Medical Marijuana Sector

January 11, 2017

Expanding Our MMJ Coverage Ahead Of Spring 2017

We are initiating coverage on four earlier stage names in the medical marijuana sector adding to five larger and more mature licensed producers (LPs) already under coverage. We have a preference for larger LPs with international initiatives, access to capital, low unit costs, strong revenue growth, expansion capability, and brand recognition.

Initiating Coverage Of Four Earlier Stage Companies In The MMJ Sector

We are initiating coverage on four earlier stage companies within the medical marijuana sector, three of which are Health Canada licensed producers (LPs) and one applicant waiting in line to receive a license. Beleave Inc. (BE-CSE, BUY, $1.80 price target), Cronos Group (MJN-T, BUY, $2.25 price target), Emblem Corp. (EMC-T, BUY, $4.75 price target), and Emerald Health Therapeutics Inc. (EMH-T, BUY, $1.75 price target).

- There are currently 30 enterprises that hold 37 cannabis production licenses granted by Health Canada, of which 12 are publicly listed. When compared to more mature LPs, these four companies are part of the next wave that are generally much smaller in market cap, more recently licensed, operating in smaller capacity facilities, less capitalized, and further behind in expansion. Some of them are a year away from starting relatively material sales.
- Some of these new names have yet to build a track record of sales in this medical environment. We expect they will be slower to ramp sales, expand capacity, and gain market share. To differentiate themselves from larger players, these LPs are positioning to innovate for the medical market and/or build brands for the impending recreational market.
- Newly restructured Cronos (MJN) wholly owns two licenses, and is the only enterprise with a facility in each of BC and Ontario. Emblem (EMC) is positioning to develop new formulations and delivery of medical cannabis on the back of their executive team's track record, while Emerald (EMH) is largely focusing on developing a biotech drug. Meanwhile Beleave (BE) is still an applicant waiting to receive a license.
- Regulatory risk has kept some investors on the sidelines but we are confident LPs will have a role in the supply chain once the market opens up, while retail distribution is more likely to fall on the shoulders of established channels.
- Industry development is proceeding largely as planned. The recent government Task Force report was broadly in line with our expectations and is expected to form the basis for legalization legislation. However, key issues like distribution and retail have yet to be determined. We expect the government to deliver a framework in Spring 2017, and we currently expect retail sales to begin in Spring 2018.

Industry Catalysts On The Path To Legalization

- Spring 2017: Liberals table legislation for marijuana legalization
- Spring 2018: Implementation of marijuana legalization (DCP Estimate)

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COMPANY INVESTMENT OVERVIEW

We are initiating coverage on four new companies within the medical marijuana sector, three of which are Health Canada licensed producers (LPs) and one applicant waiting in line to receive a license.

- **Beleave Inc. (BE - CSE, BUY, $1.80 price target)** - A late-stage applicant in the licensing process, Beleave is advancing a small but fully-built facility located on multiple acres, has a strong endorsement from the city of Hamilton, and is already engaged in academic research partnerships.
- **Cronos Group (MJN - T, BUY, $2.25 price target)** - Newly restructured Cronos wholly owns two LPs (one Ontario and one BC) and also has minority interests in three others. The company is focused on building iconic brands providing patients with compassionate personalized care, including in Germany where it is one of a few LPs with international distribution.
- **Emblem Corp. (EMC - T, BUY, $4.75 price target)** - Recently licensed to sell, Emblem is led by a team of former healthcare and pharmaceutical executives with a strategy spanning across three verticals of cannabis production, patient education, and pharmaceutical development.
- **Emerald Health Therapeutics Inc. (EMH - T, BUY, $1.75 price target)** - R&D-focused producer collaborating with academic and medical researchers including experts in botanical, nutraceutical and pharmaceutical medicines, aiming to develop new strain varieties through plant genetics, characterization of cannabis strains and cultivation technologies.

Figure 1 - Medical Marijuana Sector Valuation Snapshot

	Metric	Beleave Inc.	Cronos Group	Emblem Corp.	Emerald Health Therapeutics	Launch Average	Aphria Inc.	Canopy Growth Corp.	Mettrum Health Corp.	Organigram Holdings Inc.	Supreme Pharma Inc.	Prior Coverage Average	UNIVERSE Average
Overview		Applicant	LP	LP	LP		LP	LP	LP	LP	LP		
Ticker		CSE:BE	TSXV:MJN	TSXV:EMC	TSXV:EMH		TSXV:APH	TSX:CGC	TSXV:MT	TSXV:OGI	CSE:SL		
Share Price		$1.49	$1.87	$4.25	$1.48		$5.72	$9.77	$6.69	$2.79	$1.70		
Rating		BUY	BUY	BUY	BUY		BUY	RESTRICTED	RESTRICTED	BUY	BUY		
Target		$1.80	$2.25	$4.75	$1.75		$6.00	RESTRICTED	RESTRICTED	$4.50	$2.00		
Return to Target		21%	20%	12%	18%		5%			61%	17%		
Market Capitalization	C$MM	$45	$224	$296	$121	$171	$573	$1,176	$265	$274	$274	$512	$361
Enterprise Value	C$MM	$44	$224	$273	$117	$165	$527	$1,078	$238	$217	$317	$476	$337
Valuation (fiscal years, DCP est.)													
Licensed Sales Capacity (LSC)	kg	0	2,744	625	150		2,800	13,500	5,600	1,200	100		
EV/LSC ($/g)	$/g	--	$82	$437	$783		$188	$80	$43	$181	$3,170		
Target F2021E EBITDA	**C$MM**	**$18**	**$61**	**$77**	**$35**		**$88**	RESTRICTED	RESTRICTED	**$66**	**$63**		
Target Multiple		**5.0x**	**7.0x**	**7.0x**	**5.0x**		**8.0x**	RESTRICTED	RESTRICTED	**7.0x**	**7.0x**		
F2021E EV / EBITDA		2.4x	3.7x	3.5x	3.3x	3.2x	6.0x			3.3x	5.1x	4.8x	3.9x
Year end		March	December	January	December		May	March	March	August	June		

Source: FactSet, Dundee Capital Partners Estimates

Figure 2 - MMJ Sector Comp Table

All in CAD$	Ticker	Rating	Target	Last $/sh	S/O MM	FD S/O MM	Mkt Cap MM$	Cash MM$	Debt MM$	EV MM$	LSC kg	EV/LSC $/g	EV/EBITDA CY2016	EV/EBITDA CY2017	EV/EBITDA FY2021	EV/Sales CY2016	EV/Sales CY2017	Performance 1mo	Performance 3mo	Performance 6mo
Aphria	APH-T	B	$6.00	$5.72	100.2	121.3	$573	$53.0	$7.0	$527	2,800	188	124.2x	42.8x	6.0x	27.2x	14.0x	8%	52%	236%
Aurora Cannabis	ACB-C			$2.55	241.4	321.0	$616	$50.0	$22.4	$588	2,200	267	--	--	--	--	--	27%	15%	466%
Beleave Inc.	BE-C	B	$1.80	$1.49	30.1	42.6	$45	$1.4	$0.0	$44	--	--	NM	NM	2.4x	NM	NM	5%		
CanniMed	CMED-T			$11.20	19.7	24.5	$220	$65.0	$20.0	$175	3,000	58	--	--	--	--	--			
Canopy Growth	CGC-T	R	R	$9.77	120.3	130.0	$1,176	$105.0	$7.8	$1,078	13,500	80	R	R	R	R	R	0%	88%	257%
Cronos Group	MJN-T	B	$2.25	$1.87	119.6	169.8	$224	$5.8	$6.6	$224	2,744[2]	82	NM	NM	3.7x	NM	26.4x	25%	59%	889%
Emblem Group	EMC-T	B	$4.75	$4.25	69.6	117.5	$296	$28.0	$5.5	$273	625	437	NM	NM	3.5x	NM	49.7x			
Emerald Health	EMH-T	B	$1.75	$1.48	81.7	96.4	$121	$3.5	$0.0	$117	150	783	NM	NM	3.3x	NM	NM	21%	68%	761%
Mettrum Health	MT-T	R	R	$6.69	39.6	43.1	$265	$30.0	$3.4	$238	5,600	43	R	R	R	R	R	7%	74%	200%
MMJ Phytotech	MMJ-AU			$0.20	141.1	164.3	$29	$1.9	$0.5	$28	--	--	--	--	--	--	--	8%	-7%	-22%
OrganiGram	OGI-T	B	$4.50	$2.79	98.1	109.2	$274	$60.0	$3.3	$217	1,200	181	379.1x	58.4x	3.3x	28.3x	9.5x	-12%	26%	177%
Supreme Pharma	SL-C	B	$2.00	$1.70	160.9	230.4	$274	$16.0	$59.0	$317	1,000	317	NM	NM	5.1x	NM	14.3x	-5%	22%	347%
THC BioMed	THC-C			$0.89	96.2	114.8	$86	$1.0	$0.8	$86	--	--	--	--	--	--	--	3%	-10%	784%
Average (n = 12)							**$323**	**$32.4**	**$10.5**	**$301**	**3,282**	**244**	**251.6x**	**50.6x**	**3.9x**	**27.8x**	**22.8x**	**8%**	**39%**	**409%**
Median										**$224**	**2,472**	**185**	**251.6x**	**50.6x**	**3.5x**	**27.8x**	**14.3x**	**7%**	**39%**	**302%**

[1] Estimates are DCP's; adjusted for calendar year-ends
[2] Attributable based on equity ownership of LP's
LSC = Licensed Sales Capacity; B = Buy; N = Neutral; R = Restricted; UR = Under Review

Source: FactSet, Dundee Capital Partners Estimates

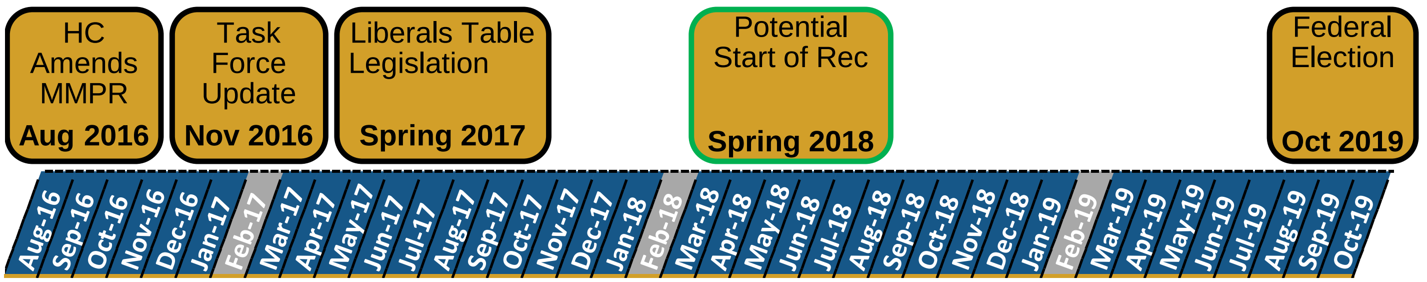
EXECUTIVE SUMMARY - EXPANDING COVERAGE AHEAD OF SPRING 2017

The move towards legalization is likely to start with government-vetted LPs because there isn't any other commercial scale, regulated production that currently exists that could scale fast enough to serve both the medical and recreational markets.

INDUSTRY CATALYSTS ON THE PATH TO LEGALIZATION

- Spring 2017: Liberals table legislation for marijuana legalization
- Spring 2018: Implementation of marijuana legalization (DCP Estimate)

Figure 3 - DCP Estimated Timeline To Legalization



Source: Dundee Capital Partners

WHAT DID WE GET FROM THE TASK FORCE? A FRAMEWORK OF HOW, NOT IF, A REC SYSTEM MIGHT ROLL OUT

The Task Force acknowledged that "there is growing recognition that cannabis prohibition has proven to be an ineffective strategy." As we guessed, the commentary in the Task Force Recommendation (December 2016) didn't definitively say, but rather only alluded to, the inclusion of LPs as the first wave of supply in the step towards a recreational market. We believe the government is not required to comment on the Task Force's submission right away, that they're more likely to wait to respond, and that more definitive commentary is more likely to come from the tabling of legislation expected in Spring 2017. The tabling would be one year prior to our estimated start of the recreational marijuana system in Spring 2018, which in turn would be approximately one year before the next election in Fall 2019.

WHAT WAS THE TASK FORCE'S STARTING POINT? THE DISCUSSION PAPER FROM JUNE 2016

The table of contents found in the initial Task Force Discussion Paper (June 2016) serves as a reference for the topics the Task Force commented on, most of which were elaborated on in much greater detail in last month's report.

RISKS: WE VIEW THE RISK OF LP EXCLUSION LESS LIKELY THAN THE DELAY OF RECREATIONAL SALES

With the exception of a few players, we believe most of today's LPs could be consolidated or end up as value-added manufacturing specialists with some brand recognition while distribution is left to more established channels. We assess the key risks to monitor below:

- **Delay of implementation - high impact / moderate probability - Introduction of legislation is NOT the same as implementation of legislation.** Important questions that should be addressed include: taxation, appropriate age for consumption, purchase limits, method of retail, hours of sale, advertising and promotion, labelling, penalties for improper possession, education and scientific evidence, and prevention of access to children. The legislation that is presented will go through the House, the Senate, and Committee hearings to get this one shot on goal correct the first time. A legitimate recreational market will need a legitimate source for both medical and rec - we believe that will be the LPs. The timeframe for implementation could be politically-driven as approximately one year of (positive) sales data and tax revenue could show the Liberals made good on their promise during their first term, as well as provide them momentum going into the next election.

- **Preparation of distribution channels - high impact / moderate probability -** It will be important to roll out a framework that early on prevents demand from outstripping supply, in which case potential consumers would again seek out the black market. The government still needs to provide a framework for distribution and retail. Since retail distribution is complex and more likely to fall on the shoulders of established channels, various distribution options including but not limited to pharmacies, grocers, liquor stores, and dispensaries may be the preferred choices. Direct mail will likely continue to help stem the tide of the rush in demand. From our industry sources, we believe outlets such as Shoppers or the LCBO might need only one year to prepare for the start of sales.
- **Operational risk & scaling - moderate impact / moderate probability -** The ACMPR outlines strict rules for quality assessment and control, cleanliness, manufacturing, pesticide use, and tests are routinely required - we believe production for the rec market will require similarly stringent rules. Most of the leading LPs have been operating for three years having gone through numerous grow cycles with the goal of maximizing efficiency and yield. The industry will require much more capacity to supply the rec market, and Health Canada has been quite amenable to expanding LP capacity at request provided the LP can show the demand to back that up.
- **Taxation - low impact / high probability -** In 2015 in Colorado's second full year of rec sales, the state took in approximately US$125 MM in taxes and licensing fees on US$1b in sales (med + rec). According to the Colorado Department of Revenue, total marijuana tax revenue includes the 2.9% retail and medical marijuana sales tax, 10% retail marijuana special sales tax, 15% marijuana excise tax, and retail/medical marijuana application and license fees - this translates roughly to a ~30% sales and excise tax at the retail level. In our view, taxation must not be too cost prohibitive because the result would be sales going to the black market instead of the regulated market. We believe the legitimate market needs to evolve to the point where the pricing and range of product offerings are comparable (at or slightly less than) to the black market.
- **More licenses - low impact / high probability -** We believe another ~10 licenses may be granted to applicants within the next year, but we don't see this as a large threat to those already licensed due to the strong first mover advantages in patient recruitment, physician relationships, and production experience. We already see some of the "next in line" applying to be licensed for only part, not all, of the value chain unlike their vertically integrated incumbents.
- **Capital needs risk - low impact / high probability -** We model a number of financings for expansion capital over the next five years as the need for fresh capital to fund capacity expansion increases with the addressable market size. Adequate supply must meet increased demand in order to avoid patients and consumers going back to the black market.
- **Product quality - low impact / moderate probability -** The ACMPR outlines strict rules for quality assessment and control, cleanliness, manufacturing, and pesticide use, and tests are routinely required. Poor product quality may cause patients to leave for other LPs or go to the black market.
- **Pricing and cost - low impact / moderate probability -** Pricing in the industry has remained relatively consistent (~$7.00 - $7.50/g) and Health Canada has no control over how an LP prices product. Compassionate pricing by LPs has been viewed favourably by eligible patients. Based on conversations with management we believe LPs can track towards ~70% gross margins on production and ~20% - 30% EBITDA margins in the current environment.
- **The black market - low impact / low probability -** At a conference DCP hosted in May 2016, Bill Blair, the Liaison to the Liberal Government's Task Force for the legalization of marijuana, said he believes the black market for marijuana in Canada is $7-10B each year, which costs the government $2.3B to enforce. The black market will continue to cap the revenue opportunity for the legitimate business community unless regulated regimes are set up for proper methods of distribution and retail, the protection of patients' rights, investment in scientific evidence, research and education, maintaining the health and safety of Canadians, restricting access to children, and promoting appropriate methods of consumption.

WHAT ARE THE IMPLICATIONS OF A REC MARIJUANA MARKET IN CANADA?

First off, we believe it will be bigger than most people think due to the large percentage of Canadians that would participate in a legal rec market (we estimate 5 MM out of 30 MM adults). A number of fairly recent statistics support this:

- **59%** of Canadians surveyed support new laws that would legalize, tax and regulate recreational marijuana **(**Forum Research survey, via CBC, Nov 2015**)**
- That same survey found that **30%** of Canadians would consume marijuana if legal, and **20%** had done so in the past year
- **12.2%** of Canadians aged 15 or older used marijuana in the previous year (Statistics Canada, 2012)

- During the first year of legalization in Colorado, approximately **9%** of residents consumed recreational marijuana at least once per month (Colorado Department of Revenue, via the Cannabist, Dec 2014)
- StatsCan also revealed that **3.2%** of Canadians aged >15 consumed marijuana more than once per week in the previous year, and **1.8%** aged >15 consumed daily

A rec market would likely draw in new customers whom never would have been in the market in the first place. Not only would the medical market grow as we've outlined above, recreational users that are "self-medicating" via black market purchases would join a medical market with expanded product offerings and from innovation of new drugs, delivery methods, or devices. Some rec users whom purchase from the black market may purchase from a legal market with new offerings.

New customers would enter the market with the introduction of more diverse offerings. Though it's difficult to place value on the new products that could be introduced, given the lack of clarity on the framework, we can look to sales in recently legalized US states for insight. For example, only 50% of Colorado's first year's sales were comprised of flower or bud; the rest were derivatives, oils, edibles, tinctures, creams and the like. Canada is unlikely to unfold as quickly given we believe a more stepwise approach will be taken, but medical cannabis oils are starting to catch on.

New businesses and services, and the potential to go global, would arise as Canada would be the first G8 nation to legalize marijuana. The proliferation and branding of products and accessories beyond just dried flower would open up new verticals within the industry and foster expertise in segments such as growing, regulatory, branding, marketing, and R&D. Other revenue streams for LPs may come from broader export opportunities, once Canada's participation in three international treaties is amended. Countries still developing medical programs or working towards legal frameworks represent opportunities to export Canadian know-how, and we've already seen evidence of this. International markets may be tilted towards local players which is why these recent moves are important for establishing brand recognition early on.

We're seeing more liberalization of liquor... Supermarkets at select locations in Ontario have begun selling beer with plans to also soon allow wine, while the LCBO has recently launched online sales delivered similarly to how the LPs currently operate. Some provinces, such as Alberta or the Maritimes, don't have provincial liquor monopolies and may look to corner stores and/or dispensaries as options for marijuana. We view alcohol as a similar market to marijuana not only in size but also in connoisseurship, branding, and product categories. The progressive liberalization in distribution for beverage alcohol potentially bodes well for the marijuana market.

... **while tobacco smokers are still prevalent.** Data released last year from the Propel Centre For Population Health Impact showed that 14.6% of Canadians are tobacco smokers, with the majority reporting smoking daily (10.9% daily, 3.8% non-daily). Smoking products such as e-cigarettes and vape pens are becoming much more popular among consumers, so much so that the government recently announced an initiative to regulate them. From a medical perspective, some believe that vapourization, rather than smoking, **i**s a safer way to deliver the drug which would pave the way for medical innovation and ancillary products.

