

AVICANNA INC. (TSX: AVCN | BUY | \$4.00)
Avicanna Inc. TSX: AVCN

Currency is CAD\$, unless otherwise noted

Fiscal year-end is as of December 31

Price (April 28, 2020)	\$1.07
52 Week Low/High	\$0.75/\$2.00
Avg. daily vol. (30-Day, M)	0.07
Target Price	\$4.00
Potential Return	274%

Capitalization¹

Basic Share Outstanding (M)	40.8
Market Cap. (\$M)	44.9
Cash (\$M)	0.1
Debt (\$M)	1.2

Financials (\$M)	F20E	F21E	F22E	F23E	F24E	F25E
Revenue	2.4	6.1	12.3	28.3	40.7	56.0
<i>Growth YoY</i>		155%	102%	130%	44%	38%
Cost of Sales	1.3	2.7	5.5	12.7	18.3	25.2
Gross Profit	1.1	3.3	6.8	15.6	22.4	30.8
<i>Gross Margin</i>	47%	55%	55%	55%	55%	55%
Operating & administrative expenses	15.8	15.0	13.1	7.9	3.9	0.9
Operating Profit	(14.7)	(11.7)	(6.3)	7.7	18.4	31.7
EBITDA	(13.0)	(9.5)	(4.0)	10.4	21.5	35.3
<i>EBITDA Margin</i>	-545%	-156%	-32%	37%	53%	63%

Share Price Chart


1: Source: Capital IQ

Avicanna Inc. – It is Harvesting Season

The market is never short of cannabis companies that catch investors' eyeballs in market mania. However, the reason that Avicanna got our attention is not its huge stock price swings but its solid efforts to build a biopharmaceutical business that seriously researches and develops cannabinoid-based products. Such efforts have made Avicanna a unique player in the market. The Company went through a drug development process for its medical cannabis products and put its hemp-derived cosmetic-focused consumer products to clinical trials to study their safety and efficacy. Avicanna is also collaborating with top academic research and medical institutions such as the University of Toronto and The Hospital for Sick Children on research projects and clinical trials. What distinguishes Avicanna from other players is also its vertical integration business model. By partnering with a leading organic agriculture company, Avicanna is growing and extracting its plants in-house, providing it with a large-scale, sustainable, and low-cost supply of raw materials.

After years of hard work, Avicanna, in our opinion is reaching an inflection point where its revenue and profitability are about to take off as its products are moving to the commercial stage.

We are initiating coverage of Avicanna with a \$4.00 target price and BUY rating.

About Avicanna Inc.

Avicanna is a Canadian biopharmaceutical company providing the global marketplace with advanced natural cannabinoid solutions through an evidence-based approach offered across several product platforms including active pharmaceutical ingredient (API), medical, pharmaceutical, and derma-cosmetic. As a multinational organization with vertical integration, the Company is focused on utilizing the scientific research related to plant-derived cannabinoid products through its internal research platforms and strategic collaborations with world-class research institutions.

TABLE OF CONTENTS

BUSINESS OVERVIEW.....	3
PRODUCT LINES AND MAREKT OPPORTUNITIES	5
VERTICAL INTEGRATION MODEL.....	12
SCIENTIFIC PLATFORM AND INTELLECUTAL PROPERTY POWERHOUSE.....	15
CATALYST AND FUTURE MILESTONES	16
VALUATION	17
RISKS.....	20
CONCLUSION.....	20
APPENDIX I: MANAGEMENT AND BOARD OF DIRECTORS.....	21
APPENDIX II: PURA PRODUCT CLINICAL STUDIES.....	24

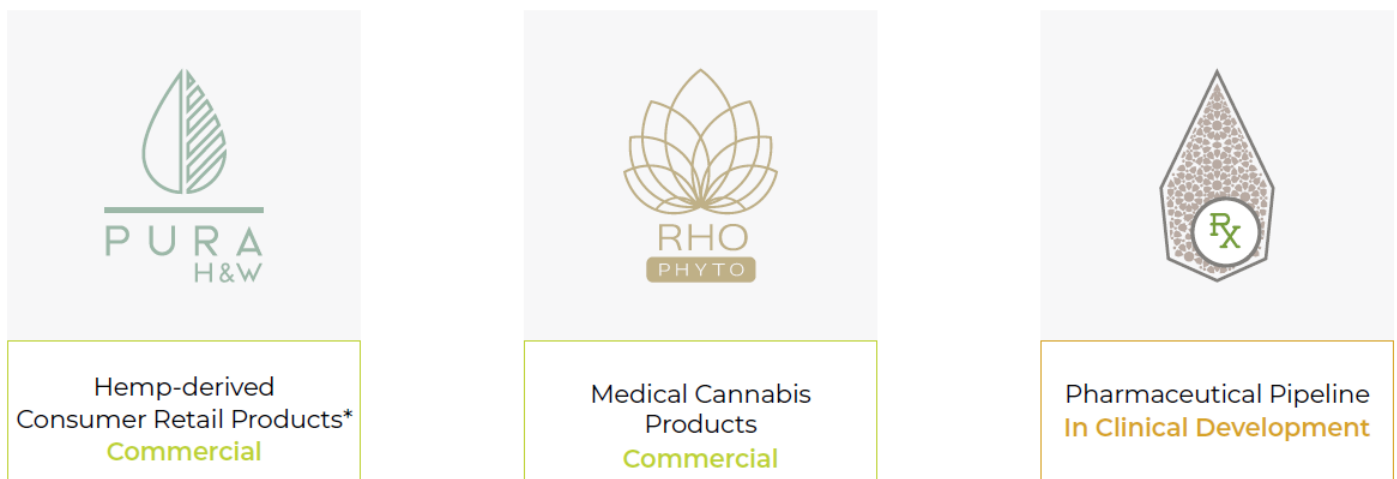
BUSINESS OVERVIEW

Avicanna is a Canadian biopharmaceutical company providing the global marketplace with advanced natural cannabinoid solutions through an evidence-based approach offered across several product platforms including active pharmaceutical ingredient (API), medical, pharmaceutical, and derma-cosmetic. As a multinational organization with vertical integration, the Company is focused on utilizing the scientific research related to plant-derived cannabinoid products through its internal research platforms and strategic collaborations with world-class research institutions.

