficiently indemnified. Any such unknown or undisclosed

risks or liabilities could materially and adversely affect the Company's financial performance and results of operations. The Company could encounter additional transaction and integration related costs or other factors such as the failure to realize all of the benefits from the acquisition. All of these factors could cause dilution to the Company's earnings per share or decrease or delay the anticipated accretive effect of the acquisition and cause a decrease in the market price of the CannaRoyalty shares.

The Company may not be able to successfully integrate and combine the operations, personnel and technology infrastructure of any such strategic acquisition with its existing operations. If integration is not managed successfully by the Company's management, the Company may experience interruptions in its business activities, deterioration in its employee and customer relationships, increased costs of integration and harm to its reputation, all of which could have a material adverse effect on the Company's business, financial condition and results of operations.

Passive Foreign Investment Company

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

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

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

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

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

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

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

- *Bankruptcy or Insolvency of Investments*

- There is no guarantee that the Company will be able to effectively enforce any interests it may have in the Company's investments. A bankruptcy or other similar event related to an investment of CannaRoyalty that precludes a party from performing its obligations under an agreement may have a material adverse effect on the Company. Further, as an equity investor, should an investment have insufficient assets to pay its liabilities, it is possible that other liabilities will be satisfied prior to the liabilities owed to the Company. In addition, bankruptcy or other similar proceedings are often a complex and lengthy process, the outcome of which may be uncertain and could result in a material adverse effect on the Company.

- *Research and Market Development*

Although the Company, itself and through its investments, is committed to researching and developing new markets and products and improving existing products, there can be no assurances that such research and market development activities will prove profitable or that the resulting markets and/or products, if any, will be commercially viable or successfully produced and marketed.

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the medical cannabis industry domestically in Canada and in other international jurisdictions.

The Company is operating its business in a relatively new medical cannabis industry and market. Accordingly, there are no assurances that this industry and market will continue to exist or grow as currently estimated or anticipated, or function and evolve in a manner consistent with management's expectations and assumptions. Any event or circumstance that affects the recreational or medical cannabis industry or market could have a material adverse effect on the Company's business, financial condition and results of operations. Due to the early stage of the regulated cannabis industry, forecasts regarding the size of the industry and the sales of products by the Company's investments are inherently difficult to prepare with a high degree of accuracy and reliability. A failure in the demand for products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company's investments, and consequently, the Company.

Reliance on Management

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements or management agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Qualified individuals are in high demand, and the Company may incur significant costs to attract and retain them. In addition, the Company's lean management structure may be strained as the Company pursues growth opportunities in the future. The loss of the services of such individuals or an inability to attract other suitably qualified persons when needed, could have a material adverse effect on the Company's ability to execute on its business plan and strategy, and the Company may be unable to find adequate replacements on a timely basis, or at all.

CannaRoyalty's future success depends substantially on the continued services of its executive officers, its key research and development personnel and its key growth and extraction personnel. If one or more of its executive officers or key personnel were unable or unwilling to continue in their present positions, the Company might not be able to replace them easily or at all. In addition, if any of its executive officers or key employees joins a competitor or forms a competing company, the Company may lose know-how, key professionals and staff members. These executive officers and key employees could compete with and take customers away.

- *Operation Permits and Authorizations*

The Company's investments may not be able to obtain or maintain the necessary licenses, permits, authorizations or accreditations, or may only be able to do so at great cost, to operate their respective businesses. In addition, the Company's investments may not be able to comply fully with the wide variety of laws and regulations applicable to the cannabis industry. Failure to comply with or to obtain the necessary licenses, permits, authorizations or accreditations could result in restrictions on an investment's ability to operate in the cannabis industry, which could have a material adverse effect on the Company's business.

- *Liability, Enforcement Complaints, etc.*

CannaRoyalty's participation in the cannabis industry may lead to litigation, formal or informal complaints, enforcement actions, and inquiries by various federal, state, or local governmental authorities against the Company or its investments. Litigation, complaints, and enforcement actions involving either of the Company or its investments could consume considerable amounts of financial and other corporate resources, which could have an adverse effect on the Company's future cash flows, earnings, results of operations and financial condition.

