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Investment Analysis for Intelligent Investors

January 10, 2018

Sunniva Inc. (CSE: SNN) – "The Canopy Growth of California": Vertically Integrated Prospective Cannabis Producer in California and Canada - Initiating Coverage

Sector/Industry: Cannabis **www.sunniva.com**

Market Data (as of January 10, 2018)

Current Price	**$6.75**
Fair Value	**$47.66**
Rating*	**BUY**
Risk*	**4**
52 Week Range	N/A
Shares O/S	26,636,071
Market Cap	$179.79 M
Current Yield	N/A
P/E (forward)	N/A
P/B	N/A
YoY Return	N/A
YoY TSXV	16.45%

*see back of report for rating and risk definitions

Investment Highlights

- Sunniva Inc. ("Sunniva", "company") has planned production capacity in excess of 225,000 KG of medical grade cannabis.
- Initial production facility, the Sunniva California Campus, commenced construction in November 2017. A unique leaseback financing agreement removes the need for large CAPEX. This facility also includes an extraction facility.
- The company is also a late-stage ACMPR applicant with intentions of building a 700,000 square foot facility in British Columbia, Canada. Sales expected to be de-risked via long-term supply contracts.
- Vertical integration: direct-to-patient sales via Natural Health Services' network of over 75,000 ACMPR registered patients, and access to the vaporizer market via Vapor Connoisseur. Natural Health Services and Vapor Connoisseur are subsidiaries of the company.
- We are initiating coverage with a BUY rating and a fair value estimate of $47.66 per share

Risks

- Uncertain regulatory environment. U.S. Attorney General Jeff Session's recent memo increases risk of U.S. cannabis businesses.
- Lack of financing for proposed Canadian production facility.
- Cannabis is illegal at the federal level in the U.S. Furthermore; any delay in the legalization of full adult use in Canada will impact Sunniva's valuation.
- Potential contamination and other risks associated with biological/ agricultural production.
- Exchange rate risks associated with cross-border operations.

Key Financial Data (FYE - Dec 31) (C$)	2016	2017E	2018E
Revenue	$ 38,000	$ 13,620,000	$ 52,181,250
Net Income	$ -6,887,000	$ -21,547,233	$ -6,321,065
Working Capital	$ -1,625,000	$ -4,577,566	$ 12,742,781
Debt	$ 9,669,000	$ 16,510,000	$ 181,325,429
Total Assets	$ 25,663,000	$ 72,001,434	$ 230,601,110
Shareholders' Equity	$ 14,245,000	$ 43,403,434	$ 39,691,431

Overview

Corporate Overview

Sunniva Inc. (“Sunniva”), through its subsidiaries, is a vertically integrated medical cannabis company operating in two of the largest cannabis markets globally– California and Canada. Sunniva intends on becoming one of the lowest cost producers delivering safe, high-quality products, and services, free of pesticides and/or other contaminants. Sunniva management and the board of directors have a proven track record for creating significant shareholder value both in the Healthcare and Biotech space.

Combining California and Canada production, Sunniva intends to produce in excess of 225,000 kg of premium cannabis a year at capacity.

Sunniva will have a significant first mover advantage in California having commenced construction of their flagship venture, the Sunniva California Campus: building 489,000 square feet of state-of-the-art, purpose-built cannabis greenhouse production facilities in Cathedral City, near Palm Springs. This involves a two-phase build-out. Ground was broken for phase one in early November, which will entail 324,000 square feet of growing space and produce over 60,000 kilograms (“KG”) of cannabis annually (with the first harvest scheduled for Q4-2018). The second phase will involve an additional 165,000 square feet of production anticipated to be operational by Q1-2020. Financing for phase one has been arranged through a leaseback arrangement with Barker Pacific Group, Inc. (“BPG”), whilst the company expects to pay for phase two’s capital expenditures via future cashflows.

Together, both phases are expected to produce up to 100,000 KG of premium dried cannabis flower annually, as well as 30,000 KG of other plant material for conversion into higher margin cannabis oil. The facilities are being designed to “Current Good Manufacturing Practice” (“cGMP”) standards. A company that operates according to cGMP standards offers the market products whose quality, identity, purity, and strength have been tested and confirmed according to controlled manufacturing processes. Management expect that the facilities will be largely automated, using world-class commercial greenhouse technology. They will also enjoy major energy savings from automation and harnessing plentiful Californian sunlight.

Sunniva plans to build an additional 700,000 square feet of cGMP greenhouse facilities in Oliver, British Columbia, in 2018, to produce an additional 125,000 kg of premium cannabis annually. Sunniva intends to de-risk the large volumes by entering into long term supply contracts with distribution partners.

The third component to Sunniva’s vertically integrated business model involves the company’s ownership of Natural Health Services (“NHS”) in Canada, which already has significant revenues and serves well over 75,000 active medical cannabis patients. As Canada’s largest network of true medical cannabis clinics, NHS offers medical patients an expedited, streamlined process for legally accessing medicinal cannabis. In the process, NHS offers unbiased doctor/patient counselling on which physician-led therapies and delivery methods work best for a diversity of medical conditions.

In the U.S., through ownership of Vapor Connoisseur (“VC”), the company provides custom private label vaporization apparatus to over 80 leading brands and will provide these services to the larger Sunniva Campus facilities.

Sunniva currently operates through its four wholly owned operating subsidiaries:

- **CP Logistics, LLC ("CPL")** – Through CPL, Sunniva has commenced construction of the Sunniva California Campus in Cathedral City, California.
- **Sunniva Medical Inc. ("SMI")** - SMI is a late stage applicant under Canada's Access to Cannabis for Medical Purposes Regulations ("ACMPR"), and is designing the Sunniva Canada Campus to be located in Oliver, British Columbia.
- **Natural Health Services Ltd. ("NHS")** - NHS owns and operates a network of 8 medical clinics in Canada specializing in medical cannabis under ACMPR. NHS connects patients with safe and effective medical cannabis products through Licensed Producers. NHS' proprietary technology infrastructure assists physicians, patients, and licensed producers ("LPs") to comply with the rules of Health Canada. NHS has more than 75,000 active patients, and growing.
- **Full -Scale Distributors, LLC ("FSD")** – FSD, through its brand, VC, is a provider of custom, private-label vaporizers. FSD currently serves the needs of over 80 brands in the North American marketplace. VC is recognized for its high quality and innovative vaporization devices.

The company's shares will began trading on the Canadian Securities Exchange ("CSE") under the symbol SNN on January 10, 2018. We utilized Sunniva's recent brokered special warrant offerings for our valuations in this report. Sunniva raised $6.2 million via the issuance of 0.98 million special warrants at a price of $6.75.

Cannabis

Cannabis, or cannabis sativa, is the plant from which the psychoactive drug commonly known as marijuana is derived. In addition to medical uses, it is used recreationally due to the psychoactive component that can cause feelings of euphoria, relaxation and a sense of wellbeing.

There are a wide range of products that can be created or derived from cannabis, including, but not restricted to:

- Dried marijuana products
- Oils
- Edibles (food products that contain variable amounts of cannabis)

Its consumption is done in various forms, most commonly through smoking, orally ingested through edibles or vaporized. The potency of cannabis derived products depends on the cannabinoid content. Of the many cannabinoids that make up the plant, the two most well-known are tetrahydrocannabinol ("THC") and cannabidiol ("CBD"). THC is responsible for the psychoactive component commonly associated with cannabis, whilst CBD is non-psychoactive.

Industry Overview

California Cannabis Overview

A recent report by Arcview Market Research indicates that consumer spending on legal cannabis in North America is outpacing previous estimates. The report projects that retail cannabis sales will grow 33% from 2016, to about $10 billion this year. The data published projects that by 2021, the legal cannabis market will reach a value of $24.5 billion and at a 28% compound annual growth rate (CAGR). Furthermore, BDS Analytics reports that California's medical market is already as big as the total markets in Colorado, Washington, and Oregon combined.

With a population of over 39 million, California represents the world's largest cannabis market. California was one of the first states in the U.S. to legalize medical Marijuana through the passage of Proposition 215 and later SB420. Despite this early legislation, California lagged behind other states such as Colorado, Washington, Oregon and Nevada to enact follow up legislation to keep pace with evolving Federal regulatory guidelines. The lack of clear regulatory parameters in California has, until Sunniva's recent involvement, discouraged substantial capital investment in its Cannabis market. As a result, California is characterized by small-scale market participants, many of whom are not capable of producing quality product or complying with future expected state regulations.

This relatively disorganized competitive landscape leaves Sunniva in a highly favorable position to forge strategic relationships throughout the value chain, capture market share, and establish itself as an industry leader in this highly attractive end market.

According to market statistics, the current consumer in California consists of approximately 2 million medical cannabis users; however, this consumer base is expected to expand dramatically due to the recent initiation of full adult sales. This is based on similar expansions to the consumer base, as demonstrated in states such as Colorado.