Diversified Product Lines and Revenue Streams

Since it was founded five years ago, Avicanna has been directing its efforts and resources to develop, optimize, and conduct clinical studies on a wide range of cannabinoid-based products. Throughout the process, the Company keeps de-risking itself as a biopharmaceutical company by developing both consumer and medical cannabis products, producing positive clinical results, and navigating through regulatory approval milestones. Now, Avicanna recognizes three product categories, they are hemp-derived consumer retail products, medical cannabis products, both are in commercial stage, and pharmaceutical pipeline, which is in clinical development and drug registration stage. Its CBD-based derma-cosmetic products are commercialized in Colombia and are expected to launch within 2021 in the US, Canada, the EU, and several other Latin American countries. The medical cannabis products were launched successfully in Q3 2020 in Canada via Shoppers’ Medical Cannabis and recently became available on adult use retail channels in four provinces (Ontario, Manitoba, Saskatchewan, and New Brunswick) in Canada.

Figure 1: Product Categories



Source: Avicanna Inc.

Thanks to Avicanna's unique vertically integrated model, the Company also generated revenue from the upper stream of its supply chain by tapping into the biomass market from Colombia. The diversified product lines and multiple revenue streams place Avicanna in a position to benefit from a fast-growing cannabis industry globally.

Vertical Integration Model

What distinguishes Avicanna from other cannabis companies and biopharmaceutical companies in their respective sectors is the integration of its supply chain. From cultivation to extraction, to R&D and to finished products, the whole process happens within Avicanna's ecosystem and generates intellectual property (IP) for Avicanna. The upstream integration is achieved from Avicanna's two majority-owned subsidiaries in Colombia, through which the Company has 480,000 square feet of GMP-compliant cultivation capacity with a production capacity of over 30,000 kg of biomass per year with complete extraction, analytical testing, and manufacturing infrastructure. Having the upstream in northern Colombia is strategic to Avicanna's value proposition for its ideal growing climate and low agricultural cost.

We believe that for an industry that is in its early stage of the life cycle, Avicanna's vertical integrated model is the right approach to create long-term value. We see Avicanna is benefiting from this model from two folds. First is from a quality control perspective, having an internal supply of API ensures consistent quality of inputs. This is particularly critical considering that Avicanna relies on these cannabinoids to deliver high-quality consumer and medical cannabis products and pharmaceutical products in the future. Second is from a cost control perspective, controlling the cultivation and extraction process allows the Company to optimize upstream cost. As a result, Avicanna's biomass costs only 5 cents per gram, which is a substantial discount from other Canadian and US peers.

World-Class Collaboration and Partnership

Our thesis on Avicanna also highlights its collaboration and partnership with world-class companies and institutions. This forms an integral part of the Company's vertical integration model. On the upper stream, Avicanna has a comprehensive relationship with a local player in Colombia that has a leading position in organic agriculture. On the R&D front, Avicanna is collaborating with world-class academic and clinical institutions such as the University of Toronto, University Health Network, and the University of Guelph for drug development and pre-clinical trials. With regard to product distribution channels, Avicanna established partnership

with Shoppers Drug Mart, enabling its medical cannabis products to be sold national wide in Canada.

As the only cannabis-related company admitted to Johnson & Johnson Innovation – JLABS (JLABS) at Toronto, Avicanna is an active player in the biopharmaceutical community that advances research in utilizing cannabinoids. Years of research and collaboration made Avicanna an IP powerhouse with an established IP portfolio.

We also want to highlight that Avicanna has established a relationship with Tasly Holding Group (Tasly), a leading Chinese pharmaceutical and health care company with a \$22-billion market cap, where Tasly participated in a non-brokered private placement in April 2020. Though the equity stake by Tasly is not considered large, this symbolic move by Tasly is a strong validation for Avicanna’s position.

On the product distribution side, Avicanna struck deals with NBA veteran AI Harrington’s re+PLAY and Viola brands to further commercialize its products in the US and Canada.

Tightly Held Share Structure

Avicanna is listed on the Toronto Stock Exchange (TSX) with the stock ticker of AVCN. As of April 15, 2021, the Company has a market capitalization of \$44.1 million¹. The Company has common shares of 41,275,574 and fully diluted shares of 56,140,658.² Its shares are tightly held by insiders and strategic investors with the management team and board of directors holding around 40%. Although dilutive, the Company has managed to raise over \$18 million since 2020.

PRODUCT LINES AND MARKET OPPORTUNITIES

Avicanna is in the business of leveraging natural ingredients to improve people’s daily life. In Avicanna’s case, the natural ingredients are API extracted from cannabis biomass called cannabinoids. Due to some historical, cultural, and regulatory reasons, the applications of cannabinoids are surprisingly under-researched. Instead of rushing to market with poor quality and highly variable cannabinoid products, Avicanna spent the last few years patiently researching and developing scientific-approached and evidence-based products that are future-proof and regulatory-proof. In our opinion, Avicanna’s product development process is setting the standards in the cannabinoid industry.

¹ Source: Capital IQ

² Source: Avicanna Corporate Presentation Q2 2021, as of market close on March 23, 2021

We categorize the Company’s products into four products, they are **Consumer Retail Product Line** that focuses on derma-cosmetic products using hemp-derived CBD, **Medical Cannabis Product Line** that contains CBD and/or THC, **Supply Chain and Raw Materials Product Line** that sells biomass and seed products directly from Colombia, and **Pharmaceutical Pipeline** that is expected to be commercialized in the near future. In addition, thanks to Avicanna’s strong R&D and IP development capabilities, revenue has also been generated from royalties and licensing activities, which going forward, could become a significant and sustainable revenue source.

Consumer Retail Product Line (CBD Products)

Avicanna’s consumer retail business focuses on developing functional, evidence-based CBD derma-cosmetics products. Currently, the Company has 13 premium skincare products that combine hemp-derived CBD and other natural ingredients to protect skin from problems such as dryness and unbalanced oil production. The products are marketed or expected to be marketed under Pura Earth brand in Canada and Pura H&W brand elsewhere.

Figure 2: Pura H&W Product Lineup



Source: Avicanna Inc.

