

Chalice Brands Ltd.

(CSE: CHAL / OTCQB: GLDFF)

Increasing Revenue by 50% Through an Accretive Acquisition – Initiating Coverage

BUY

Current Price: C\$1.45

Fair Value: C\$2.46

Risk*: 4

Sector/Industry: Cannabis

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Highlights

- Chalice Brands Ltd. (previously known as Golden Leaf Holdings Ltd.) is a U.S. cannabis company operational since 2014, with retail stores, production, and grow facilities in Oregon. In 2019, the company had a **management overhaul**, with the appointment of its current CEO, and a new Executive Chairman, who collectively, bring experience from companies like Microsoft (NASDAQ: MSFT), Kraft Foods (NASDAQ: KHC), Dell (NYSE: DELL), Merrill Lynch, and PepsiCo (NASDAQ: PEP). The new management team is comprised of multiple personnel from **Fortune 25 companies**.
- CHAL's operations include **vertically integrated retail, production, processing, wholesale, and distribution of cannabis products** for both medical and recreational consumers. In addition to Oregon, its brands are also sold in California.
- In Oregon, CHAL has **seven retail stores, accounting for 90% of 2020 revenue**. The company recently announced it acquired a five-store retail chain, "Homegrown Oregon" valued at US\$9.75M. Homegrown had \$2.7M in revenue, and \$364K in adjusted EBITDA for the quarter ended March 31, 2021, per management. **The implied EV/R of the transaction is 0.9x vs the peer group average of 4x.**
- CHAL's 2020 revenue was \$22M, up 39% YoY through organic growth. Q4-2020 was the first quarter with positive EBITDA. In Q1-2021, revenue increased 18% YoY to \$5.5M. **EBITDA was positive in Q1-2021 as well.** In 2021, CHAL raised C\$13.7M through private placements.
- In 2020, the Oregon and California markets recorded cannabis sales of \$1.1B and \$4.4B, respectively, up 38% and 57% YoY. **U.S. based cannabis stocks are currently trading at a discount over their Canadian peers.** We expect this trend to change with federal legalization in the U.S., and anticipate CHAL to directly benefit.
- We are expecting record revenue for CHAL in 2021. **Management is targeting to capture 5% of the Oregon retail cannabis market, which we believe, is a feasible target.**

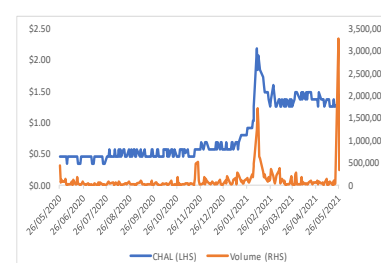
Risks

- The company operates in a **highly regulated industry** subject to government intervention.
- There is no guarantee that the industry will be federally legalized.
- No guarantee that the company will be able to stay competitive in the markets it operates in or plans to operate in.
- Product recall risk (per regulatory requirements).

Sid Rajeev, B.Tech, CFA, MBA
Head of Research

Iftekhar Mahmud, MBA, MSc
Analyst

CHAL Price and Volume (1-year)



	YTD	12M
CHAL	152%	215%
CSE	12%	106%

Company Data

52-Week Range	C\$0.35 - C\$2.53
Shares O/S	59,081,260
Market Cap.	C\$85.67M
Current Yield	N/A
P/E (forward)	N/A
P/B	6.69x

Key Financial Data (US\$)	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
YE Dec 31									
Cash	\$ 600,078	\$ 263,695	\$ 3,940,463	\$ 6,009,447	\$ 12,275,372	\$ 3,531,202	\$ 905,149	\$ 7,938,008	\$ 14,208,953
Working Capital	\$ 1,637,404	\$ (19,392)	\$ (6,815,505)	\$ 8,249,199	\$ 7,694,057	\$ 4,370,095	\$ (5,301,124)	\$ 8,395,773	\$ 14,676,292
Total Assets	\$ 2,857,018	\$ 9,178,241	\$ 24,841,792	\$ 75,049,808	\$ 73,477,025	\$ 31,640,528	\$ 28,018,011	\$ 51,306,096	\$ 58,054,287
Total Debt	\$ 90,949	\$ 3,825,304	\$ 25,546,632	\$ 31,233,377	\$ 14,269,596	\$ 4,818,497	\$ 5,851,652	\$ 5,582,274	\$ 5,582,274
Revenue	\$ 1,310,155	\$ 9,925,137	\$ 7,661,488	\$ 11,511,298	\$ 16,452,327	\$ 15,754,607	\$ 21,909,156	\$ 33,860,000	\$ 47,535,510
Net Income	\$ (3,202,053)	\$ (17,455,695)	\$ (21,329,817)	\$ (56,482,682)	\$ (4,570,342)	\$ (32,616,535)	\$ (10,028,810)	\$ (3,238,478)	\$ 4,843,083
EPS (basic)	\$ (0.14)	\$ (0.31)	\$ (0.23)	\$ (0.22)	\$ (0.01)	\$ (0.05)	\$ (0.01)	\$ (0.05)	\$ 0.08

*See last page for important disclosures, rating, and risk definitions. All figures in US\$ unless otherwise specified.

