ALIGN
RESEARCH

EXMceuticals Inc.

27th April 2020

Singular focus on refining operations presents opportunity for high margins and significant value creation

EXMceuticals (EXM) is a producer of highly refined cannabis ingredients for the pharmaceutical, medical, nutraceutical, and cosmetic industries. The company is poised to penetrate the lucrative pharmaceutical market for CBD and other regulated cannabinoids on a B2B basis in the next 12 months.

Strategy change to focus on Portugal

On 25th March 2020, EXM announced that, as a result of a strategic review carried out over previous months, its sole focus going forward will be on the further establishment and expansion of its Portuguese and European operations, in particular, its existing R&D operations and the planned industrial cannabis ingredients refinery near Lisbon. Development of the company's African agriculture operations has, as a result, now been halted.

Industrial scale refinery key to future growth

EXM has completed the detailed planning for the fit-out of an existing industrial facility, to create a pharmaceutical-grade factory, operating at scale, certified to EU-GMP standards. First production of cannabis derived medical ingredients, including CBD, is expected around seven months following the receipt of funding for the project, with an initial refining capacity of 4,500 kg a year of pure EU-GMP end-product. The detailed factory design includes the potential for a fourfold capacity rise. EXM estimates c.US$15 million is needed to complete the refinery to the required standard and operate it for one year.

CBD markets continue to grow and present huge opportunity

EXM has chosen Portugal as its base partly due to the highly favourable regulatory regime and location, from which it can serve both the European and North American markets. Analysts at Brightfield Group predict that the European CBD market (including e-cigarette fluids) will rise from €373 million in 2019 to €1.5 billion by 2023, with the global market expected to be worth €14.4 billion by 2025. Other analysts project far higher numbers. The global medical cannabis market size was US$16.5 billion in 2019 and is expected to reach a value of US$56.5 billion by 2025, exhibiting a CAGR of 22.8% during 2020-2025.

DCF analysis suggests huge value creation opportunity

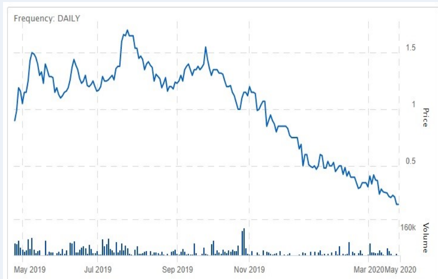
Our analysis shows that EXM's business model is potentially highly profitable, with net profit margins of 35% achievable once initial production levels are achieved. Assuming equity funds are raised (at the current share price of CAD$0.22) to fund the refinery we calculate a post-money price per share of CAD$0.958, representing upside of 336%. However, our per share valuation would be vastly improved should any funds be raised via debt, up to CAD$2.50 per share assuming 100% debt. We update coverage of EXMceuticals with a stance of **Conviction Buy.**

CONVICTION BUY
Price target – C$0.958

Key data

EPIC	EXM
Share price	C$0.22
52 week high/low	C$1.70/C$0.22
Listing	CSE
Shares in issue	39,230,186
Market Cap	C$8.63m
Sector	Cannabis

12 month share price chart



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Focus now on Portugal

EXMceuticals (EXM) is a CSE and Frankfurt listed company which is focused on the production of refined cannabis ingredients for the pharmaceutical, medical, nutraceutical and cosmetic industries. On 25th March 2020, EXM announced that, as a result of a strategic review carried out over previous months, its new sole focus will be on the further establishment and expansion of its Portuguese and European operations, in particular, its R&D operations and planned cannabis ingredients refinery near Lisbon.

As a consequence, development of the company's African agriculture assets will be halted, with operations at Prime Ranchers, EXM's majority-owned cultivation and extraction company in Uganda, impacted pending a review of financing and strategic alternatives. Comexaf, EXM's joint-venture in the DRC, has an annual renewal requirement in April 2020 which will not be pursued.

Licensed and fully staffed R&D facilities

Located in Lisbon, EXM currently operates an R&D laboratory which contains a state-of-the-art, pilot-scale refinery for the transformation of cannabis-based ingredients – primarily cannabinoids and terpenes. The facility is located inside TecLabs, a start-up incubator from Faculdade de Ciências, Universidade de Lisboa, and is staffed by experienced scientists including microbiologists, biochemists and geneticists.