Though Pura Earth and Pura H&W are consumer over-the-counter skincare products, Avicanna took a pharmaceutical approach and went through clinical studies on these products, making them one of the world’s only CBD consumer derma-cosmetic and topical products that have human clinical study results. Avicanna completed three clinical studies with n=54 in Colombia to test the effectiveness and safety of its products. Three products are: 1) Pura H&W topical cream containing 0.5% CBD and 1% hemp seed oil; 2) Pura H&W facial cream containing 0.5% CBD and 0.1% hemp oil; 3) Pura H&W topical serum containing 1% CBD and apple stem cells. All

results achieved their objectives and indicated enhanced skin hydration after 2 months of use. The results of such studies are shown in Appendix II. Avicanna’s Pura H&W products are also dermatologist tested in the EU.

Pura H&W products were first available in Colombia in Q4 2019 via retail and e-commerce channels. Other markets including the US, Canada, and the EU are expected to see Pura H&W or Pura Earth in Q2 2020.

Pura H&W and Pura Earth Commercialization Status	
Market	Status
Colombia	Launched in Q4 2019. Currently available through 57 retailers and e-commerce platforms
USA	Expected to launch in Q2 2021, in partnership with Red White and Bloom
Canada	Expected to launch in Q2 2021, in partnership with Medical Cannabis by Shoppers, medical and adult use channels
EU	Expected to launch in Q2 2021 via e-commerce platforms
Brazil and Ecuador	Expected to launch in Q2 2021 under private label

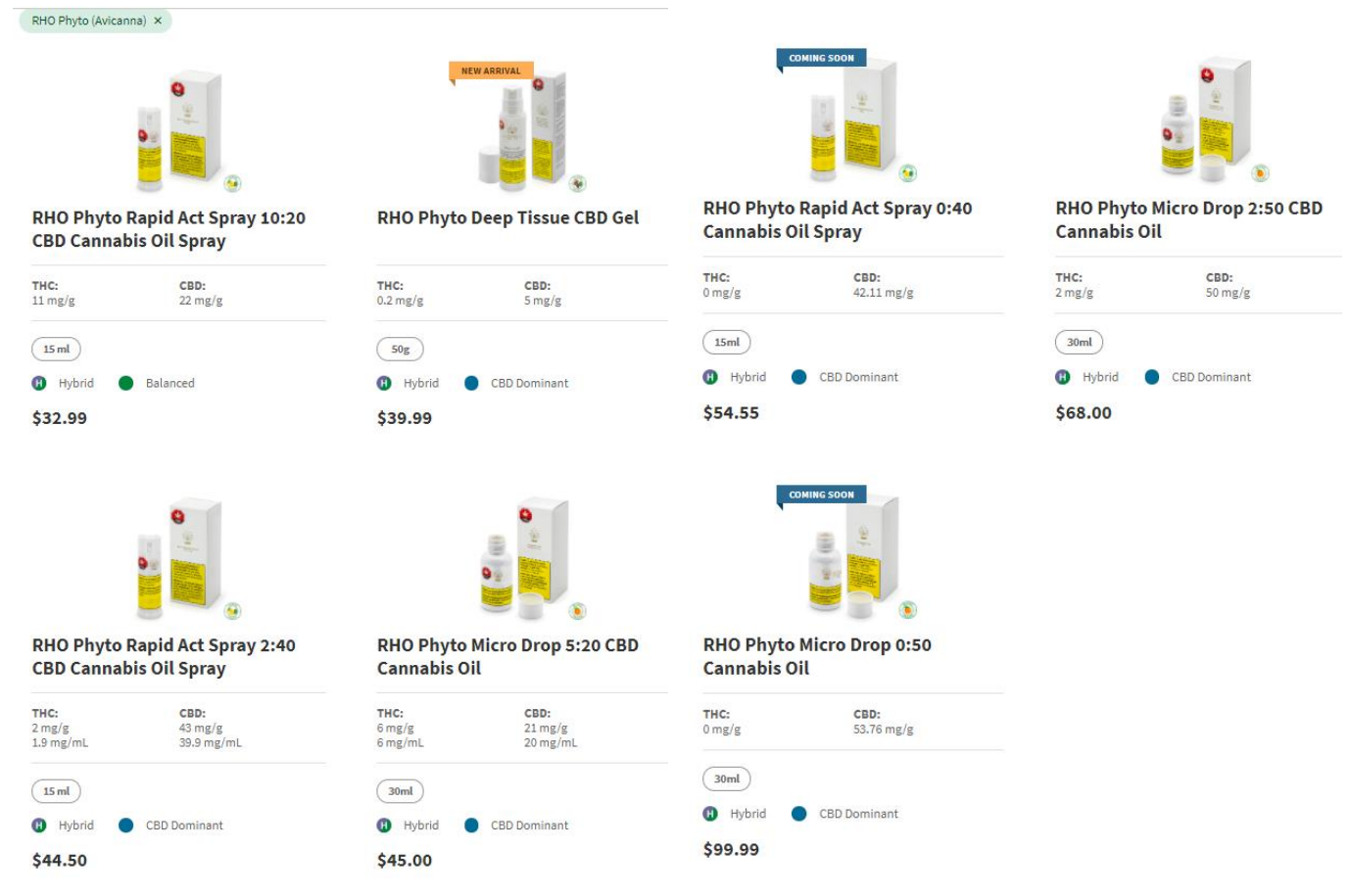
Medical Cannabis Product Line (CBD and THC Products)

Avicanna’s medical cannabis products are branded as RHO Phyto. These products contain full spectrum of cannabinoids that include both CBD and THC. Avicanna takes cannabinoids extracted from natural plants and presents the final products with advanced oral and topical delivery forms including oil drops, sublingual sprays, soft-gel capsules, and topical creams and gels. These products are targeted to treat general comorbidities such as anxiety, depression, pain, and sleep.

RHO Phyto is what so-called Medical Cannabis 2.0 product. Avicanna claims that RHO Phyto formulary is the most complete, consistent, and scientifically advanced medical cannabis formulary in Canada. This is because Avicanna took a typical drug development process for developing RHO Phyto, ensuring cannabinoids stability for accurate dosing and increased absorption vs basic MCT (medium-chain triglyceride) oil formulations. The benefits of controlled dosing and enhanced absorption are supported by pre-clinical data.

