DUNDEE CAPITAL MARKETS

INITIATING COVERAGE

Medical Marijuana Sector

January 12, 2015

Medical Marijuana - Canada's New Pot of Gold

The Medical Marijuana (MMJ) (or "Marihuana" according to Health Canada) space in Canada has opened up with sweeping new regulations coming into effect as of 1-April-14. Simply, Marihuana for Medical Purposes Regulations (MMPR) immediately replaced Marihuana Medical Access Regulations (MMAR), creating conditions for a new, highly regulated commercial industry with a limited amount of suppliers vetted extensively by Health Canada (HC). There are currently 15 Licensed Producers (LPs) with ability to both harvest and sell, and 8 other LPs only permitted to grow. Of the LPs, six are publicly listed. HC believes the MMJ space can grow into a >$1.2B industry, with up to 450,000 licensed users by 2024 (from ~17,100 now). The market is still relatively unproven but given the newly implemented government framework and increasing adoption of MMJ as a viable medical alternative, we believe opportunities exist for investors but only a select few are worth looking at.

Dundee is initiating full coverage on Bedrocan Cannabis (BED-T) with a BUY and C$1.20 Target Price. Key reasons to own BED:

- Experienced producer of pharmaceutical-grade MMJ with over 13 years growing expertise through Dutch partner and shareholder Bedrocan BV;
- Licensed by HC, BED is one of 15 LPs capable of selling MMJ under the new MMPR program; this is a high growth industry with high barriers to entry;
- Importing from BV (240 kg pa) through the Dutch Ministry of Health, BED has already built a strong brand and 1,500 patient base;
- 52,000 sq. ft. domestic facility capable of 4,000 kg pa near completion;
- Product standardization appeals to physicians and should pay off;
- Management expertise, and master grower relocation to Canada reduce start up risk; BV CEO and Head of Research are part of the BED team as well.

Near-term catalysts could make Bedrocan an early winner in 2015:

- **Jan/15 -** HC due to inspect its 52,000 sq. ft. facility (4,000 kg pa/$30 MM pa)
- **Feb-Mar/15 -** Production license; initiate import of plant material from BV
- **May-June/15 -** First harvest in May and sale in June (after HC testing)
- **Q4E/15** - We expect positive EBITDA to begin (solidifying valuation)

Valuation suggests further upside potential: We base our valuation on a 12x 2016E EV/EBITDA multiple, reflecting the average multiples for comparable sectors with a slight premium crediting the high growth nature of this industry. We only considered the 4,000 kg pa domestic production facility and did not model potential upside factors such as a US market entry, South America licensing fees, potential for a second domestic production facility, and wholesale MMJ revenue.

Risks: Timing is a key risk for prospective shareholders. It's possible that after HC inspects the feedback period could last several months, and it's even conceivable that a license is never issued. Standard risks for LPs also apply, including regulatory, product quality and liability, and market adoption rates.

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Medical Marijuana in Canada - A New Emerging Growth Industry

Health Canada believes total registered patients can grow up to 450,000 by 2024 from ~17,100 currently - 38% CAGR over a 10 year period

The Medical Marijuana (MMJ) (or "Marihuana" according to Health Canada) space in Canada has opened up with sweeping new regulations coming into effect as of 1-April-14. Simply, Marihuana for Medical Purposes Regulations (MMPR) immediately replaced Marihuana Medical Access Regulations (MMAR), creating conditions for a new, highly regulated commercial industry with a limited amount of suppliers vetted extensively by Health Canada (HC). There are currently 15 Licensed Producers (LPs) with ability to both harvest and sell, and 8 other LPs only permitted to grow. Geographically the LPs are quite dispersed but concentrated primarily in Ontario (7) and BC (5). Of the LPs, six are publicly listed. HC believes the MMJ space can grow into a >$1.2B industry, with up to 450,000 licensed users by 2024 (from ~17,100 now). The market is still relatively unproven but given the newly implemented government framework and increasing adoption of MMJ as a viable medical alternative, we believe opportunities exist for investors but only a select few are worth looking at.

Modern History of MMJ in Canada:

Marijuana in Canada, as it has been since 1923, is still criminalized and illegal to produce or possess for recreational purposes

Marijuana in Canada, as it has been since 1923, is still criminalized and illegal to produce or possess for recreational purposes - even in very small quantities. But, since 1999 when the Marihuana Medical Access Program (MMAP) was first established on the back of the Controlled Drugs and Substances Act (CDSA, 1996), Canadians have been able to access dried marijuana for medical purposes. While exempted in the past, production of dried marijuana falls under the FDA (Food and Drugs Act) and its regulations, along with CDSA. Together, the acts provide a legislative framework to control MMJ, including safety, efficacy and quality of the drugs. Several key court cases and moves to de-criminalize MMJ over the past decade, along with experience led HC and the federal government to move in with a complete overhaul to the program - introducing MMPR, which took full effect on 1-April-14.