Using its know-how, the facility is developing cannabis-based formulations for use in the nutraceutical, cosmetic and therapeutic industries and beginning to apply its research into creating real-life wellness products. Discussions are said to be underway with a leading Portuguese cosmetics company and prominent Portuguese food & beverage companies in relation to product development. EXM has also applied for funding for two research projects under the Portugal 2020 initiative, a development program with the European Commission, focusing on cannabis-based therapeutics and cannabinoids extraction-purification processes.

In October 2019, EXM obtained a licence from INFARMED, the Portuguese government agency responsible for public health, medicines and the oversight of the medical cannabis industry, for subsidiary EXMceuticals Portugal Lda to perform cannabis research, science and development work. The licence enables the company to import, research and refine cannabinoids and cannabis by-products in Europe for R&D purposes.

Further, on 31st January 2020, INFARMED issued authorisations to EXM enabling it to import a sample of dried cannabis flowers into Portugal for scientific purposes. Each subsequent, and incrementally larger, shipment will need to be approved on the basis of an additional application to INFARMED.

Lisbon research facility. Source Company

Industrial scale refinery key to new strategy

Building on the current operations, and core to the new strategy, EXM has now completed the planning for the build and fit-out of an industrial scale, pharmaceutical-grade facility in Setubal, just south of Lisbon. The facility, which has been secured and had design plans completed, will include extraction, purification and refinery operations, finished to EU-GMP (Good Manufacturing Practice) standards. GMP standards are the minimum requirements that a medicines manufacturer must meet in its production processes and compliance with these will be a key factor in securing clients for the company's output.

The 1,400 sqm facility will be able to process cannabis raw materials, including biomass, extracts and distillates, produced by compliant domestic or international suppliers, into higher value ingredients demanded by the pharmaceutical, medical, nutraceutical and cosmetic industries. These include the cannabinoid cannabidiol (CBD), the non-psychotropic drug that has increased in popularity over recent years as a health supplement, food additive and medicine. Protocols are being developed to produce CBD at a grade of over 99%, a level required by clients in the sectors mentioned above. The company will integrate its research and development competence into its planned refining and manufacturing unit and capabilities. A clear pathway to the commercial licensing of this facility exists once the fit-out is complete.

