

Fundamental Research Corp.

Investment Analysis for Intelligent Investors

December 23, 2019

AgraFlora Organics International Inc. (CSE: AGRA / FRA: PU31 / OTCBK: AGFAF) – A Vertically Integrated Cannabis Company with Global Operations

Sector/Industry: Cannabis

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Market Data (as of December 23, 2019)

Current Price	\$0.11
Fair Value	\$0.38
Rating*	BUY
Risk*	4
52 Week Range	\$0.11 - \$0.79
Shares O/S	930,072,547
Market Cap	\$102.31 million
Current Yield	N/A
P/E (forward)	N/A
P/B	0.70x
YoY Return	-45.24%
YoY CSE	-36.80%

*see back of report for rating and risk definitions.

* All figures in C\$ unless otherwise specified.



Investment Highlights

- AgraFlora Organics International Inc. (“AgraFlora”, “company”) is a vertically integrated cannabis company with significant cultivation, manufacturing, branding and distribution capabilities.
- According to the company, AgraFlora’s Delta Greenhouse Complex in B.C. is one of the most technically advanced and environmentally friendly greenhouse facilities in the world, and is the world’s second largest cannabis cultivation operation under glass.
- The company has a cultivation licence for its 8,800 sq. ft. facility in Ontario and recently received cannabis research licences for its manufacturing and processing facilities. Receipt of a cultivation licence for its Delta Greenhouse Complex is imminent.
- Through CBD Group Asia Ltd., Gateway Newstands, Red Phoenix Intl. Trading, ICC International Cannabis Corp. and The Good Company GmbH, AgraFlora has significant international distribution capabilities. **Companies mentioned in the preceding sentence provide AgraFlora with distribution capabilities in Canada, the United States, Europe and China.**
- Currently, the company has two offtake agreements – one with ICC International Cannabis Corp. and one with Namaste Technologies. The company is to sell 100,000 kg of dried cannabis flower over a five-year period to ICC International Cannabis and allocate 10% of the company’s Delta Greenhouse Complex cannabis production to Namaste Technologies.
- Through company subsidiaries, the company has rights to, among other things, a patented delivery system called the “Fresh Release DoseCap”, exclusive rights to 20 unique cannabis strains, a portfolio of 57 registered trademarks, and patented micro-diffusion technology to increase the uptake of cannabinoid.

Risks

- The company operates in a highly competitive landscape against well-established Canadian Licenced Producers (“LPs”).
- The company has a limited operating history and has yet to generate revenue.
- There is no guarantee that the company will receive licences and complete retrofit initiatives for its facilities on time. This will significantly affect our valuation.
- There is no guarantee that the company will reach our expected production output for its cultivation assets. This will significantly affect our valuation.
- There is no guarantee that the distribution agreements entered into by the company will be meaningful.
- Access to capital and share dilution.

Key Financial Data (FYE - Dec 31)	2017	2018	2019E	2020E
Cash	3,791,249	10,718,888	15,694,451	5,119,248
Working Capital	3,043,637	11,071,721	25,666,961	(3,297,070)
Current Ratio	3.01	35.11	12.09	0.92
Total Assets	9,076,997	29,994,593	188,428,584	223,439,559
Revenue	-	-	-	93,218,988
Net Income	(2,039,680)	(5,741,082)	(101,528,017)	8,879,474
EPS	(0.01)	(0.02)	(0.11)	0.01

Company Overview

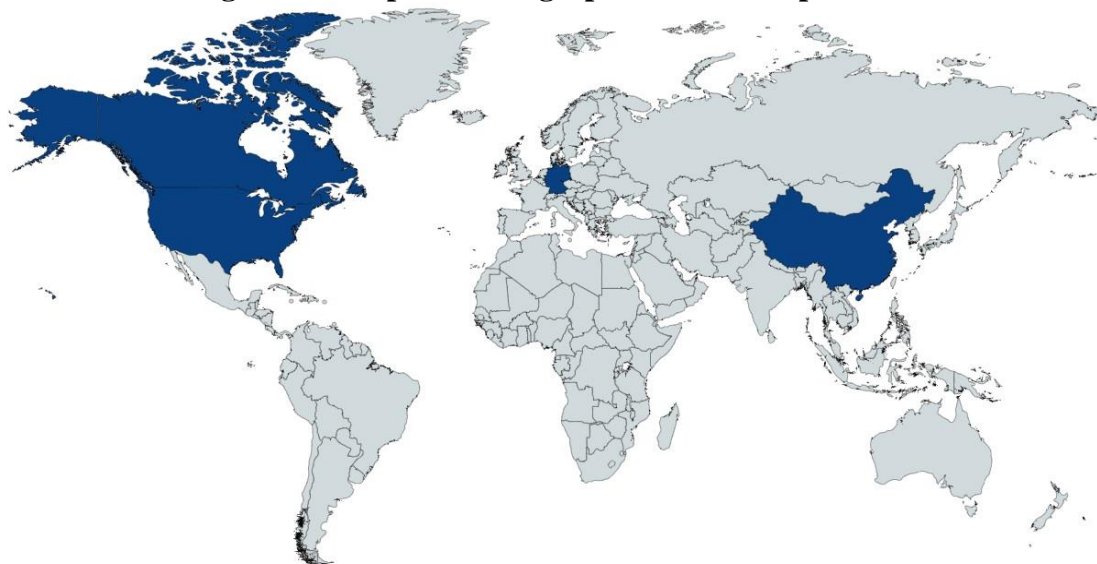
AgraFlora Organics International Inc. is a vertically integrated cannabis company with significant cultivation, manufacturing, branding and distribution capabilities. The company was incorporated in June 2004, and initially operated as a mining exploration company from incorporation until 2014. In March 2014, the company acquired a 16.5% interest in AAA Heidelberg Inc. (a private company that owned assets dedicated to cannabis cultivation), marking the company's shift in business direction towards the cannabis industry.

From December 2018 to June 2019, the company acquired the remaining outstanding interest of AAA Heidelberg Inc. and formed Propagation Services Canada Inc. ("Propagation") with the Houwelings Group ("Houwelings"). Propagation holds a 20-hectare (2.20 million square ft) vegetable greenhouse facility located in Delta, British Columbia ("B.C."). With definitive agreements to transition the 2.20 million square foot ("sq. ft") facility into a cannabis facility, the company subsequently changed its name to "AgraFlora Organics International Inc."

Shortly after, the company acquired the majority of assets of Organic Flower Investments Group Inc. ("OFIG" / CSE: SOW) through the issuance of 348,109,251 shares (fair value of \$71.86 million). The assets acquired from OFIG include a portfolio of downstream and product formulation assets. We speculate this acquisition was done to provide AgraFlora with greater ownership of the above mentioned asset in Delta, in which OFIG held a 20% interest, and to acquire strong downstream assets (discussed later in the report).

Through AgraFlora's assets, the company is positioning itself to compete primarily in the cannabis markets of Canada, the United States ("US"), Germany and China.

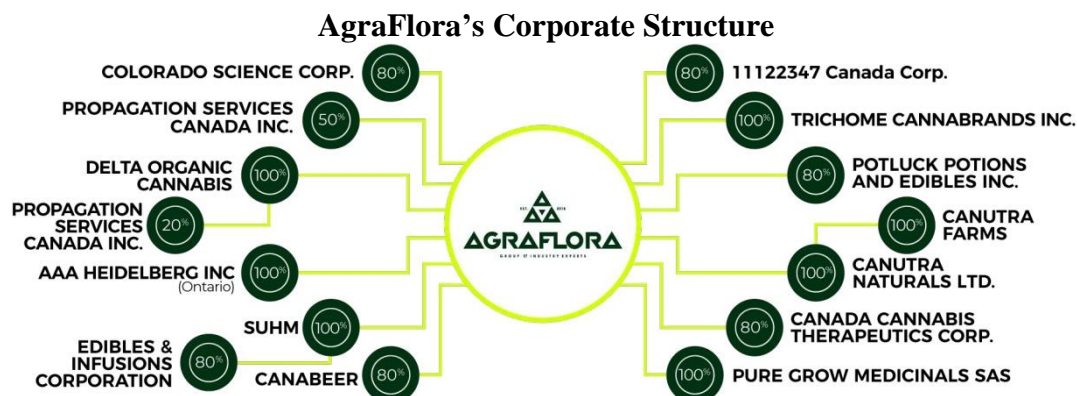
AgraFlora Expected Geographic Areas of Operation



Source: FRC

In the following, we outline the corporate structure of AgraFlora and provide a brief summary of each subsidiary.

AgraFlora's Corporate Structure



The image above excludes Eurasia Infused Cosmetics Inc. and The Good Company GmbH.

Source: Company

Name	Interest	Brief Description	Primary Purpose
Colorado Science Corp.	80%	Patented micro-diffusion technology	Technology
Propagation Services Canada Inc.	70%	2.20 million sq. ft. facility	Cultivation
AAA Heidelberg Inc.	100%	8,800 sq. ft. facility	Cultivation
Edibles & Infusions Corporation	80%	51,500 sq. ft. facility	Processing/Manufacturing
Canabeer	80%	Exclusive rights for CBD-infused beverages manufactured at Potluck	Product development
11122347 Canada Corp.	80%	Portfolio of cannabis beverage delivery assets	Technology
Trichome Cannabrands Inc.	100%	Portfolio of 57 registered trademarks	Branding capabilities
Potluck Potions and Edibles Inc.	80%	Bottling facility (size undisclosed)	Processing/Manufacturing
Canutra Farms	100%	76 acres of agricultural land, 17,500 sq. ft. of facilities	Cultivation and processing/manufacturing
Canada Cannabis Therapeutics Corp.	80%	Portfolio of CBD-infused gum, chewable tablets and capsules	Product development
Pure Grow Medicinals SAS	100%	Portfolio of 20 cannabis strains	Product development
Eurasia Infused Cosmetics Inc.	50%	Joint venture to distribute CBD products to Asia	Distribution
The Good Company GmbH	100%	Wholesale European cannabis distributor	Distribution

Source: FRC

From the entities under AgraFlora, the company currently owns, or has a material interest in, numerous cultivation facilities/lands and manufacturing/processing facilities. These facilities/lands are summarized below and will be discussed in greater detail later in the report. **On December 5, 2019, the company announced an interim agreement to acquire Sanna Health Corp.** Due to the preliminary nature of the interim agreement, we have excluded the assets of Sanna Health Corp. from the summary below.