History of MMJ Regulations - 1996-2014

1996	**Controlled Drugs and Substances Act enacted**
1999	First Marihuana Medical Access Program established
2000	R. v. Parker - Paves the way for more formal regulations
2001	**Marihuana Medical Access Regulations (MMAR) born out of R. v. Parker**
2002	Jean Chrétien introduced a bill that would have decriminalized possession (15g or less)
2003	First major revision of MMAR
2004	Paul Martin introduced an almost identical bill to Chrétien's (the bill failed to pass)
2005	Second major revision of MMAR
2009	Third major revision of MMAR
2010	Fourth major revision of MMAR
2011	**New regulations proposed, leading to the birth of MMPR**
2014	**MMPR takes full effect, and MMAR is removed (court injunction remains)**

Source: Health Canada, Dundee Capital Markets

MMAR vs. MMPR - Regulatory Overhaul Following Safety Concerns and Abuse

By December 2013, MMAR had grown to 37,884 individuals, from 477 in 2002

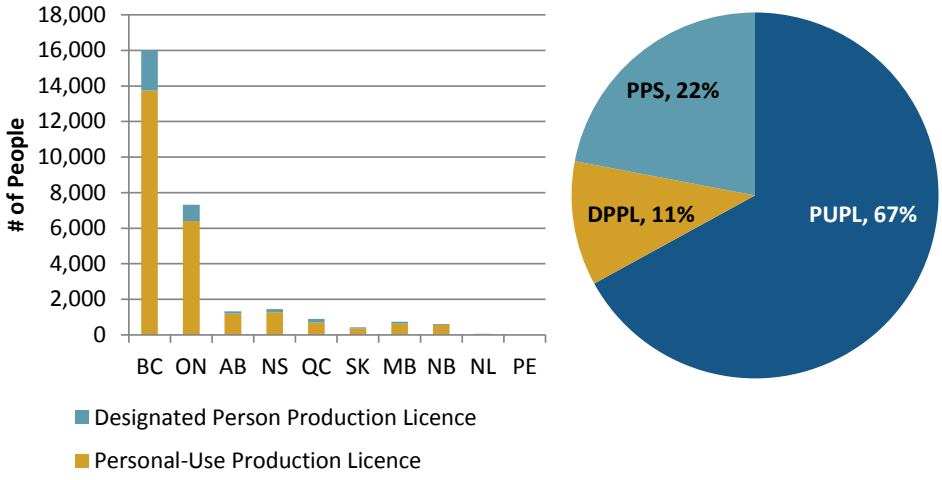
What was MMAR? MMAR, initiated in 2001 on the back of R. v. Parker, created a system for legal access to dried marijuana for medical purposes. Under MMAR, authorized persons/patients had three ways to obtain product:

1) Produce under a Personal Use Production License (PUPL);

2) Designate an individual to produce under a Designated Person Production License (DPPL);

3) Purchase dried marijuana from HC, which contracted a private company - Prairie Plant Systems Inc. (PPS).

Under this system, and as of 31-Dec-13, about 67% of patients accessed MMJ through a PUPL, 11% through a DDPL, and 22% through PPS. A breakdown, including geographic location is presented below:

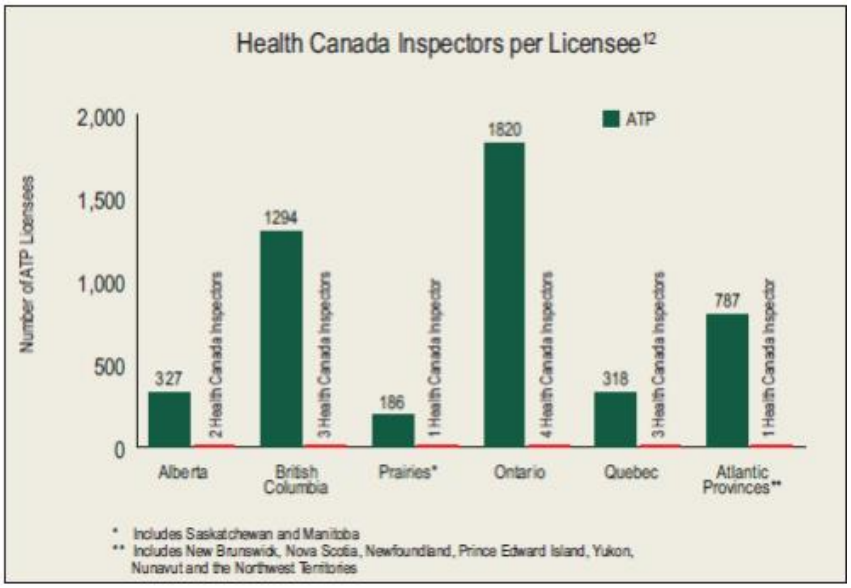


Source: Health Canada, Dundee Capital Markets

"Growth in program participation has had unintended consequences for the administration of the MMAR" - HC

