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Canadian Cannabis

Canadian Equity Research
5 July 2017

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Company	Rating	Price	Target
Canadian Cannabis			
ACB-TSXV	Spec Buy	C$2.18	C$2.85↓
previous			*C$3.25*
APH-TSX	Spec Buy↑	C$5.42	C$6.75↓
previous	*Hold*		*C$7.00*
EMC-TSXV	Spec Buy	C$1.65	C$2.80↓
previous			*C$3.90*
FIRE-TSXV	Spec Buy	C$1.23	C$2.00↓
previous			*C$2.50*
IMH-TSXV	Hold	C$1.10	C$1.35
MARI.CA-CNSX	Spec Buy	C$1.37	C$5.00
MJN-TSXV	Spec Buy	C$1.71	C$3.00
OGI-TSXV	Spec Buy	C$2.18	C$3.10↓
previous			*C$3.40*
WEED-TSX	Hold	C$8.09	C$9.50↓
previous			*C$10.50*

Priced as of close of business 4 July 2017

Initiation of Coverage

In a crowding market, seek differentiation

Health Canada stokes already heated competition. Recent results suggest that many LPs have struggled to ramp production and have therefore missed consensus expectations for sales volumes. While such growing pains are to be expected, on the positive side, quarterly earnings also suggest that cannabis prices have climbed higher due to supply constraints. Further, we expect Health Canada's move to facilitate new licences could intensify competition. Although we believe incumbent LPs have a distinct first-mover advantage with strong balance sheets and aggressive expansion plans, we still expect the growing number of new licencees will capture meaningful market share.

Since our last industry report, we have made four macro changes to our model: (1) Reduced our near-term supply estimates due to production issues; (2) However, we have also assumed time to full capacity will occur one year earlier (end 2019) due to the influx of cultivation licences; (3) At peak, we expect the market will be divided amongst more players; (4) But as a positive, we have also assumed a higher penetration of oils into both the medical and rec markets.

In this report, we are initiating coverage of three new LPs:

Maricann Group (MARI:CSE | SPECULATIVE BUY, C$5.00 target): With the construction of its new hybrid greenhouse underway, we believe Maricann is positioned to become a meaningful low-cost producer in Canada. And, while this opportunity alone suggests substantial upside potential, we believe Maricann's foothold in the German market provides differentiation and significant optionality for investors. Maricann trades at 1.9x funded capacity, well below peers' 6.7x. Our target price is based on 6.9x. **Top Pick.**

Cronos Group Inc. (MJN:TSX-V | SPECULATIVE BUY, C$3.00 target): Although Cronos recently announced a sizable expansion at wholly owned Peace Naturals, the stock is still down (33%) after trace levels of contaminants were found. While we do not view this issue to be serious, Cronos is nonetheless the fourth LP to issue a product recall. However, as the company continues to build out its facilities and execute on its diversified strategy, we believe Cronos should justify a premium valuation to peers. Cronos currently trades at 7.1x funded capacity.

Invictus MD Strategies Corp. (IMH:TSX-V) | HOLD, C$1.35 target): Led by crown jewel Acreage Pharms, Invictus has acquired a portfolio that we believe provides investors with moderate diversification. Although Acreage is a blue-chip prospect, we do not believe a premium valuation is warranted due to the time/risk involved with expansions, obtaining sales licences, and implementing its oil strategy. Invictus trades at 5.3x funded capacity (a discount to peers), which we believe is reasonable at this stage of development.

Lowering targets on our existing coverage. Given changes to our macro assumptions we have reduced our target prices. While Canopy Growth is still HOLD rated, we are lowering our target to C$9.50 from C$10.50. We are maintaining our SPECULATIVE BUY ratings but lowering targets on the following: Aurora Cannabis (ACB:TSX-V | C$2.85 from C$3.25); Organigram (OGI:TSX-V | C$3.10 from C$3.40); Supreme Pharmaceuticals (FIRE:TSX-V | C$2.00 from C$2.50); Emblem Corp. (EMC:TSX-V | C$2.80 from C$3.90).

Upgrading Aphria. Although industry valuations have been trailing off, we believe Aphria's ~38% share price decline since reaching 2017 highs is in contrast to the company's continued QoQ profitability and the approval of its Part II build-out, making current trading levels considerably more attractive. Our revised target of C$6.75 (from C$7.00) implies a 24.5% return, and we are upgrading to SPECULATIVE BUY (from Hold).

For important information, please see the Important Disclosures beginning on page 85 of this document.

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Executive Summary

Re-ranking our LP coverage universe

Our Canadian licenced producer (LP) coverage universe is now expanded to nine companies, providing us with greater breadth and depth of view of the landscape. As a result, we have ranked our top three picks amongst Canadian LPs based on valuation and strategy. In order, our best ideas are:

1) Maricann Group – an excellent differentiated strategy provides Maricann with a solid position in the Canadian market, where we expect the company will eventually emerge as a top 10 producer. However, we believe it is Maricann's leading position in Germany that generates significant optionality for investors. Maricann trades at a low 1.9x funded capacity, compared to peers at 6.7x.

2) Aurora Cannabis – we believe that recent acquisitions have diversified Aurora's capabilities and strategy, including an expansion into Germany and a novel oil extraction technology. A solid balance sheet and the on-target construction of its 100,000 kg capacity Aurora Sky hybrid greenhouse suggests that Aurora trades at 7.7x funded capacity, well below its fellow large peers Canopy (10.9x) and Aphria (10.5x).

3) Cronos Group –we like Cronos' strategy of building out capacity and focusing on oil extraction, and we believe that the stock has been unfairly pressured following recent contamination concerns. We do not believe this is a serious issue, or that it will have a lingering effect on its business, and therefore see a potential rebound for the stock. Although Cronos trades at a modest premium of 7.1x funded capacity, we believe management's well-defined growth strategy and execution will place the company as a leader in this group.

Maricann is our Canadian LP top pick

With this initiation report, Maricann Group, Inc. (SPECULATIVE BUY rating, C$5.00 target price) becomes our Top Pick amongst Canadian LPs. Maricann is a Canadian licenced producer of cannabis that is constructing the first phase of an 800,000 sq. ft. hybrid greenhouse facility that will be capable of producing almost 100,000 kg of cannabis when fully complete. The company is focused on the medical market and, as such, possesses leading cannabinoid extraction expertise that will be leveraged as it seeks to penetrate the growing medical opportunity.

Although the Canadian market for Maricann is compelling on its own, we believe that the company's strategy in Germany provides the greatest differentiation and upside opportunity for investors. Maricann owns a 1.15 million sq. ft. facility in Dresden that is ready to be retrofitted to produce cannabis. With a medical market potentially more than twice the size of Canada's, we believe that Maricann is ideally positioned to address this significant opportunity.

Our conservative risk-adjusted valuation of the Canadian market suggests a $3.76 per share value and supports our SPECULATIVE BUY rating on its own. The optionality of the German opportunity is valued at $1.46 per share, and our un-risked valuation for Germany suggests $5.45 per share upside. Including the German facility, Maricann currently trades at a peer group-low funded capacity of 1.9x, compared to the peer average of 6.7x; our target of C$5.00 implies a funded capacity of 6.9x.

Cronos' Peace Naturals headlines a diversified strategy

We are initiating coverage of Cronos Group Inc. with a SPECULATIVE BUY rating and a target price of C$3.00. Led by investments in two wholly owned LPs, we believe Cronos is currently deploying a competitive differentiated strategy through its sizable expansion plan at Peace Naturals, the construction of a purpose-built extraction lab, an international distribution agreement already in place, and a joint venture catering to the First Nations community in Canada.

While the company's stock was down ~(33%) after trace levels of contaminants were recently found at Peace Naturals, we do not believe this issue is as serious as others in the industry involving pesticides. Cronos currently trades at 7.1x funded capacity; however, as the company continues to build out its facilities and execute on its diversified strategy, Cronos should justify a premium valuation to peers, in our view.

Invictus' portfolio of cannabis assets provides industry diversification at fair value

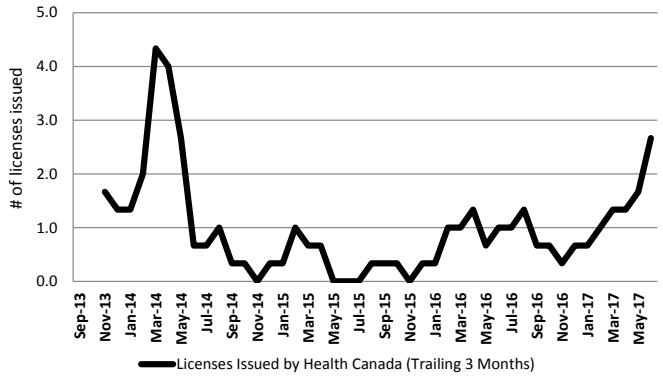
We are initiating coverage of Invictus MD Strategies Corp. with a HOLD rating and a target price of C$1.35. Led by its crown jewel asset, Acreage Pharms, the company has acquired a basket of Canadian cannabis investments that we believe provides investors with moderate diversification to a growing industry.

Although Acreage is a blue-chip prospect, we do not believe a premium valuation is warranted due to the time and risk associated with facility expansion, obtaining a sale licence from Health Canada, and implementing its oil/extract strategy. However, we do believe the company's portfolio of assets could be attractive to investors looking for optionality and potential near-term catalysts, should its valuation decrease further from current levels. Invictus trades at 5.3x funded capacity, which is a discount to peers, but reasonable at this stage of development, in our view.

Industry barriers to entry decreased with accelerated licensing process

In May 2017, Health Canada announced that it is introducing several new measures to the Access to Cannabis for Medical Purposes Regulations ("ACMPR") licensing process with an objective of expediting the application process and enabling increased production capacity to enter the market. Although we believe this update could be viewed as favourable to late-stage ACMPR applicants and other LPs waiting on final licensing clearances, we believe this has likely lowered the barriers to entry that have, in part, recently supported lofty valuations in the space. Further, we believe we have already seen evidence of this expedited process with the average number of new LPs approved each month notably ramping up as of late.

Figure 1: Average number of licences issued by Health Canada per month



Source: Health Canada, Canaccord Genuity

Although we believe the barriers to entry have been diminished as a result of these new measures, we still believe the larger players with significant expansion plans underway will continue to benefit from a first mover advantage; however, this has nonetheless led us to reassess our market penetration assumptions for all players in the space.

As a result of the recent acceleration of LPs entering the market (Figure 1 above), and an expected influx of additional licences going forward, we have revised our macro-level supply/demand assumptions for the overall Canadian cannabis industry as follows:

1) Due to a number of operational issues experienced by several LPs, we believe the initial production ramp for many existing producers in Canada will likely take longer than originally anticipated. Therefore, we have tapered our near-term 2017 and 2018 capacity estimates for the industry.

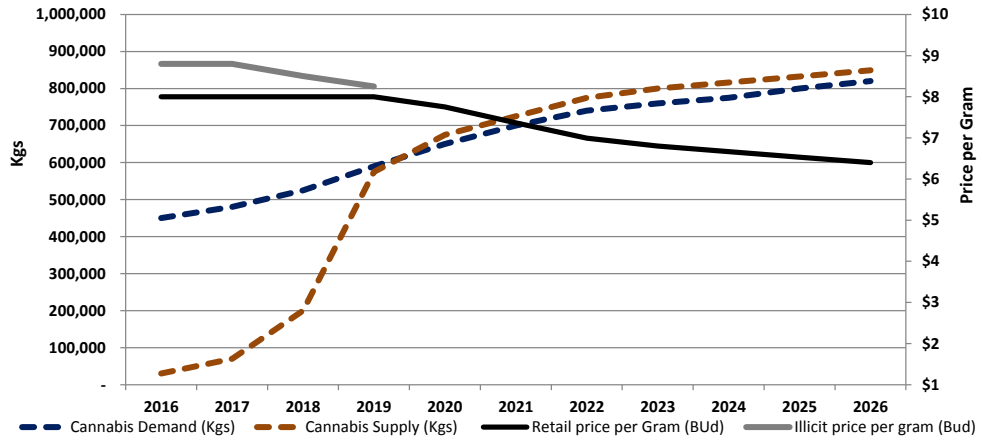
2) Looking ahead, with an expected influx of LPs, we believe the time required for the industry to ramp up total capacity to satisfy total demand will likely occur earlier than we had initially forecasted. We have revised our estimates to assume market supply will meet market demand by the end of 2019 (previously the end of 2020), with pricing pressure expected once this equilibrium is reached.

3) We believe the number of players that will be jockeying for position in the industry over the longer term will likely be greater than originally anticipated and as a result, we have reduced our peak market share estimates for LPs in our existing coverage universe.

4) As industry oil penetration continues to track higher, we have assumed that the industry will peak at >50% oil vs. bud (increased from 40%).

As a result, our revised estimated supply/demand dynamics for the overall Canadian cannabis market is illustrated below.

Figure 2: Supply, demand and pricing: total market



Source: Company Reports, Canaccord Genuity estimates

Although our revised assumptions impact the timing of when we expect market supply to meet demand, our peak revenue, EBITDA and free cash flow estimates for the industry as a whole remain largely unchanged.

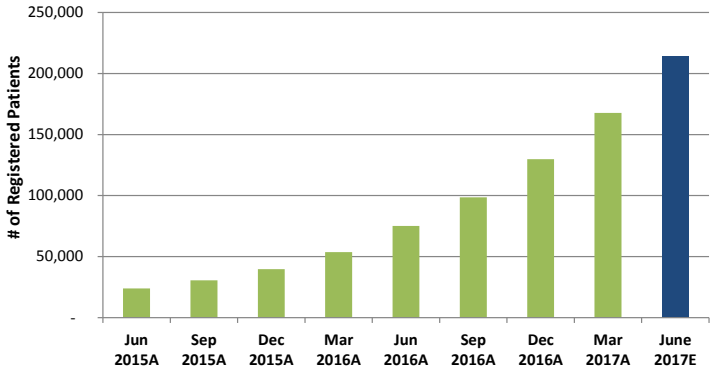
We estimate that by 2026, Canadian LPs will be able to archive annual revenues of ~$5.5 billion (assuming wholesale pricing and >50% oil penetration), >$2.0 billion of EBITDA, >$150 million of annual capex, and free cash flow of ~$1.5 billion.

Patient base continues to grow, with oil sales significantly outpacing dried bud

As illustrated below, the Canadian registered patient base continues to track along at just under a 10% month-over-month growth rate. With ~168,000 enrolled patients as of the end of March (a ~213% YoY increase), we believe the current number of registered patients is likely in excess of 200,000, and is now beginning to outpace our estimates from only a few months ago.

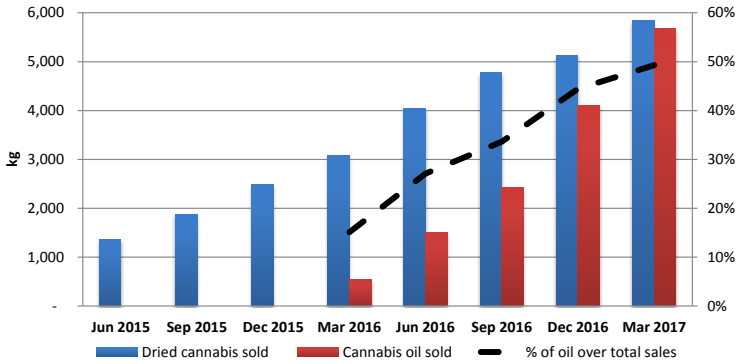
In addition, total sales of cannabis continue to track along with an increasing patient base; however, more importantly, oil sales continue to make up a greater percentage of overall sales. As of March, oil sales comprised ~50% of total sales, already ahead of our estimated penetration rate of 40%. As a result, in tandem with the changes in our market penetration, we also updated our peak oil penetration assumptions in calculating our revised target prices below.

Figure 3: Health Canada data: registered patients



Source: Health Canada, Canaccord Genuity estimates

Figure 4: Health Canada data: bud vs. oil sales



Source: Health Canada, Canaccord Genuity estimates

Lowering targets on our existing coverage with declining barriers to entry

With a ~28% increase in the number of LPs over the past three months, a trend that now sees almost three new LPs enter the market every month (see Figure 1 above), we have reassessed our market penetration assumptions for all LPs in our coverage universe. As a result, our estimates and target prices have come down across the board to account for an increasingly crowded landscape.

We strive to be consistent in our valuation methodologies for LPs and have revisited our valuations for existing LPs in our coverage universe. As a result, we have made the following changes to the target prices of our existing coverage:

- Canopy Growth (WEED:TSX | HOLD, lowering target to C$9.50 from C$10.50);
- Aurora Cannabis (ACB:TSX-V | SPECULATIVE BUY, lowering target to C$2.85 from C$3.25);
- Aphria Inc. (APH:TSX | upgrading to SPECULATIVE BUY (from HOLD), lowering target to C$6.75 from C$7.00);
- Organigram (OGI:TSX-V | SPECULATIVE BUY, lowering target to C$3.10 from C$3.40);
- Supreme Pharmaceuticals (FIRE:TSX-V | SPECULATIVE BUY, lowering target to C$2.00 from C$2.50); and,

- **Emblem Corp.** (EMC:TSX-V | SPECULATIVE BUY, lowering target to C$2.80 from C$3.90).

Upgrading Aphria to SPECULATIVE BUY (from Hold)

With its share price down ~38% from its 2017 highs, we believe Aphria's valuation has become considerably more attractive during the recent market pull back. Although a number of public company LPs have experienced valuation reductions of similar magnitudes, we believe Aphria's continued positive financial performance (with an industry leading fifth consecutive quarter of profitability under its belt) and solid operational execution (with its Part II expansion recently approved by Health Canada), represent moderate de-risking events while its share price has continued to trail off with the sector. Looking ahead to 2018, we believe Aphria is on track to have enough capacity to supply >10% of the overall market shortly after recreational sales are expected to commence in Canada; and, in our view, the company is one of the better suited LPs to take advantage of being one of the first scaled-up producers.

As a result of the above, and with a forecast return of ~24.5% (even after reducing our target price down to C$6.75 from C$7.00), we are upgrading our rating for Aphria to SPECULATIVE BUY (from Hold).

Look for differentiated strategies and stock-specific catalysts

With the first draft of recreational legislation tabled earlier this year, valuations have pulled back almost ~23% across the board. We believe this is a result of industry-wide challenges ramping up production and keeping up with growing demand, as well as a lack of industry-specific catalyst in the near to medium term as federal legislation moves in stride with the slow moving wheels of government. We continue to encourage investors to seek companies with differentiated strategies (oil/extraction plans, international exposure, patient acquisition, etc) and company-specific catalysts (licences, expansion milestones) over the next year as legislation is formulated.

Initiating coverage on Maricann, Cronos and Invictus

In this report, we are initiating coverage of three licenced producers (LPs) in the Canadian cannabis industry:

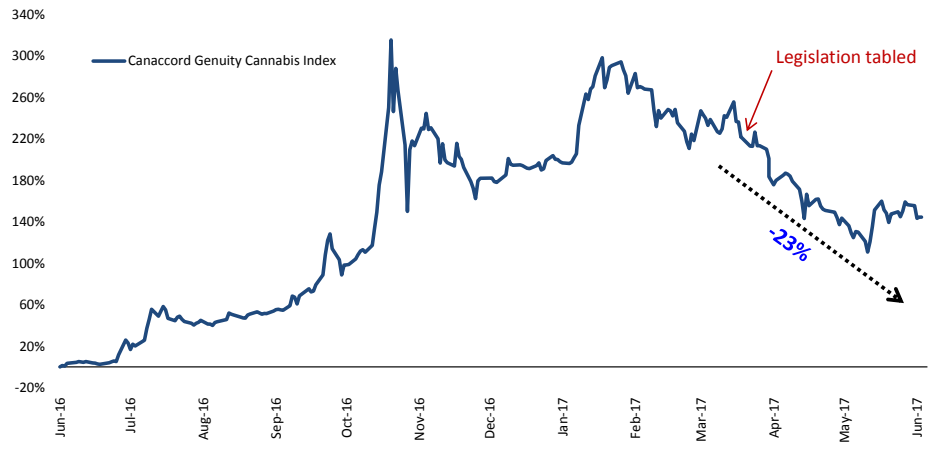
- **Maricann Group Inc.** (MARI:CSE | SPECULATIVE BUY, $5.00 target price)
- **Cronos Group Inc.** (MJN:TSX-V | SPECULATIVE BUY, $3.00 target price)
- **Invictus MD Strategies Corp.** (IMH:TSX-V | HOLD, $1.35 target price)

For a detailed review of the qualitative and quantitative considerations utilized in our assessment of the relative strengths and weaknesses of each LP, as well as a summary of the Canadian cannabis industry and our macro-level estimates, please refer to our previous initiation report entitled: *How does your garden grow?* (March 13, 2017) and our industry primer entitled: A closer look at the Canadian cannabis industry: Forget the puns, this is a serious business (November 28, 2016).

Given the lack of industry news flow, we encourage investors to seek companies with differentiated strategies and company-specific catalysts

Cannabis stocks took a tumble following the tabling of federal legislation to legalize marijuana in Canada. We believe that a lack of industry and macro catalysts over subsequent months was partly to blame for this pullback, which saw our Canaccord Genuity Cannabis Index fall by ~23%. Further, Health Canada's intention to facilitate the cannabis licensing process (as evidenced by the recent spike in new licences) has the potential to crowd the market.

Figure 5: Canaccord Genuity Cannabis Index



Source: Company Reports, Canaccord Genuity estimates

In addition, we note that several producers have struggled to ramp early production and have experienced growing pains during this period of significant market growth. This is evidenced by quarterly production and sales misses, and a willingness by many producers to purchase wholesale from other competitors. Given the near-term and (expected) transient supply constraints as growth of the medical patient base outpaces cultivation and supply, we believe prices have also tracked modestly higher.

We do expect these trends to reverse as significant expansions are complete and supply comes on line (likely as a step-function) ahead of the expected recreational market in 2018. Moreover, we continue to forecast cannabis prices for LPs will come

down in the longer-term as more cultivation licences are granted and the industry likely shifts to a wholesaler model.

Although we believe there remain other significant barriers to entry, including access to capital and speed to market, we continue to encourage investors to seek companies with differentiated strategies and company-specific catalysts over the next year. Moreover, as the federal government continues to work towards legalizing recreational cannabis, and each province formulates its distribution platform, we believe that creating value at different points of the value chain should be an important differentiating factor for investors.

Given the risks associated with capacity expansion, achieving low production costs, wholesaler pricing, Health Canada licensing, and regulatory risks related to the, as yet, illegal recreational market, we believe it is prudent to continue to classify all of our 'Buy' ratings as 'Speculative'.

Scorecard encapsulates our view

Consistent with the analysis included in our March report (refer to link above), we have prepared a scorecard that encapsulates our assessment of licenced producers of cannabis to better illustrate the strengths and weaknesses of each company relative to their peers. Importantly, and as previously cautioned, the scorecard is not intended to be a complete analysis and should be looked at in the context of a comprehensive valuation. Refer to page 7 of the above link for further explanation of the methodology and rationale behind our scorecard approach.

Figure 6: Company scorecards

	Existing Coverage						New Coverage		
Scorecard	*Canopy*	*Aphria*	*OrganiGram*	*Supreme*	*Emblem*	*Aurora*	*Maricann*	*Cronos*	*Invictus*
Funded capacity expansion									
Low cost production									
High quality product									
Extract/oil strategy									
Patient acquisition strategy									
Marketing/brand strategy									
Implied return to target	17.4%	24.5%	42.2%	62.6%	69.7%	30.7%	257.1%	75.4%	22.7%
De-risked return	115.3%	54.3%	76.9%	143.1%	75.2%	80.2%	672.9%	169.9%	75.5%
Downside (medical only)	-34.0%	-36.6%	-34.7%	-21.7%	51.2%	-19.9%	119.4%	-3.5%	-8.9%

=Strength =Neutral = Weakness

Source: Canaccord Genuity estimates

***Maricann Group Inc.** becomes our Canadian LP Top Pick, providing strategic differentiation as a low-cost Canadian producer and significant optionality from the German opportunity.*

Maricann is our Canadian LP *Top Pick*

With this initiation report, Maricann becomes our Top Pick amongst Canadian LPs. We believe that Maricann is positioned to become a top-10 producer of cannabis in Canada. The company is constructing the first phase of a planned 800,000 sq. ft., ~100,000 kg-capacity hybrid greenhouse and electricity co-generation plant that we project could drive production costs close to ~$1.35 per gram, and place Maricann as a low-cost operator in Canada.

While we view Maricann's Canadian business alone to be an attractive opportunity for investors, we believe the company is also well positioned to become a leading domestic cannabis producer in the emerging German medical market. Maricann has a retrofit-ready 1.15 million sq. ft. facility in Dresden that we believe positions the company as an ideal candidate for a German production licence. If granted, we

believe this could be a significant catalyst for the stock, and we see Maricann as ahead of peers to begin production for this large opportunity.

Blue sky and downside scenario analyses

Because we value the medical and recreational opportunities separately, we are able to evaluate each LP based on different scenarios. Below, we have analyzed our coverage universe under a blue sky scenario with an un-risked recreational market (i.e. which company would stand to benefit most if marijuana was legalized tomorrow?), and under a downside scenario in which legalization did not occur (i.e. which companies are most risk-mitigated by their medical valuations as a floor?).

Both our downside and blue sky analyses for Maricann suggest this is a very undervalued stock.

Given its strategic focus and leading extraction technologies, Maricann derives the bulk of its valuation from the medical opportunity. As a new story to the capital markets, we believe that all facets of Maricann's business are likely underappreciated and undervalued by investors; however, if we look at the company's medical business on its own, we believe there is over 100% upside from current levels. Because we have taken a very conservative stance on our valuation for Maricann (18% WACC for the medical segment), we are more confident that the downside for the stock is still much higher than where it is currently trading.

Our blue sky analysis for Maricann paints a similar picture, as we also take a conservative approach to the valuation of the Canadian rec (19% WACC) and German medical opportunities (20% WACC). If we assume a normalized WACC of 15% across our three valuations for Maricann, as well as 100% likelihood that the company will be successful, we arrive at a blue sky valuation of $10.82 per share, representing over 600% upside from the current share price.

*We believe **Cronos** has one of the more compelling risk/reward profiles within our coverage with one of the highest implied de-risks returns.*

Following Maricann, we believe **Cronos** provides the next highest de-risked upside from its current trading level. After seeing its share price fall by >30% (~2.0x greater than the overall recent market pullback) since announcing that trace levels of contaminants were detected at Peace Naturals, we believe investor confidence has been shaken; however, we see this issue as likely transient in nature and believe it should pale in comparison to the company's overall diversified strategy and growth potential. As a result, we believe Cronos has one of the more compelling risk/reward profiles within our coverage.

Invictus' has one of the lower de-risked valuations as we believe its diversified portfolio of cannabis assets is fully baked into the stock.

Although **Invictus** has a medical segment valuation that supports ~91% of its current trading level, it also has the second lowest de-risked return in our coverage universe (after Aphria). We believe the optionality of its diversified portfolio of cannabis assets, and the value of its crown jewel asset (Acreage Pharms), are fully baked into the stock. Although we believe its current risk profile supports our HOLD rating, our Blue-Sky scenario still implies ~76% upside from current levels as the recreational opportunity continues to de-risk.

Revising our market share estimates amidst a rapidly changing landscape

Spike in Health Canada licence approvals suggests an increasingly competitive environment

As of November 2016, there were 36 licenced producers of cannabis in Canada; however, Health Canada now reports that it has granted a total of 50 cultivation licences, an increase of ~39% over the span of just six months. With this rapidly shifting regulatory landscape as a backdrop, and with Health Canada's plans to further expedite the licensing process, we have taken the opportunity to review our Canadian medical and recreational cannabis models at a very high level.

Our projections of respective market sizes remain largely unchanged and while we remain confident this growth can be achieved, we also believe the significant increase in granted licences is likely to create stronger competition amongst LPs. We continue to expect that established producers with solid balance sheets, such as Canopy, Aphria, and Aurora, are likely to emerge as dominant players; however, we no longer feel it is reasonable to assume that any one LP can capture over 20% share of a likely increasingly crowded market.

We have lowered our market share forecasts for covered LPs to reflect an increasingly crowded landscape

As a result of the increase in Health Canada licences, decreased barriers to entry, and greater clarity of aggressive expansion plans for existing LPs, we have re-evaluated our market penetration forecasts for companies already under coverage. For the most part, as we allocate market share for new coverage and some other larger players in the market, our market share estimates for existing covered companies have come down.