Because of lax regulatory enforcement, Cannabis products in California are currently characterized by:

- **Substantial quality issues** - experts estimate that 80% - 90% of Cannabis products currently sold in California fail testing requirements, especially concentrates.
- **High cost of production** - because of the historic lack of capital and regulatory uncertainty, most producers lack resources to automate production as well as the competency to implement efficient and repeatable processes.
- **Unreliable distribution** - though third-party distribution is available, management reports that most producers lack the scale to effectively partner with these distributors. As a result, they are challenged to provide retailers with a reliable schedule of inventory.

Cannabis is illicit at the federal level in the U.S. and Sunniva operates under guidelines delivered by the Department of Justice under the "Cole Memo". In 2013, James Cole, then the U.S. Deputy Attorney General, issued a memorandum that suggested that cannabis businesses would not be federally prosecuted or be subject to asset forfeiture if they complied with state law and did not impinge upon federal "enforcement priorities."

However, investors should be aware that this memo was recently repealed by current U.S. Attorney General Jeff Sessions, who is noted for being anti-cannabis. Despite the potential vulnerability of U.S. cannabis businesses to prosecution because of this, it should be noted that there was significant public, bipartisan backlash for Session's rescindment of the Cole Memo. Politicians of states in which full adult use of cannabis is legal were particularly vehement in their defense of their cannabis regulations:

- **California:** Attorney General Xavier Becerra declared *"We're ready to protect the state's laws when it comes to marijuana … We'll do whatever we must to make sure that California's laws are obeyed."* Furthermore, State Treasurer John Chiang stated that *"Until the slow, clunking machinery of the federal government catches up with the values and will of the people it purportedly serves, states- like California- will continue to both resist and, more importantly, to lead."*
- **Colorado:** Governor John Hickenlooper said in a statement that *"Colorado has created a comprehensive regulatory system committed to supporting the will of our voters… Today's decision does not alter the strength of our resolve in those areas, nor does it change my constitutional responsibilities."*
- **Washington:** Governor Jay Inslee said in a statement *"In Washington state we have put in place a system that adheres to what we pledged to the people of Washington and the federal government; it's well regulated, keeps criminal elements out, keeps pot out of the hands of kids and tracks it all carefully enough to clamp down on cross-border leakage. We are going to keep doing that and overseeing the well-regulated market that Washington voters approved… Make no mistake: As we have told the Department of Justice ever since I-502 was passed in 2012, we will vigorously defend our state's laws against undue federal infringement."*

Furthermore, the legislation known as the Rohrabacher-Farr amendment prohibits the U.S. Department of Justice from using federal funds to interfere with state medical cannabis laws. The legislation, now renamed the Rohrabacher–Blumenauer amendment, was first introduced by U.S. Representative Maurice Hinchey in 2001, and passed in 2014 following six failed attempts. **The amendment has been largely responsible for hindering federal drug enforcement agendas aimed at U.S. states where medical cannabis use is legal.** However, the amendment does not change the legal status of cannabis at the federal level and must be renewed on an annual basis in order to remain in effect.

Regardless, the Rohrabacher-Farr amendment, as well as bipartisan outcry, implies that the Cole Memo repeal is unlikely to take effect without significant resistance. There is speculation that Session's actions are likely to force a polarization within congress, creating potential for concrete enforcement of state cannabis laws. The politicians of U.S. states where cannabis use is legalized in some form appear set to defend their regulatory framework, as well the economic benefits realized as a result of cannabis legalization.

Despite the market potential and protections put in place by California as a State, investors should practice caution, as cannabis use is still illegal at the federal level in the United States, as per the Controlled Substances Act.

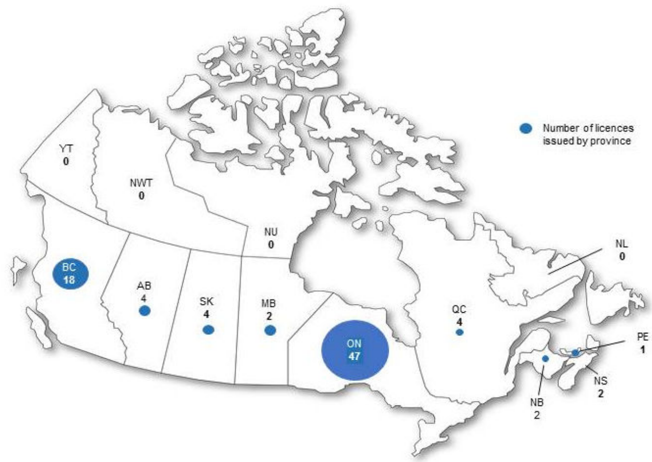
Canada Cannabis Overview

As of August 2016, medical cannabis use in Canada is regulated by the ACMPR. The program authorizes the following activities for those who are deemed eligible for medicinal marijuana use:

- The use of dried marijuana leaves (flowers), up to a limit of 30 grams per person.
- As of 2015, the use of cannabis oils.
- The growing of personal marijuana plants for eligible persons.
- Lays down the framework for the commercial production and distribution of cannabis by licensed producers.

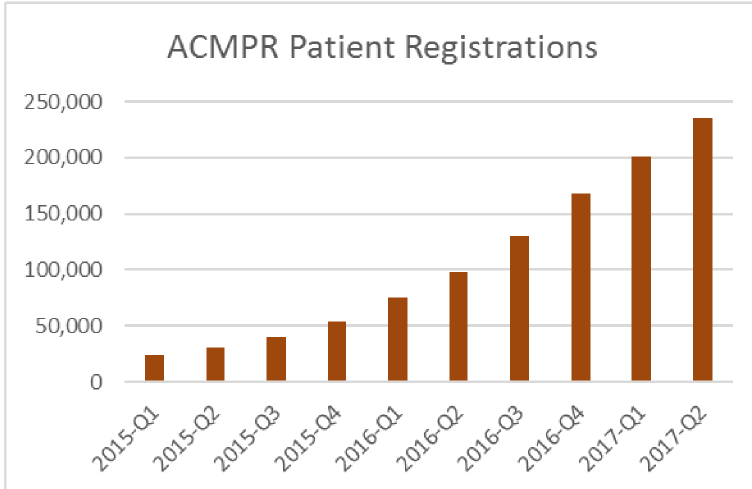
ACMPR also authorizes select suppliers to produce cannabis via the issuance of licenses. To date, there have been 84 licenses issued. A map showing the geographical distribution of these licenses is given below:

Distribution of Health Canada ACMPR Licenses



Source: Health Canada

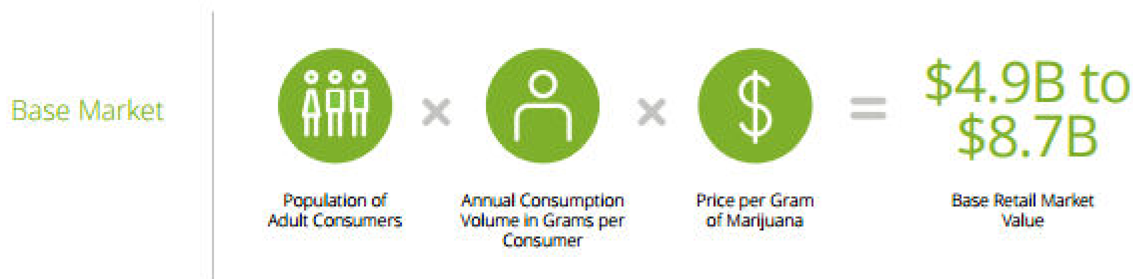
Cannabis as a medicinal product is increasingly being used by Canadians, with Health Canada reporting that 235,621 Canadians had registered under ACMPR as of September 30, 2017. **This is a significant increase from the 7,914 at the end of June 2014, representing a compounded quarterly growth rate of close to 30%.** Health Canada further predicts that this number will hit 400,000 by 2024 - though current growth trends are out pacing estimates, leading some to believe that the actual number will be higher.



Source: Health Canada

With the Trudeau government proposing to fully regulate and legitimize the recreational cannabis industry, investors have now begun to put an estimate on the potential impact that legalization of full adult cannabis use could have on the Canadian economy. **Deloitte, in a recent publication, estimated that the base market for legal recreational cannabis could start at between $4.9 billion and $8.7 billion.**

Deloitte estimates of Retail Cannabis Market in 2018, post-legalization



Source: Deloitte

At the higher end estimate, the size of the potential recreational market in Canada approaches the size of the Canadian wine market, which is reported at $9 billion according to the Canadian Vintners Association. **However, the base market estimate is unlikely to capture the full economic impact of legalizing recreational cannabis use, which Deloitte predicts could be as large as $22.6 billion once all the ancillary services needed to support a legalized recreational market are accounted for.**

Deloitte estimates of Retail Cannabis Market plus Ancillary Market in 2018, post-legalization

Source: Deloitte

Sunniva cGMP Greenhouses

The Sunniva California Campus

The Sunniva California Campus is a 489,000 square-foot greenhouse operation planned out in two phases on 20 acres of land. In phase one of development; a total of 324,000 square-feet represents annual production capacity of 60,000+ KG of dried cannabis flower and 18,000 kg of additional trim to be extracted into oils. Furthermore, management expects that approximately 30% of total dried cannabis (flower) production, and all "trim" production, will be retained for extraction to cannabis oil and other extracts. Cannabis "trim" are the clippings of cannabis plants taken throughout the growth process, which whilst inferior as dried product, can be converted to cannabis oils. The oil can be used for drug delivery formats such as capsules, dissolvable strips, vaporization cartridges, tinctures and creams. We cover the extraction facility in a below section.