RHO Phyto’s scientific and evidence-based development approach and GMP-compliant manufacturing brought Avicanna’s partnership with Shoppers Drug Mart by offering RHO Phyto products national-wide in Canada in Medical Cannabis by Shoppers since Q3 2020. This go-to-market success was a milestone to Avicanna, distributing its medical cannabis products to over 1,300 retail locations and over 300,000 registered patients for such products. The initial sales data again validated that Avicanna’s unique positioning in the cannabis market is paying off. Data from Shoppers sales indicated 73% of sales were made to patients who are over 31 years old and 53% were women, which contradicts to typical adult use market where customers are mainly male between 20-30 years old. RHO Phyto is reaching its target customer base. Sales growth on the Shoppers platform is approximately 40% month over month and the numbers of SKUs is expected to increase from 5 initially to 10 in Q2 2021.

Figure 3: RHO Phyto Product Display on Medical Cannabis by Shoppers Website



Source: Medical Cannabis by Shoppers, www.cannabis.shoppersdrugmart.ca

Next step, Avicanna is taking RHO Phyto’s success on registered platform to retail channels so that RHO Phyto could reach adult use market that is estimated to have a \$3 billion market size. As part of the effort, RHO Phyto products recently became available through retail channels in four provinces (Ontario, Manitoba, Saskatchewan, and New Brunswick) in Canada. This will be disruptive as Avicanna is bringing pharmaceutical quality, scientifically developed non-inhalation products to a market that is dominated by products that focus on intoxicating effects. Internationally, Avicanna is expected to launch RHO Phyto in Colombia in Q4 2021 followed by further expansion to other LATAM markets.

Supply Chain and Raw Materials Product Line (Biomass Products)

Avicanna’s biomass product line is a B2B business carried out under the brand of Aureus, which takes advantage of Avicanna’s GMP compliant facilities in northern Colombia to offer API and formulations with quality testing and tracking. Products offered include feminized seeds, resins or whole plant crude oils, cannabinoid distillates, and isolated cannabinoids (CBD, THC, CBG, and other cannabinoids), and bulk formulations (prepared and customized oil and water soluble formulations for use in oral, topical, and sublingual products) derived from hemp and cannabis cultivars. Under the Aureus brand, Avicanna also sources hemp within the US and provides the US market with high-quality crude oils, distillates, and isolates.

Figure 4: Aureus Product Offering: API Sourced from Colombia

Product	CBD Content	CBG Content	THC Content
CBG			
CBG Isolate	-	98%	-
CBG Distillate	1%	90%	1%
CBG Full Spectrum	14%	68%	0.7%
CBG + Terpenes Broad Spectrum	1%	80%	-
CBG Flower	0.2%	14.7%	0.2%
CBD			
CBD Isolate	98%	-	-
CBD Broad Spectrum	30%	-	-
CBD + Terpenes Broad Spectrum	80%	5%	-
CBD Full Spectrum	65%	-	3%
CBD Water Soluble	10%	-	-
CBD Flower	14%	-	0.6%
THC			
THC Full Spectrum Resin	4%	-	70%
THC Flower	0.2%	-	18%

Source: Avicanna Inc.

Figure 5: Aureus Product Offering: API and Feminized Seeds Sourced from the US

Product	CBD Content	CBG Content	THC Content
CBG			
CBG Isolate	-	99%	-
CBG Distillate	1%	90%	1%
CBG Crude	1%	75%	0.7%
CBG Bio-mass	-	12%	-
CBD			
CBD Isolate	99%	-	-
CBD Distillate	85%	5%	-
CBD Full Spectrum	85%	2%	1%
CBD Bio-mass	10%	-	-
CBN			
CBN Isolate	-	-	-

Source: Avicanna Inc.

This line of business is an integral part of our thesis on Avicanna. It provides an additional source of revenue during a time when Avicanna is ramping up its consumer and medical products, making the Company's revenue more resilient should there be any headwind for the development of global cannabis product market due to issues such as lags in regulatory approval. Since the start of this business, Avicanna has completed commercial sales and exports of cannabinoids and seeds from Colombia into the United States, Canada, Chile, the UK, Germany, Argentina, Uruguay, and South Africa. In addition, Aureus offers cannabinoids sourced from the United States Department of Agriculture (USDA) certified organically cultivated hemp and sustainable, sun-grown cannabis.

Pharmaceutical Pipeline

In our opinion, Avicanna's pharmaceutical product pipeline represents a huge upside potential for the Company. It is also probably the least understood component of the Company. All pharmaceutical products under development use only plant-derived cannabinoid extracts, purified cannabinoids, including distillates and isolate. The Company follows the traditional drug

discovery and development process to develop its pharmaceutical with the intention to eventually submit to applicable government agencies, such as Health Canada, FDA (United States) and INVIMA (Colombia) for approval and registration.

Avicanna’s intended pharmaceutical pathways include generic pharmaceutical, natural drug, or phyto-therapeutic designations, and rare disease with initial pharmaceutical products will focus on indications such as chronic pain, neuropathic pain, and epidermolysis bullosa.

Figure 6: Pharmaceutical Pipeline

Drug Development Program	Delivery	Development status	Clinical status	Registration
Refractory Epilepsy	Oral	✓	-	Generic Pharmaceutical
Multiple Sclerosis	Sublingual	✓	-	Generic/Phyto-therapeutic
Chronic Pain	Oral	✓	-	Phyto-therapeutic
Anxiety and Depression	Sublingual	✓	-	Phyto-therapeutic
Epidermolysis Bullosa	Topical	✓	Phase II	Orphan Drug
Inflammation COVID-19	Nasal	✓	Pre-clinical	Orphan Drug
Osteoarthritis	Topical	In development	Pre-clinical	Pharmaceutical

Source: Avicanna Inc.

The Company collaborates with different world-renowned research institutions for its pharmaceutical pipeline, which span across different development stages:

- Chronic Pain and Opioid-sparing:** this is in collaboration with Dr. Hance Clarke at Toronto General Hospital (University Health Network) to evaluate the feasibility of conducting a double-blind, randomized, placebo-controlled clinical trial for the use of oral cannabinoids for opioid-sparing and pain reduction in patients using opioids for chronic pain management. clinical trial application (CTA) has been submitted to Health Canada for review.
- Epidermolysis Bullosa:** Epidermolysis bullosa (EB) is rare, devastating, and currently incurable genetic blistering disorders characterized by fragility of skin and mucosal membranes. Working with The Hospital for Sick Children (SickKids), Avicanna proposes to undertake a phase II/III study exploring the safety, tolerability, and efficacy of topical application of 3% Cannabidiol cream (CBD) on acute and chronic wounds affecting patients with EB. Currently, the Company is corresponding with Heath Canada for submission of Phase II clinical trial.
- Inflammation related to COVID-19:** Avicanna, in collaboration with Dr. Christine Allen’s Research Group (CARG) in the Leslie Dan Faculty of Pharmacy at the University of Toronto, is developing a solid lipid nano-particle cannabinoid-based

formulation for treatment of COVID-19 related lung inflammation. This project has been supported by two grants including a MITACS award and an NSERC Alliance grant.

