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Sunniva Inc.

Cannabis

Canadian Equity Research
28 June 2018

SPECULATIVE BUY

PRICE TARGET	C$13.00
Price (27-Jun)	C$7.80
Ticker	SNN-CNSX

52-Week Range (C$):	7.53 - 17.93
Avg Daily Vol (000s) :	72.3
Market Cap (C$M):	315
Shares Out., FD (M) :	40.4
Total Return to Target (%) :	66.7
Net Debt (Cash) (C$M):	(7)

FYE Dec	2017A	2018E	2019E	2020E
Revenue (C$M)	16	27	162	248
SG&A (C$M)	14.3	22.1	49.0	68.8
EBITDA Adj (C$M)	(8.3)	(7.7)	23.2	67.0
EPS Adj&Dil (C$)	(0.73)	(0.50)	(0.01)	1.10

Source: FactSet

Priced as of close of business 27 June 2018

Sunniva is a cannabis company with operations in Canada and California. The company is currently constructing phase I of II greenhouse facilities in California with a total of 489,000 square feet and a projected annual capacity of 100,000 kg. The company also broke ground on its greenhouse facility in BC, Canada with an estimated production capacity of 100,000 kg per year.

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Initiation of Coverage

Bringing quality and scale to the world's two largest cannabis markets

We are initiating coverage of Sunniva Inc. with a SPECULATIVE BUY rating and a target price of C$13.00. Sunniva is a diversified cannabis company with operations in both the US and Canada. The company is in the midst of constructing large scale, purpose-built, current Good Manufacturing Practices (cGMP) compliant greenhouses and extraction facilities in order to service the California and Canadian industries (both currently transitioning into legal rec markets).

Investment Highlights

Bringing compliant cultivation to California. We believe the issue of quality and scale is of particular importance in California, where ~85% of product still contains contaminants through a supply chain that is disaggregated and undercapitalized. With compliant product in short supply, the company plans to secure supply contracts with leading brands and plans to become one of the first large-scale, cGMP-compliant operators in the state by the end of the year.

Canadian exposure. Sunniva is building out a 100,000 kg greenhouse in British Columbia. Although the Canadian market is becoming increasingly saturated with producers, the company has entered into a supply agreement with Canopy Growth Corp. for 90,000 kg of cannabis. We believe this provides some medium-term revenue certainty while partnering Sunniva with the largest LP in Canada and allocating a sizable portion of its planned capacity right off the bat.

Branding is key. The core value driver of our model ultimately rests in the company’s ability to secure market share in California and Canada. As we believe the cultivation of cannabis will eventually commoditize, Sunniva will need to secure brand awareness over the long term. As one of only a limited number of US cannabis operators with access to public market capital, we believe the company is well positioned to transition to a fully vertically integrated operator by acquiring other areas of the value chain.

Attractive relative valuation. Sunniva currently trades at ~5.5x its two-year fwd EV/ EBITDA, which is a discount to both Cdn peers at ~13.3x and US peers at ~6.5x. Although we believe SNN should trade below its Cdn peers, our target price of C$13.00 implies a ~8.6x two-year EV/EBITDA but provides 67% upside to SNN’s current price.

High-growth California and Canadian cannabis markets drive our forecasts. We forecast that Sunniva will achieve sufficient market share to realize ~C$27M of revenues in FY2018E, increasing by a 100% CAGR to C$342M by FY2022E (which assumes a conservative 2.5% California mkt share and <1% Cdn mkt share), resulting in EBITDA of C$105M and free cash flow of C$70M at that time.

Valuation: We value Sunniva using a sum-of-the-parts analysis for each market/asset where it has exposure. We utilize a DCF methodology, with discount rates ranging from 10% to 13% and terminal growth of 2%. Together, our SOTP valuation yields a target price of C$13.00 and a forecast return of 66.7%. Given the risks and uncertainties surrounding execution, branding and other market factors, we believe a SPECULATIVE BUY rating is appropriate at this time.

For important information, please see the Important Disclosures beginning on page 46 of this document.

Figure 1: Sunniva Summary sheet

Company Description

Sunniva is a vertically integrated medical cannabis company with operations in Canada and California. The company currently has ten wholly owned subsidiaries ranging from cannabis medical clinics, vaporization device retailers and cannabis cultivators. The company is currently constructing phase I of II greenhouse facilities in California with a total of 489,000 square feet and a projected annual capacity of 100,000 kg. The company also broke ground on its greenhouse facility in BC, Canada with an estimated production capacity of 100,000 kg per year.

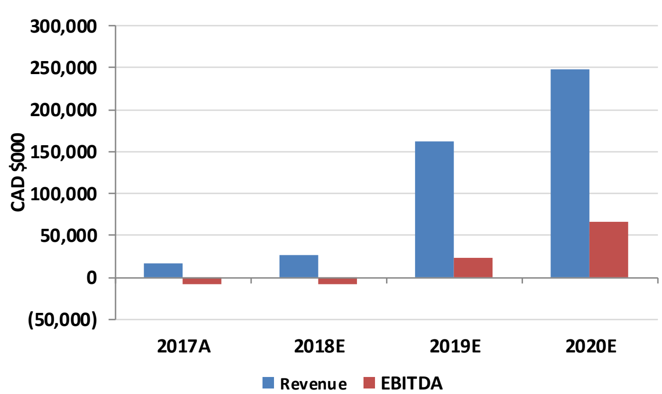
P&L Forecasts

Year end Dec 31 CAD$000s	2017A	2018E	2019E	2020E
Revenue	16,072	27,432	161,856	247,742
Cost of Goods Sold	9,389	13,050	89,681	111,938
Operating Expenses	20,897	33,061	63,301	82,522
Adj. EBITDA	(8,257)	(7,707)	23,170	67,038
Depreciation/Amortization	2,526	2,802	6,796	8,756
Interest Expense/Other	6,246	1,242	9,225	8,875
Income Before Taxes	(20,460)	(18,909)	(351)	44,407
Taxes	(1,988)	(298)	-	-
Net Income	(18,242)	(18,611)	(351)	44,407
Shares o/s (basic)	25,129	37,144	40,393	40,393
Shares o/s (FD)	25,129	37,144	40,393	40,393
EPS - FD	(0.73)	(0.50)	(0.01)	1.10

Consolidated Balance Sheet

Year end Dec 31 CAD$000s	2017A	2018E	2019E	2020E
Cash	11,424	160,672	1,891	32,733
Current Assets	3,108	3,184	12,203	17,974
Fixed Assets	59,416	142,582	210,786	219,029
Total Assets	73,948	306,438	224,879	269,737
Current Liabilities	15,739	230,786	149,278	149,729
Debt	18,757	234,495	134,495	129,495
Shareholders Equity	33,340	51,083	50,732	95,139
Total Liabilities & S/E	73,948	306,438	224,879	269,737

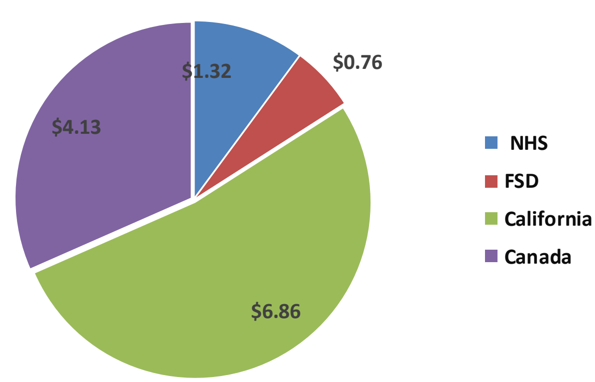
Revenue



Cash Flow Forecasts

Year end Dec 31 CAD$000s	2017A	2018E	2019E	2020E
Net Income	(18,242)	(18,611)	(351)	44,407
Adj, EBITDA	(8,257)	(7,707)	23,170	67,038
Investment in Working Capital	(2,403)	(300)	(13,299)	(8,015)
Financing		225,000	(25,000)	(50,000)
Cash Taxes	1,988	298	-	-
Capex	(2,084)	(87,000)	(75,000)	(17,000)
Free Cash Flow	(10,756)	130,291	(90,129)	(7,977)

Breakdown of SOP by Segment



Growth Analysis

Year end Dec 31 CAD$000s	2017A	2018E	2018E	2020E
Revenue	nmf	71%	490%	53%
EBITDA	nmf	nmf	nmf	189%
Net Income	nmf	2%	nmf	nmf

Margin Analysis

Year end Dec 31 CAD$000s	2017A	2018E	2018E	2020E
Gross Margin	42%	52%	45%	55%
EBITDA	nmf	nmf	14%	27%
Net Income	nmf	nmf	nmf	18%

Valuation Ratios

Year end Dec 31 CAD$000s	2017E	2018E	2019E	2020E
Enterprise Value / Revenue	19.9x	11.7x	2.0x	1.3x
Enterprise Value / EBITDA	nmf	nmf	13.8x	5.5x

Source: Company Reports, Canaccord Genuity estimates

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Executive summary

We are initiating coverage of Sunniva Inc. with a SPECULATIVE BUY rating and a target price of C$13.00, which represents ~8.6x its two-year fwd EV/EBITDA. Sunniva is a diversified cannabis company with operations in British Columbia and California. The company is currently in the midst of constructing large-scale, purpose-built, cGMP-compliant greenhouses and extraction facilities in order to service both the Canadian industry (set to go recreational in the coming months) and the California market (which is currently in the process of transitioning into its newly legalized rec regulations).

Given the risks and uncertainties surrounding execution, branding and other market factors, we believe a 'Speculative' classification is most appropriate at this time.

Bringing quality and scale to California

Sunniva places a high degree of importance on designing its facilities with innovative technologies that allow for automation, low-cost cultivation and the ability to maximize control/monitoring of production inputs and environmental factors. It has an extraction lab already complete and a greenhouse designed with an annual output of ~100,000 kg (scheduled to be ready for the end of 2018).

Sunniva could become one of the larger compliant producers in California heading into 2019 where >85% of product is still not in compliance with current regulations

We believe this strategy is of particular importance in California where >85% of product still contains pesticides and other contaminants through a supply chain that is comprised of disaggregated and undercapitalized operators. Sunniva is in the process of attempting to secure a first-mover advantage under California's new regulations by locking into long-term supply contracts with leading brands as it constructs a facility that could see the company become one of the larger compliant producers in the state heading into 2019. As the state begins to more strictly enforce its newly enacted regulations, we believe there will be much higher demand from brands and distributors to source product at scale from compliant operators.

Supply contract in place for Canadian penetration

In addition to its California operations, Sunniva is also building out a 740,000 sq. ft., 100,000 kg greenhouse in British Columbia and is currently in the application process with Health Canada to obtain a cultivation/sales license. Consistent with its US operations, the company plans to utilize the same customized greenhouse design as in California, and forecasts construction to be completed by early 2019.

Sunniva has already entered into a supply agreement with Canada's largest LP (Canopy Growth) to supply 90,000 kg of cannabis

With a number of large-scale incumbents already in the Canadian market, and with cultivation expected to become commoditized, we believe brand awareness and access to distribution channels will become increasingly important as the Canadian market evolves. Ahead of its build-out, Sunniva has already entered into a supply agreement with Canopy Growth Corp. (WEED-TSX: $36.93 | HOLD, Neil Maruoka) – the largest LP in Canada by market cap, geographic reach and infrastructure – to supply 90,000 kg of cannabis over a two-year period commencing in early 2019. We believe this take-or-pay agreement provides medium-term revenue certainty while partnering the company with one of the leading producers in Canada and allocating a sizable portion of the company's planned capacity (~45%) to a dedicated supply channel right off the bat.

Overview of holdings

In addition to its planned cultivation and production in California and Canada, the company also operates Canada's largest network of cannabis clinics (providing guidance and education to medical patients) and is a private-label provider of vaporizers throughout several major US states. With its current assets already in place, Sunniva is targeting the two largest cannabis markets in the world, with a combined population of >75 million and a total annual market potential of >C$20.0 billion, in our view.

Figure 2: Overview of Sunniva's assets and exposure

Subsidiary	Jurisdiction of incorporation	Ownership	Nature of operations
Canadian subsidiaries			
Sunniva Medical Inc. 	BC, Canada	100% wholly owned	A late stage ACMPR applicant with plans to build a 700,000 sq.ft. cGMP compliant greenhouse facility in BC capable of producing 100,000 kg of cannabis with a supply contract already in place with Canopy Growth Corp for ~45% of its planned output.
Natural Health Services Ltd.	Alberta, Canada	100% wholly owned	NHS owns and operates 7 clinics in Canada specializing in medical cannabis under ACMPR. NHS offers in-house consultation and education by its physicians and connects patients with LPs. NHS currently has the largest market share with ~95,000 active patients.
US subsidiaries			
CP Logistics, LLC 	California, USA	100% wholly owned	Through CPL, Sunniva has commenced construction of its California cGMP designed greenhouse facility. The total campus will include extraction capabilities and is expected to produce over 100,000 kg a year.
Full Scale Distributors, LLC	California, USA	100% wholly owned	FSD distributes private-label vaporization devices and accessories to over 80 brands in North America. Through its brand, Vapor Connoisseur, FSD offers customized units, complete logistical services, and original design and branding according to customer requirements.

Source: Company Reports, Canaccord Genuity estimates

Sum-of-the-parts valuation

Our sum-of-the-parts analysis, which includes the value of Sunniva's estimated penetration into the California and Canadian cannabis markets, as well as its existing operations in NHS and FSD (above), yields a valuation of ~C$13.00 per share.

Refer to the "Estimates and valuation" section for a detailed description of each component of our valuation of Sunniva.

Figure 3: Sunniva: Sum-of-the-parts valuation

SOTP Valuation	C$ per share	EV/EBITDA multiple
California Market (CPL)	$ 6.86	8.9x
Canadian Market (SMI)	$ 4.13	6.6x
Natural Health Services (NHS)	$ 1.32	7.4x
Full Scale Distributors (FSD)	$ 0.76	9.5x
SOTP Valuation	**$ 13.08**	**8.6x**

Source: Canaccord Genuity estimates

Ability to secure supply contracts and branding is material to our valuation

Although we believe our individual valuations (above) are built on relatively conservative assumptions, the core value driver of our model rests in the assumed market penetration Sunniva will ultimately be able to secure in California and Canada.

In addition, we believe over the long-term, with the cultivation of cannabis expected to commoditize, Sunniva will also have to secure a portion of its market share in its own branded products to cement a longer-term market position and to safeguard against margin compression.

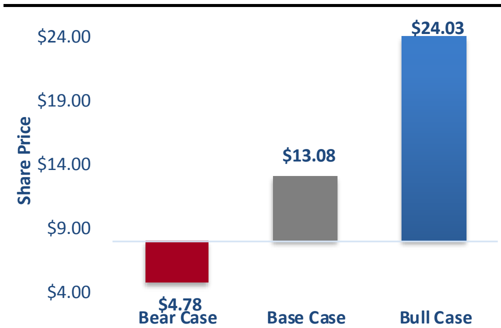
The core value driver of our model rests in the penetration Sunniva ultimately secures in California and Canada.