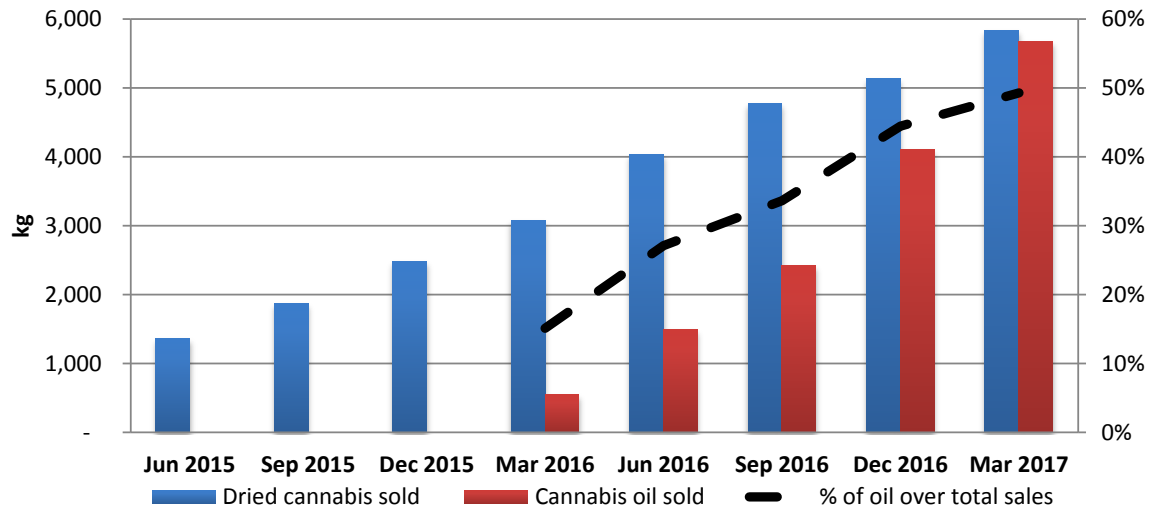
Figure 7: Summary of 2021 medical and rec market share changes – existing LP coverage

Company	Ticker	Old Rec Market Share	New Rec Market Share	Old Medical Market Share	New Medical Market Share
Canopy Growth Corporation	WEED-TSX	21.0%	15.0%	17.5%	12.0%
Aurora Cannabis Inc.	ACB-TSXV	12.0%	10.0%	12.0%	10.0%
Aphria Inc.	APH-TSX	10.3%	9.0%	9.0%	7.5%
Supreme Pharmaceuticals Inc.	FIRE-TSXV	7.5%	6.3%	7.5%	6.0%
Organigram Holdings Inc.	OGI-TSXV	5.0%	4.5%	6.0%	4.0%
Emblem Corporation	EMC-TSXV	1.6%	1.0%	10.0%	7.0%

Source: Canaccord Genuity estimates

In addition, recent data from Health Canada suggest a larger shift to oil than we had originally forecast. We had assumed that both the Canadian medical and rec markets would eventually become 40% oil vs. dried bud. However, with market data indicating that oils have already surpassed this estimate, we are now assuming that the medical market will shift to 70% oil (as it is unlikely that the majority of patients will smoke their medicine) and rec will move to 50% oil at steady state (as there is little support in the proposed legislation to substantiate a higher estimate, in our view).

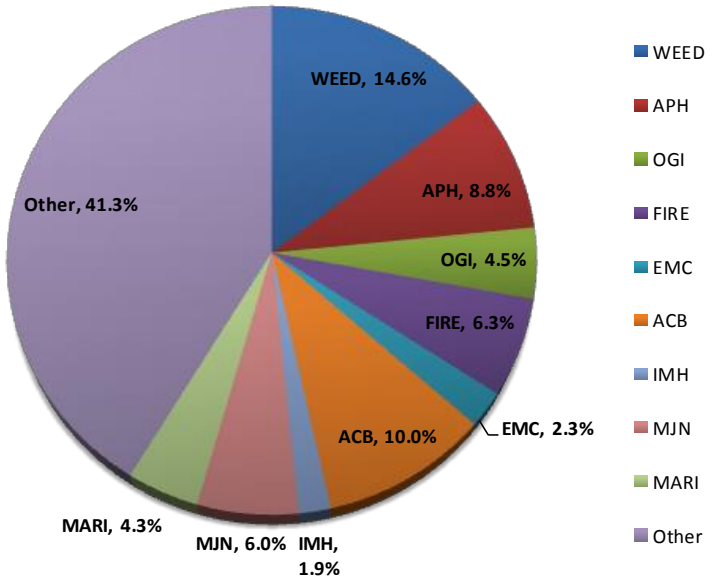
Figure 8: Canadian LP sales volumes: Bud vs oil.



Source: Company Reports, Canaccord Genuity estimates

Refer to Figure 9, below, for our revised market share estimates for all companies currently in our coverage universe.

Figure 9: Forecast consolidated (medical and rec) market shares for covered LPs by 2021



Source: Canaccord Genuity estimates

Canopy Growth Corporation (WEED:TSX | HOLD, lowering target from C$10.50 to C$9.50)

We continue to believe that Canopy will ultimately emerge as one of the dominant players in the Canadian cannabis space. However, our concern (and HOLD rating) has always related to valuation and the market penetration that a leading producer could achieve. As we surveyed the competitive landscape in light of the growing number of licences granted by Health Canada, we now believe that it will be difficult for any one

player to achieve greater than 20% recreational market share, and so something had to give.

As a result, we have lowered our assumed 2021 recreational market share estimates from 21.0% to 15.0%, and our Canadian medical market share projection from 17.5% to 12.0%. With a still-dominant position in the medical market, the higher proportion of oil sales (increased from 40% to 70% for medical) buoys our valuation despite the substantial market share reductions. We had taken our target price down from C$11.50 to C$10.50 following the recent quarterly results on higher production costs, but are now lowering our target again to C$9.50 on these forecast changes. Our revised target reflects a 17.4% annualized return and continues to support our HOLD recommendation.

Aurora Cannabis Inc. (ACB:TSX-V | SPECULATIVE BUY, lowering target from C$3.25 to C$2.85)

We believe that Aurora will continue to benefit from future low-cost production in its new 100,000 kg capacity Aurora Sky hybrid greenhouse (currently under construction), as well as its developing oil and extraction capabilities. The company's recent acquisition of German distributor Pedanios should also provide Aurora with an early foothold in this emerging medical market.

We have lowered our expected peak penetration for Aurora from 12% to 10% in both the Canadian medical and recreational markets. As a result, peak sales in 2021 are forecast to be 58,000 kg. The higher proportion of oil and extract sales for the medical market has partially offset the impact of reduced market share. Hence our 2021 revenue forecast declines 8.6% from $428 million to $394 million. Following these changes, we are lowering our target price for Aurora to C$2.85 (from C$3.25), which represents a 30.7% annualized return and continues to support our SPECULATIVE BUY rating.

Aphria Inc. (APH:TSX |SPECULATIVE BUY, upgrading from HOLD, lowering target price from C$7.00 to C$6.75)

Although we are reducing our market share estimates throughout our coverage universe, as a result of Aphria's clearly laid out industry leading expansion plan and solid execution to date, we believe the company is on track to have enough capacity to supply >10% of the market shortly after recreational sales commence. In our view, the company is one of the better suited LPs to take advantage of being one of the first scaled-up producers, which we believe supports a market share closer to our original estimates. Therefore, we are only decreasing Aphria's estimated total market penetration from 10.0% to 8.8%; in addition to increasing our peak oil penetration to 70% medical and 50% recreational (both up from 40%).

As a result of these net-adjustments, we are decreasing our target to C$6.75 (from C$7.00). As Aphria's stock has seen a decline of 38% since its 2017 highs, we believe its current trading level is attractive, considering the growth profile of its Part IV expansion and recent Heath Canada approval of its Part II build-out. Our revised target now implies a return of 24.5%, and as a result we are upgrading our rating to SPECULATIVE BUY (from HOLD).

Supreme Pharmaceuticals Inc. (FIRE:TSX-V | SPECULATIVE BUY, lowering target from C$2.50 to C$2.00)

As a result of the decreased barriers to entry, we have taken down our 2021 market penetration estimates for Supreme from 7.5% to 6.3%. Although we believe Supreme is very well capitalized to build out its facilities and could begin to benefit from a

valuation re-rating after recently being granted its sales, as the company does not currently have an oil strategy, we have not modeled in any incremental upside for our more bullish view on oil penetration. As a result of a current lack of upside from oil, Supreme has had the largest proportional decrease to its target price from the adjustments we consistently applied to our covered companies.

After updating our model for the above assumptions, our revised target for Supreme is C$2.00 (decreased from C$2.50), which represents a 62.6.% return and continues to support our SPECULATIVE BUY rating.

Organigram Holdings Inc. (OGI:TSX-V | SPECULATIVE BUY, lowering target from C$3.40 to C$3.10)

As OrganiGram is expected to have a sizable portion of its current expansion plan completed by the end of 2017, we believe the company is another LP that is favourably positioned to leverage its first mover advantage – even with an expected influx of additional licences granted. As a result, we have decreased our estimated market penetration for OrganiGram from 5.3% to 4.5%; a slightly lower magnitude than the average market share reduction applied to our coverage.

We have also updated our oil penetration for OrganiGram to 70% medical and 50% recreational (both up from 40%); however, with what we believe is an industry-leading oils/extract strategy through its partnership with The Green Solution, we have assumed the company will achieve these peaks approximately one to two years ahead of our overall industry forecasts.

As a result of these updates, we are reducing our target to C$3.10 (from C$3.40), which implies a forecast return of 42.2% and continues to support our SPECULATIVE BUY rating.

Emblem Corporation (EMC:TSX-V | SPECULATIVE BUY, lowering target from C$3.90 to C$2.80)

Emblem's primary focus on the medical market partially mitigates the impact of lower market share under our updated assumptions. Although we have decreased our medical market penetration for Emblem from 10% to 7%, a higher proportion of oil and extract sales (increased from 40% to 70%) results in higher estimated pricing and expanded margins in Emblem's key market. However, we continue to evaluate the risks associated with pharmaceutical development and, to bring our valuation of Emblem in line with other medically-focused LPs, we are increasing our estimated WACC in our medical DCF from 16% to 18%.

Because we had assumed that Emblem would achieve limited penetration into the recreational market, the impact of our changes is less prominent (as our rec penetration assumption declines from 1.6% to 1.0%). Overall, we have reduced Emblem's 2021 consolidated market share to 2.3% from 3.6%. We now forecast Emblem will generate 14,100 kg of product sales in 2021; our revenue estimate declines 20% from $204 million to $163 million for that year.

Based on these changes, we are lowering our target price for Emblem to C$2.80 (from C$3.90), which implies a 69.7% annualized return and continues to support our SPECULATIVE BUY recommendation.

Below is a summary of the changes made to our assumptions (discussed above) and the resulting new target prices for the companies in our existing Canadian cannabis coverage.

Figure 10: Summary of changes to consolidated 2021 market share, consolidated peak oil penetration, and target price

Company	Ticker	Consolidated Medical + Rec					
		Old Market Share	New Market Share	Old Peak Oil Penetration	New Peak Oil Penetration	Old Target Price	New Target Price
Canopy Growth Corporation	WEED-TSX	20.2%	14.6%	40%	55%	$ 10.50	$ 9.50
Aurora Cannabis Inc.	ACB-TSXV	12.1%	10.0%	40%	56%	$ 3.25	$ 2.85
Aphria Inc.	APH-TSX	10.0%	8.8%	40%	55%	$ 7.00	$ 6.75
Supreme Pharmaceuticals Inc.	FIRE-TSXV	7.5%	6.3%	0%	0%	$ 2.50	$ 2.00
Organigram Holdings Inc.	OGI-TSXV	5.3%	4.5%	40%	56%	$ 3.40	$ 3.10
Emblem Corporation	EMC-TSXV	3.6%	2.3%	40%	64%	$ 3.90	$ 2.80

Source: Company Reports, Canaccord Genuity estimates

Health Canada streamlines licensing process and implements mandatory testing

Streamlined licensing process chips away at industry barriers to entry

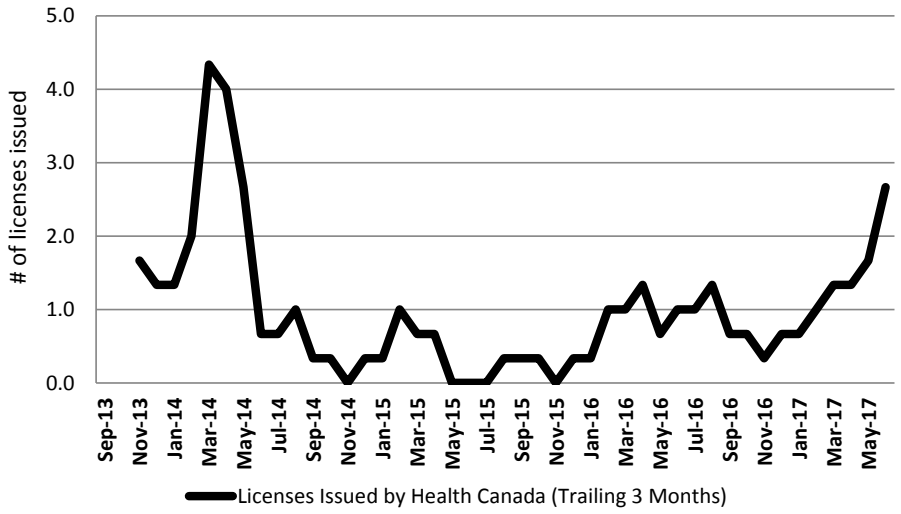
In May 2017, Health Canada announced that it is introducing several new measures to its ACMPR licensing process with an objective of expediting the application process and enabling increased production capacity to enter the market. As part of these measures, Health Canada plans on:

- Increasing capacity within the department for application review;
- Consolidating certain phases of review to make them concurrent;
- Allowing production limits to increase as a function of vault size, instead of market demand;
- Increasing time between licence renewal periods; and,
- Expediting modification requests and other requests from LPs with good compliance track records.

Growing number of Health Canada licences suggests lower barriers to entry, but incumbent LPs still have a significant first-mover advantage

Although this update should be viewed as favourable to late-stage ACMPR applicants and other LPs waiting on final licensing clearances, on the whole we believe Health Canada has likely lowered the barriers to entry that have, in part, supported recent lofty valuations. With a ~28% increase in the number of LPs over the past three months, a trend that now sees almost three new LPs enter the market every month (Figure 14 below) has led us to reassess our market penetration assumptions for all LPs in our coverage universe. As a result, our estimates and target prices have come down across the board to account for an increasingly crowded landscape.

Figure 11: number of ACMPR licences issued by Health Canada (trailing 3 months)



Although the supply of cannabis is now expected to increase at a faster pace than initially forecast, we believe the potential demand once the recreational market opens up will be much greater than the capacity can likely service. Although we believe the barriers to entry have been diminished as a result of these new measures, we still believe the larger players that have significant expansion plans already underway will

continue to benefit from a first mover advantage; however, this has nonetheless led us to reassess our market penetration assumptions for all players.

Contamination issues has created headwinds for all Canadian cannabis stocks

Health Canada requires all LPs to conduct mandatory pesticide testing

Following a number of contamination issues in the Canadian cannabis space in recent months, Health Canada announced in May 2017 that it is now requiring all LPs to complete mandatory testing for unauthorized pesticides on all cannabis products cleared for sale. We believe this measure should provide moderate assurance to investors and consumers that a closer eye is being kept on industry-wide cultivation practices; however, diminished investor confidence may have been a contributing factor to the recent pullback in industry valuations

We believe that additional contamination issues could potentially result in material write-offs, licensing delays, lawsuits, and the fear that LPs could eventually have their licences pulled. Although we believe that Health Canada's response should help mitigate this risk going forward, it further underscores the operational risk inherent in the industry, as many LPs continue to ramp up production and expansion plans by factors of >10x over the next 12 to 24 months.

Our approach to LP valuation

Due to the different risk characteristics of the medical and recreational markets, we have prepared a sum-of-the-parts analysis for each LP contained in this report using a different methodology for the two distinct opportunities (medical vs recreational). We apply this methodology consistently across the companies contained herein and our existing cannabis coverage universe.

Medical market valuation and market size

As a result of the regulatory framework already in place, we view the medical market as having a lower risk profile

As a result of the robust regulatory framework already put in place by Health Canada, we view the medical market as having a lower risk profile with greater certainty in our forecasts compared to the recreational market. As a result, we have valued the medical opportunity for each LP using a discounted cash flow analysis. Consistent with our valuation method for previous cannabis company initiations, we believe that a DCF valuation is most appropriate, as revenues and cash flows for medical are more predictable and are expected to experience significant growth before reaching a normalized level.

We expect the number of registered patients to increase to 800,000 over the next 10 years

We estimate there are currently >200,000 registered medical marijuana patients in Canada. Since 2015, the number of new monthly patient enrollments has increased at an impressive ~10% sequential rate, growing from fewer than 20,000 registered patients only two years ago. Based on the significant growth observed to date, we expect the number of registrants over the long run will reach ~2.0% of the Canadian population (or ~800,000 patients), which is comparable with many proxy medical states in the US and represents an approximate 4x increase from today's levels. At maturity, we estimate that medical patients in Canada will consume >225,000 kg of cannabis per year, or $1.8 billion at today's retail prices for dried bud.

Recreational market valuation and market size

Our valuation of the recreational opportunity utilizes a higher discount rate due to the uncertainty over the size, timing and landscape of the recreational marijuana market

Our valuation for the recreational opportunity utilizes a much higher discount rate than the medical market due to the inherently riskier nature of this opportunity. Our elevated discount rates account for greater uncertainty over the size, timing and eventual landscape of the Canadian recreational marijuana market. We have assumed that the recreational market will begin to ramp up in mid-2018 and reach its full implementation ramp by 2021; however, we have probability-adjusted our rec market valuations for the risk of a material delay or withdrawal of its implementation (albeit a small risk, in our view).

We estimate there will be over 4.0 million recreational cannabis users in Canada by 2026 (excluding medical patients)

Based on our previously published industry research, we estimate that ~13% of the Canadian population above the age of 18 uses marijuana with some frequency. We believe the proportion of Canadians who consume cannabis will likely increase further (if the recreational market becomes legalized), and have therefore ratcheted up this assumption to 15% in our longer-term estimates. We estimate that within five years, the number of recreational marijuana users in Canada will exceed 3.8 million. This could increase to over 4.0 million users by 2026, resulting in a demand for >550,000 kg of marijuana, or ~$4.4 billion at today's retail prices for dried bud.

For more fulsome details on the above forecasts, please refer to our pervious initiation report: *How does your garden grow?* (March 13, 2017) and industry primer: *A closer look at the Canadian cannabis industry: Forget the puns, this is a serious business* (November 28, 2016).

Specific assumptions utilized in our valuations

Although many of the assumptions utilized in our DCF and NPV models are the same, we utilize a higher discount rate of ~18% to calculate the present value of the cash flows attributable to recreational sales vs medical (adjusted for company-specific considerations), while assuming an 80% likelihood that the recreational market will become legalized, thereby probability-weighting these cash flows.

The table below provides a summary of the specific inputs used in our valuations for the three company initiations that follow in this report. Refer to each company initiation for further discussion on the rationale behind these assumptions.

Figure 12: Summary of valuation assumptions for LPs

	Maricann	*Cronos*	*Invictus*
Medical cannabis	$3.07	$1.65	$1.00
WACC	18%	12%	14%
Terminal Growth Rate	2%	2%	2%
Wholesale pricing - bud (medical)	$5.50	$4.75	$4.40
Oil penetration	70%	70%	70%
Penetration (medical)	10.0%	6.0%	2.0%
Recreational cannabis	$0.69	$1.22	$0.37
WACC	19%	18%	18%
Terminal Growth Rate	2%	2%	2%
Probability-weighted	80%	80%	80%
Wholesale pricing - bud (rec)	$5.50	$4.75	$4.40
Oil penetration	50%	50%	50%
Cash costs	~$1.34/g	~$2.25/g	~$2.00/g
Penetration (rec)	2.4%	6.0%	2.0%
Other[1]	$1.46	$0.15	N/A
SOP Valuation	$5.22	$3.02	$1.37
Un-risked Valuation	$10.82	$4.56	$1.93

(1) Other includes strategic investments for Cronos and the German opportunity for Maricann

Source: Company Reports, Canaccord Genuity estimates

Comparable valuation

For comparison purposes, we have assembled a comparables analysis for cannabis names in our coverage universe. Because most companies remain in the early stages of ramping production and are likely to experience significant growth over coming years, we believe that comparisons to next fiscal year are not appropriate. Instead, we have focused on EV/EBITDA multiples two years from now (FWD2), which we believe provide a reasonable proxy for valuation.

Figure 13: Comparable valuations

Company	Rating	Enterprise Value	Net Debt	EV/EBITDA			EV/Revenue		
				CY	FWD1	FWD2	CY	FWD1	FWD2
Canopy Growth	HOLD	$ 1,289	($121)	N/A	51.8x	9.2x	32.3x	9.9x	2.6x
Aphria Inc.	SPEC BUY	$ 584	$ (205)	153.7x	30.8x	9.4x	29.0x	10.0x	3.4x
OrganiGram Holdings	SPEC BUY	$ 179	$ (65)	N/A	14.7x	3.5x	20.3x	5.0x	1.3x
Supreme Pharmaceuctials	SPEC BUY	$ 239	$ (94)	N/A	62.6x	6.4x	N/A	10.8x	1.8x
Emblem Corp	SPEC BUY	$ 106	$ (88)	N/A	9.8x	3.5x	10.8x	2.3x	1.2x
Aurora Cannabis	SPEC BUY	$ 773	$ (58)	97.8x	9.6x	4.6x	28.7x	4.0x	2.1x
Maricann Group, Inc.	SPEC BUY	$ 99	$ (27)	N/A	20.3x	2.8x	17.0x	4.3x	0.9x
Cronos Group Inc.	SPEC BUY	$ 284	$ (26)	N/A	21.9x	5.4x	31.0x	6.4x	1.8x
Invictus MD	HOLD	$ 58	($32)	N/A	9.1x	3.3x	18.2x	2.3x	1.1x
Average						5.3x			1.8x

Source: Company Reports, Canaccord Genuity estimates

Our funded capacity metric provides another basis for comparison, but must be viewed in context of a comprehensive valuation

Additionally, we believe that 'Funded Capacity' provides another reasonable measure for comparison. This takes into account longer-term expansion plans, as well as the company's ability to fund this capacity growth. Finally, although we believe this to be less relevant, we believe that our EV/Sales analysis is also supportive of our comparables valuation. This comparison measure is consistent with our previous cannabis company initiation report.

Figure 14: Funded capacity comparable valuations

Company	Ticker	Rating	Market Cap	Estimated Funded Capacity (tonnes)	Market Cap/ Funded Capacity (x)
Canopy Growth	WEED	HOLD	$ 1,411	130	10.9x
Aphria Inc.	APH	SPEC BUY	$ 789	75	10.5x
OrganiGram Holdings	OGI	SPEC BUY	$ 244	46	5.3x
Supreme Pharmaceuctials	SL	SPEC BUY	$ 333	75	4.4x
Emblem Corp	EMC	SPEC BUY	$ 193	30	6.4x
Aurora Cannabis	ACB	SPEC BUY	$ 831	108	7.7x
Maricann Group, Inc.	MARI	SPEC BUY	$ 129	67	1.9x
Cronos Group Inc.	MJN	SPEC BUY	$ 310	40	7.1x
Invictus MD	IMH	HOLD	$ 90	17	5.3x
Average					6.7x

Source: Company Reports, Canaccord Genuity estimates

Canopy continues to trade at the highest funded capacity valuation amongst peers

From this analysis, we note that Canopy continues to trade at the highest funded capacity valuation relative to peers. (We have reassessed Canopy's growth plans and balance sheet, and have modestly lowered our funded capacity estimate from 150,000 kg to 130,000 kg). Given the company's market-leading position and commercialization strategies, we are comfortable with Canopy trading at the high-end of the group; however, we believe its current trading price represents fair value and supports our HOLD rating.

In contrast, although Aphria remains at a premium to peers, we note that since trading at a high of 16.9x – its funded capacity in early April 2017 – the company has seen its funded capacity multiple drop by >6 turns (the largest magnitude change of all companies in our coverage) to 10.5x. In our view, its strong management team, large-scale funded capacity plan, five quarters of consecutive profitability, and its status as one of the lowest-cost producers all support a premium valuation, and we believe the stock price has dropped to a level that can now justify SPECULATIVE BUY rating.

Maricann trades at the lowest funded capacity multiple in our coverage universe

Within our new coverage, we believe Maricann's funded capacity of 1.9x highlights the disconnect between its market capitalization and the sizable opportunity in Germany, as well as its aggressive Canadian expansion plans. Furthermore, we believe

Maricann's low funded capacity ratio supports our SPECULATIVE BUY rating and its position as our Top Pick amongst Canadian LPs. While Cronos trades at a slight premium to the group, if we remove the value attributable to its strategic investments the remaining value of its wholly owned LPs implies a 7.1x funded capacity multiple (generally in line with peers) based on the current expansion plan underway at Peace Naturals.

Finally, although Invictus currently trades at a discount to peers, we believe a discount is warranted considering the time/risk involved with building out its facilities (which are still in very early stages), obtaining sale clearance from Health Canada, and implementing its oil/extract strategy.

Investment risks

Shift to wholesaler distribution model will likely generate pricing headwinds
We believe that price is a key risk for both the medical and recreational cannabis businesses. Most LPs currently enjoy pricing of >$8.00 per gram, which is expected to increase as demand moves to higher-priced oils over coming years. However, as the industry eventually shifts to a wholesaler distribution model, we believe pricing could fall as low as $5.00 per gram on average. Although potential distributors will likely demand their margin on product sales, we also expect medical customers will remain sticky, as reimbursement should limit migration from the medical to the recreational market.

The regulatory wheels of government turn slowly
While the federal government has signaled its intention to legalize the recreational use of marijuana, we are well aware that the government can be very slow to act. The government Task Force has presented its findings, and federal legislation was tabled this past spring. If these timelines slip more than six to nine months, there is a risk that legalization could bump up against the next election year, which we believe could result in further delays or postponement.

Delay to legalization could enhance competitive pressures
There are currently only 50 licenced producers of cannabis in Canada, and regulators have created high barriers to entry with strict criteria and very long wait times for licensing new producers. However, we estimate that the cumulative expansion plans for all public LPs could add almost 400,000 kilograms of annual production by 2018. If there is a substantial or indefinite delay to the legalization of marijuana, we would expect a significant oversupply that the medical market cannot bear alone.

Legalization would create enforcement issues
A key unknown for the future regulation of the recreational market will be the enforcement and policing of the distribution and use of marijuana. The Task Force is concerned with keeping this drug away from youths, while removing the profit incentive from organized crime; however, the black market continues to thrive despite the loosening of rules. Furthermore, detection of impairment could prove to be challenging as current technology is insufficient. We believe that the lack of a clear path risks the slower implementation of a regulatory framework for legalization.

Legalization is an opportunity, but could also create challenges for medical
Because we view the medical market to be a more stable and evolved opportunity (relative to the uncertainty of the recreational market), we believe the legalization of marijuana could also present some risk to our investment theses for these LPs. The tight regulation of medical cannabis provides substantial barriers to competition for existing LPs. However, with the widespread availability of cannabis comes additional uncertainty including the risk of declining prescription volumes, a changing distribution model, and the resultant further erosion of pricing power.

Health Canada streamlining licensing process reduces barriers to entry
As Health Canada streamlines its approval process, we believe this reduces the barriers to entry into the medical market for existing producers awaiting licences. Although overall demand will likely continue to outpace supply by the time the recreational market is open, having more LPs enter the market would increase competition and may mean capture of market share currently held by existing LPs.

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Maricann Group Inc.

Canadian Cannabis

Canadian Equity Research
5 July 2017

SPECULATIVE BUY

PRICE TARGET	C$5.00
Price (4-Jul)	C$1.37
Ticker	MARI.CA-CNSX

52-Week Range (C$):	1.55 - 1.59
Avg Daily Vol (000s) :	24.3
Market Cap (C$M):	129
Shares Out., FD (M) :	92.1
Total Return to Target (%) :	265.0
Net Debt (Cash) (C$M):	(27)
Enterprise Value (C$M):	102
Long-Term Debt (C$M):	0.0

FYE Dec	2016A	2017E	2018E	2019E
Revenue (C$M)	1	6	23	107
SG&A (C$M)	0.8	8.1	11.5	46.8
EBITDA Adj (C$M)	(1.0)	(5.3)	4.9	35.8
EPS Adj&Dil (C$)	(0.02)	(0.23)	(0.06)	0.16

Source: FactSet

Priced as of close of business 4 July 2017

Maricann is a producer and distributor of marijuana for medical purposes under the Access to Cannabis for Medical Purposes Regulations (ACMPR). Founded in 2013, it operates a medicinal cannabis cultivation, extraction and distribution business in Langton, Ontario. Maricann is also expanding operations into Germany via Maricann GmbH, a wholly owned subsidiary of Maricann Group Inc.

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Initiation of Coverage

The diversified and inexpensive cannabis play

We are initiating coverage of Maricann Group (MARI:CSE) with a SPECULATIVE BUY rating and a C$5.00 target price; with this initiation, Maricann becomes the Top Pick in our Canadian cannabis coverage universe. Maricann is an AMPCR-licenced producer of medical cannabis with a true global focus. The company is constructing the first phase of a potential 800,000 sq. ft. hybrid greenhouse in Ontario with capacity to produce 100,000 kg of cannabis annually. Moreover, with the recent legalization of medical cannabis in Germany, we believe that Maricann is ideally positioned to receive a licence and begin production in Germany well ahead of peers. While Maricann's Canadian business alone makes the stock an attractive investment, we believe it is the optionality in Germany that creates the greatest differentiation and upside relative to peers.

We forecast adjusted EBITDA will grow at a 183% 4-year CAGR to $110.9 million in 2021. Including its fully funded German facility, Maricann currently trades at 1.9x funded capacity, compared to peers at 6.7x; our target of C$5.00 implies a funded capacity of 6.9x. It is Maricann's combination of low-cost production, global diversification, and attractive valuation that makes this stock our Top Pick amongst Canadian LPs.