HOW DO WE MODEL TODAY'S LP'S IN 5 YEARS? AS BRAND-RECOGNIZED CONTRACT MANUFACTURERS

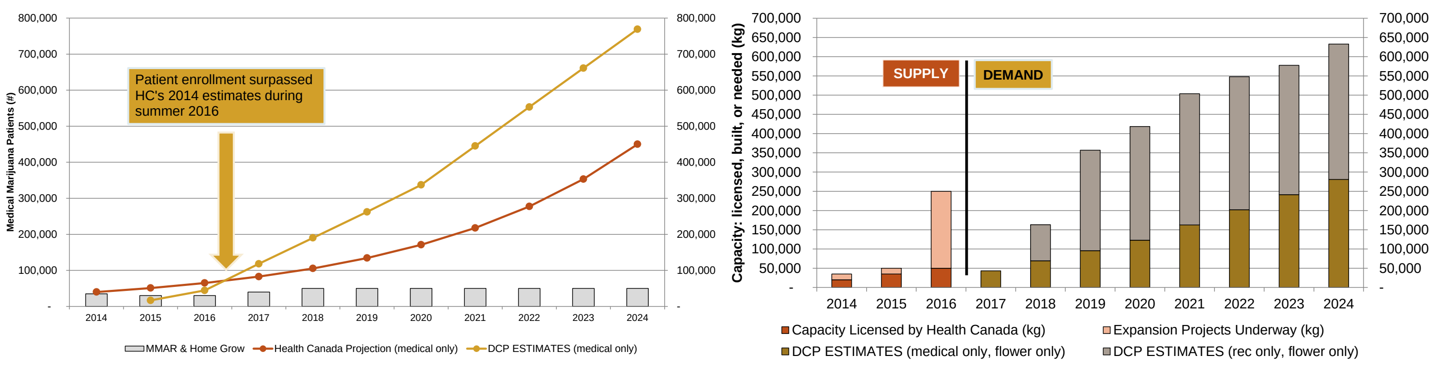
We like LPs that can approach 70% gross margin and 30% EBITDA margin in the current environment above to be able to withstand the pricing and margin compression from the introduction of legitimate distribution channels, trading off margin for volume as well as for not spending the capex setting up retail outlets themselves. We compare the LPs to contract pharmaceutical manufacturers that have ~30-35% gross margins and ~20% EBITDA margins that are built on economies of scale, but assuming the introduction of established distribution channels, **we model the LPs at 40-50% gross margins and 20-25% EBITDA margins** due to the brand value they are currently building with patients and potential rec consumers. For our view of the industry's potential margin profile, an LP might grow a gram of cannabis for $2.00/g, sell it wholesale for $4.00-$7.00, and then have it retail for $7.00-$15.00.

Since the LPs and sector as a whole are not nearly as mature as comparable sectors (brewers, tobacco, pharma), **for our valuation year we look five years down the line to FY2021.** At this point, in our view, the recreational regime would be in place for three years, and it is a more relevant time period to value the industry's potential capturing growth from rec sales, as well as giving us leeway in case of delay. By extension, this approach of putting lower multiples on more "steady state" forecasts results in higher multiples on near term forecasts, reflective of the emerging profitability of the group. We place a higher multiple on players that have the potential to control market share or distribution points, have higher capacity, lower cost of acquiring customers, and better capital efficiency.

FOR CANADA, WE ESTIMATE A $3B MEDICAL MARKET AND A $6B RECREATIONAL MARKET

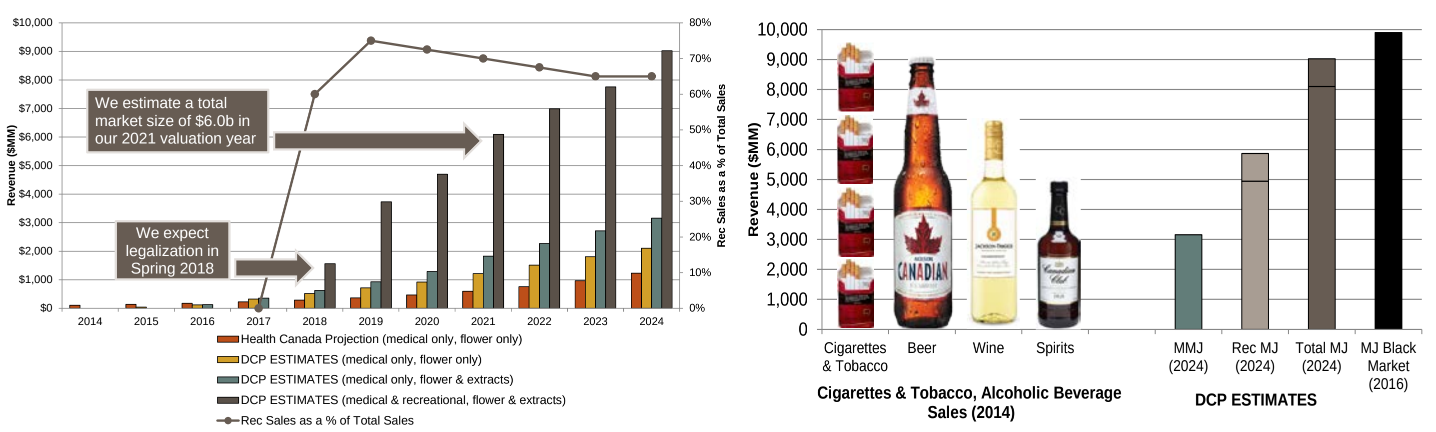
Inventories have been increasing with patient enrollment, and large expansion plans are on the way. Health Canada data show steady increases in the amount of dried marijuana produced and sold, and much more rapid increases in inventory with a relatively lower number of licenses. But much more capacity will be needed according to our market estimates.

Figure 4 - Even With Plenty Of Expansion Projects Underway, Much More Capacity Will Be Needed



Source: Health Canada, Dundee Capital Partners

Figure 5 - We Estimate $3.0B Medical Market and $6.0B Recreational Market, Higher Than Health Canada's Estimates



Source: StatsCan, Dundee Capital Partners Estimates

Our estimates compare favourably with projections for the US, where the implied values for Canada average $8.9B. A recently released report from Deloitte estimated the base retail market in Canada at $4.9b - $8.7b with a total market including ancillary businesses between $12.7b - $22.6b.

Figure 6 - Sales Projections for Legalized States Imply $9B Canadian Adult Use Market In 2023

		Alaska	Colorado	DC	Oregon	Washington	Average	Canada	Time Lag
	Start of medical program	1999	2000	1998	1998	1998	1999	2001	2 years
	Start of recreational program	2016	2014	2015	2015	2014	2015	2018*	3 years
	Population (MM)	0.74	5.4	0.66	4.0	7.1		35.2	
A	Relative population multiple (Canada / state)	47.7x	6.6x	53.4x	8.9x	5.0x			
B	**Estimated adult use sales in 2020 (US$MM, ArcView Research)**	$134	$2,020	$94	$985	$2,266			
A x B	Implied sales in Canada in 2023	$6,409	$13,259	$4,995	$8,725	$11,282	**$8,934**		

*DCP estimate

Source: ArcView Research, Dundee Capital Partners

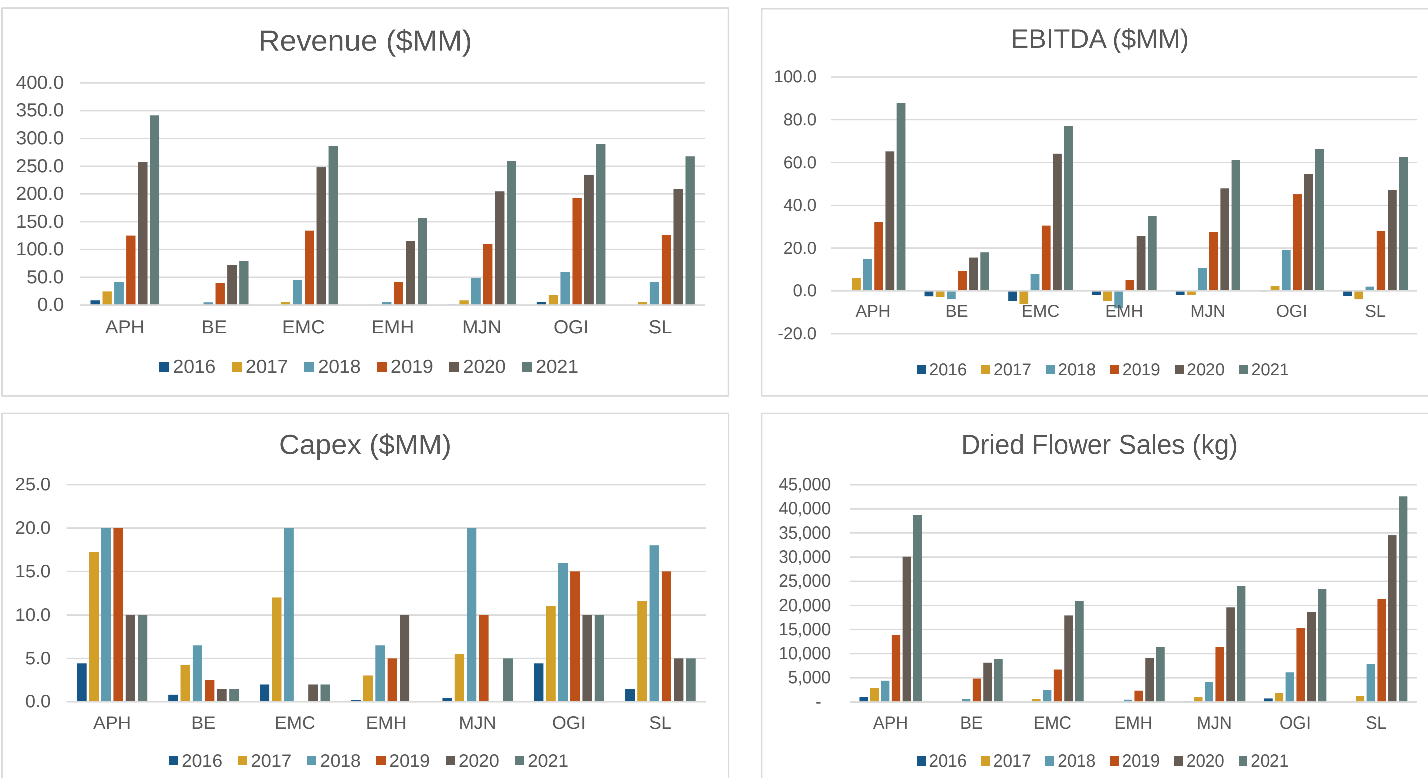
MORE EXPANSION + MORE LICENSES = MORE CAPITAL INVESTMENT REQUIRED

From our conversations around the industry, we estimate it costs ~$10 MM in capex to build ~10,000 kg of incremental capacity, and in most cases $15 MM - $30 MM just to get going. We estimate there is currently ~50,000 kg of licensed capacity, and another ~200,000 kg of expansion projects along the way, which once built would be a total of ~250,000 kg. We estimate at a full run rate that the only medical market in Canada will demand ~300,000 kg per year, with the recreational market adding another ~350,000 kg - and that doesn't include the dried flower needed for making oil concentrates and derivative products. Using our $10 MM for 10,000 kg, this implies at least another $500 MM of capex to build enough supply to meet demand; and the actual number is likely higher than that due to some "new build" needed vs. "tack-on build", the former of which is more likely to require the $15 MM - $30 MM start up infrastructure costs.

We estimate our coverage universe in aggregate, aside from Canopy (CGC-T, restricted) and Mettrum (MT-T, restricted), to:

- Sell 40% of the 500,000 kg of dried flower demanded in our 2021 valuation year
- Account for 35% of the $6b in revenues (both medical and recreational) in our 2021 valuation year
- Spend over $300 MM in capex over the next five years

Figure 7 - DCP MMJ Universe Aggregate Financial Projections



Source: Dundee Capital Partners

INTERNATIONAL MEDICAL MARKETS ARE THE BEACHHEADS LPS ARE TARGETING FOR GLOBAL EXPANSION

The ACMPR is becoming an international standard for medical cannabis regulation due to strict guidelines for production, security, and education. The regulations aim to treat marijuana as much like a medication as possible by creating a licensing scheme for the commercial production and distribution of MMJ, and by granting access to patients through a physician's prescription. Health Canada's cost-benefit analysis published in the Gazette assumed a total of only 61 licenses granted from 2014 to 2024, in our view, desiring a fewer number of larger capacity, vertically integrated, producers as opposed to many small producers.

International markets may be tilted towards local players which is why LPs must establish brand recognition early on. A number of LPs already have research partnerships, equity stakes, or distribution agreements around the world. Countries still developing medical programs or working towards legal frameworks represent opportunities to export Canadian know-how, and we've already seen evidence of this.

We believe the path to global expansion for the LPs starts by partnering through medical-focused opportunities.

- Two current LPs brought strategic partnerships from countries that have mature medical programs: Bedrocan with Bedrocan BV in the Netherlands and MedReLeaf with Tikun Olam in Israel
- Bedrocan Canada expanded its license agreement with BV to include South American sub-licensing opportunities (Dec 2014)
- Tweed acquired an equity stake in a prospective LP in the Australian medical cannabis program (May 2016)
- Tilray exported two varieties of cannabis oil capsules to patients in Croatia where an MMJ framework was established last year (June 2016)
- Canopy established Bedrocan Brazil to develop cannabis-based pharmaceutical medical products (June 2016)
- Mettrum established a supply and services agreement with Agriculture Victoria in Australia for a horticultural research trial (June 2016)
- Aphria partnered with an Australian biotech company establishing a supply agreement for a human clinical trial (August 2016)
- Canopy (July 2016) and Cronos Group (October 2016) established separate distribution arrangements for the German medical cannabis program

CANADIAN LPS ALREADY HAVE PARTNERSHIPS TO MARKETS VALUED ~10X CANADA IN AGGREGATE

We assume the long term penetration rate of medical patients in Canada reaches 2% of the total population by 2024 (~800,000 patients) equating to a $3.0B medical market that same year. The penetration rate is comparable to similarly aged existing programs in other countries, though new frameworks must be in place to unlock the full potential of the industry here. Our $3.0B flower & extracts medical market assumes 50% of patients exclusively purchase flower and 50% of patients exclusively purchase extracts, we assume no cross-selling though it is likely.

We assume each flower patient consumes 1.0 gram/day at $7.50/gram and each extract patient consumes 1.0 gram(eq)/day at $15.00/gram(eq). Though the oil and extract market is relatively young, we assume medical innovation brings development and commercialization of value-added formulation and delivery devices for cannabis therapeutics which may support our longer term pricing assumption in this segment.

Figure 8 - International Medical Markets Provide Material Opportunities For LPs

		Australia	Brazil	Croatia	Germany	Israel	Netherlands	Average	Total	Canada
Population (MM)		23.1	200.4	4.3	80.6	8.1	16.8	55.5	333.3	35.2
Potential MMJ patients (MM)	2% of population	0.5	4.0	0.1	1.6	0.2	0.3	1.1	6.7	0.8
Est. MMJ market size ($MM)*	50% flower only @ $7.50/day 50% extract only @ $15.00/day	$1,857	$16,092	$342	$6,474	$647	$1,349	$4,460	**$26,761**	$3,000

*Based on DCP's estimates for Canada

Source: Dundee Capital Partners Estimates

DUNDEE
CAPITAL PARTNERS

Beleave Inc.

(BE-CSE: C$1.49)

January 11, 2017

BUY

Dundee target: C$1.80

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Late Stage Applicant Nearing A License

BE-C	New	Last
Rating:	--	**BUY**
Target:	--	**$1.80**
Projected Return:	--	**21%**
F2021 EBITDA (MM$)	--	$18
Target multiple	--	5.0x
Company Data		
Price (1/11/17):		$1.49
52-Week Range (H-L):	$1.70	$0.23
Market Capitalization (MM$):		$45
Enterprise Value (MM$):		$44
Shares Outstanding - Basic (MM):		30.1
Shares Outstanding - Diluted (MM):		42.6
Avg Daily Volume (3 Mos) (000s):		1
Cash (MM$):*		$1.40
Debt (MM$):		$0.00
Working Capital (MM$):		-$0.31
Fiscal Year End		March

** DCP Estimate*

Forecasts (Mar YE)	2016A	2017E	2018E
Price per gram ($/g)	--	7.50	7.50
COGS ($/g)	--	3.25	3.25
Revenue (MM$)	0.0	0.0	5.0
EBITDA (MM$)	(2.5)	(2.7)	(4.0)
EPS ($/sh)	-0.14	-0.11	-0.12
OP CF (MM$)	(0.8)	(3.0)	(10.8)
CF/share ($/sh)	-0.04	-0.11	-0.28
Capex (MM$)	(0.8)	(4.3)	(6.5)
FCF (MM$)	(1.6)	(7.3)	(17.3)

All Figures in C$ Unless Otherwise Noted

Source: FactSet, Company Reports, DCP

BE: Price/Volume Chart

Source: Factset

Company Description

A late-stage applicant in the licensing process, Beleave is advancing a fully-built facility located on multiple acres, has a strong endorsement from the city of Hamilton, and is already engaged in academic research partnerships.

We are initiating coverage of Beleave Inc. with a BUY rating, and introducing a price target of C$1.80, based on 5.0x FY2021 estimated EBITDA, implying a 21% return from yesterday's close of $1.49. The 5.0x multiple is at the bottom end of peer group range of 4.0x - 10.0x, due to Beleave's status in the application process.

A late-stage applicant in the licensing process, Beleave is advancing a small but fully-built facility located on multiple acres, has a strong endorsement from the city of Hamilton, and is already engaged in academic research partnerships.

Investment Overview

- **Upcoming catalyst likely to highlight valuation arbitrage.** Beleave is not yet licensed but the company has received an affirmation letter from Health Canada - it is our view that the company is close to this important milestone given its stage of the licensing process with Health Canada. Naturally, as only an applicant, Beleave trades at a discount to market cap.
- **Asset and land package provide room for expansion on the same address.** Beleave's 14,000 sq ft indoor production facility is located in Hamilton on 4 acres of land with capability to add another 80,000 sq ft of greenhouses on the same address. The addition of lower cost greenhouses on site would allow the company's current indoor project to eventually become a processing facility. The company has strong local support having received an endorsement by the Hamilton Planning & Economic Development Department.
- **Currently spreading brand awareness in anticipation of on-boarding patients.** Beleave has a well-rounded management and board comprising professionals with experience in finance, healthcare, security, real estate, and municipal relations. To support its brand building, the company sponsored a stage at last summer's well attended Lift Cannabis Expo in Toronto, providing for some positive exposure.
- **Academic research collaborations could help educate physicians, on board early patients.** Beleave has collaborated with researchers at Ryerson University for the research and development of smoke harm reduction products with a usage-tracking component. Beleave is positioned to acquire patients, once licensed, by bringing credibility to prescribing cannabis backed by the company's collaborations with scientists and physicians actively involved in cannabinoid research.
- **We currently model Beleave expanding its capacity from 1,000 kg to 10,000 kg over the next three years.** We estimate the company will start recording revenue in calendar Q1/18E and turn EBITDA positive in late 2019 or early 2020. In five years, we see Beleave generating ~$18 MM in EBITDA. We apply a 5.0x multiple to arrive at our $1.80 target.

KEY CATALYSTS FOR BELEAVE:

Pre-license inspection (PLI) - Q1/17 - The pre-license inspection is stage 6 of 7 in Health Canada's licensing process, where the 7th and final stage is receipt of a dried flower cultivation license. Beleave received an affirmation letter from Health Canada in September 2016 that said the regulator would be prepared to commence a PLI at the company's request. We expect management to make the PLI request early in Q1/17, and for the actual inspection to occur within a few weeks after that. The inspection includes, but is not limited to, checking for security measures, good production practices, packaging, labelling and shipping, registration, and record keeping.

Cultivation license granted - Late Q1 or Q2/17 - The results of the PLI are reviewed with all the application information submitted to Health Canada to complete the assessment. Upon completion, Health Canada would grant a license to the applicant providing the company is not likely to create risks to public health, safety or security, including the risk of diversion. During the cultivation-only phase of the license, Beleave can build inventory and prepare physician outreach and patient onboarding programs for when the company is granted a sales license.

Government expected to table legislation for recreational cannabis (Industry Catalyst) - Spring 2017 - On April 20, 2016 at a special session of the UN General Assembly in New York, Health Minister Jane Philpot announced that federal legislation for the legalization of marijuana will be introduced in Canada in Spring 2017. The Minister was quoted saying "We will introduce legislation in Spring 2017 that ensures we keep marijuana out of the hands of children and profits out of the hands of criminals."

Sales license granted, first sales - Q1/18 - Initial issuance of a license includes production quantity limits and QA/QC monitoring for 6-12 months, as well as fully finished product passing Health Canada-standard testing, prior to the full sales license being granted. First sales can commence upon receipt of a sales license.