Company Overview

Chalice is a U.S. multi-state-operator (MSO) cannabis company that was formed in April 2014, and started operations in July 2014. CHAL's operations include vertically integrated retail, production, processing, wholesale, and distribution of cannabis products for both medical and recreational consumers. The company's main operational focus is Oregon (contributes 92% of current revenue), with additional sales in California.

*Operational since
2014 – management
change in 2019*

In 2019, the company had a management overhaul, with the appointment of its current CEO and a new Executive Chairman. According to management, the current leadership team is comprised of multiple personnel with a background in Fortune 25 companies, and leading cannabis operators.

Company's Short-term Objectives



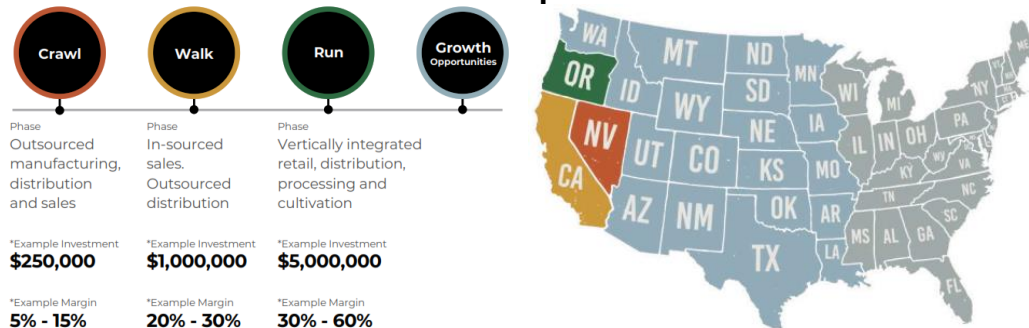
Source: Company

Strategic Focus

The company currently aims to serve the U.S. west coast market. Management follows a three-phase expansion process for entering new markets. Expansion is planned with outsourcing first, and then gradually building up its own operational setup.

Management is focused on expansion across the west coast

Planned Expansion






Source: Company

Marketing Approach

CHAL's flagship brand is the retail chain CHALICE FARMS (that accounts for 90% of its revenue). It has four primary brands focused on different market niches:

Brands are sold in its own retail stores in Oregon, and third-party stores in California

Brands	Attributes
 CHALICE FARMS	<p>Retail store brand with seven stores, and grow operations in Oregon. The brand is focused on entry-level consumers. It is a functional and flavor driven line of products that includes edibles, vapes, topicals, and beverages.</p>
PRIVATE STASH	<p>Targeting the recreational market with a focus on active users. Product lines include: pre-rolls, vapes, edibles, tinctures, and concentrates.</p>
 ELYSIUM Fields <small>LIVE RESIN • CRAFTED PORTLAND, OR</small>	<p>Premium/high-purity products.</p>
	<p>Targeting the Health and Wellness market. Full spectrum product-line including edibles, topicals, vape products, and concentrates.</p>

Source: Company Website

Sample Product Review of Chalice

Green Apple Fruit Chews 10 Pack (500mg CBD)

4.3 ★ (7 reviews)

Chalice Farms
Fruit Chews

DETAILS

500mg CBD*

*This % may represent an aggregate of THC/CBD, THCa/CBDa, THCb/CBDb within the product. Consumers should review the actual product label for exact % of THC/CBD.

DESCRIPTION

Customize your cannabis experience. Chalice Farms Fruit Chews are thoughtfully crafted with naturally better ingredients so you can choose your effect. Choose the soothing effect of CBD Green Apple, supported by premium ingredients Maca Root Powder for a zip of natural energy and Cordyceps for immune support. Made with real fruit puree, this highly delicious edible is also vegan, gluten free, soy free, and nut free.



Source: Company Website

Retail Stores and Ratings

The company invests in training and education of all of its retail employees to drive a unique shopping and highly rated shopping experience. According to management, the stores do weekly price reviews of all of its direct competitors to ensure that its pricing remains competitive.