Company Assets



The image above excludes Sanna Health Corp., which AgraFlora announced an interim agreement to acquire on December 5, 2019.

Source: Company

Cultivation Facilities/Lands:

- 8,800 sq. ft. Access to Cannabis for Medical Purposes Regulations (“ACMPR”) licenced indoor cultivation facility in London, Ontario.
- 70% interest in a 2.20 million sq. ft. greenhouse complex in Delta, British Columbia.
- 76 acres of agricultural land in Kent County, New Brunswick.

Manufacturing/Processing Facilities:

- 80% interest in a 51,500 sq. ft. edibles manufacturing facility in Winnipeg, Manitoba.
- 80% interest in a bottling facility (size undisclosed) in Toronto, Ontario.
- 17,500 sq. ft. of facilities and 12 free-standing structures in Kent County, New Brunswick.

To date, AgraFlora has stated that they have deployed over \$115 million in associated property, plant and equipment (“PPE”) expenditures related to its assets. As such, the company is amassing significant assets to firmly position itself to become a major player in the international cannabis market.

To provide readers with a full scope on the operations of AgraFlora, we will structure our

report on AgraFlora as according to the company's value chain.



We will begin our discussion with pure-play cultivation entities, followed by pure-play manufacturing and processing entities, then outlining entities with both cultivation/processing/manufacturing capabilities, and finally ending with a discussion on entities that provide AgraFlora with trademarks and proprietary technologies. Near the end of the report, we also outline distribution networks and agreements in place. With this structure understood, we begin our discussion on pure-play cultivation entities.

The company owns, or has a material interest in, two pure-play cannabis cultivation entities: (1) the AAA Heidelberg Inc. and (2) the Propagation Services Canada Inc.

AAA Heidelberg Inc.

AAA Heidelberg Inc.

Through AAA Heidelberg Inc., the company operates an ACMPR licenced 8,800 sq. ft. indoor growing facility situated in moderate driving distance from downtown Toronto, Ontario, called the AAA Heidelberg Facility ("Heidelberg Facility"). **The Heidelberg Facility is not currently in commercial operation.**

The facility, according to management, features a 3,300 sq. ft. flower canopy capable of producing 1,000 kg of dried cannabis flower per annum. In addition, the facility has the ability to process 225 kg of cannabis trim per annum into value-added cannabis products (such as cannabis-vape liquids). The cultivation footprint of the Heidelberg Facility is provided below.

Cultivation Footprint at Heidelberg Facility

Flower Canopy (sq. ft.)	Dried Cannabis Flower Production Output per Annum (kg)
3,300	1,000

Source: Company, FRC

The table above implies a dried cannabis flower yield of 303.03 grams per sq. ft. per annum – a figure that is significantly higher than an average yield of 80 to 120 grams per sq. ft. per annum commonly witnessed by Canadian LPs. In regard to this, management has indicated that the flower canopy has the ability to complete four turns per year, with each turn yielding 330 kg of dried cannabis flower (yield of 100 grams per sq. ft.). Given this information, it would imply a per annum output of 1,320 kg. Contrasting this number with the production output per annum provided by the company of 1,000 kg, it would seem that the company has conservatively dialed back the expected production output per annum from its Heidelberg facility. Nonetheless, we perceive this yield to be surprisingly high. The company has stated that the Heidelberg Facility has the most up-to-date growing technologies available. We are unable to confirm this statement.

Use of the remaining 5,500 sq. ft. at the Heidelberg Facility was undisclosed, but we presume

a portion to be allocated to facility amenities and the remainder to be left open for scalability. Although the company noted the potential to create processing/manufacturing capabilities at the Heidelberg Facility, our discussions with management suggest that they do not have any definitive plans or timelines in place.

Management has indicated that the facility is fully funded and that additional capital expenditure (“CAPEX”) will not be required to commence commercial operations. The Heidelberg Facility currently has a cultivation licence and is awaiting receipt of a sales licence, processing licence and an export permit. The following outlines licencing status at the Heidelberg Facility.

Licencing Status at Heidelberg Facility

Licence/Permit	Expected Receipt Date
Cultivation Licence	RECEIVED
Sales Licence	Q1-2020
Processing Licence	Q1-2020
Export Permit	Q1-2020

Source: Company, FRC

Upon receipt of relevant licences and its export permit, the Heidelberg Facility is expected to commence its inaugural harvest and subsequently launch commercial operations. We expect the launch of commercial operations to be by mid Q1-2020.

According to the Government of Canada, the cultivation licence permits the sale and distribution of cannabis to other licence holders (cultivators, processors, analytical testers, retailers under authorization from a provincial or territorial act, etc.). The sales licence would permit the Heidelberg Facility to commence medical cannabis sales to registered clients.

The company has proposed the following initiatives for its Heidelberg Facility:

1. Establishing a business-to-consumer (“B2C”) cannabis dispensary on-site. On December 19, 2019, the company announced the architecture of a retail facility. Associated CAPEX and expected completion date were undisclosed. We note that the Heidelberg Facility is approximately a one-hour driving distance from downtown Toronto. To this, the company has indicated a potential 1.5 million purchaser catchment area within a 90-minute radius.
2. Exporting dried cannabis flower to emerging marketplaces such as India and Thailand. With that said, we have not noted any agreements in place for distribution of dried cannabis flower to these markets. In addition, the export of cannabis to these markets require import permits, which we believe AgraFlora to not currently have.

We believe dried cannabis flower output from the Heidelberg Facility will be sold to other parties, through its proposed retail facility, or funnelled into the company’s processing/manufacturing facilities for the creation of cannabis products.

Propagation Services Canada Inc.

Next, we discuss Propagation Services Canada Inc.

Propagation Services Canada Inc.

Through the company's 70% interest in Propagation Services Canada Inc., the company owns a 70% interest in a 2.20 million sq. ft. facility in British Columbia ("B.C.") called the Delta Greenhouse Complex ("DGC"). The company jointly owns and operates this facility with the Houwelings Group. **The Delta Greenhouse Complex is not currently in commercial operation.**

The facility was originally used to grow tomatoes and is currently undergoing three retrofit phases to fully convert tomato operations into cannabis operations. According to the company, **the replacement value of the facility is estimated to be \$190 million.** It was noted by the company that the facility is one of the most technically advanced and environmentally friendly greenhouse facilities in the world, with numerous industry-leading cultivation infrastructure. Although the company listed several impressive attributes on its corporate website related to the Delta Greenhouse Complex, we are unable to comment on the incremental value/cultivation yield generated.

The first phase retrofit was completed in September 2019, and has incurred CAPEX of approximately \$30 million. The first phase retrofit features 0.43 million sq. ft., with 0.13 million sq. ft. allocated to cannabis cultivation (expected to yield 15,000 kg of dried cannabis flower per annum) and the remaining 0.30 million sq. ft. consisting of walkways, drying rooms, mothering rooms, etc.

Phase One Retrofit at the Delta Greenhouse Complex

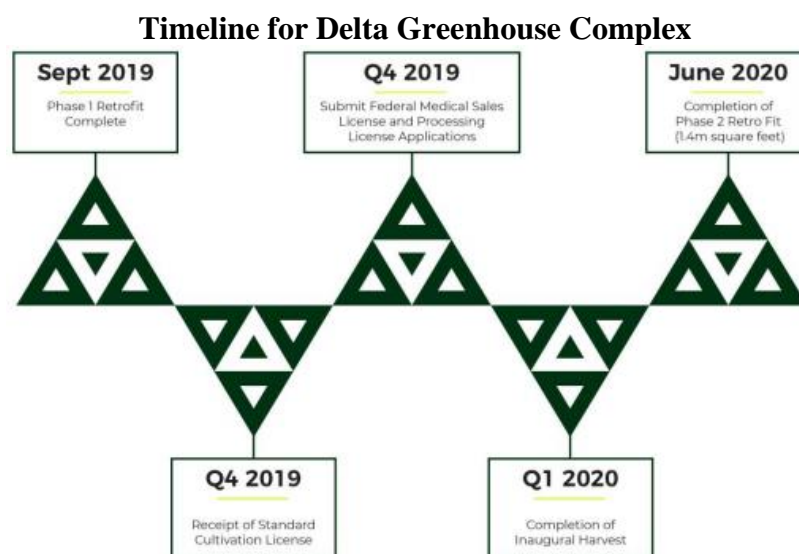
Flower Canopy (sq. ft.)	Dried Cannabis Flower Production Output per Annum (kg)
130,000	15,000

Source: Company, FRC

The flower canopy from the phase one retrofit implies a yield of 115.38 grams per sq. ft. per annum – on the higher range of what we normally witness from Canadian LPs of 80 to 120 grams per sq. ft. per annum. We suspect the higher yield to be attributed to the industry-leading cultivation infrastructure mentioned above.

The facility has yet to receive its cultivation licence from Health Canada but does have an industrial hemp licence that permits the cultivation, propagation, nursery and product formulation of hemp products. **The company has indicated that the facility is expected to receive its cultivation licence by year-end.** Given that year-end is approximately a week away, we believe the receipt of its cultivation licence at the Delta Greenhouse Complex will more likely be by early Q1-2020.