Sunniva California Campus (Visualization)

Source: Company

Sunniva commenced construction in November 2017 on close to 20 acres of land, which was originally purchased by Sunniva's wholly owned subsidiary, CP Logistics LLC ("CPL"). At current, CPL holds 18 cultivation licenses and one combined cultivation and dispensary license, granted by Cathedral City. In addition, property developments in Cathedral City required a Conditional Use Permit ("CUP"), which was approved for their facility on October 4, 2017.

In phase two, total square-footage is increased by 165,000 square-feet, and total production capacity increased by an additional 40,000 KG per year and 12,000 KG of additional trim. At full build out, the Sunniva Campus is expected to produce a total of 100,000 KG of cannabis. Full build out of phase one of the facility is expected to be complete by Q3-2018.

The proposed designs for the greenhouse feature the following:

- Diffused glass that provides a shadow-free growing environment and uniform distribution of lighting. This could lead to potentially higher yields, faster growing cycles, and healthier plants.
- Customized mobile bench-top systems that maximize utilization, increasing growing space by nearly 31%. Brings total facility utilization from 65% to 85% and above.
- Isolated growing bays with optimized lighting settings that support high volume production and daily harvests.
- Specialized finishing bays that maximize resin production and drying chambers that protect essential terpenes (fragrant oils) prior to storage.
- Dedicated bays that simulate autumn-like conditions, triggering natural plant responses that push nutrients from roots and leaves to the flowers, maximizing resin production and overall flower quality.
- Microclimatic controls that ensure precise growing conditions.
- Advanced climate control sensors.
- Pharmaceutical grade bio containment to minimize potential for contamination and pestilence, which present a serious threat if allowed to infect crops.
- Employee and personal access control, ensuring security and minimal chances for contamination.
- Airlock entry and exit points, minimizing the potential for outside contamination.
- Advanced software and barcode scanning to track plants throughout the harvest cycle, providing analytics to improve product quality in future cycles.
- In-house quality testing to ensure quality standards are met and detect plant flaws (such as mold) early.
- Commercial grade irrigation systems that ensure consistent nutrient delivery to plants. The irrigation system is expected to drastically improve crop vegetation and maturation rates.

The Sunniva California Campus, once completed, will be one of California's only large-scale growing facilities that satisfies increasingly stringent safety regulations for the cultivation and sale of medicinal cannabis.

The entire phase one facility is budgeted at US$54 million in capital expenditures once complete. Sunniva has entered into a strategic financing agreement with a related party of BPG, whereby BPG incurs the costs of construction and outfitting of the Sunniva Campus facility. BPG is a real estate management and development company based out of California. The agreement was reached via an MOU between the two parties signed on April 19, 2017, and a conditional lease signed in October 2017. The lease features the sale and leaseback of the land over a 15-year term, with three five-year extensions. The company sold the land for US$5.1 million.

For phase two, management expect to fund capital expenditures via future cashflows, providing expansion cost guidance of US$125 per square foot. At 165,000 square feet, phase two expansion is expected to require US$20.63 million in capital investment.

The Sunniva Canada Campus

In addition to Sunniva California Campus, the company is developing the Sunniva Canada Campus. The proposed location for the facility is Oliver, British Columbia, which management believes is an ideal growing climate for greenhouses, based on average sunshine hours. Sunniva is a late-stage ACMPR LP applicant in the final review stage for licensing. The proposed Canadian production facility is expected to produce 125,000 KG of premium cannabis per year at capacity. It is anticipated that a total of approximately 700,000 square feet will be constructed at once in 2018, with first production estimated early 2019.

The company is looking to de-risk their business by entering into long term supply contracts with partners to private label up to 75% of the Oliver facility's annual production. The remaining 25% will likely be retained by Sunniva to sell Sunniva branded products direct to existing and future patients being aggregated through Sunniva's ownership of NHS clinics. The following table outlines several prominent sales agreements that have recently been announced:

Currently Announced Cannabis Supply Agreements in Canada

Supplier	Receiving Party	Announcement Date	Details
The Green Organic Dutchman (TGOD)	Aurora Cannabis Inc.	January 5, 2018	As per Aurora's strategic investment into TGOD, Aurora has the right to purchase up to 20% of TGOD's annual production of organic cannabis. Aurora expects to procure in excess of 20,000 KG per year once TGOD's facilities are completed.
Canopy Growth Corp.	Province of Newfoundland and Labrador	December 8, 2017	8,000 KG per year for the first two years. In addition, Canopy will build a production facility in the province with production capacity of 12,000 KG per year, creating 145 jobs.
CanniMed Therapeutics Inc.	PharmaChoice	December 6, 2017	CanniMed announced a definitive agreement whereby PharmaChoice, a pharmacy collective with over 750 locations, has commited to CanniMed as sole supplier of medical cannabis moving forward.
Aphria Inc.	Shoppers Drug Mart	December 4, 2017	5 year supply agreement with prominent pharmacy chain Shoppers Drug Mart. The deal calls for Aphria to provide 12 products, all of which will be sold under Aphria's brand. The deal is contingent on Shopper Drug Mart's application to be allowed to dispense medical cannabis.
Zenabis	Province of New Brunswick	November 20, 2017	4,000 KG per year, for an estimated retail value of $40 million.
WeedMD	PeopleCare Communities, Arbour Heights, and Belmont Long Term Care Facility	September 26, 2017	The supply agreement is the first between a Canadian LP and Long Term Care Providers. The deal makes WeedMD the supplier of medical cannabis to a combined total of nine Long Term Care Homes and over 1,000 beds across Canada.
Organigram	Province of New Brunswick	September 15, 2017	5,000 KG per year, for an estimated retail value of $50 million.
Canopy Growth Corp.	AusCann Group Holdings Ltd.	September 13, 2017	As per the deal terms, Canopy becomes AusCann's exclusive supplier of medical cannabis for the Australian market.
Canopy Growth Corp.	Province of New Brunswick	September 12, 2017	4,000 KG per year, for an estimated retail value of $40 million.
Aphria Inc.	Scientus Pharma	July 4, 2017	Commitment to supply Scientus Pharma with 25,000 cannabis plants over the 12 months following the announcement of the agreement. Aphria expects to generate $1.2 million in revenue per quarter from the wholesale agreement.

Source: FRC, Company Disclosures

As outlined above, there have been many recent precedents with regards to the establishment of strategic sales agreements. As a result, we believe that Sunniva will be able to secure long-term supply contracts upon completion of their Canadian production facility. Investors should note, however, that to fulfill their goal of wholesale supply contracts equal to 75% of future production, Sunniva may need to secure multiple contracts.

If the company does move forward with an additional production facility Campus in Canada, Sunniva's combined potential production capacity would make it one of the largest future cannabis producers in North America. **According to the tables below, it would also make Sunniva one of the most undervalued publicly traded cannabis producers.** Note that this is according to our assumptions of Sunniva's current market capitalization and enterprise value, which is an inaccurate comparison due to its status as a private company (at the time of writing).

Proposed Production Capacity by Company
(Enterprise Valuations as of January 8, 2018)

Company	Ticker	Total Proposed Facility Area (SQ-FT)	Proposed Production Capacity (KG)	EV	MC	EV/ SQ-FT	EV/ KG	P/ SQ-FT	P/ KG
Aphria Inc.	TSX: APH	2,400,000	220,000	$3,437,785,000	$3,523,565,000	$ 1,432	$ 15,626	$ 1,468	$ 16,016
Aurora Cannabis Inc.	TSX: ACB	895,200	108,800	$6,424,640,000	$6,520,400,000	$ 7,177	$ 59,050	$ 7,284	$ 59,930
CannTrust Holdings Inc.	CSE: TRST	480,000	43,000	$ 957,275,000	$ 964,177,000	$ 1,994	$ 22,262	$ 2,009	$ 22,423
Canopy Growth Corp.	TSX: WEED	5,645,000	451,600	$7,584,660,000	$7,645,518,000	$ 1,344	$ 16,795	$ 1,354	$ 16,930
Emerald Health Corp.	TSXV: EMH	550,000	48,000	$ 740,216,000	$ 763,048,000	$ 1,346	$ 15,421	$ 1,387	$ 15,897
Hydropothecary Corp.	TSXV: THCX	1,300,000	108,000	$ 470,660,000	$ 484,768,000	$ 362	$ 4,358	$ 373	$ 4,489
Maricann Group Inc.	CSE: MARI	847,000	95,000	$ 332,122,000	$ 332,750,000	$ 392	$ 3,496	$ 393	$ 3,503
MedReleaf Corp.	TSX: LEAF	288,000	35,000	$2,699,006,000	$2,763,289,000	$ 9,372	$ 77,114	$ 9,595	$ 78,951
OrganiGram Holdings Inc.	TSXV: OGI	487,228	26,000	$ 614,428,000	$ 644,867,000	$ 1,261	$ 23,632	$ 1,324	$ 24,803
Sunniva Inc.	CSE: SNN	1,189,000	225,000	$ 196,286,479	$ 179,793,479	$ 165	$ 872	$ 151	$ 799
WeedMD Inc.	TSXV: WMD	243,800	21,500	$ 236,700,000	$ 239,446,000	$ 971	$ 8,091	$ 982	$ 8,185
Average						**$ 1,993**	**$18,252**	**$ 2,118**	**$19,156**