Below is a sensitivity analysis, starting with our base-case valuation (5% market share in in California and 2% in Canada), with resulting valuations for changes to our market share assumptions. However, as shown below, if Sunniva is able to achieve meaningful market share in either market (i.e., a 3% Canadian market share – regardless of our California assumptions) our valuation would still support a SPECULATIVE BUY rating.

Further, a bear-case scenario in which Sunniva only secures 1% market share in both California and Canada (very unlikely, in our view) results in a target price that still provides >60% downside protection from current levels. However, should the company exceed our estimates and obtain a 10% California market share and 5% Canadian pentation (bull-case, but unlikely), our target price could increase to ~C$24.00 – or ~**200% higher** than current trading levels. However, in order to maximize its ultimate market share, we believe the company will need to focus on increasing its level of vertical integration and brand awareness in order to combat expected pricing pressures brought on by cultivation commoditization as the industry continues to mature.

As a result of the potential torque to our base-case valuation and an attractive relative valuation compared to both Canadian and US peers (discussed next), we believe current SNN levels represent an attractive entry point.

Figure 4: Bear, Base and Bull-case valuations



Source: Company Reports, Canaccord Genuity estimates

Figure 5: SOTP sensitivity to market share assumptions

Cdn Mkt Share	California Mkt Share 1.0%	2.5%	5.0%	7.5%	10.0%
5.0%	$ 11.78	$ 14.23	$ 16.65	$ 21.21	$ 24.03
4.0%	$ 10.24	$ 13.30	$ 15.19	$ 19.58	$ 21.21
3.0%	$ 8.32	$ 10.86	$ 13.77	$ 17.71	$ 20.48
2.0%	$ 6.75	$ 9.23	$ 13.08	$ 16.09	$ 18.62
1.0%	$ 4.78	$ 7.26	$ 11.08	$ 14.01	$ 16.54

Source: Company Reports, Canaccord Genuity estimates

Attractive relative valuation vs. both Canadian and US peers

Sunniva currently trades at ~5.5x its two-year fwd EV/EBITDA, which is a discount to both the Canadian LP average of ~13.3x and its US peers at 6.5x. Although we believe SNN should trade below the Canadian average, we also believe its discount relative to its US peers is largely overdone. Our target price of $13.00 implies a conservative 8.6x its two-year fwd multiple and provides 67% upside from SNN's current share price. Further, valuing SNN at the mid-point between the average US multiple and Cdn multiple would result in a target price of ~C$15.50 per share.

We believe as 2018 progresses and US cannabis markets continue to open up, Sunniva could start to close the valuation gap compared to Canadian domiciled producers with significantly higher forward multiples.

Figure 6: Relative valuation

	SNN (Current)	SNN (CG Target)	US Peers	Cdn Peers	Large-Cap Cdn Peers
2020E EV/EBITDA	5.5x	8.6x	6.5x	13.3x	21.5x
Implied SNN Share Price	$7.80	$13.00	$10.18	$20.83	$33.68

Source: Company Reports, Canaccord Genuity estimates

We believe sentiment in the US continues to see incremental improvement as it inches closer to an inflection point

US sentiment trending in the right direction

We believe sentiment in the US continues to see incremental improvement as it inches closer to an inflection point as evidenced by a number of recent positive news headlines, including; (1) former Republican Speaker of the House John Boehner joining the board of a US cannabis company; (2) Donald Trump purportedly assuring that he has no intention of infringing on legal cannabis operators in Colorado; (3) the introduction of a Bill to decriminalize marijuana at the Federal level by Senator Chuck Schumer; and (4) commentary from the Canadian Securities Administrators and Clearing and Depository Services noting that that they will rely on individual exchanges to review the conduct of listed issuers and not impose a ban on the clearing of securities with exposure to marijuana-related activities in the US.

Management indicated it is in active discussions to source potential acquisition targets to increase its level of vertical integration

Potential to source brands/distribution/retail via M&A

As one of only a limited number of US cannabis operators with access to public market capital, we believe the company is well positioned to combat the risk of cultivation commoditization by acquiring brands, distribution, retail and other areas of the value chain. During its most recent earnings call, management noted that the company is in active discussions with various cannabis operators and brands in California to source partnerships and potential acquisition targets that would allow Sunniva to transition from a cultivator/producer to a recognized, vertically integrated brand in the state. As the market in California continues to heat up, we look forward to updates regarding the company's strategic initiatives in the near future.

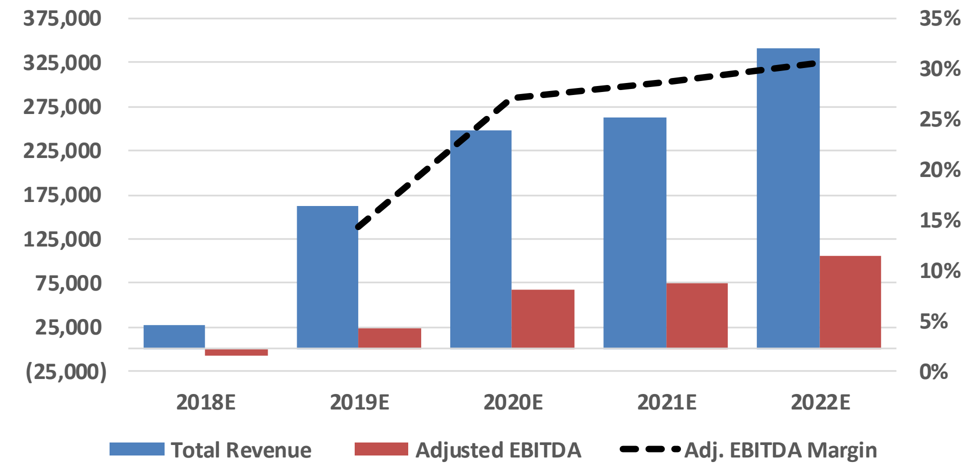
Seasoned management

We believe Sunniva's management team brings a wealth of experience to the table, with one of the more experienced CEOs in the industry, Dr. Tony Holler. He previously co-founded ID Biomedicals (one of the largest manufacturers of vaccines that sold to GSK for $1.7B in 2005) and is seasoned in strategic planning, mergers and acquisitions and finance. Dr. Holler was also the former chair of Corriente Resources Inc. (sold for $0.7B to CRCC Investment Co.) and is the current Chairman of CRH Medical Corp. We believe Dr. Holler is well aligned with the company with ~10% ownership of the outstanding shares of SNN.

High-growth California and Canadian cannabis markets drive our forecasts.

With significant facility expansions underway in both the California and Canadian cannabis markets, we forecast that Sunniva will achieve sufficient market share to realize ~C$27M of revenues in FY2018, increasing by a 100% CAGR to C$342M by FY2022, resulting in EBITDA of US$105M and Free Cash Flow of ~C$70M at that time.

Figure 7: Sunniva: Consolidated revenue and EBITDA estimates (C$MMs)



Source: Company Reports, Canaccord Genuity estimates

Investment risks – US

US federal government Schedule I classification

We believe the largest overhang facing the US cannabis industry today is marijuana's continued classification as a Schedule I controlled substance (the most restrictive labeling for any narcotic) by the US federal government. Although this risk should remain top of mind for investors, we believe there are a number of competing factors – including a large degree of bipartisan support for cannabis, a lack of federal funding for cannabis enforcement, and laws that protect existing medical markets throughout the US – that help mitigate this risk.

Sessions rescission of the Cole Memo

In early January, US Attorney General Jeff Sessions rescinded the Cole Memo. This Obama-era memo, dating back to 2013, provided guidance on allowing state-sanctioned cannabis companies to operate without federal interference. With these guidelines now removed, it is unclear what standard the federal government might use in deciding whether to prosecute under federal cannabis laws within states with legalized platforms. Although clearly a headwind for the industry, we believe this represents more of a 'headline risk' (albeit a significant one), for the following reasons:

- Medical markets are still protected by existing legislation prohibiting federal interference.
- Significant practical/logistical hurdles that the US government would have to overcome to implement federal enforcement (including insufficient funding).
- Over 60% of Americans support the legalization of recreational cannabis, including bipartisan support in many US states.
- Sales from legalized markets bring in hundreds of millions of dollars in taxes annually.
- There are several bills currently in Congress that call for the protection of legalized rec markets in the US, in order to eliminate crime and protect youth.
- Although a drag on industry valuations today, we also believe the continued lack of US federal support could serve as a catalyst for a valuation re-rating over the medium-term, as the federal government will eventually have to play catch-up (in our view) with the wide acceptance of cannabis use in the US.

Significant unknowns and material assumptions in our valuation

Because of the different regulatory frameworks, market growth profiles, and Sunniva's early-stage expansion plans, our estimates and valuation are susceptible to a large number of assumptions and unknowns. As a result, our valuation could be materially impacted if changes in the industry/licensing, or Sunniva's ability to execute its announced plans, differ from our assumptions.

US cannabis operators are subject to unfavourable federal tax rules

Legal cannabis operators are still subject to unfavourable tax treatments on federal filings. Specifically, Revenue Code Section 280E outright disallows the deduction of expenses related to the trafficking of illegal drugs. As such, normal course operating expenses that are directly linked to the sales of cannabis are not deductible for federal tax purposes, in many cases. As a result, effective tax rates for US cannabis operators can range from 40% (if fully integrated) to as high as 70%, and tax returns could be more likely to be subjected to increased scrutiny and risk of reassessment by the IRS.

Financing risk

The company expects to incur approximately $120 million on capital expenditures related to its Sunniva Canada Campus. Although the company is publicly traded on the Canadian Securities Exchange and could have access to additional equity capital through issuing equity, a decline in investor appetite for the company's stock could prevent the company from obtaining the full funding required to build out its Canada Campus, which could slow down expansion plans and reduce our forecast market share and revenues.

Repatriation of profits

We believe a potential issue that will require resolution in the medium to long-term will be the mechanics of how legal cannabis operators in the US can distribute profits to out-of-state and international shareholders (due to the illicit nature of cannabis at the federal level). We believe this is not a near-term issue, as essentially all profits in the US market are being re-deployed to fund growth and keep pace with industry demand. However, we believe increased clarity on this issue will be critical (with many states already seeking federal commentary) as the market reaches a more normalized state.

FX risk

As Sunniva plans to penetrate the California market (but is listed on a CAD exchange), its stock price is subject to CAD/USD FX fluctuations. Should the USD depreciate materially against the CAD, the stock price of Sunniva could experience headwinds independent of its underlying operational performance.

Regulatory/licensing risk

Sunniva currently holds multiple temporary California state manufacturing and sales licenses. The State has a very robust licensing system with multiple categories of licenses for cultivation, manufacturing, extraction, and sales. Changes to, or non-compliance with, regulations could have a material adverse impact on its operating and financial performance.

Ability to secure supply contracts

Although Sunniva is building out substantial capacity in California, it will need to secure sufficient supply contracts in order to monetize its operations and secure market share in the state.

Investment Risks – Canada

Production risk – Sunniva could experience challenges ramping up production at its Canadian expansion facility that could result in material delays in meeting its production capacity goal of 100,000 kg in 2019. The company may not achieve its projected production capacity, hindering the company from fulfilling its supply contract and therefore, may not meet our revenue estimates.

Financial risk – Sunniva's Canadian operations and supply contract will be dependent on whether Sunniva can build out its Canada facility. If Sunniva does not obtain the $120 million that it requires to complete its Canadian facility, this would delay expansion plans and could result in material differences to our estimates.

Pricing risk – As Sunniva's Canadian strategy rests upon obtaining supply agreements, the company will likely not achieve favourable pricing as it will be sharing revenue with other LPs who are distributing via government contracts at wholesale price (~$4 to $5 per gram). In addition, as the industry begins to shift towards a wholesale model, we believe those LPs may experience additional pricing pressure, which may erode Sunniva's margins.

Regulatory risk –Sunniva operates in a highly regulated industry that is/will be subject to Health Canada regulations, federal government legislation, and provincial distribution frameworks, which could have a material impact on the company's operating environment and financial performance.

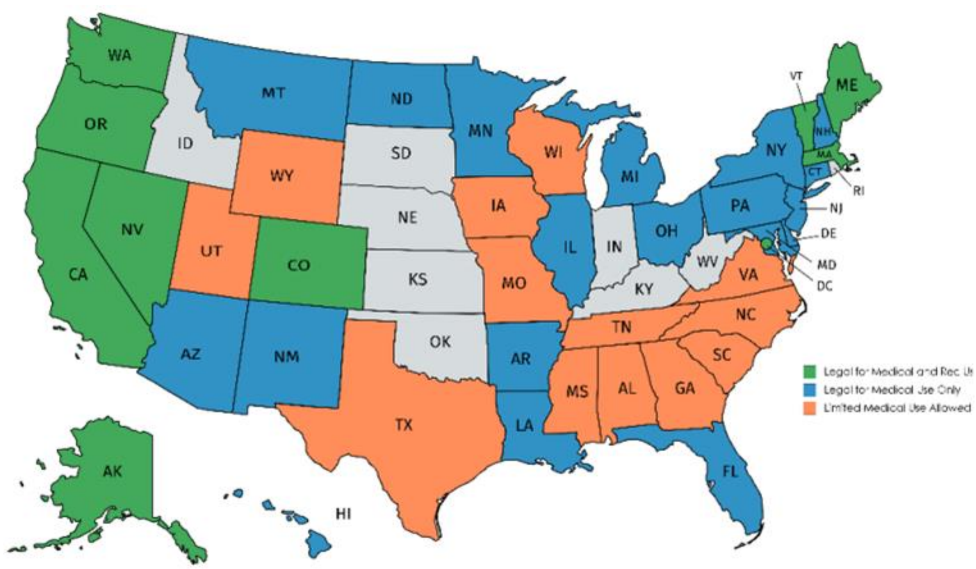
Partnership risk – Sunniva currently plans to supply 90,000 kg to Canopy Growth over 2019 and 2020. If the partnership were to end during or after the two years and the company does not obtain other partnerships of the same magnitude, or must offer more favourable pricing in order to secure additional contracts, Sunniva may not meet our revenue estimates.

Cannabis legalization in the United States

In the United States, under the Controlled Substances Act, the federal government has classified Cannabis as an illegal Schedule I narcotic (the most restrictive classification for any controlled substance) dating back to the 1970s. This remained largely unchanged until 1996 when California's state legislature enacted a regulatory framework for medicinal use cannabis. Due to the federal government's negative stance against cannabis, the legal and regulatory framework continues to be determined on a state-by-state basis and can vary considerably across regions. For the most part, states that have legalized medical marijuana allow cannabis to be sold at authorized clinics and dispensaries as long as the patient is registered with a public health department and/or carries a medical cannabis ID card. Since California's legalization of medical cannabis in 1996, many other states have followed suit, and there are now 29 states and Washington D.C. that have legalized (or are in the process of legalizing) medical cannabis, with many others that have decriminalized the drug for minor possession/personal use.