Product Liability

Certain of the Company's investments manufacture, process and/or distribute products designed to be ingested by humans, and therefore face an inherent risk of exposure to product liability claims, regulatory action and litigation if products are alleged to have caused significant loss or injury. In addition, previously unknown adverse reactions resulting from human consumption of cannabis alone or in combination with other medications or substances could occur. A product liability claim or regulatory action against an investment entity of CannaRoyalty could result in increased costs, could adversely affect the Company's reputation, and could have a material adverse effect on the results of operations and financial condition of the Company.

Reliance on Key Inputs

The cultivation, extraction and processing of cannabis and derivative products is dependent on a number of key inputs and their related costs including raw materials, electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results of the Company's investments. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, the relevant investment entity might be unable to find a replacement for such source in a timely manner or at all. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of an investment, and consequently, the Company.

- *Resale of Shares*

Although the Common Shares are listed on the CSE, there can be no assurance that, an active and liquid market for the Company Shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company. In addition, there can be no assurance that the publicly-traded stock price of the Company will be high enough to create a positive return for investors. Further, there can be no assurance that the stock of the Company will be sufficiently liquid so as to permit investors to sell their position in the Company without adversely affecting the stock price. In such event, the probability of resale of the Company's shares would be diminished.

- *Price Volatility of Publicly Traded Securities*

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continuing fluctuations in price will not occur. It may be anticipated that any quoted market for the shares of CannaRoyalty will be subject to market trends generally, notwithstanding any potential success of CannaRoyalty in creating revenues, cash flows or earnings. The value of the Company's shares will be affected by such volatility. An active public market for the Company's shares might not develop or be sustained. If an active public market for the Company's shares does not develop, the liquidity of a shareholder's investment may be limited and the share price may decline.

- *Management of Growth*

CannaRoyalty may experience a period of significant growth in the number of personnel that will place a strain upon its management systems and resources. Its future will depend in part on the ability of its officers and other key employees to implement and improve financial and management controls, reporting systems and procedures on a timely basis and to expand, train, motivate and manage the workforce. CannaRoyalty's current and planned personnel, systems, procedures and controls may be inadequate to support its future operations.

Dividends

CannaRoyalty has not paid dividends in the past, and the Company does not anticipate paying any dividends in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

Any decision to declare and pay dividends in the future will be made at the discretion of the Company's board of directors and will depend on, among other things, financial results, cash requirements, contractual restrictions and other factors that the Company's board of directors may deem relevant. As a result, investors may not receive any return on an investment in the Common Shares unless they sell their shares of the Company for a price greater than that which such investors paid for them.

- *Intellectual Property*

The success of the Company will depend, in part, on the ability of the Company's investments to maintain and enhance trade secret protection over the various existing and potential proprietary techniques and processes of the Company's investments. The Company's investments may be vulnerable to competitors who develop competing technology, whether independently or as a result of acquiring access to the proprietary products and trade secrets of the Company's investments. In addition, effective future patent, copyright and trade secret protection may be unavailable or limited in certain foreign countries and may be unenforceable under the laws of certain jurisdictions.

In addition, other parties may claim that an investment's products infringe on their proprietary and perhaps patent protected rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, legal fees, result in injunctions, temporary restraining orders and/or require the payment of damages.

- *Insurance Coverage*

CannaRoyalty will require insurance coverage for a number of risks. Although the management of the Company believes that the events and amounts of liability covered by its insurance policies will be reasonable, taking into account the risks relevant to its business, and the fact that agreements with users contain limitations of liability, there can be no assurance that such coverage will be available or sufficient to cover claims to which the Company may become subject. If insurance coverage is unavailable or insufficient to cover any such claims, the Company's financial resources, results of operations and prospects could be adversely affected.