***Estimated based on public disclosures**
****Canopy's production capacity estimated based on FRC estimates of yield per square foot, due to lack of public disclosure.**
*****Sunniva's market capitalization and enterprise value based on recent special warrants offerings at $6.75, and their capital structure as of Q3-2017.**

Source: FRC, Company Disclosures

Funded Production Capacity by Company
(Enterprise Valuations as of January 8, 2018)

Company	Ticker	Total Funded Facility Area (SQ-FT)	Funded Production Capacity (KG)	EV	MC	EV/ SQ-FT	EV/ KG	P/ SQ-FT	P/ KG
Aphria Inc.	TSX: APH	1,000,000	100,000	$3,437,785,000	$3,523,565,000	$ 3,438	$ 34,378	$ 3,524	$ 35,236
Aurora Cannabis Inc.	TSX: ACB	895,200	108,800	$6,424,640,000	$6,520,400,000	$ 7,177	$ 59,050	$ 7,284	$ 59,930
CannTrust Holdings In	CSE: TRST	250,000	23,000	$ 957,275,000	$ 964,177,000	$ 3,829	$ 41,621	$ 3,857	$ 41,921
Canopy Growth Corp.	TSX: WEED	1,454,000	116,320	$7,584,660,000	$7,645,518,000	$ 5,216	$ 65,205	$ 5,258	$ 65,728
Emerald Health Corp.	TSXV: EMH	75,000	5,000	$ 740,216,000	$ 763,048,000	$ 9,870	$148,043	$ 10,174	$152,610
Hydropothecary Corp.	TSXV: THCX	300,000	25,000	$ 470,660,000	$ 484,768,000	$ 1,569	$ 18,826	$ 1,616	$ 19,391
Maricann Group Inc.	CSE: MARI	217,000	22,245	$ 332,122,000	$ 332,750,000	$ 1,531	$ 14,930	$ 1,533	$ 14,958
MedReleaf Corp.	TSX: LEAF	288,000	35,000	$2,699,006,000	$2,763,289,000	$ 9,372	$ 77,114	$ 9,595	$ 78,951
Organigram	TSXV: OGI	174,000	25,000	$ 614,428,000	$ 644,867,000	$ 3,531	$ 24,577	$ 3,706	$ 25,795
Sunniva Inc.	CSE: SNN	489,000	100,000	$ 196,286,479	$ 179,793,479	$ 401	$ 1,963	$ 368	$ 1,798
WeedMD Inc.	TSXV: WMD	243,800	21,500	$ 236,700,000	$ 239,446,000	$ 971	$ 11,009	$ 982	$ 11,137
Average						**$ 3,500**	**$36,109**	**$ 3,659**	**$37,408**

***Estimated based on public disclosures**
****Canopy's production capacity estimated based on FRC estimates of yield per square foot, due to lack of public disclosure.**
*****Sunniva's market capitalization and enterprise value based on recent special warrants offerings at $6.75, and their capital structure as of Q3-2017.**

Source: FRC, Company Disclosures

Although Health Canada has been accelerating the issuance of licenses in recent months due to the perceived forward supply-demand imbalance in Canada, there is no guarantee that the company will receive a license. Despite this, the recent dramatic increase in cannabis company financings, as well as the Canadian government's explicit intention to meet expected supply shortfalls, suggests to us that Sunniva will be able to attract financing.

Management has not disclosed expected CAPEX costs for the Sunniva Canada Campus. To this end, we have compiled a table of comparable British Columbia cannabis production facilities (proposed, funded and/ or completed) and have made an estimate of the average CAPEX per square foot for these production facilities. **Based on the average CAPEX per square foot of $203, we expect the Sunniva Canada Campus to require capital expenditures of $141.82 million in order to complete build-out.**

British Columbia Production Facility CAPEX Comparables

Company	Facility	Total Facility Area (SQ-FT)	CAPEX	CAPEX/ SQ-FT
Canopy Growth Corp.	BC Tweed Joint Venture	1,300,000	$ 20,000,000	$ 15
Emerald Health Therapeautics Inc.	Pure Sunfarms Joint Venture	550,000	$ 40,000,000	$ 73
Evergreen Medicinal Supply	Central Saanich Facility	150,000	$ 25,000,000	$ 167
Potanicals Green Growers Inc.	Peachland Facility	12,700	$ 4,680,000	$ 369
Santé Veritas Therapeutics Inc.	Powell River Facility	30,000	$ 6,000,000	$ 200
Tantalus Labs Ltd.	SunLabs Facility	75,000	$ 10,000,000	$ 133
Tilray	Nanaimo Facility	65,000	$ 30,000,000	$ 462
Average				**$ 203**

Source: FRC, Company Disclosures

With regards to the method of financing, Sunniva has yet to publicly announce any financing agreement with a lending institution or other party. However, management has advised us that they intend to finance the facility with a mix of fixed-term debt and private equity style debt. **Sunniva is looking to secure 65% of the required cost via a 25-year bank loan from a top tier lending institution, and the rest of the debt structured in a similar manner to the BPG financing deal the company currently has for its California production facility.** We elaborate upon this further in the valuation section of this report.

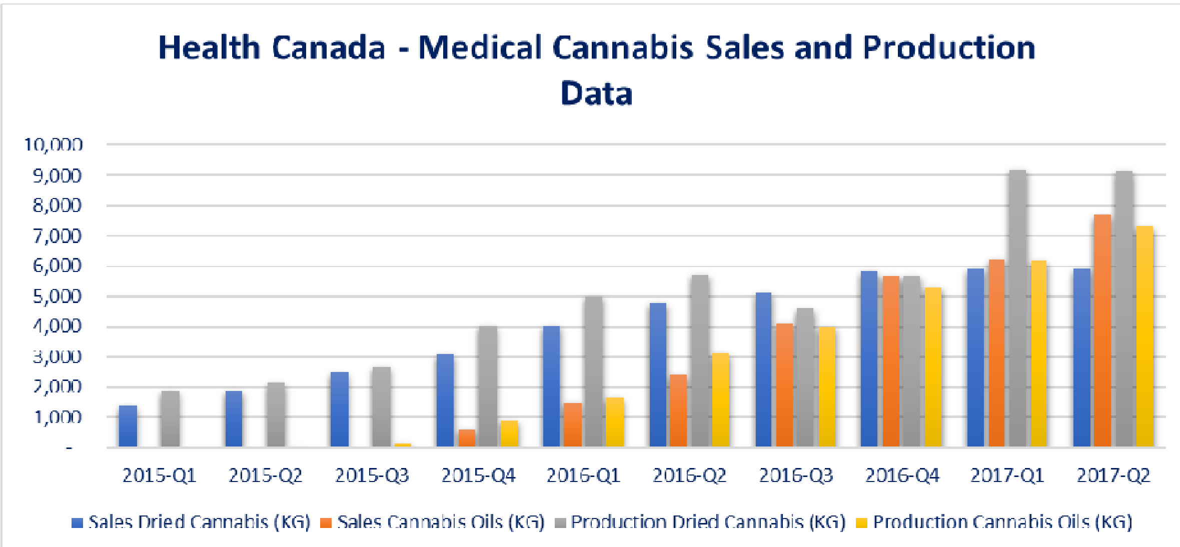
Sun-Oil Extraction Facility

The Sunniva Extraction Facility

Sunniva has a state licensed extraction facility in Cathedral City, California, less than a mile away from the Sunniva Campus, with operations expected to commence in Q1-2018. The facility was paid for via total consideration of US$1 million on August 18, 2017. The facility will produce pesticide free products by converting clean cannabis flower and trim to extracted products such as cannabis oil. The oil will be used for drug delivery formats such as capsules, dissolvable strips, vaporization cartridges, tinctures and creams. The facility will leverage the Vapor Connoisseur private label relationships to provide these brands with full procurement services in addition to vaporization devices and custom oil cartridges. The facility is one of the few in California to be licensed for both volatile and non-volatile extraction. At capacity, management believe this facility will have the ability to process over 500 lbs/day of bio-mass.