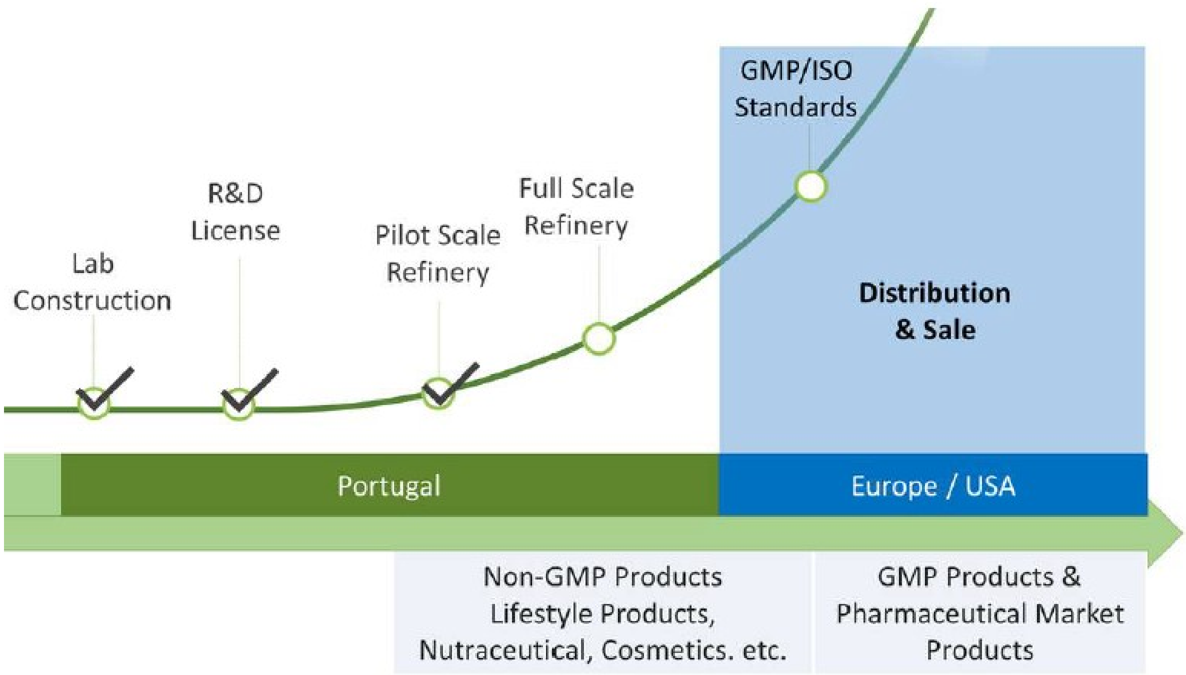
Future refinery site. Source: Company

All infrastructures and processes inside the facility will need to meet the strict regulatory requirements of INFARMED. Once commercially licensed, which is expected once the facility is complete, the facility will produce a range of medical ingredients from pure individual active pharmaceutical ingredients (APIs) to isolates and distillates to be sold on a B2B basis to clients worldwide. The filings required for the industrial and commercial licensing are expected to commence imminently.

Negotiations are said to be very well advanced for securing sources of cannabis supply for the refinery, with pricing and logistics being important factors for consideration along with the crucial quality and certification of producers. Of note, EXM has recently signed two MOU's with suppliers to ensure the refinery can be operated to capacity from inception and then scale further; one with one of the largest North American producers of EU-GMP extract and the second with a South American grower who will achieve EU-GMP certification before the facility is completed. EXM is also actively discussing similar arrangements with a number of the emerging Portuguese cultivation companies.

EXM's aim is produce reliable, consistent and standardised products, which meet the high quality standards demanded by pharmaceutical, nutraceutical and cosmetic companies and manufacturers worldwide. The facility will be used as a distribution base for the international legal cannabis ingredients market, with the licence required for the supply and export of cannabis ingredients across the EU and beyond. Only the medicinal and wellness cannabis markets will be served, in jurisdictions where it is legal and regulated, with no plans for the company to enter the recreational market.

In terms of funding, EXM estimates that it will require c.US$15 million to complete its plans for the refinery. Of this, c.US$12 million is required for capital expenditure on equipment and other items, with c.US$3 million needed for working capital for the first year of refinery operations. First production is expected around seven months following the receipt of funds, with an initial refining production of 4,500 kg a year. Pricing for these ingredients currently varies between 15 and 50 thousand euros per litre in Europe for API grade. Moreover, the existing factory design also includes the potential for a fourfold scale up in refining capacity – discussed in more detail in our forecasts section.



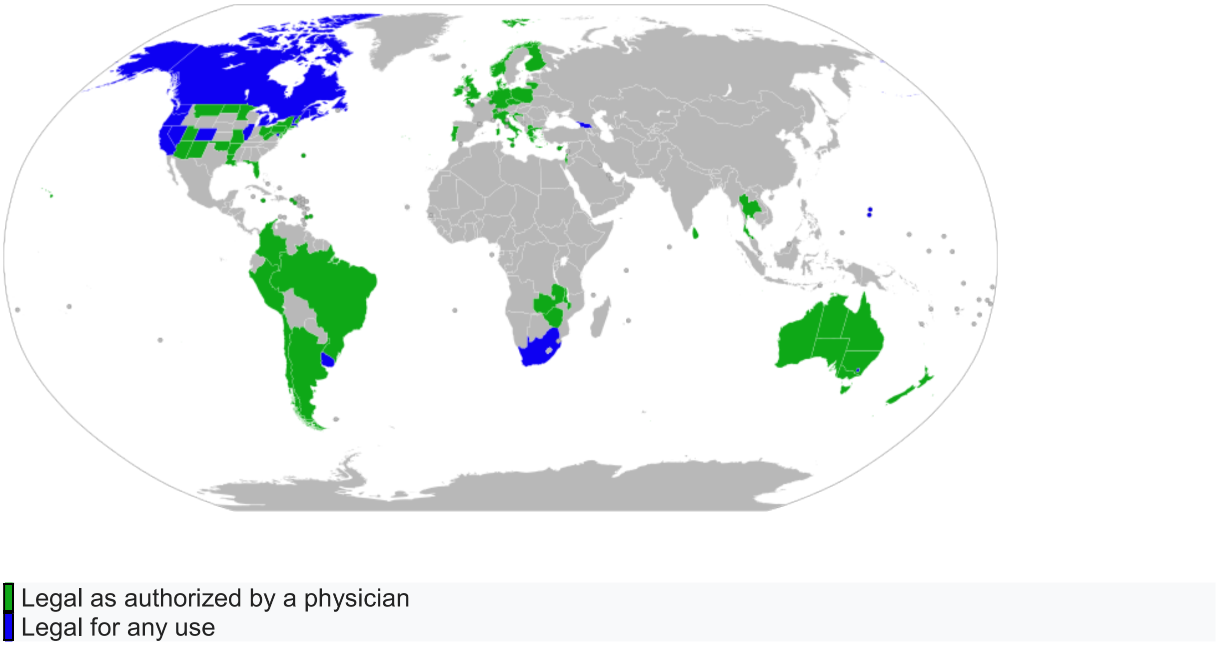
EXM strategy progression and plans. Source: Company