Why was MMAR overhauled? The MMAR program grew from 477 individuals in 2002 to 37,884 by Dec/13, implying an annual growth rate of ~49%. This rapid growth along with under regulation and oversight (and lack of resources) led to several unintended consequences for both HC and the public: 1) Large-scale horticultural production in private dwellings not properly suited for production created fire, mold and electrical safety hazards; 2) Co-location of up to four licenses on one site meant large quantities of production landing on the black/grey market; 3) Exposure to toxic chemicals like pesticides and fertilizers creating risk to residents, including children. A 2012 Police report stated, “it is possible that an individual authorized to grow medical marijuana may never undergo an inspection of their grow operation” (Canadian Association of Chiefs of Police, 2010, p. 17). In fact, a 2011 paper entitled "An Analysis of Surrey’s Medical Marijuana Grow-ops" (link here), pointed out that there were only four HC inspectors for the 1,820 Medical Marijuana Authorization to Possess (ATP) Licensees in Ontario (Figure 1).

Figure 1: Health Canada Inspectors per license (under MMAR) as of 2010.



Source: "Analysis of Surrey's Medical Marijuana Grow-ops", Kailey A. Stevenson

Objectives of MMPR: HC and the federal government set three clear objectives for its new MMPR program, helping address public safety and access concerns.

1) Reduce risks to public health, security and safety of Canadians;

2) Provide a new distribution system for dried marijuana that relies on commercial production from large highly scrutinized and regulated companies. Patients will now require prescriptions direct from a physician, instead of applying to HC. And new quality and sanitation practices will be put into place in line with other controlled substances;

3) Enhance security for production sites and licensed producers, including standards for packaging, transportation and record keeping.

Key differences between MMAR and MMPR:

	MMAR	MMPR
Supply:		
Quality standards	No	Yes
Sanitation standards	No	Yes
Packaging & Transport standards	No	Yes
Security procedures	No	Yes
Affordable pricing	Yes	Some subsidization (LP specific)
Patient:		
Health Canada application	Yes	No
Variety of supply sources	Yes (but not secure)	Yes (limited to LP's)
Doctor consult	Yes	Yes
Health Canada:		
Supply from HC	Yes	No
Oversight for every LP	No	Yes (1-2 visits per month, unannounced)

Source: Health Canada, Dundee Capital Markets

Impact of MMAR Coalition & Allard vs. HMTQ (Her Majesty the Queen)

We don't believe the court injunction has any material impact on the sector or demand thesis

An ongoing constitutional challenge seems to be concerning some investors and would-be investors in the space. We don't believe the court injunction has any material impact on the sector or demand thesis, and wouldn't draw to much attention to the matter. In our view, the PUPL and DPPL customers were not highly desired anyways, with most aiming to skirt the system. HC found that up to 70% of PUPL and DPPL licensees produced 25 plants or more towards the end of MMAR, with co-location of up to four licenses on one site. In fact, the average consumption rate continually increased from 2002 to almost 10g/day by 2013 - suggesting potential diversion to the black market. And while the inunction may make little impact in our view, it does appear to be moving forward with the federal government losing its latest attempt to stop the motion (Federal Government Loses Appeal, CBC News).

Context: BC lawyer John Conroy and his clients were granted an injunction (Allard vs. HMTQ) on 21-Mar-14. HC announced on 31-Mar-14 that it will appeal the federal courts order. Conroy and his clients argue that MMPR will cause patients who cannot afford black market or LP prices to choose between their liberty (being arrested) and health (access to medicine). Conroy argues that reasonable access must be assured and is a constitutional right. Looking at the memorandum (see here), Mr. Allard who is authorized to use 20g/day, says he can produce his own MMJ for $200-$300/month or $0.33-$0.55/g. Mr. Allard receives pension income of $2,000 month and would not be able to afford LP prices of $5-$12/g or $3,000-$7,200/month.

What it means: Persons/Patients with PUPL and DPPL (78%) licenses under MMAR can continue growing their own MMJ while a constitutional challenge is heard. Originally, all 38,000 licensees were to have that ability revoked on 31-Mar-14. Some may now possess

the lesser of 150g or listed maximum. This reduced the immediate market for LPs down to perhaps ~8,000-10,000 from 38,000.

Trial date: A trial is planned for 23-Feb-15, with eventual resolve perhaps months or years after that.

Growing Enrollment Numbers Points to Strong Growth

Enrollment grew at 13-17% per month during 2014, and now stands at an estimated 17,100 patients

Last official numbers from HC says about 13,700 patients were registered under MMPR as of 31-Oct-14. We believe that number is closer to 17,100 by year-end 2014. That's an increase from about 5,100 in April and almost 8,000 in June - implying 13-17% MoM growth rates. HC says 1,400 kg or 1.4 MM grams were sold by licensed producers during the year through October.