A near-term timeline for the Delta Greenhouse Complex is provided below.



Source: Company

Upon receiving its cultivation licence from Health Canada, the company plans to commence its inaugural harvest in Q1-2020, and subsequently initiate commercial operations – we have assumed commercial operations to start by mid Q1-2020. The company also plans to apply for a sales licence and a processing licence imminently, with expected receipt dates undisclosed. Through our estimates, we believe the receipt date for these licences to be by Q2-2020. Additionally, management has stated that they will be applying for an export permit. However, information regarding the expected application/receipt date was undisclosed. A summary of the licencing status for the Delta Greenhouse Complex is provided below.

Licencing Status at the Delta Greenhouse Complex

Licence/Permit	Expected Receipt Date
Industrial Hemp Licence	RECEIVED
Cultivation Licence	Q1-2020
Sales Licence	Q2-2020
Processing Licence	Q2-2020
Export Permit	UNDISCLOSED

Source: Company, FRC

The phase two retrofit is expected to commence early Q1-2020, and feature:

- 10 flowering rooms with over one million sq. ft. of canopy;
- 40,000 sq. ft. of EU-GMP post harvest/processing space (with management indicating that this space has the ability to process 75,000 kg of dried cannabis flower per annum);
- An industrial kitchen (undisclosed sq. ft.); and
- Workplace design to enable CO₂ and Ethanol extraction capabilities.

The phase two retrofit is expected to be completed by June 2020, and we believe will provide AgraFlora with an additional 115,380 kg of dried cannabis flower per annum. Although the phase one retrofit has incurred CAPEX of \$30 million, management has stated that CAPEX for the phase two retrofit is only expected to be \$20 million. This is due to one-time expenses incurred for the phase one retrofit, such as perimeter security fencing, surveillance systems, etc. The expected aggregate dried cannabis flower production output per annum from the phase one and phase two retrofit is provided below:

Phase One + Phase Two Retrofit at the Delta Greenhouse Complex (FRC Estimate)

Flower Canopy (sq. ft.)	Dried Cannabis Flower Production Output per Annum (kg)
1,130,000	130,385

Source: FRC

Definitive information regarding the commencement of the company's phase three retrofit was undisclosed. We have assumed that the phase three retrofit will commence in Q2-2020, and be completed by Q4-2020 (commencing sales by Q1-2021). Considering that the sq. ft. of the industrial kitchen was undisclosed, we have allocated 20,000 sq. ft. to the industrial kitchen and have assumed that the remaining sq. ft. (which we have estimated to be 710,000 sq. ft.) will be used strictly for cultivation purposes. **We expect the phase three retrofit to provide AgraFlora with an additional dried cannabis flower production output of 81,923 kg per annum.** In regard to CAPEX, management has indicated that CAPEX for the phase three retrofit will be approximately \$6 million. Once fully built, we estimate the Delta Greenhouse Complex to comprise of the following cultivation footprint:

Fully Retrofitted Delta Greenhouse Complex (FRC Estimate)

Cultivation Size (sq. ft.)	Dried Cannabis Flower Production Output per Annum (kg)
1,840,000	212,308

Source: FRC

The following is an image of the Delta Greenhouse Complex

Delta Greenhouse Complex



Source: Company

The Delta Greenhouse Complex is touted by AgraFlora as the **world's second largest cannabis cultivation operation under glass**. This is second to Canopy Growth Corp's (TSE: WEED) Smiths Falls Facility in Ontario. We expect the fully-built Delta Greenhouse Complex to have a production output that is competitive amongst other Canadian LPs such as Tilray (NASDAQ: TLRY), The Green Organic Dutchman (TSE: TGOD), Cronos Group (TSE: CRON), Organigram (TSE: OGI), and Hexo Corp. (NYSE: HEXO). The estimated 2020 annual production capacity of select Canadian LPs are outlined below.

Company	Ticker	Estimated 2020 Annual Production Capacity (in kg)
Aurora Cannabis Inc.	TSX: ACB	700,000 kg
Canopy Growth Corporation	TSX: WEED	525,000 kg
Aphria Inc.	TSX: APHA	255,000 kg
Tilray Inc.	NASDAQ: TLRY	225,000 kg
The Green Organic Dutchman	TSX: TGOD	195,000 kg
Cronos Group Inc.	TSX: CRON	150,000 kg
OrganiGram Holdings Inc.	TSX: OGI	113,000 kg
Hexo Corp.	NYSE: HEXO	108,000 kg

Source: Company, FRC

We forecast a fully built Delta Greenhouse Complex, and Heidelberg Facility, to have a dried cannabis flower production output of 213,308 kg per annum. Although the company has a significant production footprint, the company is trading severely below comparable competitors on a multiples basis. This is discussed further in the valuation section of this report.

Readers should note that both the Delta Greenhouse Complex and Heidelberg Facility are in the process of acquiring processing licences, which would allow the facilities to process dried cannabis flower into cannabis products. With that said, we believe that the company will be primarily focused on (1) distributing dried cannabis flower from its cultivation facilities to other parties and (2) shipping dried cannabis flower from its cultivation facilities to its manufacturing and processing facilities. We suspect the rationale behind applying for processing licences at its cultivation facilities is to provide greater flexibility should AgraFlora decide to shift operations from cultivation to processing.

Before we switch our discussion to pure-play manufacturing and processing facilities, we quickly outline the current list of authorized cannabis products in Canada, to provide readers with a better understanding on types of cannabis products that can be produced.

On October 17, 2019, Canada legalized cannabis edibles and alternative cannabis products, permitting companies that have an amended processing licence to manufacture cannabis edibles and alternative cannabis products (Source: Osler). The following outlines the classes of cannabis that can now be sold in Canada:

Authorized Classes of Cannabis

Before October 17, 2019	After October 17, 2019
Dried cannabis	Dried cannabis
Cannabis oil	Cannabis oil
Fresh cannabis	Fresh cannabis
Cannabis plants	Cannabis plants
Cannabis plant seeds	Cannabis plant seeds
	Edible cannabis
	Cannabis extracts
	Cannabis topicals

Source: osler.com, FRC

With this understanding, we go forward with our discussion on pure-play processing and manufacturing entities.

The company has a material interest in two pure-play processing and manufacturing entities: (1) the Edibles & Infusions Corporation and (2) Potluck Potions and Edibles Inc.

Edibles & Infusions Corporation

Edibles & Infusions Corporation

Through AgraFlora's acquisition of OFIG, the company owns an 80% interest in Edibles & Infusions Corporation's ("EIC") 51,500 sq. ft. edibles manufacturing facility ("Winnipeg Edibles Facility"). The facility includes a 750 sq. ft. research and development ("R&D") laboratory. **As of current, the Winnipeg Edibles Facility is not in commercial operation.**

EIC, according to the company, is one of North America's largest manufacturers and distributors of chocolate and sugar confectionary products. EIC currently operates a confectionary manufacturing facility, has several hundred stock keeping units (SKUs) in production and an existing distribution channel to over 20,000 locations across North America, such as: Walmart (NYSE: WMT), Costco (NASDAQ: COST), Loblaws (TSE: L), Dollarama (TSE: DOL), Kroger (NYSE: KR), Rite Aid (NYSE: RAD) and TJX Companies (NYSE: TJX). Readers should note that the Winnipeg Edibles Facility is a separate structure from EIC's confectionary manufacturing facility. **AgraFlora is not entitled to booking any revenue from EIC's operational confectionary manufacturing facility.**

The company is in the midst of completing facility upgrades for its Winnipeg Edibles Facility, with management estimating CAPEX to be \$8 million. EIC was awarded with a cannabis research licence on November 27, 2019, and is expected to receive its processing and sales licences by Q1-2020. A summary of the licencing status at the Winnipeg Edibles Facility is provided below.

Licencing Status at the Edibles & Infusions Facility

Licence	Expected Receipt Date
Cannabis Research Licence	RECEIVED
Processing Licence	Q1-2020
Sales Licence	Q1-2020

Source: Company, FRC

Potluck Potions and Edibles Inc.

The Winnipeg Edibles Facility plans to imminently commence commercial cannabis operations upon receiving its processing and sales licence. We have assumed a commercial start date by mid Q1-2020. The company has noted that initial product production will consist of CBD and/or THC infused gummies. Cannabis products to be produced at a later date include gourmet snacks (popcorn, cookies, pecans, pretzels, biscuits), chocolates, toffees, caramels, baked goods, powdered drinks, topicals, creams, cosmetics and CBD-infused pet products.

The company expects the Winnipeg Edibles Facility to be capable of generating in excess of \$750 million in annual revenue. Given the company's 80% interest, this would imply revenue potential from the Winnipeg Edibles Facility of up to \$600 million. Readers should note that this assumes the facility will be operating at full capacity. As management has not disclosed inputs to arrive at that revenue number, we cannot speak to the plausibility of that level of revenue generation. AgraFlora has indicated that EIC is in advanced discussions for (1) the development and contract manufacturing of CBD edible confectionaries and (2) national listings for CBD-infused foods across groceries and retail locations across Canada. Therefore, we believe that there is significant potential for strong revenue generation from the Winnipeg Edibles Facility.

Management has indicated that they currently plan to purchase distillate/isolate from other Canadian LPs for infusion into edibles at its Winnipeg Edibles Facility. The processing of dried cannabis flower from AgraFlora's cultivation facilities for infusion into edibles at the Winnipeg Edibles Facility is to occur over the longer term (date undisclosed).

Potluck Potions and Edibles Inc.