Currently, Avicanna is working on clinical trials and drug registration for its pharmaceutical products. In January 2021, the Company shared an exciting news that it completed its first pharmaceutical level production of its first epilepsy drug candidate under GMP and ICH guidelines using API (cannabinoids) produced by Avicanna's subsidiary in Colombia. This is a milestone for Avicanna as it allows the Company to proceed with drug registrations for epilepsy across several markets in South America including Colombia and Brazil. We expect registration to complete later this year and revenue to be generated from this line of business in 2021.

Others

As we explained in our research, Avicanna is a platform play. As a cannabinoid scientific platform and a vertically integrated player, Avicanna is a natural partner for other players who seek to enter the cannabis market. As a result, Avicanna is monetizing such partnerships by booking one-time upfront payments and ongoing licensing fees. One notable example is the Company's distribution agreement with Red White & Bloom Brands Inc. (RWB) executed on August 11, 2020, in which Avicanna charged an upfront exclusivity fee of \$250,000 and is expecting ongoing revenue from purchases under the agreement.

VERTICAL INTEGRATION MODEL

Running a vertically integrated model is a core part of Avicanna's strategy. At the current stage, having an in-house product in Colombia provides Avicanna with high-quality cannabinoids for its product development and generates an additional source of revenue when the finished products are ramping up. In our opinion, the benefit of integrating the cultivation and extraction side of the equation will be increasingly obvious as Avicanna grows.

Avicanna's presence in Colombia is a result of its partnership with a strong local partner, who has a leading position in organic agriculture. As part of their cooperation, Avicanna controlled two Colombian entities in Santa Marta, Santa Marta Golden Hemp (SMGH) and Sativa Nativa. Through these two licensed subsidiaries, Avicanna has 480,000 square feet of GMP-compliant cultivation capacity with a production capacity of over 30,000 kg of biomass per year with complete extraction, analytical testing, and manufacturing infrastructure. SMGH conducts indoor, greenhouse, and outdoor cultivation as well as extraction. SMGH has potential to grow its land from 16 hectares currently to 15,000 hectares. Sativa Nativa operates as a cultivation facility with

its 100,000 square feet of shadehouse and outdoor space and 20,000 square feet of customized greenhouse space.

Figure 7: SMGH and Sativa Nativa Operating Summary

	For the nine months ending September 30, 2020	For the six months ending June 30, 2020
SMGH		
Total square feet	360,000	360,000
<i>Shadehouse</i>	190,000	190,000
<i>Outdoor</i>	150,000	150,000
<i>Greenhouse</i>	20,000	20,000
Annual yield - KGs	26,400	26,400
Cost per gram – dried flower	\$0.11	\$0.12
Distillate Crystallization Efficiency	80%	80%
Extraction capacity – Dried Flower KGs per day	300	300
Sativa Nativa		
Total square feet	120,000	120,000
<i>Shadehouse</i>	50,000	50,000
<i>Outdoor</i>	50,000	50,000
<i>Greenhouse</i>	20,000	20,000
Annual yield - KGs	4,500	4,500
Cost per gram – dried flower	\$0.11	\$0.11

Source: Avicanna Inc.: Q3 2020 MD&A

Figure 8: Cultivation Facility in Colombia



Source: Avicanna Inc.

Figure 9: Facility in Colombia

Source: Avicanna Inc.

Avicanna's cultivation and extraction facilities are GMP compliant and its SMGH is the first entity in Colombia to obtain USDA National Organic Program ("NOP") certification for its hemp cultivar.

SCIENTIFIC PLATFORM AND INTELLECTUAL PROPERTY POWERHOUSE

After years of patient development, Avicanna has become a leading scientific platform in cannabinoid research and development. This is evidenced by its admission to JLABS in Toronto and its collaboration with top research and medical institutions. Highlights of such collaborations include:

- **University of Toronto:** with support by grants including a MITACS award an NSERC Alliance grant, Avicanna is exploring cannabinoid's usage in treating COVID-19 related lung inflammation with Dr. Christine Allen, a Professor and the inaugural Associate Vice-President and Vice-Provost Strategic Initiatives at the University of Toronto.

- **University Health Network:** Avicanna’s RHO Phyto products are included in the first-of-its-kind Canadian Study at the University Health Network (“UHN”) led by Dr. Hance Clarke, Director of Pain Services at Toronto General Hospital. The focus of the study is to examine the efficacy of medical cannabis products on chronic pain, sleep, and anxiety.
- **University of Guelph:** Avicanna is collaborating with Dr. Jibrán Khokhar, a Professor at the University of Guelph with Natural Sciences and Engineering Research Council of Canada (“NSERC”) to investigate the neural basis of cannabis-induced toxicosis. In January 2021, the collaboration project with the University of Guelph further expanded to test Avicanna’s RHO Phyto formulations and their efficacy in alleviating neuropathic pain and addiction.
- **The Hospital for Sick Children:** The Company is collaborating with SickKids on the clinical trial of its cannabinoid-based treatment for EB.

CATALYST AND FUTURE MILESTONES

We believe the time is ripe for Avicanna to harvest its years of effort on cannabinoid research, consumer and medical product development, and upstream cultivation and extraction. We expect to see upcoming milestones as catalysts to turbocharge Avicanna’s revenue and profit.

- **Launch RHO Phyto in adult use market in Canada.** The adult use market through retail channels in Canada will unveil a much larger for Avicanna’s medical use cannabis products. Avicanna announced the plan in December last year and expects this to happen in Q2 2021.
- **Commercialize Pura Earth and Pura H&W in Canada, Ecuador, and the US.** In Canada, the distribution is expected to be with Medical Cannabis by Shoppers as well as adult use channels. The commercialization in Ecuador will be through the Company’s partnership with Spenta S.A., an Ecuadorian cosmetic distributor. The US commercialization is part of the agreement with RWB. Avicanna expects these to happen in Q2 2021.
- **Materialize licensing and royalty agreements:** Avicanna expects further development of its cooperation with Harrington Wellness Inc. on re+PLAY branded products in Canada and the US as well as with VB Brands California LLC on Viola products in Canada. Both will use Avicanna’s cannabis formulations through IP licensing and royalty agreements.