COMPANY OVERVIEW

Beleave is an applicant nearing the receipt of a medical marijuana production license from Health Canada. Three years ago, Beleave's wholly-owned subsidiary, First Access Medical (FAM), submitted an application to Health Canada to become a licensed producer of cannabis. The application is currently in the 5th of 7 stages of the process, the Review stage (click here for Health Canada's explanation of the application and licensing process). Beleave is application #439 out of more than 2,000 applications. The company has built a 14,500 sq ft indoor facility in Flamborough, ON on 4 acres of land, and has an endorsement by the City of Hamilton Planning & Economic Development Department. While the waiting process has been long, Beleave has in the meantime partnered with academic researchers with the goal of establishing intellectual property around cannabis extracts and delivery. On September 26, 2016, the company received an "Affirmation Letter" from Health Canada, essentially, a notification that Health Canada is prepared to receive a request from Beleave for a pre-license inspection (the 6th stage of the application process). The company went public through an RTO with Stream Ventures Inc., a transaction that was completed in December 2015.

Figure 1 - Beleave Brand

beleave

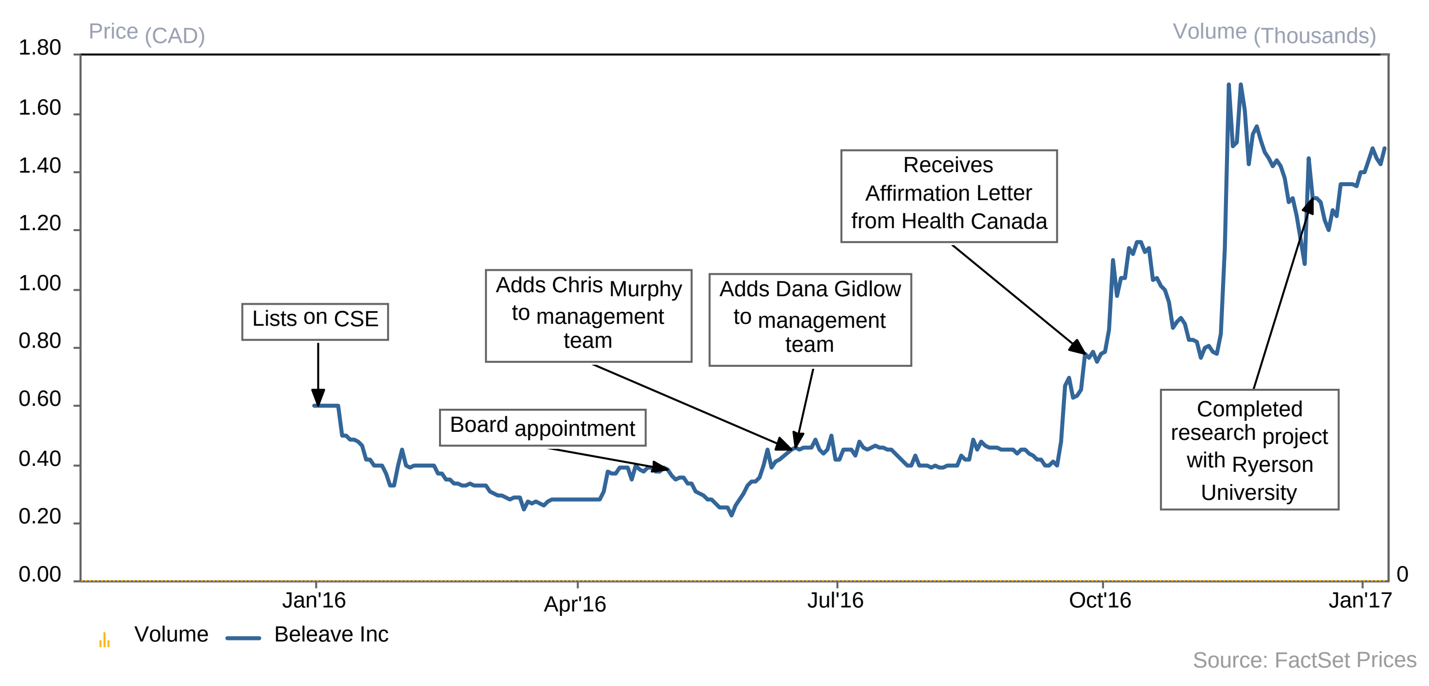
Source: Company presentation

Preparing for inspection. On September 26, 2016, Beleave released a corporate update announcing it received notification from Health Canada that, upon the confirmation that FAM's proposed site and storage security measures are in place and that they comply with ACMPR standards, Health Canada will prepare for Beleave to request a pre-license inspection (PLI). Recently, the company's focus and operating spending has been limited to preparing for its facility for the PLI, but Beleave has continued to source talent for operations and production.

Building early stage R&D collaborations with academic researchers. Beleave aims to help develop safe and effective consumption products or delivery devices that patients and consumers can use, while providing physicians more comfort that dosing and administration can be done effectively. Beleave is seeking to collaborate with scientists and physicians involved in medical cannabinoid research, and so far the company has a partnership with Ryerson University, supporting the development of intellectual property for indication-specific strains and cannabis delivery devices.

Collaborations support client acquisition strategy. Currently, physicians don't have much evidence-based research on which to base prescribing and dosing cannabis. Once licensed, Beleave is positioned to acquire patients by bringing credibility to prescribing cannabis backed by the company's collaborations with scientists and physicians actively involved in cannabinoid research. Beleave is pursuing projects involving the cultivation of cannabis extracts with specific cannabinoid/terpenoid profiles and relevant clinical trial technologies facilitating use by patients, that may eventually provide data and delivery technologies for indication-specific strains.

Figure 2 - BE Share Price Performance with Key Events Annotated



Source: FactSet, Dundee Capital Partners

VALUATION & FORECASTS

We rate BE as a BUY with a $1.80 target price. We base our valuation on a 5.0x EV/EBITDA multiple on our $18 MM FY2021E EBITDA. Our model only considers flower and oil sales from its existing facility and expansion, as well as sales to the recreational legalization market. On valuation the company trades at 2.4x F21E EBITDA compared to peers in our universe at 3.9x; the discount is justified due to Beleave's early stage.

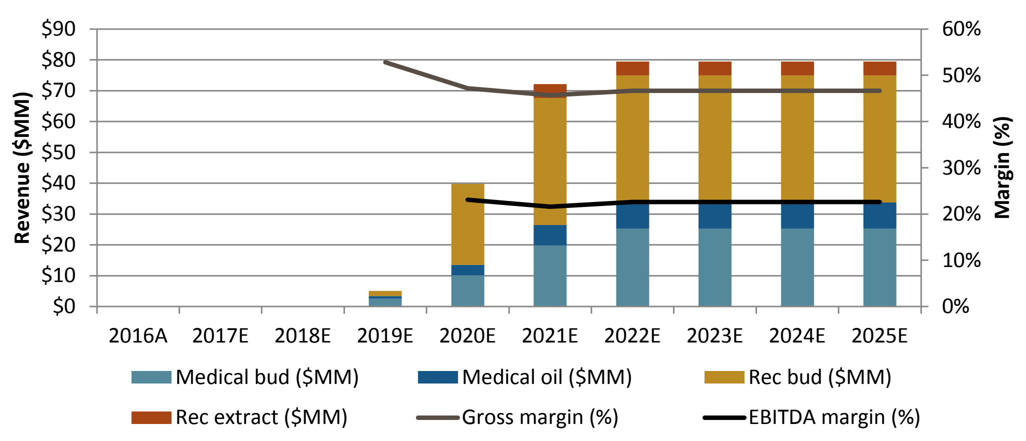
Waiting one year for sales. We expect the PLI will occur in Q1/17 and with the necessary approvals we estimate the timeline for receipt of the sales license to be in Q1/18, in time to build operational know how to prepare for the start of recreational sales.

We estimate COGS at $2.00/g long term. Beleave plans to build 80,000 sq ft of greenhouses on its remaining land which lends itself to potentially lowering the average cost of Beleave's operation compared to if the company expanded exclusively with indoor production.

We estimate Beleave's indoor facility will have capacity to produce 1,000 kg and the entire property up to 10,000 kg. With the completion of its indoor facility, we estimate the first 1,000 kg of production could supply ~2,700 patients at 1.0 g/patient/day. We believe the company will look to build a greenhouse expansion on the same property which could support production of up to another 10,000 kg. We estimate construction on the greenhouse will commence in mid-2018, once the company has generated sales from the indoor grow, and take 6-9 months to build and yield sales from the greenhouse in 2019.

Sales price of $7.50/g for dried bud, $15.00/g(eq) for oil. For bud sold we assume a price of $7.50/g. We model oil sales starting 9 months after sales license, produced from trim product from plants grown. We assume that only 50% of the excess non-flower plant material is used for extract production, a 10% w/w yield, for final product that is sold at $15.00/g(eq) with a 40% gross margin. We estimate recreational sales at $7.50/g and extracted product at $15.00/unit.

Figure 3 - Beleave Revenue ($MM) and Margin (%) Projections



Source: Company Reports, Dundee Capital Partners

BALANCE SHEET AND TARGET DERIVATION

Management and insiders own 56% of BE. As of Sept 30, 2016, Beleave reported $1.3 MM cash and no debt.

As for most LPs, we generally model $10 MM needed for a 10,000 kg capacity expansion. We model Beleave raising $25 MM over the next three years to expand capacity and infrastructure of its current property. We assume an average financing price of $1.50.

Figure 4 - BE Target

CSE:BE	2021E
EBITDA ($MM)	**$18**
Target Multiple	**5.0x**
EV ($MM)	**$90**
+ cash ($MM)	$1.4
+ cash from warrants ($MM)	$4.7
- debt ($MM)	$0.0
Equity value ($MM)	**$96**
Current S/O (MM)	**21.4**
Warrants	9.5
Options	3.0
FD S/O (MM)	**33.9**
+ financing(s)	20.4
Target S/O (MM)	**54.3**
Target Price	**$1.80**
Current price	1.49
Return to target	*21%*

Source: Dundee Capital Partners Estimates

BELEAVE - Applicant with decent land package for expansion

Background - Beleave's wholly owned subsidiary First Access Medical Inc. was incorporated in July 2013 and the company submitted an application in January 2014, and we expect it to receive a license to cultivate in late Q1/17 or Q2/17. The company's facility is secured through an 8.5 year lease signed in July 2015 with a numbered corporation controlled by current Director Bill Panagiotakopoulos. The lease agreement covers the land and buildings at Beleave's site in Flamborough, ON. The lease expires December 31, 2023 and contains two five-year extension options. The responsible persons in charge (RPIC) include Mr. Panagiotakopoulos (COO of Beleave), Mr. Roger Ferriera (CEO of Beleave) and Mr. Bojan Krasic (CFO of Beleave).

Branding - Beleave is run by a well-connected management team with reach to academic research, government, security, distribution and marketing, but the company is largely still building its brand. The company sponsored a stage at last summer's well attended Lift Cannabis Expo in Toronto, providing for some positive exposure.

Facility - The 14,500 sq ft indoor facility located on Hwy No. 6 North, in Flamborough, ON with ~8,000 sq ft of flowering space (4 rooms of ~2,000 sq ft each). Indoor growing is generally more standardized than greenhouse growing because of better controls over temperature, pressure, light, and humidity. The asset sits on 4 acres of land which management estimates it could add another 80,000 sq ft of production space (including infrastructure), expected to be greenhouses because of the potential for lower cost production and lower capex needed. Being situated in Flamborough, just outside Hamilton, provides access to infrastructure including roads and power. An aquifer is located on the property which provides for a nearby water source. The company has built a facility that we believe should surpass Health Canada's criteria. The production area floors and walls have been layered with specific material to ensure contaminant-free product and a safe work environment for employees. Health Canada standard safety and security measures have been put in place including tempered glass, concrete barriers, 24 hours a day security camera systems, and barbed wire fencing covered with seismic, vibration and motion sensors.

Figure 5 - BE Facility Overhead View

Source: Company Presentation

FACILITY AND ASSET DESCRIPTION - BELEAVE'S FACILITY

Figure 6 - BE Facility and Asset Description

Beleave Inc.	
Current Facility Status	
Location	Flamborough, ON
Facility Type	Indoor
Built Flowering Square Footage	8,000 sq ft
Capacity Utilization	0%
Dried Cannabis License:	Not acquired, still applicant
Implied Annual Patient Capacity @ 1.0g/p/d:	N/A
Facility Ownership:	Leased through Director
Near Term Expansion Plans	
	Phase I of greenhouse expansion (early 2018)

Source: Company Reports, Dundee Capital Partners

PRODUCT OFFERING - Focus on 4 or 5 main strains

Beleave plans to start by growing only 4 or 5 strains offering a number of mid-higher THC concentration strains, and some CBD strains. Shortly after receipt of a license permitting dried flower cultivation, Beleave plans to apply for a cannabis oil production license to eventually join a number of peers for the sale of oil concentrates complementing its dried flower product line.

RISKS

Along with the risks outlined in the sector overview above, Beleave's main risk is receipt of a dried flower license, and subsequent to that, rapid ramp up of inventory and scale for preparation of first sales in early 2018. We believe management's ties to the academic R&D provide the company some early credibility with physicians.

Management

Roger Ferriera, CEO & Director - Dr. Ferreira brings expertise in quality assurance processes from his training in microbiology, analytical chemistry, and laboratory management overseeing Beleave's good production practice. He has spent most of his career prior to Beleave as a research scientist at Toronto Western Hospital Work publishing work in a number of peer-reviewed journals of neuroscience, physiology, and pharmacology.

Bill Panagiotakopoulos, COO & Director - Prior to Beleave, Mr. Panagiotakopoulos was the Owner and CEO of Cardinal Group's land development division having spent 14 years in the real estate development industry. Prior to that, he spent five years as President and CEO of Hamilton Solar developing renewable energy projects for the Ontario Power Authority gaining experience managing specialized development projects.

Bojan Krasic, CFO & Director - Mr.Krasic began his career with Thomas Weisel Partners and later joined Stifel Nicolaus Canada, prior to Beleave, bringing experience in finance structuring, valuations, listings and M&A. He holds an honours degree from the University of Toronto in Finance and Economics, and a Masters Degree in Investment Management with a specialization in Capital Markets from John Molson School of Business.

Board of Directors

Andrew Wnek, Director - Mr. Wnek has held senior executive roles with Canadian Tire Corporation including Senior Vice President, Finance and Administration and Chief Information Officer for over twenty years. He has served on several Boards including as Finance Chair on the Royal Conservatory of Music Board, and as Audit Committee Chair for Momentum (a technology service provider).

Chris Murphy, Director - Mr. Murphy is a Toronto-based regulatory and criminal lawyer. He brings experience in food safety, greenhouse operations and IT systems, and sits on the board of one of Canada's largest distributors of fresh produce. He is a former a judicial law clerk, civil litigator, special constable with the Royal Canadian Mounted Police, and drug prosecutor with the Department of Justice Canada.

Gordon Harvey, Director - Mr. Harvey is President of Forty-Two Capital Partners Ltd. and Capex Investment Limited, bringing nearly 30 years of experience in the financial services industry. Mr. Harvey has been leading Beleave's communication and outreach to Governments at the Municipal, Provincial, and National levels.

Roger Ferriera - See above.

Bill Panagiotakopoulos - See above.

Bojan Krasic - See above.

Beleave Inc. (BE-C)

Rating	**BUY**	**C$ Target**	**$1.80**	**Shares O/S (MM)**	**30.1**
		C$ Close	**$1.49**	**Fully Diluted Shares (MM)**	**42.6**
Daniel Pearlstein, Research Analyst		**12-month return**	**21%**	**Basic Mkt. Capitalization ($MM)**	**$44.9**
dpearlstein@dundeecapitalmarkets.com				**Enterprise Value ($MM)**	**$43.5**

VALUATION DATA

Year-end March	2015A	2016A	2017E	2018E
P/E	--	--	--	--
P/CF	--	--	--	--
EV/EBITDA	--	--	--	--
EV/Sales	--	--	1841.5x	8.6x
FCF Yield	--	--	--	--

OPERATING STATS

Year-end March	2015A	2016A	2017E	2018E
Total Bud Sales (kg)	0	0	3	340
Price Per Gram ($/g)	--	--	7.50	7.50
COGS ($/g)	--	--	3.25	3.25
Total Oil Sales (kg)	--	0	0	57
Price Per Gram ($/g(eq))	--	15.00	15.00	15.00
Oil Gross Margin	--	50%	50%	50%

FINANCIAL SUMMARY

Year-end March	2015A	2016A	2017E	2018E
Revenue (MM$)	0.0	0.0	0.0	5.0
Gross Profit (MM$)	0.0	0.0	0.0	2.7
Gross Margin	--	--	57%	53%
EBITDA (MM $)	0.0	(2.5)	(2.7)	(4.0)
EBITDA Margin	--	--	--	--

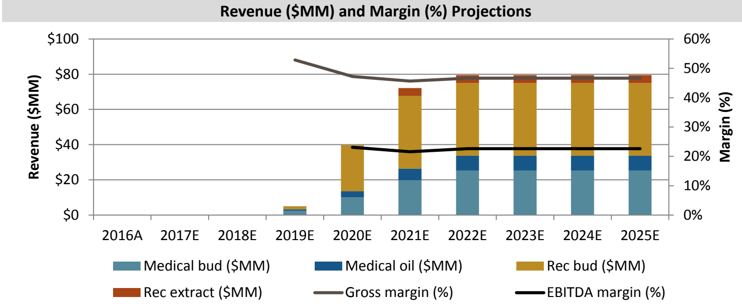
BELEAVE VALUATION (C$)

	Target Price	Upside
5.0x EV/EBITDA Multiple on F2021	**C$1.80**	**21%**

Target Price Sensitivity

F2021E EV/EBITDA	F2021 EBITDA (C$MM) $10	$15	$18	$20	$25
3.0x	$0.70	$1.00	$1.20	$1.30	$1.50
3.5x	$0.80	$1.10	$1.30	$1.50	$1.80
4.0x	$0.90	$1.30	$1.50	$1.60	$2.00
4.5x	$1.00	$1.40	$1.70	$1.80	$2.20
5.0x	$1.10	$1.50	**$1.80**	$2.00	$2.50
5.5x	$1.20	$1.70	$2.00	$2.20	$2.70
6.0x	$1.30	$1.80	$2.20	$2.40	$2.90
6.5x	$1.40	$2.00	$2.30	$2.60	$3.20
7.0x	$1.50	$2.10	$2.50	$2.70	$3.40

Revenue ($MM) and Margin (%) Projections



BALANCE SHEET (C$ MM)

Year-end March	2015A	2016A	2017E	FQ2/17
Assets:				
Cash & ST Investments	0.2	10.2	3.0	1.4
Other Current Assets	0.0	0.1	0.4	0.1
Current Assets	**0.2**	**10.4**	**3.4**	**1.4**
PP & E	0.0	1.7	5.7	1.2
Other non-current Assets	0.0	0.0	0.0	0.0
Total Assets	**0.2**	**12.0**	**9.1**	**2.6**
Liabilities:				
Current Liabilities	0.0	2.0	2.0	1.7
Long-term Debt	0.0	0.0	0.0	0.0
Other non-current Liabilities	0.0	0.0	0.0	0.0
Total Liabilities	**0.0**	**2.0**	**2.0**	**1.7**
Capital Stock	0.0	16.8	16.8	6.8
Retained Earnings	0.0	-6.8	-9.7	-5.9
Total Shareholder Equity	**0.0**	**10.0**	**7.1**	**0.9**

INCOME STATEMENT (C$ MM)

Year-end March	2015A	2016A	2017E	2018E
Total Revenue	0.0	0.0	0.0	5.0
COGS	0.0	0.0	0.0	2.4
Gross Profit	**0.0**	**0.0**	**0.0**	**2.7**
G&A	0.0	0.5	1.8	4.4
Sales & Marketing	0.0	0.7	0.9	2.2
Depreciation	0.0	0.1	0.2	0.8
EBITDA	**0.0**	**(2.5)**	**(2.7)**	**(4.0)**
EBIT	**0.0**	**(2.6)**	**(2.9)**	**(4.8)**
Interest Expense/Income	0.0	0.0	0.0	0.0
EBT	**0.0**	**-2.6**	**-2.9**	**-4.8**
Taxes	0.0	0.0	0.0	0.0
Other	0.0	-0.3	0.0	0.0
Net Income (Reported)	**0.0**	**-2.9**	**-2.9**	**-4.8**
EPS (Reported) $/sh	**0.00**	**-0.14**	**-0.11**	**-0.12**
Average Shares (MM)	32.2	20.1	26.9	38.6

CASH FLOW STATEMENT (C$ MM)