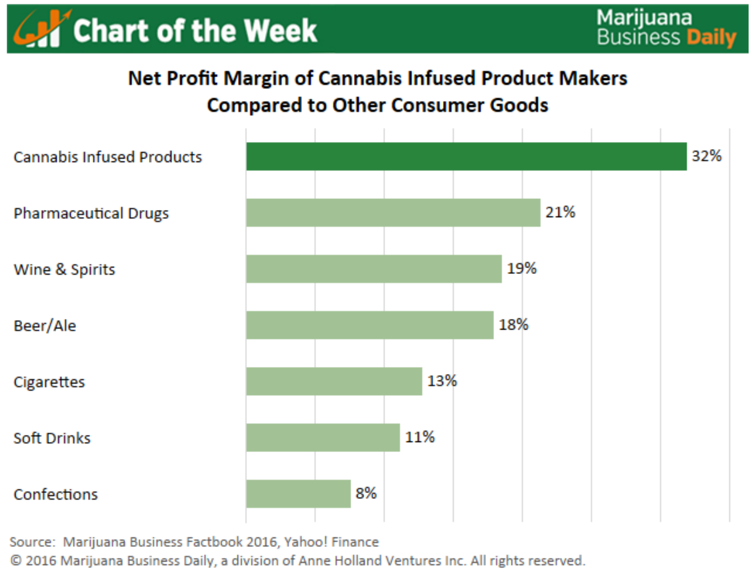
Sunniva will utilize the Campus production of raw product to manufacture complex reproducible products and formulations that meet standards for quality and effectiveness. A comprehensive Quality Management System encompasses every part of the manufacturing process, starting with the procurement of raw materials to the delivery of product to customers. We believe these processes will ensure consistent quality.

Cannabis extracts are becoming increasingly popular amongst users due to their higher psychoactive potency than dried flower and the variety of ingestion methods. For example, despite cannabis extract products only becoming legal for sale in July 2015, in Canada, cannabis extracts overtook dried flower sales in the quarter ended June 30, 2017. In the quarter ended September 30, 2017, this trend intensified further. The chart below outlines medical cannabis sales and production by licensed producers under the ACMPR regime:



Source: Health Canada

The cannabis extracts segment of the wider market is seen as an attractive opportunity by many licensed producers due to the profit margins they can attain. According to a March 19, 2017 price scan conducted by Lift Cannabis Co. (a news outlet centered on the cannabis industry), the average price of cannabinoid oils offered by ACMPR licensed producers in Canada is $1.23 per 10 mg of THC/ CBD, or $123 per gram of THC/ CBD. The 2016 report by the Office of the Parliamentary Budget Officer estimated that the 2018 average price of legal dried cannabis, by comparison, would be $7.50 per gram. Assuming a 15% THC content average for dried cannabis, dried cannabis has an average price of $50 per gram of cannabinoid, still significantly lower than cannabis oils.



Source: Marijuana Business Daily

Health Canada currently has a limit on THC content in cannabis oils of 30 mg/ ml (approximately 3% THC). On the surface, given that Health Canada sees an average THC content of 15% in todays dried cannabis flower, it might appear that dried flower is more potent. However, cannabis oils that are meant for oral ingestion commonly exhibit a longer onset and longer duration of perceived effects. This may be because orally ingested cannabis has been shown to produce significantly larger amounts of the metabolite 11-Hydroxy-THC than dried flower. According to a 1996 interview with Dr. Mahmoud ElSohly, a professor at the University of Mississippi, and renowned cannabis researcher, 11-Hydroxy-THC is four to five times more psychoactive than regular THC.

Furthermore, production costs associated with extracting cannabis oils are high, due to the need for specialized equipment and knowledge. According to Precision Extraction Solutions, which provides extraction site planning services and equipment, most lab services companies face startup costs in the range of $400,000-$800,000 including property leasing costs. By comparison, the following table outlines the estimated costs for home-grown dried product, according to Leafly, the world's largest cannabis website.

Yield	Cost (Including Labor)	Price Per Gram
Indoor - 500 grams	$3,908	$7.82
Indoor - 1,000 grams	$3,908	$3.91
Indoor 2'x2' - 200 grams	$1,920	$9.60
Outdoor - 2,000 grams	$5,185	$2.59
Outdoor - 4,000 grams	$5,185	$1.30

Source: Leafly

Due to the substantial differences in start-up costs, it is more difficult for retail or non-licensed producers to enter the cannabis extracts market. This in turn, implies a lower price elasticity of demand for cannabis extracts, since there are likely to be fewer substitutes available in the market.

Natural Health Services

Natural Health Services

On February 8, 2017, the company acquired all the shares of NHS for total consideration of $22.5 million in stock and cash. Since the acquisition, NHS represents the company's current Canadian operations prior to the development of the Sunniva California Campus and the Sunniva Canada Campus. NHS is one of Canada's foremost aggregators of medical cannabis patients to Licensed Producers ("LP's"), with a rapidly growing network that numbered 75,000 active patients as of October 31, 2017, and growing significantly every month. NHS's operations are divided into three components, namely:

- Physician supervised medical clinics.
- Education programs geared towards medical cannabis.
- Proprietary SaaS solutions that reduce administrative costs for both clinics and LPs.

NHS currently operates eight clinics and education centers in Canada, with recent expansions into Ontario and Manitoba. Furthermore, NHS has a growing Calgary call centre team that receives approximately 1,000 calls on a daily basis. This reflects the burgeoning demand for NHS' cannabis clinic services and education, as the company reports that there are appointment backlogs ranging from a few weeks to three months.

NHS utilizes a unique triage system to apportion doctors' time to patients. A triage system is a hospital/ medical system that apportions priority to patients based on the urgency of their condition. The system is efficient, allowing NHS physicians to service many patients per hour at an average hourly bill of $110 (paid by provincial health insurers).

In addition, NHS has a proprietary, secure software platform called SPARK. The platform removes the need for NHS to provide its patients physical scripts, allowing the patients script and medical documents to instead be entered into SPARK's database. With the use of a unique PIN, patients can use SPARK to select an LP of their choice immediately and send their order and medical documents electronically for processing. SPARK is currently integrated with over 20 LPs that pay NHS a percentage of revenue for purchases of cannabis.

NHS has initiated a pilot program in Q4-2017, with a large national pharmacy group to utilize NHS doctors and the SPARK software, on a referral fee basis to the pharmacy, to aggregate more patients across Canada. This model could be brought to all pharmacies. NHS has also recently hired a medical director named Dr. Mark Kimmins to recruit additional doctors and lead the pharmacy pilot program(s).

The NHS currently splits patient's fees with physicians on 70-30 basis, with the 70% majority going to the physicians. This makes NHS' model beneficial to prospective doctors, especially since patients signed on with NHS are required to schedule checkup appointments every three months.

Overall, we believe NHS exhibits an efficient, scalable business model with recurring revenues and ample opportunity for growth. NHS also provides the opportunity for patients to purchase Sunniva branded products when the Sunniva Campus production commences in Canada. The average medical cannabis patient, at 0.8 grams per day, purchases over $2500 of cannabis products annually.

NHS reported revenues of $7.4 million for the nine months ended September 30, 2017. This represents 72% of the company's current revenues.

Vapor Connoisseur

Full-Scale Distributors, LLC-DBA-Vapor Connoisseur: Private Label Vaporization Devices and Accessories

Sunniva acquired Full-Scale Distributors, LLC in February 2017 for US$5 million in cash and convertible notes. FSD was a strategic acquisition for Sunniva as a sophisticated private label vaporization company and having key relationships with the major-medical cannabis brands in California as well as major supply and logistics companies.

In addition, Sunniva will sell its oils and extracts utilizing customized FSD vaporization cartridges thereby offering a turn-key product to its existing brand clients. Once the Sunniva California Campus is operational, FSD will be able to offer vaporizers, accessories and fully loaded oil cartridges in private labeled packages. This service is highly desirable in a market where quality and consistency are an issue. A high growth industry, BIS research estimated that the global market for electronic cigarettes and vaporizers would reach US$50 billion in 2025, reflecting a CAGR of 22.36% since 2015.

FSD reported revenues of $2.82 million for the nine months ended September 30, 2017. This represents 28% of the company's current revenues.

Management Overview

Management Overview

The company's board of directors has 8 members, 3 of which are independent. We believe that a company's board of directors should include independent or unrelated directors who are free of any relationships or business that could materially interfere with the director's ability to act in the best interest of the company. **Management currently owns 8.9 million common shares, or approximately 33.4% of the basic shares outstanding – aligning their interest with investors.** The majority of these shares are subject to 3-year escrow provisions.

Brief biographies of the senior management and board members, as provided by the company, follow:

Dr. Anthony Holler – Co-Founder, CEO, Chairman, Director

Dr. Anthony (Tony) Holler is the former CEO and founder of ID Biomedical, acquired in 2015 by Glaxo Smith Kline for $1.7 billion, and former Chairman of Corriente Resources Inc., sold for approximately $700 million to CRCC-Tongguan Investment Co. Tony is the current Chairman of CRH Medical Corp., a publicly traded company and serves as Sunniva's Chief Executive Officer. His expertise includes strategic planning, mergers and acquisitions, and financing, with a singular focus on increasing shareholder value.

Leith Pedersen – Co-Founder, President, Director
Former owner and CEO of Vida Wealth Management Bahamas, former Investment advisor at Canaccord Wealth Management and former Partner and Director of JF Mackie, an independent brokerage firm in Calgary Alberta that managed capital in excess of $2 billion for high net worth clients. Leith's expertise is corporate strategy, financing and mergers and acquisitions.