We did not find a lot of product reviews, but the ones with reviews had good customer feedback; product pricing is inline with market rates

We found that all seven Chalice stores have very good customer ratings (4.5 to 4.8 out of 5)

All five Homegrown Oregon stores also have very good ratings (4.6 to 4.7 out of 5)

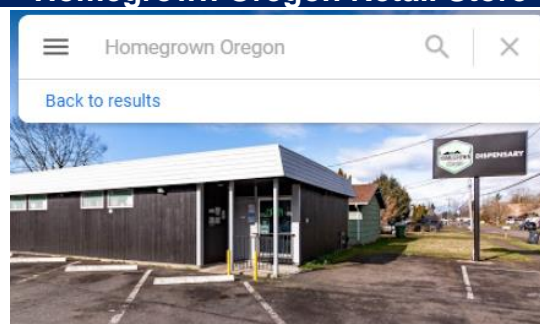
Chalice Farms Retail Store



Chalice Farms Recreational Marijuana Dispensary - Tigard

4.6 ★★★★★ 598 reviews
Cannabis store

Homegrown Oregon Retail Store



Homegrown Oregon

4.7 ★★★★★ 321 reviews
Cannabis store

Source: Google Maps

Vertical Integration

As discussed above, CHAL's primary revenue driver is its 12 retail stores in Oregon. To obtain better margins by capturing more of the value chain through vertical integration, the company started its own grow and production operations in 2020. The following provides a brief overview of CHAL's production assets:

Bald Peak, Oregon - The Primary Grow Operations



Production Assets and Capacity	<ul style="list-style-type: none"> 10,000 sq. ft light deprivation greenhouse facility, with annual production capacity of 2,800 lbs (currently operating at 50% of capacity) First harvest was produced in 2020 (size undisclosed) Extraction facility with capabilities to produce at least 1,200 kg of live resin annually White-label manufacturing (25% of current production) 			
Status	Facilities are fully licensed and operational			
Products	Dried flower, distillate, live resin, concentrates, and edibles			
Distribution	Both own and third-party distribution			
Future Plans (Capex)	No near-term expansion plans			
Market	4.28M population	~\$1.1B in sales in 2020	Maturing Market	Fully Legalized

Source: Company filings, Management, FRC

U.S. cannabis companies are trading at a significant discount

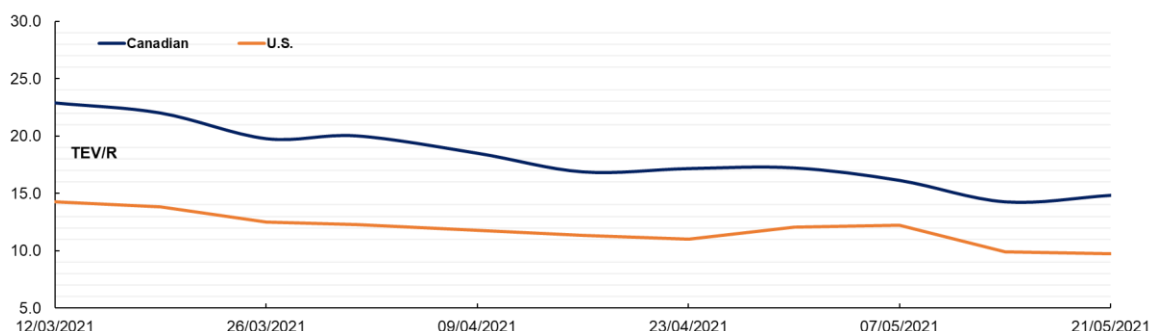
Companies like CHAL will directly benefit from a potential bump in valuation of U.S. companies, amid growing optimism on federal legalization

Oregon and California to have 21% of the U.S. cannabis industry in 2025

Market

In March 2021, New York became the 17th state in the U.S. to legalize recreational cannabis. According to New York Times, the current New York market size is estimated to be US\$4.6B, and projected to reach US\$5.8B by 2027. We note that this adds significant momentum to U.S. federal legalization optimism.

Canadian Vs U.S. EV/R Over the Past Three Months



Implied Trading Premium based on EV/R on May 25, 2021

U.S. Big Four
CURLF, TCNNF, GTBIF, CRLBF

AVERAGE	9.7
MEDIAN	8.8

Canadian Big Four
WEED, APHA, TLRY, CRON

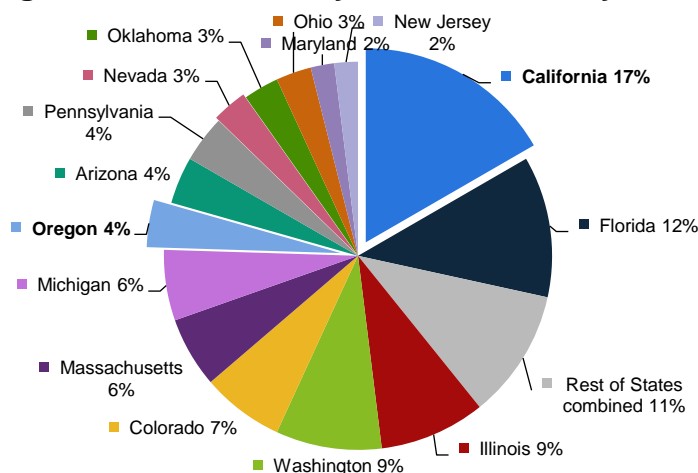
Average	23.8
Median	19.6

Implied Premium Over U.S. Big Four (Median) **122%**

Source: FRC / Various

The U.S. cannabis market is projected to reach \$35B-\$52B by 2025, up from \$17.5B. **Oregon and California are expected to have 21% of the U.S. legal cannabis industry by 2025.**

