



May 22, 2017

**Four months of solid progress**

**On our way to:**

- **4 states, two of which are adult use**
- **10 dispensaries**
- **>9 million grams per annum cultivation capacity**
- **>1.2 million grams per annum high-margin concentrates production capacity**
- **Strong revenue growth and significant profitability**

Dear Shareholders,

It has been four months since The Canadian Bioceutical Corporation (“BCC”) closed its first acquisition, an event that kick-started the execution of our aggressive expansion strategy into the rapidly growing U.S. cannabis market. Since then, much has happened and an incredible amount of progress has been made in a short period of time.

I wanted to use this opportunity to provide you with an overview of what we have achieved since the close of our important first fundraise, as well as spend a little time discussing what the coming quarters for BCC are expected to look like.

**Growth Strategy**

In the early part of 2016, it became clear to us that the U.S. market, with its tremendous growth and fragmented nature, provided an extraordinary opportunity for a well-capitalized company to execute on a roll-up strategy. While companies are built on creating solid, sustainable revenue and earnings growth, our business plan also involved an arbitrage strategy, as we intended to raise funds based on our Canadian capitalization (valuations of Canadian publicly-listed cannabis companies had increased dramatically during 2016) and deploy these funds in the U.S. by acquiring companies which, for the most part, have less access to expansion capital, are limited by single-state business focus, are often smaller “mom and pop” operations and consequently attract a much lower relative valuation.

Our growth strategy crystalized when I met Elizabeth Stavola at a cannabis convention in the U.S., and found that our respective business models were complimentary. Beth required access to capital to fuel further growth of her business plan, a model which included a multi-state strategy, while we were looking to identify the ideal acquisition to fully enter into the U.S. cannabis space and to create the foundation for a multi-state expansion.

Beth had built a successful business in Arizona from scratch, with two Health for Life dispensaries and an award-winning cannabis concentrates brand, Melting Point Extracts (“MPX”). Currently, MPX products are carried by over 50% of the dispensaries active in Arizona.

In addition, Beth, along with two partners, obtained a cultivation and production license in Nevada and established a wholesale business, leveraging the MPX brand.

### **Arizona Market**

Arizona is a very interesting market. Even though it voted (marginally) against legalization of adult use in November 2016, it now has more than 125,000 cannabis card-holders, a market-size very similar to the entire Canadian market.

The current legislative framework limits the number of market participants, unlike Colorado where hundreds of cultivators, producers and dispensaries are active. Furthermore, Arizona allows seed-to-sale integrated businesses, providing us with: (a) the capacity to serve this rapidly growing market, (b) strict control over product quality, and (c) the ability to leverage the quality of our products and expand revenues through wholesale activities.

### **Initial Arizona Acquisition**

To make a long story short, we decided to amalgamate BCC and the Arizona operations and, in January, 2017, in conjunction with the closing of our US\$27 million placement arranged through London UK-based Chrystal Capital Partners LLP, we completed the acquisition of the Arizona assets, a deal that included a binding option to acquire a 51% interest in Beth's Nevada business. While we can only consolidate the financial results of the Arizona business as of January 1, 2017 in our March 31, 2017 audited results (which will be released at the end of July, 2017), its quarterly numbers will provide a good indication of how this business's earning should develop in the coming months.

In Arizona, we employ people with deep expertise in cultivation and production, as well as staff with decades of retail experience. Our cannabis consultants, who are the people on the front-line, interacting with our customers on a day-to-day basis, are very knowledgeable about the efficacy of specific cannabis strains and the dosages best-suited for the treatment of various health conditions. These experienced and well-trained staff members are one of the key reasons, combined with the high quality and breadth of our product offerings, that people come back to our dispensaries time and again.

Attracting customers to our dispensaries is facilitated by the fact that we can run very active marketing programs, both in print and social media. This is a big difference from the restrictive advertising regulations in Canada, and helps us to establish a strong brand, both in Arizona and in the other states in which we will be active.

As I mentioned, the Arizona acquisition was intended to be a platform for growth by BCC. Leveraging the Arizona operations and our access to capital, we are working to capitalize on the current window of opportunity in the U.S., a window during which the valuation of acquisition targets remains relatively low.

### **Second Arizona Acquisition**

Our next step involved the addition of a third license to our Arizona portfolio, with which we intend to locate a third dispensary in the Greater Phoenix Area. Construction planning of this new dispensary, which we intend to locate at a high-traffic commercial location, is in process. We estimate the costs to develop the new dispensary, including building acquisition, at approximately US\$1.2 million, and we expect the new dispensary to be operational in October, 2017. Assuming profitability levels will be consistent with

those of our other Arizona dispensaries, the pay-back period should be very short, while at the same time further enhancing the visibility of the Health for Life brand.

### **Third Arizona Acquisition**

Recently, we announced the signing of a non-binding Letter of Intent to acquire yet another business in Arizona. Like Beth's operations, the new acquisition is already profitable. Furthermore, applying our best practices in cannabis cultivation, production and dispensary operation, we believe we can drive further growth and enhance profit margins in this new venture. The new transaction, when completed, will add a fourth dispensary under the Health or Life brand in a state with less than 100 dispensaries in total.