In 2012, Colorado and Washington were the first two states to legalize recreational use marijuana, passing ballot initiatives during the 2012 presidential election. Today, there are nine states that have formulated a regulated framework for recreational sales, many of which will be implementing commercialization within the next year. In total, a majority of the states in the US have provided some allowance for cannabis use, either for medical or for both medical/recreational purposes, as shown below.

Figure 8: US States where medical/recreational cannabis is legal



Source: www.mapchart.net; Canaccord Genuity

Schedule I classification continues to weigh on the US industry

Although legal recreational sales of cannabis commenced in the United States in 2014 (starting with Colorado), as marijuana remains an illegal narcotic from the standpoint of the US federal government the operating environment in many legal US regions is not without its complexities. As a result, each state that elects to legalize recreational marijuana must enact its own regulations, which can differ from state to state. Although we do not believe cannabis will likely become legalized at the federal level any time soon, we believe that as additional markets come on line via state-by-state legislation and ballot initiatives, the negative stigma surrounding the use of cannabis will continue to dissipate, allowing legal markets to convert historically illicit markets into legalized channels.

In the meantime, lack of federal support in the US has created the following complications in legal markets:

- **Regulation and enforcement has been pushed down to the state level,** with fewer resources that would otherwise be overseen by federal agencies, such as the FDA.
- **Lack of capital.** Many financial institutions, which are regulated on a federal level, are hesitant to provide banking services to cannabis companies. This has created issues when cannabis operators need to raise capital or manage cash flows, as the options available to them can be extremely limited due to existing federal restrictions.
- **Supply of cannabis is restricted to within the perimeters of state lines.** Even though neighbouring states (such as Washington and Oregon) may both allow recreational marijuana, the act of crossing a state line with cannabis is still a federal crime. Therefore, all supply must come from 'domestic' sources within each state (even when climates are not conducive to cannabis cultivation).
- **Unfavourable tax rates.** Cannabis distributors are restricted in the deductions that are allowed for federal income tax purposes under Section 280E. As a result, it is difficult to become a profitable dispensary in some markets within the United States, as a number of standard business deductions are denied for cannabis producers due to the illegal status of marijuana at the federal level. It is therefore increasingly common for dispensaries to consolidate with cultivators, which allows for more favourable tax treatments when vertically integrated.
- **Unclear criteria surrounding Federal enforcement.** After Attorney General Jeff Sessions rescinded the Cole Memo earlier this year, it has become increasingly unclear what criteria the federal government might use in deciding whether to intervene in existing, legalized cannabis markets. Although we assess the risk of intervention as low, we believe the removal of the Cole Memo does incrementally increase the risk profile of US cannabis markets.

Although the federal government continues to represent a significant overhang to the industry as a whole, we believe there are a number of mitigating factors that should give investors some level of comfort when assessing the potential risk of federal interference in existing legalized cannabis regimes. These factors include the following:

Figure 9: Schedule I risk: Mitigating factors

US Federal interference: Mitigating factors and considerations	
Rohrabacher–Farr legislation	Rohrabacher-Farr is US legislation that prohibits the federal Justice Department from allocating any funds for the purpose of intervening in legalized medical cannabis markets. We believe this law helps provide a risk floor for the industry, as although recreational markets are expected to provide substantial upside, we believe the US has many attractive medical markets that represent standalone opportunities for significant growth on their own.
States' rights	Donald Trump and many other congressional Republicans have publicly supported the use of cannabis for medical purposes; President Trump has also said he considers the issue of marijuana legalization a matter to be determined at the state level.
Popular support	Currently, ~65% of Americans support the legalization of cannabis for recreational proposes, and >90% support access to marijuana for medical purposes. Due to the relatively wide acceptance of cannabis use, we do not believe there is much political incentive to intervene in these legalized programs that enjoy significant public support.
Bipartisan support	The federal government is under mounting pressure from the governors of states with legalized cannabis frameworks already in place to provide clarity on important issues that impact the industry as a whole, and to work in partnership with the states before considering significant changes to the status quo, if any.
Bills in front of congress	A number of bills have already been introduced in an effort to change the federal government's current hardened stance on marijuana regulations. These bills aim to tackle issues such as respecting state regulations currently in place, removing all federal funding for DEA enforcement of marijuana offences, and ending federal cannabis prohibition altogether.

Source: Canaccord Genuity

Recent US legislation

An attempt to remove cannabis from the federal controlled substances list

Senator Chuck Schumer filed the Marijuana Freedom and Opportunity Act in an effort to remove marijuana from the federal controlled substances list and allow states to continue to decide how to regulate cannabis. This bill is sponsored by Bernie Sanders, A Vermont independent, Tim Kaine, a Virginia Democrat, and Tammy Duckworth, an Illinois Democrat, and would set aside $20 million annually to states and municipalities to administer the expungement for marijuana possession convictions. We believe this is positive headline news for cannabis companies with operations in the U.S. and could partially alleviate investor concerns of the federal government imposing additional regulations.

Cannabis operators still not allowed to access banking services

The US senate recently voted 21-10 to sideline an amendment that would have otherwise allowed cannabis companies to open bank accounts at financial institutions. Currently, banks must follow complicated guidance and pay costly compliance fees to offer banking services to cannabis operators, resulting in many banks unwilling to participate in this industry. We believe this action will continue to highlight the issue experienced by cannabis operators of having limited access to banking systems and further emphasizes the regulatory headwinds of operating in a federally illegal industry.

US attorney joins forces to crack down on illegal cannabis growers in California.

In late May 2018, McGregor Scott, a U.S. attorney in eastern California, is joining forces with the state attorney general to crack down on illegal cannabis growers. His office will be bringing $2.5 million in federal funds to fight against unlicensed cultivators in California.

Market overview of selected regions

Sunniva currently has existing or planned exposure in the following markets:

- **California.** Sunniva plans to begin operations of Phase I of its California facility in Q3 2018, which we expect will add ~100,000 kg of annual cannabis flower production once completed, as well as 500 lbs per day of biomass extraction. We believe this large-scale production facility could allow Sunniva to capture significant market share in the considerably more disaggregated California market, relative to other legal states in the US. We believe the state could reach a US$10 billion annual revenue opportunity at maturity and could also be primed for market consolidation as the market leaders begin to emerge.

  Canada. We believe Canada is a global leader in its current medical cannabis regulatory framework, with plans to federally legalize and implement a recreational market by fall of 2018. Combined, we estimate the Canadian market represents a retail revenue potential of ~C$10 billion at maturity. Sunniva broke ground on its greenhouse facility in British Columbia, and its wholly owned subsidiary, Sunniva Medical Inc. recently received a Confirmation of Readiness for a license under the ACMPR. Upon completion of the facility buildout (expected in 2019) and passing of the Health Canada inspection, we expect Sunniva could commence cultivation and sell into the Canadian market and the rec market, if/when regulations allow.

A more thorough discussion of the above states/regions is included in **Appendix A.**

Figure 10: Market overview

State/Region	Market Size	Exposure
California 	• Population of 39.0 million • Legal for both medical and recreational use • Market opportunity of >US$10.0 billion	Wholly-owned subsidiary (CP Logistics), with temporary California licenses to manufacture and sell cannabis. CPL currently operates an extraction facility with capabilities to extract 500 lbs per day of biomass and has plans to construct a greenhouse facility with capacity to produce 100,000 kg of dried cannabis per year.
Canada 	• Population of 36.6 million • Legal for medical, rec expected in 2018 • Market opportunity of ~C$10.0 billion	Sunniva's wholly-owned subsidiary, Sunniva Medical Inc., is currently a late stage ACMPR Licensed Producer applicant. SMI has began construction of its 100,000 kg Canadian facility and plans to launch products into the Canadian medical and rec market once rec is legalized and its facility is complete (likely 2019). The company has already secured a two-year 90,000 kg supply contract with Canopy Growth Corp.

Source: Company Reports, Canaccord Genuity estimates

Overview of Sunniva's assets and geographic exposure

Sunniva Inc. is a diversified cannabis company with operations in British Columbia and California. The company is currently in the midst of constructing large scale, purpose-built, cGMP compliant greenhouses in order to service both the Canadian industry (set to go recreational in the coming months) and the California market (which is currently in the process of transitioning into its newly legalized rec regulations). The company has placed a high degree of importance on designing its facilities with innovative technologies that allow for automation and the ability to control and monitor all cultivation inputs and environmental factors. Management believes the ability to produce cannabis at a low cost while ensuring quality will be critical to carving out market share in both Canada (which operates under a highly regulated federal platform) and California (which has a history of issues with crop contamination).

In addition to its planned cultivation and production, the company also operates Canada's largest network of cannabis clinics (providing guidance and education to medical patients) and is a private-label provider of vaporizers in California and throughout other major US States.

The company operates primarily out of four wholly-owned segments, which include:

- **CP Logistics, LLC (CPL).** Based out of Cathedral City, California, CPL is constructing a purpose-built campus that will include cultivation and production to supply the growing legal California market. Its extraction facility was completed in May 2018 and the first phase of its cultivation is expected to be completed by Q3/18 with sale anticipated by the end of the year.
- **Sunniva Medical Inc. (SMI).** Based in British Columbia, Canada, SMI is in the process of building out 740,000 square feet of greenhouse cultivation (with a take or pay supply agreement already in place with Canopy Growth Corp). Construction began in May 2018, with sales expected to commence by Q1/2019.
- **Natural Health Services Ltd. (NHS).** NHS operates the largest chain of cannabis clinics in Canada, with seven locations spanning four provinces that currently service almost 100,000 Canadian medical patients. The clinics have in-house physicians that consult with patients and educate on the endocannabinoid system and product selection based on patient indication.
- **Full-Scale Distributors, LLC (FSD).** Under the brand Vapor Connoisseur, FSD provides private label customized vaporizers, accessories and solutions to over 80 brands throughout the United States.

As the company continues to build-out its Canadian and California cultivation/production sites, Sunniva's financial contribution currently comes from its two operating subsidiaries, Natural Health Services Ltd. and Full-Scale Distributors.

A detailed overview of each of the above segments follows.

CPL could provide large-scale penetration into California's newly regulated market
We believe the core value driver for Sunniva lies in its ability to carve out market share in California's newly legalized recreational cannabis market. With an existing medical market developed over the past 20+ years with limited regulatory oversight, the ability to secure quality-assured product from large-scale cultivators/producers has historically been (and remains) very challenging in California. As previously discussed, even with the commencement of legal rec sales in January 2018, many estimates suggest that as much as ~85% of the product (bud and extracts) sold through legal channels in the state still contains pesticides and other contaminants not in line with the new regulations.

With a goal of securing a first mover advantage in California as a producer of quality-controlled cannabis flower and extracts at scale, Sunniva purchased 100% of CPL back in 2016 for total proceeds of ~US$10M, and has since begun construction of its California production campus based in Cathedral City, California. This location was chosen by Sunniva in conjunction with data analysis provided by the University of the Fraser Valley to determine the optional longitude in California for sun exposure, in addition to having pre-existing support from the city to be zoned for cannabis cultivation/production.

Management believes that the success of its operations will be founded on quality, consistency, cost and scale. The campus is designed to include both cultivation and oil extraction to supply the growing legal California market. We believe California is in need of large-scale capitalized growers that can produce at scale, with consistency and in compliance with its new more robust regulations. Further, we believe Sunniva could soon be one of the larger legal producers in the state and will have robust protocols surrounding the selection of genetics and standardized SOPs to minimize the risk of contamination from harmful pesticides. After completing its initial extraction facility in May, the first phase of its cultivation is expected to be completed by Q3/18, with sale anticipated by the end of the year.

To date, the company possesses a variety of cultivation and oil extraction licenses, as well as one dispensary license, which will be opened and attached to its main Cathedral City campus location. Further details on CPL's planned facility build-outs are provided below.

Cultivation

CPL broke ground on its purpose-built greenhouse (designed to be cGMP compliant) in November 2017, which is designed to be completed in two phases.

- **Phase One** will include a total 325,000 square feet of infrastructure, which will encompass eight flowering 22,000 sq. ft. bays that management estimates will be able to support an annual capacity of ~60,000 kg (30% of which is earmarked for oil extraction). Construction is expected to be complete by Q3/18 with harvests ready for Q4/18. The total capital cost of Phase One is estimated to be ~US$54M. These costs will be borne by the company's financial partner, Barker Pacific Group (whose founder sits on Sunniva's board), who will build and finance the project and lease the facilities back to the company at an ROI of ~18%.
- **Phase Two** will include an incremental 164,000 sq. ft. of expansion space and will add another eight 10,000 sq. ft. of bays, bringing the total cultivation capacity at the facility to ~100,000 kg per year once completed. Due to its

greenhouse design and ideal climate, Sunniva believes it will be able to cultivate at an average cost of under US$1.00 per gram at scale.

In April, CPL received all necessary temporary licenses from the state (under its new regulations) for both planned phases. California has so far only issued temporary licences while it formulates its final regulations, which are expected to be finalized over throughout the remainder of 2018.

The CPL facility is being designed as follows:

- A cGMP greenhouse designed for scalability with diffused glass to maximize the amount of natural sunlight in the cost-competitive location afforded by southern California's climate.
- Micro climatic controls with sensors that adapt to changing environmental conditions.
- Customized mobile bench systems to increase efficiencies and maximize grow space
- Isolated growing bays with individual blackout and light subsidization capability, designed to allow for daily planting/harvesting once fully ramped up.
- Airlock entry/exit points for incoming materials and finished products to mitigate exposure to potential outside contaminants.
- In-house quality testing to provide real-time plant quality data and an integrated pest management system to ensure all plants are certified clean and free of contaminants and pesticides.
- Commercial grade advanced irrigation systems for consistent nutrient delivery.

As a result of the purpose-built greenhouse design and southern California climate, Sunniva estimates that it will be able to achieve a production cost base of <$1.00 per gram at full scale; we believe this will be critical to combatting cultivation commoditization over the longer term.

Refer below for photos of the current CPL construction site as of June 2018

Figure 11: CPL greenhouse construction

Source: Canaccord Genuity

Figure 12: CPL greenhouse construction

Source: Canaccord Genuity

Oil Extraction

As Sunniva continues to build out its cultivation/production facility at its Cathedral City campus, the company has also secured a lease (the "Sun-Oil" facility) at an adjacent building where it is licensed to extract and produce oil products that will complement the planned extraction capabilities of its main campus. Management estimates that the Sun-Oil facility can accommodate and process ~500 lbs of cannabis biomass per day, with the ability to produce vape-oil distillates, capsules, sprays, tinctures, creams and shatter.

