



The Leading Security Solutions Provider to the Legal Cannabis Industry

Canna Security America

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Private

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Key Contacts

Chief Executive Officer:

Daniel Williams

Chief Financial Officer:

-

Market / Industry Snapshot

Industry:

Legal Marijuana

Sectors:

Physical Security

Market Size:

2014: \$2.7 Billion
2018E: \$10.2 Billion

Key Financial Data

Financial Snapshot

1H'2014 Revenue: \$260,681
2H'2014 Revenue: \$463,807
2014 Revenue: \$724,488

Balance Sheet

Current Assets: \$9,330
Current Liabilities: \$225,084
Total Liabilities: \$225,084
Net Equity: (\$80,331)

Business Description

Canna Security America (CSA) is the leading comprehensive security solutions provider catering to businesses in the licensed cannabis industry. As security industry experts headquartered in Denver Colorado, CSA has expanded its operations to serve the increasing number of state licensed cannabis cultivators, processors, infused products manufacturers, and retailers in the United States. CSA has built an unparalleled reputation for quality and dependability with its customers, strategic partners and the national media. With over 400 permitted facilities having CSA security systems installed across multiple states all achieving a 100% licensing approval rating, Canna Security America is recognized as the gold-standard in security services and technology for the industry. As a national leading security firm, CSA knows where risk points exist for cannabis businesses, and how to tailor services to ensure maximum loss prevention and legal compliance.

➤ **Unrivaled Expertise.** By assisting Colorado regulators in drafting security requirements, Canna Security was able to seamlessly enter the Washington Market and position itself as the first comprehensive national security solutions provider for the cannabis industry. Through the Company's experience in Colorado and Washington, CSA has developed a greater understanding of the particular needs of the industry, as well as an ability to navigate the complex regulation regarding security created by states. As the national leading security firm in the cannabis industry, CSA knows where primary risk points exist for cannabis businesses, and how to tailor services to ensure maximum loss prevention and legal compliance.

➤ **Comprehensive Turnkey Security Solutions.** Canna Security America consultants design site-specific electronic video surveillance, access control, and perimeter security system based on a thorough threat assessment and extensive cannabis industry field experience, which are adaptable to each client's changing needs and budget. All of CSA's systems include custom floor plans to aid clients in compliance with various state regulations regarding the security of marijuana business establishments. CSA utilizes a combination of state-of-the-art access control, high quality cameras, surveillance video management and intrusion/perimeter alarm systems, that when installed and used correctly, creates a truly effective deterrent to theft and external intrusions of all descriptions. As such, CSA offers extensive product training and technical and marketing support.

➤ **Large Market Opportunity.** The shifting regulatory environment in favor of legal marijuana combined with increasing demand has led to the legal marijuana industry becoming one of the fastest growing industries in the United States. Industry size was estimated at \$1.4 billion in 2013, growing to \$2.7 billion by the end of 2014 and exceeding \$10 billion by 2018. The cash-only basis of this rapidly growing industry has positioned security as one of the most crucial aspects in the operations of cannabis businesses, since all cannabis businesses require security measures to prevent theft and mitigate risk to employees. Businesses need security system solutions not only to protect business assets, but in many cases also to comply with state regulations.

➤ **Diversified Business Model.** In 2014 CSA expanded its service offerings to include consulting for clients entering new cannabis markets. CSA partnered with several consulting firms and new clients to provide security plans for firms applying for licenses in MA, CT, WA, IL and NV. This helped CSA to further expand its reach in the industry, and position itself as a market leader. CSA consulting engagements were successful in aiding its clients to obtain licenses in each new state. Seeing a further need for a comprehensive solution for the industry, CSA introduced The Cloverton Group, which addresses the need for on-site armed guards at cannabis businesses, armored transport of cash and product, background checks, license plate tracking, and security consulting.

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EXECUTIVE SUMMARY

THE COMPANY

Canna Security America (CSA) is the leading comprehensive security solutions provider catering to businesses in the licensed cannabis industry. As security industry experts headquartered in Denver Colorado, CSA has expanded its operations to serve additional legalized U.S. states with sustainable medical and adult use cannabis regulations as part of a national rollout. CSA is successfully leveraging its brand capitalizing on opportunities to serve the rapidly ever-increasing number of state licensed cannabis cultivators, processors, infused products manufacturers, and retailers across the country.

For State licensed cannabis cultivators, dispensaries and infused product manufacturers there are many strict U.S. State Government rules and regulations to adhere to, and meeting the safety and security guidelines is paramount. States including Colorado, Washington, Washington, and Oregon have already legalized the growing and dispensing of marijuana for medicinal and recreational use. Many other states are following and moving towards the legalization of cannabis. One thing has become apparent for any business touching the plant, which is to be in full compliance with the law, ensure safety, and protect valuable infrastructure and assets. Therefore, implementing a security solution that offers 24/7 video surveillance, is critical.

Founded as a zero capital startup by CEO and President, Dan Williams, in 2009, CSA was the first and only security company entirely dedicated to the emerging cannabis industry until late 2013. As more competition enters the market CSA has thrived in a highly competitive environment in the industry. The company has been fiscally responsible and to date has not taken on debt to fund growth. CSA has built an unparalleled reputation for quality and dependability with its customers, strategic partners and the national media. Over 400 permitted facilities have CSA security systems installed across multiple states with the bulk of the customer base in Washington and Colorado, with all these facilities achieving a 100% licensing approval rating, which is critical to the viability of those businesses.

In 2014 CSA expanded its service offerings to include consulting for clients entering new cannabis markets. CSA partnered with several consulting firms and new clients to provide security plans for firms applying for licenses in MA, CT, WA, Ill and NV. This helped CSA to further expand its reach in the industry, and position its self as a true market leader. CSA consulting engagements were successful in aiding its clients to obtain licenses in each new state. Seeing a need for a comprehensive solution for the industry, CSA introduced the Cloverton Group, a wholly owned subsidiary of CSA. The Cloverton Group addresses the need for on-site armed guards at cannabis businesses and armored transport of cash and product.

MARKET AND OPPORTUNITY

The shifting regulatory environment in favor of legal marijuana combined with the increasing demand has led to the legal marijuana industry becoming one of the fastest growing industries in the United States. The estimated value of this burgeoning industry was approximately \$1.6 billion for 2013 growing 77 percent to \$2.7 billion in 2014. However, these estimates are perhaps on the low side due to undercounting of ancillary products and services. The long-term growth outlook for the industry is strong. One estimate has the market exceeding \$10 billion by 2018, which many experts believe can hold true, if not conservative, based on growth in the current market and additional states moving to allow medical marijuana and/or legalizing recreational use.

CSA witnessed this growth first hand in 2014 as business rapidly expanded to meet the demand of adult use in Colorado. Many of the existing customers expanded their cultivation facilities or secured additional large cultivation facilities to keep up with the increase in customers from the beginning of adult use in January. There was also a shift industry wide by cannabis businesses in the size of cultivation facilities. In previous years, an average size facility was 10,000 sq. /ft., now the average size facility is 20,000 sq. /ft. or more, adding to the average dollar amount spent on security by almost 50%.

Even with the shifting views of society as well as many federal officials and the rapid growth of the industry, cannabis is still classified as an illegal substance in the United States. The Drug Enforcement Agency and the Food and Drug Administration still classifies marijuana as a Schedule 1 drug under the Controlled Substance Act. The classification makes marijuana illegal under federal law to manufacture, distribute, or dispense and has created a discrepancy between the laws in states, that permit the distribution and sale of medical and recreational marijuana, from federal law that prohibits any such activities.

The discrepancies in federal and state law have created a complicated and risky environment for businesses in the industry, especially in regards to restricted banking access for legal cannabis companies. The banking system in the U.S. is, in most states, federally mandated. Since possession or distribution of marijuana violates federal law, banks that provide services to legal marijuana companies face the threat of prosecution and assorted sanctions, such as loss of their federal depository insurance. As a result, many marijuana-related businesses are denied the ability to deposit cash, process electronic payments, or obtain loans and cash management services, consequently forcing these companies to transact on a cash-only basis. Of course, this failure of the legacy financial establishment to react to demand has necessitated a very high level of security with cash-filled safes, armored transports, and tax compliance, creating the opportunity for new providers, from finance companies to physical security providers.

The cash-only basis of the industry has positioned security as one of the most crucial aspects in the operations of cannabis businesses, since all cannabis businesses require security measures to prevent theft and mitigate risk to employees. Businesses need security system solutions not only to protect business assets, but in many cases also to comply with state regulations.

State regulations regarding growing and dispensing medical cannabis are some of the strictest laws around, and every state has a different set of laws. There are stringent security standards and codes that need to be met, including everything from how many surveillance cameras are needed, and the placement of certain types of security cameras, to the types of security DVRs and the number of days of recorded video required. Another security challenge for licensed cannabis businesses is protecting the crops, and this includes everything from proper planting, to pest control and intruder protection from thieves. Cannabis crops are expensive to grow and are a target for thieves. One of the biggest security challenges for state licensed cannabis businesses is employee theft. Regardless of whether it's a small-scale or large-scale facility, the ability to monitor employees is essential. This has made protecting the perimeter and interior of cultivation and dispensary facilities with a high quality video security system an essential factor for ensuring safety and protecting the crops, equipment and other assets.

As a result, security consulting has emerged as high-growth vertical of the ancillary legal industry. These security-consulting companies assist in security and transportation logistics for legal marijuana businesses, as well as provide on-site license verification to ensure that local business owners are operating lawful and regulatory compliant establishments.