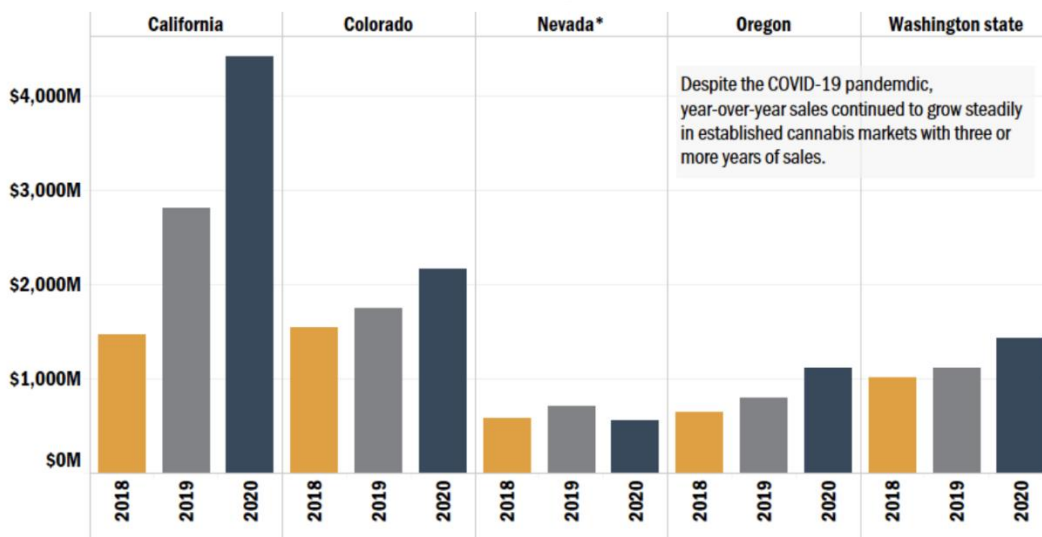
U.S. Legal Cannabis Industry: Market Share by State (2025)



Source: Statista, New Frontier Data, FRC

Sales grew despite the pandemic in three out of four key markets; the outlier was Nevada, where a large portion of the market consists of tourists

Annual Cannabis Sales in Key Markets: 2018-2020



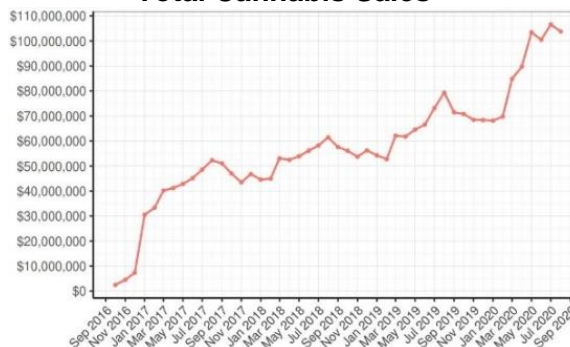
Source: Marijuana Business Daily

Oregon Market

In 2020, Oregon cannabis sales reached \$1.1B, increasing 38% YoY. From May 2020 onwards, monthly sales have been more than \$100M, which is unprecedented.

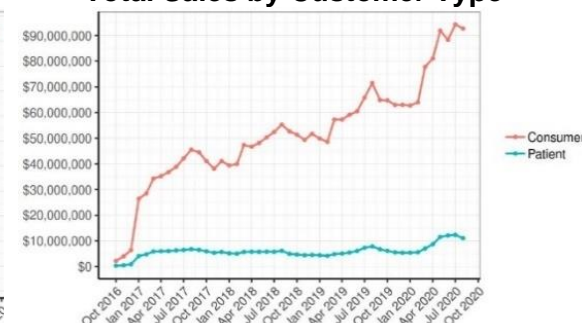
Oregon - unprecedented sales growth in 2020