Cannabis and CBD Markets

As discussed at length in our initiation of coverage note, CBD is a non-psychotropic drug that has increased in popularity over recent years as a health supplement, food additive and medicine. Unlike fellow cannabinoid tetrahydrocannabinol (THC) it does not have any psychotropic effects. According to a 2017 report by the World Health Organisation, CBD can provide relief for a variety of debilitating conditions including Alzheimer's disease, Parkinson's, multiple sclerosis, cancer and diabetic complications, as well as general pain, anxiety and depression. CBD has been demonstrated as an effective treatment of epilepsy in several clinical trials, with the US Food & Drug Administration (FDA) notably approving GW Pharma's CBD containing Epidiolex in 2018.

Alongside regulated pharmaceutical products CBD is used in a wide range of consumer products including pills, oils, sprays, gummies, infused beverages, creams and other supplements which are generally marketed as food supplements or cosmetic products. These are high value retail products, with CBD oil for example, at a strength of 10mg/ml, commanding values typically around US$30 - $50.

In terms of legality, the global trend remains firmly towards the liberalisation of cannabis markets, both recreational and medicinal. Over 40 countries worldwide now permit the production and possession of medicinal cannabis including in Europe: Germany, Greece, Italy, Lithuania, Luxembourg, North Macedonia, the Netherlands, Norway, Portugal, Poland, Switzerland and the UK, with medical marijuana broadly legal in 33 US states (see map below). While global CBD regulations are generally less strict than those surrounding THC, CBD is still a highly regulated substance and in many countries is illegal unless it comes from a licensed producer. However, CBD sold as a food supplement is less strictly regulated than as a pharmaceutical ingredient. Even here the clear and general trend is for greater purity, certification and higher standards needing to be evidenced across the entire CBD and cannabis supply chain. The Centre for Medical Cannabis in the UK estimates that approximately 80% of the CBD products currently on the market will not be allowed under the emerging rules regarding food safety and standards. EXM will produce cannabinoids that meet the highest regulatory requirements.



Map of current world medical cannabis laws. Source: Wikipedia

Portugal & European market

EXM has chosen Portugal as its base partly due to the favourable regulatory regime, with medicinal use of cannabis signed into law in July 2018. Medical cannabis in Portugal is legal when prescribed by a doctor, dispensed in a pharmacy, and licensed by regulatory body INFARMED. Due to its location, the country is also viewed as an excellent base from which it can serve both the European and North American markets.

Some major cannabis companies have already seen success in Portugal, with Canadian producer **Tilray (TLRY)** investing c.€20 million into a cultivation and R&D facility in the country for producing cannabis solely for export. In May 2019, Tilray received a manufacturing licence from INFARMED and initial GMP-certification, allowing it to manufacture and export GMP-certified dried cannabis as an active substance for medical products.

With a population of around 750 million, Europe has a population larger than that of North America, with various parties believing it has the potential to become the world's largest cannabis market. EXM expects the market to expand exponentially as more European countries legalise medicinal cannabis and that it will be well placed to serve demand with its planned EU-GMP certified facilities.

According to Prohibition Partners' 2019 *European Cannabis Report*, Europe's cannabis market is estimated to be worth up to €123 billion by 2028 and will likely become the world's largest legal market over the next five years. Further, analysts at Brightfield Group predicted in 2019 that the European CBD market (including e-cigarette fluids) will rise from €373 million in 2019 to €1.5 billion by 2023, with the global market expected to be worth €14.4 billion by 2025. Grand View Research meanwhile is looking for the global CBD market to reach $23.6 billion by 2025, growing at a CAGR of 22.2%, as a result of growth in CBD infused products in pharmaceuticals, personal care and cosmetics, nutraceuticals and medical applications.