Figure 13: Vape filler

Source: Canaccord Genuity

Figure 14: C02 extraction equipment

Source: Canaccord Genuity

Further, after completing the design and installation of the lab in May, CPL has quickly begun to execute onboarding supply contracts, starting with extraction agreements with Farmacy Phactory and Cali Gold (two growing California cannabis brands) whereby Sun-Oil will produce high-quality purified distilled cannabis oils for the brand's vape cartridges and edibles. With the ability to produce >600,000 filled cartridges per month out of Sun-Oil, CPL plans to layer on additional white label contracts with other leading California brands in the near term.

Refer below for a summary of CPLs planned cultivation, production and annual capacity.

Figure 15: Summary of California planned capacity

Location	Current Licence (Sq. Ft.)	Expanded Facility (Sq. Ft.)	Current Capacity (Kg)	Total Capacity Bud (Kg)	Capacity Earmarked for Extracts (Kg)
California Phase I	325,000	325,000	-	60,000	18,000
California Phase II	-	164,000	-	40,000	12,000
Total	**325,000**	**489,000**	**-**	**100,000**	**30,000**

Source: Company Reports, Canaccord Genuity estimates

Although we believe the infrastructure being built by Sunniva is impressive in its design and scale, the core of our investment thesis (as further detailed in the estimates and valuation section) is the company's ability to secure long-term supply agreements and build brand awareness of the Sunniva name over the long term. We estimate the CPL facilities highlighted above (once complete) could support wholesale revenues well in excess of US$500M per year at full planned production; however, selling the full planned 100,000 kg of product into the California market will require the company to secure moderate to high market share in a state that likely has an increasing supply of cultivation coming on-line that we believe over the long term will be commoditized.

In order to combat this risk, the company is in active discussions with cannabis operators and brands in California not only to provide a source of product in compliance with the state's new regulations, but to source partnerships and potential acquisition targets that would allow Sunniva to transition from a cultivator/producer to building a recognized brand in the state.

Figure 16: Rendering of completed on-site dispensary

Source: Company Reports

Figure 17: Rendering of completed CPL campus

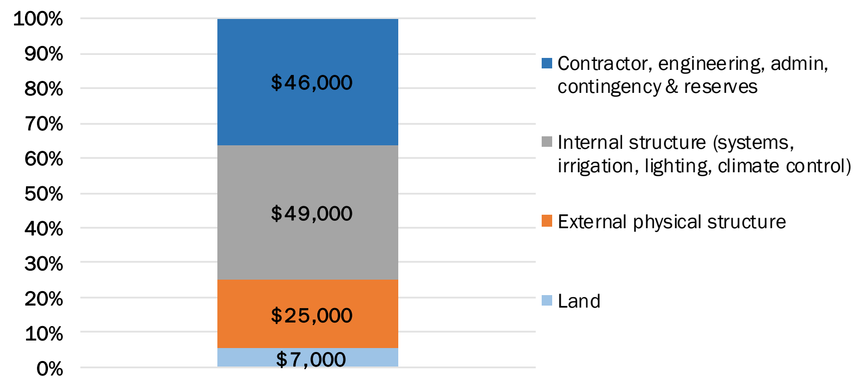
Source: Company Reports

Sunniva Medical provides gateway to Canadian cannabis opportunity

SMI is currently in the process of building out a >700,000 sq. ft. cGMP greenhouse facility at its recently acquired 126-acre site in Okanagan Falls, British Columbia. After receiving its Confirmation of Readiness from Health Canada, the company began construction of its Canadian campus in May and expects to receive its cultivation and sales licence in time for sales in early 2019. Consistent with its US operations, the company plans to utilize the same customized design as its California greenhouse (i.e., isolated growing bays, microclimatic controls, seed-to-sale tracking, quality testing lab, commercial grade irrigation system, etc.) to supply the growing medical patient base and soon-to-be-implemented recreational market in Canada. Further, in addition to its initial flower cultivation, the company plans to secure all relevant oil production licenses to allow for extraction and to manufacture derivative products such as capsules, dissolvable strips, vaporization cartridges, tinctures and creams (pending licensing and federal legalization).

After securing its Okanagan Falls property for proceeds of C$7.0M, the company forecasts a total capital cost of ~C$120M to complete the purpose-built cGMP greenhouse. The breakdown of its planned capex spend is illustrated below.

Figure 18: Estimated breakdown of ~C$120M capital cost of Okanagan Falls facility (C$000s)



Source: Company Reports, Canaccord Genuity estimates

As the company has not yet sourced the financing required to complete the above project, we have modeled in the ~C$120M funding gap into our financial model in order to achieve our long-term forecasts assuming a 50/50 split between debt and equity. As management has indicated it is in active discussions to source these required funds, and with a moderate level of tangible assets in place, we do not believe this represents a significant risk to the company.

Upon completion of the planned 740,000 sq. ft. footprint, Sunniva estimates that its Canadian campus will be able to produce an annual output of ~100,000 kg of high-quality flower and an additional 25,000 kg of trim (mostly likely to be utilized for extraction). Management forecasts that it will compete construction of the facility by early 2019, with a further six to nine months required to ramp it up to a full production run-rate. Assuming SMI receives all applicable licenses from Health Canada, we estimate the Okanagan facility could be running at 100,000 kg of annual dried bud by Q4/2019. We estimate that once complete, should SMI be able to sell 100% of its planned output, the Okanagan facility could support wholesale revenues of >$500M or take-or-pay arrangements in excess of $250M (however, we believe securing 125,000 kg of contracts in Canada alone is a lofty ambition given the increasing amount of industry capacity).

Figure 19: Estimated Okanagan Falls capacity upon completion

Okanagen Facility	Current License (Sq. Ft.)	Completed Facility (Sq. Ft.)	Current Capacity (Kg)	Potential Capacity (Kg)
Dried Bud	-	740,000	-	100,000
Trim				25,000
Total	**-**	**740,000**	**-**	**125,000**

Source: Company Reports, Canaccord Genuity estimates

With >C$25M of cash on the books, management plans to utilize traditional and subordinated debt to finance the capital cost of its Canadian build-out and has indicated that the funds necessary to compete its Okanagan Falls expansion should be secured in the near term. We believe even a moderate delay in closing this funding gap could have a material impact on our assumption. Completing its facility by the end of 2018 to better leverage a first mover advantage in the Canadian industry is likely critical to securing market share, in our view.

Figure 20: Design overview of Okanagan Falls facility

Source: Company Reports, Canaccord Genuity estimates

Management believes the customized design of its greenhouse facility will allow SMI to compete as a low-cost producer (which we believe will becoming increasingly important as cannabis cultivation becomes commoditized) while maintaining a high degree of consistency and quality at scale. As Canada is the largest federally regulated cannabis market in the world, we believe the ability to produce product with consistency while complying with a high level of regulatory oversight will be necessary to securing supply agreements going forward. In our view, this is of particular importance as the Canadian market is already at an oversupply of “potential” capacity, with a growing number of funded expansion plans underway throughout the country.

Although the company has secured a sizable wholesale arrangement with Canopy Growth Corp. for 2019 and 2020 (discussed further below), we believe Sunniva will experience increasing competitive headwinds in Canada as legal cannabis supply continues to grow. As a result, execution of its greenhouse facility and continued onboarding of wholesale supply agreements will be a material value driver for the company, in our view. However, we also believe a significant advantage of operating in the Canadian market (relative to the US/California opportunity) is the potential for international export, as Canada continues to lead the global cannabis industry with its geographic footprint and reach.

Figure 21: Rendered image of completed Okanagan Falls facility

Source: Company Reports

Supply agreement secured with Canada's largest Licenced Producer

Earlier this year in February, Sunniva announced that it had entered into a supply agreement with Canopy Growth Corp. (the largest LP in Canada by market cap, geographic reach and infrastructure), whereby SMI will supply up to 90,000 kg of cannabis over two years commencing in early 2019 as part of Canopy's CraftGrow program. Under the agreement (subject to the completion and licensing of its Okanagan facility), the company will provide cannabis grown using Canopy genetics as well as Sunniva branded products (on a take-or-pay basis) and SMI will share in the revenues of products sold by Canopy throughout all its distribution platforms. This will include online sales via Tweed Main Street as well as sales through provincially run retailers. Although details remain thin on the economics of the agreement, assuming a 50/50 revenue split at expected wholesale pricing ($4.00–$5.00 per gram of dried bud), we believe this supply agreement could result in revenues of $75M–$100M per year for Sunniva (albeit for an initial two-year term).

We believe securing a supply agreement with Canopy provides Sunniva with near-term revenue certainty while partnering the company with one of the leading producers in Canada and on the international stage, while allocating a sizable portion of the company's planned capacity (~45%) to a dedicated supply channel. Further, given its relatively cheaper valuation compared to Canopy and its existing relationship, should the TMX group change its stance against listing cannabis companies with US operations, we believe SNN could be a prime acquisition target for WEED down the road.

Given that LPs like Canopy will largely sell cannabis at wholesale to government-run retail stores, it is likely the pricing Sunniva will be able to achieve on these volumes will be less favourable than industry averages. However, we believe Sunniva's planned low-cost cultivation will better suit it to absorb margin compression and that securing volumes via supply agreements will be critical to building out its brand awareness as the market continues to grow.

Going forward, Sunniva plans to secure additional supply agreements with a goal of allocating 75% of its annual estimated capacity (i.e., approximately 75,000 kg) to contracted sales channels, with the remaining 25% set aside for Sunniva branded products. Similar to its California operations, with the expected increase in overall industry capacity over the medium term, we see the company's ability to source distribution channels for its planned capacity as a material value driver of the investment opportunity.

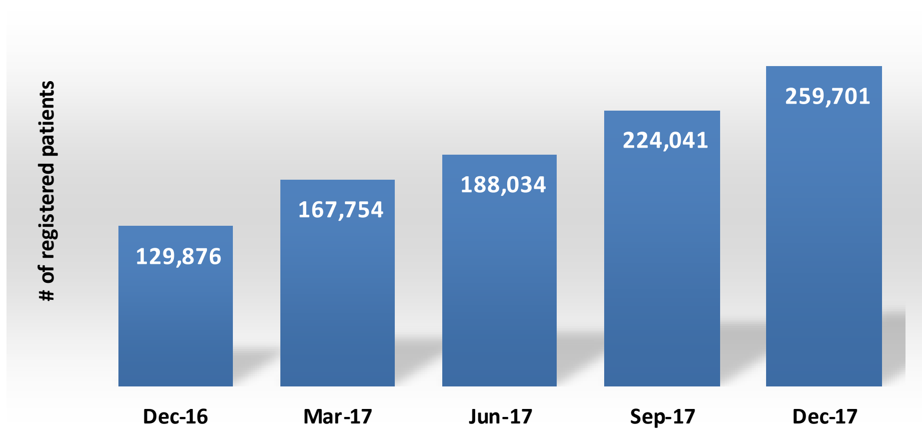
Natural Health Services – the key to Sunniva's future patient funnel

In February 2017, Sunniva purchased NHS for total consideration of C$22.5M, comprised of C$1.5M cash, C$18.8M in shares and C$2.3M in a vendor note. NHS is one of the leading cannabis clinics in Canada, with seven locations that employ a total of 21 physicians and two nurse practitioners. The clinics are located across four provinces (Alberta, Saskatchewan, Manitoba and Ontario) that currently service almost 100,000 Canadian medical patients.

Each location has multiple in-house physicians who consult with patients and provide education on the endocannabinoid system, and advise on product selection based on patient indication. As the acceptance and uptake of medical cannabis in Canada is still in a relatively nascent stage, clinics like NHS provide a valuable and necessary link between patients, doctors, and Licensed Producers in Canada.

Based on the most recent data from Health Canada, the number of cannabis patients in Canada has increased by 100% YoY to ~260,000 as of December 2017. As of today, we estimate there are ~315,000 patients nationally and that NHS likely provides consulting services to ~33% of the market in Canada.

Figure 22: Registered medical patients in Canada



Source: Health Canada, Canaccord Genuity

Figure 23: NHS locations

- Calgary, Alberta
- Medicine Hat, Alberta
- Edmonton, Alberta
- Saskatoon, Saskatchewan
- Lethbridge, Alberta
- Windsor, Ontario
- Winnipeg, Manitoba

Source: Company Reports, Canaccord Genuity estimates

NHS utilizes its proprietary SPARK software, which maintains patients' medical documents and connects LPs Enterprise Resource Planning systems to physicians and patients while tracking patient information and usage data. NHS runs on a service revenue model, which includes a revenue split of the bill rate per patient and a monthly fee from LPs for active patients referred. NHS currently services ~27LPs in Canada (roughly 25% of producers); however, once SMI receives its license from Health Canada, we believe Sunniva will be able to leverage NHS as a patient funnel to its own branded products and help support penetration into the Canadian medical market.

Refer below for a map of NHS' current locations throughout Canada and a picture of the inside of one of its clinics.

Figure 24: Map of NHS locations

Source: Company Reports, Canaccord Genuity

Figure 25: Inside NHS clinic

Source: weedmaps.com

As the number of registered medical patients in Canada continues to climb, NHS facilitates calls from over 1,000 patients a day out of its head-office in Calgary. As a result, clinics are typically fully utilized with backlogs in patient bookings that can span several weeks. Further, since being acquired by Sunniva last year, NHS has seen its revenue increase from C$800K per month to over C$1.1M, while opening additional locations to better manage patient volumes in a growing number of geographies.

Figure 26: NHS historical performance

In $000's CAD	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18
Revenue	1,664	2,449	3,287	3,891	2,652
Gross margin	979	1,118	1,834	2,577	1,670
Gross margin %	59%	46%	56%	66%	63%

Source: Company Reports, Canaccord Genuity estimates

(Note: Although NHS' revenue has grown steadily since being acquired, Q1/18 saw a sequential decrease due to the loss of a physician in Calgary and a one-time revenue credit in the prior quarter. Going forward, management expects this segment to normalize back to prior levels and continue its growth trajectory).

Although we believe the medical patient base in Canada has considerable upside from current levels, we also believe that as the medical segment of the industry continues to evolve, additional players will likely enter the space (particularly large-scale pharmacy chains), which may increase the competitive profile of the clinic model. Further, as doctors become more comfortable with prescribing cannabis and patients become increasingly educated, the need for these types of clinics over the long term may begin to decrease. However, Sunniva believes this could also present an opportunity to market its proprietary software and clinic model to pharmacy chains looking eventually to enter the space.

Full-Scale Distributors

In February 2017, Sunniva acquired 100% of FSD for total proceeds of ~$6.5M (comprised of $2.0M in cash and $4.5M in convertible notes). Operating under the moniker *Vapor Connoisseur*, this segment of Sunniva's business designs, sources and provides private label customized vaporizers, accessories and solutions to over 80 brands throughout the United States. FSD sources custom design vape-pen bodies/shells, batteries, and oil cartridges and assembles them into finished vaporizer products that are shipped to customers throughout the United States.