VALUATION

To value Avicanna, we took the stages of the Company's various product lines into consideration. Our methodology focuses on discounted cash flow (DCF) of Avicanna's consumer and medical cannabis business, biomass business as well as its IP-related business. At the current stage, we have a modest forecast for Avicanna's pharmaceutical pipeline taking into consideration that the progress of its clinical trials and drug registration. We remain optimistic about the prospect of this product line and believe that this is a core part of Avicann's unique value. We are happy to revisit our valuation methodology once we have further visibility on the clinical trial progress, especially the Phase II clinical trial of the EB treatment product.

Our DCF model incorporated our thesis on Avicanna, including our belief that this year is going to be an inflection point for Avicanna's business after years of patient development and research. As a result, we do not hesitate to put seemingly aggressive forecasts for the Company's hemp and cannabis business, which can be seen from figure 10. In our valuation exercise, we forecast total revenue will reach over \$56 million at the end of our forecast period in 2025. The Company is forecasted to report positive EBITDA in the year 2023. We acknowledged that Avicanna had already spent considerable capital in building up its current platform including its manufacturing and extraction facilities in Colombia, our forecasts on capital expenditures are relatively modest compared with revenue growth. Using a 10% discount rate and a 2% long-term growth rate, our model reached an enterprise value of \$228 million. Incorporating net debt information from Avicanna's latest financial statement, which is Q3 2020, and the Company's fully diluted share outstanding disclosed in Q2 2021 corporate presentation, we arrived equity value of around \$222 million or \$3.95 on per share basis. The result is on par with the EBITDA multiple approach in DCF terminal value estimation using 9x EBITDA multiple, which yields a price of \$4.14 per share.

Hence, we conclude a target price of \$4.00 per share and ascribe a BUY rating to reflect our thesis on the long-term optimism of the Company and our opinion that the stock price is bound to reflect the Company's true value.

Figure 10: Revenue Build Up

Revenue Build Up	Actual		Forecasts				
	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025
	CBD Products (Pura H&W)	58,823	13,755	55,020	233,835	935,340	1,403,010
CBD & THC Products (RHO Phyto)	-	195,990	783,960	3,331,830	13,327,320	19,990,980	29,986,470
Royalties and License Fees	-	557,384	836,076	1,086,899	1,304,279	1,434,706	1,578,177
Biomass (Aureus)	60,033	1,609,295	2,413,942	3,620,913	4,707,187	5,883,984	7,060,780
Pharmaceutical Products	-	-	2,000,000	4,000,000	8,000,000	12,000,000	15,600,000
Others	49,396	13,471	-	-	-	-	-
Total Revenue	168,252	2,389,895	6,088,998	12,273,477	28,274,125	40,712,680	56,049,340

Source: Avicanna Inc., UBIKA Research

Figure 11: DCF Model

Avicanna Inc.							
Most recent FY end	12/31/2020	Discount Rate	10%				
End of first FY	12/31/2021	Share Price	\$1.07				
Most recent quarter end date	3/31/2021	Share Price date	4/28/2021				
Valuation date	3/31/2021						
Portion of year 1 cash flows in forecast	75%						
Free Cash Flow Forecasting							
FY end	Actual		Forecasts				
	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025
Revenue	168,252	2,389,895	6,088,998	12,273,477	28,274,125	40,712,680	56,049,340
% growth		1320.4%	154.8%	101.6%	130.4%	44.0%	37.7%
EBITDA	(22,300,066)	(13,026,275)	(9,528,449)	(3,983,291)	10,363,292	21,516,011	35,267,245
% margin	-13254.0%	-545.1%	-156.5%	-32.5%	36.7%	52.8%	62.9%
EBIT	(23,223,580)	(14,705,933)	(11,692,704)	(6,342,421)	7,682,258	18,442,268	31,726,825
% margin	-13802.9%	-615.3%	-192.0%	-51.7%	27.2%	45.3%	56.6%
Tax on EBIT		-	-	-	-	-	-
Tax rate		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
NOPAT		(14,705,933)	(11,692,704)	(6,342,421)	7,682,258	18,442,268	31,726,825
Depreciation & amortization		1,679,657	2,164,255	2,359,130	2,681,033	3,073,743	3,540,420
Changes in net working capital		(2,818,386)	(315,711)	(773,060)	(2,000,081)	(1,554,819)	(1,917,083)
Capital expenditures		(1,092,855)	(1,938,621)	(2,923,131)	(4,828,541)	(5,890,644)	(7,000,160)
as % of revenue		45.7%	31.8%	23.8%	17.1%	14.5%	12.5%
Unlevered free cash flow (FCFF)		(16,937,516)	(11,782,781)	(7,679,482)	3,534,670	14,070,548	26,350,002
Net working capital (WC Assets - WC Liabilities)	(2,372,972)	445,414	761,125	1,534,185	3,534,266	5,089,085	7,006,168
as % of revenue		18.6%	12.5%	12.5%	12.5%	12.5%	12.5%
Present Value of FCFF on Valuation Date							
	Valuation Date	Year 1 - Stub	Year 2	Year 3	Year 4	Year 5	
Date for discounting cash flow	3/31/2021	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025	
FCFF stub adjusted		(8,837,086)	(7,679,482)	3,534,670	14,070,548	26,350,002	
PV of FCFF		(8,224,752)	(6,497,600)	2,718,800	9,836,334	16,745,967	
Terminal Value - growth in perpetuity approach				Terminal Value - EBITDA multiple approach			
Long term growth rate	2.0%						
2025 FCF x (1+g)	26,877,002					35,267,245	
Terminal value in 2025	335,962,524					10.0x	
PV of terminal value	213,511,081					352,672,447	
PV of stage 1 cash flow	14,578,750					224,130,581	
Total enterprise value (TEV)	228,089,831					14,578,750	
Terminal value as % of TEV	93.6%					93.9%	
Stage 1 cash flows as % of TEV	6.4%					6.1%	
Implied TV exit EBITDA multiple	9.5					2.4%	
Valuation							
	Perpetuity	EBITDA					
Enterprise value	228,089,831	238,709,331					
Net debt	6,097,923	6,097,923					
Equity value	221,991,908	232,611,408					
Shares outstanding	56,140,658	56,140,658					
Equity value per share	\$3.95	\$4.14					