Investment Highlights

- **German opportunity sets Maricann apart from peers.** We believe that Maricann is among the best-positioned to tap the emerging German cannabis market. With a peak potential of more than twice that of Canada (sales of 470,000 kg in Germany), we believe the German market should see substantial growth and adoption over coming years, driven by wider social acceptance and high reimbursement.
- **High-quality oils could see premium pricing.** Given its medical focus and extraction technology, we assume Maricann will achieve 10% peak penetration into the Canadian medical market. With a higher proportion of oil sales, we believe Maricann could command prices 2x-3x that of dried bud. As a result, we expect that Maricann can offset pricing erosion and maintain margins as the market shifts to a wholesale model.
- **Driving production costs lower.** Although Maricann's Canadian operations are located in higher-cost Ontario, we believe the company's new hybrid greenhouse and electricity co-generation capabilities should drive production costs lower.

Valuation

We value Maricann using a sum of the parts; the Canadian medical market is based on a DCF model (18% WACC, 2.0% terminal growth), and the higher-risk opportunities using probability-weighted NPVs (19% WACC, 80% success for Canadian rec, and 20% WACC, 40% success for German medical). Based on this analysis, we arrive at a target of C$5.00, which suggests a 257% return and supports our SPECULATIVE BUY rating.

Our conservative risk-adjusted valuation of the Canadian market alone suggests a $3.76 per share value. The optionality of the German opportunity is valued at $1.46 per share and our un-risked valuation for Germany suggests $5.45 per share upside.

Retrofit-ready German opportunity positions Maricann as our Top LP Pick

We are initiating coverage of Maricann Group Inc. (MARI:CSE) with a SPECULATIVE BUY rating and a $5.00 target price. In this initiation report, Maricann becomes our Top Pick in our Canadian cannabis universe. Maricann is an AMPCR licenced producer (LP) of cannabis with a primary Canadian production facility in Langton, Ontario. Maricann is completing construction on the first phase of a potential 800,000 sq. ft. low-cost hybrid greenhouse, which could make the company EBITDA positive next year. And, while we believe Maricann's Canadian business alone represents an attractive opportunity for investors, it is the company's emerging venture in Germany that provides investors with the greatest differentiation and upside, in our view.

- Strategic diversification – In our first cannabis initiation report (dated March 2017) we had stressed the need for strategic diversification for an attractive investment in this space. We believe that Maricann's leading position in Germany provides investors with significant optionality as this rapidly growing opportunity unfolds. Maricann has a good chance of receiving a German production licence, in our view; with high regulation and expected steady adoption (due to high consumer sentiment and strong reimbursement), we believe Germany represents a significant addressable market.
- Pricing power – We believe Maricann has expertise and leading processes for the extraction of cannabinoids. With a strategic focus on global medical cannabis markets, we believe the development and formulation of pharmaceutical products will provide Maricann with the pricing power to offset the expected price erosion from potential commoditization. We expect this pricing power will enable Maricann to expand margins as the market shifts to greater cannabis oil usage.
- Low-cost producer – Maricann currently operates out of a converted greenhouse, but is in the process of constructing a new hybrid greenhouse facility on an adjacent property. We believe this will provide a significant cost advantage for Maricann, particularly compared to Ontario-based indoor grows. Moreover, the company is building an electricity co-generation plant, which will further offset utility costs, allow for government rebates, and create additional revenue opportunities as Maricann sells back into the grid.

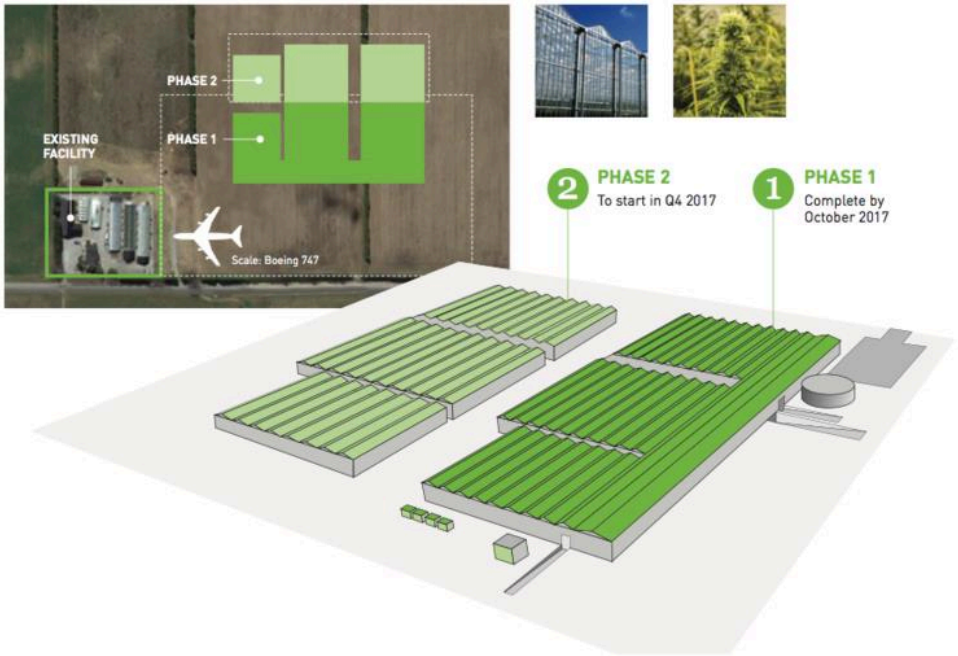
With a current valuation of 1.9x funded capacity (including its German operations) compared to peers at 6.7x, we would be buyers of Maricann at these levels. Our target of C$5.00 implies a funded capacity multiple of 6.9x (including Germany), as we believe the company could be primed for a valuation re-rating as investors come to understand the German opportunity.

Positioning to become a top-10 producer in Canada

We believe that Maricann is positioning to become a top-10 licenced producer of cannabis in Canada. The company received its ACMPR licence on March 29, 2017 but has been engaged in production and sales of medical cannabis since December 2014 under the previous Marijuana for Medical Purposes Regulations (MMPR). Maricann currently operates in a 46,000 sq. ft. converted greenhouse facility in Langton, Ontario with an estimated peak annual production of ~2,200 kg.

Maricann is constructing the first phase of a planned ~800,000 sq. ft. greenhouse production facility on a property contiguous with its existing operations. Once completed in the fall of this year, we estimate the first phase will have the capacity to produce ~25,000 kg of cannabis, with the entire facility expected to produce almost 100,000 kg at an estimated cash cost of ~$1.34 per gram. We believe this cost base will position Maricann competitively as one of the lowest-cost producers in the industry.

Figure 1: Langton expansion



Source: Company website, https://maricann.squarespace.com/investors/

Maricann also has a clear focus on cannabis oil and extract production with the expertise and know-how of Scientific Director Dr. Stephen Bennett. Dr. Bennett comes from Evolab, a leader in the production of cannabis oils and extracts. The processes that Dr. Bennett helped establish at Evolab enable the capture of high turpene yields and purification of cannabinoids, resulting in a high-quality product, in our view. We believe that Maricann's oil strategy will be important to penetrate both the medical and emerging recreational cannabis markets in Canada.

Figure 2: Maricann Scorecard

Scorecard - Maricann	
Funded capacity expansion	
Low cost production	
High quality product	
Extract/oil strategy	
Patient acquisition strategy	
Marketing/brand strategy	

Source: Canaccord Genuity estimates

A German strategy that is a true differentiator

Although its Langton operations and extraction technology should place Maricann amongst the leading Canadian producers of cannabis, we believe it is the emerging opportunity in Germany sets the company apart from its peers. Maricann owns the

option to acquire an already-built 1.15 million sq. ft. plant in Dresden, Germany for €3.4 million that can be readily converted into an indoor cannabis facility.

Medical cannabis was legalized in Germany earlier this year, potentially opening up a significant opportunity for a well-positioned company. With a population of over 80 million, demand in Germany could surpass 450,000 kg annually (or more than 2x the projected medical market in Canada) based on the size of comparative geographies. Further, we believe that uptake in Germany could be driven by expected full governmental reimbursement and a population open to natural and plant-based therapies.

Although Germany has begun importing cannabis to supply the medical market, the government has initiated a cultivation licence tender process to establish a domestic supply. We expect that the majority of demand in Germany will be satisfied by domestic growers within a few years, and Maricann is amongst the best positioned to become a key player, in our view.

Operational overview

Power CoGen should facilitate low-cost grow in Ontario

We believe that low-cost production is an important competitive advantage in Canadian cannabis. With LP margins expected to come under pressure as the market shifts to a wholesaler model, managing the cost of inputs and achieving higher pricing through the sale of oils and extracts will be a key driver of profitability. We believe that Maricann is implementing an effective strategy on both fronts. Maricann operates a modest greenhouse facility in Langton, Ontario and has plans that will see its production footprint and capacity increase significantly over the next two years.

With expansion currently underway, we expect that Maricann will soon become a meaningful player in the Canadian cannabis space. The company is building the first 217,500 sq. ft. phase of a three phase facility that could ultimately produce almost 100,000 kg of cannabis per year. Once the first phase is completed (expected before the end of the year), Maricann will have the infrastructure to support the projected full capacity of the facility including two level 11 vaults (each capable of holding ~$250 million of product), as well as cloning and vegetation rooms.

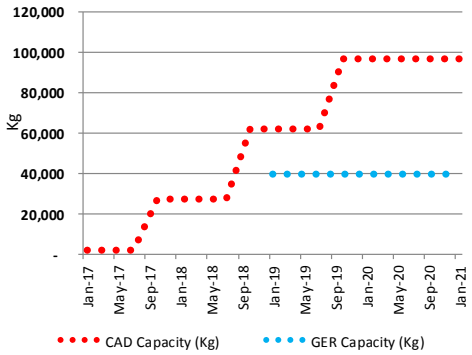
The other two phases are expected to consist primarily of flower area, and will be built out as discreet incremental expansions. The cost of the first phase is expected to be ~$30 million, with each additional phase anticipated to add another ~$20 million to the total capital budget. Once completed, we forecast production costs of ~$1.34 per gram at this hybrid greenhouse facility.

Current facility – A ~46,000 sq. ft. facility with a current production of 2,200kg;

- Phase I expansion–A 217,500 square foot production facility expected to be complete by October 2017;
- Phase II expansion – an additional 300,000 square feet of flowering area (~35,000 kg annual production) to the same facility to start construction in Q4 2017, with completion targeted for a year later;
- Phase III expansion – A 300,000 square foot addition to same facility (another ~35,000 kg capacity) to start construction in Q3 2018.

With the successful completion of all phases of expansion, we estimate annual production capacity could reach 62,200kg by the end of 2018 and 97,200kg in 2019. Once this final build-out is complete, we believe Maricann will have enough capacity to supply 19% of the combined medical and recreational market.

Figure 3: Timing of facility expansion plans



Source: Company Reports, Canaccord Genuity estimates

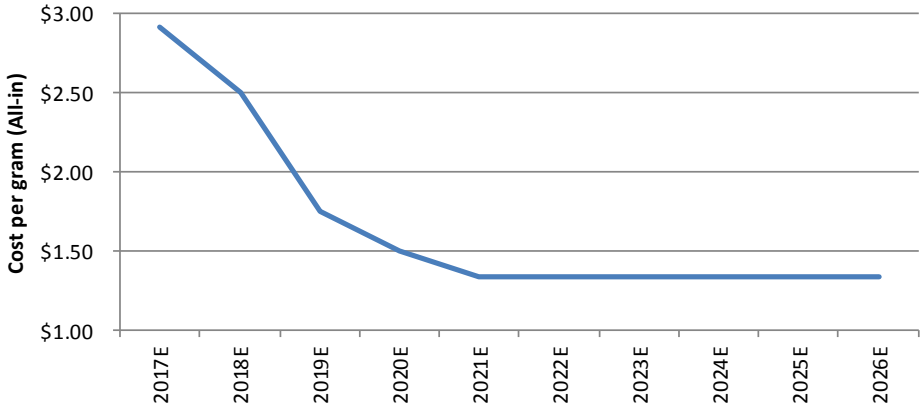
Figure 4: Summary of existing capacity and funded expansion plans

Location	Sq. Ft. of Current License	Sq. Ft. of Planned Facility	Current Capacity (Kg)	Potential Capacity (Kg)
Existing Canadian Facility	34,000	34,000	2,200	2,200
Langton Expansion - Phase 1	-	217,500	-	25,000
Langton Expansion - Phase 2	-	300,000	-	35,000
Langton Expansion - Phase 3	-	300,000	-	35,000
Dresden, Germany Facility	-	150,000	-	40,000
Total	**34,000**	**1,001,500**	**2,200**	**137,200**

Source: Company Reports, Canaccord Genuity estimates

The single largest cost input for producing cannabis is energy/electricity. This is further magnified as most LPs are located in Ontario, where the cost of power is the highest in the country. With a natural gas well located on its Langton property, Maricann will build out an electricity co-generation (CoGen) facility to offset high power costs; we expect that the CoGen could also qualify the company for up to $13 million in rebates. The CoGen is expected to supply over five megawatts of power, providing much of Maricann's energy needs, with the ability to sell back into the grid during periods of low energy usage.

Figure 5: Maricann: forecast production cost per gram – Canadian operations



Source: Company Reports, Canaccord Genuity estimates

The company also expects to utilize CO_2 from the CoGen to heat water and floors in the new facility, collect rainwater for plant production, and use high-efficiency glass to insulate and retain light. Maricann's monthly utility and hydro costs in phase 2 and 3 of the expansion plan are expected to be $25,000 per month, which we believe is substantially lower than indoor peers.

Figure 6: Langton facility – existing growing operations

Source: Company Reports

Figure 7: Langton facility – extraction

Source: Company Reports

Figure 8: Langton facility Phase I expansion – aerial view

Source: Company Reports

Figure 9: Langton Phase I facility expansion

Source: Company Reports

Maricann is best positioned to address the large German opportunity

In January 2017, the government of Germany passed legislation legalizing the use of cannabis for medicinal purposes. Since the legislation came into effect in March of this year, the government has allowed the importation of cannabis; however, Germany ultimately plans to create its own domestic cultivation to supply the market. The licence tender process will initially grant a total of eleven licences of 200 kg annually starting in 2018, but we nonetheless believe that this production capacity is likely to be expanded significantly in subsequent years.

We believe that Maricann is amongst the best-positioned companies to receive a German licence. The scoring for the tender process is based on a 60-point scale, and we believe Maricann is one of a handful of companies to qualify for the full point allocation. Further, we believe that Maricann is the only company with a retrofit-ready domestic facility (located in Ebersbach, near Dresden), and so may be first in line to begin production (likely by the middle of next year).

The Ebersbach facility is a 1.15 million sq. ft. former meat processing plant that was owned by Cargill. The plant was originally constructed for €80 million and would cost an estimated €120 million to replace today. With insulated walls, sloped floors, stainless steel floor drains and sterile-ready rooms, we believe this facility is (interestingly) ideally suited for indoor cannabis production. The company has estimated a relatively low cost of $1.1 million to retrofit each 50,000 sq. ft. area.

Figure 10: Ebersbach facility – exterior view

Source: Company Reports

Figure 11: Ebersbach facility – interior grow room (pre-retrofit)

Source: Company Reports

In May 2017, Maricann secured $42.5 million in non-dilutive financing from The Green Streaming Finance Company to fund the retrofit of its Ebersbach plant. In return, Green Streaming has the right to purchase 20% of Maricann's production at Ebersbach at an all-in cost plus 10%. We view the terms of this streaming agreement to be quite positive relative to other transactions that we have seen. Moreover, we expect that this financing will allow Maricann to fully fund the initial planned expansion of its German facility, as well as working capital needs.

- Phase I – The Ebersbach facility is to be retrofitted in 50,000 sq. ft. increments at a cost of ~$1.1 million per incremental build. The first phase of the plan (pending licence) is to construct up to 150,000 sq. ft. of growing space; initial cultivation could begin in the second half of 2018. The initial 150,000 sq. ft. is forecast to have a capacity of more than 40,000 kg of cannabis per year;
- Subsequent expansion – there is significant expansion room available in the 1.15 million sq. ft. Ebersbach facility.

Although Ebersbach is an indoor-grow facility, Maricann expects that it will nonetheless achieve low-cost production at this plant. The company anticipates significant subsidies from the Dresden government, totaling ~€80,000 per full-time equivalent. Including these subsidies and a lower overall cost for utilities, we believe that Maricann could achieve total cash production costs of well below €1.00 per gram when up and running.

German medical market could exceed the Canadian medical opportunity

With a population of 80.6 million (more than double that of California), we believe Germany represents a substantial opportunity for Maricann. It is estimated that there are currently only 8,000-12,000 medical cannabis patients in Germany, but we expect

that this could grow to over 1.5 million at peak. Conservatively assuming an approximate 2% conversion of the general population (as witnessed in other geographies with legalized medical cannabis), we believe that uptake in Germany could be further driven by a populace open to natural therapies and expected high rates of reimbursement from insurers.

Using similar metrics to how we estimate the Canadian market, we believe the peak sales opportunity in Germany could reach 470,000 kg. Although the government could demand lower pricing under its licensing process, even at an estimated price of €6.00 per gram we forecast the peak German medical opportunity to be more than €2 billion or C$3 billion. Moreover, we believe that the licensing process in Germany will create substantial barriers to entry and, with a significant head start, we expect that Maricann is positioned to become a leading supplier into this market.

Extraction technology is a key advantage

With his previous experience at Evolab, Scientific Director Dr. Steven Bennett brings a wealth of experience in the processing of cannabis extracts and oils. The technologies that Dr. Bennett has developed allow for the high-quality purification of cannabinoids while retaining the turpene profile from these extracts. We believe a solid extract strategy will be important to maintain (and even expand) overall margins as cannabis becomes more commoditized.

Cannabis oils and extracts can generally command a 2x-3x higher price compared to dried bud, which could offset lower pricing under a wholesaler distribution model in Canada. Furthermore, given Maricann's focus on the medical markets in both Canada and Germany, we believe that the development of novel cannabinoid delivery and formulation could result in even more value from cannabis production.

A look ahead to positive EBITDA

In 2016, Maricann recorded $4.0 million in revenue and sold 537 kg of cannabis. We estimate the annual peak run-rate of its existing facility is $16 million of revenue and 2,200 kg of cannabis. For Q1 2017, revenue slipped modestly to $1.1 million (from $1.3 million in the previous quarter) on lower sales volumes. During that quarter, the company experienced some weather-related production challenges as a storm damaged a portion of their grow facility. As a result, average cash costs increased on lower production (although overall costs remained steady).

We expect that production volumes and cash costs should recover steadily into Q2, with a return to normalized levels in the third quarter. With the completion of the first phase of its new hybrid greenhouse slated for Q4, we expect the initial production from this facility to begin closer to the end of the year (if not until early 2018). For next year, we forecast significant 44% sequential top-line growth and a transition to positive EBITDA for Maricann in the third quarter.

Financial projections

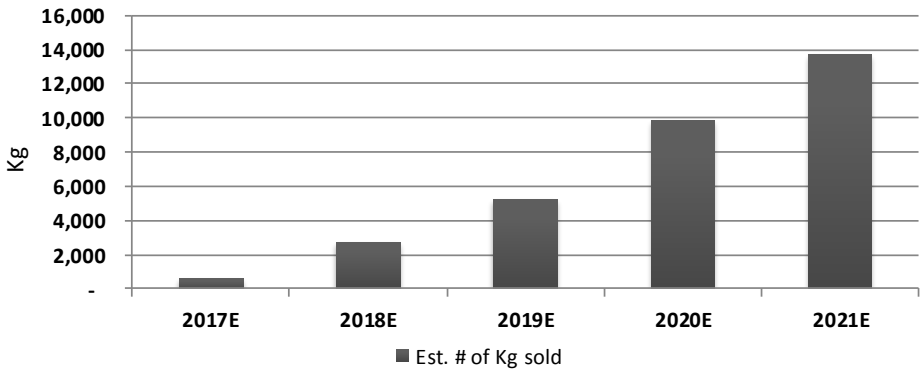
Our financial projections for Maricann (split between the Canadian medical and recreational markets, as well as the German medical opportunity) are included below. Refer to the "Our approach to valuation" section in this report for further discussion on our overall valuation methodology.

Medical cannabis estimates

Maricann reported sales of cannabis totaling 537 kg in 2016 and 5,000 total patients at year-end. Based on our 2016 estimate of 65,000 registered patients in Canada and total demand for 16,125 kg of cannabis, this implies a market share for Maricann of ~3.3%. With Phase I of its Langton facility expected to be completed in Q4 2017 and Phase II to start shortly thereafter, we expect that Maricann will be able to increase its medical market share to 7.0% over the next two years.

As the overall demand for medical cannabis in Canada increases substantially over the next few years, we believe that Maricann's medical focus will enable the company to reach peak penetration of 10.0% in this market. Including sales of both oil and dried bud, our five-year medical market forecast for Maricann is found below.

Figure 12: Estimated sales of medical cannabis in kg

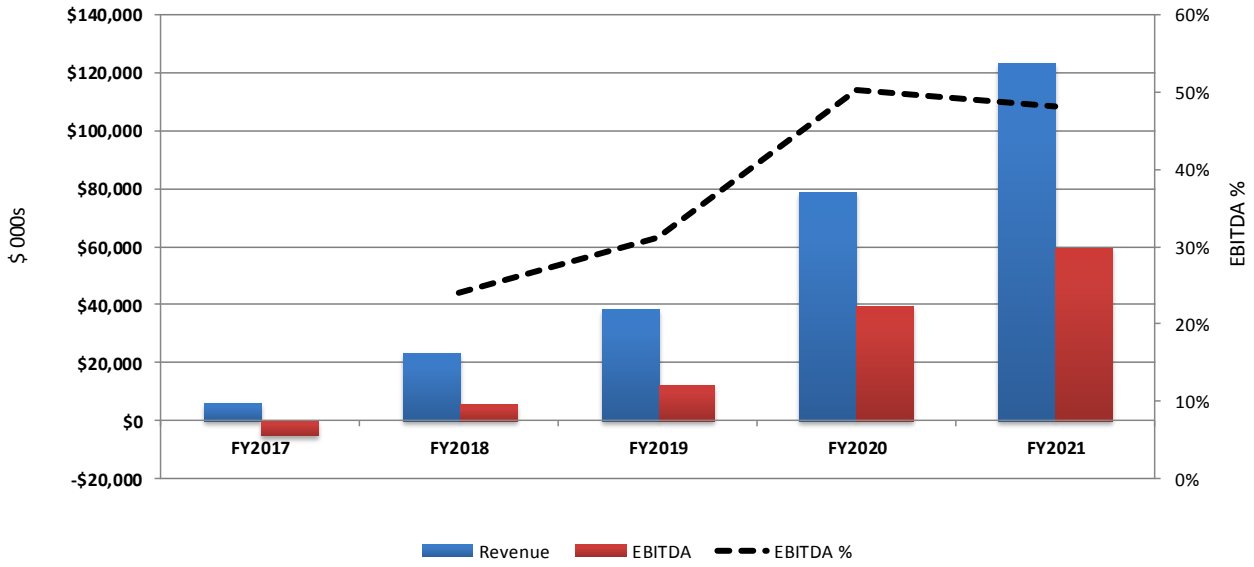


Source: Canaccord Genuity estimates

As recreational sales come on line (expected in 2018), we expect that the introduction of new retail channels will result in pricing pressure for cannabis. However, we believe that Maricann's leading extraction technology and oil strategy will offset some of the pricing headwinds. We estimate that Maricann's sales price per gram of dried bud will average $7.50 during 2018, decreasing to $5.77 wholesale in 2019 with the introduction of medical and recreational retail channels. Maricann's equivalent price of oil is forecast to be $15.00 in 2018, decreasing to $13.64 the following year.

As the medical industry continues to evolve, we expect oil and derivate products to account for a greater proportion of total sales. We estimate that Maricann will sell 45% of its product in oil form by 2020 and reach a peak of 70% by 2022. As seen in the chart below, we forecast Maricann will generate medical cannabis revenue of $5.8 million in the current fiscal year (FY2017), growing at a 114.4% four-year CAGR to $123.3 million by FY2021; we note that this does not include any incremental upside from potential recreational sales, when and if legalized.

Figure 13: Medical segment: Estimated revenue and EBITDA



Source: Company Reports, Canaccord Genuity estimates

Maricann's new automated hybrid greenhouse facility is expected to result in low cost production relative to its Ontario-based indoor cultivating peers. In addition, we believe that Maricann's CoGen plant will significantly offset production costs through provincial incentives, reimbursement, lower cost power, and revenue from selling back into the grid. As a result, we expect that Maricann will be able to achieve cash costs of ~$1.34 per gram once fully operational.

Given these low production costs, as well as limited patient acquisition costs, we expect that the company will achieve Adjusted EBITDA margins of ~30% in the near term. As the proportion of oil production increases to our steady-state estimate of 70%, we expect EBITDA margins will further strengthen and level out at close to 50%.

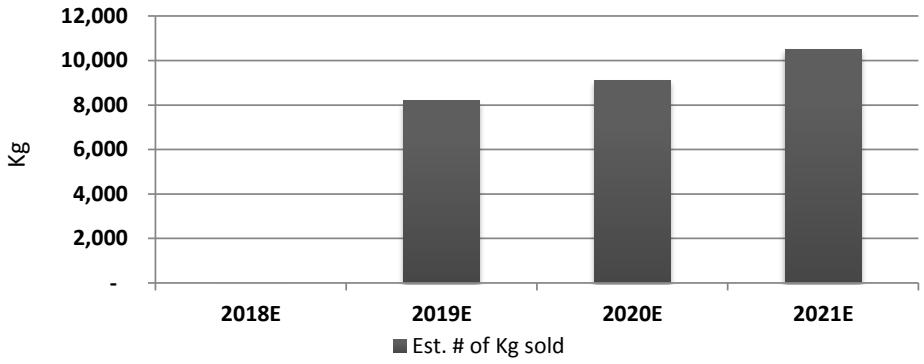
As illustrated above, we estimate that Maricann's medical cannabis business will generate $5.5 million of Adjusted EBITDA in 2018, increasing at a 120.5% three-year CAGR to $59.3 million by 2021.

Recreational estimates

As previously noted, we estimate that sales of recreational cannabis will commence in Canada by mid-calendar 2018. In the first full year of the recreational market, we estimate that Maricann will have a total capacity of 35,000 kg; however, with a primary focus on the medical market, we expect that the bulk of the company's production will be dedicated to medical sales. As a result, our forecast recreational sales in Canada are modest, reflecting peak penetration of ~2.4% in 2021.

Based on these assumptions, we estimate that Maricann will sell ~8,200 kg of cannabis into the recreational market in 2019, increasing at a modest 13.3% two-year CAGR to ~10,500 kg in 2021. We assume that the proportional sale of cannabis oil is lower compared to medical, starting at ~30% when recreational cannabis is introduced in 2018/2019, and peaking at ~50% in 2021.

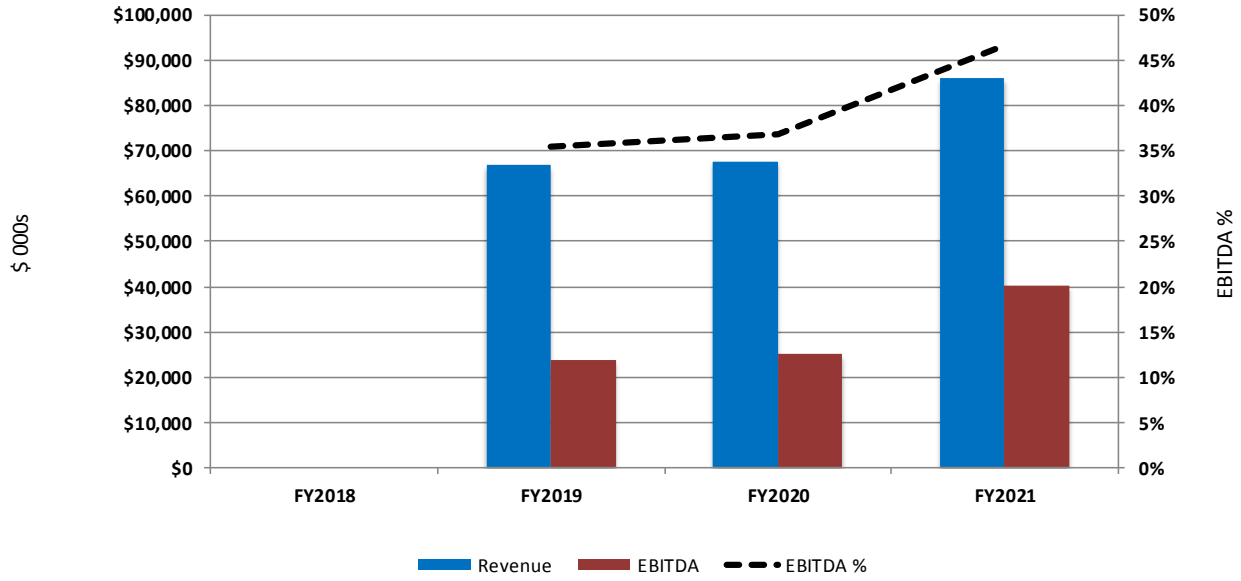
Figure 14: Estimated sales of recreational cannabis in kg



Source: Company Reports, Canaccord Genuity estimates

Using the same assumptions from our medical forecasts surrounding pricing and retail/wholesale timing, applied against the above estimated recreational volumes, we believe Maricann will achieve $66.6 million in recreational revenue in its first year (FY2019), increasing to $85.8 million by FY2021 when running at its full planned Phase I capacity. This equates to EBITDA of $23.6 million in FY2019, increasing at a 30% two-year CAGR to $40.0 million by FY2021.