Financials

EXM's most recently announced results covered the six months to 31st December 2019. Given the early stage nature of the business plan these are largely irrelevant for the investment case, but for the record a net loss of C$3.52 million was posted as the company continued to invest in its strategic plan. Key balance sheet items included C$0.62 million of cash and C$0.13 of share subscriptions receivable. Loans payable amounted to C$2.9 million, a figure which includes C$2.08 million due to parties related to the company, namely CEO and Chairman Jonathan Summers.

Loan agreement

Along with the March strategy update EXM announced it has entered into loan agreements with various parties for a total of C$2,356,000. The loan is repayable within eighteen months and has an interest rate of 12% per annum, with interest being payable in equity in the company based on the market price as at the date the Interest is payable. The proceeds will be used for general working capital purposes.

As additional consideration, EXM has agreed to issue the lenders shares equal to 20% of the principal amount at a deemed price of $0.50. These will be issued subject to the closing of a private placement financing by EXM in which the lenders subscribe at an aggregate subscription price of no less than the principal amount of the loan.

Management

Jonathan Summers - Chairman and Chief Executive Officer

Mr. Summers was a founding partner of a $500 million London based Investment fund. Before founding the fund in 2015, he acted as a founder and senior executive in a major Hong Kong asset management firm. Prior to that he was employed by Goldman Sachs for more than 15 years, in both London and Tokyo. His expertise in international business, acquaintance with multi-jurisdictional issues, and a management style based on best practices will contribute to further implement the company's global growth strategy.

Paulo Martins- CEO and Country Director in Portugal

Mr. Martins has over 20 years of experience working in management, project development and project implementation, besides law and compliance affairs. He is a corporate and business lawyer specialized in project management, corporate finance, mergers & acquisitions, licensing and company's general management. He was the company secretary of a Portuguese public listed company, with extensive experience working in large multinational Portuguese and foreign companies

Michael Kinley - Chief Financial Officer

Mr. Kinley, a former partner with KPMG, has been the President of Winslow Associates Management & Communications Inc. since 1993, a private consulting firm which provides professional services to junior public companies. Mr. Kinley is a Chartered Professional Account and has served as an officer and director for several public companies over the past thirty years.

Susana Santos - Director Science and Genetics

Mrs. Santos majored in Genetics and Microbiology at Lisbon's Faculty of Sciences. She holds a PhD in Molecular Biology (Lisbon's Faculty of Sciences) as well as a Post-Doc in Molecular Biology (Lisbon´s Faculty of Pharmacy). In 2013, she became a co-founder of the start-up HeartGenetics, Genetics and Biotechnology a company that pioneers a methodology that integrates Genomics and Computational Technologies. She was Chief of Technology Officer and Director of Quality Management System. She was responsible for the implementation and maintenance of the Quality Management System ISO 9001 and ISO1348.

Tanek Amin - Chief Operating Officer

Mr. Amin is a senior finance and operations professional with over 15 years of international work experience spanning investment banking, international development, emerging markets private equity, business development and start-up operations. He spent most of his career in investment banking at Merrill Lynch & Co. and Jefferies International, where he executed over $20bn in M&A transactions and associated equity and debt financings for various companies across a wide range of industries.

Adilia Charmier - VP Research and Development

Mrs. Charmier obtained a Ph.D. in Organic Chemistry and a Master of Science in Chemistry from the Université Blaise Pascal in France. Mrs. Charmier has published over 25 scientific papers, has been a speaker at 35 scientific conferences, and she holds 3 patents.

Julie Lemieux - VP Operations

Mrs. Lemieux has over 20 years of experience in business, assisting large and small corporations to attain new levels of success and implement sustainable organizational changes. She has facilitated the reorganization of operational processes to improve efficiency and align strategic priorities for many organizations in the world. Mrs. Lemieux has led various and large multidisciplinary teams situated around the world with incredible success.

Key Risks

Financing risks

EXM remains at an early stage of its business lifecycle and at present is pre-revenue and loss making. While revenue generation is forecast once the Portuguese refinery is operational, the company has a number of milestones to achieve to successfully deliver on its business plan.

The interim results flagged the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with cash on hand, along with equity and loan financing as required. While the company recently raised CAD$2,356,000 via the March loan agreement, further funds will be required for working capital and for the planned capex and opex for the new refinery.

Legal/regulatory risks

The global cannabis industry is highly regulated around the world, with licences required by commercial operators who wish to cultivate, conduct research on, import, export and sell cannabis and its derived ingredients. EXM faces risks in initially obtaining the licences required to successfully execute its business plan and then complying with the requirements of the licences on an ongoing basis.