Total Cannabis Sales



Source: OLCC

Total Sales by Customer Type



Source: OLCC

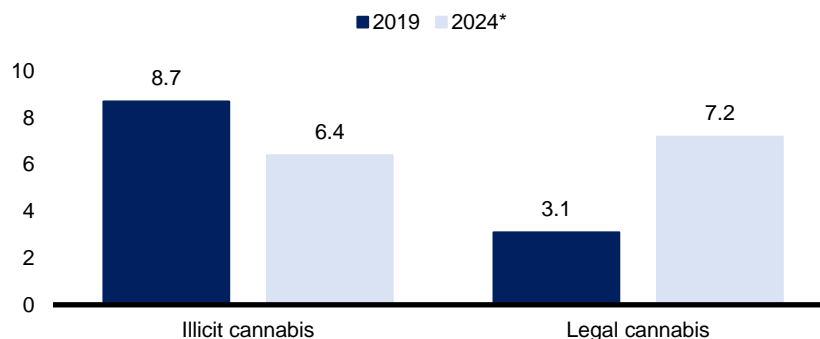
Dried cannabis flower (“usable MJ”) comprised approximately 60% of total cannabis sales (by dollars) in 2020. CHAL, with its vertically integrated grow facility and retail operations, is targeting to be a leading player in the Oregon market.

California Market

According to Forbes, California retail stores sold US\$4.4B worth of cannabis products (up 57% YoY), representing 27% of sales in the U.S. **California continues to be the largest market for cannabis**, not only in U.S., but the entire world.

California is the largest market in the world, with US\$4.4B in 2020 sales

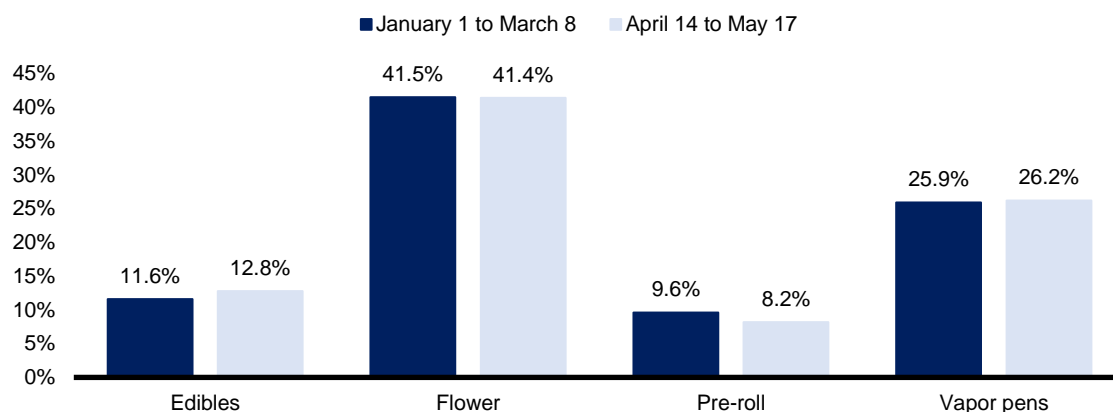
Legal vs Illicit cannabis sales in California, U.S. 2019-2024 (US\$B)



*Statista projection

Source: Statista, FRC

California cannabis retail sales share in 2020, by product type



Source: Statista, FRC

Management and Board

Four out of six board members are independent. Management and directors hold 4.55M common shares, or 7.71% of the shares outstanding.

Name	Position(s)	# Shares Outstanding	% of Total
Bob McKnight	Director	22,261	0.04%
Rick Miller	Director	1,387,238	2.35%
John Varghese	Director & Executive Chair	1,471,679	2.49%
Scott Secord	Director	16,724	0.03%
Larry Martin	Director	-	0.00%
Andrew Marchington	CFO	65,217	0.11%
Jeff Yapp	Director & CEO	1,589,743	2.69%
Total Directors and Management's Holdings		4,552,863	7.71%
Total Shares Outstanding		59,081,260	100%

Source: Company Filings, FRC

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

Flowers dominate California's cannabis sales; CHAL's product mix is 60% flower/40% others

Board and management hold 7.71% of outstanding shares

John Varghese – Executive Chairman

Mr. Varghese is the Executive Chairman of the Corporation and President and CEO of a private InsurTech that operates globally. Mr. Varghese's professional experience ranges from private equity, venture capital and investment banking to senior management and board of director roles in various industries in both public (TSX, CSE and NASDAQ) and private companies. Mr. Varghese has extensive background in mergers and acquisition, investing, operations and the capital markets. Having held CEO, COO, SVP and CFO positions, his career has included senior management roles within multi-national corporations including CI Financial Corp., Royal Bank Capital Corporation, Merrill Lynch Canada, Dell Computer Corporation and Jim Pattison Industries Ltd. He has served on over 20 boards, acting as Chairman on 9 of those, as well as chairing multiple compensation committees and participating on numerous audit committees.