Figure 15: Recreational segment: estimated revenue and EBITDA



Source: Company Reports, Canaccord Genuity estimates

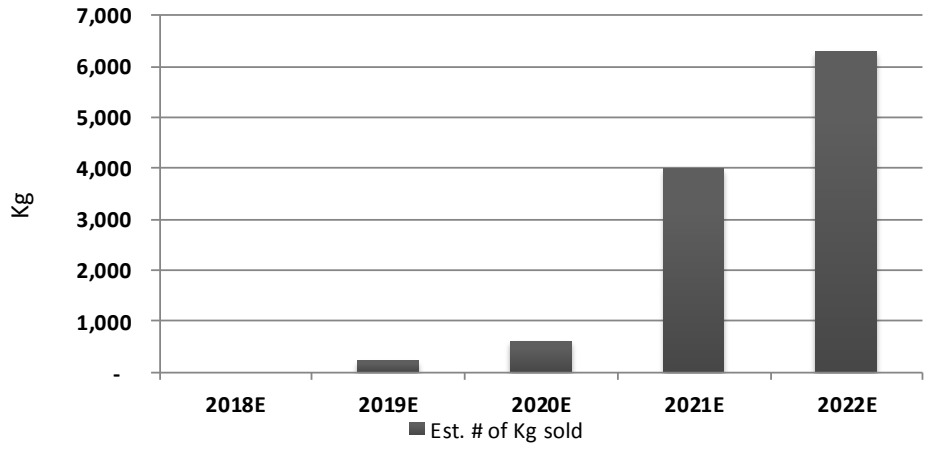
Estimates for the medical market in Germany

The opportunity in Germany is much harder to quantify given the nascent stage of that market. However, we do believe that Maricann is one of the best-positioned companies to begin production in 2018. Nonetheless, to be conservative, we have assumed that the first phase of retrofit will be complete by the end of next year and production will commence in 2019. Because the initial licences are small (200 kg each), we forecast sales of 200 kg in 2019, growing to 600 kg in 2020.

Based on our analysis, we believe that the German government has substantially underestimated the demand for medical cannabis. As such, we expect that volumes

should increase dramatically in the medium term (if not sooner). We therefore forecast sales volumes for Maricann will increase by 667% to 4,000 kg in 2021 and to 6,300 kg in 2022; this represents a 216% three-year CAGR

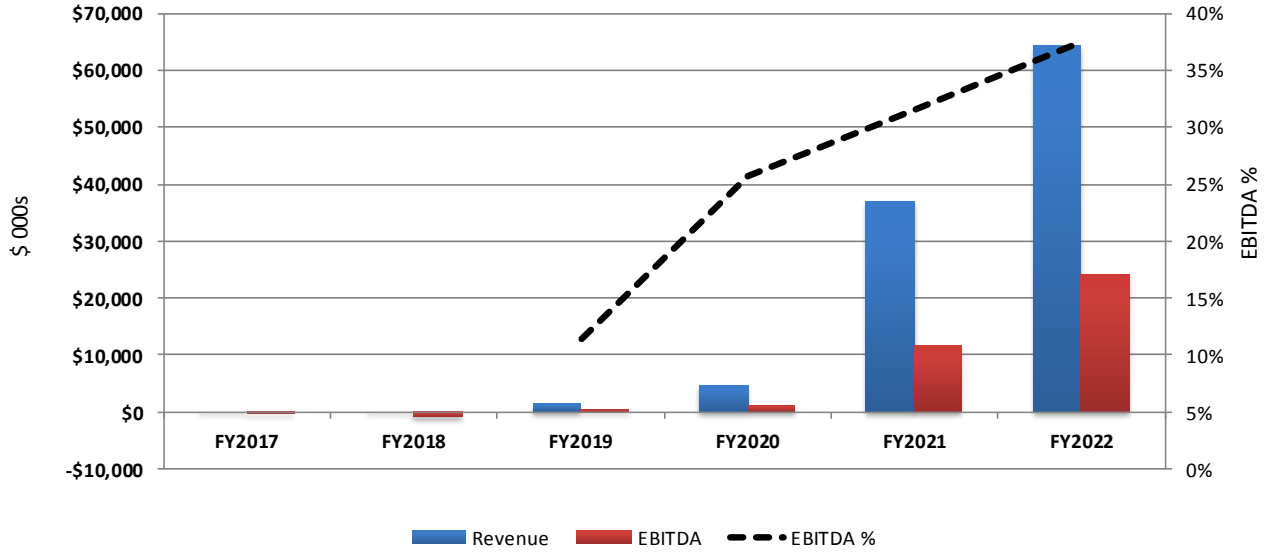
Figure 16: Estimated sales of cannabis in kg - German market



Source: Company Reports, Canaccord Genuity estimates

The primary (and, perhaps, only) customer for Maricann in Germany will be the federal government. This provides the upshot of steady demand and stable pricing and reimbursement; however, we expect that prices will likely be fixed at €6.00 per gram. Based on this, we forecast German revenue to be $1.6 million in 2019, growing at a 240% three-year CAGR to $64.4 million in 2022.

Figure 17: German segment: Estimated revenue and EBITDA



Source: Company Reports, Canaccord Genuity estimates

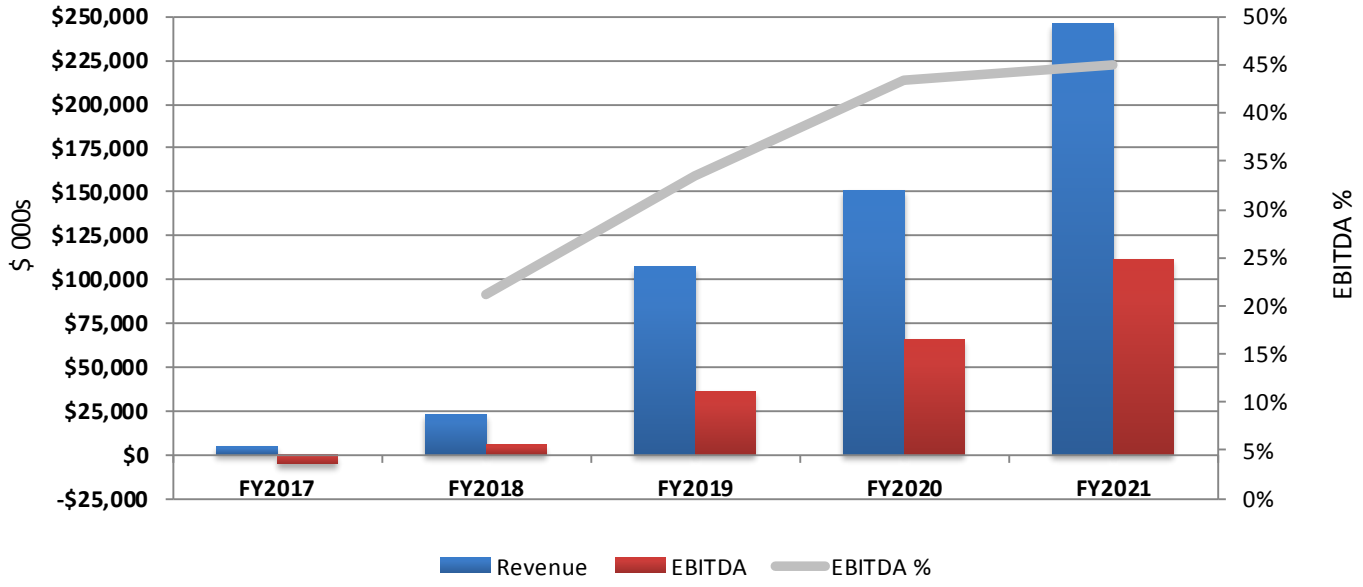
We expect that Maricann's German operation will turn EBITDA-positive in 2019, generating EBITDA of $0.2 million. EBITDA from Germany is expected to grow at a 406% three-year CAGR to $24.2 million in 2022. While this robust growth is far from certain given the regulatory environment in Germany, we have captured the risks of

Maricann reaching our numbers with a lower probability of success and much higher WACC in our valuation model (see our subsequent valuation section for details).

Consolidated medical and recreational estimates (Canada and Germany)

Our combined revenue and EBITDA estimates for the medical market and recreational opportunity (unadjusted for higher risk) are provided below. We estimate that Maricann will sell 627kg of cannabis in FY2017, resulting in $5.8 million of revenue and ($5.3) million EBITDA; we forecast that consolidated cannabis sales will grow to 24,235 kg (149% four-year CAGR), representing revenue of $245.9 million (189% CAGR) and EBITDA of $110.9 million (183% CAGR) in FY2021.

Figure 18: Combined medical, recreational and German market estimates: Revenue and EBITDA



Source: Company Reports, Canaccord Genuity estimates

Valuation

Medical valuation

We value the existing medical cannabis segment using a discounted cash flow valuation. We believe the medical market will continue to experience relatively high growth over the coming years and, with a regulatory framework already in place, we believe the risks associated with our overall Canadian medical market size forecasts are modest relative to the potential upside from the recreational market. However, given Maricann's medical focus, we do believe that there is some company-specific execution risk within the medical market.

Our DCF utilizes a discount rate of 18.0% (a small premium to indoor growers and at the high end compared to our other medical valuations to account for pharmaceutical product development risk) and a terminal growth rate of 2.0%. As shown below, we estimate the value of the medical segment to be $3.07 per share, which alone represents a ~98% premium to Maricann's current market cap.

Figure 19: Maricann: Discounted cash flow valuation – medical segment

	Fiscal Year Ended December 31						
(C$ 000s)	2017E	2018E	2019E...	2024E	2025E	2026E	Term. Value
Total Market for Medical Marijuana (Kg)	36,446	76,285	105,120	189,070	203,670	221,920	
Medical Sales in KG	**627**	**2,670**	**5,256**	**18,907**	**20,367**	**22,192**	
Market Share	1.7%	3.5%	5.0%	10.0%	10.0%	10.0%	
Revenue	**$5,838**	**$23,029**	**$38,593**	**$169,815**	**$181,098**	**$195,353**	
% growth		294%	68%	7%	7%	8%	
Adj. EBITDA	(5,148)	5,530	12,028	90,988	97,666	106,624	
Cash Taxes	-	-	-	(11,595)	(12,678)	(14,174)	
Working Capital	(876)	(2,579)	(2,335)	(1,730)	(1,693)	(2,138)	
Capital Expenditures	(11,797)	(5,694)	(7,449)	(9,699)	(9,699)	(9,699)	
Free Cash Flow	(17,821)	(2,743)	2,244	67,964	73,596	80,612	
Terminal Value							503,827
Total Cash Flow	(17,821)	(2,743)	2,244	67,964	73,596	80,612	503,827
Time Period	-	0.5	1.5	6.5	7.5	8.5	8.5
Discounted Cash Flow	($17,821)	($2,525)	$1,751	$23,176	$21,269	$19,743	$123,391

Enterprise Value	$255,849
Net Debt	($27,120)
Equity Value	$282,969
# of Share - FD	92,120
Value per share	**C$3.07**

Source: Company Reports, Canaccord Genuity estimates

Valuing the recreational opportunity

Due to the inherently riskier nature of the recreational opportunity, we have valued this segment of the business using a probability-weighted NPV approach. Many of the assumptions are the same as our DCF valuation of the medical segment, but discounted at a significantly higher rate and probability-weighted to account for greater uncertainty over the size, timing and eventual landscape of the Canadian recreational marijuana market.

Our probability-weighted NPV assumes the recreational market will begin to ramp in 2019 and reach its full potential by 2022. Due to the increased uncertainty around timing, regulation, pricing, and distribution, we utilize a higher discount rate of 19% when calculating the present value of recreational cash flows. We believe this is very

conservative, as recreational sales are not Maricann's focus, and we have allocated the company only 2.4% overall recreational market share. In addition, we have assumed an 80% likelihood that the recreational market will become legalized.

Figure 20: Maricann: Probability weighted NPV – recreational opportunity

		Fiscal Year Ended December 31						
		2017E	2018E	2019E...	2024E	2025E	2026E	TV
Recreational Sales in KG				8,188	12,049	12,157	12,222	
Market Share				2.0%	2.4%	2.4%	2.4%	
Net-Present Value								
Recreational Sales $		$ -	$ -	$ 66,563	$ 95,489	$ 95,383	$ 94,928	
Recreatonal Adj. EBITDA				23,612	50,219	49,523	49,598	
Less:								
Cash Taxes				5,785	12,304	12,133	12,151	12,759
Capex		35,000	20,000	15,000	-	-	-	-
Working Capital				1,228	104	16	10	
Cash Flow Adjustments		35,000	20,000	22,013	12,408	12,149	12,161	
Terminal Value FCF								39,319
Free Cash Flow		(35,000)	(20,000)	1,599	37,811	37,374	37,437	262,125
Discounted FCF	19%		$131,746					
Probability of Legalization	80%		105,397					
Discount Probability Adjusted FCF								
Probability adjusted discount rate	15%	$ 63,498						
# of Common Shares o/s -FD		92,120						
Value of Recreational Opportunity per share		$ 0.69						

Source: Company Reports, Canaccord Genuity estimates

Based on our relatively high discount rate, and our 80% risk adjustment, we believe the current value of Maricann's recreational opportunity is ~$0.69 per share; however, if we de-risked our valuation and valued the recreational opportunity using a normalized WACC (15% discount rate and 100% probability), but using the exact same assumed market penetration and cash flow estimates, our valuation of the recreational market would be $1.33 per share.

Based on a sum-of-the-parts methodology, we arrive at a valuation of $3.76 for Maricann's Canadian business; however, if we de-risk our recreational model, our sum-of-the-parts valuation for this business increases to $5.37 per share.

Tremendous optionality from the German opportunity

We believe that the German medical market represents Maricann's key differentiator and an untapped value driver for investors. While there is risk in Maricann obtaining a production licence (captured in our low 40% likelihood of success), as well as forecasting how the regulatory landscape will unfold and how demand will ramp (captured in our elevated 20% WACC), we do believe that the company is amongst the best positioned to capitalize on and adapt to these developments.

Figure 21: Maricann: Probability weighted NPV - German opportunity

		Fiscal Year Ended December 31						
		2017E	2018E	2019E...	2024E	2025E	2026E	TV
Total Market for Germany Marijuana (Kg)		2,000	2,000	8,000	135,000	270,000	337,500	
German Sales in KG		-	-	200	15,628	32,819	43,075	
Market Share		0.0%	0.0%	2.5%	11.6%	12.2%	12.8%	
Net-Present Value								
Sales C$		$ -	$ -	$ 1,638	$ 192,224	$ 480,465	$ 630,611	
Germany Adj. EBITDA		(160)	(640)	186	83,055	248,660	329,520	
Less:								
Cash Taxes		-	-	-	20,176	60,732	80,524	82,134
Capex		8,553	1,190	1,309	2,109	2,320	7,465	8,457
Working Capital		-	-	30	856	2,579	1,538	
Cash Flow Adjustments		8,553	1,190	1,339	23,141	65,631	89,527	
Terminal Value FCF								245,519
Free Cash Flow		(8,713)	(1,830)	(1,153)	59,914	183,030	239,993	1,363,994
Discounted FCF	20%	$335,439						
Discount Probability Adjusted FCF	40%	134,175						
# of Common Shares o/s -FD		92,120						
Value of Germany Opportunity per share		$ 1.46						

Source: Company Reports, Canaccord Genuity estimates

Similar to our Canadian recreational model, we also value the German opportunity using a risk-adjusted NPV (40% likelihood of success, 20% discount rate). Based on this analysis, we value the German opportunity at $1.46 per share. On an un-risked basis (assuming a normalized 15% WACC and 100% chance of success), our German valuation for Maricann increases to $5.45 per share and illustrates the significant optionality of this opportunity.

Sum-of-the-parts

Based on a sum-of-the-parts methodology, we arrive at a combined valuation of $5.22 per share for Maricann. However, if we de-risk our Canadian medical, recreational, and German valuation models (100% success and using a consistent 15% WACC), our sum-of-the-parts valuation would be $10.82 per share.

Figure 22: Maricann: Sum-of-the-parts valuation

Segment	Methodology	$ per share
Medical	DCF	$ 3.07
Recreational	p.NPV	$ 0.69
Germany	p.NPV	$ 1.46
Total		$ 5.22

Source: Company Reports, Canaccord Genuity estimates

Figure 23: Maricann: De-risked valuation

Segment	Methodology	$ per share
Medical	DCF	$ 4.04
Recreational	p.NPV	$ 1.33
Germany	p.NPV	$ 5.45
Total		$ 10.82

Source: Company Reports, Canaccord Genuity estimates

As a result, we are initiating on Maricann with a SPECULATIVE BUY rating and a C$5.00 target, which represents an annualized return of 257%.

Selected management and director bios

Ben Ward | CEO, President, and Director

Ben Ward leads all aspects of the company's management, operations, and strategic direction. His previous experiences include business development, infrastructure development, and capital markets. Mr. Ward also holds a BA and MBA from Bradford University School of Management with a dual degree in Operations and Finance.

Terry Fretz | Chief Operating Officer

Terry Fretz is a long-time pharmaceutical executive and had previously run two privately held generic pharmaceutical companies. Both companies were later acquired by publicly traded multinationals. Prior to joining Maricann, Mr. Fretz served as President and General Manager of Watson Pharmaceuticals in Canada.

Jeremy Blumer | Chief Financial Officer

Jeremy Blumer is the former Head of Accounting of BlackBerry Ltd. leading the global reporting and operations compliance over 50 countries around the world. He facilitated quarterly and yearly reporting to the SEC and has over 20 years of finance experience, planning and analysis, and international modelling in both public and private company environments. Mr. Blumer holds a CPA designation and a BComm from Queen's University.

Dr. Steven Bennett | Scientific Advisor

Steven Bennett is Maricann's scientific advisor with a background in molecular biology and transdermal drug delivery. He holds two patents and has published several articles and peer-reviewed journals. Dr. Bennett holds a B.Sc. in biochemistry from Eckerd College and a Ph.D. in molecular biology, with an emphasis on neuroscience, from the University of South Florida College of Medicine.

Neil Tabatznik | Chairman and Director

Neil Tabatznik was Chairman of Genpharm Pharmaceuticals Inc. between 1993 and 1999. Following the sale of this company, Mr. Tabatznik moved on to create Arrow Canada and was Director of the Arrow Group of Companies, which was also subsequently sold to a large multinational. Mr. Tabatznik is Chairman of Blue Ice Capital and Blue Ice Pictures, founder of the Blue Ice Hot Docs Documentary Film Fund, and owner of The Bloor-Hot Docs Theatre.

Investment Risks

In addition to industry risks highlighted previously, we have also identified several company-specific risks worth noting:

- **Production risks** – Maricann may experience challenges ramping up production or may experience delays meeting its production goals. Additionally, Maricann may not achieve its projected funded production capacity and therefore may not meet our revenue estimates.
- **Pharmaceutical risks** – Maricann may not be successful in developing extraction processes or pharmaceutical formulations for cannabinoids. This could result in Maricann missing our projected timelines or failing to meet our financial forecasts.
- **Cost/quality risks** – Maricann will be primarily growing in a hybrid greenhouse facility located in southwestern Ontario, which we believe poses some risk to quality. Additionally, Maricann may lose some or its entire crop to pests or environmental factors.
- **Pricing risks** – Maricann may not achieve the premium pharmaceutical pricing that we forecast and therefore may not meet our financial estimates.
- **Regulatory risk** – Maricann conducts business in a heavily-regulated industry. Should the company not receive its German production licence or if regulatory changes adversely affect its business, Maricann may not achieve our forecasts.

Figure 24: Maricann: Summary sheet

Company Description

Maricann is a producer and distributor of marijuana for medical purposes under the Access to Cannabis for Medical Purposes Regulations(ACMPR). The company was founded in 2013 and is based in Langton, Ontario, where it operates a medicinal cannabis cultivation, extraction and distribution business under federal licence. Additionally, Maricann is expanding operations into Germany via Maricann GmbH, a 100% wholly owned subsidiary of Maricann Group Inc.

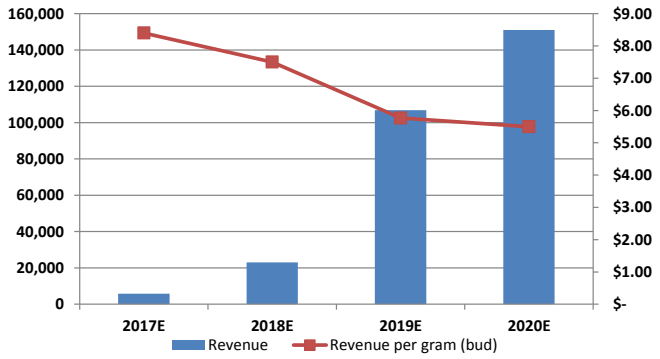
Consolidated Balance Sheet

Year end Dec 31 $000s	2016A	2017E	2018E	2019E
Cash	32,633	-	42,500	-
Current Assets	17,462	2,206	49,563	30,863
Fixed Assets	7,162	45,898	58,391	74,264
Total Assets	**53,867**	**49,103**	**108,954**	**107,127**
Current Liabilities	2,344	2,255	3,184	13,011
Debt	2,691	-	-	-
Shareholders Equity	24,625	(12,143)	29,156	51,312
Total Liabilities & S/E	**53,867**	**49,103**	**108,954**	**107,127**

P&L Forecasts

Year end Dec 31 $000s	2016A	2017E	2018E	2019E
Kgs of cannabis sold	**537**	**627**	**2,670**	**13,644**
Ave. Price per gram (bud)	$ 1.78	$ 8.40	$ 7.50	$ 5.77
Revenue	**958**	**5,838**	**23,029**	**106,794**
Production Costs	1,130	2,930	6,675	24,127
Operating Expenses	788	8,116	11,463	46,841
Adj. EBITDA	**(961)**	**(5,308)**	**4,890**	**35,827**
Depreciation/Amortization	151	12,415	6,091	7,886
Interest Expense (Income)	(54)	(42)	-	-
Income Before Taxes	**(884)**	**(20,908)**	**(5,807)**	**20,222**
Taxes	-	-	-	5,785
Net Income	**(884)**	**(20,908)**	**(5,807)**	**14,437**
Shares o/s (basic)	36,612	72,517	72,517	72,517
Shares o/s (FD)	36,612	92,120	92,120	92,120
EPS - FD	**(0.02)**	**(0.23)**	**(0.06)**	**0.16**

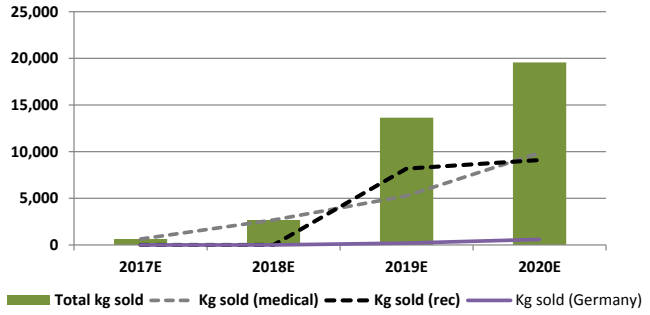
Revenue Forecasts



Cash Flow Forecasts

Year end Dec 31 $000s	2016A	2017E	2018E	2019E
Net Income	**(884)**	**(20,908)**	**(5,807)**	**14,437**
Adj. EBITDA	**(961)**	**(5,308)**	**4,890**	**35,827**
Change in Working Capital	(4,016)	(1,025)	(3,928)	(13,972)
Cash Taxes	-	-	-	5,785
Capex	(4,418)	(51,150)	(18,585)	(23,759)
Free Cash Flow	**(9,318)**	**(61,534)**	**(24,573)**	**2,690**

Production Sales Forecasts



Growth Analysis

Year end Dec 31 $000s	2016A	2017E	2018E	2019E
Revenue	521%	510%	294%	364%
EBITDA	nmf	453%	nmf	633%
Net Income	nmf	2265%	nmf	nmf

Margin Analysis

Year end Dec 31 $000s	2016A	2017E	2018E	2019E
Gross Margin	-18%	48%	71%	77%
EBITDA	-9%	-91%	21%	34%
Net Income	*nmf*	*nmf*	nmf	14%

Valuation Ratios

Year end Dec 31 $000s	2017	2018	2019
Enterprise Value / Revenue	17.4x	4.4x	1.0x
Enterprise Value / EBITDA	-19.2x	20.8x	2.8x
Enterprise Value / Funded Capacity	2.1x	2.1x	2.1x

Source: Company Reports, Canaccord Genuity estimates

Figure 25: Maricann: Forecast P&L

Fiscal Year End - Dec 31 (C$'000s)	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Total Revenue	**$ 5,838**	**$ 23,029**	**$ 106,794**	**$ 150,970**	**$ 245,928**	**$ 300,421**	**$ 360,954**	**$ 457,527**	**$ 756,947**	**$ 920,891**
Revenue growth %	510%	294%	364%	41%	63%	22%	20%	27%	65%	22%
Cost of goods sold	3,030	6,675	24,127	29,790	41,475	50,438	60,920	76,644	92,811	110,726
Amortization	-	-	-	-	-	-	-	-	-	-
FV of change in biological assets	(99)	-	-	-	-	-	-	-	-	-
Total Production Costs	**$ 2,930**	**$ 6,675**	**$ 24,127**	**$ 29,790**	**$ 41,475**	**$ 50,438**	**$ 60,920**	**$ 76,644**	**$ 92,811**	**$ 110,726**
Gross Margin	**$ 2,908**	**$ 16,354**	**$ 82,667**	**$ 121,180**	**$ 204,453**	**$ 249,984**	**$ 300,034**	**$ 380,883**	**$ 664,136**	**$ 810,165**
Adjusted Gross Margin	**$ 2,809**	**$ 16,354**	**$ 82,667**	**$ 121,180**	**$ 204,453**	**$ 249,984**	**$ 300,034**	**$ 380,883**	**$ 664,136**	**$ 810,165**
Adj. GM%	*48%*	*71%*	*77%*	*80%*	*83%*	*83%*	*83%*	*83%*	*88%*	*88%*
General & Administrative	$ 2,802	$ 4,785	$ 17,120	$ 17,836	$ 40,084	$ 41,846	$ 49,160	$ 56,460	$ 92,873	$ 108,715
Share-based payments	2,728	4,606	7,719	15,736	24,660	29,167	31,657	33,963	36,220	39,071
Sales & Marketing & Promotion	4,714	5,527	25,680	31,369	45,370	53,906	62,015	82,591	143,095	175,470
Amortization & Depreciation	12,415	6,091	7,886	10,179	10,227	10,280	10,338	10,402	10,473	10,550
Research & Development	600	1,151	4,041	6,293	8,113	10,302	13,064	17,570	32,318	40,239
Income (loss) from operations	**$ (20,352)**	**$ (5,807)**	**$ 20,222**	**$ 39,765**	**$ 75,998**	**$ 104,483**	**$ 133,801**	**$ 179,896**	**$ 349,158**	**$ 436,121**
Adjusted EBITDA	**$ (5,308)**	**$ 4,890**	**$ 35,827**	**$ 65,681**	**$ 110,885**	**$ 143,930**	**$ 175,796**	**$ 224,261**	**$ 395,850**	**$ 485,742**
Adj. EBITDA %	-90.9%	21.2%	33.5%	43.5%	45.1%	47.9%	48.7%	49.0%	52.3%	52.7%
Interest income (expense)	(42)	-	-	-	-	-	-	-	-	-
Finance Costs	514	-	-	-	-	-	-	-	-	-
Other	60,291	-	-	-	-	-	-	-	-	-
EBT	**$ (20,908)**	**$ (5,807)**	**$ 20,222**	**$ 39,765**	**$ 75,998**	**$ 104,483**	**$ 133,801**	**$ 179,896**	**$ 349,158**	**$ 436,121**
Income tax expense	-	-	5,785	6,270	18,619	25,598	32,781	44,075	85,544	106,850
Net Income	**$ (20,908)**	**$ (5,807)**	**$ 14,437**	**$ 33,496**	**$ 57,378**	**$ 78,884**	**$ 101,019**	**$ 135,821**	**$ 263,614**	**$ 329,272**
EPS - Basic	$ (0.29)	$ (0.08)	$ 0.20	$ 0.46	$ 0.79	$ 1.09	$ 1.39	$ 1.87	$ 3.64	$ 4.54
EPS -FD	$ (0.23)	$ (0.06)	$ 0.16	$ 0.36	$ 0.62	$ 0.86	$ 1.10	$ 1.47	$ 2.86	$ 3.57
# of shares outstanding - Basic	*72,517*	*72,517*	*72,517*	*72,517*	*72,517*	*72,517*	*72,517*	*72,517*	*72,517*	*72,517*
# of share outstanding - FD	*92,120*	*92,120*	*92,120*	*92,120*	*92,120*	*92,120*	*92,120*	*92,120*	*92,120*	*92,120*