Although still relatively modest in its contribution, since acquiring FSD a little over a year ago, Sunniva has grown the business from monthly revenues of ~C$200K to >C$800K per month, with the segment currently operating at an annual run-rate of ~C$10M and gross margins of ~17% (Figure 19).

Figure 27: FSD historical performance

In $000's CAD	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18
Revenue	710	830	1,275	1,966	2,512
Gross margin	236	118	(106)	(73)	423
Gross margin %	33%	14%	-8%	-4%	17%

Source: Company Reports, Canaccord Genuity estimates

With an increasing number of states legalizing and implementing medical/recreational platforms, we believe the growth profile for vaporizers and other related accessories will experience a healthy demand curve in the years to come. As it is possible to compete in this segment of the industry without 'touching the plant,' we believe it is also likely that this segment will see a higher degree of competition compared to operations that require a state/city license to operate. However, given the relatively modest purchase paid by Sunniva for this asset (<1.0x fwd revenue), we forecast FSD to be a modest, but profitable contributor to its operational/financial results going forward.

See Figures 28-30 below for examples of products currently offered by FSD.

Figure 28: FSD oil chamber

Source: Company Reports

Figure 29: FSD Vape pen casing

Source: Company Reports

Figure 30: FSD finished product

Source: Company Reports

Historically, Sunniva has sold FSD products wholesale (without any cannabis oil) throughout the US including California, News York State and even Texas. However, after recently completing its extraction lab in California, management indicated that it has started the process of manufacturing vaporizers and vape pens with pre-filled cannabis/oils for sale as finished products. Although these types of products will not be allowed to cross California state lines, we note that pre-filled oil cartridges represent one of the largest product classifications in most recreational markets and achieve much higher margins than the sale of devices alone. Sunniva still plans to continue growing FSD via private-label contracts with many of the leading brands in California and may also develop proprietary Sunniva branded devices with a focus on innovation, design and user experience.

Estimates and valuation

We value Sunniva using a sum-of-the-parts methodology. Our valuation considers the assets and market opportunities where the company currently has exposure. The components of our SOTP analysis include the following:

- **California/US market.** The value of the company's exposure in California (which we estimate represents a >US$10 billion opportunity). Sunniva is building out its large-scale cultivation/production campus with plans to secure large wholesale supply agreements under California's new more robust regulations, as well as building its own Sunniva brand in the state.

  In addition to Sunniva's planned cultivation/production, we separately value **Full Scale Distributors** (a wholly-owned subsidiary), which distributes private-label vaporization devices and accessories to over 80 brands in North America.

- **Canadian market.** The value of potentially launching its cannabis products into the Canadian market should it receive a license from Health Canada and its pending two-year, 90,000 kg supply contract with Canopy Growth Corp.

- In addition to the optionality associated with becoming a licensed producer in Canada, we also value **Natural Health Systems** (a wholly-owned subsidiary) that currently operates one of the largest cannabis clinic chains in Canada.

Ability to secure California market share drives our valuation

As Sunniva continues to build out its large-scale cultivation/production campus in Cathedral City, California, we believe the company's ability to 1) successfully execute on its expansion plans in a timely fashion to better secure a first-mover advantage as a large-scale producer under the state's new more robust regulations, and (2) continue to on-board supply agreements to monetize its planned capacity and scale, are the primary value drivers for SNN. As a result, any material delays in its facility construction or the inability to secure a distribution channel for its product could result in significant downside to our estimates/valuation.

As illustrated below, we believe the California cannabis market (medical and recreational) represents a ~US$10 billion revenue opportunity over the longer term. Further, based on our review of the current market dynamics, we believe the state is ~50% supplied by wholesale distribution with the other 50% facilitated by vertically integrated operators. We believe that due to the size of the California market, as it continues to mature it will be more efficient for wholesale distribution to make up a larger proportion of the overall market. As a result, we forecast that over the long term wholesale distribution will eventually supply ~75% of retail dispensaries.

After further adjusting for the current 100% mark-up that most dispensaries in the state charge on wholesale products (increasing to 125% over the longer-term as we believe purchasing power will eventually shift over to retail/brands as cultivation commoditizes), we estimate that on peak retail sales of US$9.8 billion, approximately US$3.3 billion will be earned by California wholesalers.

Figure 31: Estimated size of California wholesale distribution market (2018 to 2027)

US$000's	2018E	2019E	2020E...	2025E	2026E	2027E
Est. California Revenues	$ 2,825,645	$ 4,652,938	$ 6,606,474	$ 9,703,140	$ 9,716,884	$ 9,756,208
% of market supplied by wholesalers	*50%*	*60%*	*65%*	*75%*	*75%*	*75%*
Est. retail mark-up	*100%*	*100%*	*100%*	*120%*	*125%*	*125%*
Est. Wholesale Market Revenues	706,411	1,395,881	2,147,104	3,307,888	3,238,961	3,259,312

Source: Company Reports, Canaccord Genuity estimates

With the exception of one retail license allowed to be attached to CPL's main production campus, Sunniva currently does not have a direct sales channel to vertically integrated retail stores. Therefore, until the company launches its products and begins building equity in its own Sunniva brand, as calculated above, we estimate that CPL will be competing as a wholesale supplier of white-label products to branded partners and will have exposure to a US$3.3B annual wholesale market opportunity in California.

As previously outlined, the CPL facility is currently being constructed in two phases. The first phase is scheduled to be completed in Q3/18, which after a six to nine-month ramp-up is expected to reach an annual production run-rate of ~60,000 kg. Phase two is designed to add an incremental ~40,000 kg of capacity. Assuming a 50/50 mix between dried bud and oil products, we estimate that the total 100,000 kg of planned capacity could support wholesale revenues well in excess of US$500M at peak. However, as we believe the total California market size once fully converted into legal channels is approximately 1,000,000 kg, the ability for Sunniva to sell 100% of its planned capacity would infer a 10% market share in the state. Although we believe Sunniva could likely benefit from a first-mover advantage should it meet all its expansion timelines, given the large number of players in the California market we do not believe any one player achieving 10%+ market share is likely at this time.

Instead, we have valued CPL assuming an overall market share penetration applied against our $3.3B wholesale market opportunity (calculated above). The key assumptions included in our valuation are as follows:

1. A California annual wholesale market opportunity of **US$3.3B** at peak.
2. CPL achieving a **wholesale market share of 5.0%** (or ~2.5% of the total retail market size), which equates to annual sales of equivalent kilograms of cannabis of **~40,000 kg** and peak revenues of ~**US$163M.**

   Note: although our assumed peak sales volumes are lower than CPL's planned capacity, we believe the ability of CPL to secure off-take/wholesale contracts is the most significant value driver for the company, and our valuation has significant upside (as detailed in our subsequent sensitivity analysis) should the company be able to secure distribution for all of its planned volume.
3. **EBITDA margins of ~30%**, a discount to most vertically integrated operations, resulting in a peak EBITDA of **~US$50M**.
4. An elevated **tax rate of ~40%** given the unfavourable tax implications of 280E.
5. An assumed **CAD/USD f/x rate of 1.30**
6. A **discount rate of 12.0%**, which represents a 200bps premium to licensed producers in legalized states to account for the execution risk of CPL

completing and ramping up its facility and its ability to secure supply contracts for its capacity.

Note: we have used only a modest premium for this risk as we have already conservatively assumed the company will only sell ~40% of its planned production volumes.

As illustrated below, based on our above assumptions, we value CPL and Sunniva's resulting penetration into the California market at ~**C$277M**, or ~**C$6.86** per share.

Figure 32: Sunniva: Valuation of California opportunity

$000's	2018E	2019E	2020E…	2025E	2026E	2027E
Est. Wholesale Market Revenues	706,411	1,395,881	2,147,104	3,307,888	3,238,961	3,259,312
Est. SNN wholesale market share	0%	3.5%	4.0%	5.0%	5.0%	5.0%
Est. Sunniva Revenues ($USD)	$ 1,766.03	$ 48,856	$ 85,884	$ 165,394	$ 161,948	$ 162,966
Est. Sunniva Revenues ($CAD)	$ 2,296	$ 63,513	$ 111,649	$ 215,013	$ 210,532	$ 211,855
Implied kg sold	*260*	*7,331*	*13,151*	*30,819*	*31,493*	*32,266*
Adj. EBITDA ($CAD)	$ (6,888)	$ 6,351	$ 31,262	$ 64,504	$ 63,160	$ 64,595
EBITDA margin	*-300%*	*10%*	*28%*	*30%*	*30%*	*30%*
Taxes	(2,755)	2,541	11,879	19,351	18,948	19,378
Working Capital	230	6,122	4,814	(407)	(448)	132
Capex	20,000	15,000	10,000	10,000	10,000	10,000
Free Cash Flow ($CAD)	$ (24,362)	$ (17,311)	$ 4,569	$ 35,560	$ 34,660	$ 35,084
Terminal Value (($CAD)						$ 359,836

Discount Rate	12%
Terminal Growth	2%
Present Value of FCF ($CAD)	$ 277,093
# of shares outstanding	40,393
Value per share ($CAD)	$ 6.86

Source: Company Reports, Canaccord Genuity estimates

Refer to our sensitivity analysis in the SOTP valuation section of this report for various scenario valuations given different assumed market shares for both of Sunniva's US and Canadian opportunities.

Looking to gain Canadian traction

With an increasing number of Canadian Licensed Producers vying for market share, we believe Sunniva's Canadian opportunity is a riskier proposition for the company given the number of established producers in Canada – many of which have already achieved scale and are beginning to secure purchase orders from government entities responsible for implementing Canada's retail market. As SMI is still in the process of building out its facility and is not yet licensed by Health Canada, we believe it will be much more difficult for Sunniva to execute on a first-mover advantage in Canada, even though the Canadian market has much lower regulatory risk vs. the US.

Further, even through the company has secured a sizable wholesale order from Canopy Growth Corp. for 2019 and 2020 (which does provide some revenue certainty), we believe Sunniva will experience increasing competitive headwinds in Canada as legal cannabis supply continues to increase. As a result, we believe it will be relatively more difficult for the company to carve out meaningful market share in Canada without executing on strategic partnerships and/or M&A. Therefore, the ability to establish additional offtake/wholesale arrangements such as the one already secured with Canopy is material to the Canadian opportunity for Sunniva, in our view.

However, one advantage to SMI (should it receive a license) relative to its US operations is the possibility of securing an international export platform out of Canada, where it is possible to export cannabis to a growing number of international countries for medical purposes.

As the population of Canada is somewhat comparable to California, we estimate that the Canadian cannabis opportunity could represent ~C$10B in annual revenues once fully implemented over the coming years. With a 700,000 sq. ft. greenhouse facility under construction in British Columbia, management believes it will able to produce at an annual run-rate of 100,000 kg by 2019 (pending a cultivation/ production/sales license). Similar to our analysis of the California market, we believe this capacity could represent upwards of 10% of total market demand and given the large number of incumbents in the Canadian industry (and >100 licenses issued to date), we do not believe applying a 10% market share to SMI is reasonable at this time.

As a result, we have valued SMI by applying what we believe to be a reasonable market share to the overall Canadian opportunity. The assumptions utilized in our valuation are as follows:

1. A Canadian retail and wholesale opportunity of **~C$10B** and ~**$6B** in annual revenues, respectively.
2. As a result of owning the largest patient funnel in the country (NHS), even though SMI's facility construction and licensing is well behind many of the leaders in the industry, we believe the company will still be able to achieve a **wholesale market share of 2.0%** (or ~1.0% of the total retail market size), made up predominantly of medical patients referred from its seven clinics throughout the country. This assumed market share equates to annual sales of equivalent kilograms of cannabis of **~17,000 kg** (domestic), resulting in peak revenues of ~**C$135M** per year (without consideration of potential international sales down the road).

   Note: although our assumed peak sales volumes are lower than SMI's planned capacity, we believe the ability of SMI to secure off-take/wholesale contracts (similar to its arrangement with Canopy) will be critical to the Canadian opportunity given the influx of potential capacity coming to market.
3. **EBITDA margins of ~35%**, resulting in a peak EBITDA of **~C$47M**.
4. A total **capital cost of ~C$120M** to complete its 700,000 sq. ft. greenhouse.
5. A **discount rate of 13.0%**, which represents a 400bps premium to the medical discount rate utilized for Canadian Licensed Producers that have a first-mover advantage over Sunniva in the existing medical market.
6. A **probability discount of 10%** for Sunniva obtaining both its cultivation and sales license in time to execute on its wholesale arrangement with Canopy (and potentially others).

As illustrated below, based on our above assumptions, we value SMI and Sunniva's resulting penetration into the Canadian market at ~**C$167M**, or ~**C$4.13** per share.

Figure 33: Sunniva: Valuation of Canadian opportunity

C$000's	2018E	2019E	2020E…	2025E	2026E	2027E
Est. Total Market (Wholesale)	1,288,743	3,359,920	4,927,311	6,620,726	6,686,933	6,753,802
Est. SNN Wholesale Market Share	0%	9.41%	7.95%	2.00%	2.00%	2.00%
Est. Sunniva Revenues	$ -	$ 70,875	$ 101,250	$ 132,415	$ 133,739	$ 135,076
EBITDA Margin		10%	25%	35%	35%	35%
Est. Sunniva EBITDA	$ (11,000)	$ 7,088	$ 25,313	$ 46,345	$ 46,809	$ 47,277
Taxes		$ 1,063	$ 3,797	$ 6,952	$ 7,021	$ 7,091
Working Capital		$ 7,088	$ 3,038	$ 131	$ 132	$ 134
Capex	67,000	60,000	7,500	5,000	5,000	5,000
Free Cash Flow	(78,000)	(61,063)	10,978	34,262	34,655	35,051
Terminal Value						341,965

Discount Rate	13%
Terminal Growth	2%

Present Value of FCF (C$)	$ 206,077
Probability Discount (Cultivation License)	10%
Probability Discount (Sales License)	10%
Value of SMI (C$)	$ 166,922
# of shares outstanding	40,393
Value per share (C$)	$ 4.13

Source: Company Reports, Canaccord Genuity estimates

Please refer to our sensitivity analysis in the SOTP valuation section of this report for various scenario valuations given different assumed market shares for both of Sunniva's US and Canadian opportunities.

Health clinic network should drive patient volumes to SMI

NHS is one of the leading cannabis clinics in Canada, with seven locations that currently service almost 100,000 Canadian medical patients. Each location has multiple in-house physicians that consult with patients and provide education on the endocannabinoid system and advise on product selection based on patient indication.

Although NHS is currently operating at a ~C$11M revenue run-rate, as previously noted we believe the value of NHS is in its ability to act as a patient funnel to SMI once/if it receives a licence from Health Canada. Therefore, we believe most of the value of NHS is already accounted for in our assumed market share within our valuation of SMI (above). Further, as we expect large-scale national pharmacy chains eventually to enter the Canadian medical cannabis space, we believe the demand for clinics over the longer-term will only see modest growth, as growth could be somewhat offset by increased patient awareness/education and the emergence of pharmacies and pharmacists in the industry.