Dave Negus – CFO
Mr. Negus brings to Sunniva more than 20 years of financial leadership, including extensive experience in high growth companies. He most recently served as the Chief Financial Officer of Luvo, Inc., a forward-thinking food company. At Luvo, Mr. Negus was responsible for finance, supply chain operations, IT, human resources and investor relations. Prior to his role at Luvo, Mr. Negus was Vice President, Corporate Controller at lululemon athletica. In his role at lululemon, Mr. Negus led the finance team through their initial public offering and was responsible for their global financial reporting, accounting, tax, and treasury functions. As part of the lululemon leadership team, he played an integral role in the development and build out of a finance team that supported the business from a private company to a billion-dollar international organization. Mr. Negus received his Chartered Professional Accountant designation from Deloitte.

Duncan Gordon – COO
Duncan is the former head of manufacturing and supply chain management at Kudu Industries. With over 25 years experience as a manufacturing and supply chain expert, he has led various teams and large-scale projects focused on engineering, procurement, logistics, production and distribution.

Ian Webb – Director
Former director of ID Biomedical, and current director of CRH Medical Corp. Also, former senior corporate law partner of Borden Ladner Gervais LLP, one of Canada's largest law firms, whose practice encompassed mergers and acquisitions as well as corporate and securities law with an emphasis on the legal requirements of public companies and their boards.

Dan Vass – Director
Daniel is the founder and CEO of NHS, which operates boutique cannabis clinics across Canada with thousands of patients and growing. The NHS focuses on fulfilling underserved patient needs and educating on the importance of access to a physician-approved environment. NHS is a medical-centric corporation offering quality patient care, superior service and improved quality of life for its patients. NHS is grower-agnostic, choosing the finest products available at the best possible price.

Michael Barker – Director
Founder of Barker Pacific Group, a firm of experienced real estate professionals active in the acquisition, development, construction management, and asset management of major commercial projects. Founded in 1983, the company specializes in the development and acquisition of institutional-quality office, industrial, and residential projects. As a developer,

BPG has completed, developed, or redeveloped in excess of $2.5 billion in commercial projects. The company enjoys close relationships with major corporate and institutional partners who commend the Barker Pacific Group management team's commitment to excellence, entrepreneurial vision, business acumen, and personal integrity

Luke Stanton – Director
Luke Stanton is an attorney and founder of the Frontera Law Group, a leading firm in the state of California focused on issues related to medical cannabis, which represents a host of quality cannabis companies, brands, products and ancillary service providers. Luke is also a general partner at Skytree Capital Partners, a Nevada-based private equity firm focused on the legal cannabis space. He has been featured in Financial Times Magazine, the National Marijuana News, mg Magazine, Cannabis Industry Journal, MJINews, LEFAIR Magazine and Merry Jane, and has made speaking appearances at numerous cannabis and investment conferences, summits and events across the country.

Todd R. Patrick – Director
Todd brings 30 years of senior executive experience in building health care companies from the ground up. With expertise in finance, intellectual property, strategy and leadership, Todd has been involved with several start-ups as either CEO or as an active investor/board member. In these positions, Todd has helped raise over $600 million in equity/debt capital and participated in several merger and acquisition transactions. Todd is currently the President and CEO of C3J Therapeutics, Inc., a Los Angeles-based biotechnology company where he has raised over $125 million in equity capital. Prior to joining C3J, Todd spent 11 years as President of ID Biomedical until its $1.7 billion acquisition by GlaxoSmithKline

Norm Mayr – Director, Audit Committee Chairman
Norm Mayr is a recently retired (2016) Audit Partner having spent 38 years in public practice with KPMG. He was the Risk Management and Professional Practice Partner for the Greater Vancouver Area practice of KPMG for the most recent 18 years of his career. In this role, Norm was consulted regularly on complex financial reporting, accounting, audit, and securities issues. Norm has extensive experience in the mining, forestry, technology, retail and industrial markets sectors and he served as lead partner on many of KPMG's largest multinational clients in these industries. He was a founding member of the CICA Accounting Standards Board, and a member of the Canadian Advisory Group to the International Accounting Standards Committee.

Financials

Financial Overview
For the quarter ended September 30, 2017, the company had revenues of $4.56 million. For the nine months ended that reporting date, Sunniva reported revenues of $10.22 million. The below table outlines the company's operations.

STATEMENTS OF OPERATIONS (C$) - YE Dec 31st	2015	2016	2016(3M)	2017(3M)	2016(9M)	2017(9M)
Revenue		38,000		4,562,000		10,215,000
COGS		12,000		2,834,000		6,036,000
Gross Profit	**-**	**26,000**	**-**	**1,728,000**	**-**	**4,179,000**
EXPENSES						
SG&A Expense	1,340,000	3,596,000	817,000	8,400,000	2,741,000	13,121,000
Leaseback Payments						
Share-based Compensation						
Research & Development	513000	314000			689000	
EBITDA	**(1,853,000)**	**(3,884,000)**	**(817,000)**	**(6,672,000)**	**(3,430,000)**	**(8,942,000)**
Depreciation				1,013,000		2,538,000
EBIT	**(1,853,000)**	**(3,884,000)**	**(817,000)**	**(7,685,000)**	**(3,430,000)**	**(11,480,000)**
Financing Costs	60,000	854,000				
EBT	**(1,913,000)**	**(4,738,000)**	**(817,000)**	**(7,685,000)**	**(3,430,000)**	**(11,480,000)**
Non-Recurring Expenses		2,149,000	85,000	-710,000	2,047,000	7,983,000
Taxes				- 366,000		-832000
Net Profit (Loss)	**(1,913,000)**	**(6,887,000)**	**(902,000)**	**(6,609,000)**	**(5,477,000)**	**(18,631,000)**
FOREX Translation		-33,000	2,000	- 31,000		- 29,000
Net comprehensive Profit (Loss)	**(1,913,000)**	**(6,920,000)**	**(900,000)**	**(6,640,000)**	**(5,477,000)**	**(18,660,000)**

The following table provides a summary of Sunniva's current balance sheet:

BALANCE SHEET (C$) - YE Dec 31st	2015	2016	2017(Q3)
ASSETS			
CURRENT			
Cash and Cash Equiv.	41,000	9,613,000	714,000
A/R	61,000	33,000	2,883,000
Inventory			133,000
Assets Held For Sale			8,764,000
Loan Receivable		100,000	
Prepaid Expenses	1,165,000	47,000	684,000
Total Current Assets	**1,267,000**	**9,793,000**	**13,178,000**
Deposits on Leases and Properties	51,000	273,000	369,000
Property, Plant, and Equipment		2,031,000	599,000
Intangible Assets		13,566,000	31,788,000
Goodwill			12,952,000
Other			25,000
Total Assets	**1,318,000**	**25,663,000**	**58,911,000**
LIABILITIES			
CURRENT			
A/P	519,000	783,000	3,326,000
Deferred Revenue			2,627,000
Secured Promissory Notes		9,333,000	17,207,000
Warrant Liability		764,000	2,077,000
Provisions		202,000	258,000
Loans from Shareholders	1,554,000	336,000	
Total Current Liabilities	**2,073,000**	**11,418,000**	**25,495,000**
Deferred Income Taxes			3,800,000
Total Liabilities	**2,073,000**	**11,418,000**	**29,295,000**
SHAREHOLDERS EQUITY			
Share Capital	2,294,000	23,815,000	48,225,000
Special Warrants			6,035,000
Share Subscriptions	100,000	84,000	
Share Based Payment			3,311,000
Contributed Surplus		415,000	774,000
Deficit	- 3,149,000	- 10,036,000	- 28,667,000
Accumulated Other Comprehensive Income		- 33,000	- 62,000
Total shareholders' equity (deficiency)	**(755,000)**	**14,245,000**	**29,616,000**
Total Liabilities and Shareholders Equity	**1,318,000**	**25,663,000**	**58,911,000**

At the end of the reporting period Q3-2017, the company had a cash position of $0.71

million and negative working capital of $12.3 million, as well as assets totaling $58.9 million and a debt position of $17.2 million. According to management, as of December 31, 2017, the company had a cash position of $12.0 million and the only outstanding debt is outlined in the capitalization table provided further below.

(in C$) - YE Dec 31st Liquidity & Capital Structure	2015	2016	2017(Q3)
Cash	41,000	9,613,000	714,000
Working Capital	(806,000)	(1,625,000)	(12,317,000)
Current Ratio	0.61	0.86	0.52
LT Debt	0	0	0
Total Debt	1,554,000	9,669,000	17,207,000
LT Debt / Capital	-	-	-
Total Debt / Capital	194%	40%	37%
EBIT Interest Coverage	-30.88	-4.55	
Total Invested Capital	758,000	14,301,000	46,109,000

Below is a summary of the firm's cash flows:

Summary of Cash Flows ($, mm)	2015	2016	2016 (9M)	2017 (9M)
Operating	-$2.97	-$4.54	-$4.38	-$4.08
Investing	-$0.05	-$6.52	-$0.22	-$10.28
Financing	$2.31	$20.59	$4.80	$5.45
Effects of Exchange Rate	$0.00	$0.04	$0.00	$0.01
Net	**-$0.72**	**$9.57**	**$0.20**	**-$8.90**
Free Cash Flows to Firm (FCF)	**-$3.03**	**-$11.05**	**-$4.60**	**-$14.36**

Stock Options and Warrants: We estimate that the company has 4.24 million stock options (weighted average exercise price of $4.66) and 2.1 million warrants (weighted average exercise price of $5.19) outstanding. 2.65 million options and 0.95 million warrants are currently in the money. The company has the potential to raise up to $12.12 million if all the in-the-money options and warrants are exercised.