Through AgraFlora's acquisition of OFIG, the company owns an 80% interest in Potluck Potions and Edibles Inc. ("Potluck") and its bottling facility (size undisclosed) in Toronto, Ontario. The bottling facility features a cannabis research laboratory (size undisclosed) and **is not currently in commercial operation.**

Images of the Bottling Facility are provided below.



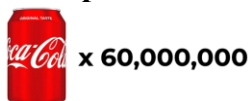
Source: Company

Potluck, according to the company, specializes in the bottling and manufacturing of a variety of beverages. Potluck has extensive beverages manufacturing experience and has manufactured beverages for brands such as Heineken (AMS: HEIA), SABMiller, Coca-Cola (NYSE: KO), Guinness, Augustiner and Innes & Cunn. The company also holds an 80% interest in 11353675 Canada Corporation ("CanaBeer"), allowing the company to hold claim

to the exclusive formulation, manufacturing and distribution rights for all cannabinoid-infused beverages that are manufactured at Potluck. **Simply put, AgraFlora is entitled to 80% of the revenue from cannabinoid-infused beverages sold at the Bottling Facility.**

The facility is fully transitioning to produce cannabinoid-infused beverages and is nearing completion of its retrofit initiatives (expected completion date by early Q1-2020). Management has estimated that CAPEX will be approximately \$1 million. Upon completion of retrofit initiatives, the facility is expected to have an output capacity of over 20 million litres per annum. To put this into perspective, this is equivalent to producing 60 million cans of 335 ml coca cola per annum.

Hypothetical per Annum Output of Coca Cola at Bottling Facility



Source: Google Images

Similar to its Winnipeg Edibles Facility, management has indicated that the Bottling Facility is to currently purchase distillate/isolate from other Canadian LPs to service its infused beverage manufacturing processes.

A near-term timeline for the Bottling Facility is provided below.

Potluck Bottling Facility Timeline



Source: Company

The Bottling Facility received its cannabis research licence on December 10, 2019, allowing for the creation of formulations for cannabis-derived beverages. The Bottling Facility has applied for a processing licence, with an expected receipt date undisclosed. The company has not disclosed information regarding the receipt date for a processing licence, but management has indicated that they expect the Bottling Facility to be in commercial operation by Q2-2020. **As such, we reasonably assume a receipt date of the processing licence to be by Q2-2020.** A summary of licencing status for the Bottling Facility is provided below.

Licencing Status at the Bottling Facility

Licence	Expected Receipt Date
Research and Development Licence	RECEIVED
Processing Licence	Q2-2020

Source: Company, FRC

Next, we discuss Canutra Farms – an entity with both cultivation and processing capabilities.

Canutra Farms

Canutra Farms

Through AgraFlora’s acquisition of OFIG, the company owns Canutra Farms (“Canutra”), which in turn has a wholly owned subsidiary called Canutra Naturals. Canutra operates a research facility (size undisclosed) and a large parcel of agricultural land in Kent County, New Brunswick. As we will touch on further below, **Canutra Farms is currently limited to hemp production.**

An image of the agricultural land is provided below.



Source: Company

Canutra was formerly a federally owned farm and research facility. Canutra owns 76 acres (3.31 million sq. ft.) of un-zoned agricultural land and 1,000 feet of river frontage. **Of the 76 acres, 40 acres (1.74 million sq. ft.) are to be used for hemp cultivation for the creation of hemp-derived products.** Currently, nil hemp plants are planted, and management has stated that CAPEX of approximately \$0.2 million is required to scale the 40 acres for hemp cultivation. **The remaining 36 acres of land hold 17,500 sq. ft. of facilities and 12 separate structures (current use of these facilities and structures was undisclosed).** Although usage for the 17,500 sq. ft. of facilities was undisclosed by management, we reasonably believe that the facilities feature a manufacturing/processing facility. The company is in the midst of retrofitting seven of the 12 structures to include additional processing area preparation, among other things. Management has estimated the CAPEX for this retrofit to be approximately \$0.5 million. Expected completion date of the retrofit was undisclosed.

Management has also estimated hemp yield per acre to range from 500 to 1,000 lbs. According to Alex Seleznev, a board member of the National Hemp Association (“NMA”), an acre can yield up to 2,500 lbs of hemp (the yield is heavily dependent on climate conditions, plant spacing, farming techniques, hemp strain, etc.). We believe that management estimates are conservative. Given this, we have opted to use a hemp yield of 750 lbs per acre. According to Industrial Hemp Farms (a Colorado-based hemp farming and wholesale company), the growing cycle for hemp is approximately 108 to 120 days. As such, we believe that Canutra Farms has the ability to produce up to three harvests per annum. **For the sake of conservatism, we are currently assuming two harvests per annum.**

Industrial Hemp Production

Cultivation Size (acres)	Hemp Production Output per Annum (lbs)
40	60,000

Source: Company, FRC

Canutra has an industrial hemp licence and a cannabis research licence. Through these licences, Canutra is currently developing new hemp-infused products such as: organic cosmetics with anti-aging properties, shampoos and conditioners, and sunscreens. Although AgraFlora’s corporate website indicates that Canutra is in the process of acquiring a cultivation and processing licence for cannabis, our discussions with management indicate that, due to prevailing market conditions, the company has decided against pursuing a cultivation and processing licence. **As such, Canutra is currently limited to producing hemp and creating hemp-derived products.** A summary of licencing status at Canutra is provided below.

Licensing Status at Canutra Farms

Licence	Expected Receipt Date
Industrial Hemp Licence	RECEIVED
Cannabis Research Licence	RECEIVED
Cultivation Licence	N/A
Processing Licence	N/A

Source: Company, FRC

Canutra operates as a contract manufacturer and distributor of personal care and cosmetics. Brands to be manufactured by Canutra include Whole Hemp Health (“WHH”) and Cannessence. (these are in-house brands of AgraFlora, which are discussed further in the report). Although WHH was launched online and through brick-and-mortar retailers across North America in Q3-2019, sales have yet to be reflected on the company’s Q3-2019 financial statements. **Management has stated that revenue from WHH will be reflected on the company’s Q4-2019 financial statements.** On the other front, Cannessence products began development on October 24, 2019, with an undisclosed commercial launch date.

Lastly, we touch on Sanna Health Corp. – a company that AgraFlora entered into an interim agreement with.

Interim Agreement with Sanna Health Corp.

Sanna Health Corp.

On December 5, 2019, AgraFlora announced that it entered into an interim agreement to acquire 100% of Sanna Health Corp. (“Sanna”) through issuing \$23 million in common shares of the company. Readers should note that an interim agreement is not definitive and that the potential acquisition could fall through. As such, our discussion on the assets of Sanna Health Corp. will be very brief.

- A 27,000 sq. ft. licensed cultivation and processing space situated on 16 acres of land in Ontario. This space is expandable to 89,000 sq. ft. and is to feature an on-site dispensary in the future.
- 88 acres of outdoor grow in Ontario. Sanna plans to submit a video evidence package for its initial 13 acres outdoor grow in its application for a cultivation license. The submission date is expected to be by March 1, 2020.
- Several memorandums of understanding (“MOUs”) with cannabis retailers such as High Tide Inc. (CSE: HITI) and Delta 9 Cannabis Inc. (TSX: DN).
- Exclusive Canadian licence for MÜV’s portfolio of cannabis products.

As a definitive agreement has not been signed, we have decided to go against modeling the potential production and revenue output from Sanna.

Next, we briefly outline the branding capabilities, proprietary technologies, and/or unique cannabis strains provided by the remaining entities of the company.

Other Company Entities

Through 11122347 Canada Corp., Pure Grow Medicals S.A.S., Trichome Cannabrands Inc., Canada Cannabis Therapeutics Corp., and Colorado Science Corp., the company has access to the following:

- Exclusive distribution rights in Canada to a portfolio of cannabis beverage delivery assets. Most notably, **AgraFlora has rights to a medical-grade and patented beverages delivery system called the “Fresh Release DoseCap”.**
- Exclusive rights in North America to 20 unique cannabis strains.
- Exclusive rights in North America to a manufacturing system for the production of cannabinoid-infused therapeutic gum, chewable tablets and capsules.
- Portfolio of 57 registered trademarks in Canada that cover a range of cannabis products and services.
- Patented micro-diffusion technology that increases the uptake of cannabinoid and provides faster onset effects (i.e. decreasing the time it takes for a drug’s effect to come into prominence).

Brands and Cannabis Products

In the following, we outline brands/cannabis products that the company has access to.

- Exclusive Canadian sublicense for True Focus' ("TF") product suite and intellectual property ("IP") portfolio. The most notable product of TF is a patent-pending THC overdose antidote that alleviates the adverse symptoms associated with a THC overdose.
- WHH and its suite of hemp skincare products that are developed by Canutra.
- Howl Brands CBD performance products through an exclusive North American manufacturing and distribution agreement with Toronto Wolfpack RLFC ("TWP") and Howl Brands. Such products include CBD-infused topical creams, therapeutic relief balms, sport pain CBD tinctures, CBD-infused soaks, CBD-infused roll-ons and healing sticks.
- Cannessence – a line of sativa seed oil products that are being developed in-house by AgraFlora.

Distribution Network

Through agreements and company-owned entities, the company has a vast distribution network. A summary, followed by a discussion, is provided below.

Name	Distributional Reach
CBD Group Asia Ltd.	Distribution to China's largest retail chains and C-stores
The Good Company GmbH	A German medical cannabis distributor
ICC International Cannabis Corp.	Distribution to 80,000 retailers and pharmacies in Europe
Gateway Newstands	Distribution to 500+ convenience stores and kiosks across North America
Red Phoenix International Trading Inc.	Distribution to Tier 1 Canadian food retailers

Distribution into China

CBD Group Asia Ltd.