Health Canada Projected Demand:

Scenario 1 - Status Quo - Potential users projected to increase from a base number of 57,799 in 2014 to 433,668 in 2024, just below the upper limit assumption of 450,000. This ends up being a 10 year CAGR of 22.3%.

Scenario 2 - MMPR - Potential users projected to grow from a base number of 41,384 in 2014 to 308,755 by 2024, or a CAGR of 22.3% as well.

How HC made its forecasts is somewhat of an unknown. Our understanding is that the process was rather unscientific, using the number of reported medical cannabis users from a census in 2011 (see here) of 420,000 and adding a growth number to reach that figure over the next decade. If that's true it suggests two scenarios: 1) HC assumes that those purchasing MMJ on the black market (for medicinal purposes) will fully convert to LPs - meaning no real growth in MMJ users; 2) A mix of growth in new users and conversion of black market buyers. We believe scenario two makes the most sense.

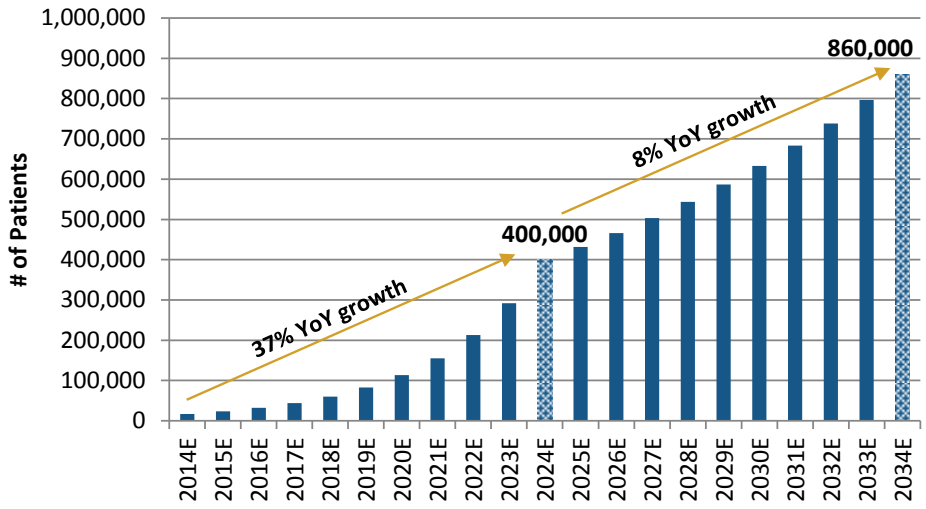
Dundee Forecasted Patient Growth

Dundee estimates a 2024 patient base of 400,000, in line with HC estimates and US MMJ penetration rates

Using HC's low estimate of 308,755 assumes a penetration rate of just 0.9% (using Canada's current population of 35.16 MM). Based on our analysis, we believe a number of 1% is more realistic over the next decade and upwards of 2% by 2034 reflecting a maturity of such markets like Colorado, California and Oregon. We grow the Canadian population at 1% pa or the average growth rate over the past decade according to StatsCan (see here).

Dundee estimated 2024 patients = 400,000 (37% CAGR, using 17,100 patients in 2014)

Dundee estimated 2034 patients = 860,000 (22% CAGR, using 17,100 patients in 2014)

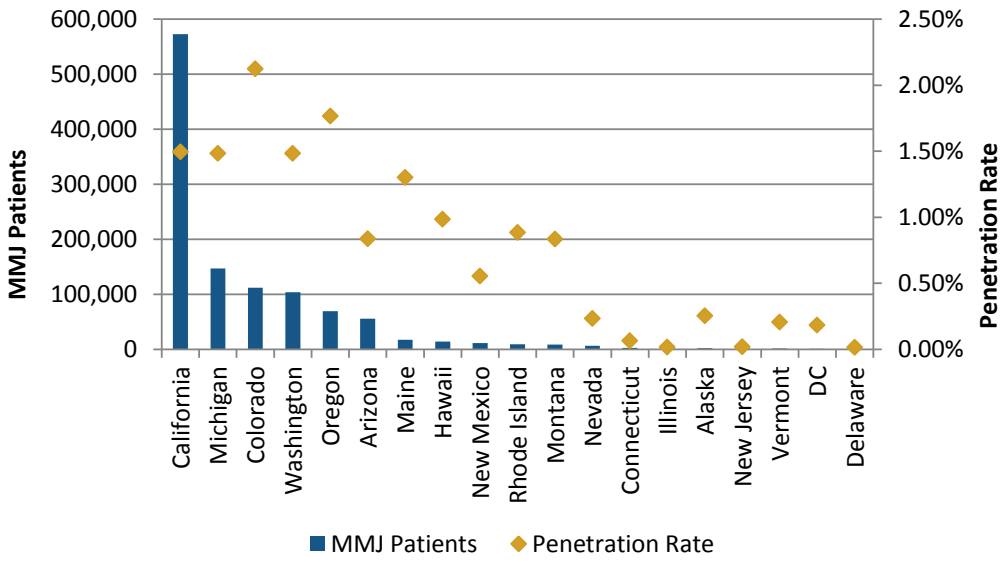


Source: Dundee Capital Markets

Key assumptions:

- *Average US MMJ penetration rates* - On average, using October 2014 data, of 24 MMJ legal states the average penetration rate is 0.78% or 1.49% weighted average as California, Michigan, Colorado and Washington - all established markets - are >1% and make up 82% of the MMJ US population.
- *Sorting US data for mature markets* - If we remove newer programs (2010 or later) the average rate goes up to 1.03%, with an average legalization year of 2002. We use that number as our base for 2024, and an upside of 2% in 2034 when considering rates in Colorado (2.12%), California (1.49%) and Oregon (1.77%) which have all been around for over ten years.

Figure 2: US MMJ population by state and respective penetration rates.



Source: ProCon.org

We expect MoM growth rates to stabilize for a CAGR of 37% over the next decade to a potential market size of >$1.2 B by 2024

Growth rates tough to predict but coming from a very low base. We don't believe current MoM rates of 13-17% will continue into perpetuity and a slowing is expected. Using current rates our estimate of 400,000 patients by 2024 or 1% penetration would be reached within two years. As such an annual CAGR of 37% is expected over the next decade (assuming no MMAR patients under court injunction join the program and in-line with historical growth of 40%). We believe investors should focus on the long term potential of this market not near-term growth trends.

Dundee estimated 2024 market size up to $1.2 B. Using an average price per gram of $5.50-$7.50 and assuming 1 g/day consumption - which we believe is closer to real consumption currently - the market size could grow to >$1.2 B by 2024. Of course, there is plenty of upside with higher prices, higher consumption, and faster patient growth. Most LPs are quoting 1.5 g/day rates in promotional materials which even at HC's estimated 2024 patient number of 308,755 (which we deem too conservative), assumes a market size of $1.27 B using $7.50/g.

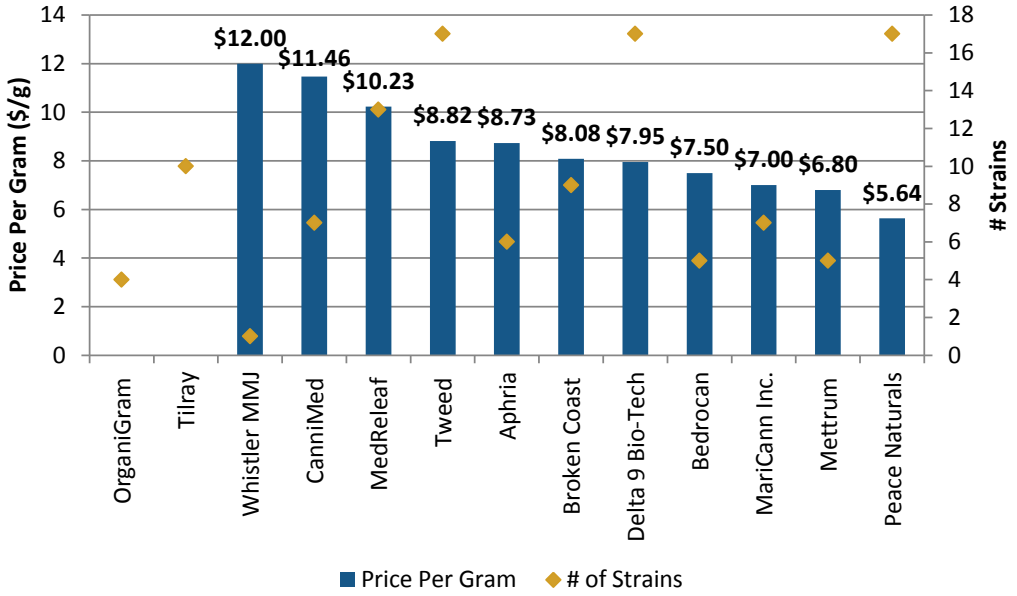
Table 1: Potential market size by 2024 (in B$).

	Number of Patients (consuming 1g/day)				
B$	**300,000**	**350,000**	**400,000**	**450,000**	**500,000**
$2.50/g	0.27	0.32	0.37	0.41	0.46
$3.50/g	0.38	0.45	0.51	0.57	0.64
$4.50/g	0.49	0.57	0.66	0.74	0.82
$5.50/g	0.60	0.70	**0.80**	**0.90**	1.00
$6.50/g	0.71	0.83	**0.95**	**1.07**	1.19
$7.50/g	0.82	0.96	**1.10**	**1.23**	1.37
$8.50/g	0.93	1.09	1.24	1.40	1.55
$9.50/g	1.04	1.21	1.39	1.56	1.73
$10.50/g	1.15	1.34	1.53	1.72	1.92

Source: Health Canada, Dundee Capital Markets

Product pricing varies by LP, but most offer products in the $5-$12/g range. Some even sell trim for as low as $2.50/g (ex. MedReleaf). HC assumes average prices of $7.60/g in 2014 and rising to $8.80/g over time. Under MMAR prices varied but in a status quo scenario prices were expected to stay at $1.8-$5.00/g. While we believe HC has an incentive to keep prices >$7.50 (to prevent diversion to the black market due to price spread), LP opinions seem to differ. There are no price controls under MMPR and as capacity ramps up there is potential for prices to head down towards marginal cost - although we view this as unlikely.