Many companies in the space also have started seeking alternative solutions to keep their money safe while providing their customers convenient payment options. More financial services companies are offering innovative services, such as virtual currency, cash kiosk systems, and online payment solutions similar to PayPal. However, none of these solutions can truly replace the need for conventional banking access.

COMPANY HIGHLIGHTS

➤ *Profitable Business Model*

Recognizing that the legal cannabis industry's youthfulness has resulted in a lack of structure and oversight, CSA developed their security solutions and technology to create structure, process and in the end ensure maximum loss prevention and legal compliance. CSA is successfully leveraging its comprehensive security systems and services, capitalizing on opportunities to serve the rapidly ever-increasing number of state licensed cannabis cultivators, processors, infused products manufacturers, and retailers across the country. In 2014, CSA expanded its service offerings to include consulting for clients entering new cannabis markets. CSA partnered with several consulting firms and new clients to provide security plans for firms applying for licenses in MA, CT, WA, Ill and NV. This helped CSA to further expand its reach in the industry, and position itself as a market leader. CSA consulting engagements were successful in aiding its clients to obtain licenses in each new state, throughout the entire licensing process. Seeing a further need for a comprehensive solution for the industry, CSA introduced The Cloverton Group, a division of CSA. The Cloverton Group addresses the need for on-site armed guards at cannabis businesses, armored transport of cash and produce, and tertiary services such as background check, executive protection, and armored transport of cash and product.

The Company conducts an analysis of potential, future revenue by geographic territory and customer. For the geographic territory analysis, it reviews the states that have legalized medical and/or recreational marijuana and states that are near legalization of one or both uses. As of June 1, 2015, the following states had legalized marijuana use:

Medical:

Alaska, Arizona, California, Colorado, Connecticut, Delaware, Hawaii, Illinois, Maine, Maryland, Massachusetts, Michigan, Minnesota, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York, Oregon, Rhode Island, Vermont, Washington, and the District of Columbia

Recreational:

Colorado, Washington, Alaska, Oregon, and the District of Columbia

As of June 1, 2015, the following states are expected to consider legalizing use in the next 12-24 months:

Medical:

Arkansas, Florida, Ohio, Pennsylvania and West Virginia

Recreational:

Arizona, California, Maine, Massachusetts, Montana, Nevada, New Hampshire, New York, Rhode Island, and Vermont

After the state analysis, the territories are examined for potential licenses to be issued by governmental authorities, as well as the level of security requirements for these new businesses, as governed by the Department of Revenue, Department of State and the Department of Health. Because of the evolving nature of this industry, it is difficult to estimate the number of licenses to be issued in all of the territories listed above. The industry estimates thousands of licenses could be issued in the states listed above which already account for a population of 196.7 million people or 62.2% of the U.S. population.

While market data sources are limited for this industry, it is estimated there will be over 6,600 permitted cannabis facilities within these territories in 2015. Conservatively, the average installation spend per facility is \$20,000. The security services market for those states is estimated to be in excess of \$130 million for installation services alone.

Growth within these states, in addition to new states coming online and the expansion of cannabis programs in mature markets, will increase the addressable market. These expanded state regulatory approvals that permit larger patient bases for medical cannabis and recreational cannabis use, implies substantial expansion potential beyond near term market opportunities. In addition, CSA is now seeing expansion of its existing customer base in places like CO and WA where successful brands are expanding operations into new markets like NV and Ill. Paving the way for the first national cannabis brands companies that touch the plant.

➤ *First Mover Advantage*

By assisting Colorado regulators in drafting security requirement, Canna Security was able to seamlessly enter the Washington Market and position itself as the first comprehensive security provider for the cannabis industry. Through the Company's experience in Colorado and Washington, CSA has developed a greater understanding of the particular needs of the industry, as well as an ability to navigate the complex regulation regarding security created by states. The development of CSA's market derives from the progress of state legislation, making specific markets available to the company. States nationwide are looking to emulate Colorado's regulatory model, which requires tight business security and compliance with rules established by industry oversight agencies.

State regulation is generally placed under the jurisdiction of the state's health agency, although other alternatives include Department of Revenue in Colorado, the Department of Consumer Protection in Connecticut, and the state public safety agency in regard to Vermont. Where separate state licenses are required for cultivation and for dispensing, regulation of both activities tends to be placed under the jurisdiction of the same state agency, such as Colorado, Connecticut, Maryland, Nevada, and Oregon, although Illinois divides state level jurisdiction between two different state agencies, specifically, the Department of Agriculture and its financial and professional regulation agency.

The table below lists the states with regulated medical cannabis dispensaries and outlines their basic regulating authority.

State	Regulation	State	Regulation
Arizona	Registration by Department of Health Services	Nevada	Registration by the Division of Public and Behavioral Health
Colorado	State Licensure by the Executive Director of the Department of Revenue	New Hampshire	Registration by the Department of Health and Human Services
	County Licensure by the local licensing authority ⁸	New Jersey	Permit from the Department of Health
Connecticut	Licensure by the Commissioner of Consumer Protection	New Mexico	Licensure by the Department of Health
Maine	Registration by the Department of Health and Human Services	New York	Registration by the Commissioner of Health
Maryland	Licensure by the Natalie M. LaPrade Medical Marijuana Commission	Oregon	Registration by the Oregon Health Authority
Massachusetts	Registration by the Department of Public Health	Rhode Island	Registration by the Department of Health
Minnesota	Registration by the Commissioner of Health	Vermont	Registration by the Department of Public Safety

CSA is currently working with the right regulatory authorities in states and localities proposing new legislation, to assist in drafting security regulations for legal cannabis facilities. Being involved in the introduction of the benchmark for regulations in the industry has provided a unique market advantage and opportunity to establish the CSA brand on the national forefront. As a result, the Company is positioned as a first mover in each of the new states that cannabis is deemed legal.

➤ *Turn-key Comprehensive Security Solutions*

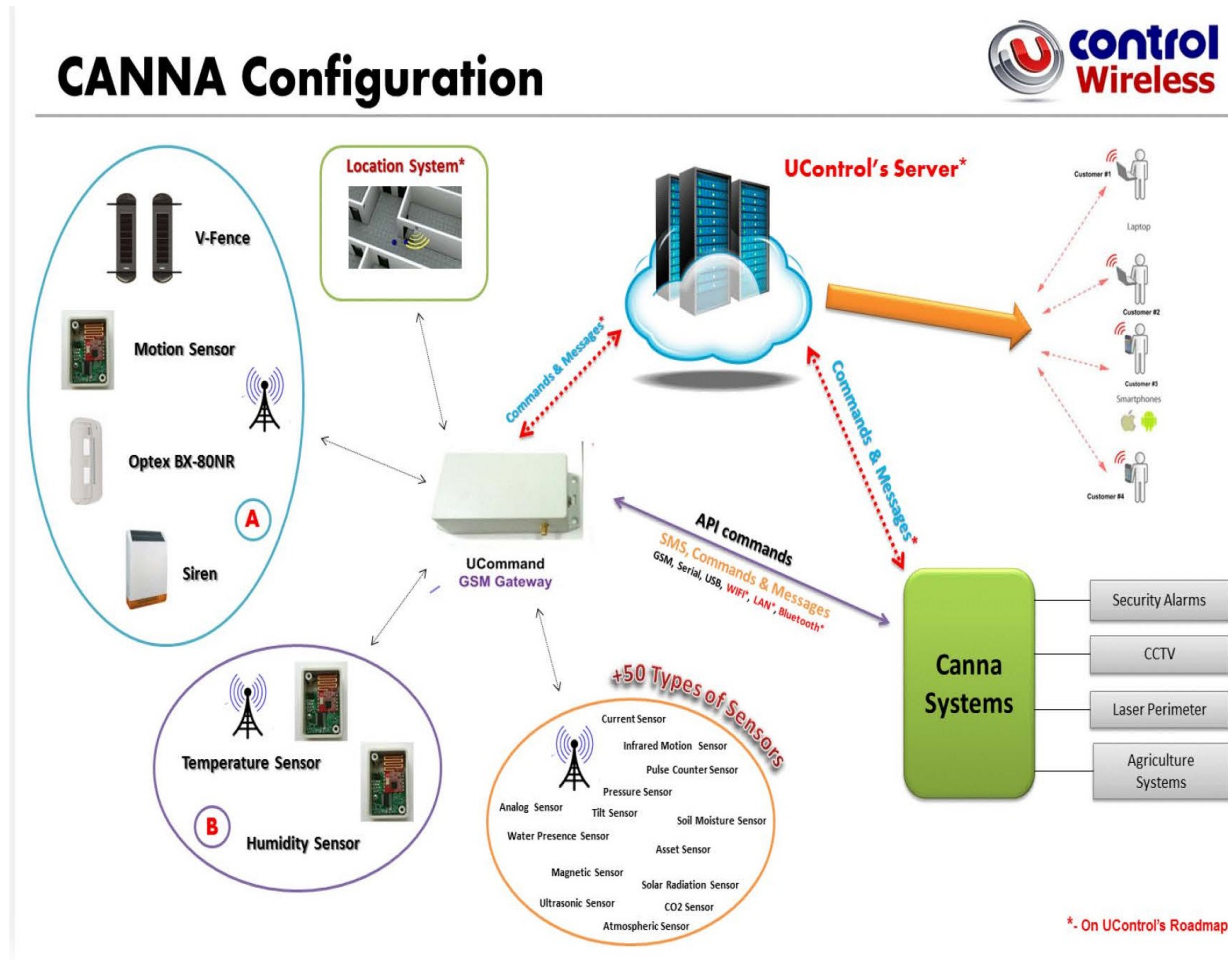
CSA has positioned itself as a recognized market leader in security services and technology for the industry. CSA's staff help to separate the company from its competition by researching the advances in the security industry that can be adopted to address industry needs, bring value to its clients and successfully implement profitable solutions. As the national leading security firm in the cannabis industry, CSA knows where primary risk points exist for cannabis businesses, and how to tailor services to ensure maximum loss prevention and legal compliance. All systems and services are guaranteed to meet individual state regulatory requirements. Through the Company subsidiary, the Cloverton Group, CSA provides armed guards, armed transport, site risk assessments and consulting services. By providing effective security solutions to cannabis businesses, including installations of alarms, door access systems, video cameras, security system design and consulting businesses in the state licensing process, CSA can offer a turn-key comprehensive security service to the cannabis industry that is second to none.