Jeff Yapp – CEO/President

Mr. Yapp is an accomplished corporate executive and entrepreneur who has built a successful career on his unique vision to see opportunity where it is not obvious. His strength lies not only in his highly innovative ideas, but also in his ability to get things done regardless of obstacles. With an extensive retail, entertainment, and marketing background, he has been committed to bringing innovation and growth to the corporate environment including Microsoft, Kraft Foods, PepsiCo, Newscorp/20th Century Fox, and Viacom/MTV. He has applied his strategic marketing and consulting skills with various clients, including Microsoft, Vice Media, XBOX, and Windows. As Strategic Partner to Microsoft, Jeff is an integral driver of growth for Microsoft's online and retail operations, its fastest growing division. Jeff graduated with honors from the University of Michigan in Business Administration and with honors from JL Kellogg School of Management at Northwestern University.

Andrew Marchington — CFO

Andrew began his career in public accounting and has experience in start-ups, high-growth, and enterprise level organizations including five years of experience in the cannabis industry. Andrew has built a rich understanding of priorities and best practices in accounting, finance, and management, and prides himself on building high performing, sustainable teams that meet big goals while maintaining balance in their lives. His career has included companies such as Deloitte, Moss Adams, Cambia Health Solutions, and C21 Investments. As Chief Financial Officer, Andrew will provide leadership to the finance and accounting team overseeing the company's past and present financial situation as well as its capital structure and short and long term strategic financial objectives.

Financials

STATEMENT OF OPERATIONS (US\$)

Summary of Cash Flows						Q1-2020	Q1-2021
	2016	2017	2018	2019	2020		
Revenue	\$7,661,488	\$11,511,298	\$16,452,327	\$15,754,607	\$21,909,156	\$4,670,304	\$5,495,455
Gross Profit (before FV adjustments)	-\$210,252	\$1,510,038	\$2,117,662	\$4,296,753	\$7,014,082	\$1,706,112	\$2,314,530
SG&A Expense	\$8,755,797	\$9,805,382	\$16,597,186	\$13,274,892	\$10,693,916	\$2,580,300	\$2,450,140
EBITDA	-\$9,716,418	-\$9,337,014	-\$19,022,368	-\$9,972,339	-\$4,573,873	-\$983,053	-\$38,568
Net Profit (Loss)	-\$21,329,817	-\$56,482,682	-\$4,570,342	-\$32,616,535	-\$10,028,810	-\$2,440,166	-\$4,322,334
EPS	-\$0.23	-\$0.22	-\$0.01	-\$0.05	-\$0.01	\$0.00	\$0.00

Margins						Q1-2020	Q1-2021
	2016	2017	2018	2019	2020		
Gross (before FV adjustments)	-3%	13%	13%	27%	32%	37%	42%
SG&A	114%	85%	101%	84%	49%	55%	45%
EBITDA	-127%	-81%	-116%	-63%	-21%	-21%	-1%
EBIT	-130%	-86%	-127%	-78%	-25%	-33%	-5%
Net	-278%	-491%	-28%	-207%	-46%	-52%	-79%

Summary of Cash Flows						Q1-2020	Q1-2021
	2016	2017	2018	2019	2020		
Operating	-\$9,092,891	-\$15,553,514	-\$16,909,551	-\$8,021,172	-\$1,456,771	-\$1,685,635	-\$271,139
Investing	-\$1,994,208	-\$20,974,311	-\$1,822,955	\$293,815	-\$168,750	-\$66,364	-\$131,824
Financing	\$14,763,867	\$38,596,809	\$24,998,431	-\$1,016,813	-\$1,000,532	-\$236,101	\$9,973,208
Net	\$3,676,768	\$2,068,984	\$6,265,925	-\$8,744,170	-\$2,626,053	-\$1,988,100	\$9,570,245
Free Cash Flows to Firm (FCF)	-\$11,087,099	-\$36,527,825	-\$18,732,506	-\$7,727,357	-\$1,625,521	-\$1,751,999	-\$402,963

Liquidity & Capital Structure						Q1-2021
	2016	2017	2018	2019	2020	
Cash	\$3,940,463	\$6,009,447	\$12,275,372	\$3,531,202	\$905,149	\$10,475,394
Working Capital	-\$6,815,505	\$8,249,199	\$7,694,057	\$4,370,095	-\$5,301,124	\$9,905,835
Current Ratio	0.56	3.44	1.62	2.43	0.53	2.57
LT Debt	\$12,241,905	\$30,830,522	\$5,355,158	\$4,736,093	\$134,675	\$2,859,396
Total Debt	\$25,546,632	\$31,233,377	\$14,269,596	\$4,818,497	\$5,851,652	\$2,925,999
LT Debt / Capital	-416.97%	177.84%	11.49%	44.68%	2.46%	22.34%
Total Debt / Capital	-870.15%	180.17%	30.63%	45.45%	106.93%	22.86%

Source: Company Filings, FRC

Stock Options and Warrants

At the end of Q1-2021, we estimate the company had **4.76M options (weighted average price C\$5.29)**, and **9.86M warrants (weighted average price undisclosed)** outstanding.

