

CANNABIS - RISK ASSESSMENT ANALYSIS

Note: Risk Ratings are "High", "Medium" and "Low" and are the valuation analysts' assessment of factors that they and a hypothetical buyer must consider when determining the risk of return on investment, rates for use in calculations, intangible values and other matters enumerated in appraisal guidelines. The guidelines include IRS Revenue Ruling 59-60, standard texts, appraisal society texts and standards of practice.

Industry/External	
1. Industry Life Cycle: The state-specific legal cannabis industry is relatively new, but has a foundation based on a centuries-old plant with unique characteristics.	
2. Stability, change: Subject to exponential change and disruption based on the dichotomy between federal and state/local laws.	
3. Competitiveness: Competition is limited due to regulatory and licensing burdens, yet there is a high degree of investor interest.	
4. Ease of Market Entry: Industry is subject to licensing restrictions, local/municipal oversight, restrictions on investment and capital, and requires sophisticated expertise in most instances.	
5. Market: Customer Type: Company markets to individuals seeking access to a regulated product, typically entering into \$100 to \$200 transactions. Some are repeat customers but many are one-time or infrequent purchasers.	
6. Market: Geographic Limits: Company currently services both recreational and medical clientele, but many alternative providers exist in close proximity.	
7. Market: Size, trends: Rapidly evolving market with dynamic changes.	
8. Regulatory Risk - Federal: Subject to significant regulatory risk due to status of IRC 280E and the Controlled Substances Act of 1970.	
9. Regulatory Risk - State: Subject to significant state licensing burdens and evolving rules and regulations on inspections and testing.	
10. Regulatory Risk - Local: Subject to municipal oversight and zoning restrictions, in addition to pressure from neighborhood groups and special interest organizations.	
11. External Effect: National & International Economy; Regional Economy: Somewhat unaffected to economic downturn.	

Company	
1. Products/Services: Evolving product line, but all derived from the unique properties of the cannabis plant.	
2. Years in Business: Company has only been in business for (x) years.	
3. Stability, change: The Company has been evolving since inception.	
4. Unique Knowledge of Facilities/equipment: Experienced principal and senior level staff.	
5. Product/Service Diversity: Adequate product base but difficult to differentiate from competitors.	
6. Key Personnel Dependence: Somewhat dependent on guidance of the current key management personnel.	
7. Employee Stability: high turnover.	
8. Availability of New Employees: Tight labor market for key management and technical positions; sales and support staff are easy to locate but must pass licensing scrutiny.	
9. Relative Size of Company: Company is relatively small in relation to industry peers.	
10. Competition - General: Competition from other local providers with specter of competition from consolidating brands.	
11. Competition - Price: Not an overly price sensitive market, although industry innovation is causing downward pressure on prices and margins.	
12. Market Share: Very small portion of the industry.	
13. Percentage Sales Spread by Customers: Not overly dependent on any one key customer.	
14. Facilities Condition: Newer facility and well maintained.	
15. Existing equipment condition, modernity: Company continues to update equipment on an ongoing basis requiring capital.	
16. Name recognition, reputation: Well respected in market by current customers.	
17. Location vs. Market: Well positioned for customer base served.	
18. Growth Potential - Product/Services: Company has limited ability to grow and diversity due to industry constraints.	
19. Growth Potential - Geographic: Limited opportunity for geographic growth due to regulatory and licensing challenges and other established competition.	
20. Seasonality: Business is spread evenly throughout the year but subject to seasonality of other industries and weather in the area.	

Financial Risk: Current Status and Historical Trends	
1. Current and Quick Ratios: Company continues to be challenged to maintain adequate cash to cover current obligations.	
2. Profitability Ratios: Gross profit percentage is being challenged by competitive pricing, but benefits from decreasing wholesale costs of core products; return on investment (ROI) is significantly challenged by startup costs and a very significant federal tax burden.	
3. Debt/Worth Ratio: Company maintains no debt, partly due to a lack of access to traditional sources of working capital.	
4. Improvement possibilities in Gross Profit, operating expense reduction: Outlook is for continued pressure on operating efficiencies until changes in federal laws occur, which in and of itself will be highly disruptive.	
5. Books/Records, Quality, History: Lack of access to traditional banking has hampered historical record keeping, together with poor implementation of an appropriate chart of accounts and capture of related ledger detail.	
6. Historical Trends - Summary: Dynamic change in a relatively short time period, but positive trends generally.	
Management	
1. Management experience: Adequate upper management but with a need to stay current with many external trends, federal, state and local regulations and other competitive pressures.	
2. Depth of management: Key employees have sufficient experience.	
3. Business Plan - Status: Dynamic external environment requires constant attention to business plan.	
4. Succession Plans and Systems: Company is highly dependent on senior upper management.	