In August 2019, through a collaboration with CBD Group Asia Ltd. ("CBD Group Asia"), the company formed Eurasia Infused Cosmetics Inc. ("Eurasia Infused") with the purpose of establishing a **distribution channel for CBD and cannabis sativa seed oil products into the territories of People's Republic of China ("PRC") and the Hong Kong Special Administrative Region ("HKSAR")**. The company has a 50% interest in Eurasia Infused.

According to the company, CBD Group Asia has distribution channels to China's largest retail chains and C-stores, including RT-Mart International Ltd. ("RT Mart"). AgraFlora has indicated that RT-Mart operates over 484 retail locations spanning 233 cities and 29 provinces in China and generated revenue of \$20 billion in 2018. Products are additionally planned to be listed on e-commerce portals in China and on mobile apps such as WeChat (the most popular app in China).

Distribution into Europe

On October 30, 2019, AgraFlora received its first purchase order (amount undisclosed) to supply CBD and organic cannabis sativa seed oil infused consumer packaged goods (“CPGs”). These products are to be manufactured at Canutra.

The Good Company GmbH

On October 25, 2019, the company acquired a 100% interest in The Good Company GmbH (“The Good Company”) through an all-stock deal valued at \$11.50 million. Sellers are entitled to receive additional shares if certain milestones are achieved. The expected closing date of this acquisition was undisclosed by the company. According to the company, **The Good Company is a leading European medical cannabis distributor and has affiliated companies in the United Kingdom (“UK”), Luxembourg and Denmark.** The Good Company is the parent company of Farmako GmbH (“Farmako”), a German medical cannabis distributor that has realized revenue of over \$2.33 million throughout their fiscal 2019 (from January 2019 to September 2019). In addition, the company noted that Farmako is among the top wholesalers of medical cannabis in Germany and holds an 8% market share in Germany for medical cannabis. Dried cannabis flower for export by Farmako is expected to come from the Delta Greenhouse Complex.

According to the company, **Farmako has a distribution network of over 19,800 pharmacies.** Although primarily focused in Germany, Farmako has recently been granted authorization for the wholesale distribution of medicinal products in the UK. On December 12, 2019, Farmako completed its UK Home Office inspection for the purpose of obtaining a Controlled Drug Licence. **Once a Controlled Drug Licence is obtained, Farmako will be fully licenced to pursue the sale of pharmaceutical/medical cannabis within the UK.** Currently, Farmako is in advanced discussions with a UK pharmaceutical logistics firm for warehousing and shipping capabilities.

ICC International Cannabis Corp.

Through the acquisition of Organic Flower Investments Group Inc., the company inherited a distribution and collaboration agreement with International Cannabis Corp. (“International Cannabis” / CSE: WRLD.U) where AgraFlora has access to International Cannabis’ **European distribution network that comprise of 80,000 retail outlets and pharmacies that span across 16 countries in Europe.**

Distribution into North America

Gateway Newstands

On October 9, 2019, the company entered into a distribution agreement with Gateway Newstands (“Gateway”). Gateway is a premier newsstand retailer with a chain of convenience stores and kiosks located in buildings, shopping centres, public places, and transit stations across North America. **In September 2019, Gateway initiated a purchase order (amount undisclosed) for a suite of hemp-derived CBD products from AgraFlora.** These products are to be manufactured at Canutra.

Red Phoenix International Trading Ltd.

On November 20, 2019, the company entered into a supply agreement with Red Phoenix International Trading Ltd. (“RPI”). RPI is a Canadian consumer packaged goods (“CPGs”) broker and wholesaler. Under the agreement, **RPI will distribute WHH organic lip balm**

Offtake Agreements

and hemp-derived gummies created by AgraFlora to Tier 1 Canadian food retailers. These retailers include Loblaws Inc. (TSX: L), Metro Inc. (TSX: MRU), The North West Company Inc. (TSX: NWC), Giant Tiger Stores Ltd., and more.

Now, we discuss offtake agreements that AgraFlora currently has in place.

AgraFlora currently has offtake agreements with International Cannabis and Namaste Technologies (CSE: N). These agreements are outlined below.

- International Cannabis will purchase up to 100,000 kg of dried cannabis flower from AgraFlora over a five-year period.
- AgraFlora to sell up to 10% of its annual production of dried cannabis flower at its Delta Greenhouse Complex to Namaste Technologies.

Sales Channels

Before we outline the addressable markets for AgraFlora, we provide readers with a summary of AgraFlora's sales channels:

1. Cultivation of dried cannabis flower at the Heidelberg Facility and Delta Greenhouse Complex to be sold through current offtake agreements, medical patients, through the proposed retail facility at the Heidelberg Facility, and authorized parties.
2. Remaining dried cannabis flower cultivated at the Heidelberg Facility and Delta Greenhouse Complex from the preceding point to be shipped to the Winnipeg Edibles Facility and/or the Bottling Facility for the creation of cannabis products. These products are to be sold to authorized parties. **For the time being, as we reiterate, management has indicated that they currently plan to purchase distillate/isolate from other Canadian LPs.**
3. Cultivation of hemp at Canutra Farms for the creation of hemp-derived CBD products. These products are to be sold to authorized parties.

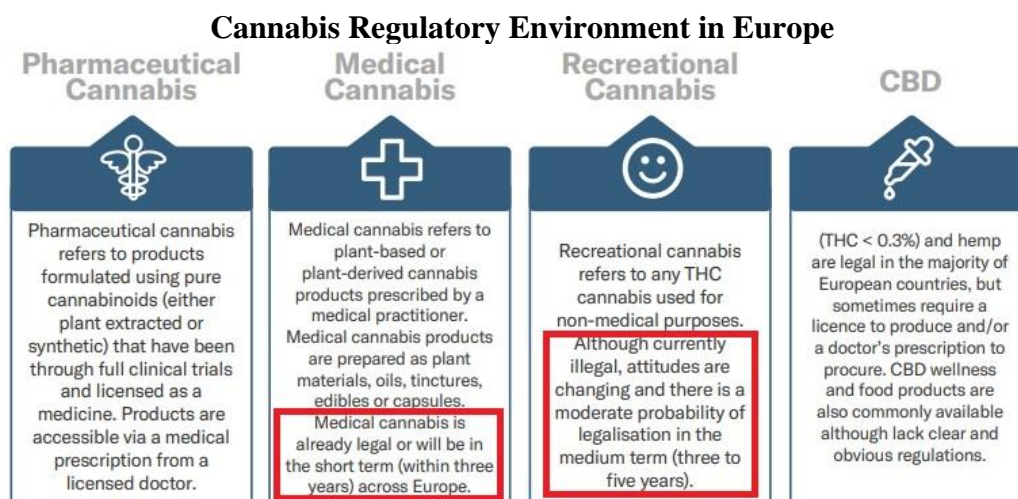
Next, we outline addressable markets for AgraFlora.

European Cannabis Market

European Cannabis Market

Due to the very early stages of the European cannabis market, **cannabis in Europe primarily depends on Canadian imports.** According to Health Europa, *"Europe does not cultivate enough cannabis to supply the existing and growing demand. In order to meet market needs for medical cannabis the EU must supplement locally produced cannabis with products from international sources"*. Although it is our expectation that domestic production (i.e. production in Europe) of cannabis will pick up in subsequent years, the European cannabis market is currently extremely attractive for Canadian LPs. According to Prohibition Partners, medical cannabis is legal in a handful of countries and is expected to become legalized across Europe in the short-term (one to three years). In addition, recreational cannabis (which is illegal in a large majority of European countries) has a possibility of being legalized across Europe in the medium-term (three to five years). The

following illustrates the current regulatory environment of cannabis in Europe.



*We have outlined key points in red
Source: Prohibition Partners*

According to Prohibition Partners, Europe is expected to dominate the cannabis space:

Legal Cannabis Market Size, 2024 (US\$ Billion)

REGION	MARKET VALUE 2024 (US\$ BILLION)
Africa	» 2.6
Asia	» 12.5
Europe	» 39.1
Latam	» 9.1
North America	» 37.9
Oceania	» 2.7
Total	» 103.9

Source: Prohibition Partners

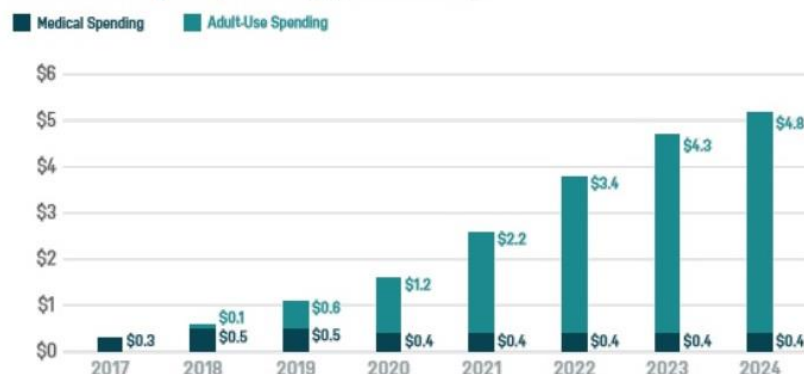
The European cannabis market is expected to comprise 38% of the global cannabis market by 2024. From consulting other sources, that belief is affirmed. We believe this to be largely due to the population difference: Europe has a population of 741.4 million compared to Canada and the United States of 37.59 million and 327.20 million, respectively. Although the population of Asia is currently 4.46 billion, the possession of cannabis in countries such as China (which has a population of 1.39 billion) is heavily punishable. We do not expect laws and regulations regarding cannabis in countries such as China to change in the short/medium-term.

Canadian Cannabis Market

Canadian Cannabis Market

According to a report by U.S. research companies ArcView Market Research and BDS Analytics, it was estimated that **consumer cannabis spending in Canada is forecasted to witness a compound annual growth rate (“CAGR”) of nearly 45% from 2018 to 2024 – rising from \$569 million to \$5.2 billion.** This is an extremely strong growth rate and outlines the huge potential for cannabis in Canada. A graph depicting this is shown below.