➤ *Strategic Partnership with UControl*

With Canna Security America's recent strategic partnership with Ucontrol wireless, a leading provider of next-generation home security and automation solutions, CSA is positioned to set a new industry standard for monitoring and control of remote objects. By utilizing the Ucontrol process, CSA is able to offer clients a single solution to operate its business security processes remotely. In addition to offering a UL-listed monitored security and fire protection system, the platform redefines the cannabis business security experience with remote control and management of all aspects of the customer's security system. Through web, mobile, smartphone, tablet, and in-home touchscreens, end users can view video, see the current status of their home, and also schedule or control actions. Email or text message alerts can be send whenever events do—or don't—occur. The system enables CSA customers to:

- **Monitor** – Set parameters to monitor any activity
- **Alert** – Deviations produce event alert via notifications/SMS/email
- **Activate** – Manage/regulate events by activating objects remotely
- **New Market** – Access to new markets, broadening the scope of customer services
- **Reduce Costs** – Installation and unit cost mitigated, massively reduces costs and expenses.

The picture below depicts the Ucontrol platform combined with CSA's security systems. Through API commands all sensor configured can be accessed and controlled. The integrated platform is built by 2 major units -- the UConnect and UCommand.



GROWTH STRATEGY

➤ *Execute on Current Business Pipeline*

The divergence of marijuana’s legal status on the state and federal level has led to state regulation and compliance emerging as the essential factors of success for each respective legal cannabis markets. Although many states have enacted laws that permit the medical use of cannabis, a number of these states have not implemented regulations in regards to dispensaries and cultivation operations. Canna Security can provide comprehensive cannabis industry security solutions to clients living in states and localities that have recently legalized cannabis. With officials realizing the need for regulatory structure to ensure success of their legal marijuana programs, many states started to institute comprehensive regulations for their programs toward the end of 2013. Currently, eighteen of the twenty-three medical states (Arizona, California, Colorado, Connecticut, Delaware, Illinois, Maine, Maryland, Massachusetts, Minnesota, Nevada, New Hampshire, New Jersey, New Mexico, New York, Oregon, Rhode Island, and Vermont) incorporate some form of distribution system into their programs. As a result, 46% of the US population live in states that are planning medical marijuana dispensaries, as well as states with existing dispensaries has experienced significant growth, compared to 22% in 2011. Of those 18 states with some form of medical marijuana distribution system, seventeen states (with the exception of California) provide for statewide regulation of the distribution systems.

The major catalyst for growth for CSA has been the importance of security within the implemented state wide regulations. In order to prevent medical marijuana from being diverted from legal marijuana establishments, all seventeen states require their cultivation centers and dispensaries to comply with various security requirements. Some requirements are as simple as installing a functional security alarm, while others require facilities to meet certain design specifications. At a minimum, most states require installation of an alarm system and video surveillance of the premises.

The table below outlines the various security requirements imposed on cultivation centers and dispensaries among the seventeen states:

State	Security Requirements
Arizona	Alarm, video surveillance, exterior lighting, single entrance
Colorado	Lighting, physical security, video, alarm, internal control procedures
Connecticut	Alarm, video surveillance, storage vaults, backup power, failure notification system
Delaware	Alarm, exterior lighting, video surveillance, inventory controls

Illinois	Alarm, security plan reviewed by state police including but not limited to: facility access controls, perimeter intrusion detection systems, personnel identification systems, 24-hour interior and exterior surveillance
Maine	Fence, exterior lighting, intrusion detection, video surveillance
Maryland	--
Massachusetts	Alarm, storage vaults, exterior lighting, video surveillance, backup systems, failure notification system
Minnesota	Alarm, facility access controls, perimeter intrusion detection systems, personnel identification system
Nevada	Alarm, single entrance, intrusion detection, exterior lighting, video surveillance, battery backup, failure notification system
New Hampshire	Lighting, physical security, video security, alarm requirements, measures to prevent loitering, on-site parking
New Jersey	Alarm, exterior lighting, video surveillance, power backup, automatic notification system
New Mexico	Alarm system
New York	Surveillance system
Oregon	Alarm, video surveillance, safe
Rhode Island	Alarm, emergency notification system, exterior lighting
Vermont	Alarm, exterior lighting, intrusion detection, video surveillance

Increasing regulations in many states' legal marijuana programs has allowed CSA to begin targeting new markets, translating to an expansion of their business pipeline. In early 2013, Canna Security's business pipeline consisted of clients in only Colorado and Washington. By July 2015, CSA has installed systems in Colorado, Washington, Oregon California and New Jersey, and provided licensing consulting services in Colorado, Washington, Oregon, Connecticut, Massachusetts, Nevada, and Illinois. As the aforementioned markets come online, CSA will gain significant market penetration through the Company's efforts to insert itself into the application process and the majority of its consulting clients being awarded licenses.

In addition, CSA will continue to achieve market penetration in key states by working with state regulatory agencies to influence security compliance, adding key personnel, word of mouth, client expansion into new markets and targeted marketing campaigns in Arizona, Alaska, Oregon and California which characterize the lion's share of new opportunities outside of Colorado and Washington.

➤ *Potential Partnership Synergies*

The Canna Security business model has the potential to create profitable integration synergies with many potential vendors to the cannabis industry, such as seed-to-sale software, merchant solution services, and real estate solutions. By finding the right strategic partners, CSA is able to offer its clients a completely new realm of services without losing focus on its capabilities and its specialized services. In addition to forming strategic partnerships, CSA plans to make investments in other companies in the ancillary cannabis sector, which the Company believes are viable and have growth potential.

➤ *Strategic Acquisitions*

The cannabis industry is very fluid and dynamic, creating many M&A opportunities for Canna Security America to drive “inorganic” growth through strategic partnerships and acquisitions. With CSA recently becoming a public company, CSA has the added advantage of a publicly-traded equity that can be used as consideration for these strategic initiatives.

CSA has identified potential acquisition candidates with vertical integration synergies in the cannabis industry, resulting in new markets, advertisers and revenue streams for the Company. Due to the innovative technology in the broader security industry, the Company plans to pursue ancillary companies in the cannabis industry, as well as technology providers in the broader security market. CSA targets companies with significant stand-alone growth and integration synergies. As a result, the Company expects to be able to generate operational efficiencies by sharing best practices across the portfolio, while leveraging size and scale. The management team evaluates acquisition candidates on a macro and micro economic basis valued at multiples below future consolidated multiples.

The types of companies that CSA is looking to acquire include, but are not limited to those:

- Specializing in state-specific consulting services for dispensaries and cultivation centers
- Companies that provide inventory tracking software, point-of-sale systems and related technology that helps to enhance dispensaries and cultivation centers seed to sale capabilities
- Specializing in merchant services and armored transport for cash deposits
- Security provider that have valuable IP technologies

MANAGEMENT AND DIRECTORS

CSA management has extensive experience in law enforcement and the security systems business both within the cannabis industry as well as in conventional industries. Management has leveraged expertise as security solutions providers with mainstream businesses and proven successful at advancing best practices in the cannabis industry.

Daniel Williams, *Chief Executive Officer*

Daniel Williams founded Canna Security America (CSA) in 2009 intent on making CSA the premier security solutions provider for the medical marijuana industry. Upon graduating from Wheaton College in the Spring of 2000 with a Bachelor's Degree in Economics, Dan was hired as Interactive Producer for Pappas MacDonnell, a well-established branding and identity firm with over 20 years of proven branding results for Fortune 500 companies such as Alliance Capital, Coca-Cola Bottling Company, Boehringer-Ingelheim, Taylor-made Adidas Golf, Pitney Bowes, Fidelity Investments, and GE Capital.

