

Due Diligence Checklist

Medical Marijuana Retail Dispensary

For Investors or Lenders

Understanding the Deal

- If a purchase, what type (asset, stock, or non-profit)
- If a loan, what are the terms

Board of Directors and Officers

- Summary biographies of principals (those leaving and those staying)-- including employment history, age, service with the organization, years in current position, services provided to clients
- Background Check Using Accurant and TLO
- Obtain Social Security Numbers
- Request Individual Income Tax Returns
- Private Investigation

Governance

- Review organizational documents and confirm with State
- Review state and local regulatory structure, and confirm everything properly in place
- Copies of all real estate leases, deeds, mortgages, title policies, surveys, zoning approvals, variances or use permits
- All loan agreements, bank financing arrangements, line of credit, or promissory notes to which the Company is a party.
- All security agreements, mortgages, indentures, collateral pledges, and similar agreements.
- All guaranties to which the Company is a party.
- Any installment sale agreements.
- Any distribution agreements, sales representative agreements, marketing agreements, and supply agreements.
- Any letters of intent, contracts, and closing transcripts from any mergers, acquisitions, or divestitures within last five years.

Obtain Financial Information for Past 3 Years and Current Year

- Annual financial statements
- Electronic Accounting File
- Budgets

Patients

- Number of patients
- Demographics of patients
 - Age
 - Length of time as a patient
 - Zip codes
 - Type of service provided other than cannabis purchases
 - Revenues by client

Tax Compliance

- Request last three years of income tax returns-federal & state

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- Obtain signed Form 4506 to obtain copy of tax returns from IRS
- Review Adjustment for IRC Section 280E
- Request last three years of state sales tax returns
- Request last three years of payroll tax returns
- Any audit and revenue agency reports
- Any tax settlement documents for the last three years.

Balance Sheet Verification

- Review all items that could be verifiable, and confirm material amounts
 - For cash accounts at banks, request bank statements
 - For Inventory, confirm amounts
 - For fixed assets, provide list and observe visually
 - For security deposit, review lease
 - For debts & loans, review all loan documents and amortization schedules
 - For capital accounts, review any evidence of contributions
- Consider unrecorded Liabilities
 - Pending Lawsuits (see below)
 - Obtain legal representation letter from lawyer
 - List of largest vendors

Income Statement Review

- Perform analytic review for income
 - Obtain number of patients and average sale per patient
- Obtain copy of lease
- Copies of payroll tax returns

Financial Information Analysis

- Review Key Financial Ratios
 - Cost of Goods Sold/Gross Profit Margin
 - Executive Compensation
 - Net Income
 - Current Ratio
 - Debt/Asset Ratio
- Use Bridgewest Proprietary Benchmark DataBase to provide analysis
- How do you price for your product and services?

Internal Control Procedures

Intellectual Property

- A schedule of domestic and foreign patents and patent applications.
- A schedule of trademark and trade names.
- A schedule of copyrights.
- A description of important technical know-how.
- A description of methods used to protect trade secrets and know-how.
- Any "work for hire" agreements.

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- A schedule and copies of all consulting agreements, agreements regarding inventions, and licenses or assignments of intellectual property to or from the Company.
- Any patent clearance documents
- A schedule and summary of any claims or threatened claims by or against the Company regarding intellectual property.

Products & Services

- What products and services are provided?
- Revenues by products and services for last 3 years
- Sources of product-list of sources of cannabis (don't need real names); need:
 - History of providing product to dispensary
 - % of total product each individual seller provides
- Growing in-house

Marketing & Sales

- Principal avenues for generating new business
- Sales forecasts

Competition

- Main Competitors
 - Size
 - Product
 - Geography

People

- Organization Chart
- Personnel turnover
 - Data for the last 2 years
 - Benefit Plans
- Significant employee relations problems, past or present

Systems & Processes

- Name of point-of-sale system
- Name of accounting software
- Name of CPA/Tax preparer
- What computers do you have?
- What other software do you use?
- Do you allow your clients to pay you with credit cards?

Legal and Related Matters

- Pending lawsuits against the company (detail on claimant, claimed damages, brief history, status, anticipated outcome)
- Pending lawsuits initiated by the company (detail on defendant, claimed damages, brief history, status, anticipated outcome)
- Type of insurance coverage

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- Insurance claims

Articles and Publicity

- Copies of all articles and press releases relating to the Company within the past three years.

Valuation Services

- Prepare a valuation
- Look up rules of thumb
- Review databases
 - MM Sales
 - Liquor Store Sales
 - Tobacco Store Sales