Canada Legal Spending (In Billions)

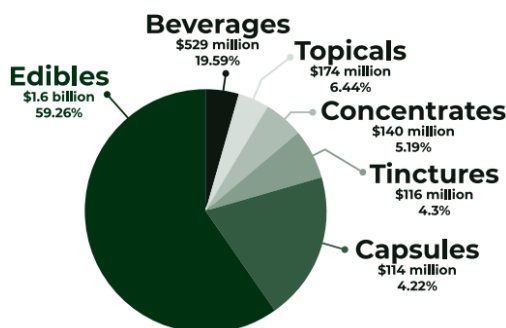


Taken from Global News, Source: ArcView Market Research/BDS Analytics

We believe the Canadian cannabis market outlined by ArcView Market Research/BDS Analytics to not have considered the Canadian edibles market. As such, we provide a discussion on the Canadian edibles market below.

Canadian Edibles and Alternative Cannabis Products Market

With Canada recently legalizing cannabis edibles and alternative cannabis products (in October 2019), this opens a huge new market for Canadian LPs. According to Deloitte, **annual demand for cannabis edibles and alternative cannabis products in Canada is estimated to be \$2.7 billion.** Provided by AgraFlora, the following segments the cannabis edibles market by cannabis products segments.



Source: Company

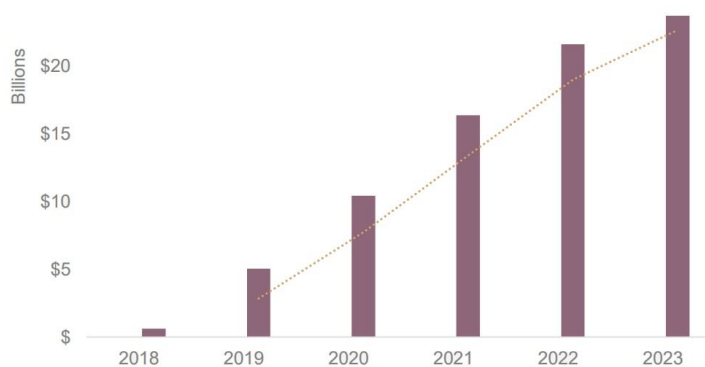
Readers should note that this assumes that edibles products will be readily available for purchase – an aggressive assumption considering the fact that the initial legalization of dried cannabis flower in October 2018, resulted in severely limited supply due to problems regarding product shelving and provincial retail store licencing.

U.S. CBD Market

U.S. CBD Market

According to Brightfield Group (taken from BNN Bloomberg), **hemp-derived CBD products could generate sales of up to US\$23.7 billion by 2023**. This compares to a forecast of US\$5.7 billion for 2019 – implying a 706% increase over 2018. The growth from 2019 to 2023 implies an CAGR of approximately 43%.

U.S. Hemp-Derived CBD Market Size and Projections



Source: Brightfield Group

We believe the rich valuation of the CBD market in the U.S. is attributed to health claims made regarding CBD products. According to the New York Times (“NYT”), CBD is wildly popular in the U.S. due to claims that it helps with a variety of ailments such as headaches, diabetes, menstrual cramps, and anxiety. CNET reported that CBD products are being marketed as a “cure-all”, with manufacturers claiming that it can do everything from relieving anxiety to stopping the spread of cancer. **On the other end of the spectrum, the U.S. Food & Drug Administration (“FDA”) outlined that CBD products have the potential to cause bodily harm. According to the FDA, CBD products have the potential to cause liver damage and affect the metabolism of other drugs (thereby causing serious side effects).** In addition, due to CBD products being relatively new to the market, the effects of taking CBD daily for sustained periods of time remains unknown. Until more definitive research is published, we expect the uncertainty regarding the safety of CBD products to dampen sentiment of the U.S. hemp-derived CBD market.

China CBD Market

China CBD Market

According to Prohibition Partners, **China is expected to account for a major share of the global hemp-derived CBD market by 2024**. The NYT outlined that China currently permits the sale of hemp seeds and hemp oil and also the use of CBD in cosmetics. According to Regent Pacific Group (a Hong Kong based investment company), **the CBD market in China is forecasted to be worth US\$15 billion by 2024**. Although this market size is expected to be lower than that of the U.S., given the population of China to that of the U.S., we believe it to be plausible for the China CBD market to eventually overtake the U.S. CBD market.

Management Overview

The company's Board of Directors has five members, four of whom are independent. **Management and directors currently own 10.09 million shares, or approximately 1.08% of the shares outstanding.**

Individual	Position	Common Shares	% of Total
Brandon Boddy	Chairman, CEO and Director	1,000,000	0.11%
Peter Nguyen	CFO	0	0.00%
Christopher Hornung	Director	3,627,825	0.39%
Jerry Habuda	Director	3,382,111	0.36%
Joseph Perino	Director	2,062,000	0.22%
Brian O'Neill	Director	18,400	0.00%
Total:		10,090,336	1.08%

Source: Company, FRC

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

Brandon Boddy – Chairman, CEO & Director

Mr. Brandon Boddy contributes over 14 years of capital markets experience and has directly raised over \$500 million in the trailing 24 months. Mr. Boddy is a founding director of Auxly Cannabis Group Inc. (formerly Cannabis Wheaton Income Corp.) and is currently a director of Bee Vectoring Technologies International Inc. In addition, Mr. Boddy was a founder of US Cobalt Corp., which was subsequently sold to First Cobalt Corp. for \$149 million in 2018. Mr. Boddy also acts as a corporate advisory consultant for a portfolio of public and private firms, primarily focused on the health and wellness, mining and cannabis sectors. Mr. Boddy is actively involved in a of variety philanthropic endeavours. A former NCAA Division One athlete, Mr. Boddy provides opportunities in golf for at risk youth, byway of his foundation, Clubs for Kids.

Peter Nguyen – CFO

Mr. Nguyen is a Chartered Professional Accountant and holds a degree from the University of British Columbia. He is an officer and director of several reporting companies listed on the TSX Venture Exchange and the CSE with both domestic and international operations. Mr. Nguyen has held senior financial positions for both public and private companies where he provided assurance, corporate finance, tax and business advisory services.

Christopher Hornung - Director

Mr. Chris Hornung has been vice-president of Kenex Manufacturing Co. in Brampton, ON., since 1999. During his time with the company, he has co-founded and built several new divisions; Kenex Coatings in Mississauga, Ont., is the premier service provider in finishing technology. Mr. Hornung is a partner in and is responsible for several different real estate holding companies in Vaughan and Brampton, ON.

Jerry Habuda – Director

Mr. Jerry Habuda brings over 35 years of expertise in law enforcement and specialized units. From 1977 to 2012, he served as a police officer with the Toronto Police Department. During his tenure, he was assigned to the Major Crimes Unit, investigating robberies and home invasions. He was assigned to patrol the Toronto Community Housing projects at Jane/Finch to control drug trafficking and gun violence. Mr. Habuda was with the Warrant Unit where he tracked down and arrested wanted criminals. From 1993-1997, he was assigned to the Northwest Drug Squad on undercover and surveillance work, executing narcotic search warrants. Between 2002 and 2004, Mr. Habuda headed the Street Violence Task Force, a special unit designed to curb gun and drug violence that was terrorizing the city at the time.

Joseph Perino - Director

Mr. Joseph Perino was the Professor Coordinator of the Police Foundations Program and from 2006 to 2010. Mr. Perino was the Professor of Community Studies Department at the School of Community and Health Studies. Mr. Perino has 40 years of experience with the Toronto Police Service with a proven and demonstrated understanding of police governance. From 2001 to 2005, Mr. Perino served as Staff Sergeant of the Community Response Unit and Primary Response Unit and as Detective Sergeant with the Criminal Investigation Bureau, Street Violence Task Force and Vice and Major Crime Squads. Mr. Perino has proven his ability to manage the needs of various and diverse communities while delivering effective police service in a safe and culturally sensitive manner.

Brian O' Neill - Director

Mr. O'Neill has been a practicing securities lawyer since 2009 and is a partner at O'Neill Law LLP. Mr. O'Neill represents a number of start up companies and companies that are listed or quoted on the TSX Venture Exchange, Canadian Securities Exchange and U.S. over-the-counter markets. Mr. O'Neill has represented clients in a variety of industries in securities matters including public and private securities offerings, mergers and acquisitions, securities exchange listings, public company reporting requirements and corporate governance. Mr. O'Neill is a licenced to practice law in British Columbia, Nevada and Washington.