Year-end March	2015A	2016A	2017E	2018E
Net Income (Reported)	0.0	(2.9)	(2.9)	(4.8)
Depreciation	0.0	0.1	0.2	0.8
Working Capital Changes	0.0	1.7	(0.3)	(6.8)
Other	0.0	0.3	0.0	0.0
Operating Cash Flow	**0.0**	**(0.8)**	**(3.0)**	**(10.8)**
Operating Cash Flow/sh ($/sh)	**0.00**	**-0.04**	**-0.11**	**-0.28**
Capital Expenditures	0.0	(0.8)	(4.3)	(6.5)
Other	0.0	0.0	0.0	0.0
Investing Cash Flow	**0.0**	**(0.8)**	**(4.3)**	**(6.5)**
Common Share Dividends	0.0	0.0	0.0	0.0
Equity financing & W/O Exercise	0.0	11.7	0.0	17.5
Debt Issue	0.0	0.0	0.0	0.0
Debt Repayment	0.0	0.0	0.0	0.0
Other	0.0	(0.0)	0.0	(1.8)
Financing Cash Flow	**0.0**	**11.6**	**0.0**	**15.8**
Net Change in Cash	**0.0**	**10.0**	**(7.3)**	**(1.6)**
Cash Balance	**0.2**	**10.2**	**3.0**	**1.4**
Free Cash Flow	**0.0**	**(1.6)**	**(7.3)**	**(17.3)**

Source: Company Reports, FactSet, Dundee Capital Partners

DUNDEE
CAPITAL PARTNERS

Cronos Group

(MJN-T: C$1.87)

January 11, 2017

BUY

Dundee target: C$2.25

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Multi-License Enterprise With International Distribution

MJN-T	New		Last
Rating:	--		**BUY**
Target:	--		**$2.25**
Projected Return:	--		**20%**
F2021 EBITDA (MM$)	--		$61
Target multiple:	--		7.0x
Company Data			
Price (1/11/17):			$1.87
52-Week Range (H-L):		$2.00	$0.14
Market Capitalization (MM$):			$224
Enterprise Value (MM$):			$224
Shares Outstanding - Basic (MM):			119.6
Shares Outstanding - Diluted (MM):			169.8
Avg Daily Volume (3 Mos) (000s):			540
Cash (MM$):*			$5.80
Debt (MM$):			$6.60
Working Capital (MM$):			$1.55
Fiscal Year End			March

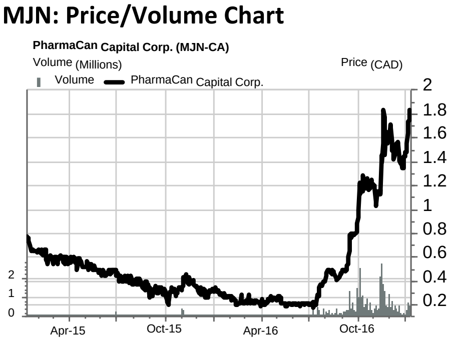
** DCP Estimate*

Forecasts (Dec YE)	2016A	2017E	2018E
Price per gram ($/g)	7.50	7.50	7.50
COGS ($/g)	2.99	2.74	2.74
Revenue (MM$)	0.8	8.5	49.0
EBITDA (MM$)	(2.0)	(1.9)	10.6
EPS ($/sh)	-0.07	-0.04	0.07
OP CF (MM$)	(6.2)	(5.9)	1.7
CF/share ($/sh)	-0.12	-0.08	0.02
Capex (MM$)	(0.4)	(5.5)	(20.0)
FCF (MM$)	(6.6)	(11.4)	(18.3)

All Figures in C$ Unless Otherwise Noted

Source: FactSet, Company Reports, DCP

MJN: Price/Volume Chart



Source: Factset

Company Description

Newly restructured Cronos wholly owns two LPs (one in Ontario and one in BC) and also has minority interests in three others. Cronos is focused on building iconic brands providing patients with compassionate personalized care, including in Germany where it is one of a few LPs with international distribution.

We are initiating coverage of Cronos Group with a BUY rating, and introducing a price target of C$2.25, based on 7.0x FY2021 estimated EBITDA, implying a 20% return from yesterday's close of $1.87. The 7.0x multiple is in the middle of our peer group range of 4.0x - 10.0x, due to Cronos' multiple license platform and expansion possibilities.

Newly restructured Cronos wholly owns two LPs (one Ontario and one BC) and also has minority interests in three others. Cronos is focused on building iconic brands providing patients with compassionate personalized care, including in Germany where it is one of a few LPs with international distribution.

Investment Overview

- **Geographic and brand diversity distinguishes Cronos from its peers.** Cronos is one of only four multi-LP enterprises, and is the only one holding licenses in two different provinces. Cronos has two wholly-owned licenses: Peace Naturals Project (PNP) in Ontario and In The Zone Produce (ITZ) in British Columbia. PNP is the medical-focused brand while soon-to-be rebranded ITZ will be the recreational-focused brand.
- **JVs and partnerships both locally and internationally.** In the last four months Cronos has established two unique partnerships. The first is a distribution agreement with German-based pharmaceutical distributor Pedanios for export of PNP cannabis products. The second is a profit-sharing JV at ITZ with a First Nations group Indigenous Roots for the construction and sale of product to an underserved patient population.
- **Capacity and room for expansion.** Cronos' domestic efforts are focused on expanding operations at both of its wholly-owned properties. PNP is located on over 90 acres of land currently with three production buildings, and ITZ is located on 31 acres of land currently experimenting with a pilot facility while ongoing engineering and design work is progressing for the expansion.
- **Management showing early track record of transactions in the space.** On top of turning around PNP from previous operators and preparing for expansion at ITZ, Cronos recently sold off a non-core asset, an applicant called Vert Medical based in Quebec, to Canopy Growth Corp. (TSX:CGC, restricted), showing a track record of transactions.
- **Minority investments in LPs and applicants provide options for upside.** Cronos has minority investments in three LPs (notably 21.5% of Whistler Medical) and two applicants. The minority investments in other licenses and applicants could provide upside to our estimates, or a source of funds.
- **We currently model Cronos expanding its capacity from 4,300 kg to over 25,000 kg over the next three years.** We estimate a steep revenue ramp since its statements will now reflect wholly owning PNP, and that it becomes EBITDA positive in H1/18E. In five years, we see Cronos generating ~$61 MM in EBITDA. We apply a 7.0x multiple to arrive at our $2.25 target.

KEY CATALYSTS FOR MJN:

Sales license & re-branding at ITZ - Q1/17 - In The Zone Produce Inc. (ITZ) was one of the earliest licenses granted by Health Canada but wasn't prepared for commercial production and sales. The company has since receded into a produce-only status and is nearing its sales license since it recently completed a pre-license inspection (PLI) by Health Canada. The receipt of a sales license at ITZ would provide Cronos with product from a 2nd facility and the opportunity to develop a 2nd brand.

Optimization and capacity expansion at PNP - H1/17 - Cronos' combined license capacity is 2,600 kg (2,500 kg from PNP and 100 kg from ITZ). Capacity expansion at PNP represents the largest torque for MJN providing for acceleration of patient enrollment and sales. PNP has registered 3,400 patients to date and has 4,300 kg of annual production capacity built within the existing building infrastructure.

Government expected to table legislation for recreational cannabis (Industry Catalyst) - Spring 2017 - On April 20, 2016 at a special session of the UN General Assembly in New York, Health Minister Jane Philpot announced that federal legislation for the legalization of marijuana will be introduced in Canada in Spring 2017. The Minister was quoted saying "We will introduce legislation in Spring 2017 that ensures we keep marijuana out of the hands of children and profits out of the hands of criminals."

COMPANY OVERVIEW

Cronos is one of only four enterprises in Canada that holds more than one LP, and the only one to hold a license in both Ontario and British Columbia. PNP was the first non-incumbent license granted by Health Canada, while ITZ was the 9th. PNP is located in Stayner, ON on 90 acres of land and ITZ is located in Okanagan Valley, BC on 31 acres. PNP and ITZ will be management's main domestic producers, with the goals of optimizing domestic operations, building production capacity, and developing brands. Management anticipates continuing to position PNP as a medical brand while the soon-to-be re-branded ITZ will be positioned as a recreational focused brand. Cronos has engaged in two notable non-capital intensive partnership initiatives which also distinguish it from its competitors. First, in October 2016, Cronos announced it exported product to Germany through a partnership with Germany pharmaceutical distributor Pedanios, marking this transaction as only the second of its kind in the Canadian ACMPR era. Secondly, in December 2016, Cronos launched an industry first of its kind joint venture with a Canadian First Nations group known as Indigenous Roots.

BACKGROUND

Cronos has been a quiet turnaround story for most of the last year, transitioning from a passive investment holding company with minority interests to what it is now - a geographically diverse multi-LP operational enterprise. In our view, the company should be thought of as similar to Mettrum Health (TSXV:MT, restricted) before it was acquired - a company with two facilities, large expansion capabilities, and some international initiatives. New management and board members have been brought in while fresh capital, largely from the US, was infused as the company transitioned. Cronos was formerly known as PharmaCan Capital, which was incorporated in January 2013 aiming to be a holding company that made passive minority interest investments (between 10-30%) into ACMPR applicants prior to licensing. Since inception, Cronos has made investments into eight applicants/LPs: five companies at the applicant stage prior to licensing, and three companies after receiving the license. The company went public through an RTO with Searchtech Ventures and was first publicly listed on the TSXV in December 2014.

Figure 1 - Cronos Brands

Source: Company Presentation

Focused on optimizing and expanding Peace Naturals Project (PNP) and In The Zone (ITZ): Cronos plans to focus on its two main assets, Peace Naturals Project in Ontario and soon-to-be-rebranded In The Zone in British Columbia. PNP is licensed for cultivation and sale, and drives essentially all of Cronos' revenue at this point. ITZ is still only licensed for cultivation, but we expect ITZ to become fully licensed for sale in Q1/17. A press release by the company regarding the recent (Nov 2016) sale of a non-core asset highlights this renewed focus: "As we concentrate on optimizing and expanding our wholly-owned subsidiaries – Peace Naturals Project Inc. and In The Zone Produce Inc., we welcome the opportunity to monetize non-core assets. This transaction allows us to secure non-dilutive capital to further develop our core assets."

Corporate rebranding highlights focus on wholly owned PNP and ITZ. The company announced a corporate rebranding to become Cronos Group on October 6, 2016 reflecting Cronos' new strategic vision as Canada's first bi-coastal licensed cannabis producer. Cronos plans for PNP will be the medical-focused brand that will continue to provide patients with personalized care and quality product, while ITZ will be rebranded to focus on the potential recreational market. We note that Cronos is one of the few enterprises that have a clear pathway to a multi-brand strategy.

We place more focus on PNP and ITZ as the equity accounted investments don't really move the needle much. Cronos has ownership in three other private LPs: Whistler Medical Marijuana Company (licensed for sale, 21.5% ownership), ABcann Medicinals (licensed for sale, 6% ownership), and The Hydropothecary (licensed for sale, 2% ownership). The company also has ownership of two other applicants: Evergreen Medicinal Supply (not licensed at all, up to 25% ownership) and CannMart (not licensed at all, 1% ownership).

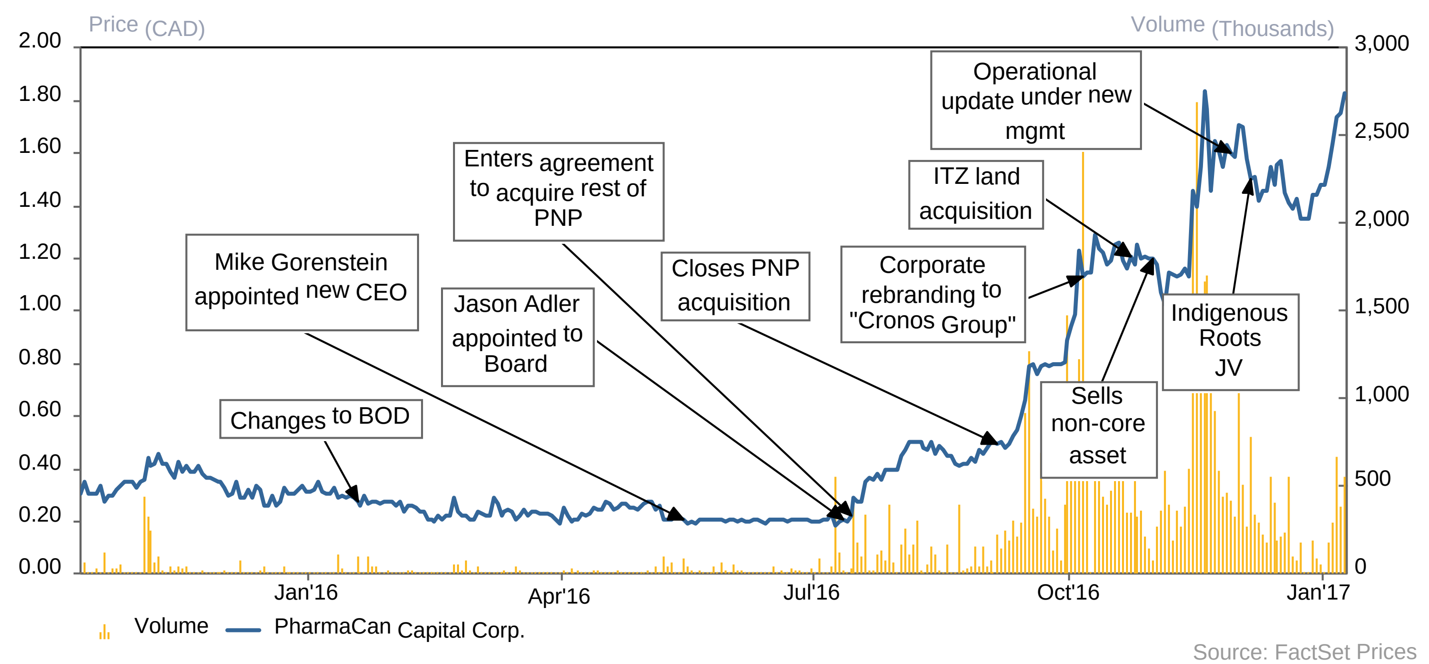
International and local partnerships demonstrate management's deal-making ability. In their short time at the helm, the new Cronos management team has shown a penchant for transactions, exploring non-capital intensive global expansion options and joint venture initiatives.

PNP exports to Germany through Pedanios GmbH. On the international front, on October 11, 2016, Cronos announced the first shipment of medical cannabis dried flowers had been exported from PNP to Germany through a co-brand supply agreement with new partner Pedanios GmbH, a licensed wholesaler and importer connected to Germany's largest network of pharmacy customers. German regulations currently only allow distribution but not production within the country. Pedanios holds one of a limited number of medical cannabis business licenses in Germany, and currently distributes Germany's limited medical cannabis supply to a network of over 200 pharmacies. The authorization for export included five varieties of medicinal cannabis flowers, namely Pedanios 22/1 and Pedanios 14/1 (THC/CBD ratios).

Native Canadian JV with 'Indigenous Roots' to build a facility on ITZ land. On the home front, on December 6, 2016, Cronos announced the launch of a first-of-its-kind joint venture with Indigenous Roots, a Canadian First Nations medical cannabis company that will finance the building and operation of a production facility for the sale of cannabis to First Nations patients. Under the agreement, Cronos will provide the land, license, IP, and engineering expertise for the new facility and ongoing training for the First Nations staff, in exchange for a 50% share of the operating profits. This JV does not affect the current or future production at ITZ since the JV will only operate on a portion of ITZ's land.

Indigenous Roots is led by Phil Fontaine, former National Chief of the Assembly of First Nations, who intends to consult and work cooperatively with First Nations that are interested in participating, and may seek to source and license additional facilities on First Nations' reserves, ultimately pursuing an international presence. The newly formed entity will commit to remaining a First Nations owned and operated company providing employment and economic opportunities to First Nations people.

Figure 2 - MJN Share Price Performance with Key Events Annotated



Source: FactSet, Dundee Capital Partners

VALUATION & FORECASTS

We rate MJN as a BUY with a $2.25 target price. We base our valuation on a 7.0x EV/EBITDA multiple on our $61 MM FY2021E EBITDA. Our model only considers flower and oil sales from its existing facilities and expansion, as well as sales to the recreational legalization market. We also include the profit sharing from both the Indigenous Roots partnership and the 21.5% stake in Whistler Medical Marijuana Company.

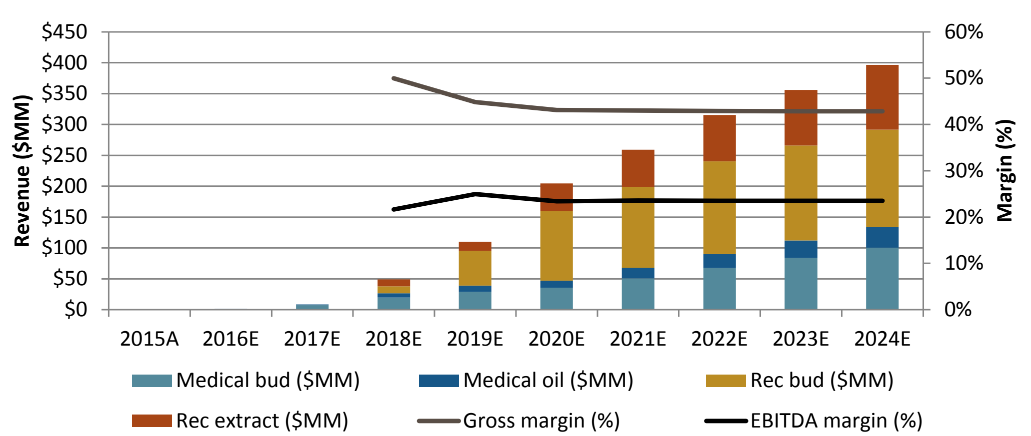
Patient enrollment reaching ~10,000 by Q2/18E. With the optimization at PNP and the impending sales license at ITZ, we model Cronos adding ~1500 patients per quarter for the next year. The near term expansions should allow the company to accelerate registration through 2018. Our model does not include the estimated patient count at both Indigenous Roots and Whistler in our estimate for Cronos' market capture, but we have made assumptions for both those assets based on estimates of how quickly each can scale.

Sales price of $7.50/g for dried bud, $15.00/g(eq) for oil. For bud sold we assume a price of $7.50/g, and we model modest oil sales, produced from trim product from plants grown. We assume that only 50% of the excess non-flower plant material is used for extract production, a 10% w/w yield, for final product that is sold at $15.00/g(eq) with a 60% gross margin. We estimate recreational sales at $7.50/g and extracted product at $15.00/unit. New management has recently reviewed and optimized its retail pricing strategies, resulting in a ~37% increase in the average sales price per gram.

Strong revenue growth expected to accompany facility expansion. We model Cronos' revenue experiencing strong QoQ growth due to the acceleration of patient acquisitions that has been slowed by the lack of power infrastructure at PNP which prevented acceleration of production; new management has since addressed this issue.

We estimate a longer term COGS/g assumption of $2.25/g from indoor and $2.00/g from greenhouse production. Both PNP and ITZ have expansion potential to build greenhouses next to the indoor facilities currently built. Though management hasn't fully disclosed detailed expansion plans, we believe the potential for lower cost production combined with the faster build and lower capex for a greenhouse remains an attractive option for Cronos to pursue.

Figure 3 - Cronos Revenue ($MM) and Margin (%) Projections



Source: Company Reports, Dundee Capital Partners

BALANCE SHEET AND TARGET DERIVATION

Management and insiders own approximately 20% of MJN. As of Sept 30, 2016 Cronos reported $5.8 MM cash and $6.6 MM debt.

As for most LPs, we generally model $10 MM needed for a 10,000 kg capacity expansion. We model Cronos raising $60 MM over the next five years to expand capacity across its entire platform. We assume an average financing price of $2.25.