Following the disaster of 9/11, Dan left Pappas MacDonnell in 2002 and founded SpecOps Surveillance LLC, in Westport, Connecticut, specializing in custom surveillance system design and technologies to enter the security market which was rapidly emerging as one of the fastest growing markets in the United States at the time. Over the next five years, SpecOps created and implemented unique CCTV system designs for Mercedes-Benz, Cadillac, Jeep-Chrysler, Honda, Hyundai, Mitsubishi, Lexus, and others finding a niche in the automobile industry designing roving sentry motion-activated camera systems to monitor lot inventory, which had not yet been available to this market. In 2007, Dan left the East Coast and moved to Denver, Colorado, intending to move SpecOps with him. Upon arriving in Colorado, Dan met with ex-Megapath founders Matt Steinfort and Robert Hagens who had recently formed Envysion, Inc., in Boulder, Colorado. Envysion is a CCTV custom software development startup which secured its first large national contract, Chipotle Mexican Grill. Over the next three years, Dan created brand-specific security standards, coordinated national system implementation installations, and managed rollouts from inception to completion often running up to seven separate installation teams each day, actively working in different parts of the country. Dan has formed working relationships with installation teams and security professionals from coast to coast including Alaska and Hawaii. When Dan Hartman, former Director of the Colorado Medical Marijuana Enforcement Division, asked Dan to adapt the security regulations for the medical marijuana industry, he saw an immediate opportunity for an industry-specific solutions provider in an emerging industry. Reducing the standards from the initially proposed \$1500 pan/tilt/zoom cameras to \$150 stationary cameras by mandating strategic placement of each camera, fighting to include \$1200 DVR systems on the approved DVR list as well as the more advanced \$5,000 DVR systems as a low cost industry solution, and proposing that all security providers undergo a strict state licensing procedure to ensure the proper level of service are just a few of the ways Dan has assisted the medical marijuana industry as well as supporting functional state regulations, which he believes is inevitable in order to meet our common goal of medical community providing immediate market-driven security solutions making him an established leader in the medical marijuana industry.

Signe Martin, *Director of Sales*

Signe Martin was a consistent top performer in National Account Management for a Fortune 500 company for 14 years. She developed accounts from the initial cold call to establishing multi-million dollar nationwide placements. These accounts required consistent personalized ongoing care in contracts, installations, training, and software support. Signe's specialty was discovering a competitor's weakness and then earning the account at the next RFP and account retention. In 2011, Signe ventured into Litigation Support for a top firm in Denver, CO. There she established 6 of the top 10 largest law firms in Denver as new accounts and worked closely with the attorneys on preparing them for trial. From 2012 - 2015 Signe was a Lead Account Executive for two small start-ups developing new accounts and conquering Denver as a new sales territory for both companies.

Josh Ray, *Director of Operations*

Josh Ray has over 11 years of law enforcement experience and is a former Deputy Sheriff from Maricopa County, Arizona. After three years in patrol he was assigned to the SWAT team, where he became an instructor for SWAT schools. He was a SWAT operator through Maricopa County Sheriff's Office (MSCO) from 2006 to 2014. Josh is also a certified bomb technician through the FBI. He served as a bomb technician for MSCO from 2012 to 2014. Josh focused his attention on writing policies, procedures and training protocols for the SWAT division.

THE COMPANY

Canna Security America (CSA) was created in 2009 by CEO Dan Williams and officially launched in March 2010 to meet the growing needs and peculiarities of the evolving medical marijuana industry from both a legal, regulatory compliance and security aspect. CSA was instrumental in the development of Colorado's legal marijuana market, with the Company working on the rule-making committee in the Department of Revenue and helping to formulate the security regulations for medical marijuana in the state. Currently, CSA is recognized as a leader in security and compliance services for the legal marijuana industry by providing high quality dependable solutions that are adaptable to meet the constantly changing security and compliance challenges in the industry. Due to their vast experience and knowledge relating to the industry, The Company assists cannabis entrepreneurs grow and succeed in this young and dynamic market place through offering a full range of high quality services to help clients' businesses achieve sustainable growth.

Security is a primary concern for licensed cannabis businesses and the state regulators who oversee each program. Permitted facilities must adopt strong security systems to protect their businesses and comply with regulations. These businesses maintain valuable inventories onsite, and typically also have significant cash holdings since business-to-business and business-to-consumer transactions are often conducted in cash. Facilities are exposed to theft both from outsiders and employees. In addition, business operators in most legal cannabis states must show regulatory agencies that security systems carefully protect and track inventories and transactions. Failure to do so could not only result in large losses, but also threaten businesses' operating permits and force closure. In WA and CO the new adult use laws opened the industry's eyes to the need for on premise security to control and enforce the age restrictions and act as a deterrent to the general public who is now able to enter a shop without being screened by the state as is the case in a medical dispensary.

From their inception, CSA has specialized in engineering custom security systems specifically to ensure full compliance with all federal, state and local laws and regulations for dispensary, grow, and retail facilities catering to the medical and recreational use of marijuana. CSA provides effective security solutions to cannabis businesses, including installations of alarms, door access systems, video cameras, security system design and consulting businesses in the state licensing process. Best practices include handling all aspects of installation through a network of subcontractors and have provided free service for 60 days following installation completion, as well as a 1-year warranty on all equipment.

CSA now services over 130 clients and their 400 plus facilities in 14 legal marijuana states and is currently consulting with new clients in Alaska, Illinois and Nevada that are preparing to roll-out recreational or medical facilities in the coming months. Even with many states' implementing different regulatory models, generally these states establish similar security requirements. Most require alarms, video surveillance, and exterior lighting at a basic level, with some states requiring additional security measures. With an increasing number of States implementing regulated dispensary models, CSA is able to leverage their expertise in complying with different states' security codes, standards, and guidelines to provide clients with innovative and cost-effective

security design, security system installation, and security management services in new regulated states as they come online.

They have, to date, focused on providing soft security services; the bulk of their clients have hired CSA to supply alarm systems, door access systems, and camera and video surveillance, but in 2015 CSA announced armed guards and armed transport services through a new division of CSA, named The Cloverton Group. The Cloverton Group provides armed guards, armed transport, site risk assessments and consulting services. CSA has made significant investments in armoring Mercedes-Benz Sprinter vehicles, state security licenses, and highly trained staff in anticipation of the release of The Cloverton Group to create operating procedures specific to a functional banking solution primarily addressing full traceability. The Cloverton Group will continue expanding by developing strategic partners over the course of 2015 in order to launch services in multiple states in 2016. The addition of the Cloverton is exciting for CSA as they can now offer a turn-key comprehensive security service to the cannabis industry that is second to none.

New customers are also asking for additional state of the art technology solutions like GPS tagging, iris scanners, and outdoor motion detectors as well as outdoor grow facility security solutions as used in both Colorado and Washington. With the majority of thefts of coming from internal sources, CSA is devising high and low tech integrated solutions that combine both system and physical security to minimize the cost associated with internal theft. Over the next twelve to eighteen months, CSA plans to roll out additional product lines that will enhance CSA's market penetration and offer our clients an overall turn-key solution that addresses every aspect of their security needs.

CSA's is positioned to become the de facto market leader and brand name in the cannabis security industry. With the introduction of The Cloverton Group, the Company can now offer sophisticated, professionally trained armed guard and armored transport services utilizing the latest in technology to meet the existing and upcoming needs of the cannabis industry.

PRODUCTS AND SERVICES OVERVIEW

Canna Security America

From their inception, CSA has offered commercial-grade equipment installed by certified technicians at discount prices. The Company provides effective security solutions, including installations of alarms, door access systems, video cameras, security system design and consulting businesses in the state licensing process.

Canna Security America consultants design site-specific electronic video surveillance, access control, and perimeter security system based on a thorough threat assessment and extensive cannabis industry field experience, which are adaptable to each client's changing needs and budget. CSA's security system solutions include state of the art equipment and services for customer installations. All of CSA's systems include custom floor plans to aid clients in compliance with various state regulations regarding the security of marijuana business establishments.

CSA utilizes a combination of state-of-the-art access control, high quality cameras, surveillance video management and intrusion/perimeter alarm systems, that when installed and used correctly, creates a truly effective deterrent to theft and external intrusions of all descriptions. As such, CSA offers extensive product training and technical and marketing support to ensure customer satisfaction.

IP CCTV Systems

In each state, the growers and dispensaries of cannabis must meet the legal requirements for security. Many states require video cameras to be installed and operating 24 hour a day recording all areas where cannabis is present and some states require video surveillance data to be stored for as long as a year. In the state of Washington, the requirements for a surveillance system must be IP compatible with the ability to display timestamps, and a minimum camera resolution of 640×470 pixels. The recordings must be continuously recorded 24 hours a day, with storage of a minimum of 45 days. Camera placement is highly regulated as well, with all entrances, exits, and perimeter areas under clear surveillance, as well as anywhere that marijuana is handled.

Oregon's state regulations are similar to those in Washington, although it has a minimum of 30 days of video storage instead of the 45 that Washington requires. Some of the additional requests that the Oregon regulations include are a failure notification system and video encryption that ensures the authentication of the recordings done. Monitoring and safely storing all that video surveillance data is a big task. Many cannabis related businesses are spread out over multiple locations with dozens of cameras per location or have large remote properties. Making matters more difficult, it's a challenge for cannabis businesses to find a reliable, established video surveillance company that wants to participate in an industry that is illegal under federal law.

Canna Security America (CSA) fills this void in the industry by designing and installing commercial-grade CCTV camera systems, which are customized to meet the security needs of the clients and the compliance requirements around various state regulations. Each system includes a security floor plan for submission with state regulatory bodies as well as an MMED Approved Guarantee Contract. CSA offers over 40 name brands of CCTV brands including Samsung, Pelco, Sony, and Panasonic.

Access control

Access control provides another layer of security with the ability to grant or deny access at the door and track who enters and exits. CSA's IP-based access control solutions are easy-to-install, simplify administration and building access management, and provide a cost-effective security solution for its cannabis client's facilities. CSA installs Kantech™ commercial-grade access control systems for secure employee and visitor tracking. CSA offers Access Control Starter Kits to provide businesses with every component they need to build an effective and reliable access control system. These systems are modular so small- and medium-sized businesses can adapt the technology and easily scale their systems as their business grows. CSA's Expansion Kits remove the need to assemble an assortment of parts into a working access control system, saving the client valuable time and money that is better spent running their business.