Given its sole focus on the sale of cannabis derived ingredients for its revenues, the failure to maintain the licences would have a material adverse impact on the business. While the global industry is currently seeing a move towards the legalisation and regulation of cannabis and its derived ingredients, which offers opportunities for companies such as EXM, the market is continuously evolving from a legal point of view, which also poses risks for the company.

Competition risk

Given the rapid growth being seen and forecast in the medicinal cannabis market, a number of new companies, both public and private, have entered the market over recent years. Being in its early stages, EXM can expect to see intense competition over the coming years. The company faces competition from rivals with significantly larger financial and non-financial resources so faces challenges in successfully building its market share.

Forecasts & Valuation

Working with management we have put together a ten year, discount cash flow (DCF) analysis of the refinery operations to apply a valuation to EXM's shares. At a high level, our model assumes that financing for the project is secured this year, all required licences are awarded, the refinery begins production at the start of 2021 and that only CBD is produced. Being highly conservative, we assume only one production line is in place, but as discussed above the factory design includes the potential for a fourfold scale up in refining capacity.

Instead of refining from cannabis biomass directly, the assumption is that EXM buys in 90% CBD extract and that this is then refined to a <99% product – this is the crucial value added part of the process as high purity products are required by end customers. While this approach results in higher raw material costs it frees up more capacity for refining the high value product and is beneficial for profits overall. We discount the model back to end 2020 at a rate of 12%, a figure which we believe is appropriate given the risks involved (this is lower than the 18% rate we used in our previous model of the riskier African agriculture operations). We do not add in a terminal value to the analysis as ten years seems a reasonable assumption for the useful life of equipment purchased in 2020.

Revenues

Revenues are a function of price multiplied by volumes of final refined product produced. In terms of price we assume a flat rate of €20,000 per kg of final <99% refined CBD is achieved over the forecast period. We assume no revenues from any other cannabinoids produced including the even higher value terpenes.

For volumes we make various assumptions about operating hours, timing of production runs, waste and quantities of CBD which are able to be refined from crude product. We also assume that a buffer of 60 days stock is built up before it starts to be sold. Income is expected to peak from 2024 and remain stable as the company's production processes become more efficient and waste is eliminated.

Key costs

The main cost in in our model is the distilled raw material, which we assume is priced at €5,500 per kg. Other major expenses include the factory's operating costs, including staff, maintenance, materials and energy.

Other key assumptions

Capex and initial working capital for the factory are assumed at just over €13 million in 2020, in line with guidance given in management presentations. While we believe that VAT will be able to be reclaimed we include the cost in the model. No further capex is expected beyond 2020. Depreciation on various assets is calculated at rates between 3% and 25%. Debtor and creditor payment days are both assumed at 30 days, with profits taxed at the Portuguese corporation tax rate of 22.5%. We remove forecast debt at the end of 2020 from our valuation. While some borrowings have a potential convertible element attached we treat them all as debt for modelling purposes. Finally, we remove the NPV of forecast corporate costs and translate the final value from euros to Canadian dollars using current exchange rates.

The findings of our DCF analysis are presented in the table below.