Figure 4 - MJN Target

TSXV:MJN	2021E
EBITDA ($MM)	**$61**
Target Multiple	**7.0x**
EV ($MM)	**$428**
+ cash ($MM)	$5.8
+ cash from warrants ($MM)	$11.5
- debt ($MM)	-$6.6
Equity value ($MM)	**$438**
Current S/O (MM)	**119.6**
Warrants	48.1
Options	2.1
FD S/O (MM)	**169.8**
+ financing(s)	32.4
Target S/O (MM)	**202.2**
Target Price	**$2.25**
Current price	1.87
Return to target	*20%*

Source: Dundee Capital Partners Estimates

FACILITY AND ASSET DESCRIPTION - CRONOS - Multi Facility Producer

Figure 5 - MJN Facility and Asset Description

	Peace Naturals Project (PNP)	In The Zone (ITZ)	Total
Current Facility Status			
Location	Stayner, ON	Okanagan Valley, BC	
Facility Type	Indoor	Indoor	
Built Flowering Square Footage	40,000 sq ft	2,000 sq ft	42,000 sq ft
Capacity Utilization	40%	100%	
Dried Cannabis License:	2,500 kg	100 kg	2,600 kg
Implied Annual Patient Capacity @ 1.0g/p/d:	6,849	274	7,123
Oils License:	Production and Sale	N/A	
Security level:	N/A	N/A	
Facility Ownership:	Wholly owned	Wholly owned	
Near Term Expansion Plans			
	Approval for rest of built production areas (by mid-2017) + 2,000 kg	Indigenous Roots JV (2017) Greenhouse expansion (TBD)	

Source: Company Reports, Dundee Capital Partners

PEACE NATURALS PROJECT (PNP)

Background - Peace was the first non-incumbent LP (only Prairie Plant Systems was licensed before) when it was granted a license in October 2013. Peace's facility was started on a farm acquired by previous management. PNP has one of largest cannabis plant seed and genetic banks in the country received from licensed growers from the previous medical regime (MMAR). In early 2014, there was a small window of time when MMAR growers could transfer and house seeds and genetics with the newly licensed LPs. Being the first new license granted, Peace benefitted from this influx of unique plant genetics which may pay dividends in the long run as recreational consumers may be attracted to unique products from producers. Cronos originally held 27.3% in Peace, but then acquired the remaining stake in September 2016 in return for $9.5 MM in cash; under the purchase agreement, the enterprise value of Peace was $22 MM.

Branding - Peace and its client care team have established a positive reputation with its clients and community focusing on four fundamentals of "Whole Health" - treatment, lifestyle, diet, and support. New management has also established new patient enrollment programs, which include hosting community-based support groups and direct physician outreach initiatives. Peace also offers compassionate pricing through a program called The Robin Hood Fund, which was started in 2013 and is dedicated to helping those who are found to be in need of financial support to purchase medicinal cannabis. Though Cronos management has stated that Peace will remain the platform's "medical focused" brand, that doesn't necessarily mean only selling to medical. Should the recreational regulations unfold as we expect, Cronos would have the option to sell Peace products to recreational consumers. Furthermore, the co-branding arrangement with medical distributor Pedanios in Germany is spreading the Peace brand globally. The Cronos team was also recently strengthened by the addition of Eric Klein, formerly a Senior Brand Manager at PepsiCo, who brings CPG brand management, marketing, and distribution expertise.

Facility - The wholly-owned indoor campus located in Stayner currently holds three production facilities totaling just under 40,000 sq ft of flowering space, which is still only a fraction of the space that it could grow on since the license sits on 90 acres of land. Although only two of the three buildings are operational, the currently built infrastructure when fully licensed is expected to be capable of producing at an annual run rate of 4,300 kg of dried flower. New management has undertaken a number of operational upgrades including the installation of commercial-scale power infrastructure, sufficient for the 38,000 sq ft of existing production and lab infrastructure, as well as for up to three additional expansion facilities. Flowering space and production yields have increased as a result of ongoing optimization of production methodologies and layout. The company has also commenced design of onsite GMP-grade lab for product formulation, derivatives and extracts processing, and analytical testing, as well as design for subsequent expansions.

Growing - The campus at Peace is comprised of three facilities: a converted barn and two purpose built indoor growing facilities. The converted barn is mainly used for R&D while the new production buildings are comprised of 11 flowering rooms, 1 veg room, and 1 mothering room. The company has one of the largest seed banks in the ACMPR and recently launched a proprietary genetics R&D program for selecting only the best of breed to proceed onto vegetation.

Figure 6 - Peace Facility Overhead View

Source: Company Presentation

IN THE ZONE (ITZ)

Background - ITZ was incorporated in March 2013 by Barry and Elizabeth Sky, and became one of the first 13 licenses granted by Health Canada when it was licensed in February 2014. The company received its first cannabis genetic material in April 2014. ITZ was acquired by previous Cronos management in November 2014 and the asset was almost sold during the Fall of 2015 in a deal that fell through.

Facility - The asset currently comprises ~2,000 sq ft of production space and is still only licensed for cultivation (100 kg per year). When current Cronos management took over, ITZ had been zoned for agriculture allowing 200,000 sq ft of production space over 14 acres. In September 2016, management acquired an additional 17 acres of land next to ITZ for $600k in cash to be used for further expansion, and will merge the two properties onto the same municipal address for Health Canada licensing and expansion purposes. ITZ has an artesian well located on the property with the capacity to pump ~200 gallons per minute providing a free water source onsite.

Growing - Management has successfully harvested and tested multiple production batches at the newly renovated facility, but the asset is still only licensed to cultivate. We expect a sales license at ITZ in Q1/17 as the company has undergone an inspection by Health Canada that was completed in September 2016. Ongoing engineering and design work for onsite ITZ expansion facilities will continue and we believe further build out at ITZ will likely include a combination of indoor and greenhouse production. ITZ has sourced genetics from Whistler Medical Marijuana, an LP with a reputation for very high quality products. Also, Cronos has a 21.5% ownership of Whistler, which displays the benefits of Cronos' multi-license platform.

Figure 7 - ITZ Facility Overhead View

Source: Company Presentation

RISKS

Along with the risks outlined in the sector overview above, Cronos' main risk will be execution as our estimates are largely contingent on the management team building and growing to much larger scale. We believe management's focus on data-driven operations, as well as its international initiatives, should pay dividends as the industry expands and Cronos provides a wider array of products to the market.

Management

Michael Gorenstein, President, CEO & Chairman - Prior to joining Cronos Mr. Gorenstein held the position of partner at Alphabet Ventures LLC, a multi-strategy investment management firm located in New York City; he continues to hold that role. Prior to Alphabet, he was corporate attorney at Sullivan & Cromwell focusing on M&A and capital markets transactions. Mr. Gorenstein graduated from the University of Pennsylvania Law School, the Wharton School at University of Pennsylvania with a certificate in Business and Public Policy, and the Kelley School of Business at Indiana University.

David Hsu, COO - Mr. Hsu spent over 10 years with Deloitte and CRG Partners prior to joining Cronos, helping turnaround operating and managing distressed companies. He brings to Cronos experience in growth creation and lean manufacturing from working in various industries including manufacturing, distribution, media, consumer packaged goods, and transportation. Mr. Hsu graduated with a Bachelor of Science in Business Management from Babson College and is a certified Lean Six Sigma Black Belt.

William Hilson, CFO - Mr. Hilson is a Certified Public Accountant and has spent over 15 years as regional CFO for two multinational pharmaceutical companies Merck KGaA and Serono S.A. He brings to Cronos experience in financial operations, sales & marketing, M&A and licensing**,** international tax, and debt & equity financing. Mr. Hilson also holds an Audit Committee Board Member designation from The Directors College, McMaster University.

Board of Directors

Jason Adler - Mr. Adler is the CEO and Managing Member of Alphabet Ventures, LLC. Prior to Alphabet Ventures, Mr. Adler was the co-founder and CEO of Alphabet Management, LLC, a volatility fund. He began his career at G&D Trading, an AMEX member market maker, and then founded founded Geronimo, LLC, an AMEX member broker dealer.

Michael Krestell - Mr. Krestell has been the President of M Partners Inc. since 2013. Prior to that role he held the role of Managing Director of Equity Research. He received an MBA with distinction from the Schulich School of Business and is a CFA Charterholder.

Alan Friedman - Mr. Friedman is an attorney with experience in public market transactions. He is co-founder and Director of TSX-V listed companies, Adira Energy Ltd. and Eco (Atlantic) Oil and Gas Ltd, and was co-founder of Auryx Gold Corp. until its sale to B2 Gold Corp for $150mm in 2012.

Michael Gorenstein - See above.

Cronos Group (MJN-T)

Rating	**BUY**	**C$ Target**	**$2.25**	**Shares O/S (MM)**	**119.6**
		C$ Close	**$1.87**	**Fully Diluted Shares (MM)**	**169.8**
Daniel Pearlstein, Research Analyst		**12-month return**	**20%**	**Basic Mkt. Capitalization ($MM)**	**$223.6**
dpearlstein@dundeecapitalmarkets.com				**Enterprise Value ($MM)**	**$224.4**

VALUATION DATA

Year-end December	2015A	2016E	2017E	2018E
P/E	57.7x	--	--	28.6x
P/CF	--	--	--	98.1x
EV/EBITDA	--	--	--	21.2x
EV/Sales	--	275.5x	26.4x	4.6x
FCF Yield	--	--	--	--

OPERATING STATS

Year-end December	2015A	2016E	2017E	2018E
Total Bud Sales (kg)	0	100	945	2,737
Price Per Gram ($/g)	--	7.50	7.50	7.50
COGS ($/g)	--	2.99	2.74	2.74
Total Oil Sales (kg)	--	4	94	456
Price Per Gram ($/g)	--	15.00	15.00	15.00
Oil Gross Margin	--	50%	50%	50%

FINANCIAL SUMMARY

Year-end December	2015A	2016E	2017E	2018E
Revenue (MM$)	0.0	0.8	8.5	49.0
Gross Profit (MM$)	0.5	0.6	5.2	24.5
Gross Margin	--	75%	61%	50%
EBITDA (MM $)	(2.1)	(2.0)	(1.9)	10.6
EBITDA Margin	--	--	--	22%

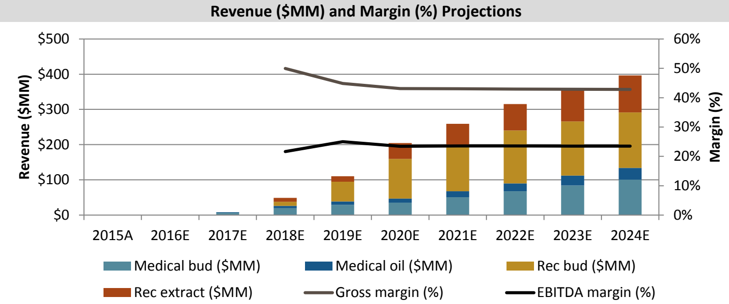
CRONOS VALUATION (C$)

	Target Price	Upside
7.0x EV/EBITDA Multiple on F2021	**C$2.25**	**20%**

Target Price Sensitivity

F2021E EV/EBITDA	$50.0	$55.0	$61	$65.0	$70.0
			F2021 EBITDA (C$MM)		
5.0x	$1.25	$1.50	$1.50	$1.75	$1.75
5.5x	$1.50	$1.50	$1.75	$1.75	$2.00
6.0x	$1.50	$1.75	$1.75	$2.00	$2.25
6.5x	$1.75	$1.75	$2.00	$2.25	$2.25
7.0x	$1.75	$2.00	**$2.25**	$2.25	$2.50
7.5x	$2.00	$2.00	$2.25	$2.50	$2.75
8.0x	$2.00	$2.25	$2.50	$2.75	$2.75
8.5x	$2.25	$2.25	$2.50	$2.75	$3.00
9.0x	$2.25	$2.50	$2.75	$3.00	$3.25

Revenue ($MM) and Margin (%) Projections



BALANCE SHEET (C$ MM)

Year-end December	2015A	2016E	2017E	Q3/16
Assets:				
Cash & ST Investments	1.1	4.1	4.1	5.8
Other Current Assets	0.1	3.9	8.5	3.4
Current Assets	**1.2**	**8.0**	**12.5**	**9.2**
PP & E	2.7	13.1	17.8	12.9
Other non-current Assets	10.8	17.6	18.2	17.5
Total Assets	**14.7**	**38.7**	**48.5**	**39.6**
Liabilities:				
Current Liabilities	2.3	7.7	1.9	7.6
Long-term Debt	0.0	0.0	0.0	0.0
Other non-current Liabilities	0.7	1.4	1.9	1.4
Total Liabilities	**3.0**	**9.2**	**3.7**	**9.0**
Capital Stock	16.7	38.2	56.2	38.2
Retained Earnings	-5.0	-8.6	-11.4	-7.6
Total Shareholder Equity	**11.7**	**29.5**	**44.7**	**30.6**

INCOME STATEMENT (C$ MM)

Year-end December	2015A	2016E	2017E	2018E
Total Revenue	0.0	0.8	8.5	49.0
COGS	-0.5	0.2	3.3	24.5
Gross Profit	**0.5**	**0.6**	**5.2**	**24.5**
G&A	1.7	1.9	4.2	6.8
Sales & Marketing	0.0	0.4	2.6	6.9
Depreciation	0.1	0.3	0.8	2.4
EBITDA	**(2.1)**	**(2.0)**	**(1.9)**	**10.6**
EBIT	**(2.2)**	**(2.3)**	**(2.6)**	**8.2**
Interest Expense/Income	0.0	0.2	0.1	0.0
EBT	**-2.2**	**-2.6**	**-2.8**	**8.2**
Taxes	-0.2	-0.2	0.0	2.2
Other	3.4	-0.9	0.0	-4.4
Net Income (Reported)	**1.0**	**-3.6**	**-2.8**	**6.0**
EPS (Reported) $/sh	**0.03**	**-0.07**	**-0.04**	**0.07**
Average Shares (MM)	32.2	53.5	75.6	91.5

CASH FLOW STATEMENT (C$ MM)

Year-end December	2015A	2016E	2017E	2018E
Net Income (Reported)	0.4	(3.6)	(2.8)	6.0
Depreciation	0.1	0.3	0.8	2.4
Working Capital Changes	0.6	(3.3)	(3.4)	(6.0)
Other	(2.5)	0.4	(0.5)	(0.6)
Operating Cash Flow	**(1.4)**	**(6.2)**	**(5.9)**	**1.7**
Operating Cash Flow/sh ($/sh)	**-0.04**	**-0.12**	**-0.08**	**0.02**
Capital Expenditures	(1.5)	(0.4)	(5.5)	(20.0)
Other	0.1	(6.9)	0.0	0.0
Investing Cash Flow	**(1.5)**	**(7.3)**	**(5.5)**	**(20.0)**
Common Share Dividends	0.0	0.0	0.0	0.0
Equity financing & W/O Exercise	2.0	21.0	20.0	20.0
Debt Issue	0.0	0.0	0.0	0.0
Debt Repayment	0.0	(2.7)	(4.0)	0.0
Other	1.2	(1.8)	(4.6)	(2.0)
Financing Cash Flow	**3.2**	**16.5**	**11.4**	**18.0**
Net Change in Cash	**0.3**	**2.9**	**0.0**	**(0.3)**
Cash Balance	**1.1**	**4.1**	**4.1**	**3.8**
Free Cash Flow	**(2.9)**	**(6.6)**	**(11.4)**	**(18.3)**

Source: Company Reports, FactSet, Dundee Capital Partners

DUNDEE
CAPITAL PARTNERS

Emblem Corp.

(EMC-T: C$4.25)

January 11, 2017

BUY

Dundee target: C$4.75

Daniel Pearlstein / (647) 253-1160
dpearlstein@dundeecapitalmarkets.com

Healthcare Track Record And Poised To Scale

EMC-T	New		Last
Rating:	--		**BUY**
Target:	--		**$4.75**
Projected Return:	--		**12%**
F2021 EBITDA (MM$)	--		$77
Target multiple:	--		7.0x
Company Data			
Price (1/11/17):			$4.25
52-Week Range (H-L):		$4.46	$0.02
Market Capitalization (MM$):			$296
Enterprise Value (MM$):			$273
Shares Outstanding - Basic (MM):			69.6
Shares Outstanding - Diluted (MM):			117.5
Avg Daily Volume (3 Mos) (000s):			540
Cash (MM$):*			$28.00
Debt (MM$):			$5.50
Working Capital (MM$):			$23.49
Fiscal Year End			March

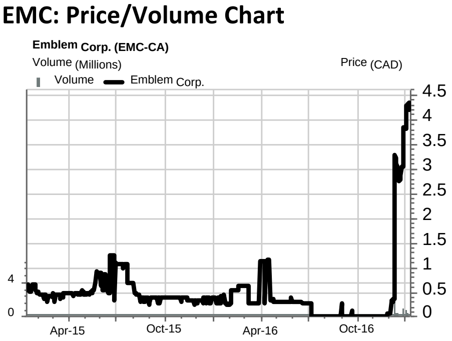
** DCP Estimate*

Forecasts (Jan YE)	2016A	2017E	2018E
Price per gram ($/g)	7.50	7.50	7.50
COGS ($/g)	3.07	2.58	2.50
Revenue (MM$)	0.4	5.5	44.9
EBITDA (MM$)	(4.7)	(6.2)	7.8
EPS ($/sh)	-0.13	-0.16	0.05
OP CF (MM$)	(5.7)	(6.5)	(2.5)
CF/share ($/sh)	-0.13	-0.13	-0.04
Capex (MM$)	(2.0)	(12.0)	(20.0)
FCF (MM$)	(7.7)	(18.5)	(22.5)

All Figures in C$ Unless Otherwise Noted

Source: FactSet, Company Reports, DCP

EMC: Price/Volume Chart



Source: Factset

Company Description

Recently licensed to sell, Emblem is led by a team of former healthcare and pharmaceutical executives with a strategy spanning across three verticals of cannabis production, patient education, and pharmaceutical development.

We are initiating coverage of Emblem Corp. with a BUY rating, and introducing a price target of C$4.75, based on 7.0x FY2021 estimated EBITDA, implying a 12% return from yesterday's close of $4.25. The 7.0x multiple is in the middle of our peer group range of 4.0x - 10.0x, due to Emblem's earlier stage license.

Recently licensed to sell, Emblem is led by a team of former healthcare and pharmaceutical executives with a strategy spanning across three verticals of cannabis production, patient education, and pharmaceutical development.

Investment Overview

- **Management team with transactional track record in the healthcare sector.** John H. Stewart, former CEO of Purdue Pharma US (makers of OxyContin), heads Emblem's pharmaceutical division bringing leadership from years of drug and formulation development, clinical trials, and commercialization in indications where cannabis is growing acceptance (e.g. pain). Harvey Shapiro, former CEO of Dynacare which was sold to Labcorp, heads Emblem's GrowWise education clinic arm, while Gordon Fox, former Co-Founder of White Cedar Pharmacy, is the CEO of Emblem Corp.
- **Medical innovation and potential for value added product formulation and delivery justifies our assumption of a higher medical oil price.** According to management, in 2018 Emblem plans to launch cannabinoid-based medications in customary pharmaceutical dosage forms such as liquids, gel caps, oral sprays and inhalers. Though the regulations will likely need to be relaxed in order to allow higher potency oils, Mr. Stewart's experience gives Emblem an edge in developing sustained and rapid release cannabis oil derivative products targeting specific disease indications. Products of this nature also create potential to file for intellectual property providing for higher barriers to entry.
- **Producing (and selling) asset with significant expansion plans.** Emblem is currently licensed for 625 kg producing in a ~25,000 sq ft facility with room to expand on 4 acres of land with plans to expand to an annual production capacity of over 20,000 kg. Emblem's modular approach to building may allow for smoother expansion of flowering room capacity.
- **Customer acquisition strategy is supported by nine currently operating patient education centres.** Emblem's patient acquisition strategy is in part supported by a network of educators operating in medical clinics across Canada whereby 95% of patients register onsite with a preferred LP. Emblem expects GrowWise to be a major source of referrals for Emblem.
- **We currently model Emblem expanding its capacity from 2,000 kg to over 20,000 kg over the next three years.** Recently licensed to sell, we estimate Emblem to quickly accumulate patients and turn EBITDA positive in H1/18E. In five years, we see Emblem generating ~$77 MM in EBITDA. We apply a 7.0x multiple to arrive at our $4.75 target.

KEY CATALYSTS FOR EMC:

Sales of first cannabis oils products - H1/17 - Given management's track record in the healthcare sector, specifically Mr. Stewart's at Purdue Pharma, we have high expectations for Emblem's potential to develop alternative formulations and delivery methods. Though those kinds of products may take until 2018 to be commercialized, early positive signs of patient loyalty and uptake could drive momentum when new products are released.

Government expected to table legislation for recreational cannabis (Industry Catalyst) - Spring 2017 - On April 20, 2016 at a special session of the UN General Assembly in New York, Health Minister Jane Philpot announced that federal legislation for the legalization of marijuana will be introduced in Canada in Spring 2017. The Minister was quoted saying "We will introduce legislation in Spring 2017 that ensures we keep marijuana out of the hands of children and profits out of the hands of criminals."

Facility expansion - 2017 - Three additional grow rooms, known as Phase 2 below, are currently being completed and are expected to be put into production in February/March 2017. Ongoing and timely expansion is needed to prepare supply for expected ramp in demand from both the medical and recreational markets.