The Company's state of the art access control systems provide time stamps of every instance when someone accesses or doesn't access a room, and door contacts let business owners know every time a door is opened or closed. The combination of CSA's access control with video cameras and management systems, create a resource for business owners to track and document everything that is happening within their facilities. With the video and data they gather, tasks can be studied and analyzed, and steps taken to better manage the process.

Intrusion and Perimeter Alarm Systems

CSA installs fully wired intrusion and perimeter alarm systems that provide clients with advanced security measures while complying with all applicable state regulations.

CSA offers systems from Telguard Advantage, DSC, and GE's Security Pro line. Basic alarm systems include keypads, control panels, sirens, motion detectors, and door sensors. Additional options for additional security include wireless remotes, panic buttons, and sirens with added strobe lights.

The Cloverton Group

Fundamental to the legal cannabis industry is the protection of product and cash throughout the distribution channel. Growers ship product from their cultivation facilities to independent laboratories where it is tested for compliance with state-mandated parameters. From the labs, the product is then delivered to the retail dispensaries, where it is sold to the public.

Due to the current banking and regulatory environments, payments between each step in the distribution network are made in cash: from the customer back to the grower. Therefore, these businesses are forced into having to transport bags of money between growers and dispensaries and their own vaults or storage facilities.

The risk of theft of cash and product is present at every stage, even when they are not in transit. Accordingly, all cannabis businesses require security measures to prevent theft, mitigate risk to employees and maintain regulatory compliance. After realizing the need for a comprehensive solution for the industry, CSA introduced the Cloverton Group in 2015. CSA released armed guards and armored transport services. CSA now additionally provides armed guards, armored transport, site risk assessments and consulting services. CSA has made significant investments in armed vehicles, state security licenses and highly trained staff in anticipation of the release of The Cloverton Group division to the Colorado market. They have, to date, focused on providing system security services; the bulk of their clients have hired CSA to supply alarm systems, door access systems, and camera and video surveillance but have been ramping up it efforts with the Cloverton Group in March 2015, after hiring Josh Ray, who has written many SWAT security and procedural operating manuals around the country as well as providing state-by-state training of these teams, to head-up their physical security efforts nationally.

Physical Security

Uniformed Armed & Unarmed guards

Grow site are often highly secretive and located in nondescript locations. Due to the large investment needed to equip and maintain an efficient and profitable grow site, security is imperative for the long term profitability of a grow operation. Furthermore, Retail cannabis stores and medical marijuana dispensaries are high profile targets for crime and robbery. Physical store-front locations are often seen as easy targets for thefts, hold-up robberies and smash-and-grab robberies. The Cloverton Uniformed Officer provides a highly visible deterrent to reduce vandalism, theft, violence or property destruction. Our Uniformed Security Officers work within your security plan to provide services as required. In many situations a Uniformed Security Officer is enough of a visible deterrent against potential violence. However as the threat or potential for violence increases, an Armed Security Officer can add an additional level of security protection. The Cloverton Group can provide Armed Security Officers for any security assignment. The Company's Officers are highly trained, screened and licensed in all applicable firearms training as required by state and local regulations. Furthermore, each guard is equipped with a law enforcement-grade body camera.

Armored transport

The Cloverton Group offers integrated transportation solutions for cash and cannabis. Cloverton's highly trained officers can provide increased security for your grow site, retail store, dispensary by

transporting your cash off-site to either a secure storage location, to your banking partner, validate all cash in a secure location, as well as transport the clients valuable cannabis product from a cultivation facility to a retail or dispensary location. Moreover, the Company can assist in the transportation of all cannabis products. To ensure the highest level of security, The Cloverton Group recently purchased a new fleet of Mercedes-Benz Sprinter vehicles, which have been up-armored in Detroit and fitted with live HD video cameras, advanced GPS transmitters, and law enforcement-grade body cameras. All video, location, and pickup and drop-off information is then transmitted via satellite to Canna Security America's command center in Denver for storage and review to provide the most advanced banking traceability solution in the industry.

Executive protection

Individuals and businesses in the legal cannabis industry are often targets of theft, robbery and organized crime. Due to the understanding of the wide range of risk exposure facing corporations, politicians, organizations and celebrities engaged in the legal cannabis industry, The Cloverton Group has the ability to provide Executive Protection details to successfully protect these individuals from possible risks, threats, and dangers.. Cloverton's Executive Protection Specialists provide business leaders, dignitaries, celebrities and other high-profile individuals the benefits of discreet, professional executive protection at work, home, and during worldwide travel.

Background checks

While the cannabis sector presents great opportunity, it also brings risks that are unique to the very nature of the cannabis market, specifically in regard to the backgrounds of some of the management and investors in this sector. As a result, the Cloverton Group conducts specialized background check such areas as past employment, education, military service, medical history and, subject to applicable state laws, criminal and other background searches. The Cloverton Group is TLOxp certified giving access to direct federal and state databases to provide the most comprehensive background checks available.

Investigations

With the high-risk environment of the cannabis industry, clients may have specific issues that require specialized services to determine responsibility for on-site incidences. The Cloverton Group offers insurance investigations, internal investigations, employee theft, shoplifting, drug use and an array of other investigative capabilities to secure clients property.

Risk Assessment & Consulting

The Cloverton Group provides threat assessments and consulting services on all aspects of cannabis businesses' security operations and make recommendations that protect assets and are within their budget. Leveraging the Management's expertise, The Cloverton Group systematically analyzes the property's interior and exterior exposures and carefully note the vulnerabilities of the property's high security areas. After the Company's threat assessment, clients are informed of the areas of concern regarding security cameras, alarms and guards, and then provide a comprehensive plan of action. Moreover, Cloverton will troubleshoot existing security systems to determine where problems exist and how they can be resolved to prohibit unauthorized breaches.

BUSINESS MODEL

CSA increased its revenue in 2014 over the previous year by more than 350%. CSA is on pace to dramatically increase revenue again in 2015 and is adding new services that will augment the overall growth and profitability of the company. 2015 will be a year for expansion as CSA acquires more market share in existing markets and prepares for the significant influx of business from newly legalized states.

The Company generates revenues from various sources including security system installations (CCTV, Alarm, and Access Control), armored transport services, guard services, consulting, alarm monitoring, off-site video, and field service. The Company's current revenue model is composed of the following income streams:

- Revenue on security system installations
- Revenue on armored transport services
- Revenue on guard services
- Revenue from consulting fees
- Revenue from providing alarm monitoring and offsite video backup

The continued success of CSA depends on states continuing to legalize the use of marijuana for medical and recreational purposes and, equally importantly, such states and the individual localities in such states, adopting a corresponding process to license cultivation and dispensary facilities, as well as continuation of the current federal policy of not enforcing the federal prohibition on the use of marijuana in states that have legalized it.

SALES AND MARKETING

In the legal marijuana security industry, customer's selection of a company to provide security services is based primarily on price, quality of services provided, scope of services performed, name recognition, recruiting, training, the extent and quality of security officer supervision and the ability to handle multiple worksites on a nationwide basis. To account for this as well as the rapid increase in crime associated with the marijuana industry, Canna Security's sales and marketing efforts are designed to focus on quality-conscious customers in the legal medical and adult use marijuana industry throughout all current and future U.S. legal marijuana markets.

The development of CSA's target market derives from the progress of state legislation. Due to specific markets not currently being available, CSA's management leverages their industry experience to monitor the progress of legislation and predict with some degree of certainty when new geographic markets will be fully functional. The current legislative environment translates to the company being able to specifically target their limited sales and marketing resources to newly established medical and adult use cannabis markets. In addition, the company has the advantage of having their products and services often featured in the media during the legislation process prior to the establishment of the new market, which helps drive brand awareness and increase the company's credibility.

The company's key marketing vehicles are sales literature, security and marijuana industry conferences, trade shows, advertising, public relations, their corporate website, electronic marketing and direct mail. CSA's marketing team strives to position the company as the industry leaders and experts on safety, security and training. To ensure this industry-leading status, they provide safety and security information to customers and prospects and provide a resource for the media covering those topics.

OPERATIONS

Canna Security Americas recruit, screen, hire, train, outfit, schedule and supervise the security officers who are deployed at customer locations. The company also uses market-specific services for each of the vertical markets in the marijuana industry they target, such as bike patrols at dispensaries, vehicle patrols for cultivation facilities, as well as armored vehicle transports and escorts high value assets or financial transactions.

The company provides their security officers with badges and uniforms and are responsible for their compensation, including benefits, and for personnel administration. They also provide any required bonding or workers' compensation insurance.

CSA generally renders their security services pursuant to a standard form security services agreement that specifies the personnel and/or equipment to be provided at one or more designated locations and the applicable payment rates, which typically are hourly rates per person. The company's rates vary depending on whether our services are provided during normal business hours, overtime or during holidays, as well as the length of time for which we are being engaged. The security services incorporate certain management functions, including threat assessments, personnel scheduling, compensation, outfitting, equipment, training and supervision. These security services agreements also provide customers with flexibility by permitting reductions or expansions of the security force on relatively short notice.

To determine whether adequate security requirements have been established prior to commencing service for a customer, the Company conducts a threat assessment of the customer's site and prepare recommended changes to existing customer security programs or services. While they prepare site assessments and issue recommendations, the security plan and coverage levels are ultimately determined by the customers.