In valuing NHS, we assume a growth rate of 5% for the next three years before trailing off to 3% in 2022 and 1% in 2025. NHS reported an EBITDA margin of 63% in the most recent quarter, and an average gross margin of 57% over 2017. We forecast that as Sunniva continues to expand health care clinic locations, it could sustain normalized EBITDA margins of 50% in this segment.

After utilizing a relatively low discount rate of 10% (given the modest growth assumptions in our forecasts) we value NHS at **~C$53M**, or **C$1.32** per share.

Figure 34: Valuation of NHS

C$000's	2018E	2019E	2020E…	2025E	2026E	2027E
# of patients registered with Health Canada	375,000	450,000	525,000	800,000	800,000	800,000
% growth		*20%*	*17%*	*0%*	*0%*	*0%*
# of active patients at NHS	95,000	99,750	104,738	121,374	122,587	123,813
% growth		*5%*	*5%*	*1%*	*1%*	*1%*
Counselling revenue per patient	$ 125	$ 125	$ 125	$ 125	$ 125	$ 125
Est. NHS Revenues	$ 11,875	$ 12,469	$ 13,092	$ 15,172	$ 15,323	$ 15,477
Est. NHS EBITDA	$ 4,750	$ 7,481	$ 7,201	$ 7,586	$ 7,662	$ 7,738
EBITDA Margin	*40%*	*60%*	*55%*	*50%*	*50%*	*50%*
Taxes	$ 713	$ 1,122	$ 1,080	$ 1,138	$ 1,149	$ 1,161
Working Capital	$ 40	$ 59	$ 62	$ 15	$ 15	$ 15
Capex	500	500	500	500	500	500
Free Cash Flow	3,498	5,800	5,558	5,933	5,997	6,062
Terminal Value						50,519

Discount Rate	10%
Terminal Growth	-2%
Present Value of FCF (C$)	$ 53,396
# of shares outstanding	40,393
Value per share (C$)	$ 1.32

Source: Company Reports, Canaccord Genuity estimates

FSD provides incremental upside as demand for vaporizers grows with the market

Operating under the moniker Vapor Connoisseur, this segment of Sunniva's business designs, sources and provides private label customized vaporizers, accessories and solutions to over 80 brands throughout the United States. FSD sources custom design vape-pen bodies/shells, batteries, and oil cartridge and assembles them into finished vaporizer products that are shipped to customers throughout the United States.

Although we believe the increasing number of states legalizing and implementing recreational platforms in the US provides an attractive growth profile for ancillary cannabis devices and accessories, since it is possible to compete in this segment of the industry without 'touching the plant' we believe it is also likely that this segment will also see a higher degree of competition compared to operations that require a state/city license to operate.

With a current revenue run-rate of ~C$10M, we forecast that FSD will experience a healthy revenue growth rate (averaging ~40%) over the next three years, before we taper down our growth assumptions to a modest 2% to 5% over the long-term due to the high level of expected competition and potentially highly capitalized players entering this segment of the market (tobacco, etc.).

We forecast FSD will maintain its last quarter's EBITDA margin of 17% over the near term and normalize to 15% over the long term. After utilizing a discount rate of 12% and a CAD/USD f/x rate of 1.30, we value Sunniva's FSD operations at ~**C$31 million**, or **C$0.76** per share (as illustrated below).

Note: The value of pre-filled Vapor Connoisseur cartridges sold into the California market is inherently included in our oil sale estimates within our valuation of CPL.

Figure 35: Sunniva: Valuation of FSD

$000's	2018E	2019E	2020E…	2025E	2026E	2027E
Est. FSD Revenues ($USD)	$ 7,692	$ 11,538	$ 16,731	$ 25,377	$ 25,885	$ 26,403
Revenue growth rate	*0.0%*	*50.0%*	*45.0%*	*2.0%*	*2.0%*	*2.0%*
Est. FSD Revenues ($CAD)	$ 10,000	$ 15,000	$ 21,750	$ 32,990	$ 33,650	$ 34,323
Adj. EBITDA	$ 1,000	$ 2,250	$ 3,263	$ 4,949	$ 5,048	$ 5,148
EBITDA margin	*10%*	*15%*	*15%*	*15%*	*15%*	*15%*
Taxes	200	450	653	990	1,010	1,030
Working Capital	30	30	101	10	10	20
Capex	200	300	500	200	200	200
Free Cash Flow	$ 570	$ 1,470	$ 2,009	$ 3,749	$ 3,828	$ 3,899
Terminal Value						$ 42,844

Discount Rate	12%
Terminal Growth	2%
Present Value of FCF ($CAD)	$ 30,867
# of shares outstanding	40,393
Value per share (C$)	$ 0.76

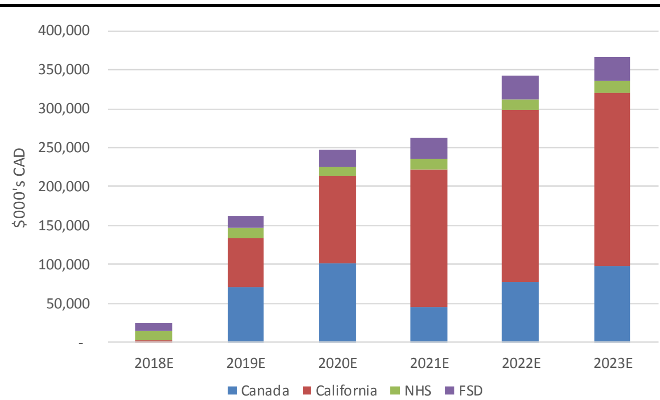
Source: Company Reports, Canaccord Genuity estimates

Consolidated estimates

As a combined result of our SOTP estimates above, we estimate that Sunniva will realize consolidated revenue of **C$27.4 million** in FY2018, increasing by a CAGR of ~100% to **C$342.8 million** by FY2022; and we estimate the company will become EBITDA positive in 2019 at **C$23.2 million**, increasing by a CAGR of ~75% to **C$104.8 million** by FY2022.

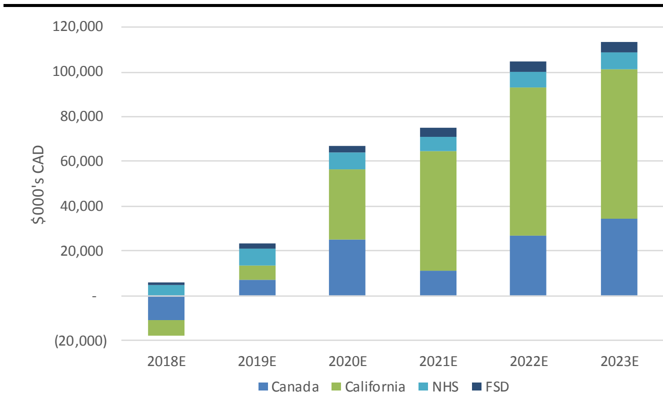
Refer to our segmented and consolidated revenue and EBITDA estimates below.

Figure 36: Sunniva revenue by segment



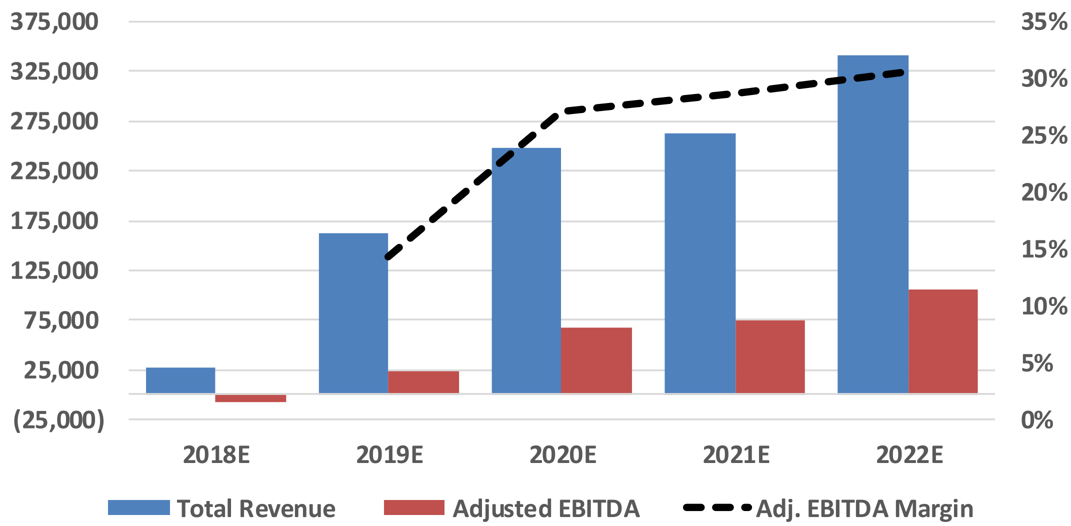
Source: Company Reports, Canaccord Genuity estimates

Figure 37: Sunniva EBITDA by segment



Source: Company Reports, Canaccord Genuity estimates

Figure 38: Sunniva: Consolidated revenue and EBITDA estimates: FY2018 to FY2022 (C$MMs)



Source: Canaccord Genuity estimates

Sum-of-the-parts valuation

Initiating coverage with a SPECULATIVE BUY rating and C$13.00 target

Based on our individual valuations for Sunniva's operating segments and market exposure (CPL, SMI, NHS and FSD), our resulting sum-of-the-parts valuation for the company is C$13.08 per share, as illustrated below.

Figure 39: Sunniva: Sum-of-the-parts valuation

SOTP Valuation	C$ per share	EV/EBITDA multiple
California Market (CPL)	$ 6.86	8.9x
Canadian Market (SMI)	$ 4.13	6.6x
Natural Health Services (NHS)	$ 1.32	7.4x
Full Scale Distributors (FSD)	$ 0.76	9.5x
SOTP Valuation	**$ 13.08**	**8.6x**

Source: Canaccord Genuity estimates

As a result, we are initiating coverage of Sunniva with a SPECULATIVE BUY rating and a C$13.00 target price. Our target represents a forecasted annualized return of 66.7%.

Below is a sensitivity table for our SOTP valuation for every 100bps change to our base discount and terminal growth rates. We note that even a 2% increase to our weighted average discount rate and 1% decrease to our terminal growth rate still results in a valuation ~47% higher than current trading levels.

Figure 40: SOTP sensitivity table

Term.Growth	Discount Rate 10.0%	11.0%	12.0%	13.0%	14.0%
3.0%	$ 15.78	$ 14.64	$ 13.76	$ 13.05	$ 12.48
2.5%	$ 15.28	$ 14.23	$ 13.40	$ 12.74	$ 12.19
2.0%	$ 14.83	$ 13.86	$ 13.08	$ 12.45	$ 11.93
1.5%	$ 14.43	$ 13.52	$ 12.79	$ 12.19	$ 11.69
1.0%	$ 14.08	$ 13.22	$ 12.52	$ 11.95	$ 11.47

Source: Canaccord Genuity estimates

Source: Company Reports, Canaccord Genuity estimates

Other sensitivity analyses

Although we believe our individual valuations are built on relatively conservative assumptions, the core value driver of our model rests on the assumed market penetration Sunniva will ultimately be able to secure in California and Canada. In addition, we believe over the long term, with the cultivation of cannabis expected to commoditize, Sunniva will also have to secure a portion of its market share in its own branded products to cement a market position and to safeguard against margin compression.

Below is a sensitivity analysis, starting with our base-case valuation (5% market share in California and 2% in Canada), with resulting valuations for changes to our market share assumptions. However, as shown below, if Sunniva is able to achieve meaningful market share in either market (i.e., a 3% Canadian market share – regardless of our California assumptions) our valuation would still support a SPECULATIVE BUY rating.

Figure 41: Sensitivity to our SOTP

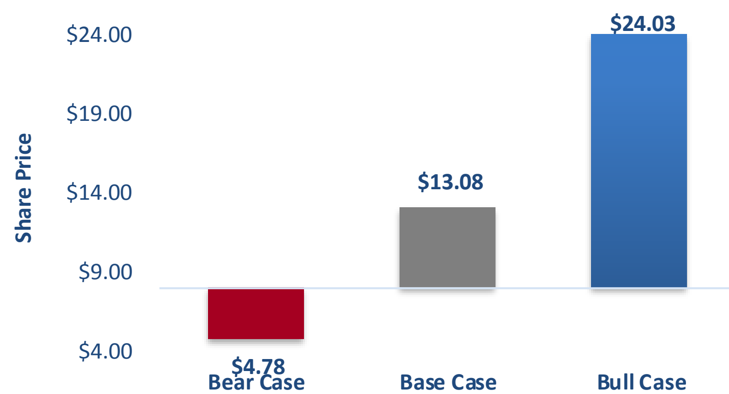
Cdn Mkt Share	California Mkt Share: 1.0%	2.5%	5.0%	7.5%	10.0%
5.0%	$ 11.78	$ 14.23	$ 16.65	$ 21.21	$ 24.03
4.0%	$ 10.24	$ 13.30	$ 15.19	$ 19.58	$ 21.21
3.0%	$ 8.32	$ 10.86	$ 13.77	$ 17.71	$ 20.48
2.0%	$ 6.75	$ 9.23	$ 13.08	$ 16.09	$ 18.62
1.0%	$ 4.78	$ 7.26	$ 11.08	$ 14.01	$ 16.54

Source: Company Reports, Canaccord Genuity estimates

Further, in a bear-case scenario in which Sunniva only secures 1% market share in both California in Canada (very unlikely, in our view), our resulting valuation would still provide >60% downside protection from current levels. However, should the company exceed our estimates and obtain a 10% California market share and 5% Canadian penetration (unlikely, in our view, but within the company's planned capacity), our target price could increase to ~C$24.00 – or ~**200% higher** than current trading levels.

In order to maximize its ultimate market share, we believe the company will need to focus on increasing its level of vertical integration and brand awareness in order to combat expected pricing pressure brought on by cultivation commoditization as the industry continues to mature.

Figure 42: Low vs. High end scenario valuation



Source: Company Reports, Canaccord Genuity estimates

As a result of the potential torque to our base-case valuation and an attractive relative valuation compared to both Canadian and US peers (discussed next), we believe current SNN levels represent an attractive entry point with significant upside should the company secure and lock in long-term supply contracts that are in excess of our estimates.

Finally, in addition to our above market share analysis, we also ran our model assuming more aggressive commoditization and industry pricing pressures and note that if we reduce our assumed weighted average wholesale pricing by up to 20%, our valuation still yields a target price of ~C$9.00, or ~15% higher than current SNN levels.