Financials

Currently, the company does not report revenue. However, we expect the company to start reporting revenue in Q4-2019 (through the sale of WHH products and acquisition of The Good Company – a revenue-generating company). For the nine-months (“9M”) of 2019, the company reported selling, general and administrative (“SG&A”) expenses of \$38.50 million – a year-over-year (“YoY”) increase of 1,110%. We estimate that SG&A expenses for the 9M of 2019 primarily comprised of \$22.67 million (all non-cash) in expenses related to the OFIG acquisition, and consulting and management expenses (of \$9.78 million; including \$7 million in shares issued to Houwelings). Management has advised that their normalized general and administrative (G&A) and R&D expenses headed into 2020 will be approximately \$6 million. Excluding non-cash SG&A expenses, **we believe cash SG&A expenses for the 9M of 2019 to be \$7.90 million.**

STATEMENTS OF OPERATIONS				
YE Dec 31st	Q3-2018	Q3-2019	2018 (9M)	2019 (9M)
SG&A	1,620,895	26,207,564	3,211,378	38,504,620
Share-Based Compensation	-	31,015,915	2,054,508	37,641,588
EBITDA	(1,620,895)	(57,223,479)	(5,265,886)	(76,146,208)
Depreciation and Amortization	-	380,499	159,377	393,763
EBIT	(1,620,895)	(57,603,978)	(5,425,263)	(76,539,971)
Financing Costs	-	52,826	-	52,826
Taxes	-	-	-	-
Non-Recurring Expenses (Gains)	(301,060)	(19,654,043)	(63,560)	(19,610,495)
Non-controlling interest	137,888	(296,285)	4,859	(296,285)
Net Income (Net Loss)	(1,457,723)	(37,706,476)	(5,366,562)	(56,686,017)
EPS	(0.00)	(0.05)	(0.02)	(0.10)
Shares	296,405,365	825,501,140	292,291,405	564,615,960

Source: Company, FRC

Readers should note that \$37.64 million share-based compensation (“SBC”) expenses for the 9M of 2019 were due to the issuance of stock options and warrants for the acquisition of assets of Organic Flower. We do not expect such high SBC expenses going forward. Lastly, non-recurring gains of \$19.61 million primarily comprised of a \$19.92 million fair value upwards revaluation on the Delta Greenhouse Complex, which was slightly offset by losses on marketable securities.

At the end of Q3-2019, the company reported a cash position of \$1.82 million, working capital of \$12.64 million and a current ratio of 6.70x. The company reported a nil debt position. **Subsequent to Q3-2019, the company closed a non-brokered private placement for convertible debentures for gross proceeds of \$28.75 million (10% interest per annum, payable in arrears semi-annually, conversion price of \$0.30 and maturity date of December 2021).** Additionally, the company signed additional subscription agreements for convertible debentures for gross proceeds of \$1.25 million (same terms as the debentures in the preceding sentence but with a maturity date of March 12, 2021).

Liquidity and Capital Structure	2017	2018	Q3-2019
Cash	3,791,249	10,718,888	1,822,983
Working Capital	3,043,637	11,071,721	12,638,526
Current Ratio	3.01	35.11	6.70
LT Debt	-	-	-
Total Debt	-	-	-
Total Debt / Capital	-	-	-
LT Debt / Capital	-	-	-

Source: Company, FRC

Stock Options and Warrants: We estimate that the company has 71.94 million stock options (weighted average exercise price of \$0.28) and 130.65 million warrants outstanding (weighted average exercise price of \$0.39). Currently, nil stock options and 20.63 million warrants are in the money. The company will be able to raise up to \$1.21 million if all the in the money warrants are exercised.

Valuation

Valuation

Given the lack of inputs provided by management for the creation of cannabis products at their manufacturing and processing facilities (Winnipeg Edibles Facility, Bottling Facility and Canutra Farms), **we have momentarily decided to value AgraFlora as a pure cannabis grower.** Once we have greater clarity from management regarding the production capabilities of its manufacturing and processing facilities, we will alter our valuation models as necessary. Our expected production outputs/sales by year are shown below.

Production Forecast

	2019E	2020E	2021E	2022E	2023E	2024E
Heidelberg Facility						
Cultivation Size (sq. ft.)	3,300	3,300	3,300	3,300	3,300	3,300
Production Capacity (kg)	-	1,000	1,000	1,000	1,000	1,000
Delta Greenhouse Complex						
Cultivation Size (sq. ft.)	130,000	1,840,000	1,840,000	1,840,000	1,840,000	1,840,000
Production Capacity (kg)	-	130,385	212,308	212,308	212,308	212,308
Production Capacity Attributed to AgraFlora (70%)	-	91,270	148,616	148,616	148,616	148,616
Cannabis Production (kg)	23,117	78,200	112,212	134,654	149,616	

Source: FRC

We have used a cultivation space utilization rate ranging from 25% - 30% in 2020, scaling to max utilization by 2024. In addition, we have assumed that Namaste Technologies will purchase 10% of the cannabis output at the Delta Greenhouse Complex and that ICC International Cannabis Corp. will purchase 100,000 kg of cannabis from AgraFlora over five years. The remaining cannabis output has been allocated to Farmako (long-term cannabis output allocation of 11%), the retail facility at the Heidelberg Facility and other authorized parties.

Our price/cost models are shown below.

Price/Cost Model

	2019E	2020E	2021E	2022E	2023E	2024E
Price Model						
Domestic Wholesale Cannabis Sales Price (\$/kg)		3,750	3,563	3,384	3,215	3,054
Domestic Retail Cannabis Sales Price (\$/kg)		8,000	6,800	5,780	4,913	4,176
European Wholesale Cannabis Sales Price (\$/kg)		6,000	5,640	5,302	4,984	4,684
Cost Model						
Domestic Cannabis COGS (\$/kg)		1,750	1,706	1,664	1,622	1,581
International Cannabis COGS (\$/kg)		2,625	2,559	2,495	2,433	2,372
Total Revenue	93,218,988	288,872,092	393,855,678	452,966,873	485,322,915	
Total COGS	42,663,790	136,854,463	192,059,803	226,935,116	249,811,912	
Gross Profit	50,555,198	152,017,629	201,795,876	226,031,757	235,511,003	

Source: FRC

We have made the following key assumptions:

- Initial (2020) domestic (Canadian) and international (European) wholesale cannabis sales price of \$3,750/kg and \$6,000/kg, respectively. Due to the European cannabis market being currently underserved, we have used a higher wholesale sales price. **Over the long term, we have modelled for the European cannabis sales price to decline at a greater rate than Canadian cannabis sales price.**
- Initial (2020) domestic (Canadian) **retail cannabis sales price of \$8,000/kg.** We have aggressively decreased the retail sales price per gram to reflect pricing pressure and our belief that cannabis edibles will overtake dried cannabis as the preferred method of cannabis consumption.
- **Initial costs of \$1,750/kg.** The company has alluded that their expected cost per kg will be \$800. We believe their estimates are aggressive and have used a cost per kg that better reflects industry averages. We have decreased costs per gram over the long-term to reflect economies of scale.

Our forecasted income statements are shown below.

STATEMENTS OF OPERATIONS						
YE Dec 31st	2019E	2020E	2021E	2022E	2023E	2024E
Revenue		93,218,988	288,872,092	393,855,678	452,966,873	485,322,915
Total Revenue	-	93,218,988	288,872,092	393,855,678	452,966,873	485,322,915
COGS	-	42,663,790	136,854,463	192,059,803	226,935,116	249,811,912
Gross Margins	-	50,555,198	152,017,629	201,795,876	226,031,757	235,511,003
SG&A	41,672,453	23,304,747	58,261,867	93,218,988	113,241,718	121,330,729
Share-Based Compensation	59,352,729	4,660,949	11,554,884	15,754,227	13,589,006	14,559,687
EBITDA	(101,025,181)	22,589,502	82,200,878	92,822,661	99,201,033	99,620,586
Depreciation and Amortization	793,287	4,669,565	7,510,913	7,014,713	6,573,094	6,180,054
EBIT	(101,818,468)	17,919,936	74,689,965	85,807,948	92,627,939	93,440,533
Financing Costs	104,595	3,664,482	3,454,037	205,107	205,107	205,107
Taxes					47,183,149	47,598,384
Non-Recurring Expenses (Gains)						
Non-controlling interest	(395,047)	5,375,981	22,406,990	25,742,384	27,788,382	28,032,160
Net Income (Net Loss)	(101,528,017)	8,879,474	48,828,939	59,860,457	17,451,302	17,604,882
EPS	(0.11)	0.01	0.05	0.06	0.02	0.02
Shares	945,716,987	945,716,987	945,716,987	945,716,987	945,716,987	945,716,987

Source: FRC

Although the company is expected to commence revenue generation in Q4-2019, we have not provided a revenue forecast for 2019. Despite the company acquiring The Good Company in October 2019, it was noted that closing of The Good Company is subject to customary terms and conditions. In addition, management has not provided any guidance or inputs from the amount of sales to be generated from WHH for Q4-2019.

Additional assumptions include:

- A blended gross margin of 54% falling to 48% over the long-term.
- Long-term SG&A margins of 25%. We have used industry averages and the expected SG&A margins of major Canadian LPs to form this long-term forecast.
- We believe the company will have to raise additional capital in 2020 to fund build-out of its facilities. We have assumed this to be done through debt financing at terms similar to its recent debt raise.

Discounted Cash Flow

Our discounted cash flow (“DCF”) valuation on AGRA’s shares is \$0.38 per share. To reiterate, **we have valued AGRA as a pure cannabis grower and not a cannabis products producer.** When management provides greater clarity regarding the production capabilities of its manufacturing and processing facilities, we will alter our valuation models.

DCF Model	Q4-2019	2020E	2021E	2022E	2023E	2024E	Terminal
EBIT(1-tax)	(25,278,497)	17,919,936	74,689,965	85,807,948	67,618,395	68,211,589	
Change in Working Capital	(5,585,001)	(12,075,655)	(42,115,141)	(22,938,723)	(13,192,546)	(7,497,776)	
Cash from Operations	(30,863,498)	5,844,282	32,574,824	62,869,225	54,425,849	60,713,813	
CAPEX	(5,200,000)	(30,500,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	
Free Cash Flow	(36,063,498)	(24,655,718)	29,574,824	59,869,225	51,425,849	57,713,813	59,445,227
Present Value	(35,607,743)	(21,436,814)	22,642,831	40,362,509	30,529,660	30,170,758	294,216,211
Discount Rate	13.56%						
Terminal Growth	3.00%						
Present Value	360,877,413						
Cash - Debt	1,822,983						
Fair Value	362,700,396						
Shares O/S	945,716,987						
Value per Share (C\$)	0.38						

Source: FRC

For our discount rate, we utilized a weighted average cost of capital (“WACC”) of 13.56%. This discount rate is comparable to the rate that we typically use for cannabis companies (of 10% - 16%). Industry-relevant cost of equity was used as well as a cost of debt that reflects the average rate of long-term corporate debt. An equity risk premium has also been added to the WACC to reflect additional risk given the lack of licences and our estimation of required financing to complete retrofit initiatives at its facilities.