Source: Avicanna Inc., UBIKA Research

RISKS

In our opinion, after years of effort, Avicanna has been largely de-risked and is currently ramping up in the commercial stage. However, investors who are evaluating the Company as an investment should be fully aware of the risks in the Company. Here we wish to highlight the following risks:

- **Growth execution risk:** our value forecasts rely on the execution of Avicanna's business plan. Any issue that arises from the Company's management or its partners may affect its value.
- **Regulatory risk:** delay in lifting regulatory restrictions on cannabis usage in various markets may affect Avicanna's long-term upside potential.
- **Drug development risk:** although we did not include Avicanna's pharmaceutical pipeline in our formal valuation, hence the target price, we see the prospect of this business line as a key part of Avicanna's value proposition. Any setback from the clinical trials could hamper the Company's value as a biopharmaceutical company.

We encourage investors to refer to Avicanna's latest MD&A and the Company's long form prospectus dated July 8, 2019 on SEDAR for a more complete discussion of the risks faced by Avicanna.

CONCLUSION

We are concluding our research on Avicanna with a strong belief that the Company is emerging to become a leading biopharmaceutical company with focus on researching and developing products based on cannabinoids. As we keep repeating in our research, the Company has patiently spent the last few years making itself a scientific cannabinoids research platform, an IP powerhouse, an integrated cannabis player, and a biopharmaceutical company with diversified product lines and revenue streams. Now the Company is just on the right trajectory to harvest its effort. **We initiate coverage of Avicanna with a \$4.00 target price and BUY rating.**

APPENDIX I: MANAGEMENT AND BOARD OF DIRECTORS**Management****Aras Azadian, M.Mgmt - Chief Executive Officer**

Utilizing his extensive senior management experience in both financial and bio-technology sectors, Aras co-founded Avicanna with the vision of establishing a bio-pharmaceutical company with a strict focus on medical and pharmaceutical applications of cannabinoids. His expertise experience in the biotechnology industry have been integral to Avicanna's thought leadership pertaining to R&D and clinical development. Since 2016 Aras has successfully led a team of executives, scientists, and medical professionals across several countries with the vision of vertical integration and a strong company focus on quality controls, scientific vigour and competitive advantages. Aras holds a Bachelor of Economics degree from York University and an International master's in management degree from EADA Business School in Barcelona, Spain.

Setu Purohit, JD, ICD.D - President and Chief Legal Officer

Experienced in complex corporate and legal strategy, as well as contract negotiations, Setu's unique expertise as a lawyer and an entrepreneur have been central to Avicanna's structure and key global partnerships. As the executive lead for Avicanna's Initial Public Offering (IPO) process, Setu encompasses the qualities of an adaptive strategic leader equipped with market awareness, business acumen and an in-depth understanding of Avicanna's long term objectives. With a high regard for best practices, our co-founder Setu, spearheads the company's regulatory navigation with a vision specific to the pursuit of partnerships and commercialization opportunities. Setu holds a Bachelor of Commerce degree from the University of Ottawa and Juris Doctorate (JD) degree from the University of Western Ontario.

Dave Sohi, CPA, CA, CBV - Chief Financial Officer

Dave has been responsible for all financial operations at Avicanna since inception. A pragmatic financial leader, Dave has wide-ranging experience in financial management, business leadership, corporate strategy, mergers and acquisitions, and valuation services. His extensive experience with RSM Richter's and Ernst and Young's Transaction Advisory Practices has equipped him with the acumen and vision to deliver exceptional strategic direction, streamlined financial and procedural policies and create monitoring and accountability systems. Dave spearheads the responsibility for the complete and accurate preparation of all Avicanna teams and subsidiaries for Initial Public Offering (IPO). Dave has obtained his Chartered Accountant and Chartered Business Valuator designations and has earned a Bachelor of Commerce degree from Queen's University.

Lucas Nosiglia, MFin - President, Avicanna LATAM

A seasoned entrepreneur and executive with experience across Europe, North America and South America, Lucas has been at the forefront of Avicanna's Latin America (LATAM) operations since the company's inception in 2016. His innovative and transformative approach in navigating the cannabis industry and his former involvement in management consulting, finance and health care have been invaluable in establishing and operating the company's Colombian subsidiaries including two fully operational cultivation projects. Lucas' experience from working at Deloitte along with his leadership values are at the core of his success in

leading Avicanna's largest teams. Lucas graduated with an Honours degree from Faculty of Economics of University of Buenos Aires and holds a Masters degree in Finance from EADA in Barcelona Spain.

Ivana Maric - Executive Vice President, Marketing

Leading the company's marketing operations since inception, Ivana has championed the development, launch and management of all Avicanna's brands and product lines globally. A trailblazer with significant experience in traditional and digital media platforms, advertising, brand development and awareness across several sectors, Ivana utilizes both her previous experience and her thorough comprehension of the evolving landscape of the cannabis industry, its trends and challenges. Her former experience as the Director of Marketing for Ophiuchus Consulting Group and leading numerous marketing efforts and brand launches for start-up companies has been central to Avicanna's exponential and continued growth. Ivana has a Bachelor of Commerce degree in Marketing Management from Ryerson University.

Dr. Frantz Le Devedec, PhD - Executive Vice President, Research & Development

Dr. Le Devedec has over 15 years of experience in academic and industrial research in biomaterials, drug delivery platforms and purification processes of natural compounds applied to cancer therapies, pain management and infectious disease. With a strong background in biochemistry, he received his PhD in Physical Chemistry at Université de Montréal with honors and worked for Dr. Christine Allen's Research Group (CARG) at the University of Toronto, leading several pharmaceutical projects for industrial partners and academic oriented research. He also worked at Princess Margaret Cancer Centre as a research associate where he developed new approaches for pancreatic cancer therapy. He is the first author of more than fifteen scientific publications, patents and presented in international conferences and universities. For the past 3 years, Frantz has been at the top of the R&D department of Avicanna Inc, where he has developed numerous advanced cannabinoid formulations (orals and topicals) now commercialized in North America, Latin America and finally put in place methodologies to purify cannabinoids from lab scale to industrial capacity in our cannabis cultivar in Colombia.