COMPANY OVERVIEW

Emblem is the 2nd most recent public LP, only listing on Dec 12, 2016, but it did so with much anticipation because of management's transactional track record in healthcare, skillset capable of medical innovation of drug formulation and delivery, and education clinic model arm for education doctors and patients; all the while the asset has sizable expansion plans in place to cater to recreational demand. It was the 26th company licensed by Health Canada and has its indoor facility located in Paris, Ontario. The company has focused on establishing new formulations and delivery of cannabinoids that don't necessarily need tens of millions of dollars for large clinical trials. The company recently received its cannabis oil license to produce which is the first step to allow the company to use oils for research and development of new products. The company went public through an RTO with Saber Capital Corp.

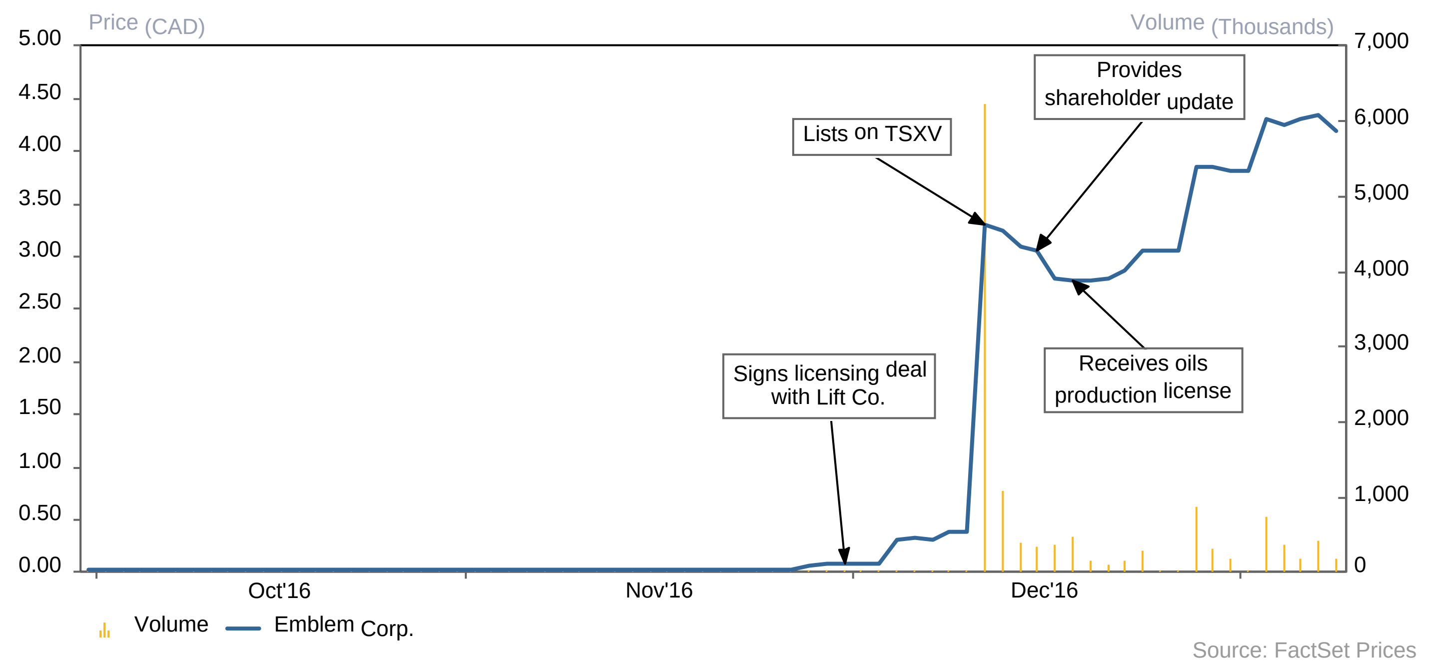
Figure 1 - Emblem Brand

Source: Company Presentation

John H. Stewart, former CEO of Purdue Pharma US, has launched 11 new pharmaceutical products including OxyContin, bringing leadership from years of drug and formulation development, clinical trials, and commercialization in indications where cannabis is growing acceptance (e.g. pain). We've seen published evidence of medical cannabis efficacy in patients with chronic pain, neuropathic pain, muscle spasms, nausea, palliative care and PTSD, and the Canadian Pain Society has even recently recommended cannabinoids as third-line treatment for neuropathic pain.

Medical innovation and potential for value added product formulation and delivery justifies our assumption of a higher medical oil price. Though the regulations will likely need to be relaxed in order to allow higher potency oils, Mr. Stewart's experience gives Emblem an edge in developing sustained release and rapid release cannabis oil derivative products targeting specific disease indications. These new types of products are needed overcome the limitation of having patients smoke or inhale a medication. According to management, in Spring 2018 Emblem plans to launch cannabinoid-based medications in customary pharmaceutical dosage forms such as liquids, gel caps, oral sprays and inhalers. We believe products of this nature, both from Emblem and other LPs, will drive greater physician acceptance of cannabinoid therapy accelerating patient adoption due to better delivery and dosage forms. Products of this nature also create potential to file for intellectual property providing for higher barriers to entry.

Figure 2 - EMC Share Price Performance with Key Events Annotated



Source: FactSet, Dundee Capital Partners

VALUATION & FORECASTS

We rate EMC as a BUY with a $4.75 target price. We base our valuation on a 7.0x EV/EBITDA multiple on our $77 MM FY2021E EBITDA. Our model only considers flower and oil sales from its existing facility and expansion, as well as sales to the recreational legalization market. Management's connections to and experience from the pharmaceutical industry could be advantageous for product development and potential partnerships.

Patient enrollment reaching ~10,000 by 2019. Emblem should have ~2,000 kg of annual capacity with the completion of Phase I construction, and the near completion of Phase II, allowing Emblem to enroll a few thousand patients. After that, we model Emblem adding ~2,000 patients per quarter in 2018 with Phase III construction aiming to be completed in late 2017 and then licensed in mid-2018. The completed expansions should allow Emblem to accelerate registration through that time, as well as prepare for demand from the recreational market.

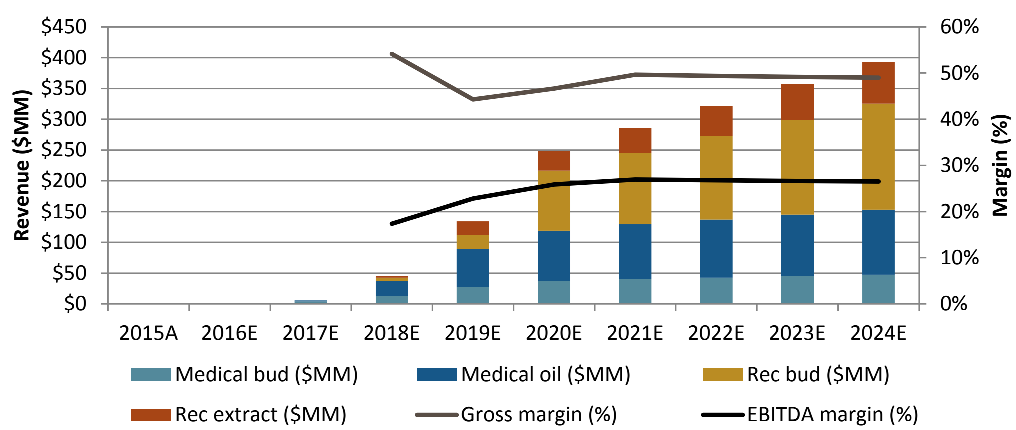
Sales price of $7.50/g for dried bud and $25.00/g(eq) for oil, which is a premium to our estimates for other producers at $15.00/g(eq). For bud sold we assume a price of $7.50/g, in line with the average price in the space. We model oil sales starting in 2017, produced from trim product from plants grown. We assume that only 50% of the excess non-flower plant material is used for extract production, a 10% w/w yield, for final product that is sold at $25.00/g(eq) with a 50% gross margin. We estimate recreational sales at $7.50/g and extracted product at $15.00/unit.

We justify a higher oil price per gram(eq) because of the value add from alternative delivery and formulation of cannabinoid therapies. For our oil we use a higher price than average to reflect the development of value-added drug delivery products that we assume will be higher priced than today's oils. We reflect that by using a higher average sale price for Emblem's oil. Emblem expects to begin research on such formulations early in 2017 and commercialization in 2018.

Revenue growth driven by referrals from GrowWise and from the expected range of offerings of oil concentrates. Emblem just recently received its sales license in August 2016 and we model the company experiencing rapid growth due to the acceleration of patient acquisitions for both its dried flower and cannabis oil product lines. We will watch for clinical and product R&D to refine our pricing and timing estimates on Emblem's cannabinoid formulations.

We estimate a longer term COGS/g assumption of $2.25/g from indoor production. We model Emblem's COGS/g starting above >$3.00/g but decreasing to near $2.00/g as the company plans to build more indoor production next to the currently built and licensed indoor facility, spreading the cost of production over a larger output.

Figure 3 - Emblem Revenue ($MM) and Margin (%) Projections



Source: Company Reports, Dundee Capital Partners

BALANCE SHEET AND TARGET DERIVATION

Management and insiders own over 16% of EMC. As of December 15, 2016 Emblem reported over $27.0 MM cash and $5.5 MM debt.

As for most LPs, we generally model $10 MM needed for a 10,000 kg capacity expansion. We model Emblem raising $50 MM over the next five years to expand capacity of its indoor production platform and for cannabinoid R&D. We assume an average financing price of $5.50.

Figure 4 - EMC Target

TSXV:EMC	
	2021E
EBITDA ($MM)	**$77**
Target Multiple	**7.0x**
EV ($MM)	**$540**
+ cash ($MM)	$28.0
+ cash from warrants ($MM)	$36.4
- debt ($MM)	-$5.0
Equity value ($MM)	**$599**
Current S/O (MM)	**69.6**
Warrants	47.9
Options	0.0
FD S/O (MM)	**117.5**
+ financing(s)	9.2
Target S/O (MM)	**126.7**
Target Price	**$4.75**
Current price	4.25
Return to target	*12%*

Source: Dundee Capital Partners Estimates

EMBLEM - Pharma and healthcare track record with scale for rec

Background - The company was incorporated in October 2014 under the name "KindCann Holdings Ltd." but later changed the name to Emblem. The company received a license to cultivate in August 2015 and the subsequent license to sell in July 2016. Emblem's operations are located in Paris, ON having retrofitted a pre-existing agricultural production facility by building purpose-built cannabis cultivation rooms. When it was acquired, the existing facility and land were located on three acres of industrial land zoned with convenient access to Highway 403. In October 2015, the company purchased an additional contiguous 1.2 acres of land.

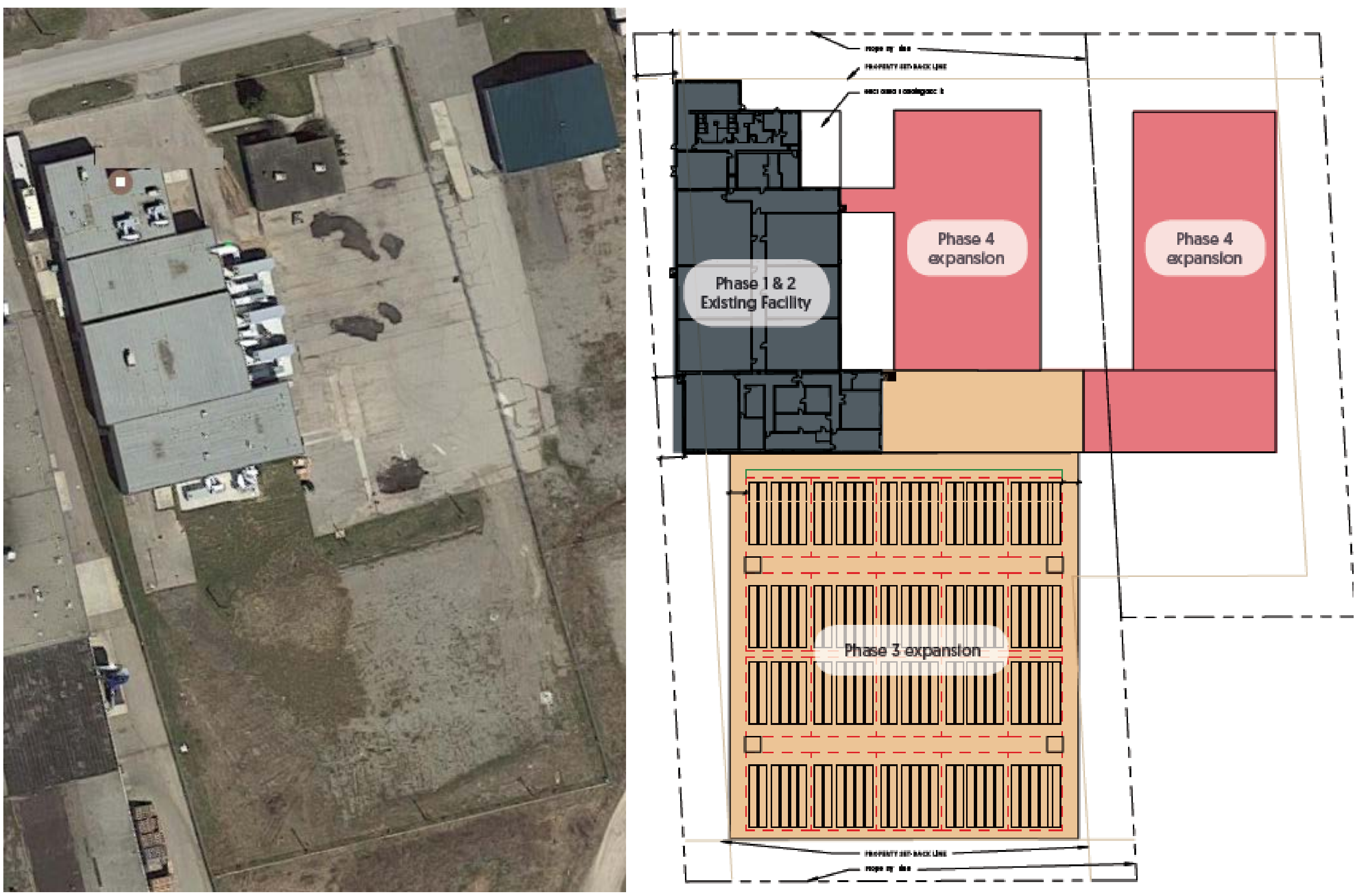
Branding - Emblem's patient acquisition strategy is supported by GrowWise Health, a cannabis education company, owned and operated jointly between Emblem and White Cedar Pharmacy (50% owned by Emblem execs Shapiro and Fox). Emblem expects GrowWise to be a major source of referrals since GrowWise provides a healthcare solution for physicians and patients - patients are referred to GrowWise once a prescription has been issued, nurses counsel patients on safety and strain selection, and assist patients with registering and placing orders with an LP. Emblem has an option to purchase White Cedar's 50% of GrowWise during a 15-day period ending July 26, 2019 at half the book value of GrowWise’s assets. GrowWise has partnered with several preferred LP’s to expedite the patient ordering process, and operates in either education centres within incumbent medical clinics or standalone medical cannabis clinics.

Emblem recently signed one of the industry's first co-branding arrangements, when on November 30, 2016 it announced a license agreement with Lift Cannabis Co. Ltd., a well-recognized cannabis technology company, for a "Lift-branded" strain provided by Emblem. Other examples of similar co-branding arrangement include Tweed's Leafs By Snoop and Aphria's Tokyo Smoke partnerships.

Facility - Emblem operates its wholly-owned 23,500 sq ft indoor facility located in Paris, ON, into which the company has already invested over $11 MM in facility, land & infrastructure. The building has environmental controls including custom HVAC units, temperature, humidity and climate control, room-specific CO2, and humidification. The currently built facility has 14,500 sq ft of total cultivation space including 10,000 sq ft for 6 flowering rooms, and a 300 sq ft level 8 vault.

Growing - The main production building has been renovated to incorporate the appropriate mothering, vegetation, and flowering rooms along drying, packaging, fulfillment, vault and administration areas. Three additional grow rooms, known as Phase 2 below, are currently being completed and are expected to be put into production in February/March 2017. Once the Phase 2 grow rooms are completed, Emblem expects an annual production run rate of 2,100 kg. Management expects Phase 3 and Phase 4 to bring on an additional 9,500 kg of annual production each, for a fully built production capacity of 21,000 kg.

Figure 6 - EMC Facility Overhead View and Expansion Plans



Source: Google Maps, Company Presentation

FACILITY AND ASSET DESCRIPTION - EMBLEM'S FACILITY

Figure 7 - EMC Facility and Asset Description

Emblem Corp.	
Current Facility Status	
Location	Paris, ON
Facility Type	Indoor
Built Flowering Square Footage	10,000 sq ft
Capacity Utilization	100%
Dried Cannabis License:	625 kg
Implied Annual Patient Capacity @ 1.0g/p/d:	1,712
Oils License:	Production only
Security level:	Level 8 vault
Facility Ownership:	Wholly owned
Near Term Expansion Plans	
	Phase II (Q1/17) + 1,400 kg Phase III (Q3/17) + 9,500 kg

Source: Company Reports, Dundee Capital Partners

PRODUCT OFFERING - Focused and Consistent Growing

Emblem has eight strains currently in its online store priced on average ~$8.00/g but as high as $12.00/g. The strain names have vacation/getaway type themes like "Paradise Island" and "Day Dream" opting away from the street names found in dispensaries, and offers mostly mid-high THC concentrations. The company has recently joined a number of peers having received its oils production license, and begun research and development on new cannabis oil products in preparation for receipt of the oils sales license. We believe products like this, from Emblem and other LPs, will drive greater physician acceptance of cannabinoid therapy accelerating patient adoption due to better delivery and dosage.

RISKS

Along with the risks outlined in the sector overview above, Emblem's main risk will be execution, as our estimates are largely contingent on the management team building and growing to much larger scale as well as broadening its product portfolio with a much wider range of value-added cannabis formulations. We believe management's ties to the pharmaceutical industry should pay dividends as the industry expands and Emblem provides a wider array of products to the market.

Management

Gordon Fox, President and CEO - Mr. Fox brings experience in securities law having held the role as partner at Goodman & Carr LLP from 1979 to 1995. He is a Co-Founder of White Cedar Pharmacy Corporation, and also founded Lytton Capital—a Limited Market Dealer—in 1995.

Harvey Shapiro, Chairman and Vice-President - Mr. Shapiro co-founded Dynacare Laboratories in 1988 and served as CEO until its sale in 2002 when the company was acquired by Laboratory Corp. of America Holdings for $23/share. He also practiced law at Goodman & Carr LLP from 1973 to 1987.

John H. Stewart, President (Emblem Pharmaceuticals) - Mr. Stewart is former President and CEO of Purdue Pharma Canada (1991-2006) and Purdue Pharma USA (2007-2013), one of the world's largest privately-held pharmaceutical companies. He has extensive experience in drug development, delivery, formulation, commercialization and sales, and has launched 11 new products, including OxyContin.

Maxim Zavet, Vice President - Mr. Zavet brings experience within the cannabis industry from his time spent as founding partner of Levy Zavet PC, a law firm in Toronto. He has acted for a range of clients including real estate investors and income property managers and developers, and has mostly practiced in real estate law and commercial leasing, including residential and commercial real estate transactions, and private and institutional secured financing.

John Laurie, CFO - Mr. Laurie is former Treasurer and CFO with a number of Canadian public & private companies. Prior to Emblem, Mr. Laurie was with Moore Wallace and George Weston Limited, bringing to the company a broad range of financial experience including budgeting, capital expenditure management, tax, & risk management.

Daniel Saperia, COO - Mr. Saperia commenced his career in accounting then served as President and CFO at two international manufacturing companies for a period of fifteen years developing accounting policies and implementing budgets which quickly increased bottom-line performance and improved cash flow.

Board of Directors

Terry Johnson - Mr. Johnson has extensive experience in pharmaceuticals and healthcare having worked for Warner Lambert (Pfizer), Johnson & Johnson, Block Drug and Organon Canada. In 1998, Mr. Johnson purchased Allard Advertising to form Allard Johnson Communications, and had founded Veritas Communications, a public relations firm and became a partner in Integrated Healthcare Communications (IHC).

Jeffrey Fineberg - Mr. Fineberg held the position of Counsel at Dentons Canada LLP since February 2011, and he was a Partner at Dentons since April 2007. Prior to Dentons, Mr. Fineberg was a Partner at Goodman and Carr LLP. His legal practice has focused on the real estate and health care sectors consists mostly of private mergers and acquisitions and financings, private equity and project finance matters. Mr. Fineberg is a director of White Cedar Pharmacy Corporation, which is a 50% shareholder of GrowWise.