Comparables Valuation

The following table shows our comparables valuation. We use a unique form of comparables valuation based on Enterprise-Value-to-KG (“EV/KG”) and Price-to-KG (“P/KG”), as opposed to traditional enterprise multiples. We believe this form of valuation helps capture current market valuations of cannabis companies and how AGRA may compare. The comparable multiples are based on our selection of publicly traded Canadian LPs.

Table of Comparable Companies

Company	Ticker	Production Capacity (KG)	EV	MC	EV/KG	P/KG
AgraFlora Organics International Inc.	CSE: AGRA	149,616	\$ 121,658,980	\$ 102,307,980	\$ 813	\$ 684
Aurora Cannabis Inc.	TSX: ACB	700,000	\$ 4,081,000,000	\$ 3,477,300,000	\$ 5,830	\$ 4,968
Canopy Growth Corp.	TSX: WEED	525,000	\$ 7,576,600,000	\$ 9,338,100,000	\$14,432	\$ 17,787
Aphria Inc.	TSX: APHA	255,000	\$ 1,805,300,000	\$ 1,767,400,000	\$ 7,080	\$ 6,931
Tilray Inc.	NASDAQ: TLRY	225,000	\$ 2,761,900,000	\$ 2,407,300,000	\$12,275	\$ 10,699
The Green Organic Dutchman	TSX: TGOD	195,000	\$ 223,126,000	\$ 243,223,000	\$ 1,144	\$ 1,247
Cronos Group Inc.	TSX: CRON	150,000	\$ 1,228,240,000	\$ 3,210,758,000	\$ 8,188	\$ 21,405
OrganiGram Holdings Inc.	TSX: OGI	113,000	\$ 525,100,000	\$ 523,400,000	\$ 4,647	\$ 4,632
Hexo Corp.	NYSE: HEXO	108,000	\$ 723,859,000	\$ 733,037,000	\$ 6,702	\$ 6,787
AVERAGE (excluding AGRA)					7,537	9,307

Note: Production capacity is EXPECTED production capacity as of 2020.

Source: Company, S&P Capital IQ, FRC

AgraFlora is currently trading at a significantly discounted EV/KG and P/KG multiple compared to peers. We believe it is due to AgraFlora currently being in pre-revenue and the fact that its Delta Greenhouse Complex has yet to receive a cultivation licence. In addition, we suspect it is also attributed to our belief that the company's production capacity is not currently fully funded. The Delta Greenhouse Complex is expected to comprise 148,616 kg of the total 149,616 kg of production capacity – any delay in the receipt of a cultivation licence, or the completion of retrofit activities, would significantly affect the expected production capacity of AgraFlora.

Another significant factor to consider is the fact that cannabis has already been legal in Canada for over a year. **Taking into the fact that AgraFlora is now building out cultivation facilities and noting that there are already numerous Canadian LPs that have already-built cultivation facilities and are generating revenue, we believe that the low multiples that AgraFlora is trading at reflects investor's wariness regarding the viability of a new cannabis company in competing against already-established Canadian LPs.** For the numerous reasons mentioned above, we believe it is not completely comparable to value AgraFlora on a multiples basis against other publicly traded Canadian LPs. We have excluded our comparables valuation in our overall valuation of the company.

Based on our review of the company's business model, the quality of the management team and their execution plan, and our valuation models, we are initiating coverage on AGRA with a BUY rating and a fair value estimate of \$0.38 per share.

Risks

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

- The company operates in a highly regulated industry that is subject to governmental intervention.
- The company has a limited operating history and is currently in pre-revenue.
- The company operates in a highly competitive landscape against well-established Canadian LPs.
- There is no guarantee that the company will receive the licences for its facilities on

time. This will significantly affect our valuation.

- There is no guarantee that the company will complete retrofit initiatives at its Delta Greenhouse Complex on time. This will significantly affect our valuation.
- There is no guarantee that the company will reach our expected production output for its cultivation assets. This will significantly affect our valuation.
- There is no guarantee that the distribution agreements entered into by the company will be meaningful.
- Contamination risk and other risks associated with biological/ agricultural production.
- There is no guarantee that partners of AgraFlora's offtake agreements will purchase up to the stated maximum. These partners may run into unforeseen liquidity issues and be incapable of satisfying their offtake agreements.
- Continual cannabis inventory build-up and pricing pressure in the Canadian cannabis market may deteriorate the top and bottom lines of AgraFlora.
- A negative opinion regarding the safety of CBD products could materially affect the company's ability to generate revenue through the sale of CBD products.
- Access to capital and share dilution.

We are assigning a risk rating of 4 (Speculative).

Appendix

STATEMENTS OF OPERATIONS		
YE Dec 31st	2019E	2020E
Revenue		93,218,988
Total Revenue	-	93,218,988
COGS	-	42,663,790
Gross Margins	-	50,555,198
SG&A	41,672,453	23,304,747
Share-Based Compensation	59,352,729	4,660,949
EBITDA	(101,025,181)	22,589,502
Depreciation and Amortization	793,287	4,669,565
EBIT	(101,818,468)	17,919,936
Financing Costs	104,595	3,664,482
Taxes		
Non-Recurring Expenses (Gains)		
Non-controlling interest	(395,047)	5,375,981
Net Income (Net Loss)	(101,528,017)	8,879,474
EPS	(0.11)	0.01
Shares	945,716,987	945,716,987

BALANCE SHEET				
YE Dec 31st	2017	2018	2019E	2020E
Assets				
Cash	3,791,249	10,718,888	15,694,451	5,119,248
Receivables	342,054	253,333	1,484,688	13,526,460
Marketable securities	312,500	253,509	2,453,509	2,453,509
Prepaid and deposits	109,162	21,875	8,256,569	3,262,665
Inventory	-	148,748	91,260	12,799,137
Current Assets	4,554,965	11,396,353	27,980,478	37,161,018
Investments	181,367	11,656,240	12,086,240	12,086,240
PP&E	1,100,249	1,591,099	42,450,594	68,281,029
Intangible assets	3,240,416	5,350,901	91,525,703	91,525,703
Goodwill	-	-	14,385,569	14,385,569
Loans receivable	-	-	-	-
Exploration and evaluation assets	-	-	-	-
Deposit	-	-	-	-
Total Assets	9,076,997	29,994,593	188,428,584	223,439,559
Liabilities & Shareholders' Equity				
Accounts payable and accrued liabilities	871,757	324,632	2,004,007	9,684,096
Current portion of lease liability	639,571	-	309,510	309,510
Advances from related parties	-	-	-	-
Convertible debentures	-	-	-	30,464,482
Current Liabilities	1,511,328	324,632	2,313,517	40,458,088
Long-term lease liability	-	-	1,555,098	1,555,098
Convertible debentures	-	-	27,312,500	5,262,500
Shareholder's Equity				
Share capital	22,401,998	48,563,710	196,042,173	196,042,173
Reserves	1,665,620	3,385,740	62,738,469	67,399,418
Deficit	(17,422,254)	(22,279,489)	(123,807,506)	(114,928,032)
Non-controlling interest	920,305	-	22,274,333	27,650,314
Total Liabilities and Shareholder's Equity	9,076,997	29,994,593	188,428,584	223,439,559

STATEMENTS OF CASH FLOWS		
YE Dec 31st	2019E	2020E
Operating Activities		
Net loss for the period	(101,528,017)	8,879,474
Items not involving cash		
Amorization	793,287	4,669,565
Unrealized loss on marketable securities	-	-
Gain on revaluation of PSC	-	-
Gain on sale of assets	-	-
Foreign exchange	-	-
Share of equity accounted investment losses	-	-
Gain on write-off of loan payable	-	-
Gain on settlement of debt	-	-
Shares issued for services/production costs/R&D/distribution	26,278,727	-
Transaction costs	4,325,179	-
Accrued interest	-	3,664,482
Debt settlement	-	-
Loss on spin-out of Cannvas	-	-
Loss on write-off of Solaris	-	-
Impairment of intangible asset	-	-
Gain on change to consolidation of AAA-	-	-
Non-controlling interest	(395,047)	5,375,981
Share of equity accounted investment losses	-	-
Gain on conversion of investment to equity	-	-
Gain on disposition of exploration and evaluation	-	-
Acquisition cost	-	-
Share-based compensation	59,352,729	4,660,949
FFO	(11,173,142)	27,250,451
Receivables	(1,231,355)	(12,041,771)
Prepays	(8,234,694)	4,993,904
Accounts payable and accruals	1,679,375	7,680,089
Inventory	57,488	(12,707,877)
Lease liability	1,864,608	-
Changes in working capital	(5,864,579)	(12,075,655)
Cash from (used in) operations	(17,037,721)	15,174,796
Financing activities		
Debt	27,312,500	4,750,000
Equity	23,983,566	-
Cash provided by financing activities	51,296,066	4,750,000
Investing activities		
PP&E	(6,652,782)	(30,500,000)
Capital lease advances	(20,000,000)	-
Loan receivable	-	-
Investment in other companies	(430,000)	-
Investment in marketable securities	(2,200,000)	-
Cash received on acquisition of control	-	-
Proceeds received from interest income	-	-
Cash used in investing activities	(29,282,782)	(30,500,000)
Increase (decrease) in cash	4,975,563	(10,575,204)
Cash beginning of period	10,718,888	15,694,451
Cash end of period	15,694,451	5,119,248

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

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

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

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

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

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

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