Sunniva's capitalization, as of January 4th, 2018, is shown below.

As of January 4, 2018 (Unaudited)		
Basic Shares Outstanding		26,636,071
Fully Diluted Shares Outstanding		36,998,080
Total Equity Raised to Date	$	51,171,969
Debt (US$ denominated debt converted @ 1.25)	$	16,510,000
Cash Position	$	12,000,000

Source: Company

Valuation

Valuation and Consolidated Revenue Forecasts

The following table shows our consolidated revenue forecasts for Sunniva, incorporating all operating divisions, through 2025:

STATEMENTS OF OPERATIONS (C$) - YE Dec 31st	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Revenue	52,181,250	341,046,875	598,008,875	700,377,534	793,997,056	880,057,637	885,181,687	880,398,204
COGS	16,716,667	127,367,708	201,152,214	229,273,079	258,339,787	288,588,796	300,315,682	311,633,666
Gross Profit	**35,464,583**	**213,679,167**	**396,856,662**	**471,104,454**	**535,657,269**	**591,468,841**	**584,866,005**	**568,764,538**
EXPENSES								
SG&A Expense	13,327,091	87,103,372	152,731,467	178,876,422	202,786,848	224,766,720	226,075,403	224,853,701
Leaseback Payments	10,875,000	10,875,000	10,875,000	10,875,000	10,875,000	10,875,000	10,875,000	10,875,000
Share-based Compensation	2,609,063	17,052,344	29,900,444	35,018,877	39,699,853	44,002,882	44,259,084	44,019,910
EBITDA	**8,653,430**	**98,648,451**	**203,349,751**	**246,334,155**	**282,295,568**	**311,824,238**	**303,656,517**	**289,015,927**
Depreciation	332,350	7,521,504	8,566,741	8,290,492	8,050,868	7,849,460	7,688,293	7,569,880
EBIT	**8,321,080**	**91,126,947**	**194,783,010**	**238,043,664**	**274,244,700**	**303,974,778**	**295,968,224**	**281,446,046**
Financing Costs	9,523,476	12,359,784	12,359,784	12,359,784	12,359,784	12,359,784	12,359,784	12,359,784
EBT	**(1,202,396)**	**78,767,163**	**182,423,226**	**225,683,879**	**261,884,916**	**291,614,994**	**283,608,440**	**269,086,262**
Non-Recurring Expenses								
Taxes	-312,623	20,479,462	47,430,039	58,677,809	68,090,078	75,819,898	73,738,194	69,962,428
Net Profit (Loss)	**(889,773)**	**58,287,700**	**134,993,187**	**167,006,071**	**193,794,838**	**215,795,096**	**209,870,246**	**199,123,834**

Source: FRC

The above forecasts are based on the following assumptions:

- SG&A expenses are based on the five-year average SG&A margin in the medicinal chemicals and botanical products sub-sector of 25.54%.
- Leaseback payments of US$8.7 million, as per the company's public disclosures.
- CAPEX in 2018 of $141.82 million for the Sunniva Canada Campus. CAPEX in 2019 of $25.78 million for phase two development of the Sunniva California Campus.
- Given management's expectation of their debt mix, we have used a weighted average cost of debt of 8%.

Revenue estimates were derived from three separate revenue projection models, as seen in detail below, based on each individual Sunniva Campus facility, and the combined revenues from NHS and VC.

Sunniva California Campus

*US$	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Dried Flower Production Capacity (KG)	10,500	42,000	70,000	70,000	70,000	70,000	70,000	70,000
Dried Flower Sales (KG)	1,575	8,400	21,000	28,000	35,000	42,000	42,000	42,000
Price per KG	$ 5,000	$ 4,762	$ 4,535	$ 4,319	$ 4,114	$ 3,918	$ 3,731	$ 3,553
Dried Flower Revenue	$ 7,875,000	$ 40,000,000	$ 95,238,095	$ 120,937,264	$ 143,972,933	$ 164,540,495	$ 156,705,233	$ 149,243,079
Cost per KG	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000
Dried Flower COGS	$ 1,575,000	$ 8,400,000	$ 21,000,000	$ 28,000,000	$ 35,000,000	$ 42,000,000	$ 42,000,000	$ 42,000,000
Oil Production Capacity (L)	108,000	216,000	360,000	360,000	360,000	360,000	360,000	360,000
Oil Sales (L)	16,200	43,200	108,000	144,000	180,000	216,000	216,000	216,000
Price per L	$ 1,250	$ 1,190	$ 1,134	$ 1,080	$ 1,028	$ 979	$ 933	$ 888
Oil Revenue	$ 20,250,000	$ 51,428,571	$ 122,448,980	$ 155,490,768	$ 185,108,057	$ 211,552,065	$ 201,478,157	$ 191,883,959
Cost per L	$ 250	$ 250	$ 250	$ 250	$ 250	$ 250	$ 250	$ 250
Oil COGS	$ 4,050,000	$ 10,800,000	$ 27,000,000	$ 36,000,000	$ 45,000,000	$ 54,000,000	$ 54,000,000	$ 54,000,000
Total Revenues	$ 28,125,000	$ 91,428,571	$ 217,687,075	$ 276,428,032	$ 329,080,990	$ 376,092,560	$ 358,183,390	$ 341,127,038
COGS	$ 5,625,000	$ 19,200,000	$ 48,000,000	$ 64,000,000	$ 80,000,000	$ 96,000,000	$ 96,000,000	$ 96,000,000
Total Revenues (C$)	$ 35,156,250	$ 114,285,714	$ 272,108,844	$ 345,535,039	$ 411,351,237	$ 470,115,700	$ 447,729,238	$ 426,408,798
COGS (C$)	$ 7,031,250	$ 24,000,000	$ 60,000,000	$ 80,000,000	$ 100,000,000	$ 120,000,000	$ 120,000,000	$ 120,000,000

Notes

	Flower (KG)	Trim (KG)				
Phase 1 Production:	60,000	18,000	*30% of Flower and all Trim convert to oils			
Phase 2 Production:	40,000	12,000	Dried Flower Equivalency= 6L per KG of Dried			
Phase 1 Dried Production (70%)	42,000		Phase 1 Oils:	216,000		
Phase 2 Dried Production (70%)	28,000		Phase 2 Oils:	144,000	Phase 2 CAPEX per sq-ft:	$ 125
Total Dried Production	70,000		Total Oils:	360,000	Phase 2 CAPEX	$ 20,625,000
					Phase 2 CAPEX (CAD)	$ 25,781,250
			Lease Payments	$ 8,700,000		
Phase One First Harvest	Q4-2018		USD-CAD:	1.25		
Phase Two First Harvest	Q1-2020					

Source: FRC

The above forecasts are based on the following assumptions:

- Wholesale business model. Assuming a retail price of dried flower of US$10 per gram in California, we expect Sunniva will extract a price equal to half the retail price.
- Prices declining at 5% per year, reflecting maturity of the market and entrance of new producers.
- Constant production cost of US$1 per gram.
- Oil prices and costs are 1.5 x the price of dried flower equivalent.
- Utilization growing as a percentage of total production capacity in each year. To maintain conservatism, we cap utilization rates at between 60%-70% in later years.

Sunniva Canada Campus

	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Dried Flower Production Capacity (KG)		70,313	93,750	93,750	93,750	93,750	93,750	93,750
Dried Flower Sales (KG)		28,125	42,188	46,875	51,563	56,250	60,938	65,625
Price per KG		$ 3,571	$ 3,401	$ 3,239	$ 3,085	$ 2,938	$ 2,798	$ 2,665
Dried Flower Revenue		$ 100,446,429	$ 143,494,898	$ 151,846,453	$ 159,077,236	$ 165,275,051	$ 170,521,878	$ 174,894,234
Cost per KG		$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000
Dried Flower COGS		$ 70,312,500	$ 93,750,000	$ 93,750,000	$ 93,750,000	$ 93,750,000	$ 93,750,000	$ 93,750,000
Oil Production Capacity (L)		124,875	166,500	166,500	166,500	166,500	166,500	166,500
Oil Sales (L)		49,950	74,925	83,250	91,575	99,900	108,225	116,550
Price per L		$ 893	$ 850	$ 810	$ 771	$ 735	$ 700	$ 666
Oil Revenue		$ 44,598,214	$ 63,711,735	$ 67,419,825	$ 70,630,293	$ 73,382,123	$ 75,711,714	$ 77,653,040
Cost per L		$ 250	$ 250	$ 250	$ 250	$ 250	$ 250	$ 250
Oil COGS		$ 12,487,500	$ 18,731,250	$ 20,812,500	$ 22,893,750	$ 24,975,000	$ 27,056,250	$ 29,137,500
Branded Flower Production Capacity (KG)		23,438	31,250	31,250	31,250	31,250	31,250	31,250
Branded Flower Sales (KG)		5,859	9,375	10,938	12,500	14,063	15,625	15,625
Price per KG		$ 7,143	$ 6,803	$ 6,479	$ 6,170	$ 5,876	$ 5,597	$ 5,330
Branded Flower Revenue		$ 41,852,679	$ 63,775,510	$ 70,861,678	$ 77,128,357	$ 82,637,525	$ 87,447,117	$ 83,282,968
Cost per KG		$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000
Branded Flower COGS		$ 5,859,375	$ 9,375,000	$ 10,937,500	$ 12,500,000	$ 14,062,500	$ 15,625,000	$ 15,625,000
Branded Oil Production Capacity (L)		41,625	55,500	55,500	55,500	55,500	55,500	55,500
Branded Oil Sales (L)		10,406	16,650	19,425	22,200	24,975	27,750	27,750
Price per L		1786	1701	1620	1543	1469	1399	1333
Branded Oil Revenue		18,582,589	28,316,327	31,462,585	34,244,991	36,691,061	38,826,520	36,977,638
Cost per L		250	250	250	250	250	250	250
Branded Oil COGS		$ 2,601,563	$ 4,162,500	$ 4,856,250	$ 5,550,000	$ 6,243,750	$ 6,937,500	$ 6,937,500
Total Revenues		$ 205,479,911	$ 299,298,469	$ 321,590,541	$ 341,080,877	$ 357,985,760	$ 372,507,228	$ 372,807,880
COGS		$ 91,260,938	$ 126,018,750	$ 130,356,250	$ 134,693,750	$ 139,031,250	$ 143,368,750	$ 145,450,000