Lorne Gertner - Mr. Gertner brings experience in the fashion, retail, architecture, real estate, finance and cannabis industries. He is a co-founder and former chairman of PharmaCan Capital Corp. and a cofounder of Tokyo Smoke Inc. Mr. Gertner is currently on the board of Hempco Food and Fiber Inc. and on the board of the Design Exchange.

Gordon Fox - See above.

Harvey Shapiro - See above.

John H. Stewart - See above.

Maxim Zavet - See above.

Emblem Corp. (EMC-T)

Rating	**BUY**	**C$ Target**	**$4.75**	**Shares O/S (MM)**	**69.6**
		C$ Close	**$4.25**	**Fully Diluted Shares (MM)**	**117.5**
Daniel Pearlstein, Research Analyst		**12-month return**	**12%**	**Basic Mkt. Capitalization ($MM)**	**$295.6**
dpearlstein@dundeecapitalmarkets.com				**Enterprise Value ($MM)**	**$273.1**

VALUATION DATA

Year-end January	2015A	2016A	2017E	2018E
P/E	--	--	--	77.4x
P/CF	--	--	--	--
EV/EBITDA	--	--	--	35.0x
EV/Sales	--	770.8x	49.7x	6.1x
FCF Yield	--	--	--	--

OPERATING STATS

Year-end January	2015A	2016A	2017E	2018E
Total Bud Sales (kg)	0	44	561	1,701
Price Per Gram ($/g)	--	7.50	7.50	7.50
COGS ($/g)	--	3.07	2.58	2.50
Total Oil Sales (kg)	--	2	86	1,134
Price Per Gram ($/g)	--	15.00	15.00	15.00
Oil Gross Margin	--	50%	50%	50%

FINANCIAL SUMMARY

Year-end January	2015A	2016A	2017E	2018E
Revenue (MM$)	0.0	0.4	5.5	44.9
Gross Profit (MM$)	0.5	0.2	3.4	24.3
Gross Margin	--	58%	62%	54%
EBITDA (MM $)	(0.0)	(4.7)	(6.2)	7.8
EBITDA Margin	--	--	--	17%

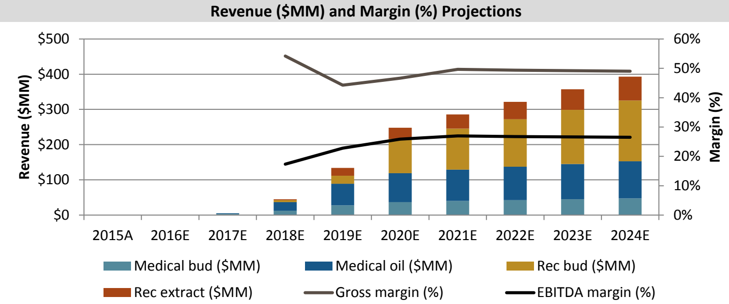
EMBLEM VALUATION (C$)

	Target Price	Upside
7.0x EV/EBITDA Multiple on F2021	**C$4.75**	**12%**

Target Price Sensitivity — **F2021 EBITDA (C$MM)**

F2021E EV/EBITDA	**$60.0**	**$65.0**	**$77**	**$80.0**	**$85.0**
5.0x	$2.75	$3.00	$3.50	$3.75	$3.75
5.5x	$3.00	$3.25	$3.75	$4.00	$4.25
6.0x	$3.25	$3.50	$4.00	$4.25	$4.50
6.5x	$3.50	$3.75	$4.50	$4.50	$4.75
7.0x	$3.75	$4.00	$4.75	$5.00	$5.25
7.5x	$4.00	$4.25	$5.00	$5.25	$5.50
8.0x	$4.25	$4.50	$5.25	$5.50	$5.75
8.5x	$4.50	$4.75	$5.75	$5.75	$6.25
9.0x	$4.75	$5.00	$6.00	$6.25	$6.50

Revenue ($MM) and Margin (%) Projections



BALANCE SHEET (C$ MM)

Year-end January	2015A	2016A	2017E	FQ2/17
Assets:				
Cash & ST Investments	0.0	40.1	35.1	28.5
Other Current Assets	0.0	0.7	2.0	1.2
Current Assets	**0.0**	**40.8**	**37.1**	**29.6**
PP & E	0.0	10.7	21.6	9.1
Other non-current Assets	0.0	0.0	0.0	0.0
Total Assets	**0.0**	**51.5**	**58.7**	**38.7**
Liabilities:				
Current Liabilities	0.0	1.7	2.7	6.1
Long-term Debt	0.0	0.0	0.0	0.0
Other non-current Liabilities	0.0	5.5	5.9	0.6
Total Liabilities	**0.0**	**7.2**	**8.6**	**6.7**
Capital Stock	0.0	68.3	81.9	52.3
Retained Earnings	0.0	-24.0	-31.9	-20.3
Total Shareholder Equity	**0.0**	**44.3**	**50.1**	**32.0**

INCOME STATEMENT (C$ MM)

Year-end January	2015A	2016A	2017E	2018E
Total Revenue	0.0	0.4	5.5	44.9
COGS	-0.5	0.1	2.1	20.6
Gross Profit	**0.5**	**0.2**	**3.4**	**24.3**
G&A	0.3	1.9	3.8	6.4
Sales & Marketing	0.1	1.8	3.8	8.1
Depreciation	0.1	0.7	1.1	2.7
EBITDA	**(0.0)**	**(4.7)**	**(6.2)**	**7.8**
EBIT	**(0.1)**	**(5.4)**	**(7.3)**	**5.1**
Interest Expense/Income	0.1	0.4	0.4	0.2
EBT	**-0.2**	**-5.8**	**-7.7**	**4.8**
Taxes	0.0	0.0	0.0	1.7
Other	-0.2	-0.1	-0.1	-3.4
Net Income (Reported)	**-0.4**	**-5.9**	**-7.8**	**3.1**
EPS (Reported) $/sh	**-0.01**	**-0.13**	**-0.16**	**0.05**
Average Shares (MM)	32.2	44.1	50.3	56.3

CASH FLOW STATEMENT (C$ MM)

Year-end January	2015A	2016A	2017E	2018E
Net Income (Reported)	(0.8)	(5.9)	(7.8)	3.1
Depreciation	0.0	0.5	1.1	2.7
Working Capital Changes	0.0	(0.3)	0.1	(8.4)
Other	0.0	0.0	0.1	0.1
Operating Cash Flow	**(0.8)**	**(5.7)**	**(6.5)**	**(2.5)**
Operating Cash Flow/sh ($/sh)	**-0.03**	**-0.13**	**-0.13**	**-0.04**
Capital Expenditures	0.0	(2.0)	(12.0)	(20.0)
Other	0.0	0.0	0.0	0.0
Investing Cash Flow	**0.0**	**(2.0)**	**(12.0)**	**(20.0)**
Common Share Dividends	0.0	0.0	0.0	0.0
Equity financing & W/O Exercise	0.0	22.0	15.0	20.0
Debt Issue	0.0	0.0	0.0	0.0
Debt Repayment	0.0	0.0	0.0	0.0
Other	0.0	(0.6)	(1.5)	(7.5)
Financing Cash Flow	**0.0**	**21.4**	**13.5**	**12.5**
Net Change in Cash	**(0.8)**	**13.7**	**(5.0)**	**(10.0)**
Cash Balance	**0.0**	**40.1**	**35.1**	**25.1**
Free Cash Flow	**(0.8)**	**(7.7)**	**(18.5)**	**(22.5)**

Source: Company Reports, FactSet, Dundee Capital Partners

DUNDEE
CAPITAL PARTNERS

Emerald Health Therapeutics Inc.

(EMH-T: C$1.48)

January 11, 2017

BUY

Dundee target: C$1.75

Daniel Pearlstein / (647) 253-1160
dpearlstein@dundeecapitalmarkets.com

Small Scale Producer With Biotech R&D Focus

EMH-T	New	Last
Rating:	--	**BUY**
Target:	--	**$1.75**
Projected Return:	--	**18%**
F2021 EBITDA (MM$)	--	$35
Target Multiple:	--	5.0x
Company Data		
Price (1/11/17):		$1.48
52-Week Range (H-L):	$1.90	$0.14
Market Capitalization (MM$):		$121
Enterprise Value (MM$):		$117
Shares Outstanding - Basic (MM):		81.7
Shares Outstanding - Diluted (MM):		96.4
Avg Daily Volume (3 Mos) (000s):		447
Cash (MM$):*		$3.50
Debt (MM$):		$0.00
Working Capital (MM$):		$0.66
Fiscal Year End		March

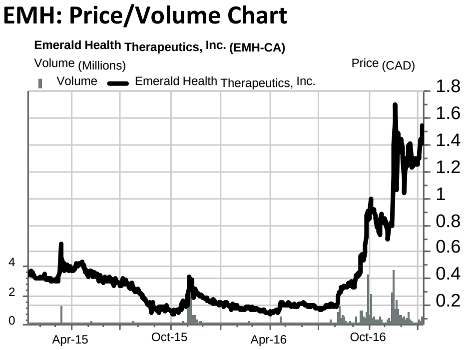
** DCP Estimate*

Forecasts (Mar YE)	2016E	2017E	2018E
Price per gram ($/g)	7.50	7.50	7.50
COGS ($/g)	3.49	3.24	2.58
Revenue (MM$)	0.2	0.7	5.4
EBITDA (MM$)	(1.8)	(4.8)	(8.1)
EPS ($/sh)	-0.05	-0.07	-0.11
OP CF (MM$)	(1.8)	(4.7)	(8.1)
CF/share ($/sh)	-0.03	-0.06	-0.10
Capex (MM$)	(0.2)	(3.0)	(6.5)
FCF (MM$)	(2.0)	(7.7)	(14.6)

All Figures in C$ Unless Otherwise Noted

Source: FactSet, Company Reports, DCP

EMH: Price/Volume Chart



Source: Factset

Company Description

R&D-focused producer aiming to develop new strain varieties through plant genetics, characterization of cannabis strains and cultivation technologies.

We are initiating coverage of Emerald Health Therapeutics Inc. with a BUY rating, and introducing a price target of C$1.75, based on 5.0x FY2021 estimated EBITDA, implying an 18% return from yesterday's close of $1.48. The 5.0x multiple is in the lower end of our peer group range of 4.0x - 10.0x, due to Emerald's low production capacity and early stage of development.

R&D-focused producer collaborating with academic and medical researchers including experts in botanical, nutraceutical and pharmaceutical medicines, aiming to develop new strain varieties through plant genetics, characterization of cannabis strains and cultivation technologies.

Investment Overview

- **Biotech focused, aiming for cannabis IP.** Over 60% of EMH shares are owned by a private company called Emerald Health Sciences, controlled by Dr. Avtar Dhillon. Mr. Dhillon and his team bring a wealth of experience in the pharmaceutical and nutraceutical sectors, and he is the current chairman of Inovio Pharmaceuticals (NASDAQ:INO, US$500 MM mkt cap, not rated). Members of the Board and management team bring relevant experience in life sciences related capital raising, licensing transactions, and acquisitions.
- **Building a medical brand with clinical R&D based on plant genetics, pharmaceutical formulation, and drug development.** Emerald's management are PhDs in technical disciplines and it largely carries itself as such. Emerald is not trying to become the biggest grower; it plans to focus on its strengths with the goal of developing intellectually property barriers to entry, and ultimately a pharmaceutical or nutraceutical drug capable of a DIN (drug identification number) and eligible for insurance coverage.
- **Modest expansion plans, scale for rec will come later.** Emerald is one of the smallest sales licenses, a modest 150 kg, because its current facility is landlocked and cannot expand further, which is why it focuses on small scale R&D. Though most of our forward estimates for EMH are based on sales to the medical market, Emerald plans to capture the recreational movement as well by building a 100,000 sq ft expansion in a separate location.
- **International network from Board of Directors.** Another unique angle that Emerald's Board and management bring is partnerships currently conducting R&D in parallel in different countries. Emerald has connections to formulation experts, chemists, clinical trials and contract manufacturing, which all may help support the development of a cannabinoid therapeutic.
- **We currently model Emerald expanding its capacity from 150 kg to 10,000 kg over the next three years.** We estimate revenue stagnates until the expansion, and that investment in R&D prevents Emerald from becoming EBITDA positive until late 2019. In five years, we see Emerald generating ~$35 MM in EBITDA. We apply a 5.0x multiple to arrive at our $1.75 target.

KEY CATALYSTS FOR EMH:

Acceleration of oils - H1/17 - Emerald received its oils sales license in July 2016. The receipt of the oils sales license would be an important milestone in broadening the company's product offering. Emerald's pending greenhouse expansion would be useful for large scale oil production.

Government expected to table legislation for recreational cannabis (Industry Catalyst) - Spring 2017 - On April 20, 2016 at a special session of the UN General Assembly in New York, Health Minister Jane Philpot announced that federal legislation for the legalization of marijuana will be introduced in Canada in Spring 2017. The Minister was quoted saying "We will introduce legislation in Spring 2017 that ensures we keep marijuana out of the hands of children and profits out of the hands of criminals."

Expansion of production capacity - 2017 - Emerald currently produces in a small land-locked production facility. As part of management's strategy to supply the broader cannabis market, the company has released early plans to expand production capacity over the next two years.

COMPANY OVERVIEW

Emerald is one of only a handful of LPs that have a clear biotech focus. It was the 8th company licensed by Health Canada when it received a dried flower cultivation license. The company received its dried flower sales license in May 2015, and its cannabis oils sales license in July 2016. Emerald has its small facility located in Victoria, BC, which is primarily used for R&D, where the company has focused on developing new strain varieties through plant genetics, characterization of cannabis strains and cultivation technologies. Management intends to expand to a 100,000 sq ft greenhouse in the greater Vancouver area (further details have not been fully publicly disclosed). With its limited patient base, constrained by production capacity, Emerald has engaged in plant R&D. Emerald used to be known as T-Bird Pharma, which was formally rebranded as it currently is in June 2015 shortly after the T-Bird founders sold their 45% ownership to current Chairman Dr. Avtar Dhillon and his group in a sale that was completed in April 2015. The company went public through an RTO with Firebird Energy Corp. and was first publicly listed in December 2014.

Figure 1 - Emerald Brand

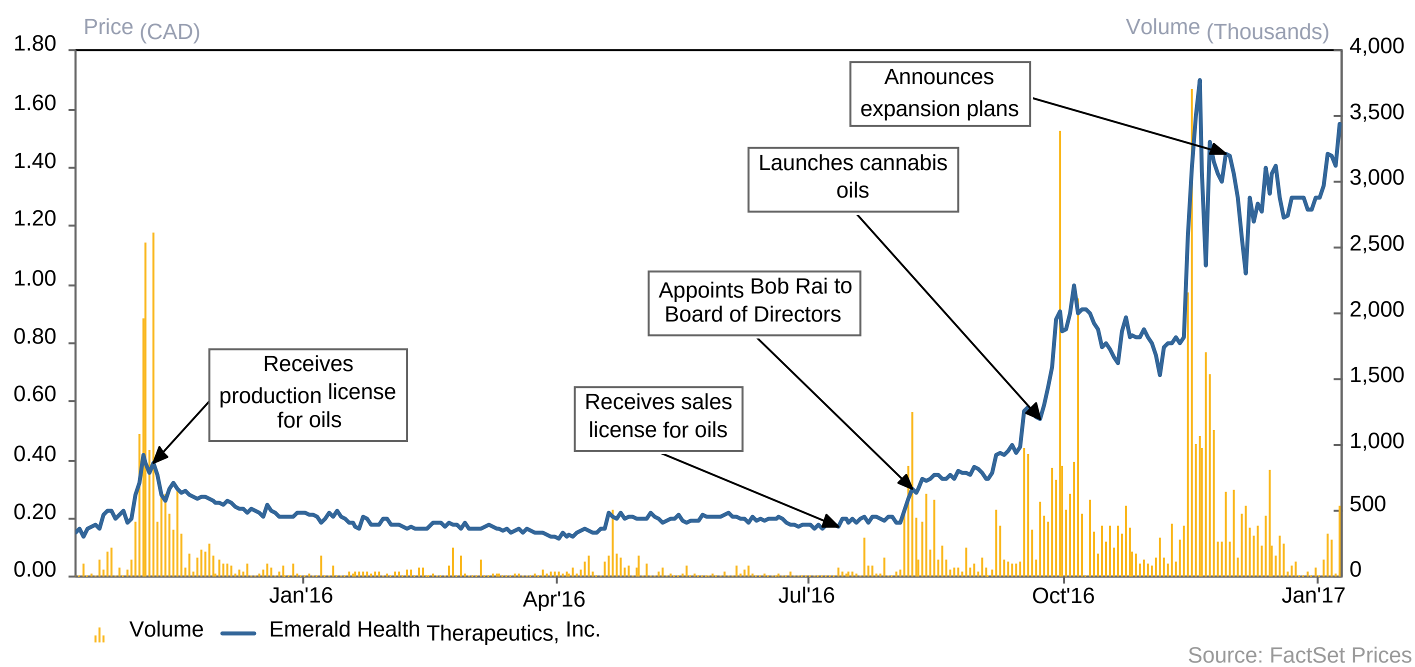
Source: Company Presentation

Building a medical brand with clinical R&D based on plant genetics, pharmaceutical formulation, and drug development. Emerald is focusing on developing intellectually property barriers to entry, and ultimately commercialize a pharmaceutical or nutraceutical drug capable of a DIN (drug identification number) and eligible for insurance coverage.

Over one year ago, Emerald started an R&D project to characterize the cannabis strains within its portfolio and identify specific compositions of cannabinoids, with the goal of developing new strains using a broad range of genetic material and ultimately matching these strains with specific patients' needs. The project was partially funded through a National Research Council grant. The company concluded the project this past summer finding that strains with exceptionally high CBD levels may allow Emerald to produce CBD oils in the future with unique compositions of cannabinoids through blending.

The company is in discussion with NRC-IRAP on a potential follow up project which, if granted, may commence in early 2017. In addition to continued research on strains and products, Emerald also plans to undertake clinical trials to study the effects of its products on patients.

Figure 2 - EMH Share Price Performance with Key Events Annotated



Source: FactSet, Dundee Capital Partners

VALUATION & FORECASTS

We rate EMH as BUY with a $1.75 target price. We base our valuation on a 5.0x EV/EBITDA multiple to our $35 MM FY2021E EBITDA. Our model only considers flower and oil sales from its existing facility and expansion, as well as sales to the recreational legalization market. Management is focused on medical innovation and our estimates reflect a majority of sales to the medical market, particularly in concentrates, due to the team's experience in developing and commercializing therapeutic drugs.

Patient enrollment is minimal and we model it stagnating until a 2nd production facility is licensed, expected in 2018. Emerald's 150 kg dried flower license would only accommodate less than 500 patients. We acknowledge the company has begun recently selling oils but we remain hesitant to reflect faster patient enrollment until further evidence of uptake. The company has disclosed early plans to expand with another 100,000 sq ft of greenhouses at a second location, which we expect to be ready for sale Spring 2018.

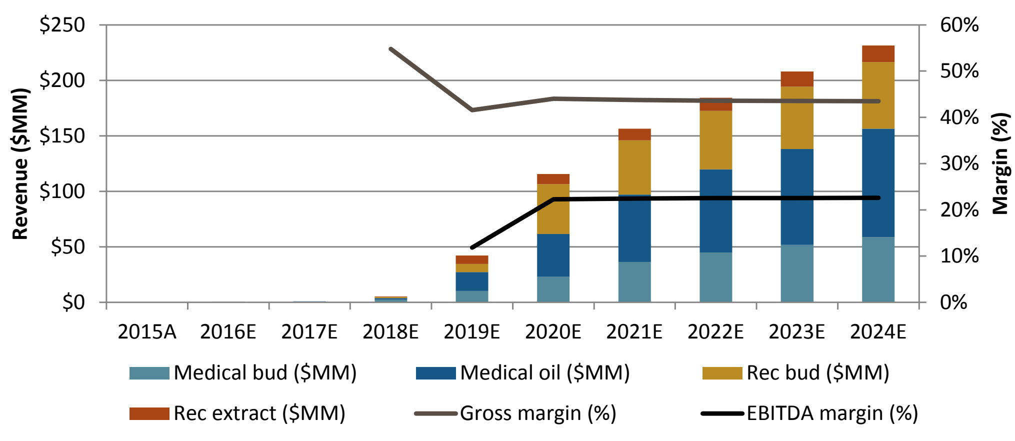
Sales price of $7.50/g for dried bud and $25.00/g(eq) for oil, which is a premium to our estimates for other producers at $15.00/g(eq). For bud sold we assume a price of $7.50/g, in line with the average price in the space. We model modest oil sales, produced from trim product from plants grown. We assume that only 50% of the excess non-flower plant material is used for extract production, a 10% w/w yield, for final product that is sold at $25.00/g(eq) with a 50% gross margin. We estimate recreational sales at $7.50/g and extracted product at $15.00/unit.