€	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenues	0	53,856,263	64,580,548	66,863,177	68,347,355	68,572,800	68,572,800	68,572,800	68,572,800	68,572,800	68,572,800
Total expenses	0	-36,810,860	-37,424,558	-37,773,127	-38,023,006	-38,023,006	-38,023,006	-38,023,006	-38,023,006	-38,023,006	-38,023,006
OPERATING PROFIT	0	**17,045,403**	**27,155,990**	**29,090,050**	**30,324,349**	**30,549,794**	**30,549,794**	**30,549,794**	**30,549,794**	**30,549,794**	**30,549,794**
Depreciation/amortisation	0	-1,096,144	-1,096,144	-1,091,144	-1,063,519	-1,050,394	-1,050,394	-1,050,394	-886,686	-68,145	-68,145
PRE-TAX PROFIT	0	**15,949,259**	**26,059,846**	**27,998,905**	**29,260,830**	**29,499,399**	**29,499,399**	**29,499,399**	**29,663,108**	**30,481,649**	**30,481,649**
Tax	0	-3,349,344	-5,472,568	-5,879,770	-6,144,774	-6,194,874	-6,194,874	-6,194,874	-6,229,253	-6,401,146	-6,401,146
NET PROFIT	0	**12,599,914**	**20,587,278**	**22,119,135**	**23,116,055**	**23,304,526**	**23,304,526**	**23,304,526**	**23,433,855**	**24,080,502**	**24,080,502**
Add Depreciation	0	1,096,144	1,096,144	1,091,144	1,063,519	1,050,394	1,050,394	1,050,394	886,686	68,145	68,145
Change in stock	-4,178,899	-7,859,257	-559,297	-336,010	-225,445	0	0	0	0	0	0
Change in debtors	0	-4,426,542	-881,448	-187,613	-121,987	-18,530	0	0	0	0	0
Change in creditors	0	2,015,326	9,941	6,388	6,100	0	0	0	0	0	0
Capex	-10,876,063	0	0	0	0	0	0	0	0	0	0
TOTAL	**-15,054,962**	-9,174,328	-334,660	573,909	722,188	1,031,865	1,050,394	1,050,394	886,686	68,145	68,145
FREE CASH FLOW TO THE FIRM	**-15,054,962**	**3,425,586**	**20,252,618**	**22,693,044**	**23,838,243**	**24,336,390**	**24,354,920**	**24,354,920**	**24,320,541**	**24,148,647**	**24,148,647**
Year	0	1	2	3	4	5	6	7	8	9	10
DISCOUNT RATE	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12
Discount factor	1	1.12	1.2544	1.404928	1.5735194	1.7623417	1.9738227	2.2106814	2.4759632	2.7730788	3.1058482
NET PRESENT VALUE	**-15,054,962**	**3,058,559**	**16,145,263**	**16,152,461**	**15,149,634**	**13,809,121**	**12,338,960**	**11,016,929**	**9,822,659**	**8,708,244**	**7,775,218**
10 YEAR NPV (€)	**98,922,087**										
Less net debt (€)	**-3,763,989**										
Less NPV of corporate costs	**-3,704,562**										
VALUE TO EQUITY HOLDERS (€)	**91,453,536**										
VALUE TO EQUITY HOLDERS (CAD$)	**141,404,772**										

DCF valuation

Our analysis shows that EXM's business model is potentially highly profitable, with net profit margins of 35% achievable once full production levels are achieved. Year 0 (2020) is the only period with negative cashflows, with these being covered by the US$17 million (c.€15 million) fundraise which management have alluded to. Discounting the forecast cashflows back to end 2020 using a discount rate of 12% results in an NPV for the project of €98.92 million. The internal rate of return is a highly attractive 87.93%.

To provide a valuation for EXM shares we remove net debt and the NPV of corporate costs, resulting in a net present value of €91.45 million. **Translated to Canadian dollars at current exchange rates results in a value of CAD$141.40 million.**

While our DCF analysis suggests a valuation that is over 16 times EXM's current market cap we believe that our model remains conservative. This is primarily due to the fact that the refinery has the potential for a fourfold increase in capacity, as discussed above, although this would require further investment in capex.

To calculate a post fundraise value per share we assume that the modelled financing requirements are funded entirely by equity at the current share price of CAD$0.22 per share. This would result in an additional 105,808,497 shares issued (at current FX rates). We also assume that 2,510,170 warrants with exercise prices of C$0.595 and below are exercised. Added to the current shares in issue, this would see 147,548,853 shares in issue. **Dividing our NPV by the enlarged share capital results in a post money price per share of CAD$0.958, representing upside of 336% from the current price.**

We note that from a valuation point of view this is practically a worst case scenario given the large dilution that would occur if the required funds are all raised via equity. Our valuation would be vastly improved should any of the required funds be raised via debt. To illustrate, if all the funds required were raised via a ten year, 12% loan, resulting in no additional shares being issued, our model gives a valuation of CAD$2.50 per share.

Peer analysis

There is a wide selection of cannabis focused businesses listed on the CSE. However with many remaining early stage and loss making it is difficult to make accurate comparisons across companies. What's more, the listed firms operate in different sectors of the cannabis market value chain including cultivation, ingredients extraction, wholesale, retail, medicinal and recreational, and thus have different inherent risks, business models and margins.

For our peer analysis we have selected those CSE listed companies which we believe are closest to EXM in terms of operations and stage of development. We focus on those companies concentrating on extraction and refining activities rather than cultivators, retailers and vertically integrated firms. We identify five such firms, along with some key metrics, as per the table below.

