



June 8, 2017

Emblem's Recently Announced Land Acquisition

Dear Shareholders:

In a recent press release Emblem Corp (“Emblem” or the “Company”) announced the acquisition of 80 acres of land in Paris ON, very close to its current licensed facility. You can read the press release here: <http://emblemcorp.com/blog/emblem-corp-enters-agreement-acquire-land-production-capacity-expansion-preparation-adult-recreational-market/>.

Although the release included a brief description of the importance of this acquisition to the future of our Company, we have since received a number of excellent questions from our shareholders. The primary questions you asked us were:

- Why is Emblem so focused on producing high quality dried flower?
- What are the keys to producing high quality dried flower?
- Why is “closed box” production so important to Emblem’s future?
- Why is Emblem growing through internal expansion rather than acquisition?

The answers to these questions help define and explain Emblem’s vision of the cannabis industry in Canada as it prepares for the anticipated introduction of the adult recreational market, how Emblem positions itself to respond to both the challenges and opportunities of the market and how its business model distinguishes Emblem from its competitors. They also inform management’s approach to maximizing shareholder value and return on equity.

Why is Emblem focused on high quality, dried flower production? I thought the market will be moving to oils, edibles and other derivative products, making the quality of dried flower less important.

This is a common misconception, as the largest portion of the Canadian adult recreational market will, in fact, be dried flower. In addition, the U.S. experience confirms that, within the dried flower market,



premium dried flower product will always command a premium price.

The largest, most mature markets in the U.S. are still heavily dominated by dried flower sales. Extraction technology allows producers to recover most of the cannabinoid and terpene profile from a plant, dissolve the extract in oil and then make it available in a vape pen format. However, the US market experience confirms that consumers still greatly prefer a dried flower experience to the vape pen version of the comparable strain.

Derivatives products are indeed gaining momentum in the U.S. However, a significant part of this market is concentrated products (waxes, shatters, concentrated hashish, etc.) and various edibles, which will most likely be prohibited or materially restricted in the Canadian market. With concerns over misuse and misjudged dosages of concentrates and possible mistaken consumption of edibles by children, the Canadian market is likely to be constrained to dried flower, concentration-controlled oils and concentration-controlled vape pens.

When it comes to high quality versus lower quality dried flower, the large U.S. markets also confirm that premium quality consistently attracts premium prices—similar to the experience within the fine wine sector. As lesser quality dried flower product become commoditized, the best margins in the Canadian cannabis industry are expected to be earned by producers that offer consistent superior quality dried flower, at scale.

Therefore, Emblem believes that if a producer wishes to succeed in the Canadian adult recreational market, it has to produce a high quality dried flower, at scale. This is the fundamental premise of Emblem’s adult recreational strategy.

What’s the key to producing “high quality” dried flower?

The three keys are (1) providing consumers the same positive experience with every purchase – which can only be achieved by, (2) controlling the growing environment, and (3) guarding against contamination from external sources.

For most consumers “quality” in a product isn’t defined by one favourable experience, but by the ability to reproduce that experience time after time, year after year. This same concept delivers perceived optimal quality for your favourite beer, wine or fragrance. You know you’ll have the same, stellar experience each



time. Cannabis quality will be defined in much the same way. Emblem's goal is to create exceptional strains that produce an exceptional experience crop after crop, year after year.

To cultivate consistent, high quality dried flower for each and every crop, producers must stringently control their growing environment. Cannabis requires considerable volumes of water, which is released by the plant into the air. However, cannabis is not entirely tolerant of humidity. This requires significant de-humidification capacity in the form of chiller plants. Cannabis also requires a defined daily temperature range which, in Canada, means heating the rooms most of the year, facilitated by boiler plants.

In addition to controlling water, humidity, heat and light, growers have to guard against infestation and biological change caused by exposure to spores and botanical hormones from the outside environment. Emblem's "closed box" architecture and fully-engineered environment will allow our growers to maintain the optimal environmental parameters required for the consistent production of high quality cannabis while segregating the cultivation facilities from undesirable outside environmental influences.

Why is Emblem expanding exclusively in "closed box" facilities? I thought greenhouse was cheaper.