CSA is increasingly dependent on information technology networks and systems to process, transmit and store electronic information. Specifically, they depend on our information technology infrastructure for electronic communications among their locations across the country and between the personnel and their customers and suppliers. Based on the level of contracted services, CSA uses sophisticated electronic security and access control equipment, including computerized systems, video surveillance equipment and electronic accountability technology to monitor and log security officer patrols and generate user-friendly reports for customer and internal use. Furthermore, they use technology to support efficiency, accuracy, and dependability in administrative functions, which include finance and accounting. In addition, labor and operations management services such as scheduling, reporting, payroll, billing and training management are integrated through a third party vendor software platform.

CSA recruitment and training practices are based on the belief that the high quality of their security personnel is essential to the company's ability to offer effective and reliable services to their clientele. To ensure this high quality, the company hires and deploys professional teams of security experts, primarily comprised of ex-law enforcement professionals and former military experience.

In addition, CSA encourages the retention rate of their security personnel and seeks to control operating costs through effective management of the hiring process, including extensive candidate screening, training and development.

The company requires all applicants for physical security personnel positions to undergo a detailed pre-employment interview and a background investigation covering such areas as past employment, education, military service, medical history and, subject to applicable state laws, criminal and other background searches. Employees are selected based on a number of criteria including physical fitness, maturity, experience, personality, perceived stability and reliability, among others. CSA frequently conducts medical examinations and substance abuse testing on potential candidates, subject to applicable laws and regulations. The security personnel supplied to customers are employees of CSA, even though they may be stationed regularly at the customer's facilities.

By leveraging management's extensive experience in the security industry, Canna Security America has created one of the most comprehensive training programs in the legal marijuana security industry. Their training program ensures that CSA's security personnel meet all state and federal requirements for training, but also meet the company's internal rigorous standards in specialized areas pertaining to the legal marijuana industry. Furthermore, the training program is designed to be flexible, which allows for the program to keep up with the constantly changing legal landscape of the industry and adapt to meet new requirement within commercial, local, state, or federal government customer contracts. CSA's training process has created a competitive advantage for the company by fostering an employee culture that emphasizes personal career development and provides rewards for long-term, quality service.

Canna Security America's recruitment and training practices foster a favorable turnover rate for their security personnel as compared to industry averages. This low turnover rate assists in decreasing the company's operational costs, including recruiting, screening, training and uniform outfitting costs. Moreover, CSA is able provide a higher overall level of service to its customers by providing consistent security staff.

RECENT FINANCINGS

CSA was one of the ArcView Investor Networks' earliest funded start-ups, CSA was a part of a group of entrepreneurs that pitched at the 2nd ArcTank for their initial raise and, with the assistance of Steve Berg, crafted their presentation and pro forma investment package that raised \$920,000 from owner partners that include Tripp Keber of Dixie Elixirs.

Canna Security America (CSA) has passed the \$1.05M target for its current Series A raise. The Company is raising capital through a 5% Series A Convertible Preferred. The conversion price is \$0.25 per share (the conversion price). to be used for additional working capital and the purchase of additional armored vehicles needed for large-scale transport contracts in Colorado, Nevada, Illinois, Washington, and Oregon.

CSA is expected to become a publicly traded exchange act reporting company in August of 2015.

LEGAL MARIJUANA INDUSTRY

Overview: United States

The legal marijuana industry has experienced a major transformation over the past three years. Massive shifts in the business environment have changed the industry landscape in a variety of ways. The American population's increasing support for the legalization of marijuana has been a primary driver of this rapid change, with the trend being validated by the Gallup Poll released in October 2013 showing that 58% of Americans are in favor of legalization, a 10% increase from 2012. The accelerating momentum of support has given rise to the passage of new marijuana regulations in many states, as well as multiple law reforms that are currently underway in others.

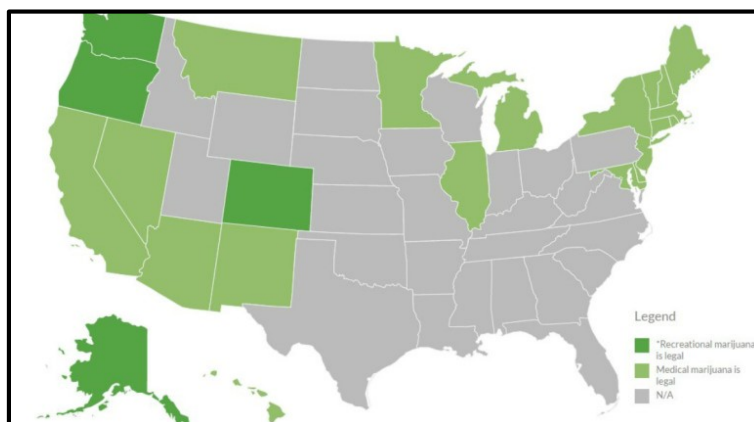
In the past year eight new states plus the District of Columbia have approved new medical marijuana sales regulations, which include Massachusetts, Illinois, Connecticut, Vermont, Delaware, New Hampshire, Minnesota, and most recently New York. With the new legislation in place, the total number of states permitting medical marijuana use has risen to 23. Moreover, on January 1, 2014, Colorado and Washington became the first state in the nation's history to implement recreational marijuana use policies. With these states benefitting from substantial tax revenue from these inaugural policies, many experts estimate that seven to fourteen new states could attempt to enact similar recreational use policies by 2017. In the November 2014 midterm election, Oregon, Alaska and the District of Columbia successfully passed legislation to legalize recreational cannabis. This will help to propel the cannabis sector in several key ways, from increasing the flow of capital into legal marijuana companies to setting up a 2016 legalization push in California and other states.

Oregon and Alaska now join Colorado and Washington State, which legalized recreational marijuana in 2012. State officials in Oregon and Alaska will move to create the administrative system for marijuana sales, which are expected to begin in both states by 2016. Voters in the District of Columbia passed what has been called "soft legalization," which allows citizens to possess and grow small amounts of marijuana, but does not create cannabis stores (the DC initiative must also be approved by Congress, where opposition is already brewing.)

The successful legislation in Oregon, Alaska, and the District of Columbia, along with the close result in Florida, will make 2015 another critical year for the cannabis industry. These midterm results will offer lawmakers in other states the confidence to introduce new initiatives for action in 2015 and placement on 2016 ballots. This trend will be accelerated if the sale of recreational marijuana in Colorado and Washington State appears to be a success.

Each state's regulatory structure is unique, making it critical for potential business owners in the industry to know and understand each state's regulatory landscape. Understanding individual state markets requires potential business operators to account for multiple levels of regulatory understanding and compliance, such as who is allowed to legally purchase marijuana, how it may be sourced, processed, and distributed.

Chart 1: Cannabis Legal Status by State



Even with the shifting views of society as well as many federal officials, marijuana is still classified as an illegal substance in the United States. The Drug Enforcement Agency and the Food and Drug Administration still classifies marijuana as a Schedule 1 drug under the Controlled Substance Act. The classification makes marijuana illegal under federal law to manufacture, distribute, or dispense and has created a discrepancy between the laws in states, that permit the distribution and sale of medical and recreational marijuana, from federal law that prohibits any such activities.

The discrepancies in federal and state law have created a complicated and risky environment for businesses in the industry, especially in regards to restricted banking access for legal marijuana companies. The banking system in the U.S. is, in most states, federally mandated. Since possession or distribution of marijuana violates federal law, banks that provide services to legal marijuana companies face the threat of prosecution and assorted sanctions, such as loss of their federal depository insurance. As a result, many marijuana-related businesses are denied the ability to deposit cash, process electronic payments, or obtain loans and cash management services, consequently forcing these companies to transact on a cash-only basis. Of course, this failure of the legacy financial establishment to react to demand is creating the opportunity for new providers, from finance companies to physical security providers.

Another variable adding to the complexity of legal marijuana market is the local laws at the city, county and municipal level. Even when a state enacts legislation legalizing marijuana, cities, counties and municipalities have the right to exercise restrictions on marijuana activities, such as cultivation, retail or consumption. One particular area that this has been observed is in regards to zoning requirements, since zoning is set by local governments. This has restricted many businesses in the emerging marijuana industry on how and where their marijuana operations can be located, as well as the manner and size in which they can operate.