Figure 3: Average price per gram and number of strains per LP (Canna Farms and In The Zone were not included due to lack of available information)



Source: Company Reports, Dundee Capital Markets

Compassionate pricing is not mandatory. Affordability is certainly an issue for some patients under MMPR, as suggested by the court injunction and HC. Supply under MMAR was often <$5.00 or even pennies depending on the license type - buying from HC or personal/designated production. Most LPs are offering compassionate pricing while others outright refusing. We spoke to one LP in particular that said of the several inbounds it receives daily from prospective patients, the first question it almost always receives is - "Do you offer compassionate pricing?" And patients immediately hang up if the answer is no.

While in some cases it may be a pensioner or patient unable to afford LP prices, it could also be an advantageous 'patient' looking to load up on as much product at the cheapest price. Although patients must qualify the process seems to differ by LP. Mettrum (MT-T, Not Rated) for example says clients who qualify for provincial or federal income assistance, or have an annual income below $30,000, can receive a 30 per cent discount on the first 30 grams of MMJ purchased each month. Others have price discounts specific to each strain.

Licensed Producers - 15 & Counting

Health Canada may soon cut the program off unofficially in our view, unless demand dictates the need for new LPs

As of January 2015 a total of 15 companies have been licensed to cultivate and sell MMJ by HC. A further 8 companies are able to cultivate but not sell, but could graduate into the next bracket shortly. Assuming all eight gain the ability to sell, the program would expand to 24 LPs, about half of HC's hypothetical number of 50 in its Canadian Gazette report. In our view, and given the slowing of licensing already, HC may soon cut the program off at least until demand significantly increases or its proven reasonable access/choice isn't being satisfied by the current suite of LPs.

LP Applications: HC has received more than 1,100 applications from prospective producers. Of those, almost 600 have been returned as incomplete, more than 200 have been rejected and 35 were withdrawn. As of November 24th, HC was still reviewing 301 applications, 13 of which were awaiting a pre-approval inspection which is the final step before approval.

It's good to be an LP! For the select few that were granted licenses, business is booming. Most are sold out, demonstrating the potential this market is already showing. We believe supply growth will be constrained and unleashed in pace with demand, and as such don't see any material surplus or deficit ever developing. HC is learning, along with LPs, the nature of demand and some degree of surplus will likely be created over the next few years, but we don't believe HC would license enough producers/capacity to create a massive oversupply situation. Therefore, we don't believe this is an industry with price war potential and no major pressure towards marginal cost is expected.

There are eight key stages to becoming an LP and two graduated stages once achieving LP status

How to become an LP: When the MMPR program first initiated HC only expected a handful of applications and approval processes were short and to the point - yes or no to cultivate and sell right away. With the sudden flurry of applications coming in, HC was forced to modify the approval process into several stages with companies now finding themselves stuck in one or the other for months at a time (at the frustration of seed investors). There are eight key stages to becoming an LP and two graduated stages once achieving LP status:

1) Application - 15 page form including proposed capacity, site, ownership sign-off, proof of application to local authorities, etc. (see application form here).

2) Preliminary Screening - Paper screening of certain aspects of the application.

3) Enhanced Screening - More in-depth screening of the application.

4) Security Clearance - Key personnel, along with directors and officers in the case of a corporation, will have to hold a valid security clearance (7 page form). The clearance, carried out by RCMP, includes a global background check.

5) Review - Another review of proposed business plan.

6) Ready to Build Letter - HC can provide this to the Applicant, but local authorities must permit construction of the facility (proper zoning has been an issue for some).

7) Pre-License Inspection - Once the facility has been built and all necessary security, quality assurance (QA), and operational aspects are in place HC will come inspect the facility for licensing. Systems must be in place including 24/7 visual monitoring, record keeping to maintain transaction records for two years, as well detail on any returned product and ongoing inventory.

8) Licensing - Typically a 1-2 month process, HC and the proposed LP will go back and forth with each other, making whatever modifications necessary to get the final approval.

**At this point the LP is typically granted a cultivation license before being granted the ability to sell upon final product quality testing by HC. See more detailed information on the steps here, on HC's website.*

Table 2: Summary of current licensed producers (LPs).