While it may appear that greenhouse growing is a less expensive option, once a greenhouse facility has been upgraded for environmental control to produce reasonable quality product, it will ultimately be more expensive both on a capital and an operating cost basis.

The stringent humidity control and temperature control parameters mentioned above require a significant investment in chiller and boiler plants for large-scale production. These are both expensive to build and operate. Thus, the best way to control the size, capital cost and operating costs of these chiller and boiler plants is to place them in an optimally insulated environment. Emblem's closed box environment is designed for maximum insulation value using an insulated exo-skeleton combined with internal cultivation room insulation for superior R-value.

As greenhouses have very limited insulation values, they need larger chiller and boiler plants to maintain the equivalent environmental conditions. This means, although building the greenhouse may be less expensive than Emblem's double-insulated industrial building, those savings are more than offset by the increased cost of environmental control systems.



Greenhouses do offer access to natural sunlight which can offset some electricity costs from the operation of grow lights. However, due to the low amount of available sunlight in Canada, this cost saving is relatively modest. In fact, greenhouse operators have the same number of HPS grow lights per square foot of cultivation space as closed box facilities, since they require artificial lighting most of the year. Ultimately, the small saving on electricity provided by natural sunlight is not sufficient to offset the increased operating costs that greenhouses will incur in operating chiller and boiler plants.

I am reading that many of Emblem’s competitors are expanding their capacity for the recreational market by acquiring other Canadian licensed producers. Why isn’t Emblem doing that?

Emblem will be building out all of its anticipated future production capacity in Paris, ON. The recently acquired, 80-acre site is expected to facilitate all of our reasonably anticipated future expansion needs, both in terms of available space and industrial infrastructure.

There are a number of reasons why Emblem is pursuing this approach rather than attempting to increase capacity through the acquisition of other licensed producers:

1. Acquisitions are quite costly and licenses under the ACMPR have a significant value. Therefore, the cost of acquisition of other licensed producers is a reflection of their assets in place, plus the value of their license. However, it is not clear that owning multiple ACMPR licenses actually contributes to shareholder value in the consolidated entity. At today’s market prices, for the cost of acquiring another licensed producer, Emblem expects that it could build one or more new 100,000 sq. ft. production modules in Paris, ON and be assured of creating enormous value for Emblem shareholders.
2. Every Canadian licensed producer, including Emblem, made mistakes in the early deployment of their production facilities. In Emblem’s case, those experiences informed our whole approach to the architecture and engineering of the best quality “closed box” facilities. Buying another licensed producer means being confronted with the expense of rehabilitating existing facilities to conform to Emblem standards, which drains shareholder value. Instead, Emblem wants every dollar of future capital investment to go into the building of new facilities based upon proven architectural and engineering solutions (not the rehabilitation of other people’s errors).



3. The cultivation of high quality cannabis at industrial scale requires very sophisticated, on-site, production management. Highly qualified production management is challenging to replicate, particularly with training and integrating quality management over geographically disparate facilities. Since Canadian licensed producers can sell freely across Canada, it is unclear how multiple, geographically diverse production facilities contribute to shareholder value. Emblem prefers to focus its growth strategy in the Paris, ON area, where all future growth can be managed by a one, highly qualified production management team.
4. The cultivation of high quality cannabis requires well trained horticultural, Quality Assurance (“QA”) and Quality Control (“QC”) staff, working to detailed Standard Operating Procedures (“SOPs”). SOPs can vary materially to accommodate the unique requirements of various production facilities. Brand identity is expected to be a key component of success for licensed producers in the adult recreational market. Standardization and product consistency will be fundamental to the success of branding strategies, and this will be much more difficult to achieve when dealing with multiple platforms through varying physical plants, varying SOPs and varying staffing standards. Emblem is unrelentingly focused on the consistency of all products distributed under the Emblem brand. The best way to achieve that consistency is to cultivate in one location, with uniform facility design, one set of SOPs and one common horticultural, QA & QC team.

Value add acquisitions will always be considered. However, Emblem management believes that our approach to capacity increase through internally generated value creation will produce the highest return on equity to our shareholders.

We appreciate your continued support.

Best regards,

Gordon H. Fox
CEO



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