There is action being taken both in congress and the executive branch to clarify the legality of banks, as well as cities and municipalities doing business with the cannabis industry. In response to the passage of recreational cannabis use regulations in Colorado and Washington State, the U.S. Department of Justice Deputy Attorney General James M. Cole issued a memorandum, the 2013 Cole Memo, to all United States Attorneys providing updated guidance to prosecutors and

law enforcement concerning marijuana enforcement under the CSA. The memorandum indicated that states with tightly regulated marijuana laws and oversight would be allowed to enforce their own laws. Moreover, the memo laid out eight top federal cannabis enforcement priorities, which acts as guidance to where cannabis enforcement resources will be targeted. It focuses on addressing the most significant threats in the most effective and consistent way possible. Those priorities include:

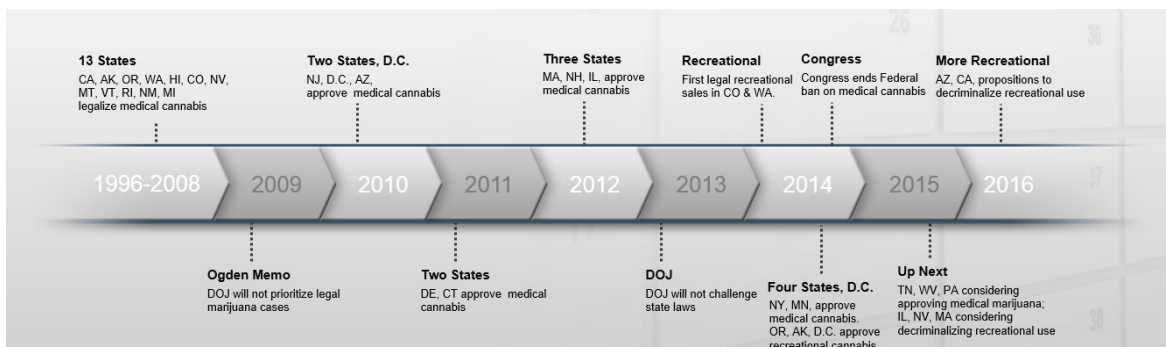
- Preventing the distribution of marijuana to minors
- Preventing revenue from the sale of marijuana from going to criminal enterprises, gangs, and cartels
- Preventing the diversion of marijuana from states where it is legal under state law in some form to other states
- Preventing state-authorized marijuana activity from being used as a cover or pretext for the trafficking of other illegal drugs or other illegal activity
- Preventing violence and the use of firearms in the cultivation and distribution of marijuana
- Preventing drugged driving and the exacerbation of other adverse public health consequences associated with marijuana use
- Preventing growing of marijuana on public lands and the attendant public safety and environmental dangers posed by marijuana production on public lands
- Preventing marijuana possession or use on federal property

A more substantial development occurred on February 2014. The Obama administration gave banks a road map for conducting transactions with cannabis companies operating within state regulations, so these companies could have an equal level of access to financial services as traditional businesses. The move was designed to let financial institutions serve such businesses while ensuring that they know their customers' legitimacy and remain obligated to report possible criminal activity. However, there still remains nothing expressly protecting banks that work with state-legal, state-licensed marijuana businesses from prosecution.

The most encouraging news regarding the legal cannabis industry came on December 13, 2014, when passed the federal spending bill, which contains protections for medical marijuana and industrial hemp operations in states where they are legal. The spending bill includes an amendment that prohibits the Department of Justice from using funds to go after state-legal medical cannabis programs. If the bill is signed into law, it will bring the federal government one step closer to ending raids on medical marijuana dispensaries, as well as stopping arrests of individuals involved with marijuana businesses that are complying with state law.

The bill protects medical marijuana programs in the 23 states that have legalized marijuana for medical purposes, as well as 12 additional states that have legalized CBD oils, a non-psychoactive ingredient in marijuana that has shown to be beneficial in some severe cases of epilepsy. This landmark passage marks the first time Congress has approved nationally significant legislation backed by legalization advocates and brings almost to a close, two decades of tension between the states and Washington over medical use of marijuana.

Chart 2: United State Legalization Timeline



Ancillary Businesses

As more states continue to loosen their marijuana laws, the demand for marijuana-related products and services is expected to grow rapidly. This rapid growth combined with the professionalization of the marijuana industry has spurred the emergence of cannabis-related niche markets. These ancillary markets include, but are not limited to, dispensary and cultivation consulting, technology, insurance, IT, security consulting, packaging services, legal counseling/consulting, merchant processing, and dispensary management. Ancillary businesses that cater to the legal marijuana industry are well positioned to benefit from the growth in the industry, since private marijuana producers and sellers often have difficulty acquiring these types of products and services from traditional venues. In addition, due to ancillary businesses operating in legal marijuana markets without physically handling the plant, they have less legal risk than companies directly involved in the production and sale of cannabis.

Consulting and Advising

The complexity of legal marijuana markets has created a strong demand for consulting and advisory services in different aspects of the cannabis industry. These services are designed to help entrepreneurs develop comprehensive strategies based on market need and growth opportunities by addressing everything from site selection and design to license procurement and facility build-outs. License procurement consulting services is one of the areas experiencing the strongest demand. Applicants are required to demonstrate competence and thoroughness in their application submissions, with many states granting licenses on the basis of merit. This has translated to applicants spending tens of thousands of dollars on consulting fees to strengthen their candidacy and increase their chances of successfully being awarded cannabis dispensary licenses. With the industry's dynamic regulatory landscape and financial limitations, these services are invaluable to companies looking for a smooth entry into the industry.

Physical Security

Due to the current state vs. federal legal status of the cannabis industry, a cash-only environment has been created and virtually no banking services, as credit card companies and banks are

regulated by the Federal government according to which cannabis is illegal, through the interstate commerce clause of the Constitution. As a result, credit card companies and banks cannot legally service cannabis dispensaries, necessitating a very high level of security with cash filled safes, armored transports, and tax compliance. This has positioned security as one of the most crucial aspects in the operations of cannabis businesses, since all cannabis businesses require security measures to prevent theft and mitigate risk to employees. Businesses need security system solutions not only to protect business assets, but in many cases also to comply with state regulations. Most states require dispensaries to take specific security precautions, with many of the States generally having similar requirements to each other in this area: most require alarms, video surveillance, and exterior lighting at a basic level, with some states requiring additional security measures. The table below shows these precautions by state. It is important to note that dispensers and manufacturers will likely take security very seriously, regardless of how stringent security regulations are, simply to protect their financial interests (like any other business owner would). With the exception of Minnesota, Illinois, Oregon, and New Hampshire, these regulations are set by departmental rule, rather than by statute.

Security Requirement	States
Alarm	Arizona, Colorado, Connecticut, Delaware, Illinois, Massachusetts, Minnesota, Nevada, New Hampshire, New Jersey, New Mexico, Oregon, Rhode Island, Vermont
Video surveillance	Arizona, Colorado, Connecticut, Delaware, Illinois, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Oregon,
Lighting	Arizona, Colorado, Delaware, Maine, Massachusetts, Nevada, New Hampshire, New Jersey, Rhode Island, Vermont
Intrusion Detection	Illinois, Maine, Minnesota, Nevada, Vermont
Failure notification	Connecticut, Massachusetts, Nevada
Single Entrance	Arizona, Nevada
Security guard	Colorado, New Hampshire
Storage vaults	Connecticut, Massachusetts
Facility Access controls	Illinois, Minnesota
Personnel ID systems	Illinois, Minnesota
Backup power	Connecticut
Inventory controls	Delaware
Safe	Oregon
Measures to prevent loitering	New Hampshire
Fence	Maine

As a result, security consulting has emerged as high-growth vertical of the ancillary cannabis industry. These security-consulting companies assist in security and transportation logistics for

legal marijuana business, as well as provide on-site compliance verification to ensure that local business owners are operating lawful and inspection-ready establishments.

Many companies in the space also have started seeking alternative solutions to keep their money safe while providing their customers convenient payment options. More financial services companies are offering innovative services, such as virtual currency, international merchant solutions, and online payment solutions similar to PayPal. However, none of these solutions can truly replace the need for conventional banking access.

MARKET SIZE AND GROWTH RATES

United States

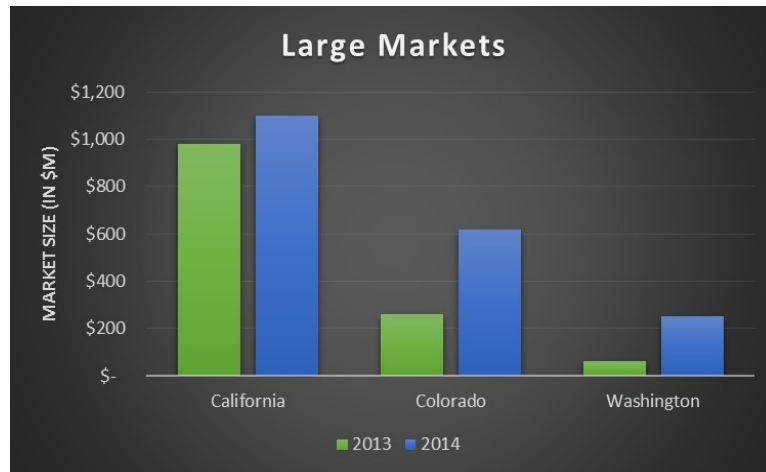
The total market for cannabis, legal and black market, is estimated to exceed the economic value of corn and wheat, which is why it is widely considered the largest cash crop in the United States. According to a report by the Associated Press in July, it is estimated that the value of the total domestic cannabis market ranges from \$35 billion to \$50 billion. Even though it is illegal in most of the nation, the legal cannabis industry is among the fastest-growing markets in the United States, with it already being valued at approximately \$1.43 billion for 2013. Furthermore, it is estimated that the market grew 77 percent, to \$2.7 billion at the end of 2014. However, this could potentially be conservative due to undercounting of ancillary products and services. The long-term growth outlook for the industry is even stronger. Based on growth in the current market and more states moving to allow medical cannabis and/or making recreational use legal, it is believed the market will experience growth in excess of 700 percent to over \$10 billion by 2018.