Company	Ticker	Location	Description	Capacity	Patients
Aphria Medical Marijuana	**APH-T**	ON	Aphria operates a 30,000 sq ft. facility in Leamington, Ontario. The company believes it can eventually serve 3,000 patients or more with 85,000 sq ft. in expansion room.	700 kg pa licensed (1,600 kg pa max)	--
bedrocan® canada	**BED-T**	ON	Bedrocan, through an exclusive license with Bedrocan BV in Holland imports 240 kg pa for sale. Domestic production out of its 52,000 sq ft. facility in Toronto is expected following a license in Q1/15 (4,000 kg pa).	240 kg pa import (4,000 kg pa from new facility)	1,500
BROKEN COAST CANNABIS	--	BC	Operating out of BC the company focuses on small batch MMJ, offering nine different products at an average price of ~$8/g.	--	--
CANNA FARMS	--	BC	Former MMAR producer, Canna Farms grows out of a new facility in BC with 62 strains.	--	--
CanniMed®	--	SK	Formerly Prairie Plant Systems (HC's MMJ provider under MMAR), the company has a strong focus on MMJ research.	--	--
Delta 9 Bio-Tech	--	MB	Producer of organic MMJ in Manitoba, the company has stopped registering patients - being currently at capacity.	--	--
In The Zone Canadian Approved Licensed Producer	**MJN-T**	BC	100% owned by PharmaCan, the operation is located on 14 acres of land in BC. First sales expected in Q2/15 following expansion and renovation.	150 kg pa (only 2,000 sq ft.)	--
MariCann	--	ON	Operate a state of the art Greenhouse closed controlled environment growing system.	--	--
mettrum	**MT-T**	ON	Two licensed facilities in Bennet Road North and Agripharm (can only cultivate) in Bowmanville and Creemore, Ontario.	650 kg pa (Agripharm could add 4,000 kg pa)	2,100
MEDRELEAF THE MEDICAL GRADE STANDARD™	--	ON	Operate a 55,000 sq ft. facility in Markham. The company is aligned with Israeli producer Tikun Olam - accessing 250 varieties of strains.	--	--
ORGANIGRAM LICENSED MEDICAL MARIJUANA	**OGI-T**	NB	Only LP east of Ontario, operating in Moncton, New Brunswick. Currently expanding the facility to meet demands from Trauma Healing Centers (entered LOI for 1,500 kg pa).	1,000 kg pa (expanding to 3,000 kg pa)	1,600
The Peace Naturals Project	--	ON	Used to be an MMAR grower, using the same facility. Operating 12,000 sq ft. with expansion to 30,000 sq ft. awaiting approval. Owned 27.3% by PharmaCan.	2,500 kg pa	--
TILRAY	--	BC	Tilray operates a 53,000 sq ft. facility in Nanaimo, BC. The company is known to have one of the larger market shares and fastest delivery times on product. Owned by Privateer Holdings in the US.	--	--
Tweed	**TWD-T**	ON	Operate Smith Falls and Tweed Farms (cultivate only) facilities in Ontario. Production issues seem to be behind them with strong harvests out of both locations.	3,500 kg pa (at 1,800 kg pa now)	1,000
WMMC	--	BC	Located in Whistler, BC, the company has a strong brand presence. Operates 3,500 sq ft. facility with expansion to 11,000 sq ft. pending. PharmaCan owns 21.4% of Whistler.	250 kg pa	--

Source: Company Reports, Dundee Capital Markets

Patient Application Streamlined

Compared to MMAR, the patient application process under MMPR is quite straightforward and involves three key steps

HC estimates administration savings of $478 MM over ten years (90% reduction) from MMPR. While there is a loss to the consumer of $166 MM per year based on MMPR pricing, overall safety, product quality, and choice of product are intangible factors that must also be considered. Compared to MMAR, the patient application process under MMPR is quite straightforward and involves three key steps:

1) Obtain a medical document/prescription from an authorized health care practitioner (physician or a nurse). This will include a daily quantity of grams, and prescription period (maximum of one year). Patients can possess the lesser of 150g or 30 times the daily quantity stipulated by the physician. An Expert Advisory Committee (EAC) was put together by HC in recognition of lack of clinical studies to help physicians determine dosage amounts and general information (similar to a formal drug monograph).

2) Send document/prescription to an LP along with a sign-up form. Patients can spread one prescription over multiple LPs, but each LP will require a separate script from the doctor. Patients will also be required to fill out a second sign up form with each LP.

3) LP confirms prescription with the doctor, allowing patients to access MMJ. Hospitals are allowed to sell MMJ but not health care providers or pharmacies.

Shipping/packaging requirements: Maximum size of 30g, must note THC and CBD content, packaging date, expiration date, warning statement to keep out of reach of children. LP must create a copy of the label along with patient photo ID incase legal possession must be demonstrated. With 20 LPs receiving a slap on the wrist as of late for marketing/promotional activities, packaging has become essentially standardized across LPs (five companies have yet to comply, including CanniMed, CannTrust, MedReleaf, Prairie Plant Systems, and Tweed).