Figure 43: Valuation assuming lower pricing

		Valuation
Base-Case Valuation	$	13.08
Decrease wholesale price by 20%	$	8.99
Decrease wholesale price by 40%	$	5.86

Source: Company Reports, Canaccord Genuity estimates

Comparable company analysis

Sunniva currently trades at ~5.5x its two-year fwd EV/EBITDA. Although the company's operations and future value streams are comprised of contributions from both US and Canadian markets, we note that at current levels SNN is both a discount to the Canadian LP average of ~13.3x and the US average of 6.5x. Although we believe SNN should trade below the Canadian average as we forecast a large percentage of contribution to come from its California operations, we also believe the discount relative to its US peers is overdone, and we believe this analysis provides further support that SNN's current levels could represent an attractive entry point.

Figure 44: Sunniva: Comparable company table

Company	Ticker	Share Price ($)	Rating	Shares O/S (M)	Market Cap (M)	EV/EBITDA CY	EV/EBITDA FWD1	EV/EBITDA FWD2	EV/Revenue CY	EV/Revenue FWD1	EV/Revenue FWD2
Canopy Growth	WEED	36.93	HOLD	243	$ 8,956	N/A	69.5x	30.3x	104.0x	19.1x	10.8x
OrganiGram Holdings	OGI	5.05	SPEC BUY	140	$ 709	80.0x	11.9x	8.5x	22.4x	4.3x	3.3x
Supreme Cannabis Company	FIRE	1.58	SPEC BUY	363	$ 573	N/A	10.5x	6.5x	32.1x	3.0x	2.5x
Maricann Group, Inc.	MARI	1.67	SPEC BUY	137	$ 229	71.0x	5.3x	3.3x	7.0x	1.8x	1.3x
Emblem Corp	EMC	1.32	SPEC BUY	127	$ 167	172.2x	5.4x	2.3x	7.7x	1.6x	0.9x
CannTrust	TRST	7.77	SPEC BUY	96	$ 744	103.2x	25.7x	11.8x	12.9x	6.7x	4.1x
Hydropothecary Corporation	THCX	4.91	SPEC BUY	224	$ 1,101	N/A	21.9x	13.5x	50.3x	6.1x	4.5x
Cronos Group Inc.	CRON	8.22	SELL	207	$ 1,705	148.5x	29.2x	21.5x	42.5x	9.7x	7.8x
Invictus MD	GENE	1.46	SPEC BUY	116	$ 169	N/A	10.3x	6.4x	48.6x	3.1x	2.2x
Sunniva	SNN	7.80	SPEC BUY	40	$ 375	N/A	15.9x	5.5x	13.4x	2.3x	1.5x
Average								13.3x			4.8x
iAnthus	IAN	6.80	SPEC BUY	109	$ 739	139.9x	16.6x	11.3x	14.6x	4.0x	3.0x
Golden Leaf	GLH	0.22	SPEC BUY	651	$ 145	N/A	9.9x	5.1x	12.8x	5.8x	4.0x
MPX	MPX	0.85	SPEC BUY	464	$ 394	11.7x	7.8x	5.3x	3.4x	2.1x	1.7x
Sunniva	SNN	7.80	SPEC BUY	40	$ 375	N/A	15.9x	5.5x	13.4x	2.3x	1.5x
Average of U.S. companies								6.5x			1.9x

Source: Fact Set, Canaccord Genuity estimates

Selected management and director bios

Dr. Anthony Holler | Co-founder, Chairman and Chief Executive Officer

Dr. Holler is the former CEO and co-founder of ID Biomedical, which was one of the largest high quality, low cost manufacturers of flu vaccines that was acquired by GlaxoSmithKline in 2005 for $1.7 billion. He was also the former Chairman of Corriente Resources Inc., which was sold for approximately $700 million to CRCC-Tongguan Investment Co. Anthony is also the current Chairman of CRH Medical Corporation, which is a public company trading on the TSX and NYSE. Dr. Holler is seasoned in strategic planning, mergers and acquisitions, finance.

Leith Pedersen | Co-founder, President and Director

Mr. Pedersen is the former owner and CEO of Vida Wealth Management Bahamas, a former investment advisor at Canaccord Wealth Management and a former Partner and Director at JF Mackie and Company (an independent brokerage firm in Calgary Alberta that managed capital in excess of $2 billion for high net worth clients). Leith is an experience executive in corporate strategy, financing and mergers and acquisitions.

David Negus | Chief Financial Officer

Mr. Negus most recently served as the CFO of Luvo, Inc., a forward-thinking food company. 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 multi-billion-dollar international organization.

Duncan Gordon | Chief Operating Officer

Mr. Gordon has over 25 years' experience as a manufacturing and supply chain expert, leading teams responsible for large scale projects with a focus on engineering, continuous improvement, procurement, logistics, production and distribution. Previously he was the head of manufacturing and supply chain management at Kudu Industries.

Todd R. Patrick | Lead Director

Mr. Patrick is the President and CEO of C3J Therapeutics, a Los Angeles-based biotechnology company focused on infectious disease drug development. Since joining C3J, Mr. Patrick has raised over $125 million in equity capital for the company. Prior to joining C3J, Mr. Patrick served as President and COO of ID Biomedical. Mr. Patrick is a member of the board of C3J, CRH Medical, and Vaxent Vaccines, LLC. He holds an MBA in finance and is a member of the Governance and Nominating Committee, Compensation Committee, and Chair of the Audit Committee of CRH.

Michael Barker | Director

Mr. Barker is the founder of Barker Pacific Group (BPG), 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.

Figure 45: Sunniva: Forecast P&L

Fiscal Year End - Dec 31 (C$'000s)	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Total Revenue	$ 27,432	$ 161,856	$ 247,742	$ 262,995	$ 341,838	$ 366,987	$ 397,551	$ 395,589	$ 393,245	$ 396,731
Revenue growth %	*71%*	*490%*	*53%*	*6%*	*30%*	*7%*	*8%*	*0%*	*-1%*	*1%*
Cost of goods sold	13,050	89,681	111,938	94,826	96,660	104,318	111,731	113,994	116,128	118,474
Loss (Gain) on FV Changes	-	-	-	-	-	-	-	-	-	-
Adj. Gross Margin	$ 14,382	$ 72,175	$ 135,803	$ 168,170	$ 245,178	$ 262,670	$ 285,820	$ 281,596	$ 277,117	$ 278,257
General & Admin	21,390	46,330	63,116	85,702	127,279	136,332	141,697	138,063	134,289	133,349
Sales & Marketing	700	2,675	5,650	7,150	13,150	13,150	20,150	20,150	20,150	20,150
Share Based Compensation	8,169	7,500	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Depreciation	2,802	6,796	8,756	9,118	9,412	9,692	9,957	10,209	10,449	10,676
Research and development	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Income (loss) from operations	$ (18,678)	$ 8,874	$ 53,281	$ 61,199	$ 90,337	$ 98,496	$ 109,016	$ 108,174	$ 107,229	$ 109,082
Adjusted EBITDA	$ (7,707)	$ 23,170	$ 67,038	$ 75,318	$ 104,749	$ 113,188	$ 123,973	$ 123,383	$ 122,678	$ 124,758
Adj. EBITDA %	*-28.1%*	*14.3%*	*27.1%*	*28.6%*	*30.6%*	*30.8%*	*31.2%*	*31.2%*	*31.2%*	*31.4%*
Interest Expense	432	8,750	8,400	4,200	1,750	-	-	-	-	-
Gain on settlement of promissory note	(1,011)	-	-	-	-	-	-	-	-	-
FV change in derivative instruments	868	-	-	-	-	-	-	-	-	-
Other Expenses	(58)	475	475	475	475	475	475	475	475	475
Income (Loss) before taxes	$ (18,909)	$ (351)	$ 44,407	$ 56,524	$ 88,112	$ 98,022	$ 108,541	$ 107,699	$ 106,754	$ 108,607
Tax Expense	(298)	-	-	-	21,147	23,525	26,050	25,848	25,621	26,066
Net Income	$ (18,611)	$ (351)	$ 44,407	$ 56,524	$ 66,965	$ 74,496	$ 82,491	$ 81,851	$ 81,133	$ 82,541
# of Shares (FD)	*37,144*	*40,393*	*40,393*	*40,393*	*40,393*	*40,393*	*40,393*	*40,393*	*40,393*	*40,393*
Earnings per Share	$ (0.50)	$ (0.01)	$ 1.10	$ 1.40	$ 1.66	$ 1.84	$ 2.04	$ 2.03	$ 2.01	$ 2.04

Source: Company Reports, Canaccord Genuity estimates

Figure 46: Sunniva: Forecast balance sheet

Fiscal Year End - Dec 31 (C$'000s)	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Assets										
Cash & equivalents	160,672	1,891	32,733	19,507	45,568	86,629	164,483	241,441	317,917	396,139
Accounts receivable	2,273	8,093	12,387	13,150	17,092	18,349	19,878	19,779	19,662	19,837
Inventory	363	2,491	3,109	2,634	2,685	2,898	3,104	3,166	3,226	3,291
Prepaid expenses	549	1,619	2,477	2,630	3,418	3,670	3,976	3,956	3,932	3,967
Other current assets	-	-	-	-	-	-	-	-	-	-
Current Assets	163,857	14,094	50,707	37,921	68,764	111,546	191,439	268,343	344,737	423,234
Property, Plant and Equipment	98,419	166,623	174,866	180,748	186,336	191,644	196,687	201,477	206,029	210,352
Intangible Assets	24,589	24,589	24,589	24,589	24,589	24,589	24,589	24,589	24,589	24,589
Goodwill	17,627	17,627	17,627	17,627	17,627	17,627	17,627	17,627	17,627	17,627
Other	1,947	1,947	1,947	1,947	1,947	1,947	1,947	1,947	1,947	1,947
Total Assets	306,438	224,879	269,737	262,832	299,262	347,353	432,289	513,984	594,929	677,749
Liabilities										
Accounts payable & accruals	5,486	24,278	29,729	26,300	30,765	29,359	31,804	31,647	31,460	31,739
Senior promissory notes	225,000	125,000	120,000	60,000	25,000	-	-	-	-	-
Lease provisions	113	-	-	-	-	-	-	-	-	-
Other	187	-	-	-	-	-	-	-	-	-
Current Liabilities	230,786	149,278	149,729	86,300	55,765	29,359	31,804	31,647	31,460	31,739
Convertible Debt	9,495	9,495	9,495	9,495	9,495	9,495	9,495	9,495	9,495	9,495
Warrant Liability	2,098	2,098	2,098	2,098	2,098	2,098	2,098	2,098	2,098	2,098
Finance Lease	11,120	11,120	11,120	11,120	11,120	11,120	11,120	11,120	11,120	11,120
Other Liabilities	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156
Total Liabilities	255,655	174,147	174,598	111,169	80,634	54,228	56,673	56,516	56,329	56,608
Shareholder's Equity										
Share capital	82,896	82,896	82,896	82,896	82,896	82,896	82,896	82,896	82,896	82,896
Equity component of convertible debentures	1,664	1,664	1,664	1,664	1,664	1,664	1,664	1,664	1,664	1,664
Warrants	7,243	7,243	7,243	7,243	7,243	7,243	7,243	7,243	7,243	7,243
AOCI	6,399	6,399	6,399	6,399	6,399	6,399	6,399	6,399	6,399	6,399
Other	(47,119)	(47,470)	(3,063)	53,461	120,426	194,923	277,414	359,265	440,398	522,940
Total Shareholder's Equity	$ 51,083	$ 50,732	$ 95,139	$ 151,663	$ 218,628	$ 293,125	$ 375,616	$ 457,467	$ 538,600	$ 621,142
Total Liabilities and Shareholder's Equity	$ 306,738	$ 224,879	$ 269,737	$ 262,832	$ 299,262	$ 347,353	$ 432,289	$ 513,984	$ 594,929	$ 677,749

Source: Company Reports, Canaccord Genuity estimates

Figure 47: Sunniva: Forecast statement of cash flows

Fiscal Year End - Dec 31 (C$'000s)	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
OPERATING ACTIVITIES											
Net profit (loss) for the period	(18,472)	(18,611)	(351)	44,407	56,524	66,965	74,496	82,491	81,851	81,133	82,541
Adjustments for non-cash items											
Depreciation and Amortization	2,526	2,802	6,796	8,756	9,118	9,412	9,692	9,957	10,209	10,449	10,676
Share based payments	3,981	-	-	-	-	-	-	-	-	-	-
Other											
Changes in working capital											
Accounts receivable	(880)	-	(5,820)	(4,294)	(763)	(3,942)	(1,257)	(1,528)	98	117	(174)
Inventory	(210)	71	(2,129)	(618)	475	(51)	(213)	(206)	(63)	(59)	(65)
Prepaid expenses	(229)	(147)	(1,070)	(859)	(153)	(788)	(251)	(306)	20	23	(35)
Accounts payable	3,066	(135)	18,792	5,451	(3,429)	4,466	(1,406)	2,445	(157)	(188)	279
Deferred revenue	656	-	-	-	-	-	-	-	-	-	-
Other	-	(469)	(187)	-	-	-	-	-	-	-	-
Cash from Operations	(5,059)	$ (16,489)	$ 16,032	$ 52,842	$ 61,773	$ 76,062	$ 81,060	$ 92,854	$ 91,959	$ 91,476	$ 93,222
FINANCING ACTIVITIES											
Shares issued for cash	4,841	29,394	-	-	-	-	-	-	-	-	-
Proceeds (repayment) of debt	11,143	215,651	(100,000)	(5,000)	(60,000)	(35,000)	(25,000)	-	-	-	-
Net proceeds from issuance of warrants	6,035	6,960	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Cash from Financing	22,019	252,005	(100,000)	(5,000)	(60,000)	(35,000)	(25,000)	-	-	-	-
INVESTING ACTIVITIES											
Purchase of PP&E	(11,475)	(87,000)	(75,000)	(17,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)
Other											
Goodwill	(2,780)	(81)	-	-	-	-	-	-	-	-	-
Intangible	(1,124)	559	-	-	-	-	-	-	-	-	-
Other	-	(1,565)	-	-	-	-	-	-	-	-	-
Cash from Investing	(15,379)	(88,087)	(75,000)	(17,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)
Effect of FX on cash and cash equivalents	230	-									
Increase in cash and cash equivalents	1,811	147,429	(158,968)	30,842	(13,227)	26,062	41,060	77,854	76,959	76,476	78,222

Source: Company Reports, Canaccord Genuity estimates

Appendix A: Overview of Sunniva's operating regions

California

Figure 48: California overview

Key Market Features	
Current Population:	~40 Million
Legal Status:	Med (1996), Rec (Jan 2018) / $1.8 Billion
Trailing Sales (First 3 months):	~230 million
Current Medical Population (est):	~100,000
Number of Licenses:	>6,000
Notable Features:	Highly Disagregated Market

Source: Canaccord Genuity estimates; Bureau of Cannabis Control

Regulatory history

California was the first state to legalize the use of cannabis for medical purposes in November of 1996 with the introduction of Proposition 215, known as the Compassionate Use Act. This legislation allowed seriously ill individuals or those with chronic/debilitating illnesses or their caretakers the right to obtain, grow, and use marijuana for medical purposes if recommended by a doctor. Several years later in 2003, the state Senate issued the Medical Marijuana Program Act (MMPA) to provide additional clarity on medical cannabis legislation. The bill included multiple changes to the previous legislation, including strict limits on the amount of cannabis allowed for possession, cultivation, and procedures for the issuance of cannabis identification cards.