### **Expansion of Cultivation and Production Capacity in Arizona**

Supplying an expanding network of dispensaries with high-quality product requires the scaling-up of our cultivation and production, which we will be launching from our new Mesa North location. We recently moved this dispensary, which was doing well, from a non-descript, low-traffic area, to a more commercial-style building on a major thorough-fare in an area with higher population and traffic density.

Not only do we now have a new dispensary, professionally-designed to be the architectural model for future Health for Life branded dispensaries, we also have the space and ability to double our Arizona cultivation capacity to 3.2 million grams per annum. At this location, we expect to deploy an innovative growing technology in the form of Roto-Grow, a low footprint, low-cost, high-yielding technology, which we anticipate will bring production costs to, or below, the US\$1 per gram mark.

### **Multi-state expansion**

With the recently-announced US\$37MM debt/equity combination, we have also been very active outside of the state of Arizona, executing our strategy to expand the Health for Life and MPX footprints into a dominant, multi-state brand by applying our best practices in cannabis cultivation, production and dispensary operation.

#### **Maryland Acquisitions**

Another market that is expected to be receptive to early movers is Maryland, where we have executed Letters of Intent to acquire three management companies licensed to manage three new dispensaries (out of a total of 109 dispensary licenses granted state-wide), all in the populous Baltimore/Bethesda region. As well, we are also acquiring one of only 15 production licenses granted in the state.

#### **Massachusetts Acquisition**

By the end of May, we are expecting to complete the acquisition of a controlling-interest in a cannabis operation that supports cultivation, production and up to three dispensaries in Massachusetts which is implementing full adult ("i.e. recreational") use, and is a sizeable market by itself, with approximately 6.8 million people. Moreover, the five adjacent states (with a population of almost 26 million) have not yet legalized adult use, and it is reasonable to anticipate "cannabis tourism", similar to the experience in Colorado, to be a strong driver of market growth. As is the case in Arizona, the number of cannabis enterprises in Massachusetts is regulated and the new adult use legislation will provide an early-mover advantage to licensees such as those we are acquiring. ArcView, the premier cannabis research agency,

projects the Massachusetts market to grow to over US\$1 billion in the next few years, providing a very significant opportunity for an early-mover, like BCC, to establish considerable market share. We have been collaborating with this licensee with the build-out of a 40,000-sq. ft. cultivation/production operation in Massachusetts, which at full capacity should produce some 2.25 million grams of cannabis per annum, as well as 500,000 gram per annum of high-margin concentrates.

### Nevada Acquisition

Finally, and following from recent legislative initiatives in Nevada, we have also just announced that we are completing an early exercise of our option to acquire Beth's partial interest in the Nevada business referenced above, and have successfully negotiated an agreement with the remaining shareholders so as to assume a 100% control of the operation. Nevada, a market which is fast-tracking the implementation of adult-use, under the state's "Early-Start" program commencing July 1<sup>st</sup> of this year, is granting early-mover advantage to current licensees in good standing. This business, based in the Las Vegas area, has two licenses, a cultivation and a production license and, for now, will be focused exclusively on wholesaling to dispensaries throughout the state of Nevada. Its products include high-end flower, MPX concentrates, as well as "Lucky Kitchen" edibles produced at its state-of-the-art professional kitchen facility. BCC is also applying for a retail dispensary license that, when and if granted, will allow us to sell retail products directly to consumers. Cultivation and production capacity at the Nevada facility is approximately 1.6 million grams of flower and 85,000 grams of concentrate per annum respectively.

### Next Steps

Once BCC completes the aforementioned acquisitions in Arizona, Maryland, Massachusetts and Nevada, we will focus on asset development, including both the build-out of cultivation and production capacity and the dispensaries, as well as implementing, at these various new locations, the best practices established at our Arizona and Nevada (once acquired) operations. We are also aiming to generate substantial organic growth from our current locations, introducing innovative growing and extraction technologies (such as Roto-Grow), launching aggressive marketing campaigns and generally exploring ways of further improving operational cost efficiencies.

With these combined operations, BCC is progressing towards creating one of the largest cannabis enterprises in the U.S., with 10 dispensaries, over 9 million grams per annum of cultivation and over 1.2million grams per annum of high-margin concentrates production:

### 2018

In 2018, we will be targeting expansion into several other states as well as continuing our efforts to secure a Canadian license.

### **U.S. Political Environment**

We should also take this opportunity to address the level of apprehension that some investors have with respect to the U.S. market. On the one hand, this concern appears to be driven by the perceived uncertainty and unpredictability created by occasional sound-bites from some members of the Trump administration. We, and we believe others who are active in the space, consider the political risk related to the Trump administration to be minimal. The industry in general has very strong political support. The development of the cannabis industry has almost exclusively been the product of the actions of the legislative, not the executive, branch of the U.S. government.