Source: Company Reports, Canaccord Genuity estimates

Figure 26: Maricann: Forecast balance sheet

Fiscal Year End - Dec 31 (C$'000s)	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Assets										
Cash and Cash Equivalents	-	42,500	-	-	65,568	161,362	282,482	435,898	707,216	1,048,256
Accounts Receivable	973	3,838	17,799	25,162	40,988	50,070	60,159	76,255	126,158	153,482
Inventory (excl. FV adjustments)	611	1,854	10,053	12,412	17,281	21,016	25,383	31,935	38,671	46,136
Biological Assets	122	371	2,011	2,482	3,456	4,203	5,077	6,387	7,734	9,227
Other	500	1,000	1,000	2,000	2,000	3,000	3,000	3,000	3,000	3,000
Current Assets	**2,206**	**49,563**	**30,863**	**42,057**	**129,293**	**239,651**	**376,100**	**553,474**	**882,779**	**1,260,101**
Property, Plant and Equipment, net	45,898	58,391	74,264	75,224	76,281	77,442	78,720	80,126	81,673	88,287
Other Long-term Assets	1,000	1,000	2,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Total Assets	**49,103**	**108,954**	**107,127**	**120,281**	**208,573**	**320,093**	**457,821**	**636,600**	**967,452**	**1,351,388**
Liabilities										
Short Term Borrowings	58,991	76,614	42,803	4,320	-	-	-	-	-	-
Accounts Payable & Accrued Liabilities	2,255	3,184	13,011	15,416	25,991	29,459	34,511	43,506	74,524	90,118
Current Liabilities	**61,246**	**79,798**	**55,815**	**19,737**	**25,991**	**29,459**	**34,511**	**43,506**	**74,524**	**90,118**
Financial Leases	-	-	-	-	-	-	-	-	-	-
Total Liabilities	**61,246**	**79,798**	**55,815**	**19,737**	**25,991**	**29,459**	**34,511**	**43,506**	**74,524**	**90,118**
Shareholder's Equity										
Share Capital	20,445	25,050	32,769	48,505	73,165	102,332	133,989	167,952	204,171	243,242
Contributed Surplus	2,650	45,150	45,150	45,150	45,150	45,150	45,150	45,150	45,150	45,150
Net Income	(20,908)	(5,807)	14,437	33,496	57,378	78,884	101,019	135,821	263,614	329,272
Deficit	(14,329)	(35,237)	(41,044)	(26,607)	6,889	64,267	143,152	244,171	379,992	643,606
Total Shareholder's Equity	**(12,143)**	**29,156**	**51,312**	**100,544**	**182,582**	**290,634**	**423,310**	**593,094**	**892,928**	**1,261,270**
Total Liabilities and Shareholder's Equity	**49,103**	**108,954**	**107,127**	**120,281**	**208,573**	**320,093**	**457,821**	**636,600**	**967,452**	**1,351,388**

Source: Company Reports, Canaccord Genuity estimates

Figure 27: Maricann: Forecast statement of cash flows

Fiscal Year End - Dec 31 (C$'000s)	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
OPERATING ACTIVITIES										
Net profit (loss) for the period	(20,908)	(5,807)	14,437	33,496	57,378	78,884	101,019	135,821	263,614	329,272
Adjustments for non-cash items										
Depreciation	12,415	6,091	7,886	10,179	10,227	10,280	10,338	10,402	10,473	10,550
Non-Cash Share Warrants	60,291	-	-	-	-	-	-	-	-	-
Share based payments	2,728	4,606	7,719	15,736	24,660	29,167	31,657	33,963	36,220	39,071
Increases (Decrease) in Deferred Revenue	(196)	-	-	-	-	-	-	-	-	-
Increases in Other	(271)	(500)	-	(1,000)	-	(1,000)	0	0	0	0
Increases in Inventory	141	(1,244)	(8,199)	(2,360)	(4,869)	(3,734)	(4,368)	(6,552)	(6,736)	(7,465)
Increases in Accounts Receivable	(874)	(2,865)	(13,961)	(7,363)	(15,826)	(9,082)	(10,089)	(16,096)	(49,903)	(27,324)
Increases in Accounts Payable	(89)	930	9,827	2,405	10,575	3,468	5,051	8,995	31,018	15,594
Increases in Biological Assets	68	(249)	(1,640)	(472)	(974)	(747)	(874)	(1,310)	(1,347)	(1,493)
Changes in working capital	(1,025)	(3,928)	(13,972)	(8,789)	(11,094)	(11,095)	(10,279)	(14,962)	(26,969)	(20,688)
Cash from Operations	**53,304**	**963**	**16,069**	**50,622**	**81,172**	**107,236**	**132,736**	**165,224**	**283,338**	**358,204**
FINANCING ACTIVITIES										
Shares issued for cash	9,273	-	-	-	-	-	-	-	-	-
Proceeds (repayment) of debt (Financial Lease)	(2,821)	-	-	-	-	-	-	-	-	-
Increases (Decrease) in Warrant Liabilities	(62,548)	-	-	-	-	-	-	-	-	-
Increase in Convertible Notes	(20,243)	-	-	-	-	-	-	-	-	-
Non-Equity Financing Proceeds	-	42,500	-	-	-	-	-	-	-	-
Cash from Financing	**(76,338)**	**42,500**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
INVESTING ACTIVITIES										
Purchase of PP&E	(51,150)	(18,585)	(23,759)	(11,140)	(11,284)	(11,442)	(11,616)	(11,808)	(12,019)	(17,164)
Other	(1,000)	-	(1,000)	(1,000)	-	-	-	-	-	-
Cash from Investing	**(52,150)**	**(18,585)**	**(24,759)**	**(12,140)**	**(11,284)**	**(11,442)**	**(11,616)**	**(11,808)**	**(12,019)**	**(17,164)**
Increase in cash and cash equivalents	**(75,184)**	**24,878**	**(8,690)**	**38,483**	**69,888**	**95,794**	**121,120**	**153,416**	**271,319**	**341,040**
Cash and cash equivalents, beginning of year	16,193	(58,991)	(34,114)	(42,803)	(4,320)	65,568	161,362	282,482	435,898	707,216
Cash and cash equivalents, end of year	(58,991)	(34,114)	(42,803)	(4,320)	65,568	161,362	282,482	435,898	707,216	1,048,256
Cash and cash equivalents, Balance Sheet	**(58,991)**	**(34,114)**	**(42,803)**	**(4,320)**	**65,568**	**161,362**	**282,482**	**435,898**	**707,216**	**1,048,256**

Source: Company Reports, Canaccord Genuity estimates

CANACCORD Genuity

To us there are no foreign markets.™

Cronos Group Inc.

Canadian Cannabis

Canadian Equity Research
5 July 2017

SPECULATIVE BUY

PRICE TARGET	C$3.00
Price (4-Jul)	C$1.71
Ticker	MJN-TSXV

52-Week Range (C$):	0.18 - 3.54
Avg Daily Vol (000s) :	268.2
Market Cap (C$M):	310
Shares Out., FD (M) :	181.3
Total Return to Target (%) :	75.4
Net Debt (Cash) (C$M):	(26)

FYE Dec	2016A	2017E	2018E	2019E
Revenue (C$M)	1	9	44	158
SG&A (C$M)	3.4	7.1	16.8	55.4
EBITDA Adj (C$M)	(3.9)	(2.3)	13.0	52.5
EPS Adj&Dil (C$)	0.00	(0.00)	0.05	0.21

Source: FactSet

Priced as of close of business 4 July 2017

Cronos operates two wholly-owned Licenced Producers under Health Canada's Access to Cannabis for Medical Purposes Regulations (ACMPR) and holds minority investments in other LPs. The company's two wholly owned LP Peace Naturals Project is currently in the midst of a significant expansion plan that should see its capacity increase to 40,000 kg by 2019.

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Initiation of Coverage

Peace Naturals headlines a diversified strategy

We are initiating coverage of Cronos Group Inc. with a SPECULATIVE BUY rating and a target price of C$3.00. In addition to two LPs that Cronos wholly owns and operates, the company has further diversified its exposure to the Canadian cannabis space with strategic minority investments in four other LPs and an ACMPR applicant. In our view, Cronos is currently deploying a competitive differentiated strategy (which we believe will become increasingly important with the recent acceleration of LPs entering the market) through its sizable expansion plan at Peace Naturals, the construction of a purpose-built extraction lab, an international distribution agreement, and a joint venture catering to the First Nations community in Canada.

Excluding its strategic investments, Cronos currently trades at a funded capacity multiple of 7.1x, a slight premium to peers at 6.7x. However, we believe the recent pullback in the stock resulting from its contamination is largely overdone and the optionality of its portfolio should justify a higher premium multiple to the group as the company continues to build out its facilities at Peace Naturals and at its second wholly owned LP (In The Zone).

Investment Highlights

- **Peace Naturals expansion should drive significant growth.** The company's wholly owned investment in Peace Naturals is in the midst of a sizable expansion plan that management estimates should bring its total capacity to 40,000 kg by the end of 2018, which would represent a top-line potential of >$300 million at today's retail prices.
- **Stock bogged down by what we believe is a transient contamination concern.** After announcing in May 2017 that trace levels of Piperonyl Butoxide (a chemical used for cleaning by the previous operator) were detected at Peace Naturals, Cronos has seen its stock trade off ~33% (~2.0x greater than the recent market pullback). Although investor confidence has seemingly been shaken, we believe this issue is likely transient and should pale in comparison to Cronos' overall diversified strategy and growth potential, and has created an attractive buying opportunity at current levels.
- **Poised for recreational upside.** As a result of its substantial build-out at Peace Naturals, we believe Cronos is set to experience significant top-line growth if recreational sales commence along expected timelines, with total revenues of $251 million by FY2021 (a four-year CAGR ~125%), resulting in EBITDA of $101 million and free cash flow of >$70.0 million. If the recreational market unfolds as expected, our de-risked recreational valuation supports a share price of >$C4.50.

Valuation

We value the medical cannabis market based on a DCF model, using a 12.0% WACC and 2.0% terminal growth; the higher-risk rec opportunity is valued using a probability-weighted NPV. Together, these two analyses yield a target price of $3.00 ($1.65 medical, $1.20 recreational, $0.15 strategic investments), which represents a forecast 75.4% annualized return and supports our SPECULATIVE BUY rating.

A diversified strategy driven by investments in two wholly owned LPs

We are initiating coverage of Cronos Group Inc. (MJN: TSX-V) with a SPECULATIVE BUY rating and a $3.00 target price. Although Cronos recently announced the commencement of a sizable expansion plan at its wholly owned Peace Naturals Project Inc., the company's stock is still down (33%) (vs. peers down (16%)) since the beginning of May when Health Canada found trace levels of Piperonyl Butoxide (an organic compound used to sanitize rooms in between harvests) as part of its random sampling of cannabis leaves. Although we do not believe this issue is as serious as other contaminations in the industry involving pesticides, Cronos is nonetheless the fourth LP to issue a product recall, which we believe could result in reputational risk going forward.

With a funded capacity multiple of ~7.1x (net of its strategic investments), a slight premium to peers at 6.7x, we would be buyers of Cronos at these levels as we believe the pullback resulting from its contamination is largely overdone. Further, the optionality of its two wholly owned LPs, in addition to strategic minority investments in four other LPs, an ACMPR applicant, and an international distribution agreement, should justify a higher premium multiple to the group as the company ramps up capacity through its expansion of Peace Naturals.

Overview

Cronos Group (previously PharmaCan Capital Corp.) was incorporated in August 2012 and has since compiled a diversified range of investments in the Canadian cannabis space that it classifies into two distinct segments: 1) the operation and growth of wholly owned entities, which are already licensed to produce medical marijuana under the ACMPR; and 2) strategic minority investments in companies either licensed or actively seeking a license to produce medical marijuana under the ACMPR.

To date, its wholly owned investments include **The Peace Naturals Project** ("Peace Naturals"), an LP based near Stayner, Ontario, that has a license under Health Canada to produce and sell both dried bud and oil products, and **In The Zone** ("ITZ"), an LP based in the Okanagan Valley, British Columbia, that has a license to produce and sell dried bud. As mentioned above, Cronos recently announced a sizable expansion plan at Peace Naturals that is expected to bring the LPs total capacity to ~40,000 kg through an additional ~7x indoor facility as well as incremental greenhouse grow.

Figure 1: Cronos' wholly owned LPs

Source: Company Reports

In its second segment, Cronos currently holds minority equity investments in four other LPs (including Whistler Medical Marijuana Corp. (Private), ABcann Medicinals Inc. (ABCN:TSX-V |Not rated), The Hydropothecary Corporation (THCX:TSX-V |Restricted), and Canopy Growth Corp. (WEED-TSX | HOLD, C$9.50)) and a minority investment in a late-stage ACMPR applicants (Evergreen Medical Supply). We believe these investments provide the company with incremental optionality as the industry

continues to grow, with a medical patient base that continues to increase ~10% month-over-month, and the potential for recreational sales to commence in Canada in the back half of 2018.

Figure 2: Cronos scorecard

Scorecard - Cronos	
Funded capacity expansion	
Low cost production	
High quality product	
Extract/oil strategy	
Patient acquisition strategy	
Marketing/brand strategy	

Source: Canaccord Genuity estimates

As noted, although we do not believe the recent contamination issues at Peace Naturals represent a significant operational risk (as the cleaning practice at the facility has not been used since being acquired by Cronos and is not related to pesticides), we do believe that adding to the recent contamination issues in the Canadian cannabis space as a whole could put a black mark on the company's reputation as it looks to rebound from this issue and restore investor confidence.

In addition to its core strategies, Cronos is also one of only a few LPs with a GMP compliant production area (within its Peace Naturals facility), which it is currently utilizing to supply the German market. We believe this represents incremental upside to exposure to a country which recently legalized medical marijuana and is importing product from Canada as it formulates its own domestic production regulations.

Finally, we believe the company also has a competitive oil strategy with extraction equipment already installed at Peace Naturals (and an additional 1,200 sq. ft. purpose-built extraction lab currently under construction) along with a compelling strategy to cater to the First Nations community in Canada through a joint venture (Indigenous Roots) that could provide Cronos with a national platform to serve the Aboriginal base across Canada.

Ground broken on a significant Peace Naturals expansion plan

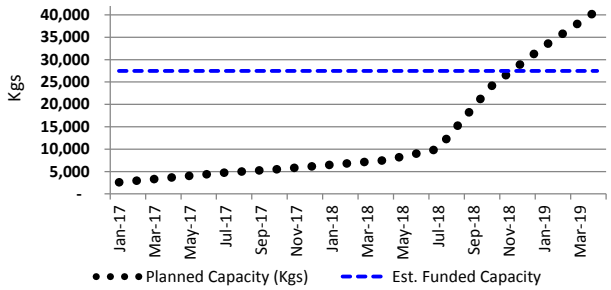
As noted, Cronos currently owns and operates two LPs in Canada. Its flagship asset, Peace Naturals (acquired wholly by Cronos in September 2016), is located near Stayner, Ontario, and is currently undergoing a significant expansion plan. Its second LP, In The Zone, is located near the Okanagan Valley in British Columbia, and currently has a very modest footprint of ~2,000 sq. ft. As the market develops, management has indicated that Peace Naturals will continue to cater to the medical market, while In The Zone will ultimately be utilized for its recreational strategy over the longer term.

1. Peace Naturals existing infrastructure–Situated on a 90 acre lot near Stayner, Ontario, and licensed by Health Canada for the production and sale of cannabis bud and oil. Peace Naturals' current build-out is comprised of three different buildings with a combined ~ 40,000 sq. ft. of indoor cultivation space and annual production capacity of ~5,000 kg (with ~4,100 registered patients as at the end of Q1/17). Within its existing build-out, Cronos has a GMP-compliant production area from which it is currently supplying cannabis to the German market via its international distribution partner Pedanios (discussed further below).

2. **Peace Naturals expansion plan.** In May 2017, Cronos announced it had broken ground on a significant expansion plan at its Peace Naturals site, which will include a 286,000 sq. ft. GMP designed expansion facility (a ~7x expansion from the combined existing build-out at Peace), a 28,000 sq. ft. greenhouse, and a 1,200 sq. ft. extraction laboratory. The greenhouse and extraction lab are expected to be completed by the end of 2017 with the new indoor facility operational by the second half of 2018. Combined, management estimates Peace Naturals will reach an annual capacity of ~40,000 kg.

3. **In The Zone** – In The Zone is located on a combined 31 acres of agricultural land in Okanagan Valley, British Columbia, and is licensed to cultivate and sell dried bud out of the existing 2,000 sq. ft. pilot facility. Although currently a very modest build-out, the property has a significant licensed footprint available for future expansion and management has indicated plans for a potential initial build of 100,000 sq. ft., in addition to a ~30,000 sq. ft. Indigenous Roots facility (as part of a joint venture discussed further below), which will be situated on ITZ's property. However, details on the ultimate size and timing of the facilities to be constructed at ITZ remain thin.

Figure 3: Timing of facility expansion plans



Source: Company Reports, Canaccord Genuity estimates

Figure 4: Summary of existing capacity and funded expansion plans

Location	Current License (Sq. Ft.)	Expanded Facility (Sq. Ft.)	Current Capacity (Kgs)	Planned Capacity (Kgs)
Peace Naturals - Existing	40,000	40,000	5,000	5,000
Peace Naturals - Expansion	-	315,000	-	35,000
In the Zone Produce	2,000	2,000	100	TBD
Total	**42,000**	**357,000**	**5,100**	**~40,000**

Source: Company Reports, Canaccord Genuity estimates

Based on the ~$26 million of pro forma liquidities available to Cronos in the form of existing cash and in-the-money options/warrants, and the potential for an additional >$25 million if the company disposed of its strategic minority investments, we estimate that Cronos can currently fund ~28,000 kg of its planned 40,000 kg expansion plan. Although Cronos has more than enough funds to get its expansion plan well off the ground, we forecast the company will need additional funding to complete its planned 40,000 kg build-out at Peace Naturals and potential future expansions at ITZ. For valuation purposes, we have netted the additional capex associated with the incremental funds required to complete the total Peace Naturals expansion against Cronos' equity value, as we assume financing will be obtained prior to its expected completion date, which we believe is reasonable considering Cronos' size and current position in the market.

Refer below for photographs of Cronos' Peace Naturals property and In The Zone facility.

Figure 5: Arial view of Peace Naturals

Source: Company Reports

Figure 6: Inside an In The Zone cultivation room

Source: Company Reports

Strategic investments in additional LPs add diversification to the mix

In addition to its two wholly owned assets, Cronos holds a number of strategic minority investments in other Canadian LPs as well as a late-stage applicant awaiting pre-license inspection. A summary of the company's current portfolio of strategic investments is provided below:

- **Whistler Medical Marijuana Corporation (Private) – 21.5% equity.** An LP located in Whistler, British Columbia (licensed for cultivation and sale of bud and oil) that currently operates out of a 12,000 sq. ft. facility, but is undergoing a 65,000 sq. ft. expansion in Pemberton that is planned to be completed by the spring of 2018, in time for the expected Canadian recreational market.

  We believe this is the crown jewel of Cronos' minority investments as Whistler's last round of financing had a post-money valuation of >$80 million.

- **ABcann Medicinals Inc. (ABCN-TSXV; Not rated) –6.0% equity** An LP located near Napanee, Ontario (licensed for cultivation and sale of bud), that currently operates out of a ~14,500 sq. ft. facility and is focused on obtaining industry-leading production yields with a number of expansion initiatives currently underway.

- **The Hydropothecary Corporation (THCX-TSX; Restricted) –1.9% equity.** A LP located near Gatineau, Quebec (licensed for cultivation and sale of bud and oil), that currently operates a ~42,000 sq. ft. facility on 80 acres of land and is in the process of a building a ~250,000 sq. ft. expansion plan that is expected to be completed by the end of 2018.

- **Canopy Growth Corporation (WEED-TSX; HOLD; $9.50 target) –<0.1% equity.** Currently the largest public company LP in Canada, headquartered in Smith Falls, Ontario (licensed for cultivation and sale of bud and oil), and with additional facilities throughout Ontario and other provinces. Cronos' modest investment in WEED is a result of shares received as part of a sale of a non-core asset to Canopy in November 2016.

- **Evergreen Medical Supply Inc. (Private) - Up to 30% potential equity.** Evergreen is located in Victoria, British Columbia on 2.5 acres of property and is awaiting its pre-license inspection from Health Canada. Evergreen and Cronos are currently in dispute regarding Cronos' ownership interest in the company and the matter has been brought before the British Columbia courts. Due to the modest size of this investment and considering it is in dispute, we have not included any value for this asset in our sum-of-the-parts valuation.

Figure 7: Stategic minority investments in other LPs

Source: Company Reports

Figure 8: Investments in ACMPR applicants

Source: Company Reports

Although these investments (with the exception of Whistler) are not overly material (>$25 million of total mark-to-market value) in relation to the company's wholly owned LPs, we believe they provide investors with modest diversification to the Canadian space as a whole and could also be a source of future liquidity allowing Cronos to execute on its core strategic initiatives, if needed.

Recent contamination weighing on the stock

In May 2017, Cronos announced that Health Canada had found trace levels of Piperonyl Butoxide (PBO, an organic compound the company used to sanitize rooms in between harvests) as part of its random sampling of cannabis leaves. The company asserts that this sanitation protocol was used by the previous operator of the facility (Cronos' did not wholly own the LP until September 2016), was limited to only one of its existing three buildings, and has not been used at Peace since Cronos took control of the operations.

Although we do not believe this issue is as serious as other contaminations seen in the industry involving non-approved pesticides (PBO at the levels recorded should not cause any adverse health effects if inhaled or ingested), Cronos is nonetheless the fourth LP to issue a product recall, which we believe could result in reputational risk. Since the May 2017 announcement, its share price has decline by ~33% (~2.0x greater than the overall market pullback); however, in contrast to Cronos' overall diversified strategy and the growth potential of its Peace Naturals expansion, we believe this issue is transient in nature and has created an attractive buying opportunity at current levels.

GMP certification provides potential gateway to European markets

In Q4/2016, Cronos, through its Peace Naturals LP, shipped its first export of medical cannabis to Germany via its distribution partner Pedanios (a German licensed pharmaceutical and narcotics wholesaler). Subsequent to this sale, the company entered into a three-year supply agreement with Pedanios to be the exclusive North

American supplier of cannabis in the European Union and Switzerland, while allowing for co-branded products in these markets (where legal); and, in May 2017, Cronos also announced the completion of a GMP certified production area (in accordance with EU standards) at Peace Naturals, which is one of only a few GMP facilities that exist in Canada today.

Although the above should provide Cronos with a notable advantage in its international strategy compared to many of its Canadian peers, we believe a number of recent events and external factors could mitigate the long-term potential of this opportunity:

- In May 2017, Pedanios was subsequently acquired by Canadian LP Aurora Cannabis (ACB-TSXV; SPECULATIVE BUY; $2.85 target). Although Cronos is one of only a small number of GMP cultivators in Canada and has a three-year exclusive term with Pedanios, we believe the long-term value of this distribution agreement could be hampered if Aurora no longer needs supply from Cronos as it ramps up its own capacity, or if it achieves GMP licensing.
- Canopy Growth Corporation (WEED-TSX; HOLD; $9.50 target) announced in June 2017 the receipt of GMP status at its Smith Falls location. As WEED is Canada's largest LP by market capitalization, we believe this new status increases the competition and potential capacity to supply the German market.
- Germany is currently in the process of issuing cultivation licenses with a plan to begin domestic cultivation in 2019. Although not an immediate threat, we believe this could further hinder the long-term viability of Cronos' distribution agreements.

Although the above events could represent headwinds to the German market opportunity, we still believe Cronos' existing relationship with Pedanios – one of only a few LPs with facilities able to produce to the EU's high production standards – represents an attractive near to mid-term international opportunity with the potential for future optionality if more EU markets begin to legalize and regulate medical cannabis frameworks. (Note: Cronos' contamination issue was not in its segregated GMP production area.)

Putting extraction infrastructure in place

With an oil production and sales license secured from Health Canada at Peace Naturals, Cronos has been ramping up its oil/extraction plans over the past few quarters by acquiring customized CO_2 extractors that management believes will be able to produce 6,000 litres of finished oil per year, which we estimate could produce >$10 million in annual revenue at today's retail oil prices. Cronos has also indicated that it expects to increase its oil production in the near term, in addition to designing its Peace Naturals expansion facility with 1,200 sq. ft. of purpose-built extraction capabilities that will include additional extraction capacity, a pharmaceutical grade laboratory, R&D space, a tissue culture laboratory, and an industrial grade kitchen.

Although still in its early stages, we believe Cronos has a competitive oils/extracts strategy compared to many of its peers and is preparing for the expected uptake in demand for products outside of traditional dried bud as the market continues to grow and take shape in Canada.

INDIGENOUSROOTS

Indigenous Roots provides strategic relationship with First Nations

In December 2016, Cronos announced it had entered into a joint venture with Indigenous Roots, a newly formed entity that plans to work closely with Canadian First Nations toward operating licensed cannabis facilities and providing medical cannabis to First Nations patients. The JV will be led by Phil Fontaine, who was previously the National Chief of the Assembly of First Nations.

As part of the agreement, Cronos has agreed to construct a flagship facility on its ACMPR licensed In The Zone property (expected to break ground in the near future) as well as provide any necessary intellectual property, know-how, and engineering expertise. In exchange, Cronos will receive a 50% interest in the operating profits from the JV. Further, Indigenous Roots will look to secure additional licensed facilities on First Nations reserves.

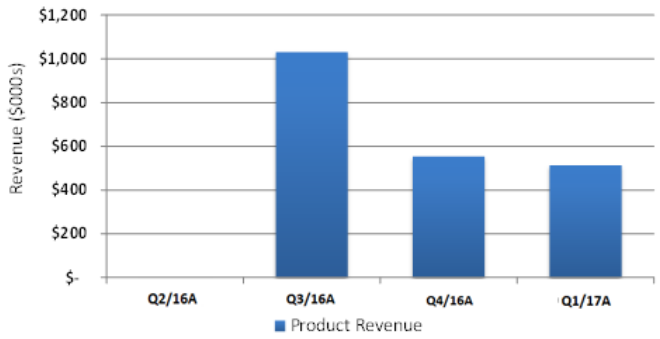
We believe this relationship is mutually beneficial as it offers an expedited path for First Nations groups to secure cultivation licenses, employment opportunities and the ability to participate in the economic benefits of the growing Canadian cannabis industry, while providing Cronos access to a national platform of approximately two million Aboriginals across Canada. We believe this could encompass tens of thousands of medical patients alone, before any consideration of recreational upside. In our view, this strategy is particularly attractive considering comments made by the *Task Force*, which recommended that Indigenous governments and representatives be engaged in a collaborative process in the design and implementation of a recreational landscape in Canada.

Financial performance to date

After closing the Peace Naturals acquisition in September 2016, Cronos has only reported two quarters of full contribution from this investment. Other than Peace Naturals and In The Zone, the remainder of the company's minority investments utilize equity accounting and do not impact the top line.

Based on its most recent quarter (Q1/17), the run-rate of Peace Naturals and In The Zone is ~$2.0 million (Note: Q3/16 included a non-recurring impairment reversal in its top line), implying annual sales volumes of ~250 kg. However, management estimates that the existing infrastructure currently built-out at Peace Natruals and In the Zone has a potential annual production capacity of ~5,000 kg (expected to fully hit the books in the second half of 2017). As a result, we believe Cronos is set to achieve significant top-line growth over the next few quarters, with the potential to hit an annual run-rate of >$20 million in revenues by the end of FY2017.

Figure 9: Cronos Revenue: Trailing four quarters:



Source: Company Reports, Canaccord Genuity estimates

Financial projections

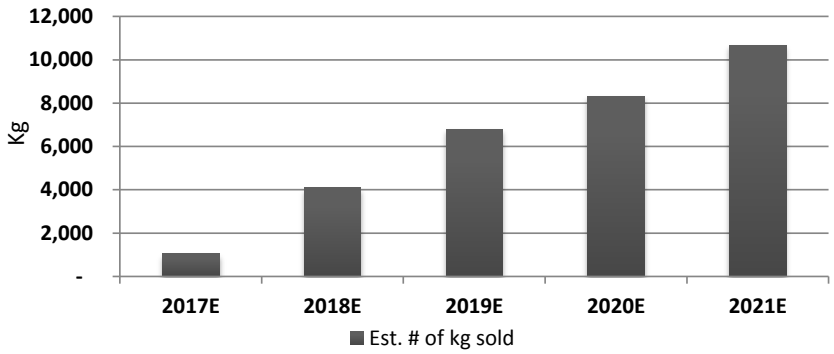
Our financial projections for Cronos (split between the medical and recreational opportunities) are included below. Refer to the section "Our approach to LP valuation" above for further discussion on our overall valuation methodology.

Medical cannabis estimates

Cronos reported revenues of $0.51 million for the three-month period from January to March 2017. Assuming an average sales price of $7.00 to $8.00 per gram of bud, we estimate this translates to ~70 kg of product volumes. Based on our forecast registered patient base, we estimate that during this period there were ~150,000 patients registered in Canada, resulting in total demand for ~12,000 kg of cannabis. This implies a modest trailing market share for Cronos of ~0.6%; however, on a forward basis, we estimate Peace Naturals will reach the full capacity of its existing build by Q3/17 of 4,000 kg to 5000 kg, which we believe will be sufficient to supply ~5.0% of the medical market at today's patient base. In addition, although the specific expansion plans for In The Zone and Indigenous Roots have not been disclosed by management, we believe even a modest build-out at this location could support an additional 1%+ of total Canadian market share. As a result, we believe Cronos is positioned to achieve sizable growth in its top line in the back half of 2017, and increase its total market share to ~6% over the mid to long-term.

Based on the above market penetration (and incremental volumes sold into the German market via the GMP area of Peace Naturals), our estimates for the amount of cannabis Cronos will sell into the medical market over the next five years are shown below.