- *Costs of Maintaining a Public Listing*

As a public company, there are costs associated with legal, accounting and other expenses related to regulatory compliance. Securities legislation and the rules and policies of the CSE and the OTC require listed companies to, among other things, adopt corporate governance and related practices, and to continuously prepare and

disclose material information, all of which add to a company's legal and financial compliance costs. CannaRoyalty may also elect to devote greater resources than it otherwise would have as a private company on communication and other activities typically considered important by publicly traded companies.

Litigation

CannaRoyalty may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the market price for CannaRoyalty Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant resources. Litigation may also create a negative perception of the Company's brand.

- *Operational Risks*

CannaRoyalty and its investments may be affected by a number of operational risks and may not be adequately insured for certain risks, including: labour disputes; catastrophic accidents; fires; blockades or other acts of social activism; changes in the regulatory environment; impact of non-compliance with laws and regulations; natural phenomena, such as inclement weather conditions, floods, earthquakes and ground movements. There is no assurance that the foregoing risks and hazards will not result in damage to, or destruction of, the Company's investments' properties, grow facilities and extraction facilities, personal injury or death, environmental damage, adverse impacts on the Company's investments' operations, costs, monetary losses, potential legal liability and adverse governmental action, any of which could have an adverse impact on the Company's future cash flows, earnings and financial condition on the Company. Also, the Company's investments may be subject to or affected by liability or sustain loss for certain risks and hazards against which they may elect not to insure because of the cost. This lack of insurance coverage could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

Holding Company

CannaRoyalty is a holding company and essentially all of its assets are the capital stock of its material subsidiaries. As a result, investors in CannaRoyalty are subject to the risks attributable to its subsidiaries. Consequently, CannaRoyalty's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and investments and the distribution of those earnings to CannaRoyalty. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of CannaRoyalty's material subsidiaries, holders of indebtedness and trade creditors may be entitled to payment of their claims from the assets of those subsidiaries before CannaRoyalty.

Difficulty Implementing Business Strategy

The growth and expansion of the Company is heavily dependent upon the successful implementation of its business strategy. There can be no assurance that the Company will be successful in the implementation of its business strategy.

- *Conflicts of Interest*

Certain of the Company's directors and officers are, and may continue to be, involved in other business ventures through their direct and indirect participation in, among other things, corporations, partnerships, joint ventures, that may become potential competitors of the technologies, products and services the Company intends to provide. Situations may arise in connection with potential acquisitions or opportunities where the other interests of these directors and officers conflict with or diverge from the Company's interests. In accordance with applicable corporate law, directors who have a material interest in or who are parties to a material contract or a proposed material contract with the Company are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the transaction. In addition, the directors and officers are required to act

honestly and in good faith with a view to the Company's best interests. However, in conflict of interest situations, the Company's directors and officers may owe the same duty to another company and will need to balance their competing interests with their duties to the Company. Circumstances (including with respect to future corporate opportunities) may arise that may be resolved in a manner that is unfavourable to the Company.

- *Available Talent Pool*

As the Company grows, it will need to hire additional human resources to continue to develop the business. However, experienced talent in the areas of medical marijuana research and development, growing marijuana and extraction is difficult to source, and there can be no assurance that the appropriate individuals will be available or affordable to the Company. Without adequate personnel and expertise, the growth of the Company's business may suffer.

Risk that we will not succeed in securing or transferring the Rich Extracts license.

After Mr. R. Wilkinson, the principal of Rich Extracts, was arrested, the Oregon Liquor Control Commission (OLCC) suspended the Rich Extracts license. Although CannaRoyalty has contacted the OLCC and state authorities to ensure the license is not permanently revoked, there is no certainty that the license suspension will be lifted and/or that CannaRoyalty will be successful in acquiring control or direction over the license.

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

Risk of criminal charges against CRZ

Mr. Wilkinson, the principal of Rich Extracts, was arrested in Nebraska for possession of marijuana with intent to distribute. The possession and distribution of marijuana are illegal in Nebraska. Although CannaRoyalty was unaware of Mr. Wilkinson's criminal activities, there is a risk that CannaRoyalty could face allegations, criminally or otherwise, in connection with Mr. Wilkinson actions.