In the words of Congressman Jared Polis (D-CO), addressing the subject of possible federal intervention in the cannabis industry, “If Jeff Sessions attempts that (i.e. negative intervention into the cannabis market), he’ll have to contend with many of us –certainly myself– but I think enough Republicans and Democrats will say, ‘Look, you need to stick to federal responsibilities. This is a states’ role.’”

Additionally, Mr. Sessions himself has a legacy of avid support for the 10<sup>th</sup> amendment, which specifically addresses states’ rights to govern matters within state boundaries. Finally, some 13 legislative bills and amendments are currently before the U.S. Congress, all of which, in some way or another, look to protect or advance the growth of the cannabis industry. The sector, already representing some US\$7.1 billion dollars (and growing) of commercial activity, has become a major driver of economic growth, significant job creation and has added hundreds of millions in tax revenues to cash-strapped state governments. I reiterate; we consider the risk of material negative federal intervention to be minimal.

### **Commencement of Trading on the OTCQB**

Another important development I wanted to highlight is that, as of tomorrow, May 22, 2017, we will commence trading on the OTCQB still under the symbol “CBICF”, an upgrade from the “Pink Sheet” status under which we were previously quoted, increasing the universe of addressable investors. The OTCQB Venture Market is for early-stage and developing U.S. and international companies. To be eligible, companies must be current in their financial reporting, pass a minimum bid price test and undergo an annual company verification and management certification process. The OTCQB quality standards provide a strong baseline of transparency, as well as the technology and regulation to improve the information and trading experience for investors.

Many private and institutional investors, along with most brokerage firms, that are unwilling, do not have the mandate, or simply are precluded from trading in stocks listed in the grey market or on the Pink Sheets, will now be able to buy and sell BCC shares.

### **Summary and Conclusions**

To-date, the focus of analysts, investors and the media in Canada has been predominately on the Canadian licensed producers. But recently that market has become increasingly saturated, and many feel that a large number of the Canadian LP’s are fully-valued, offering investors less prospect of significant upward movement in share price. Accordingly, brokers and investors have now started looking to the U.S. and other international opportunities as a source of better returns.

Unlike many other cannabis companies listed on the Canadian stock exchanges, we are building an enterprise with significant current and short-term growth of both revenues and earnings. Even so, we are only at the start of our journey, and BCC is well-positioned to capitalize on the enormous opportunity we see in the U.S. market and, hopefully in the near future, also in Canada where we continue to aggressively pursue our Licensed Producer status.

In the lead up to the release of our audited financial statements at the end of July 2017, BCC is building up its creditability with the success of its “roll-up” strategy (with additional acquisitions in Arizona, Maryland, Massachusetts and Nevada), expansion of our cultivation and production capacities, a successful follow-on financing (with debt conversion terms at significantly higher prices than current share vales i.e. CAD\$1.00 and CAD\$1.50).

In summary, we are executing solidly on our aggressive expansion strategy by entering new markets with significant growth potential created by expanding medical markets, the legalization of adult use and by virtue of legislative decisions that provide significant early-mover advantage to our assets. Furthermore, we are expanding our cultivation and production capacity, thereby increasing our revenue-generation potential significantly.

Finally, I wanted to thank our shareholders for their continued support and, very importantly, to thank and acknowledge our very capable people in Arizona, at our offices in Red Bank, New Jersey and here in Toronto, without whom this journey would not have been possible, nor would our company enjoy such a bright and exciting future. We have an extremely dedicated and talented team throughout the entire organization, and it is a privilege to be working with Beth and all of our people, as we develop, what we believe will be, one of the leaders in the cannabis space.

### **Cautionary Statement Regarding Forward-Looking Information**

*This letter includes certain "forward-looking statements" under applicable Canadian securities legislation that are not historical facts. Forward-looking statements involve risks, uncertainties, and other factors that could cause actual results, performance, prospects, and opportunities to differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements in this letter include, but are not limited to, the completion of the announced acquisitions in Arizona, Maryland, Massachusetts and Nevada, expansion of cultivation capacity and concentrate yields, the Canadian and U.S. political and regulatory environment, availability of financing and BCC's objectives and intentions. Forward-looking statements are necessarily based on a number of estimates and assumptions that, while considered reasonable, are subject to known and unknown risks, uncertainties and other factors which may cause actual results and future events to differ materially from those expressed or implied by such forward-looking statements. Such factors include, but are not limited to: general business, economic and social uncertainties; litigation, legislative, environmental and other judicial, regulatory, political and competitive developments, completion of the announced acquisitions in Arizona, Maryland, Massachusetts and Nevada, delay of expansion of cultivation capacity and concentrate yields, availability of financings, delay or failure to receive board, shareholder or regulatory approvals; those additional risks set out in BCC's public documents filed on SEDAR at [www.sedar.com](http://www.sedar.com); and other matters discussed in this letter. Although BCC believes that the assumptions and factors used in preparing the forward-looking statements are reasonable, undue reliance should not be placed on these statements, which only apply as of the date of this letter, and no assurance can be given that such events will occur in the disclosed time frames or at all. Except where required by law, BCC disclaims any intention or obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.*

Yours faithfully,

Scott Boyes, President and CEO