Figure 10: Estimated sales of medical cannabis in kg (FYE Dec 31) – excludes recreational



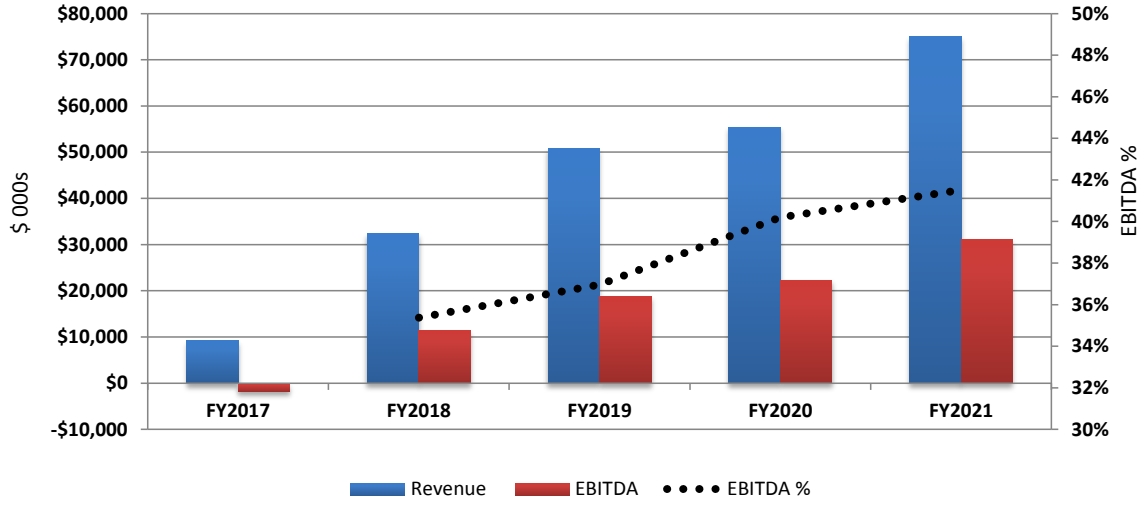
Source: Canaccord Genuity estimates

Consistent with other LPs, we believe Cronos will begin to sell dried bud and oil products predominantly wholesale by mid-2018, when the roll-out of recreational sales is expected to commence. Similar to the industry average, we estimate that Cronos' sales price per gram of dried bud will average ~$8.00 over the short-term, decreasing to a wholesale price of~$4.75 per gram over the long term and the sale price of oil per equivalent gram will decrease to ~$9.00, in our view.

As the medical industry continues to evolve, we expect oil and derivate products to account for a greater proportion of total sales. Similar to many other LPs, we estimate that Cronos will sell ~55% of its products in oil form by FY2021 and reach a peak of 70% by FY2023. As summarized below, we forecast Cronos will realize medical

cannabis revenue of $9.1 million in the current fiscal year (FY2017), growing at a ~69% four-year CAGR to $74.9 million by FY2021; this does not include any incremental upside from potential recreational sales, when and if legalized.

Figure 11: Medical segment: Estimated revenue and EBITDA (FYE Dec 31) – excludes recreational



Source: Company Reports, Canaccord Genuity estimates

As predominantly an Ontario indoor LP, we do not believe Cronos will be one of the lowest cost producers in the industry; however, with the addition of a pilot greenhouse at its Peace Naturals facility and additional optionality at In The Zone, we believe the company could further reduce its average cash cost to ~ $2.00 per gram, or potentially lower over the long term.

We estimate that Cronos will achieve an EBITDA margin of ~35% by FY2018 with the potential to reach >40% by 2021 as volumes continue to ramp from the company's current expansion plans and oil/extract products increase over the longer term.

As illustrated above, we estimate that Cronos' medical cannabis sales will result in $11.4 million of EBITDA next year in FY2018, increasing at a 40% CAGR to ~$31.1 million by FY2021.

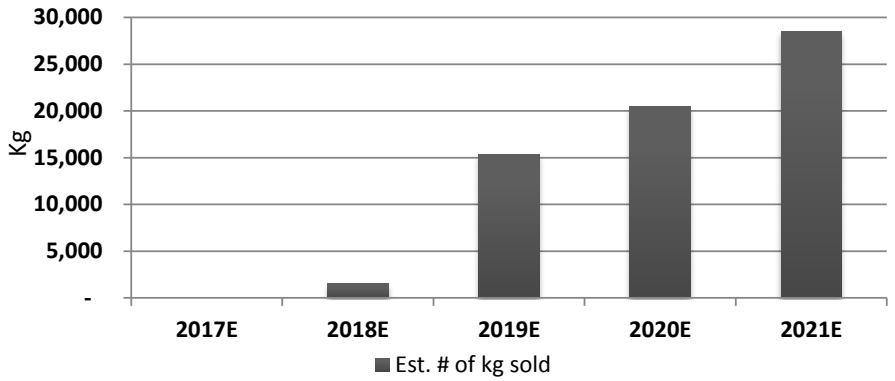
Recreational estimates

We estimate that by the beginning of 2018 (after completing the build-out of its greenhouse at Peace Naturals), Cronos will have a capacity of ~7,500 kg; however, after the expected completion of its 286,000 sq. ft. indoor expansion by the summer of 2018, we believe the company may be able to ramp up its total capacity to ~40,000 kg, with a full harvest ready by the end of 2018 or early 2019.

As previously noted, recreational cannabis is expected to commence in Canada by mid-2018 and we estimate that Cronos will have enough capacity to initially supply ~2% of the overall cannabis market; however, we believe as a result of the sizable capacity build-out planned at Peace Naturals, the company will be able to ramp up its market penetration to 6% (including ITZ) over the next two years and be able to maintain this market share as the industry continues its significant growth trajectory.

Based on the above assumptions, our estimates for the amount of cannabis Cronos will sell into the recreational market from FY2018 to FY 2021 are provided below.

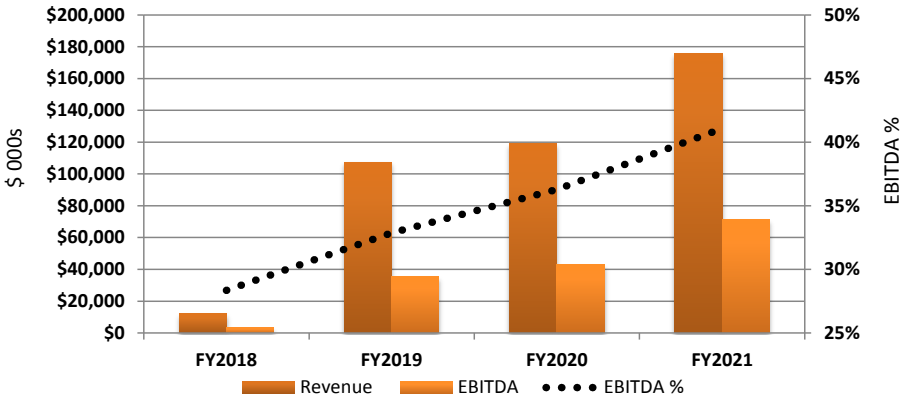
Figure 12: Estimated sales of recreational cannabis in kg (FYE Dec 31)– excludes medical



Source: Company Reports, Canaccord Genuity estimates

Using the same assumptions from our medical forecasts surrounding pricing and retail/wholesale timing, but with a peak oil penetration of ~50% (vs. 70% in the medical segment), applied against the above estimated recreational volumes, we believe Cronos will achieve ~$107.5 million in recreational revenue in FY2019 (the first full year of rec sales), increasing to $175.8 million by FY2021. This equates to EBITDA of ~$35.3 million in FY2019, increasing at a 42% CAGR to $71.3 million by FY2021.

Figure 13: Recreational: Estimated revenue and EBITDA (FYE Dec 31) – excludes medical

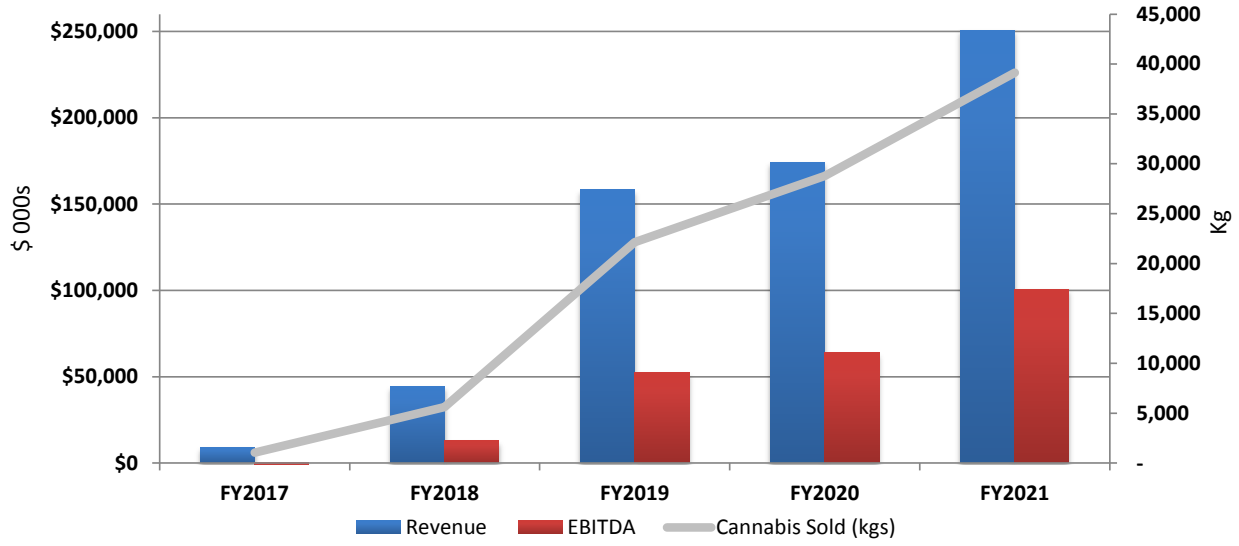


Source: Company Reports, Canaccord Genuity estimates

Consolidated medical and recreational estimates

Our combined revenue and EBITDA estimates for the medical market and recreational opportunity (unadjusted for higher risk) are provided below. We estimate that Cronos will sell ~1,000 kg of cannabis in FY2017, resulting in $9.1 million of revenue and ($2.3) million EBITDA, increasing to sales of ~39,000 kg of cannabis in FY2021, representing revenues of ~$251 million and EBITDA of ~$101 million.

Figure 14: Combined medical and recreational estimates: Revenue and EBITDA (FYE – Dec 31)



Source: Company Reports, Canaccord Genuity estimates

Valuation

Medical valuation

We value the existing medical cannabis segment using a discounted cash flow valuation. We believe the medical market will continue to experience relatively high growth over the coming years and, with a regulatory framework already in place, we believe the risks associated with our medical forecasts above are modest relative to the potential upside from the recreational market.

Our DCF for Cronos utilizes a discount rate of 12% (netting a 1% premium to peers for its recent contamination issue, less a 1% discount rate for its diversified strategy) and a terminal growth rate of 2.0%. As shown below, we value the medical segment of the business at $1.65 per share, which represents ~95% of Cronos' current share price and implies an excellent risk/reward tradeoff as we believe a large majority of the company's current share price is supported by an existing, regulated, and growing market.

Figure 15: Cronos: Discounted Cash Flow Valuation – medical segment

	Fiscal Year Ended Dec 31						
(C$ 000s)	2017E	2018E	2019E...	2024E	2025E	2026E	Term. Value
Revenue	**$9,161**	**$32,358**	**$50,815**	**$95,882**	**$101,358**	**$101,937**	
% growth							
Adj. EBITDA	(1,716)	11,448	18,783	46,302	50,724	53,912	
Cash Taxes	133	(1,797)	(2,905)	(8,778)	(9,784)	(10,512)	
Working Capital	(74)	4,533	(1,143)	593	875	301	
Capital Expenditures	(25,000)	(10,000)	(2,500)	(2,500)	(2,500)	(2,500)	
Free Cash Flow	(26,657)	4,183	12,235	35,617	39,314	41,201	$42,945
Terminal Value							440,460
Total Cash Flow	(26,657)	4,183	12,235	35,617	39,314	41,201	440,460
Discounted Cash Flow	(26,657)	$3,957	$10,357	$17,300	$17,088	$16,025	$171,318

Enterprise Value	272,782
Net Debt (cash, incl. warrants)	($26,460)
Equity Value	299,242
# of Share - FD	181,292
Value per share	**C$1.65**

Source: Company Reports, Canaccord Genuity estimates

Valuing the recreational opportunity

Due to the inherent riskier nature of the recreational opportunity, we have valued this segment of the business using a probability-weighted NPV approach. Many of the assumptions are the same as our DCF valuation of the medical segment, but discounted at a significantly higher discount rate and probability-weighted to account for greater uncertainty over the size, timing and eventual landscape of the Canadian recreational marijuana market.

Our probability-weighted NPV assumes the recreational market will begin to ramp up in md-FY2018 and reach full ramp by FY2021. Due to the increased uncertainty around timing, regulation, pricing, and distribution of this segment of the industry, we utilize a higher discount rate of 18% when calculating the present value of the cash flows that pertain to recreational market sales. In addition, we have assumed an 80% likelihood that the recreational market will become legalized.

Figure 16: Cronos: Probability weighted NPV – recreational opportunity

Net-Present Value		Fiscal Year Ended Dec 31 2017E	2018E	2019E...	2024E	2025E	2026E	TV
Recreational Sales $		$ -	$ 12,088	$ 107,468	$ 198,935	$ 198,714	$ 205,103	
Recreatonal Adj. EBITDA			3,427	35,311	85,403	88,599	96,887	99,794
Less:								
Cash Flow Adjustments			24,095	35,712	21,761	21,950	25,104	23,459
Terminal Value FCF								76,335
Free Cash Flow		-	(20,668)	(401)	63,642	66,649	71,784	495,683
Discounted FCF	18%		$291,691					
Probability of Legalization	80%		233,353					
Discount Probability Adjusted FCF								
Probability adjusted discount rate	12%	$ 220,744						
# of Common Shares o/s -FD		181,292						
Value of Recreational Opportunity per share		$ 1.22						

Source: Company Reports, Canaccord Genuity estimates

Based on our relatively high discount rate, and our 80% risk adjustment, we believe the current value of Cronos' recreational opportunity is ~$1.22 per share; however, if we de-risked our valuation and valued the recreational opportunity in a similar manner to our medical DCF (12% discount rate and 100% probability), but using the exact same assumed market penetration and cash flow estimates, our valuation of the recreational market would have >100% upside to $2.76 per share.

Valuing strategic investments

We value Cronos' strategic investments using a mark-to-market approach. For its holdings in private companies, we utilized the implied valuation from the most recent financing for each asset and allocated Cronos' proportional ownership interest. For its holdings in public companies, we utilized Cronos' proportional share based on the most recent closing price for each stock.

As illustrated below, we calculate the total value of Cronos' strategic investments to be ~$0.15 per share and believe these assets represent modest diversification to the Canadian cannabis space, as well as potential liquidity for the company to continue its expansion plans at Peace Naturals and In The Zone.

Figure 17: Value of strategic investments

Private Investments	Ticker	Implied Value (last financing)	Implied Value (7.0x Est. Capacity)	Cronos %	Value $000s
Whistler Medical Marijuana Corp.	Private	~$80,000	~$84,000	21.5%	$ 17,630
Evergreen Medical Supply Inc.	Private	~$2,000		30.0%	$ -
Total Investments in Private. Co.					$ 17,630

Public Investments	Ticker	Price (7/4/17)	Market Cap $000s	Cronos %	Value $000s
ABcann Medicinal Inc.	ABCN-TSXV	$ 0.90	$ 94,230	6.0%	$ 5,654
The Hydropothecary Corp.	THCX-TSXV	$ 1.28	$ 120,960	1.9%	$ 2,298
Canopy Growth Corp.	WEED-TSX	$ 8.09	$ 1,415,750	<0.1%	$ 162
Total Investments in Pub. Co LPs					$ 8,114
Total Value of Strategic Investments					$ 25,744
Shares O/S (FD)					181,292
Value per share					$ 0.15

Source: Company Reports, Canaccord Genuity estimates

Sum-of-the-parts valuation

Based on the above valuations, our sum-of-the-parts valuation for Cronos is shown below. Our base case valuation indicates a share price of $3.02 and our valuation de-risked for the recreational opportunity is $4.56.

Figure 18: Cronos: sum-of-the-parts valuation

Segment	Methodology	$ per share
Medical	DCF	$ 1.65
Recreational	p.NPV	$ 1.22
Strategic Inv.	MTM	$ 0.15
Total		**$ 3.02**

Source: Company Reports, Canaccord Genuity estimates

Figure 19: Cronos: De-risked valuation

Segment	Methodology	$ per share
Medical	DCF	$ 1.65
Recreational	p.NPV	$ 2.76
Strategic Inv.	MTM	$ 0.15
Total		**$ 4.56**

Source: Company Reports, Canaccord Genuity estimates

As a result, we are initiating on Cronos with a SPECULATIVE BUY rating and a C$3.00 target, which represents an annualized forecast return of 75.4%.

Selected management and director bios

Michael Gorenstein | Chairman, President, and CEO
Mr. Gorenstein has extensive experience as a partner of Alphabet Ventures LLC, a multi-strategy investment management firm located in New York City. Prior to Alphabet, Mr. Gorenstein was the VP and General Counsel of Saiers Capital LLC as well as a corporate attorney at Sullivan & Cromwell with a focus on Mergers and Acquisitions and Capital Market transactions.

Mr. Gorenstein holds a JD degree from the University of Pennsylvania Law School, a BEPP certificate from the Wharton School of Business and a BSB in Finance from the Kelley School of Business at Indiana University.

William Hilson | Chief Financial Officer
Mr. Hilson has over 15 years of experience as regional CFO of two publicly listed multinational pharmaceutical companies – Merck KGaA and Serono S.A. Prior to joining Cronos Group, he earned a Master of Science degree in Clinical Biochemistry and an Honours Bachelor of Genetics from the University of Toronto and The University of Western Ontario.

Mr. Hilson is also a Certified Public Accountant and holds an Audit Committee Board Member designation from The Directors College, McMaster University.

David Hsu | Chief Operating Officer
Mr. Hsu has over 10 years of experience in operating and managing distressed companies with revenues in excess of $500M+ at Deloitte/CRG Partners. Mr. Hsu holds a Bachelor of Science in Business Management degree from Babson College and is a certified Lean Six Sigma Black Belt.

Jason Adler | Director
Mr. Adler is the CEO and Managing Member of Alphabet Ventures, LLC, an investment firm located in New York City. Prior to Alphabet Ventures, Mr. Adler was the co-founder and CEO of Alphabet Management, LLC, a New York based volatility fund. Mr. Adler began his career as a market maker at G&D Trading and founded Geronimo, LLC, an AMEX member broker dealer that made markets in equity options.

Mr. Adler earned his B.A. from the University of Rhode Island.

Michael Krestell | Director
Mr. Krestell is the President of M Partners and was previously the Managing Director of Equity Research, and received a Starmine award by being the number 4 ranked stock picker in Canada in 2009.

Mr. Kresell received an MBA with distinction from the Schulich School of Business and is a CFA charterholder.

Alan Friedman | Director
Mr. Friedman is an attorney and is the co-founder and Director of TSX-V listed companies Adira Energy Ltd. and Eco (Atlantic) Oil and Gas Ltd. He was also co-founder of Auryx Gold Corp. a TSX listed gold company sold to B2 Gold Corp for $150mm in 2012. He is also CEO of Rivonia Capital, a Canadian boutique finance company specializing in public market transactions.

Investment Risks

In addition to industry risks highlighted previously, we have identified several company-specific risks worth noting:

- **Facility expansion and production risks** – Cronos could experience challenges ramping up production or may experience delays meeting its production goals in its current 315,000 sq. ft. expansion plan at Peace Naturals. Significant delays or amendments to Cronos' expansion plan could impact our estimates materially.
- **Margin risks –** As the industry transitions to wholesale pricing, there is a risk that Cronos may face increased pressure on its margins and many not be able to achieve our forecasted revenues and cash flows.
- **Reputational risk** – Following a contamination at Peace Naturals, the company may have experienced damage to its reputation and brand that could prevent it from meeting our longer-term financial estimates and growth projections.

Figure 20: Cronos: Summary sheet

Company Description

Cronos operates two wholly-owned Licensed Producers under Health Canada's Access to Cannabis for Medical Purposes Regulations (ACMPR) and holds minority investments in other LPs. The company's two wholly owned LP Peace Naturals Project is currently in the midst of a significant expansion plan that should see its capacity increase to 40,000 kg by 2019.

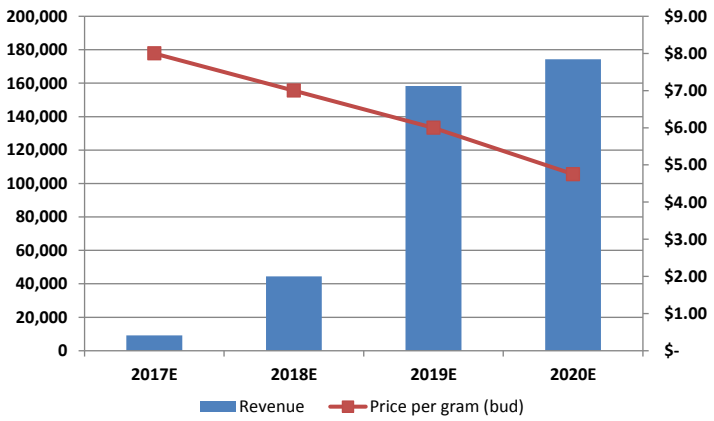
Consolidated Balance Sheet

Year end Dec 31 $000s	2016A	2017E	2018E	2019E
Cash	3,464	10,747	(18,794)	(2,738)
Current Assets	8,087	15,701	(3,980)	20,728
Fixed Assets	14,122	38,063	70,208	92,443
Total Assets	**42,901**	**75,079**	**87,543**	**134,486**
Current Liabilities	1,176	1,511	5,145	17,531
Debt	8,047	6,749	6,749	6,749
Shareholders Equity	33,678	66,819	75,648	110,205
Total Liabilities & S/E	**42,901**	**75,079**	**87,543**	**134,486**

P&L Forecasts

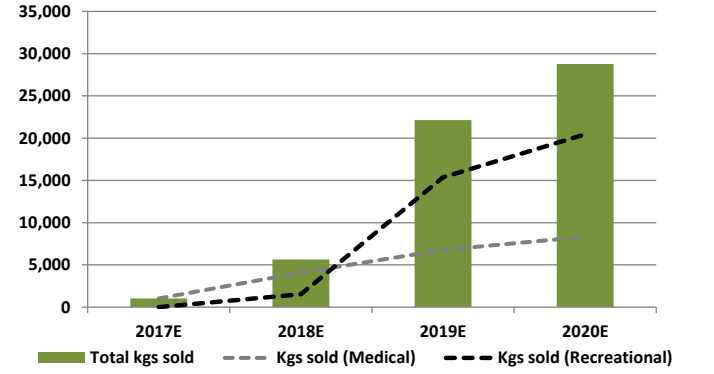
Year end Dec 31 $000s	2016A	2017E	2018E	2019E
Kg of cannabis sold	**600**	**1,039**	**5,626**	**22,128**
Ave. Price per gram (bud)	$ 0.84	$ 8.00	$ 7.00	$ 6.00
Revenue	**554**	**9,161**	**44,446**	**158,283**
Production Costs	(1,439)	1,935	14,065	49,788
Operating Expenses	3,435	7,130	16,808	55,399
Adj. EBITDA	**(3,859)**	**(2,322)**	**12,968**	**52,491**
Depreciation/Amortization	383	1,059	3,480	6,484
Interest Expense (Income)	238	606	605.55	605.55
Income Before Taxes	**(1,758)**	**(1,441)**	**7,987**	**12,912**
Taxes	(568)	(133)	2,585	11,027
Net Income	**394**	**(625)**	**8,829**	**37,196**
Shares o/s (basic)	89,745	131,480	131,480	131,480
Shares o/s (FD)	102,761	181,292	181,292	181,292
EPS - FD	**0.00**	**(0.00)**	**0.05**	**0.21**

Revenue Forecasts



Cash Flow Forecasts

Year end Dec 31 $000s	2016A	2017E	2018E	2019E
Net Income	**394**	**(625)**	**8,829**	**37,196**
Ad, EBITDA	**(3,859)**	**(2,322)**	**12,968**	**52,491**
Increase in Working Capital	55	74	(6,226)	3,733
Cash Taxes	(568)	(133)	2,585	11,027
Capex	0	25,000	35,000	27,500
Free Cash Flow	**(2,496)**	**(26,657)**	**(16,485)**	**11,834**



Growth Analysis

Year end Dec 31 $000s	2016A	2017E	2018E	2019E
Revenue	nmf	nmf	385%	256%
EBITDA	nmf	nmf	-659%	305%
Net Income	nmf	nmf	-1512%	321%

Margin Analysis

Year end Dec 31 $000s	2016A	2017E	2018E	2019E
Gross Margin	-34%	59%	68%	69%
EBITDA	-696%	-25%	29%	33%
Net Income	71%	-7%	20%	23%

Valuation Ratios

Year end Dec 31 $000s	2017	2018	2019
Enterprise Value / Revenue	30.8x	6.3x	1.8x
Enterprise Value / EBITDA	-121.3x	21.7x	5.4x
Enterprise Value / Funded Capacity	7.1x	7.1x	7.1x

Source: Company Reports, Canaccord Genuity estimates

Figure 21: Cronos: Forecast P&L

Fiscal Year End Dec 31 (C$'000s)	2016A	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Total Revenue	**$ 554**	**$ 9,161**	**$ 44,446**	**$ 158,283**	**$ 174,355**	**$ 250,699**	**$ 271,173**	**$ 278,002**	**$ 294,817**	**$ 300,073**	**$ 307,040**
Revenue growth %		1553%	385%	256%	10%	44%	8%	3%	6%	2%	2%
Cost of goods sold	740	3,748	14,065	49,788	64,755	88,073	90,982	90,478	96,849	99,429	102,833
FV of change in biological assets	(2,179)	(1,813)	-	-	-	-	-	-	-	-	-
Total Production Costs	**$ (1,439)**	**$ 1,935**	**$ 14,065**	**$ 49,788**	**$ 64,755**	**$ 88,073**	**$ 90,982**	**$ 90,478**	**$ 96,849**	**$ 99,429**	**$ 102,833**
Gross Margin	**$ 1,993**	**$ 7,227**	**$ 30,381**	**$ 108,495**	**$ 109,600**	**$ 162,627**	**$ 180,191**	**$ 187,524**	**$ 197,968**	**$ 200,644**	**$ 204,207**
Adjusted Gross Margin	**$ (186)**	**$ 5,414**	**$ 30,381**	**$ 108,495**	**$ 109,600**	**$ 162,627**	**$ 180,191**	**$ 187,524**	**$ 197,968**	**$ 200,644**	**$ 204,207**
Adj. GM%	*-34%*	*59%*	*68%*	*69%*	*63%*	*65%*	*66%*	*67%*	*67%*	*67%*	*67%*
General & Administrative	$ 2,609	$ 4,858	$ 8,566	$ 30,015	$ 23,220	$ 30,833	$ 32,541	$ 33,360	$ 35,378	$ 33,008	$ 27,634
Share-based payments	307	792	-	-	-	-	-	-	-	-	-
Salary and Benefits	826	2,272	8,242	25,384	22,031	30,573	37,964	33,360	32,430	30,007	27,634
Depreciation	383	1,059	3,480	6,484	9,341	9,326	9,313	9,302	9,294	9,287	9,282
Interest Expense	238	606	606	606	606	606	606	606	606	606	606
Income (loss) from operations	**$ (1,758)**	**$ (1,441)**	**$ 10,790**	**$ 47,004**	**$ 55,489**	**$ 92,474**	**$ 101,061**	**$ 112,309**	**$ 121,806**	**$ 129,430**	**$ 140,912**
Adjusted EBITDA	**$ (3,859)**	**$ (2,322)**	**$ 12,968**	**$ 52,491**	**$ 63,743**	**$ 100,615**	**$ 109,081**	**$ 120,198**	**$ 129,554**	**$ 137,023**	**$ 148,334**
Adj. EBITDA %	-696%	-25%	29%	33%	37%	40%	40%	43%	44%	46%	48%
Finance Costs	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
EBT	**$ (1,758)**	**$ (1,441)**	**$ 7,987**	**$ 12,912**	**$ 14,735**	**$ 23,630**	**$ 28,615**	**$ 34,828**	**$ 39,014**	**$ 43,486**	**$ 46,722**
Income tax expense	(568)	(133)	2,585	11,027	13,243	21,717	23,679	26,247	28,421	30,162	32,797
Total Comprehensive Income	**$ 394**	**$ (625)**	**$ 8,829**	**$ 37,196**	**$ 44,654**	**$ 73,219**	**$ 79,896**	**$ 88,626**	**$ 95,996**	**$ 101,923**	**$ 110,813**
EPS - Basic	$ 0.00	$ (0.00)	$ 0.07	$ 0.28	$ 0.34	$ 0.56	$ 0.61	$ 0.67	$ 0.73	$ 0.78	$ 0.84
EPS -FD	$ 0.00	$ (0.00)	$ 0.05	$ 0.21	$ 0.25	$ 0.40	$ 0.44	$ 0.49	$ 0.53	$ 0.56	$ 0.61