Notes

	Flower (KG)	Trim (KG)			
Total Production:	125,000	37,000	*All Trim convert to oils		
Total Dried Production	125,000		Dried Flower Equivalency= 6L per KG of Dried		
	Dried	**Oils**	Total Oils:	222,000	
Sales Contracts (75%)	93,750	166,500			
Branded Products (25%)	31,250	55,500			
				Facility Cost:	$ 141,815,429
First Harvest	Q1-2019			Interest Expense @ 8% WACD	11,345,234

Source: FRC

The above forecasts are based on the following assumptions:

- Wholesale contracts equal to 75% of sales. Assuming an initial retail price of dried flower of $7.5 per gram in Canada (PBO estimates), we expect Sunniva will extract a price equal to half the retail price.
- 25% of sales retained as branded Sunniva products. These are sold at retail prices.
- Prices declining at 5% per year, reflecting maturity of the market and entrance of new producers.
- Constant production costs of $1 per gram.
- Oil prices and costs are 1.5 x the price of dried flower equivalent.
- Utilization growing as a percentage of total production capacity in each year. To maintain conservatism, we cap utilization rates at between 60%-70% in later years.

Natural Health Services and Vapor Connoisseur

	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
NHS Revenue	12,333,333	15,416,667	19,270,833	24,088,542	30,110,677	37,638,346	47,047,933	58,809,916
NHS COGS	6,166,667	7,708,333	9,635,417	12,044,271	15,055,339	18,819,173	23,523,966	29,404,958
VC Revenue	4,691,667	5,864,583	7,330,729	9,163,411	11,454,264	14,317,830	17,897,288	22,371,610
VC COGS	3,518,750	4,398,438	5,498,047	6,872,559	8,590,698	10,738,373	13,422,966	16,778,708
Total Revenues	$ 17,025,000	$ 21,281,250	$ 26,601,563	$ 33,251,953	$ 41,564,941	$ 51,956,177	$ 64,945,221	$ 81,181,526
COGS	$ 9,685,417	$ 12,106,771	$ 15,133,464	$ 18,916,829	$ 23,646,037	$ 29,557,546	$ 36,946,932	$ 46,183,666

Notes	
NHS 9M 2017 Revenue	$ 7,400,000
NHS Annualized 2017 Revenue	9,866,667
NHS Weighted Average Growth Rate	25.0%
VC 9M 2017 Revenue	$ 2,815,000
VC Annualized 2017 Revenue	3,753,333
VC Weighted Average Growth Rate	25.0%

Source: FRC

Discounted Cash Flow Valuation

Our DCF valuation on Sunniva's shares is $47.66 per share.

DCF Valuation Model		2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	Terminal
EBIT (1-Tax)		$ 6,157,599	$ 67,433,941	$ 144,139,427	$ 176,152,311	$ 202,941,078	$ 224,941,336	$ 219,016,486	$ 208,270,074	
Depreciation		$ 332,350	$ 7,521,504	$ 8,566,741	$ 8,290,492	$ 8,050,868	$ 7,849,460	$ 7,688,293	$ 7,569,880	
Investment in WC		$ -9,036,563	$ -17,828,542	$ -16,809,725	$ -14,608,374	$ -18,202,707	$ -22,573,430	$ -18,267,279	$ -16,986,111	
CFO		$ -2,546,614	$ 57,126,903	$ 135,896,444	$ 169,834,429	$ 192,789,239	$ 210,217,366	$ 208,437,500	$ 198,853,844	
CAPEX		$ -144,115,429	$ -28,426,250	$ -3,041,750	$ -3,498,013	$ -4,022,714	$ -4,626,122	$ -5,320,040	$ -6,118,046	
FCF		$ -146,662,042	$ 28,700,653	$ 132,854,694	$ 166,336,416	$ 188,766,524	$ 205,591,244	$ 203,117,460	$ 192,735,798	$ 198,517,872
PV		$ -130,948,252	$ 22,879,985	$ 94,563,347	$ 105,709,800	$ 107,111,195	$ 104,158,923	$ 91,880,024	$ 77,842,756	$ 890,867,098
Discount Rate	12.00%									
Terminal Growth Rate	3%									
Total PV	$ 1,364,064,876									
Cash - Debt	$ -8,753,566									
Equity Value	$ 1,355,311,309									
Shares O/S (dil)	28,436,798									
Value per share	**47.66**									

Source: FRC

For our discount rate, we utilized a WACC of 12%. This is based on the 5-year average ROE and debt-to-capital structure exhibited in the medicinal chemicals and botanical products industry. We also used a return on debt that reflects the average rate of long-term corporate debt. An additional discretionary risk premium has been included to reflect uncertainty of the company's forward operations.

Comparables Valuation

The following table shows our comparables valuation. As Sunniva is looking to become a cannabis LP, we use a unique form of comparables valuation based on EV/ Square foot and EV/ KG, as opposed to traditional enterprise multiples. We believe this form of valuation helps capture current market valuations of cannabis companies and how Sunniva may compare. The comparable multiples are based on our selection of publicly-traded Canadian LPs.

Comparables Valuation					
Funded Sq-Ft Area		489,000	Funded KG Capacity		100,000
Average Funded EV/ Sq-Ft	$	3,500	Average Funded EV/ KG	$	36,109
Expected EV (CDN$)	$	1,711,342,809	Expected EV (CDN$)	$	3,610,898,881
Expected Market Cap		$1,702,589,243	Expected Market Cap		$3,602,145,314
Value per Share (C$)	**$**	**59.87**	**Value per Share (C$)**	**$**	**126.67**

Comparables Valuation					
Proposed Sq-Ft Area		1,189,000	Proposed KG Capacity		225,000
Average Proposed EV/ Sq-Ft	$	1,993	Average Proposed EV/ KG	$	18,252
Expected EV (CDN$)	$	2,370,116,873	Expected EV (CDN$)	$	4,106,680,101
Expected Market Cap		$2,361,363,307	Expected Market Cap		$4,097,926,534
Value per Share (C$)	**$**	**83.04**	**Value per Share (C$)**	**$**	**144.11**

As shown above, our comparables valuation gives a range of $59.87 to $144.11. **However, we have chosen to remain conservative and maintain our DCF valuation.** Note that the comparables valuation reflects what the market is currently paying for similar publicly-traded cannabis companies. This may demonstrate potential upside for Sunniva's stock price moving forward.

Based on our review of the company's business model, the quality of the management team and their execution plan, and our valuation models, we are initiating coverage on Sunniva with a BUY rating and a fair value estimate of $47.66 per share. We are bullish on the company's position in the growing cannabis market, and we believe Sunniva will realize similar market valuations as other prominent Canadian cannabis companies in the industry.

Risks

We believe the company is exposed to the following risks (list is non-exhaustive):

- The company operates in an industry that is highly regulated and subject to material change from governmental intervention.
- Cannabis is illegal at the federal level in the U.S., where Sunniva intends to construct their initial production facility.
- There is no guarantee that the company will be granted an ACMPR license. Failure to secure said license will bar the company from producing or selling cannabis in Canada.
- No guarantee that the company will be able to finance the Sunniva Canada Campus facility, or phase two development at the Sunniva California Campus. Furthermore, the financing of phase one of the Sunniva California Campus is dependent upon BPG's ability to raise the necessary capital to complete the phase one build-out.
- No guarantee that the company will be able to sell the cannabis produced at either Sunniva Campus facility, nor successfully secure long-term supply contracts in either operating region.
- Contamination risk and other risks associated with biological/ agricultural production.
- Exchange rate risk associated with cross-border operations.
- Access to capital and share dilution.

We are initiating coverage with a risk rating of 4 (Speculative).

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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