Company	**CODE**	**M Cap (C$)**	**Net cash/ (debt) (C$)**	**Enterprise value (C$)**	**Historic net profit/ (loss) (C$)**	**Operations**
Adastra Labs	XTRX	42,387,861	3,582,145	38,805,716	-903,989	Will provide cannabis extraction and concentrates services and white label services to B2B customers. Expected to receive its Standard Processing licence from Health Canada permitting, by Q1 2020.
World Class Extractions	PUMP	24,007,863	10,196,888	13,810,975	-7,901,977 *- 6 months to 31st Oct 2019*	Develops, deploys and manages custom-built extraction centres for licensed cannabis and hemp processors. Enables its licensed partners to efficiently produce high-margin cannabis and hemp concentrates and oils.
Nextleaf Solutions	OILS	25,094,999	2,012,168	23,082,831	-8,745,635	Developing technology for extracting and distilling THC and CBD oils. Nextleaf's industrial-scale extraction plant in Greater Vancouver, BC has a design capacity to process 600 kg per day of dried cannabis biomass into refined oils.
Sproutly Canada	SPR	19,371,403	456,931	18,914,472	-7,309,869 *- 9 months to 30th Nov 2019*	Aims to be the leading supplier to the cannabis beverage and edibles market. Its Toronto based, ACMPR licensed facility was built to cultivate pharmaceutical grade cannabis to supply a technological breakthrough in producing and formulating the first natural, truly water-soluble cannabis solution.
StillCanna	STIL	8,477,471	6,716,069	1,761,402	- 4,411,968 *- six months to 31st Jan 2020*	Focused on the large scale manufacturing of CBD in Europe. Believes its proprietary intellectual property allows it to extract CBD at a lower cost. Has signed an initial extraction contract in Europe to be the exclusive extractor for Dragonfly Biosciences LLC, a UK based supplier of CBD.

Data Source: CSE and Sedar filings

As all the companies above are loss making there is little to gain in valuation terms from the peer analysis. However, we do note that with a current market cap of C$8.63 million EXMceuticals is the second lowest valued of the peer group and is valued well below the average market cap of C$23.87 million. With an enterprise value of C$10.8 million (assuming none of the recent loan proceeds have been spent) EXM is also the second lowest valued on an EV basis and valued below the peer average EV of C$19.28 million.

Conclusion

Building on its current R&D operations, EXMceuticals now has the opportunity to use its knowledge and experience to create a world class cannabis ingredients refinery to satisfy the rapidly rising global demand. Our model shows that the planned operation is highly profitable, with an attractive internal rate of return and the opportunity to scale up to four times the size should demand be sufficient. The risks to the investment case are clear, with the securing of financing for the project and the granting of the relevant licences being critical. However, should the business plan be executed successfully we see significant opportunities for value creation.

Setting our minimum target price at C$0.958, we update coverage of EXMceuticals with a stance of **Conviction Buy.**

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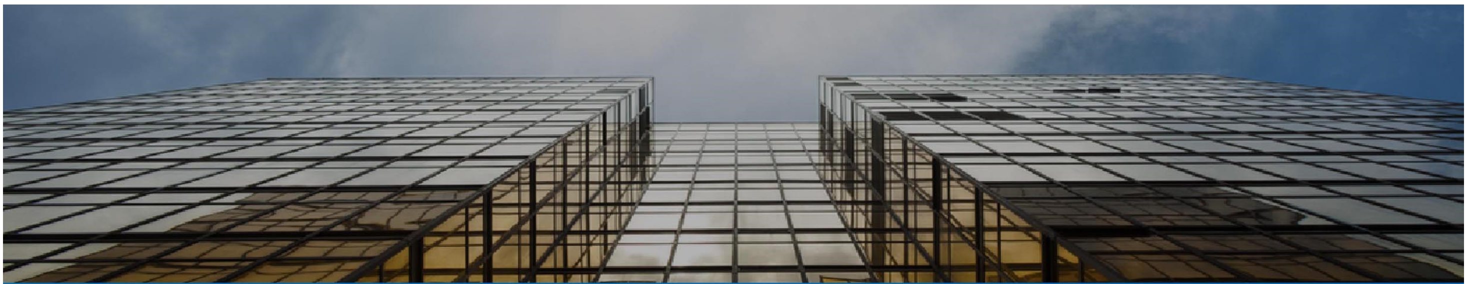

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