Board of Directors**Aras Azadian, M.Mgmt - Chief Executive Officer****Setu Purohit, JD, ICD.D - President and Chief Legal Officer****Dr. Chandrakant Panchal - Chairman**

Dr. Panchal has been the Chief Executive Officer of Axcelon Biopolymers Corp. since 2008, has authored over seventy scientific papers, holds several patents in oncology, diagnostics, biopolymers and microbiology and is an Adjunct Professor in Chemical and Biochemical Engineering at the University of Western Ontario. Dr. Panchal currently sits on the board of directors of both an oncology company known as Medicenna Therapeutics Corp. (MDNA), and Canadian Oil Recovery and Remediation Inc. (CVR) as well as Pure Global Cannabis Inc. (PURE). Dr. Panchal holds a Master of Science degree in Molecular Biology and a Ph.D. in Biochemical Engineering from the University of Western Ontario.

David Allan White - Director

Mr. White is a director and chair of audit committees of several Toronto Stock Exchange ("TSX") and NASDAQ companies. Mr. White has held several senior financial positions with John Labatt Limited, Lawson Marden Group Inc. and Laidlaw Inc. and most recently as Chief Executive Officer of TransCare Inc., a medical transportation company and as President and Chief Executive Officer of Student Transportation of America, a TSX listed company. In addition to sitting on Avicanna's Board of Directors and chairing the Corporation's audit committee, Mr. White has also been a corporate director and business consultant for FirstCall Services, a private holding company and advisory firm, since 2012. Mr. White has been a Canadian Chartered Accountant since 1978 and holds a Master of Business Administration degree from the University of Toronto.

Benjamin Leavenworth - Director

Mr. Leavenworth has more than 20 years' experience in international business, with a focus on Latin America. Mr. Leavenworth is currently the Chief Strategy Officer of Afina International LLC ("Afina"), a specialist advisory and finance firm, and also serves as Honorary Consul of Chile for Pennsylvania, Delaware, and southern New Jersey. Prior to co-founding Afina in 2011, Mr. Leavenworth founded and ran the Chispa Group, an international consultancy with a focus on mining, energy, agriculture, and government projects across Latin America. He also serves as president of the board of Pata Foods, a leading organic baby food producer, and as a director on the boards of the Chilean & American Chamber of Commerce, Global Independence Center, Pan America Associations, and the Consular Corps Association of Philadelphia.

Giancarlo Davila Char - Director




Mr. Char has experience with sustainable and organic cultivation and production of industrial scale palm oil as well as other agriculture crops such as avocados and coffee beans. In 2017, Mr. Char went on to lead a new branch of his family's business which is dedicated to producing private label oils for national distribution in supermarkets across Colombia. This business unit reached USD\$30,000,000 in sales in 2018. Mr. Char holds a Bachelor of Science in Business Administration from Northeastern University.

Janet Giesselman - Director

A Corporate Director at: Ag Growth International Inc. Omnova Solutions Inc. Twin Disc, Incorporated and at McCain Foods Limited, where she serves as Chair of the Environmental Health & Safety Committee as well as on the Audit and the Compensation and Management committees. Ms. Giesselman retired as the President and General Manager of Dow Oil & Gas, a business unit of The Dow Chemical Company, and has over 30 years of U.S. and international agriculture, energy and specialty and commodity chemicals industry experience in U.S., Europe, Latin America, the Middle East and Asia. Ms. Giesselman holds a B.Sc., Biology from Pennsylvania State University and a Masters in Plant Pathology from the University of Florida.

APPENDIX II: PURA PRODUCT CLINICAL STUDIES

Completed Cosmetic Clinical Studies*

 <p>Intensive Moisturizing Cream</p> <p>Overview</p> <ul style="list-style-type: none"> Study Design: 1 arm, n=51 <p>End Points</p> <ul style="list-style-type: none"> Primary endpoint: Hydrating effect Secondary endpoints: Viscoelasticity, skin softness, erythema, TEWL, tolerability/acceptability <p>Results:</p> <p>IMMEDIATELY 74% of subjects tested were found to have increased skin elasticity.</p> <p>AFTER 3 HOURS 86% of subjects tested were found to have significantly increased hydration. 86% of subjects tested were found to have significantly decreased skin redness.</p> <p>AFTER 4 WEEKS 97% of participants tested liked the long-lasting moisturizing feel of the cream.</p>	 <p>Clear Skin Gel</p> <p>Overview</p> <ul style="list-style-type: none"> Study Design: 1 arm, n=54 <p>End Points</p> <ul style="list-style-type: none"> Primary endpoint: Hydrating effect Secondary endpoints: Sebum production, sensory evaluation (oily skin feeling), lesions evaluation (acne), tolerability/acceptability, QoL <p>Results:</p> <p>IMMEDIATELY 90% of the participants tested found that the product was not too greasy. 85% of participants tested felt that the product absorbed well.</p> <p>AFTER 2 WEEKS 93% of subjects* tested had improvements in the oiliness of their skin.</p> <p>AFTER 4 WEEKS 88% of subjects tested had significant improvements in their skin's appearance.</p>	 <p>Anti-Aging Serum</p> <p>Overview</p> <ul style="list-style-type: none"> Study Design: 1 arm, n=51 <p>End Points</p> <ul style="list-style-type: none"> Primary endpoint: Evaluation (visual) in the improvement of fine lines & dark spots associated with aging Secondary endpoints: Viscoelasticity, hydrating effect, TEWL, tolerability/acceptability & satisfaction <p>Results:</p> <p>IMMEDIATELY 86% of individuals felt that the product was absorbed well into their skin.</p> <p>AFTER 1 HOUR 70 % of subjects were found to have significantly increased skin elasticity.</p> <p>AFTER 3 HOURS 85% of subjects were found to have increased hydration.</p> <p>AFTER 4 WEEKS 96% of individuals liked the long-lasting moisturizing feel of the cream</p>
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*Study reference available on clinicaltrials.gov

Source: Avicanna Inc.

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Buy: Recommendation: stock is expected to appreciate from its current price beyond 20% in the next 12 months.

Neutral: Recommendation: stock is expected to trade in a narrow range from its current price level in the next 12 months.

Sell: Recommendation: stock is expected to decline from its current price level below 20% in the next 12 months.

U/R: Under Review.

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