Recreational use was more recently legalized in 2016 via a ballot initiative with Proposition 64. New regulations were enacted in January 2018 that will allow for adults 21 or older to purchase cannabis for adult use. The recently introduced regulations put in place a robust licensing system with over 20 different license types and approval required at both a state and local level before a business can operate.

Notable state features

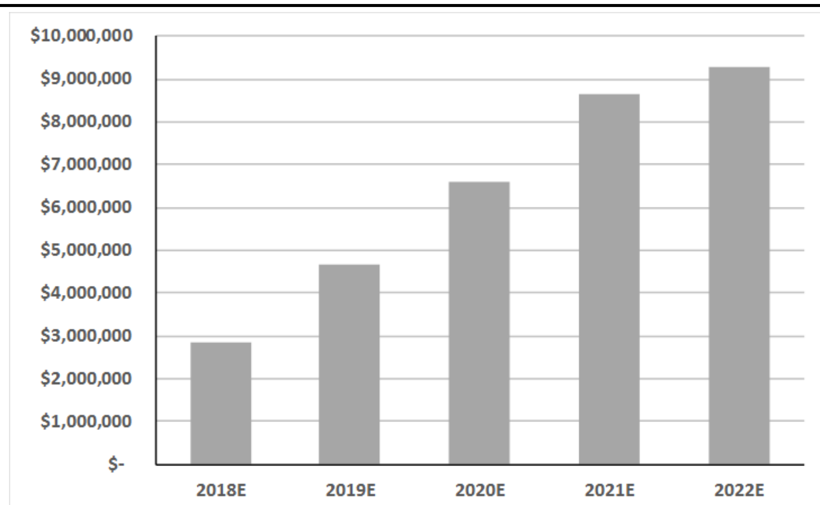
California represents one of the most disaggregated licensing frameworks in the US, with different regulations for cultivation, distribution and retail. As both one of the largest economies in the US and having the most mature medical cannabis market, California is expected to have the largest cannabis industry in the US. With over 6,000 licenses issued to date, no one organization has obtained a significant market share of the opportunity, meaning the possibilities are significant. Previously medical markets were governed at the municipal level with what appears to be very little state oversight; however, we expect any black-market elements to be filtered out over time as the new regulations are enforced. While California represents the largest opportunity in the US cannabis industry, we believe that the complicated regulations applied to a previously unrestricted market create a lot of short-term uncertainty.

Estimated California revenue potential

We believe that with the implementation of regulated recreational sales, California is set to quickly become one of the largest legal recreational cannabis markets in the world. Consumers in the state will have access to a wide breadth of products including, pre-rolled joints, edibles, tinctures, infused products, and other derivative products, which we know to be higher-margin products for operators.

Consistent with other states, we estimate that ~2% of California's population will consume cannabis for medical purposes (i.e., higher volume consumers) and ~10%– 13% of adults will consume marijuana for recreational purposes. Assuming a retail price of ~US$10 per gram of dried bud and ~US$15 per equivalent gram of derivative cannabis products, we estimate the total legal spending will ramp up from ~$2.8 billion in 2018 to US$9.2 billion by 2022 (with potential to exceed US$10 billion as the industry fully matures).

Figure 49: Estimated California state revenues (2018 to 2022) – US$000s



Source: Company Reports, Canaccord Genuity estimates

Canada

Figure 50: Canada overview

Key Market Features	
Current Population:	~37 Million
Legal Status:	Yes - medical legalized in 2001, recreational in 2018
Trailing Sales:	Approx. $400 million (medical)
Current Medical Population (est):	~260,000
Number of Licenses:	111
Market Highlights:	Many well established LP's/Strong recreational market potential

Source: Canaccord Genuity estimates, Health Canada

Background

Medical legislation was introduced in 2001 and continues to be governed by Health Canada. Cannabis for recreational purposes was legalized in June 2018 with the law coming into effect in October 2018. At the federal level, cannabis will be legalized, and the provinces will be responsible for governing the sale and distribution of product. To date, most provinces are choosing to distribute exclusively through government-owned entities that will control the retail portion of the value chain (likely limiting/eliminating vertical integration in the Canadian market).

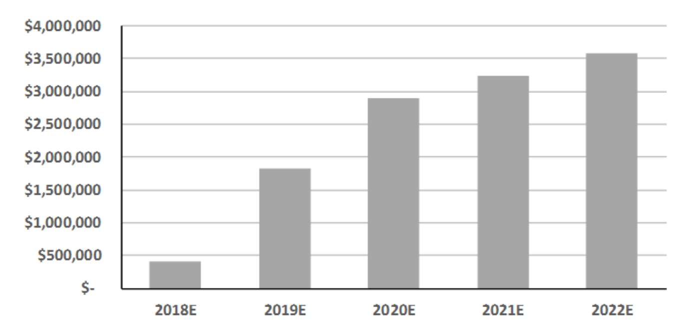
Country metrics

There are currently over 260,000 patients across Canada with 111 licenses issued throughout the country. Statistics Canada estimates that in 2017, five million Canadians have consumed cannabis from the illegal market, spending over C$5.7 billion. We believe the legal market has significant upside as more patients register to use cannabis for medical purposes and recreational usage comes on line.

Estimated market size

We believe Canada will eventually reach a 2% medical patient base combined with a moderate usage rate of ~13–15% among adults. At retail pricing, we believe this could result in a peak market opportunity of ~C$10 billion once the medical market is fully ramped and recreational sales are fully implemented into regulated channels.

Figure 51: Estimated Canadian revenues (2018 to 2022) – US$000s



Source: Canaccord Genuity estimates

Appendix: Important Disclosures

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Each authoring analyst of Canaccord Genuity whose name appears on the front page of this research hereby certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the research.

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Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

Investment Recommendation

Date and time of first dissemination: June 28, 2018, 05:56 ET

Date and time of production: June 28, 2018, 10:41 ET

Target Price / Valuation Methodology:

Sunniva Inc. - SNN

We value Sunniva using a sum-of-the-parts analysis for each market/asset where it has exposure. We utilize a DCF methodology, with discount rates ranging from 10% to 13% and terminal growth of 2%.

Risks to achieving Target Price / Valuation:

Sunniva Inc. - SNN

Investment Risks – US

US federal government Schedule I classification

We believe the largest overhang facing the US cannabis industry today is marijuana's continued classification as a Schedule I controlled substance (the most restrictive labeling for any narcotic) by the US federal government. Although this risk should remain top of mind for investors, we believe there are a number of competing factors – including a large degree of bipartisan support for cannabis, a lack of federal funding for cannabis enforcement, and laws that protect existing medical markets throughout the US – that help mitigate this risk.

Sessions rescission of the Cole Memo

In early January, US Attorney General Jeff Sessions rescinded the Cole Memo. This Obama-era memo, dating back to 2013, provided guidance on allowing state-sanctioned cannabis companies to operate without federal interference. With these guidelines now removed, it is unclear what standard the federal government might use in deciding whether to prosecute under federal cannabis laws within states with legalized platforms. Although clearly a headwind for the industry, we believe this represents more of a 'headline risk' (albeit a significant one), for the following reasons:

- Medical markets are still protected by existing legislation prohibiting federal interference.
- Significant practical/logistical hurdles that the US government would have to overcome to implement federal enforcement (including insufficient funding).
- Over 60% of Americans support the legalization of recreational cannabis, including bipartisan support in many US states.
- Sales from legalized markets bring in hundreds of millions of dollars in taxes annually.
- There are several bills currently in Congress that call for the protection of legalized rec markets in the US, in order to eliminate crime and protect youth.
- Although a drag on industry valuations today, we also believe the continued lack of US federal support could serve as a catalyst for a valuation re-rating over the medium-term, as the federal government will eventually have to play catch-up (in our view) with the wide acceptance of cannabis use in the US.

Significant unknowns and material assumptions in our valuation

Because of the different regulatory frameworks, market growth profiles, and Sunniva's early-stage expansion plans, our estimates and valuation are susceptible to a large number of assumptions and unknowns. As a result, our valuation could be materially impacted if changes in the industry/licensing, or Sunniva's ability to execute its announced plans, differ from our assumptions.

US cannabis operators are subject to unfavourable federal tax rules

Legal cannabis operators are still subject to unfavourable tax treatments on federal filings. Specifically, Revenue Code Section 280E outright disallows the deduction of expenses related to the trafficking of illegal drugs. As such, normal course operating expenses that are directly linked to the sales of cannabis are not deductible for federal tax purposes, in many cases. As a result, effective tax rates for US cannabis operators can range from 40% (if fully integrated) to as high as 70%, and tax returns could be more likely to be subjected to increased scrutiny and risk of reassessment by the IRS.

Financing risk

The company expects to incur approximately $120 million on capital expenditures related to its Sunniva Canada Campus. Although the company is publicly traded on the Canadian Securities Exchange and could have access to additional equity capital through issuing equity, a decline in investor appetite for the company's stock could prevent the company from obtaining the full funding required to build out its Canada Campus, which could slow down expansion plans and reduce our forecast market share and revenues.

Repatriation of profits

We believe a potential issue that will require resolution in the medium to long-term will be the mechanics of how legal cannabis operators in the US can distribute profits to out-of-state and international shareholders (due to the illicit nature of cannabis at the federal level). We believe this is not a near-term issue, as essentially all profits in the US market are being re-deployed to fund growth and keep pace with industry demand. However, we believe increased clarity on this issue will be critical (with many states already seeking federal commentary) as the market reaches a more normalized state.

FX risk

As Sunniva plans to penetrate the California market (but is listed on a CAD exchange), its stock price is subject to CAD/USD FX fluctuations. Should the USD depreciate materially against the CAD, the stock price of Sunniva could experience headwinds independent of its underlying operational performance.

Regulatory/licensing risk

Sunniva currently holds multiple temporary California state manufacturing and sales licenses. The State has a very robust licensing system with multiple categories of licenses for cultivation, manufacturing, extraction, and sales. Changes to, or non-compliance with, regulations could have a material adverse impact on its operating and financial performance.

Ability to secure supply contracts

Although Sunniva is building out substantial capacity in California, it will need to secure sufficient supply contracts in order to monetize its operations and secure market share in the state.

Investment Risks – Canada

Production risk – Sunniva could experience challenges ramping up production at its Canadian expansion facility that could result in material delays in meeting its production capacity goal of 100,000 kg in 2019. The company may not achieve its projected production capacity, hindering the company from fulfilling its supply contract and therefore, may not meet our revenue estimates.

Financial risk – Sunniva's Canadian operations and supply contract will be dependent on whether Sunniva can build out its Canada facility. If Sunniva does not obtain the $120 million that it requires to complete its Canadian facility, this would delay expansion plans and could result in material differences to our estimates.

Pricing risk – As Sunniva's Canadian strategy rests upon obtaining supply agreements, the company will likely not achieve favourable pricing as it will be sharing revenue with other LPs who are distributing via government contracts at wholesale price (~$4 to $5 per gram). In addition, as the industry begins to shift towards a wholesale model, we believe those LPs may experience additional pricing pressure, which may erode Sunniva's margins.

Regulatory risk –Sunniva operates in a highly regulated industry that is/will be subject to Health Canada regulations, federal government legislation, and provincial distribution frameworks, which could have a material impact on the company's operating environment and financial performance.

Partnership risk – Sunniva currently plans to supply 90,000 kg to Canopy Growth over 2019 and 2020. If the partnership were to end during or after the two years and the company does not obtain other partnerships of the same magnitude, or must offer more favourable pricing in order to secure additional contracts, Sunniva may not meet our revenue estimates.

Distribution of Ratings:

Global Stock Ratings (as of 06/28/18)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	569	61.98%	42.36%
Hold	224	24.40%	26.79%
Sell	22	2.40%	18.18%
Speculative Buy	103	11.22%	66.02%
	918*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

“Risk-adjusted return” refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

A list of all the recommendations on any issuer under coverage that was disseminated during the preceding 12-month period may be obtained at the following website (provided as a hyperlink if this report is being read electronically) http://disclosures-mar.canaccordgenuity.com/EN/Pages/default.aspx

Required Company-Specific Disclosures (as of date of this publication)

Sunniva Inc. currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided investment banking services to Sunniva Inc..

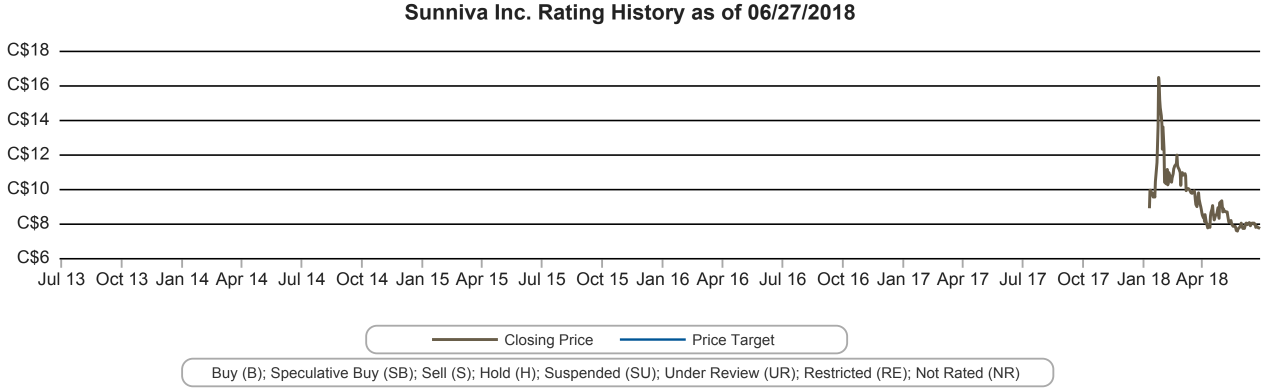
In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Investment Banking services from Sunniva Inc. .

In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of Sunniva Inc. or any publicly disclosed offer of securities of Sunniva Inc. or in any related derivatives.

Canaccord Genuity or one or more of its affiliated companies intend to seek or expect to receive compensation for Investment Banking services from Sunniva Inc. in the next three months.

An analyst has visited the material operations of Sunniva Inc.. No payment was received for the related travel costs.

Sunniva Inc. Rating History as of 06/27/2018



Past performance

In line with Article 44(4)(b), MiFID II Delegated Regulation, we disclose price performance for the preceding five years or the whole period for which the financial instrument has been offered or investment service provided where less than five years. Please note price history refers to actual past performance, and that past performance is not a reliable indicator of future price and/or performance.

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