Source: Company Reports, Canaccord Genuity estimates

Figure 22: Cronos: Forecast balance sheet

Fiscal Year End Dec 31 (C$'000s)	2016A	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Assets											
Cash and Cash Equivalents	3,464	10,747	(18,794)	(2,738)	14,415	53,180	77,994	105,798	138,869	172,861	215,056
Accounts Receivable	107	1,527	4,944	8,469	9,237	12,485	13,601	14,774	15,980	16,893	16,990
Inventory (before FV adj.)	1,908	1,909	6,741	10,586	11,546	15,607	17,002	18,467	19,975	21,116	21,237
Biological Assets	1,795	636	2,247	3,529	3,849	5,202	5,667	6,156	6,658	7,039	7,079
Other	812	882	882	882	882	882	882	882	882	882	882
Current Assets	**8,087**	**15,701**	**(3,980)**	**20,728**	**39,930**	**87,356**	**115,147**	**146,077**	**182,366**	**218,791**	**261,244**
Property, Plant and Equipment, net	14,122	38,063	70,208	92,443	91,510	90,646	89,848	89,109	88,426	87,794	87,210
Intangiles assets and Goodwill	12,999	12,999	12,999	12,999	12,999	12,999	12,999	12,999	12,999	12,999	12,999
Other	7,693	8,316	8,316	8,316	8,316	8,316	8,316	8,316	8,316	8,316	8,316
Total Assets	**42,901**	**75,079**	**87,543**	**134,486**	**152,754**	**199,318**	**226,309**	**256,501**	**292,106**	**327,900**	**369,768**
Liabilities											
Accounts Payable & Accrued Liabilities	1,176	1,511	5,145	17,531	18,334	24,913	26,915	26,200	27,443	27,074	26,350
Current portion of long-term debt	6,590	5,291	5,291	5,291	5,291	5,291	5,291	5,291	5,291	5,291	5,291
Current Liabilities	**7,766**	**6,802**	**10,437**	**22,823**	**23,626**	**30,205**	**32,206**	**31,491**	**32,734**	**32,365**	**31,641**
Long-Term Debt	1,457	1,458	1,458	1,458	1,458	1,458	1,458	1,458	1,458	1,458	1,458
Total Liabilities	**9,223**	**8,260**	**11,895**	**24,281**	**25,084**	**31,663**	**33,664**	**32,949**	**34,192**	**33,823**	**33,099**
Shareholder's Equity											
Share Capital	33,590	66,919	66,919	66,919	66,919	66,919	66,919	66,919	66,919	66,919	66,919
Warrants	3,983	3,703	3,703	3,703	3,703	3,703	3,703	3,703	3,703	3,703	3,703
Other	2,320	3,038	3,038	3,038	3,038	3,038	3,038	3,038	3,038	3,038	3,038
Retained Earnings (Deficit)	(6,216)	(6,841)	1,989	36,546	54,010	93,995	118,986	149,892	184,255	220,417	263,009
Total Shareholder's Equity	**33,678**	**66,819**	**75,648**	**110,205**	**127,670**	**167,655**	**192,645**	**223,552**	**257,914**	**294,077**	**336,668**
Total Liabilities and Shareholder's Equity	**42,901**	**75,079**	**87,543**	**134,486**	**152,754**	**199,318**	**226,309**	**256,501**	**292,106**	**327,900**	**369,768**

Source: Company Reports, Canaccord Genuity estimates

Figure 23: Cronos: Forecast statement of cash flows

Fiscal Year End - Dec 31 ('000s C$)	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
OPERATING ACTIVITIES										
Net profit (loss) for the period	(625)	8,829	37,196	44,654	73,219	79,896	88,626	95,996	101,923	110,813
Adjustments for non-cash items										
Amortization	1,059	3,480	6,484	9,341	9,326	9,313	9,302	9,294	9,287	9,282
Accounts Receivable	(1,420)	(3,417)	(3,526)	(768)	(3,248)	(1,116)	(1,172)	(1,207)	(913)	(97)
Inventory (before FV adj.)	(0)	(4,833)	(3,845)	(960)	(4,060)	(1,395)	(1,465)	(1,508)	(1,141)	(121)
Biological Assets	1,159	(1,611)	(1,282)	(320)	(1,353)	(465)	(488)	(503)	(380)	(40)
Accounts Payable & Accrued Liabilities	335	3,635	12,386	803	6,579	2,001	(715)	1,243	(369)	(724)
Investment in working capital	(74)	6,226	(3,733)	1,244	2,083	975	3,841	1,974	2,803	981
Cash from Operations	**508**	**6,083**	**47,414**	**52,751**	**80,462**	**88,233**	**94,087**	**103,315**	**108,407**	**119,113**
FINANCING ACTIVITIES										
Shares/warrants issued for cash	33,766	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Proceeds (repayment) of debt	(1,298)	-	-	-	-	-	-	-	-	-
Other	(623)	-	-	-	-	-	-	-	-	-
Cash from Financing	**31,845**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**
INVESTING ACTIVITIES										
Purchase of PP&E	(25,000)	(35,000)	(27,500)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)
Other	-	-	-	-	-	-	-	-	-	-
Cash from Investing	**(25,000)**	**(35,000)**	**(27,500)**	**(6,000)**	**(6,000)**	**(6,000)**	**(6,000)**	**(6,000)**	**(6,000)**	**(6,000)**
Increase in cash and cash equivalents	**7,353**	**(28,917)**	**19,914**	**46,751**	**74,462**	**82,233**	**88,087**	**97,315**	**102,407**	**113,113**

Source: Company Reports, Canaccord Genuity estimates

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CANACCORD Genuity

To us there are no foreign markets.™

Invictus MD Strategies Corp

Canadian Cannabis

Canadian Equity Research
5 July 2017

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HOLD

PRICE TARGET	C$1.35
Price (4-Jul)	C$1.10
Ticker	IMH-TSXV; IVITF-OTC

52-Week Range (C$):	1.05 - 2.17
Avg Daily Vol (000s) :	200.1
Market Cap (C$M):	90.9
Shares Out., FD (M) :	82.6
Total Return to Target (%) :	22.7
Net Debt (Cash) (C$M):	(32)

FYE Jan	2017A	2018E	2019E	2020E
Revenue (C$M)	3	3	25	52
SG&A (C$M)	3.9	5.0	11.1	15.6
EBITDA Adj (C$M)	(2.9)	(4.0)	6.4	17.5
EPS Adj&Dil (C$)	(0.25)	(0.04)	0.06	0.18

Priced as of close of business 4 July 2017

Invictus currently invests in three different segments of the cannabis industry: LPs under Health Canada's ACMPR, including a wholly owned investment in Acreage Pharms, and minority interest in AB Laboratories; fertilizer and nutrients through its investment in British Columbia based Future Harvest; and cannabis data and delivery technologies (vaping) through its investment in PODA.

Initiation of Coverage

Invictus' portfolio of cannabis assets provides industry diversification at fair value

We are initiating coverage of Invictus MD Strategies Corp. with a HOLD rating and a target price of C$1.35. Led by its crown jewel asset, Acreage Pharms (a Canadian LP), the company has acquired a basket of Canadian cannabis investments that we believe provides investors with moderate diversification to a growing industry. Although we believe Acreage is a blue chip prospect for Invictus, we do not believe a premium valuation is currently warranted due to the time/risk involved with building out its facilities (which is still in early stages), obtaining sale clearance from Health Canada, and implementing its oil/extract strategy. Further, based on our fundamental valuation and comparable company analysis, we believe current trading levels approximate fair value at this time.

However, should Invictus' valuation decrease further from current levels, we believe its portfolio of assets could be attractive to investors looking for optionality and the potential for near-term catalysts as the company continue to execute on its diversified strategy.

Investment Highlights

- **Acreage Pharms is the crown jewel of Invictus' diversified portfolio.** After receiving its cultivation licence in March 2017, we believe Invictus' wholly owned investment in Acreage Pharms represents a significant value and growth driver for the company going forward. With capital already allocated to a Phase II expansion, the company believes it can further increase its capacity up to 10,000 kg by 2019, which would equate to ~$80 million in revenues at today's retail prices.
- **We believe current trading levels provide investors with fair value.** As the company is still in the very early stages of its expansion plans (which lag a number of the sizable build-outs of its peers), is waiting on its sales licence, and has not yet implemented its oil strategy, Invictus is still in the early days of its execution. Although we have a favourable view of the company's strategy and direction, we believe its current valuation of 5.3x our estimated funded capacity (vs. peers at 6.7x) approximates its fair value at this time, at a discount to peers.
- **Recreational market provides significant upside potential.** Assuming sales licences are granted at Acreage Pharms and AB Labs/Ventures, we believe Invictus is set to achieve significant growth in the coming years, with revenues of $74.6 million by FY2022 (a 5-year CAGR ~96%), resulting in EBITDA of $31.1 million and free cash flow of >$20.0 million. If the recreational market unfolds as expected, we believe our de-risked recreational valuation supports a share price for Invictus of ~$C2.00.

Valuation: We value the medical cannabis market based on a DCF model, using a 14.0% WACC and 2.0% terminal growth; the higher-risk rec opportunity is valued using a probability-weighted NPV. Together, these two analyses yield a target price of C$1.35 ($1.00 medical and $0.35 recreational), which represents a 22.7% forecast annualized return and supports our HOLD rating.

Building on a portfolio of cannabis assets

We are initiating coverage of Invictus MD Strategies Corp. (IMH:TSX-V) with a HOLD rating and a C$1.35 target price. Although the company has already secured a number of cannabis assets in its portfolio, we believe the main value driver for Invictus currently lies in its wholly owned interest in Acreage Pharms Ltd. ("Acreage"), a LP located in Alberta that recently received its licence to cultivate cannabis in March 2017 under the ACMPR.

With a current valuation of 5.3x its funded capacity (vs. peers at 6.7x), we believe a discount provides investors with a fair value at current trading levels as the timing of the expansion plan of its flagship asset in Alberta lags behind a number of sizable build-outs of many of its peers. In addition, Acreage is still likely a number of months away from receiving its licence to sell cannabis and does not yet have an oil production licence. Although we believe the Acreage asset is a blue chip prospect in the Canadian cannabis space, we do not believe a premium valuation to peers is currently warranted due to the time and risk involved with building out its facilities and obtaining sale clearance from Health Canada.

Overview

Invictus currently focuses and invests in three different segments of the industry:

- LPs under Health Canada's ACMPR, including a wholly owned licenced cultivator **Acreage Pharms**, and a 33% minority interest in a licenced cultivator **AB Laboratories** ("AB Labs") and its expansion plan **AB Ventures**;
- Fertilizer and nutrients through its investment in British Columbia based **Future Harvest**; and,
- Cannabis data and delivery technologies (vaping) though its investment in **PODA**.

Figure 1: Investments in LPs

Source: Company Reports

Figure 2: Investments in Non-LPs

Source: Company Reports

Although diversified in nature, we believe the predominant value driver for the company is its wholly owned investment in Acreage Pharms, a licenced cultivator based out of Alberta (still waiting on its sales licence) that is currently one of only three LPs in the province. After executing an option to purchase a 100% stake in the LP once it received its cultivation licence in March 2017, the LP has already completed an initial 6,800 sq. ft. build and is in the midst of commencing a >25,000 sq. ft. expansion project. However, with 150 acres of licenced land, the company believes it will not be restricted by its property size in facilitating significant capacity expansion down the road. We believe that although Acreage's licenced footprint allows for potential future large expansions, due to the recent changes announced by

Health Canada in its licensing process and the influx of LPs coming into the market with small operations, but sizable licenced unutilized land, we believe the competitive advantage of having vacant land for expansion is becoming less important than actual expansion plans that are funded and under construction.

Figure 3: Invictus Scorecard

Scorecard - Invictus	
Funded capacity expansion	
Low cost production	
High quality product	
Extract/oil strategy	
Patient acquisition strategy	
Marketing/brand strategy	

Source: Canaccord Genuity estimates

Although Acreage only recently received its licence to cultivate, we believe that it will be able to operate Acreage at a competitive cost structure due to the relatively low cost of hydro in Alberta compared to a majority of other LPs that operate out of Ontario. In our view, this will become increasingly important in order to remain cost competitive once the industry transitions to wholesale pricing. Overall, we believe Acreage is an attractive asset as one of only three producers in Alberta; however, given the modest size of the existing footprint, we believe the potential value of Acreage will not come into full force for another 12 to 24 months, given the time needed to ramp up capacity, obtain a sales licence, and initiate its oil strategy.

The company also owns a 33% minority stake in AB Laboratories, an Ontario-based LP with a cultivation licence (still waiting on sales clearance from Health Canada) and a 33% ownership in AB Ventures, the current 6x expansion plan of AB Labs that does yet have a cultivation or sales licence. Although we believe this is a quality asset that provides the company with industry diversification, this investment currently provides only modest upside potential to Acreage farms, as AB Labs only has a current capacity of <2,000 kg. Although AB Ventures plans to increase this capacity to 15,000 kg by 2019, based on Invictus' 33% proportionate minority holding, this would only provide the company with the economic benefit of ~5,000 kg of incremental capacity over the next 24 months.

In aggregate, we believe the company's investments in two LPs and other businesses peripheral to the cannabis industry represent a solid collection of assets, but are still in the early days of developing a market presence. As a result of not yet having a production licence for oil, or a sales licence for bud, the company does not yet have a definitive oil strategy or ability to ramp up its registered patient base and brand awareness in advance of the expected recreational market. With the expectation that the federal government could put significant advertising/marketing restrictions on recreational cannabis, we believe that LPs currently serving the medical market (with bud and oil sales licences already in place) are better positioned to secure brand awareness as the number of registered patients continues to track higher. Therefore, in our view, this represents a competitive disadvantage for Invictus versus many of its peers.

Although we believe Invictus is fairly valued at current levels, as the company continues to build out its portfolio of assets and advance its strategy through a variety of check points (sales licences, oil licences, capacity expansion, etc.), we believe the

company could provide a compelling option for investors looking for diversification and optionality, should the company's valuation decrease further from current levels.

Expansion underway in advance of sales licences

Invictus currently has two expansion plans underway in its wholly owned investment of Acreage Pharms and its 33% interest in AB Labs/Ventures. A summary of its current build-out and the planned capacity expansions at each facility is provided below.

1. AB Laboratories – A 16,000 sq. ft. facility located in Hamilton, Ontario that is licenced for cultivation only. The facility has a current capacity of ~1,000 kg to 2,000 kg per year (Invictus' proportional share equates ~500 kg), and management believes its sales licence will be granted in the near term.
2. AB Ventures – Invictus also owns 33% of AB Ventures, which is the expansion plan of AB Labs (also located in Hamilton) and closed the acquisition of the property in early May 2017. Management plans on constructing a 100,000 sq. ft. facility that is expected to be completed in 2019 and add ~15,000 kg of capacity (Invictus proportional share equates to ~5,000 kg); however, management also believes the licenced property could be further built out to reach a total capacity of 25,000 kg by 2020.
3. Acreage Pharms – A wholly owned LP located in Alberta that received its licence to cultivate cannabis in March 2017. The current facility is ~6,800 sq. ft. and Invictus has committed ~$6 million towards construction of a >25,000 sq. ft. expansion plan (with the option to add 20,000 sq. ft. on a second floor) that is expected to bring its capacity to >3,000 kg by 2018, and management believes it can increase capacity to ~10,000 kg by 2019 and 25,000 kg by 2020.

With approximately ~$32 million of pro forma net cash on the balance sheet, we estimate that Invictus is currently funded to reach its planned 2019 capacity at Acreage Pharms of 10,000 kg and a proportional 5,000 kg at AB Labs/Ventures (based on its 33% ownership), for a total of 15,000 kg by the end of 2019. However, by 2020, the company plans on increasing its capacity at Acreage Pharms to 25,000 kg and at AB Labs/Ventures to 25,000 kg, indicating a total potential proportional capacity of >30,000 kg for Invictus by 2020.

With recreational sales expected to commence in Canada in the back half of 2018, we believe the company is currently funded to build out capacity that can supply ~2% of the Canadian market by 2020, should it receive its sales licences at its existing facilities.

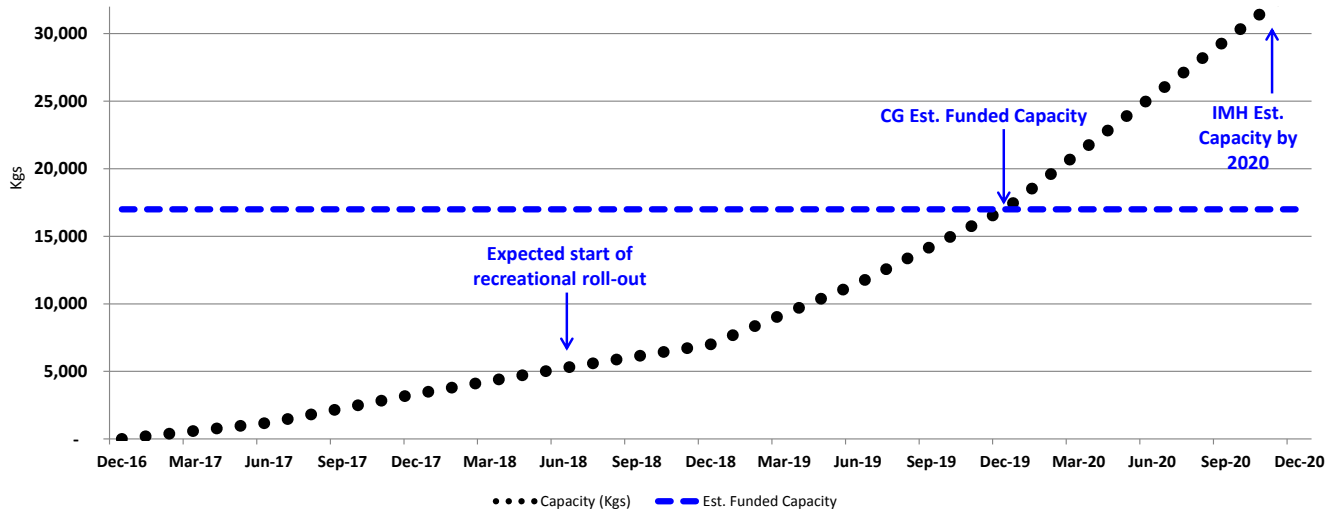
Figure 4: Summary of existing capacity and funded expansion plans

Location	Current License (Sq. Ft.)	Planned Expansions (Sq. Ft.)	Current Capacity (Kg)	Potential Capacity by 2019 (Kg)	Invictus Ownership (%)	Pro-rated Potential Funded Capacity by 2019 (Kg)	Invictus Estimate by 2020 (Kg)
AB Labs Inc.	16,000		~1,500	~1,500	33%	500	500
AB Ventures Inc		100,000	-	15,000	33%	5,000	8,333
Acreage Pharms (existing)	6,800	36,800	< 1,000	< 1,000	100%	< 1,000	< 1,000
Acreage Pharms (Phase II)	-	27,400		3,000	100%	3,000	3,000
Acreage Pharms (Funded Phase III)	-	75,000	-	8,000	100%	8,000	21,000
Total	**22,800**	**239,200**	**< 2,000**	**~28,000**		**~17,000**	**>30,000**

Source: Company Reports, Canaccord Genuity estimates

Our estimates surrounding the timing of Invictus' expansion plans, spilt between funded capacity and future planned capacity, are shown below.

Figure 5: Timing of planned capacity expansions

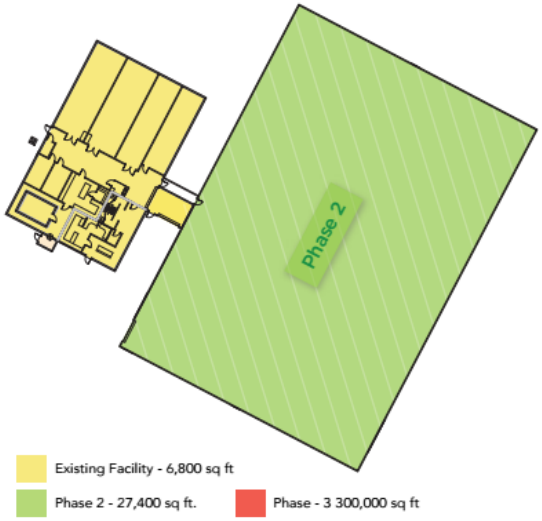


Source: Company Reports, Canaccord Genuity estimates

Although we believe the company has the assets and financing in place to achieve scale in the long run, we estimate that by the time the recreational market begins its implementation in the back half of 2018, Invictus could have as much as ~5,000 kg of capacity on line. We believe this lags some of the sizable expansion plans that many of Invictus' peers are expected to have completed by that time. As a result, we believe it will be more challenging for Invictus to capture sizable recreational market share due to the forecasted modest size of its operations when recreational sales are expected to commence in Canada.

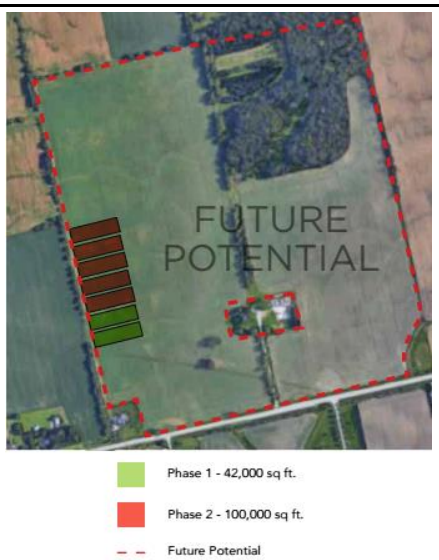
Below is an illustration of Acreage Pharms current Phase II expansion plan and AB Ventures potential expansion footprint.

Figure 6: Acreage Pharms expansion plan



Source: Company Reports

Figure 7: AB Ventures expansion footprint



Source: Company Reports

Other strategic investments to date

In addition to its investments in two Canadian LPs, Invictus has also put together other vertical assets in the cannabis industry, including a fertilizer company that currently supplies Acerage Pharms and an investment in vaping technology.

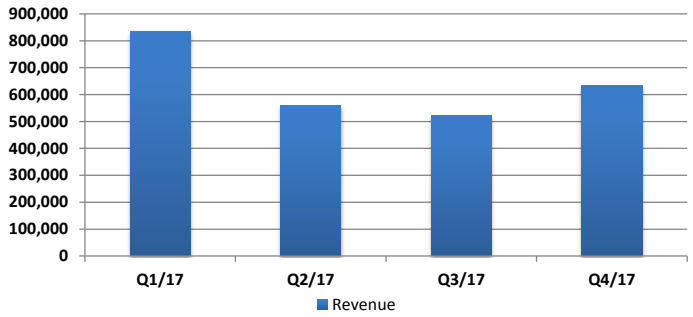
- Future Harvest Development Ltd. Invictus currently owns an 82.5% interest in Future Harvest, a hydroponics and fertilizer manufacturer and supplier based out of Kelowna, British Columbia. The company has been in operation for over 20 years and has developed a number of proprietary formulas based on the specific requirements of various plant formulas (including cannabis). Future Harvest has a current revenue and EBITDA run-rate of ~$2.5 million and ~$0.5 million, respectively, and has realized a three-year top-line CAGR of ~20%. Although the current contribution of this asset is modest compared to the potential growth profile of Invictus' LPs, we believe Future Harvest could see moderate growth from current levels as the Canadian cannabis industry continues to develop.
- Poda Technologies. Poda Technologies is a wholly owned asset of the company. Poda is engaged in the design, development, patenting, manufacturing, and distribution of vaporizer technology that include disposable cartridges. Management is in the process of attempting to commercialize Poda vaporizers and the company has completed an initial prototype while it attempts to source a manufacturer and distribution partners. While details on this opportunity remain thin and may be spun-out of the company on commercialization, we believe this asset could represent attractive optionality as recreational markets (both in Canada and internationally) continue to grow.

Financial performance to date

As both of its investments in Canadian LPs are not yet licenced for the sale of cannabis, Invictus' historical financial performance is attributable to revenue generated from its investment in Future Harvest. Management indicated that the annual run-rate for this investment is ~$2.5 million; however, we believe there is still the potential for moderate long-term growth if Future Harvest is able to carve out a market share in selling fertilizers used for cannabis cultivation in Canada.

As the company looks to obtain sales licence from Health Canada at Acreage Pharms and AB Labs/Ventures, we estimate the funds currently on Invictus' balance sheet could be sufficient to build out its capacity to ~17,000 kg by the end of 2019, which represents a top-line potential of >$70 million, assuming wholesale pricing.

Figure 8: Trailing four quarters: Revenue – FYE ended Jan 31



Source: Company Reports, Canaccord Genuity

Financial projections

Our financial projections for Invictus (split between the medical and recreational opportunities) are provided below. Refer to the section "Our approach to LP valuation" above for further discussion on our overall valuation methodology.

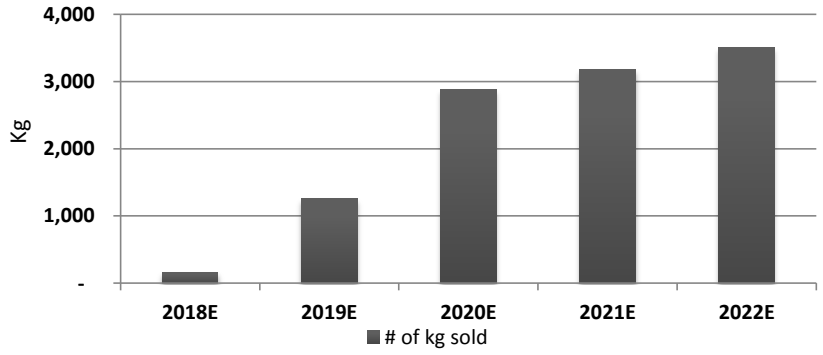
Medical cannabis estimates

Invictus reported revenues of $2.5 million in FY2017; however, the entirety of its top line consisted of fertilizer sales from its majority investment in Future Harvest. Going forward, we have estimated that Future Harvest will achieve >5% YoY top-line growth, which assumes a portion of its fertilizer sales will be attributed to the growing cannabis market.

With AB Labs operating at an annual capacity of >1,000 kg, and with a wholesale supply agreement with Canopy Growth Corp already in place, assuming the LP receives its sales licence midway through the current fiscal year, we estimate Invictus will receive the economic benefit of ~250 kg in FY2018 based on its 33% ownership interest and the potential for incremental contribution from Acreage Pharms (sales licence also pending). Looking ahead, we believe the capacity expected to be brought on line through Acreage Pharms and its minority interest in AB Ventures will allow Invictus to capture 1% to 2% of the medical market by FY2022, resulting in ~3,500 kg of cannabis sales volumes (excluding amounts allocated to recreational).

As the company continues the expansion of Acreage Pharms and AB Ventures, we believe its existing funded capacity will allow Invictus to capture up to 2% of the medical market over the longer term. As a result, our estimates for the amount of cannabis the company will sell into the medical market over the next five years are illustrated below.

Figure 9: Estimated sales of medical cannabis in kg (FYE Jan 31) – excludes recreational



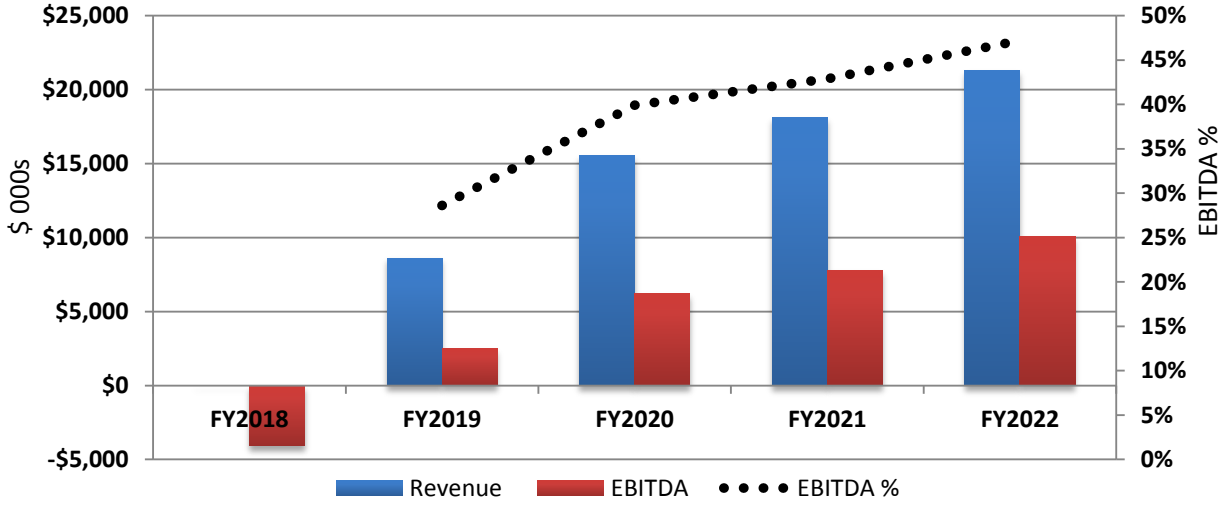
Source: Canaccord Genuity estimates

We estimate by FY2019, LPs will be transitioning to a wholesale distribution model along with the implementation of recreational sales in Canada (expected in the back half of CY2018). We estimate that Invictus will achieve an average sales price of $4.50 to $5.00 per gram of dried bud at that time. Although the company does not have an oil production or sales licence through either of its LPs, management has indicated that it will be pursuing such licences in the near term. As the medical industry continues to evolve, we expect oil and derivative products to account for a greater proportion of total sales; however, as the company is only at the beginning

stages of its oil strategy, we have assumed it will not begin to sell oil/derivative products until the end of FY2019, with a peak oil/dried sales mix of 70% by FY2025 (approximately two years later than our assumption for the industry as a whole and LPs with an oil licence already in place).