We justify a higher oil price per gram(eq) because of the value add from alternative delivery and formulation of cannabinoid therapies. For our oil we use a higher price than average to reflect the development of value-added drug delivery products that we assume will be higher priced than today's oils. We reflect this by using a higher average sale price for Emerald's oil. Emerald has already been selling its cannabis oil since September 2016 and we expect to see further development around formulation and drug delivery in 2017.

Stagnant revenue growth until facility expansion. Emerald recorded just under $50k in sales last quarter and we model this increasing modestly over the next year until a second facility is built and approved. We plan to monitor sales of Emerald's cannabis oils in the near term as a proxy for potential uptake of value-added products in the future.

We estimate a longer term COGS/g assumption of $2.25/g from indoor and $2.00/g from greenhouse production. Though management hasn't fully disclosed detailed expansion plans, we believe a greenhouse would bring the potential for lower cost production combined with the faster build time.

Figure 3 - Emerald Revenue ($MM) and Margin (%) Projections



Source: Company Reports, Dundee Capital Partners

BALANCE SHEET AND TARGET DERIVATION

Management and insiders own 68% of EMH basic shares. As of Sept 30, 2016, Emerald reported $1.0 MM cash and no debt, but closed a $3.0 MM equity financing subsequent to the quarter.

As for most LPs, we generally model $10 MM needed for a 10,000 kg capacity expansion. We model Emerald raising $30 MM over the next five years to build capacity at its greenhouse expansion and for R&D. We assume an average financing price of $2.00.

Figure 4 - EMH Target

TSXV:EMH	
	2021E
EBITDA ($MM)	**$35**
Target Multiple	**5.0x**
EV ($MM)	**$176**
+ cash ($MM)	$3.5
+ cash from warrants ($MM)	$4.9
- debt ($MM)	$0.0
Equity value ($MM)	**$184**
Current S/O (MM)	**71.7**
Warrants	8.5
Options	6.2
FD S/O (MM)	**86.4**
+ financing(s)	20.8
Target S/O (MM)	**107.2**
Target Price	**$1.75**
Current price	$1.48
Return to target	*18%*

Source: Dundee Capital Partners Estimates

EMERALD - R&D focused producer aiming for biotech upside potential

Background - The dried flower license owned by Emerald was originally received in February 2014 under the company name Thunderbird Biomedical, which had applied to Health Canada in March 2013. Thunderbird went public in an RTO transaction with Firebird Energy Inc. and renamed the pubco T-Bird Pharma Inc. when it began trading in September 2014. In April 2015, T-Bird closed a transaction where the initial founders sold 45% of the company at $0.21/share to Medna Biosciences, a company controlled by three current EMH directors (Dr. Avtar Dhillon, Mr. Jim Heppell, and Mr. Punit Dhillon) who continued to accumulate ownership. In June 2015, shortly after the Medna transaction closed, new management announced a rebranding and name change:

- T-Bird Pharma (pubco) - changed to Emerald Health Therapeutics Inc.
- Thunderbird Biomedical (license holder) - changed to Emerald Health Botanicals Inc.
- Medna Biosciences (investor) - changed name to Emerald Health Sciences Inc.

Emerald Health Sciences now owns over 60% of EMH shares.

Branding - Emerald was the 5th public LP which heightened exposure in the early days of the MMPR, however the facility couldn't handle onboarding many patients so the stock's market cap has largely lagged its peers until recently. Emerald is uniquely positioned as one of a few solely biotech-focused growers. The company has also tapped into federal SRED credits for tax breaks on research projects while the company continues to incubate pre-clinical research. Upon completion of a new production facility, expected in 2018, we expect

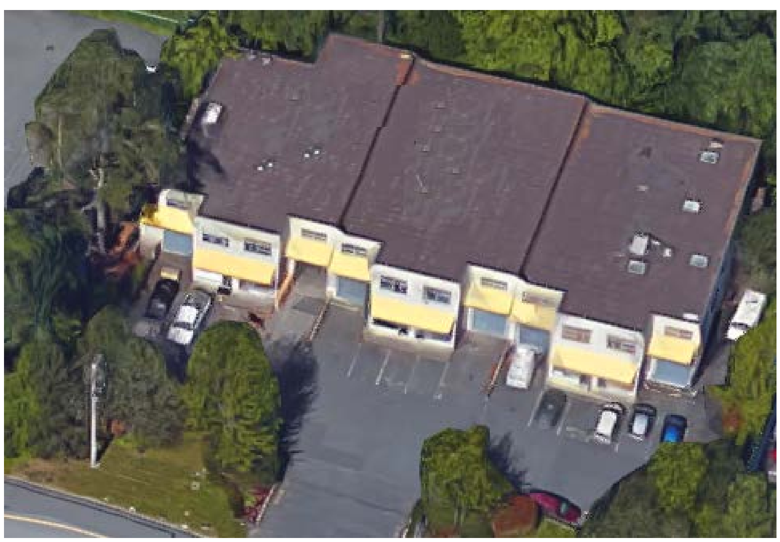
Emerald to position and brand a portion of its product for the recreational market, though the company has not disclosed much strategy around this.

Facility - Emerald's 3,000 sq ft facility is located in Victoria, BC, approximately half of which is for flowering and is primarily used for R&D. The facility is landlocked between other buildings and unable to expand due to zoning issues. In June 2014, the company secured a five year lease agreement for its current facility, with an option to renew for two successive five year terms. The facility contains two safes (level 6) and one vault (level 7) licensed to store up to 175 kg or $1.75 MM worth of dried cannabis and cannabis extracts onsite at any given time.

Since the company went public, Emerald had been looking at expanding to a nearby facility in Victoria but as of October 2015 it terminated a lease agreement on a property that it was considering for a second cultivation facility. On November 28, 2016, Emerald disclosed new expansion plans to lease up to 32 acres of Agricultural Land Reserve (ALR) lands in Metro Vancouver, for the construction of 100,000 sq ft of modular hybrid greenhouse production built in two phases. Though this process will require a completely new license, we believe the regulator will be amenable to current license holders applying for a second license, even at a second address, rather than hand out a new license to an applicant, because current LPs are known commodities to Health Canada.

Growing - Emerald expect to continue to provide a range of strains of dried flower through a combination of in house production and wholesale purchase from other LPs. Management expects patient enrollment to accelerate with the introduction of cannabis oils, and has implemented a new online ordering system for clients to order products. It currently sells dried marihuana between $7.00 and $10.00 per gram and cannabis oils between $75.00 and $150.00 per 30 ml bottle.

Figure 5 - EMH Facility Overhead View



Source: Google Maps

FACILITY AND ASSET DESCRIPTION - EMERALD'S FACILITY

Figure 6 - EMH Facility and Asset Description

	Emerald Health Therapeutics
Current Facility Status	
Location	Victoria, BC
Facility Type	Indoor
Built Flowering Square Footage	1,600 sq ft
Capacity Utilization	100%
Dried Cannabis License:	150 kg
Implied Annual Patient Capacity @ 1.0g/p/d:	411
Oils License:	650 kg
Security level:	Level 7 vault
Facility Ownership:	Leased
Near Term Expansion Plans	
	Phase I of greenhouse expansion (early 2018)

Source: Company Reports, Dundee Capital Partners

PRODUCT OFFERING - Focused On Oils

This past year, Emerald has primarily focused on developing operating procedures for the manufacturing of cannabis oils. Once the oils license was received, production began on three initial products that were available for sale starting in September 2016: THCA oil, THC oil, as well as two different strengths of oils containing both THC and CBD. Management expects to launch a high CBD oil, and introduce new cannabis oils produced by supercritical fluid extraction in H1/17.

Emerald generally has eight to ten dried medical flower products for clients in store and currently produces approximately eight strains from its own genetics but must supplement that with product purchased wholesale from other LPs.

RISKS

Along with the risks outlined in the sector overview above, Emerald's main risk will be broadening its product portfolio with a much wider range of value-added cannabis formulations, especially considering that its greenhouse expansion is not expected to be ready for a number of months. We believe Emerald's experience in biotechnology provides the company with the skillset needed to develop and bring alternative medical products to the market.

Management

Dr. Bin Huang, President and CEO - Dr. Huang brings over 30 years of experience in life sciences, having began her career began with Allelix Crop Technologies, then President and CEO of Cytovax Biotechnologies. and CEO of WEX Pharmaceuticals, a subsidiary of publicly listed CK Life Sciences International (Holdings) Inc.

Sandra Pratt, CFO - Mrs. Pratt brings experience working with both public and private company clients from her time at Deloitte and then at Angiotech Pharmaceuticals, at the latter she held the role of Director of Finance. Prior to joining Emerald, she was VP of Business Development and Executive Financial Officer of the Royal British Columbia Museum.

Frey Garabagi, VP Research and Quality Affairs - Mr. Garabagi brings ten years of postdoctoral research experience from the University of Guelph, where he was a research scientist and inventor in the field of plant molecular genetics and medical biotechnology. He is a member of the International Association for Plant Biotechnology (IAPB) and the Canadian Society of Plant Biologists (CSPB).

Board of Directors

Dr. Avtar Dhillon, Chairman - Dr. Dhillon has more than 20 years of experience in building public companies through mergers and acquisitions, and building intellectual property portfolios through partnering with small and large companies. He currently serves as the Chairman of Inovio Pharmaceuticals, Inc. (NASDAQ:INO), formerly holding the roles of President & CEO.

Jim Heppell - Mr. Heppell was the founder, CEO and director of BC Advantage Life Sciences I Fund, which had the highest returns of any retail venture fund in Canada for five years in a row. Prior to that, he worked at Fasken Martineau DuMoulin for six years with, during which he was seconded to the British Columbia Securities Commission for six months.

Mr. Punit Dhillon - Mr. Dhillon is the co-founder and CEO of OncoSec Medical, Inc. (NASDAQ: ONCS), a biopharmaceutical company, and was formerly Vice President of Finance and Operations at Inovio Pharmaceuticals, Inc. (NASDAQ:INO), bringing experience in raising over $150 million through multiple financings and licensing deals with Merck and Wyeth.

Mr. Bob Rai - Mr. Rai is an entrepreneur with over 20 years of experience in operating “The Medicine Shoppe” Pharmacies (www.pharmacybc.com) in Vancouver. In 1998, he and his partners pioneered the online pharmacy business to the US. Mr. Rai is a recipient of Queen Elizabeth II Diamond Jubilee Medal for his service and contribution to Canada.

Emerald Health Therapeutics (EMH - T)

Rating	**BUY**	**C$ Target**	**$1.75**	**Shares O/S (MM)**	**81.7**
		C$ Close	**$1.48**	**Fully Diluted Shares (MM)**	**96.4**
Daniel Pearlstein, Research Analyst		**12-month return**	**18%**	**Basic Mkt. Capitalization ($MM)**	**$120.9**
dpearlstein@dundeecapitalmarkets.com				**Enterprise Value ($MM)**	**$117.4**

VALUATION DATA

Year-end December	2015A	2016A	2017E	2018E
P/E	--	--	--	--
P/CF	--	--	--	--
EV/EBITDA	--	--	--	--
EV/Sales	--	616.8x	168.3x	21.8x
FCF Yield	--	--	--	--

OPERATING STATS

Year-end December	2015A	2016A	2017E	2018E
Total Bud Sales (kg)	0	14	78	330
Price Per Gram ($/g)	--	7.50	7.50	7.50
COGS ($/g)	--	3.49	3.24	2.58
Total Oil Sales (kg)	--	0	8	55
Price Per Gram ($/g)	--	15.00	15.00	15.00
Oil Gross Margin	--	50%	50%	50%

FINANCIAL SUMMARY

Year-end December	2015A	2016A	2017E	2018E
Revenue (MM$)	0.0	0.2	0.7	5.4
Gross Profit (MM$)	0.5	-0.2	0.4	3.0
Gross Margin	--	-126%	56%	55%
EBITDA (MM $)	(1.6)	(1.8)	(4.8)	(8.1)
EBITDA Margin	--	--	--	--

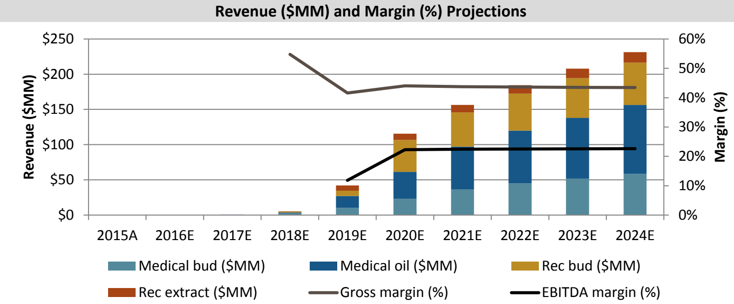
EMERALD VALUATION (C$)

	Target Price	Upside
5.0x EV/EBITDA Multiple on F2021	**C$1.75**	**18%**

Target Price Sensitivity

	F2021 EBITDA (C$MM)				
F2021E EV/EBITDA	**$25.0**	**$30.0**	**$35**	**$40.0**	**$45.0**
3.0x	$0.75	$1.00	$1.00	$1.25	$1.25
3.5x	$1.00	$1.00	$1.25	$1.50	$1.50
4.0x	$1.00	$1.25	$1.50	$1.50	$1.75
4.5x	$1.25	$1.25	$1.50	$1.75	$2.00
5.0x	$1.25	$1.50	**$1.75**	$2.00	$2.25
5.5x	$1.25	$1.50	$1.75	$2.25	$2.50
6.0x	$1.50	$1.75	$2.00	$2.25	$2.50
6.5x	$1.50	$2.00	$2.25	$2.50	$2.75
7.0x	$1.75	$2.00	$2.25	$2.75	$3.00

Revenue ($MM) and Margin (%) Projections



BALANCE SHEET (C$ MM)

Year-end December	2015A	2016A	2017E	FQ3/17
Assets:				
Cash & ST Investments	0.1	3.5	4.8	0.9
Other Current Assets	0.2	0.4	0.2	0.3
Current Assets	**0.3**	**3.9**	**5.0**	**1.2**
PP & E	0.4	0.6	3.5	0.6
Other non-current Assets	0.0	0.0	0.0	0.0
Total Assets	**0.8**	**4.4**	**8.5**	**1.8**
Liabilities:				
Current Liabilities	1.2	0.6	0.5	0.5
Long-term Debt	0.0	0.0	0.0	0.0
Other non-current Liabilities	0.0	0.0	0.0	0.0
Total Liabilities	**1.2**	**0.6**	**0.5**	**0.5**
Capital Stock	5.7	12.5	21.5	9.5
Retained Earnings	-6.2	-8.6	-13.5	-8.2
Total Shareholder Equity	**-0.4**	**3.8**	**8.0**	**1.2**

INCOME STATEMENT (C$ MM)

Year-end December	2015A	2016A	2017E	2018E
Total Revenue	0.0	0.2	0.7	5.4
COGS	-0.5	0.4	0.3	2.4
Gross Profit	**0.5**	**-0.2**	**0.4**	**3.0**
G&A	1.6	1.0	2.0	3.6
Sales & Marketing	0.2	0.2	1.2	5.5
Depreciation	0.0	0.1	0.1	0.6
EBITDA	**(1.6)**	**(1.8)**	**(4.8)**	**(8.1)**
EBIT	**(1.7)**	**(1.9)**	**(4.8)**	**(8.8)**
Interest Expense/Income	0.0	0.0	0.0	0.0
EBT	**-1.7**	**-1.9**	**-4.8**	**-8.8**
Taxes	0.0	0.0	0.0	0.0
Other	-1.2	-0.5	0.0	0.0
Net Income (Reported)	**-2.9**	**-2.5**	**-4.8**	**-8.8**
EPS (Reported) $/sh	**-0.09**	**-0.05**	**-0.07**	**-0.11**
Average Shares (MM)	32.2	53.5	72.0	80.7

CASH FLOW STATEMENT (C$ MM)

Year-end December	2015A	2016A	2017E	2018E
Net Income (Reported)	(3.1)	(2.5)	(4.8)	(8.8)
Depreciation	0.0	0.1	0.1	0.6
Working Capital Changes	(0.0)	0.1	0.1	0.1
Other	0.8	0.5	0.0	0.0
Operating Cash Flow	**(2.3)**	**(1.8)**	**(4.7)**	**(8.1)**
Operating Cash Flow/sh ($/sh)	**-0.07**	**-0.03**	**-0.06**	**-0.10**
Capital Expenditures	(0.3)	(0.2)	(3.0)	(6.5)
Other	(0.0)	(0.1)	0.0	0.0
Investing Cash Flow	**(0.3)**	**(0.2)**	**(3.0)**	**(6.5)**
Common Share Dividends	0.0	0.0	0.0	0.0
Equity financing & W/O Exercise	0.0	3.9	10.0	15.0
Debt Issue	0.0	0.0	0.0	0.0
Debt Repayment	0.0	0.0	0.0	0.0
Other	1.0	1.5	(1.0)	(1.5)
Financing Cash Flow	**1.0**	**5.4**	**9.0**	**13.5**
Net Change in Cash	**(1.6)**	**3.4**	**1.3**	**(1.1)**
Cash Balance	**0.1**	**3.5**	**4.8**	**3.7**
Free Cash Flow	**(2.6)**	**(2.0)**	**(7.7)**	**(14.6)**

Source: Company Reports, FactSet, Dundee Capital Partners

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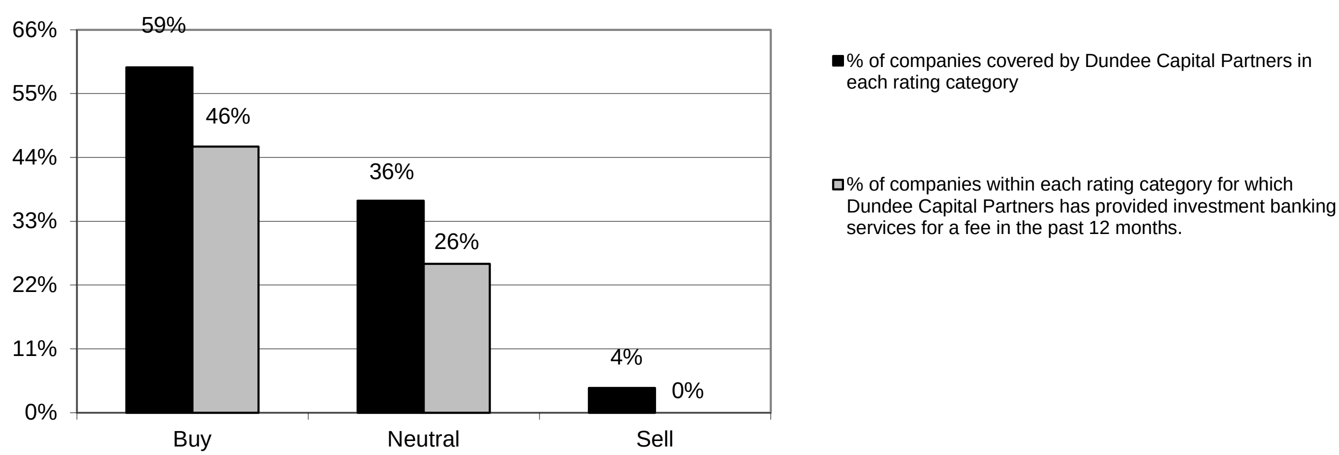
Dundee target: Represents the price target as required under IIROC Rule 3400. Valuation methodologies used in determining the price target(s) for the issuer(s) mentioned in this research report are contained in current and/or prior research. Dundee target N/A: a price target and/or NAV are not available if the analyst deems there are limited financial metrics upon which to base a reasonable valuation.

Recommendations: **BUY**: Total returns expected to be materially better than the overall market with higher return expectations needed for more risky securities. **NEUTRAL**: Total returns expected to be in line with the overall market. **SELL**: Total returns expected to be materially lower than the overall market. **TENDER**: The analyst recommends tendering shares to a formal tender offer. **UNDER REVIEW**: The analyst will place the rating and/or target price Under Review when there is a significant material event with further information pending; and/or when the analyst determines it is necessary to await adequate information that could potentially lead to a re-evaluation of the rating, target price or forecast; and/or when coverage of a particular security is transferred from one analyst to another to give the new analyst time to reconfirm the rating, target price or forecast.

SECURITY ABBREVIATIONS: NVS (non-voting shares); RVS (restricted voting shares); RS (restricted shares); SVS (subordinate voting shares).

Dundee Capital Partners Equity Research Ratings:



As at December 31, 2016
Source: Dundee Capital Partners