FRC Projections

Assumptions:

1. Homegrown acquisition starts contributing to revenue in H2-2021.
2. Retail stores remain the primary revenue driver.
3. As management did not disclose any guidance for store acquisitions, we assume no new store acquisitions for conservatism.

	2021E	2022E	2023E	2024E	2025E
Total Revenue	\$33,860,000	\$47,535,510	\$53,191,406	\$59,059,089	\$65,007,051
Total COGS	\$19,801,500	\$27,815,354	\$31,150,515	\$34,594,692	\$38,059,433
Gross Profit	\$14,058,500	\$19,720,157	\$22,040,892	\$24,464,398	\$26,947,618
Gross Margin	42%	41%	41%	41%	41%

Source: FRC

Valuation

Fair value estimate
of C\$2.46

DCF Model	Q2-Q4 2021E	2022E	2025E	Terminal
EBIT(1-tax)	1,239,800	4,843,083	5,788,663	
Non-Cash Expenses	(2,220,549)	1,937,435	1,849,227	
Change in Working Capital	(1,015,355)	(9,573)	(5,202)	
Cash from Operations	(1,996,104)	6,770,946	7,632,688	
CAPEX	(500,000)	(500,000)	(500,000)	
Free Cash Flow	(2,496,104)	6,270,946	7,132,688	
Present Value	(2,342,952)	5,280,710	4,336,987	52,766,634
Discount Rate	11.5%			
Terminal Growth	3%			
Present Value	71,187,483			
Cash - Debt	7,549,395			
Fair Value	78,736,878			
Shares O/S	62,064,245			
DCF Value per Share (C\$)	\$1.54			
Median EV/R of the peer group	4.90x			
EV/R implied Value per Share (C\$)	\$3.38			
Fair Value per Share (C\$)	\$2.46			

Source: FRC

Comparables

CHAL's forward
EV/R is 1.9x vs the
peer group average
of 3.9x

Company	Ticker	Focus	Market Cap	EV	Revenue	EV/R
C21 Investments Inc.	CXXI	Extracts, Flower, and Retail	\$173.83M	\$170.29M	\$36.49M	4.7x
SLANG Worldwide Inc.	SLANG	Extracts and Flower	\$93.90M	\$103.36M	\$23.08M	4.5x
Flower One Holdings Inc.	FONE	Flower cultivation	\$70.21M	\$170.01M	\$30.39M	5.6x
Halo Collective Inc.	HALO	Extracts, Flower, and Retail	\$151.82M	\$274.89M	\$27.13M	10.1x
Fiore Cannabis Ltd.	FIOR	Extracts, Flower, and Retail	\$15.45M	\$24.72M	\$2.13M	11.6x
Grown Rogue International Inc.	GRIN	Flower cultivation	\$17.71M	\$21.48M	\$4.18M	5.1x
Plus Products Inc.	PLUS	Edibles and Topicals	\$22.82M	\$30.53M	\$15.86M	1.9x
Chalice Brands*	CHAL	Extracts, Flower, and Retail	\$85.67M	\$76.53M	\$40.97M	1.9x

*2021 Revenue Estimate Applied (USD to CAD = 1.21)

Mean*	\$78.93M	\$108.98M	\$22.53M	3.9x
Median	\$77.94M	\$89.95M	\$25.11M	4.9x

*Adjusting for outliers

Source: FRC

We are initiating coverage with a BUY rating, and a fair value estimate of C\$2.46. New management has demonstrated their ability by significantly growing the company's revenue and margins in 2020. Another testimonial for the team is that all of their stores have very good customer ratings. We are expecting record revenue in 2021, driven by organic growth and the recent acquisition. We are also expecting a bump in valuations of U.S. cannabis players as the sector moves closer to federal legalization.

Risks

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

- The company operates in a highly regulated industry subject to government intervention.
- There is no guarantee that the industry will be federally legalized.

Risk rating of 4

- No guarantee that the company will be able to stay competitive in the markets it operates in or plans to operate in.
- Product recall risk (per regulatory requirements).