As summarized below, we forecast Invictus will realize medical cannabis revenue of $8.6 million in its first full year of sale (FY2019), growing at a ~35% three-year CAGR to $21.3 million by FY2022; this does not include any incremental upside from potential recreational sales, when and if legalized.

Figure 10: Medical segment: Estimated revenue and EBITDA (FYE Jan 31) – excludes recreational



Source: Company Reports, Canaccord Genuity estimates

As a result of the favourable geographic location of Acreage Pharms (one of only three LPs located in Alberta), we believe Invictus will be able to produce a large proportion of its cannabis at a cost-competitive structure due to the significantly lower cost of hydro in Alberta compared to the majority of LPs that are located in Ontario. Based on its current portfolio of assets, we estimate that approximately two-thirds of Invictus' production will come from Acreage, with the remaining third coming from AB Labs/Ventures (cultivated out of Hamilton, Ontario). As a result, we estimate the company will be able to achieve a weighted average cash cost per gram of ~$2.00, with the potential for further reductions as the company ramps up its footprint over the next two years. We estimate that the company will achieve an EBITDA margin of ~29% by FY2019, increasing to >40% if it is able to secure an oil production and sales licence over the longer term.

As illustrated above, we estimate Invictus' medical cannabis sales will result in $2.8 million of EBITDA in FY2019, increasing at a ~55% CAGR to ~$10.4 million by FY2022.

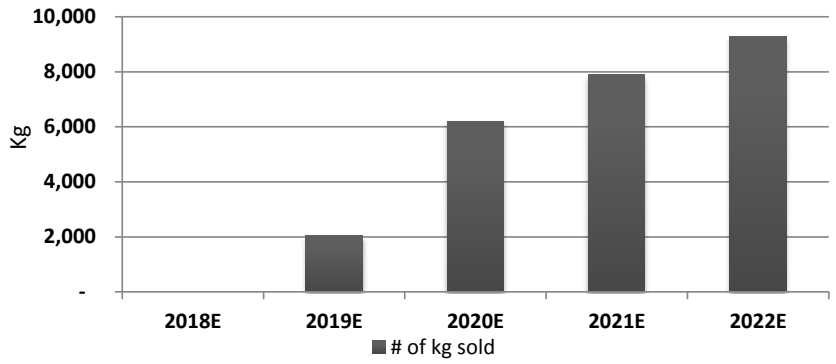
Recreational estimates

As previously noted, we estimate that sales of recreational cannabis will commence in Canada by mid-CY2018 (i.e., the second half of Invictus' FY2019). By the time recreational sales commence in Canada, we estimate that the company will have a total capacity of ~5,000 kg, increasing to ~15,000 kg as it completes its build-out of AB Ventures and Acreage Pharms Phase II and III. Based on the company's current

funded expansion plans, we estimate that by FY2020, the company will have enough capacity to support >2% of the recreational market at that time.

As illustrated below, if recreational marijuana is legalized and implemented along expected timelines, we estimate that Invictus will reach ~2,000 kg in recreational sales volumes in FY2019, increasing to ~9,300 kg by FY2022.

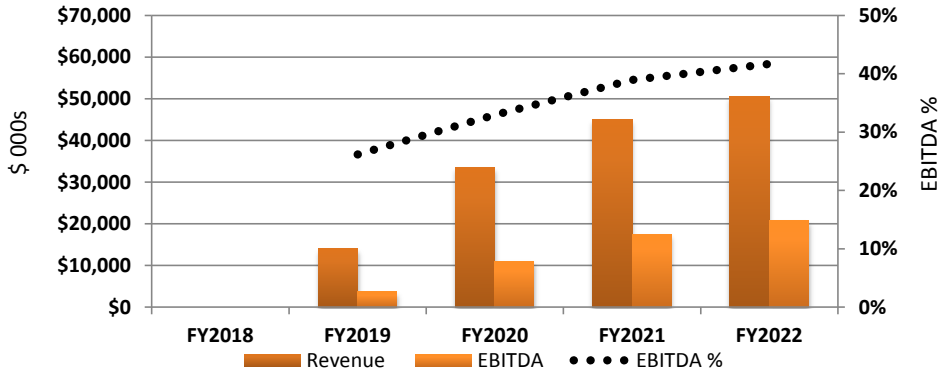
Figure 11: Estimated sales of recreational cannabis in kg (FYE Jan 31) – excludes medical



Source: Company Reports, Canaccord Genuity estimates

Using the same assumptions from our medical forecasts surrounding pricing, retail/wholesale timing, and oil production, applied against the above estimated recreational volumes, we believe Invictus will achieve ~$14.0 million in recreational revenue in its first year (FY2019), increasing to $50.5 million by FY2022. This equates to EBITDA of ~$3.7 million in FY2019, increasing at a ~78% CAGR to $20.8 million by FY2022.

Figure 12: Recreational: Estimated revenue and EBITDA (FYE Jan 31) – excludes medical



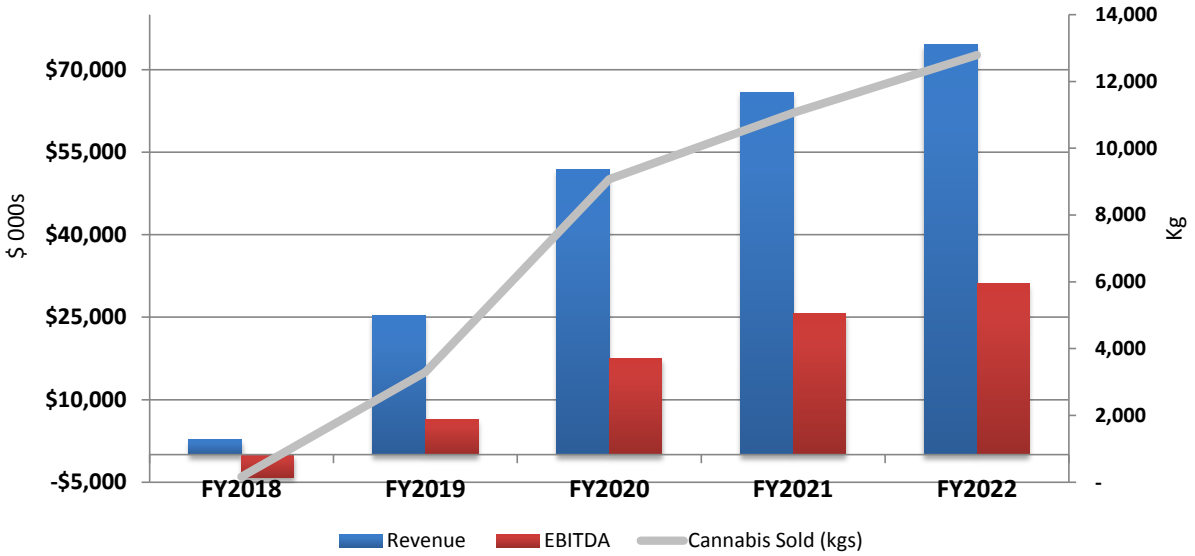
Source: Company Reports, Canaccord Genuity estimates

Consolidated medical and recreational estimates

Our combined revenue and EBITDA estimates for the medical market and recreational opportunity (unadjusted for higher risk) are provided below. In addition, we have also included sales attributed to Future Harvest, with an estimated top line of $2.7 million beginning in FY2018 (an 8% sequential increase from FY2017), increasing modestly over our forecast period at its historical EBITDA contribution of 15% to 20%.

As illustrated below, we estimate that Invictus will achieve $2.7 million of revenue in FY2018, increasing by a CAGR of 130% to $74.6 million in FY2022, resulting in EBITDA of $31.1 million and total cannabis sales volumes of ~12,800 kg.

Figure 13: Combined medical and recreational estimates: Revenue and EBITDA (FYE Jan 31)



Source: Company Reports, Canaccord Genuity estimates

Valuation

Medical valuation

We value the existing medical cannabis segment using a discounted cash flow valuation. We believe the medical market will continue to experience relatively high growth over the coming years and, with a regulatory framework already in place, we believe the risks associated with our medical forecasts above are modest relative to the potential upside from the recreational market.

Our DCF utilizes a discount rate of 14.0% (a 2.0% premium to other indoor peers that already have oil licences and expansion plans that are closer to completion) and a terminal growth rate of 2.0%. Further, we have probability adjusted our DCF valuation for an 85% likelihood that both Acreage Pharms and AB Labs/Ventures will eventually receive sales licences.

As shown below, we estimate the value of the medical segment to be $1.00 per share, which represents ~91% of Invictus' current trading level.

Figure 14: Invictus: Discounted Cash Flow Valuation – medical segment

	Fiscal Year Ended Jan 31						
(C$ 000s)	2018E	2019E	2020E...	2025E	2026E	2027E	Term. Value
Revenue	**$3,193**	**$11,344**	**$18,276**	**$36,307**	**$36,002**	**$37,338**	$38,085
% growth	25%	255%	61%	10%	-1%	4%	
Adj. EBITDA	(3,909)	2,765	6,496	18,613	18,558	18,939	$19,318
Cash Taxes	879	(636)	-	(4,188)	(4,175)	(4,356)	
Working Capital	(479)	(1,223)	(1,040)	(473)	46	(200)	
Capital Expenditures	(2,000)	(2,000)	(1,000)	(500)	(500)	(500)	
Free Cash Flow	(5,508)	(1,093)	4,456	13,452	13,928	13,883	$14,261
Terminal Value							111,871
Total Cash Flow	(5,508)	(1,093)	4,456	13,452	13,928	13,883	111,871
Discounted Cash Flow	(5,508)	($1,022)	$3,640	$5,595	$5,061	$4,408	$33,203

Enterprise Value	65,010
Net Debt (cash, incl. warrants)	($32,444)
Equity Value	97,454
# of Share - FD	82,635
Value per share	C$1.18
85% prob. of sales license	**C$1.00**

Source: Company Reports, Canaccord Genuity estimates

Valuing the recreational opportunity

Due to the inherent riskier nature of the recreational opportunity, we have valued this segment of the business using a probability-weighted NPV approach. Many of the assumptions are the same as our DCF valuation of the medical segment, but discounted at a significantly higher discount rate and probability weighted to account for greater uncertainty over the size, timing and eventual landscape of the Canadian recreational marijuana market.

Our probability-weighted NPV assumes the recreational market will begin to ramp up in FY2019 and reach its full potential by FY2022. Due to the increased uncertainty around timing, regulation, pricing, and distribution, we utilize a higher discount rate of 18% when calculating the present value of the cash flows that pertain to recreational market sales. In addition, we have assumed an 80% likelihood that the recreational

market will become legalized and a 85% likelihood that Acreage Pharms and AB Labs/Ventures will receive sales licences.

Figure 15: Invictus: Probability weighted NPV – recreational opportunity

Net-Present Value		Fiscal Year Ended Jan 31 2018E	2019E	2020E…	2025E	2026E	2027E	TV
Recreational Sales $		$ -	$ 14,032	$ 33,483	$ 63,988	$ 66,045	$ 66,057	68,039
Recreational Adj. EBITDA		-	3,673	11,037	29,008	31,050	30,843	31,768
Less:								
Cash Flow Adjustments		-	6,950	23,456	9,152	9,295	9,095	9,093
Terminal Value FCF								22,675
Free Cash Flow		-	(3,276)	(12,419)	19,856	21,755	21,748	147,239
Discounted FCF	18%		$51,818					
Probability of Legalization	80%							
Probability of Sales Licenses	85%		35,148					
Discount Probability Adjusted FCF								
Probability adjusted discount rate	14%	$ 30,710						
# of Common Shares o/s -FD		82,635						
Value of Recreational Opportunity per share		$ 0.37						

Source: Company Reports, Canaccord Genuity estimates

Using a relatively conservative discount rate for the higher-risk recreational opportunity, an 80% risk adjustment for legalization and a 85% probability of Acreage Pharms and AB Labs/Ventures receiving sales licence, we believe the current value of Invictus' recreational opportunity is ~$0.37 per share; however, if we de-risked our valuation and valued the recreational opportunity in a similar manner to our medical DCF (14% discount rate and 100% probability of a recreational market and sales licence), but using the exact same assumed market penetration and cash flow estimates, our valuation of the recreational market would be $0.75 per share.

Based on our sum-of-the-parts methodology, we arrive at a valuation of $1.37 for Invictus; however, if we de-risk our recreational model and sales licence probability adjustment, our sum-of-the-parts valuation increases to $1.93.

Figure 16: Invictus: Sum-of-the-parts valuation

Segment	Methodology	$ per share
Medical	DCF	$ 1.00
Recreational	p.NPV	$ 0.37
Total		$ 1.37

Source: Company Reports, Canaccord Genuity estimates

Figure 17: Invictus: De-risked valuation

Segment	Methodology	$ per share
Medical	DCF	$ 1.18
Recreational	p.NPV	$ 0.75
Total		$ 1.93

Source: Company Reports, Canaccord Genuity estimates

As a result, we are initiating on Invictus with a HOLD rating and a C$1.35 target, which represents a forecast annualized return of 22.7%.

Selected management and director bios

Trevor Dixon | President, CEO, and Director

Trevor Dixon founded Acreage Pharms Ltd in 2013 with his sister and wife. Prior to that, Mr. Dixon worked as entrepreneur and business consultant where he founded a franchise company that specialized in unique, high-end bathroom renovations and over a period of ten years, he was able to grow the company to multiple franchises serving customers in more than 50 cities across Canada.

Dan Kriznic | Founder and Executive Chairman

Dan Kriznic founded Invictus in June 2014. Prior to joining the company, Mr. Kriznic was instrumental in helping to build a number of companies spanning a breadth of industries, including education, real estate, lithium and senior care facilities, to over $750 million in enterprise value. Mr. Kriznic is also a CPA and spent 10 years as a senior manager with Deloitte and Touche.

Herrick Lau | Chief Financial Officer

Herrick Lau, a Managing Director of Baron Global Financial Canada Ltd., brings over 20 years of experience in financial management and corporate finance and has held CFO and director roles at various publicly listed companies. Mr. Lau graduated from Simon Fraser University with a Bachelor's and Master's degree in Business and Economics and holds a CFA designation.

George Kveton | Director

George Kveton founded LOGSCALE Venture Partners, a company focused on early and growth stage healthcare companies. Prior to that, he was the Vice President of Japan Tobacco where he led M&A transactions valued at US$1.5B, expansion into the US and Latin America, and deal origination and execution for emerging products.

Aaron Bowden | Director

Aaron Bowden specializes in taxation and currently manages tax strategy for a large Canadian public company with over 12,000 employees. Prior to that, he worked at Deloitte in the assurance and tax practice with experience in various forms of financing, mergers, acquisitions and divestitures.

Josef Hocher | Director

Mr. Josef W. Hocher was a founder of Buried Hill Energy, an international oil and gas company, where he acted as co-chief executive in creating, developing and implementing the organization's strategic direction. He continues to serve as the Senior Independent Director and is also either a Chair or a member of various committees. Joe also founded Hitic Energy Ltd., and was a partner at Osler, Hoskin & Harcourt LLP.

Investment Risks

In addition to industry risks highlighted previously, we have also identified several company-specific risks worth noting:

- **Production risks** – Invictus may experience challenges ramping up production or may experience delays meeting its production goals at both Acreage Pharms and AB Labs/Ventures. Additionally, the company may not achieve its projected funded production capacity and therefore may not meet our revenue estimates.
- **Regulatory risk** – Neither Acreage Pharms, AB Labs, or AB Ventures currently have a sales licence to sell cannabis bud or oil from Health Canada. A prolonged delay in obtaining these licences could adversely affect cash flows and Invictus may not meet our forecasts.
- **Margin risks** – As the industry transitions to wholesale pricing, there is a risk that Invictus may face increased pressure on its margins and may not be able to achieve our forecasted revenues and cash flows.

Figure 18: Invictus: Summary sheet

Company Description

Invictus is a Canadian cannabis company that currently focuses and invests in three different segments of the industry: LPs under Health Canada's ACMPR, including a wholly owned investment in Acreage Pharms, and a 33% minority interest in a licensed cultivator AB Laboratories; fertilizer and nutrients through its investment in British Columbia based Future Harvest; and cannabis data and delivery technologies (vaping) through its investment in PODA.

P&L Forecasts

Year end Jan 31 $000s	2017A	2018E	2019E	2020E
Kg of cannabis sold	**-**	**167**	**3,304**	**9,075**
Ave. Price per gram (bud)	$ 8.00	$ 8.00	$ 6.75	$ 4.50
Revenue	**2,549**	**3,193**	**25,376**	**51,758**
Production Costs	1,560	2,076	7,434	18,150
Operating Expenses	3,898	5,100	11,503	16,076
Adj. EBITDA	**(2,908)**	**(3,982)**	**6,439**	**17,533**
Depreciation/Amortization	6	26	474	1,939
Interest Expense (Income)	-	-	-	-
Income Before Taxes	**(6,210)**	**(3,909)**	**6,439**	**17,533**
Taxes	(45)	(879)	1,481	2,538
Net Income	**(5,726)**	**(3,029)**	**4,958**	**14,994**
Shares o/s (basic)	12,938	80,079	80,079	80,079
Shares o/s (FD)	23,010	82,634	82,634	82,634
EPS - FD	**(0.25)**	**(0.04)**	**0.06**	**0.18**

Cash Flow Forecasts

Year end Jan 31 $000s	2017A	2018E	2019E	2020E
Net Income	**(5,726)**	**(3,029)**	**4,958**	**14,994**
Adj, EBITDA	**(2,908)**	**(3,982)**	**6,439**	**17,533**
Increase in Working Capital	255	479	3,327	3,957
Cash Taxes	(45)	(879)	1,481	2,538
Capex	-	6,000	20,000	10,000
Free Cash Flow	**(3,118)**	**(5,508)**	**(4,370)**	**(7,963)**

Growth Analysis

Year end Jan 31 $000s	2017A	2018E	2019E	2020E
Revenue	-31%	25%	695%	104%
EBITDA	241%	37%	-262%	172%
Net Income	nmf	-47%	-264%	202%

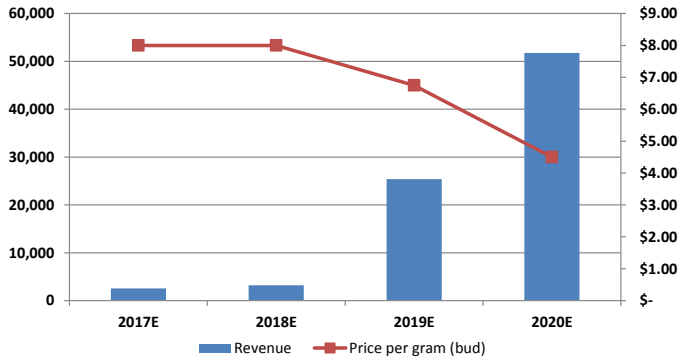
Margin Analysis

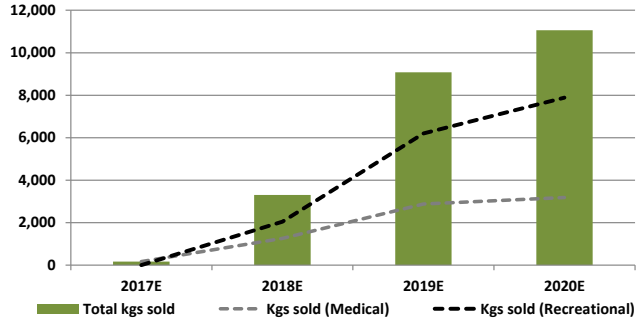
Year end Jan 31 $000s	2017A	2018E	2019E	2020E
Gross Margin	39%	35%	71%	65%
EBITDA	-114%	-125%	25%	34%
Net Income	-225%	-95%	20%	29%

Consolidated Balance Sheet

Year end Jan 31 $000s	2017A	2018E	2019E	2020E
Cash	3,463	31,931	9,442	7,176
Current Assets	5,695	34,350	21,720	31,180
Fixed Assets	12,840	6,327	25,852	33,913
Total Assets	**20,048**	**42,191**	**49,086**	**66,607**
Current Liabilities	2,332	1,179	3,091	5,618
Debt	91	91	91	91
Shareholders Equity	15,975	40,946	45,904	60,898
Total Liabilities & S/E	**20,048**	**42,191**	**49,086**	**66,607**

Revenue Forecasts





Valuation Ratios

Year end Jan 31 $000s	2017A	2018E	2019E	2020E
Enterprise Value / Revenue	22.9x	18.3x	2.3x	1.1x
Enterprise Value / EBITDA	-20.1x	-14.7x	9.1x	3.3x
Enterprise Value / Funded Capacity	5.3x	5.3x	5.3x	5.3x

Source: Company Reports, Canaccord Genuity estimates

Figure 19: Invictus: Forecast P&L

Fiscal Year End Jan 31 (C$'000s)	2017A	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Total Revenue	**$ 2,549**	**$ 3,193**	**$ 25,376**	**$ 51,758**	**$ 65,898**	**$ 74,576**	**$ 81,618**	**$ 92,975**	**$ 100,295**	**$ 102,047**
Revenue growth %		25%	695%	104%	27%	13%	9%	14%	8%	2%
Cost of goods sold	1,560	2,076	7,434	18,150	22,127	25,587	26,954	28,988	29,606	30,469
FV of change in biological assets	-	-	-	-	-	-	-	-	-	-
Total Production Costs	**$ 1,560**	**$ 2,076**	**$ 7,434**	**$ 18,150**	**$ 22,127**	**$ 25,587**	**$ 26,954**	**$ 28,988**	**$ 29,606**	**$ 30,469**
Gross Margin	**$ 989**	**$ 1,118**	**$ 17,942**	**$ 33,609**	**$ 43,771**	**$ 48,989**	**$ 54,664**	**$ 63,987**	**$ 70,689**	**$ 71,578**
Adjusted Gross Margin	**$ 989**	**$ 1,118**	**$ 17,942**	**$ 33,609**	**$ 43,771**	**$ 48,989**	**$ 54,664**	**$ 63,987**	**$ 70,689**	**$ 71,578**
Adj. GM%	*39%*	*35%*	*71%*	*65%*	*66%*	*66%*	*67%*	*69%*	*70%*	*70%*
General & Administrative	$ 1,640	$ 2,000	$ 5,306	$ 8,312	$ 9,404	$ 9,168	$ 10,081	$ 11,157	$ 11,672	$ 11,045
Share-based payments	2,429	2,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Salary and Benefits	2,258	3,000	5,806	7,246	8,117	7,940	8,978	10,227	10,393	9,904
Depreciation	6	26	474	1,939	2,543	2,653	2,641	2,631	2,621	2,612
Research and Development	-	100	390	518	659	746	816	930	1,003	1,020
Income (loss) from operations	**$ (5,343)**	**$ (6,009)**	**$ 4,964**	**$ 14,594**	**$ 22,048**	**$ 27,483**	**$ 31,147**	**$ 38,042**	**$ 44,000**	**$ 45,996**
Adjusted EBITDA	**$ (2,908)**	**$ (3,982)**	**$ 6,439**	**$ 17,533**	**$ 25,592**	**$ 31,136**	**$ 34,788**	**$ 41,673**	**$ 47,621**	**$ 49,608**
Adj. EBITDA %	-114%	-125%	25%	34%	39%	42%	43%	45%	47%	49%
Finance Costs	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
EBT	**$ (6,210)**	**$ (3,909)**	**$ 6,439**	**$ 17,533**	**$ 25,592**	**$ 31,136**	**$ 34,788**	**$ 41,673**	**$ 47,621**	**$ 49,608**
Income tax expense	(45)	(879)	1,481	2,538	4,028	7,161	7,827	9,376	10,715	11,162
Income (loss) attributable to:										
Owners of the company	(5,639)	-	-	-	-	-	-	-	-	-
Non-controlling interest	(87)	(26)	-	-	-	-	-	-	-	-
Net Income	**$ (5,726)**	**$ (3,029)**	**$ 4,958**	**$ 14,994**	**$ 21,563**	**$ 23,974**	**$ 26,961**	**$ 32,297**	**$ 36,906**	**$ 38,446**
EPS - Basic	$ (0.44)	$ (0.04)	$ 0.06	$ 0.19	$ 0.27	$ 0.30	$ 0.34	$ 0.40	$ 0.46	$ 0.48
EPS -FD	$ (0.25)	$ (0.04)	$ 0.06	$ 0.18	$ 0.26	$ 0.29	$ 0.33	$ 0.39	$ 0.45	$ 0.47
# of shares outstanding - Basic	*12,938*	*80,079*	*80,079*	*80,079*	*80,079*	*80,079*	*80,079*	*80,079*	*80,079*	*80,079*
# of share outstanding - FD	*23,010*	*82,634*	*82,634*	*82,634*	*82,634*	*82,634*	*82,634*	*82,634*	*82,634*	*82,634*

Source: Company Reports, Canaccord Genuity estimates

Figure 20: Invictus: Forecast balance sheet

Fiscal Year End Jan 31 (C$'000s)	2017A	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Assets										
Cash and Cash Equivalents	3,463	31,931	9,442	7,176	20,989	41,767	65,293	93,399	127,389	165,126
Accounts Receivable	633	532	4,229	8,626	10,983	12,429	13,603	15,496	16,716	17,008
Inventory (before FV adj.)	553	665	5,287	10,783	13,729	15,537	17,004	19,370	20,895	21,260
Biological Assets	0	222	1,762	3,594	4,576	5,179	5,668	6,457	6,965	7,087
Other	1,046	1,000	1,000	1,000	2,000	2,000	3,000	3,000	3,000	3,000
Current Assets	**5,695**	**34,350**	**21,720**	**31,180**	**52,277**	**76,912**	**104,567**	**137,721**	**174,965**	**213,480**
Property, Plant and Equipment, net	12,840	6,327	25,852	33,913	35,370	35,217	35,076	34,945	34,824	34,712
Intangiles assets and Goodwill	1,160	1,160	1,160	1,160	1,160	1,160	1,160	1,160	1,160	1,160
Other	354	354	354	354	354	354	354	354	354	354
Total Assets	**20,048**	**42,191**	**49,086**	**66,607**	**89,161**	**113,643**	**141,157**	**174,180**	**211,303**	**249,707**
Liabilities										
Accounts Payable & Accrued Liabilities	2,332	1,179	3,091	5,618	6,608	7,116	7,669	8,395	8,612	8,570
Current portion of long-term debt	91	91	91	91	91	91	91	91	91	91
Current Liabilities	**2,424**	**1,270**	**3,182**	**5,709**	**6,699**	**7,207**	**7,760**	**8,487**	**8,703**	**8,661**
Long-Term Debt	-	-	-	-	-	-	-	-	-	-
Total Liabilities	**2,424**	**1,270**	**3,182**	**5,709**	**6,699**	**7,207**	**7,760**	**8,487**	**8,703**	**8,661**
Shareholder's Equity										
Share Capital	17,344	45,344	45,344	45,344	45,344	45,344	45,344	45,344	45,344	45,344
Warrants	6,138	6,138	6,138	6,138	6,138	6,138	6,138	6,138	6,138	6,138
Other	(105)	(105)	(105)	(105)	(105)	(105)	(105)	(105)	(105)	(105)
Deficit	(7,401)	(10,430)	(5,473)	9,522	31,085	55,060	82,021	114,317	151,223	189,669
Total Shareholder's Equity	**15,975**	**40,946**	**45,904**	**60,898**	**82,462**	**106,436**	**133,397**	**165,694**	**202,600**	**241,046**
Non-controlling Interest	1,650	(26)	-	-	-	-	-	-	-	-
Total Liabilities and Shareholder's Equity	**20,048**	**42,191**	**49,086**	**66,607**	**89,161**	**113,643**	**141,157**	**174,180**	**211,303**	**249,707**

Source: Company Reports, Canaccord Genuity estimates

Figure 21: Invictus: Forecast statement of cash flows

Fiscal Year End Jan 31 (C$'000s)	2017A	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
OPERATING ACTIVITIES										
Net profit (loss) for the period	(5,726)	(3,029)	4,958	14,994	21,563	23,974	26,961	32,297	36,906	38,446
Adjustments for non-cash items										
Unrealized gain for FV changes	-	-	-	-	-	-	-	-	-	-
Amortization	6	26	474	1,939	2,543	2,653	2,641	2,631	2,621	2,612
Share based payments	2,429	2,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Investment in working capital	(255)	(2,584)	(4,140)	(2,764)	(1,221)	(844)	(1,727)	(1,292)	(781)	46
Cash from Operations	**(2,503)**	**(3,587)**	**2,292**	**15,170**	**23,886**	**26,783**	**28,875**	**34,636**	**39,745**	**42,104**
FINANCING ACTIVITIES										
Shares/warrants issued for cash	12,675	16,218								
Proceeds (repayment) of debt	-	-	-	-	-	-	-	-	-	
Other	(1,117)									
Cash from Financing	**11,558**	**16,218**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
INVESTING ACTIVITIES										
Purchase of PP&E	(336)	(6,000)	(20,000)	(10,000)	(4,000)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)
Other	(8,493)	-	-	-	-	-	-	-	-	-
Cash from Investing	**(8,829)**	**(6,000)**	**(20,000)**	**(10,000)**	**(4,000)**	**(2,500)**	**(2,500)**	**(2,500)**	**(2,500)**	**(2,500)**
Increase in cash and cash equivalents	**226**	**6,631**	**(17,708)**	**5,170**	**19,886**	**24,283**	**26,375**	**32,136**	**37,245**	**39,604**

Source: Company Reports, Canaccord Genuity estimates

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	955*	100.0%	

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