Chart 10: Annual Retail Sales by Industry

Industry	Annual Revenue
Beer	\$100 billion
Recreational Marijuana if Fully Legal	\$40-\$45 billion
Wine	\$36 billion
2014 Legal Cannabis Sales	\$1.9 - \$2.1 billion
e-Cigarettes	\$1.5 billion
M&M's	\$600 million

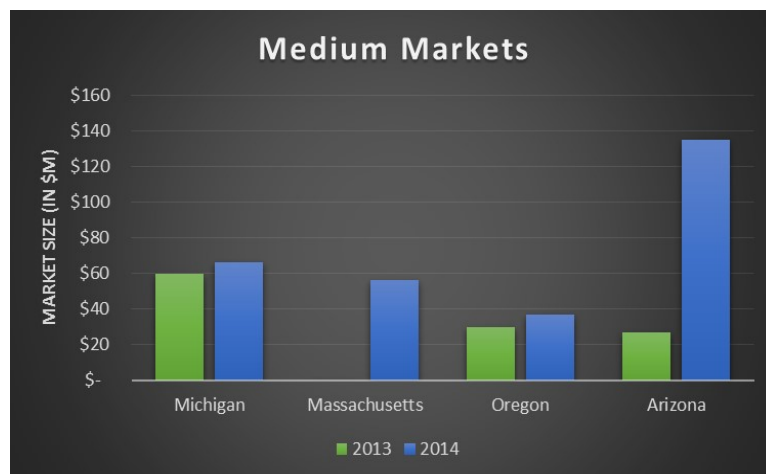
In comparison to other comparable markets, such as beer wine and vodka, the legal cannabis market is still small in terms of size. The small size is due to the market being immature, as well as cannabis still being classified as illegal on the federal level. However, legal cannabis is estimated to experienced experience growth of 77 percent in 2014, while the domestic beer market is increasing around 2 percent. The market's growth has severe constraints caused by the legal status of cannabis in most of the nation. If the government was to legalize the substance on a federal level, the legal cannabis business would have the potential to grow at a pace much faster than what is being experienced in 2014. Bloomberg estimates that if cannabis was legalized the US market potential would be between \$35 billion to \$45 billion.

Chart 11: Market Size (Large Markets)



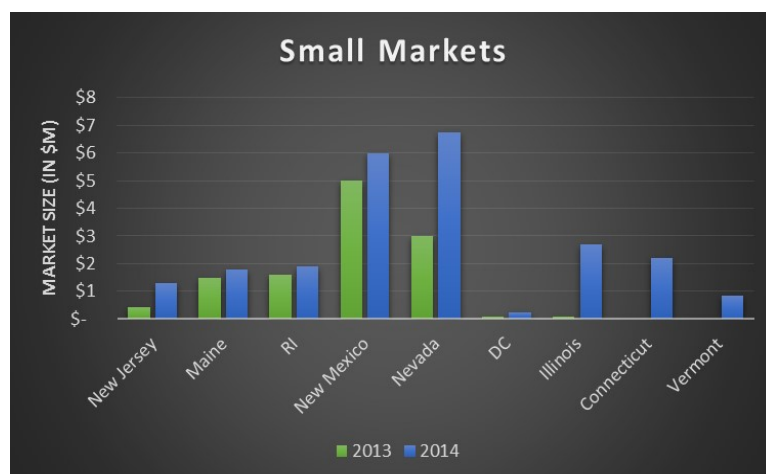
Source: Arcview Market Research

Chart 12: Market Size (Medium Markets)



Source: Arcview Market Research

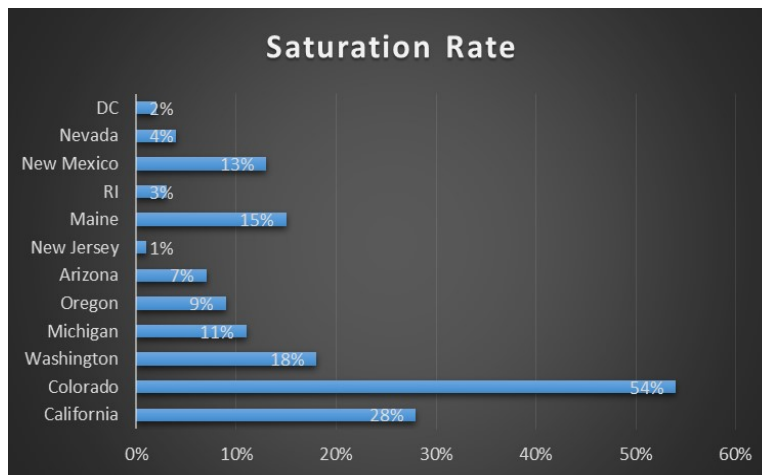
Chart 13: Market Size (Small Markets)



Source: Arcview Market Research

Many states' legal marijuana markets have seen significant growth over the past year. The industry will experience rapid growth as new states begin adopting favorable legislation in regard to medical and recreation marijuana use. One strong indicator of future growth potential in a specific market is the saturation rate, percentage of the customer population who are actively purchasing legal medical marijuana, relative to the potential patient population who qualify to make those purchases. With low saturation rates in a majority of the nation's medical marijuana markets, there is a very favorable environment for high growth.

Chart 14: Saturation Rate by State



Source: Arcview Market Research

Business revenues vary widely across the industry, as well as within key sectors and states. These variances are driven by differing regulations and market dynamics. In addition, the large dispersion of business revenue is also due to the fact there are three different types of marijuana-related businesses:

- **Small Local Businesses:** Ranging from cultivators supplying inventory for just one small dispensary to edibles producers working out of a small kitchen, these businesses may only generate \$50,000 or less in annual revenues. Many are not interested in, or do not have the skill or financial resources to, become larger organizations
- **Mid-sized Regional Businesses:** These businesses include established dispensaries, consultants and services firms such as lawyers and accountants with a specialized client base. Many of them have past entrepreneurial experience, but may not want or may not have the ability/resources to grow their business beyond a handful of employees. Their revenues range from \$100,000 to about \$750,000.
- **Large National Brands:** These include the largest local dispensaries, especially those with multiple locations, as well as infused product companies with popular brands and ancillary companies that serve the national market. Some are publicly traded companies on over-the-counter markets. Their owners and shareholders are focused on significant growth of the company, including licensing, franchising, and aggressive national distribution at some point in the future.

COMPETITIVE LANDSCAPE

Initially, when the cannabis industry emerged, there were hosts of newly formed “cannabis” security firms, as well as some major brand names operating in this space. Today the majority of these security companies no longer service the cannabis industry due to the strict regulatory demands enforced by the state. CSA has been instrumental in helping state regulators in writing the compliance now in effect.

The risk of new competition from other security firms entering the market is always present. When Washington and Colorado both passed adult-use cannabis laws, there was a big shift in competition within the industry. For the first time since the founding of the company, new “cannabis focused” security companies began to form as the result of the newly enacted laws. Small- to medium-sized security firms have recognized the opportunity to serve cannabis businesses and compete with CSA. However, their primary focus and core competency is providing physical security services such as armed guards, armored transport, and consulting. While these competitive threats exist, CSA believes smaller security firms lack the specialized experience CSA has in the industry and that these competitors will not be able to effectively leverage themselves as they lack an established brand and reputation. CSA also believes larger corporate security firms will not choose to reenter the market unless federal legalization occurs, which is unlikely for at least several years. In fact, the larger firms may look to acquire CSA if they choose to once provide services to cannabis companies.

CSA has embraced the competition and is thriving in this newly competitive environment by remaining true to its vision and by adapting quickly to reinforce its value as a provider of both security systems and services. Being involved in the introduction of the benchmark for regulations in the industry has provided a unique market advantage and opportunity to establish the CSA brand on the national forefront.

Blue Line Protection Group, Inc.

Blue Line Protection Group, Inc. (Blue Line) provides armed protection, financial solutions, logistics, and compliance services for businesses engaged in the legal cannabis industry. The company offers asset logistic services, such as armored transportation service; security services, including shipment protection, money escorts, security monitoring, asset vaulting, VIP and dignitary protection, and others; financial services, such as handling transportation and storage of currency; training; and compliance services. It serves marijuana dispensaries in Colorado, with operations in Washington and Nevada. The company was formerly known as The Engraving Masters, Inc. and changed its name to Blue Line Protection Group, Inc. in May 2014. Blue Line Protection Group, Inc. was founded in 2006 and is headquartered in Highlands Ranch, Colorado.

CannaGuard Security

CannaGuard Security (CannaGuard) is a local Northwest cannabis security company based in Portland, Oregon. Current clients reside in Oregon and Washington, and more locations will be added as additional states come online. CannaGuard consults nationwide to ensure its clients’ designs and product choices meet their requirements and budgets.

CannaGuard specializes in engineering custom security systems specifically for the cannabis industry. CannaGuard designs, sells, and installs Oregon Medical Marijuana Program (OMMP) and Initiative 502 compliant security systems for dispensaries, retail locations, and grow operations. Its security systems offer wireless connections, monitored alarms, alert notifications, two-way voice, and crash and smash protection.

In addition to cannabis security systems, CannaGuard also provide residential and commercial security systems at OmniGuardSecurity.com.

MPS International

MPS International (MPSI) is a consulting firm that provides security services to business and individuals in the legal cannabis industry. MPSI has been family owned and operated for over 47 years and brings decades of experience in providing professional security services to its clients.

MPSI offers security officer services as well as secure transportation of assets, electronic surveillance, and cultivation operation security. When security officers are needed, MPSI contracts exclusively with MPS Security to provide uniformed security officers and management.

MPSI operates with California, Colorado, Washington State, Nevada, and Arizona.

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Risk of Prosecution for Marijuana-Related Companies. If you are considering investing in a company that is connected to the marijuana industry, be aware that marijuana-related companies may be at risk of federal, and perhaps state, criminal prosecution. The Department of Treasury recently issued guidance noting: "[T]he Controlled Substances Act ("CSA") makes it illegal under federal law to manufacture, distribute, or dispense marijuana. Many states impose and enforce similar prohibitions. Notwithstanding the federal ban, as of the date of this guidance, 20 states and the District of Columbia have legalized certain marijuana-related activity.

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