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

Appendix

STATEMENTS OF OPERATIONS (\$) YE Dec 31	2020	2021E	2022E
Revenue	21,909,156	33,860,000	47,535,510
Total Revenues	21,909,156	33,860,000	47,535,510
COGS	14,895,074	19,801,500	27,815,354
Gross Profit (before FV adjustments)	7,014,082	14,058,500	19,720,157
FV adjustments of biological assets	256,370		
Gross Profit	6,757,712	14,058,500	19,720,157
SG&A	10,693,916	11,763,308	12,939,638
Share-based compensation	637,669	669,552	703,030
EBITDA	(4,573,873)	1,625,640	6,077,488
D&A	1,011,315	649,339	1,234,405
EBIT	(5,585,188)	976,301	4,843,083
Net financing expense	2,282,335	585,165	-
EBT	(7,867,523)	391,136	4,843,083
Income tax expense	955,599	275,000	
Unusual/Non-recurring expense	1,205,688	3,354,614	
Net Income (Net Loss)	(10,028,810)	(3,238,478)	4,843,083
Other comprehensive items			
Comprehensive Income (Comprehensive Loss)	(10,028,810)	(3,238,478)	4,843,083
EPS	(0.01)	(0.05)	0.08
Shares	873,783,951	59,081,260	59,081,260

BALANCE SHEET (\$)	2020	2021E	2022E
YE Dec 31			
Assets			
Cash	905,149	7,938,008	14,208,953
Receivables	108,308	338,600	475,355
Other receivables	1,656,673	2,268,932	2,268,932
Tax recoverable	89,033	47,564	47,564
Biological assets	455,045	511,277	511,277
Inventory	2,304,501	1,980,150	2,781,535
Assets held for sale			
Prepays and other current assets	555,597	677,200	950,710
Current Assets	6,074,306	13,761,730	21,244,327
PP&E and ROU assets	6,493,392	12,344,053	11,609,648
Other receivables	656,718	656,718	656,718
Financing lease receivable			
Goodwill	4,056,172	4,056,172	4,056,172
Intangible assets	10,737,423	20,487,423	20,487,423
Total Assets	28,018,011	51,306,096	58,054,287
Liabilities & Shareholders' Equity			
Payables and accrued liabilities	3,404,425	2,970,225	4,172,303
Interest payable	28,100	28,100	28,100
Taxes payable	1,276,432	1,276,432	1,276,432
Subscriptions payable			
Current portion of long-term debt	22,171	22,171	22,171
Current portion of convertible debentures	5,575,273		-
Warrant liability			
Derivative liability			
Notes payable	119,533	119,533	119,533
Lease liability	949,496	949,496	949,496
Convertible notes payable			
Current Liabilities	11,375,430	5,365,957	6,568,035
Convertible note payable			
Long term debt	134,675	2,634,675	2,634,675
Long-term lease liability	4,372,395	4,372,395	4,372,395
Convertible debentures		2,805,895	2,805,895
Consideration payable	6,663,313	6,663,313	6,663,313
Warrant liability		5,154,149	5,154,149
Total Liabilities	22,545,813	26,996,384	28,198,462
Equity	156,156,052	176,977,327	176,977,327
Deficit and AOCI	(150,683,854)	(152,667,615)	(147,121,502)
Non-controlling interest			
Total Liabilities and Shareholder's Equity	28,018,011	51,306,096	58,054,287

STATEMENTS OF CASH FLOWS (\$)	2020	2021E	2022E
YE Dec 31			
Operating Activities			
Net loss for the period	(10,028,810)	(3,238,478)	4,843,083
Items not involving cash			
Depreciation of property, plant and equipment	1,251,262	649,339	1,234,405
Amortization of intangible assets	766,542		
Loss on disposal of assets and discontinued op.	293,171		
Interest expense	2,282,335	585,165	-
Bad debt expense	84,864		
Share based compensation	637,669	669,552	703,030
Fair value adjustment to debt	922,137		
Transaction cost	61,164		
Gain on fair value of biological assets	256,370		
Other non-cash transactions and reserves	62,596		
FFO	(3,410,700)	(1,334,422)	6,780,518
Accounts receivable	(25,994)	(230,292)	(136,755)
Other receivables	(737,185)	(612,259)	-
Sales / Income tax payable / recoverable	1,096,927	41,469	-
Accounts payable and accrued liabilities	1,812,982	(434,200)	1,202,078
Biological assets	(623,337)	(56,232)	-
Inventory	660,803	324,351	(801,385)
Prepaid expenses and deposits	(230,267)	(121,603)	(273,510)
Changes in WC	1,953,929	(1,088,766)	(9,573)
Cash from (used in) Operations	(1,456,771)	(2,423,187)	6,770,946
Investing activities			
PP&E	(168,750)	(500,000)	(500,000)
Purchase of assets and payments		(6,000,000)	
Intangible assets		(250,000)	
Cash used in Investing Activities	(168,750)	(6,750,000)	(500,000)
Financing activities			
Equity		13,821,275	
Debt	(236,464)	(2,769,378)	-
Lease liabilities	(764,068)		
Warrant liabilities		5,154,149	-
Cash provided by Financing Activities	(1,000,532)	16,206,046	-
Increase (decrease) in Cash	(2,626,053)	7,032,859	6,270,946
Cash beginning of Period	3,531,202	905,149	7,938,008
Cash end of Period	905,149	7,938,008	14,208,953

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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