Figure 4 - Bedrocan packaging - 15g and 5g containers with product type and CBD/THC content by weight %.

Source: Bedrocan

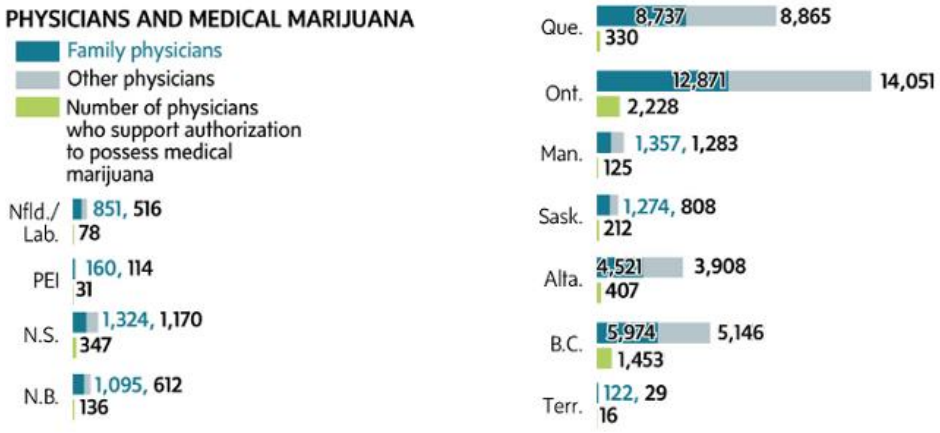
Role of the physician is very important… but it should not be overstated

Role of the physician is very important... Physicians are now becoming the sole gatekeeper of this process, and while some worry about the task citing lack of research and proper dosage guidelines, it is a welcome change for patients. As mentioned earlier, one of the key differences between MMAR and MMPR is HC involvement in the patient application process, or lack thereof. Instead of a 20-30 page sign up along with several months or up to a year of consultation between HC, the patient and doctor, patient's may now fill out a several page form directly with an LP, approach a doctor, and can access product within weeks. This process is not only less onerous but gives the ability for patients to play a key role in streamlining the process, instead of reliance on HC.

…But it should not be overstated. In fact, we would advise investors to not place too much weight on 'physician rolodex's' that many LPs boast about. The only number that really matters and question that should be asked is how many of those physicians actually prescribe MMJ (BED's physicians are all MMJ prescribers). And it doesn't necessarily need to be the particular LPs brand. In fact, we would prefer it not be from a regulatory point of view (as physicians must be impartial). In our view, LPs should be working together to convert physicians into MMJ prescribers, as opposed to trying to steal market share.

Under MMAR, 7% of all physicians and 14% of family doctors supported authorizations to possess MMJ. That number has shrunk to 1.2% under MMPR

Under MMAR, 7% of all physicians and 14% of family doctors supported authorizations to possess medicinal cannabis, according to HC figures crunched for The Globe and Mail.



Source: Globe and Mail

Physician penetration under MMPR has shrunk to 1.2%, or ~900 physicians, and about 20% are issuing 80% of the prescriptions (according to LPs we speak with). Part of this could have to do with the onus now on physicians. Under MMAR, perceived liability was nil for physicians as their only job was to sign off on a form confirming a patient had certain symptoms that MMJ could hypothetically be used for, and at that point HC made the final decision. Now physicians must make the final yes/no and dosage amount - a responsibility many appear uncomfortable with.

Cannabis 101

- **THC vs. CBD:** Tetrahydrocannabinol (THC) and Cannabidiol (CBD) are the two principal constituents in cannabis. Both CBD and THC belong to a unique class of compounds known as cannabinoids. Most strains of marijuana have higher levels of THC, and recreational smokers tend to focus on this psychoactive component - or 'the high'. While high CBD strains are typically much tougher to come by, being non-psychoactive (that is, a user cannot get high) these strains were not typically produced before broad MMJ legalization and are now used predominantly for children and medical purposes. High CBD MMJ was popularized in 2013 when Charlotte Figi - a then 7 year old child with Dravet syndrome (a severe type of epilepsy) began using a high CBD type of MMJ (now called Charlotte's Web). Charlotte's seizure frequency dropped from 300 a day to 4

per month following the use of MMJ, seeing her being labeled as "the girl who is changing medical marijuana laws across America" (see article here).

- **Indica vs. Sativa** - Cannabis is either grown from an indica plant, sativa, or some hybrid of the two. Indicas are characterized by their short stature and fatter leaf structure. The buds are covered with glandular trichome's typically referred to as “crystals” or “kif.” Indicas tend to give users a lethargic feeling, and are typically higher in CBD content and lower THC. Sativas are taller, longer-flowering cannabis plants. Buds are thinner and more elongated as well. Sativas are characterized for giving users a more "up" high, and as such, typically higher in THC than CBD content.

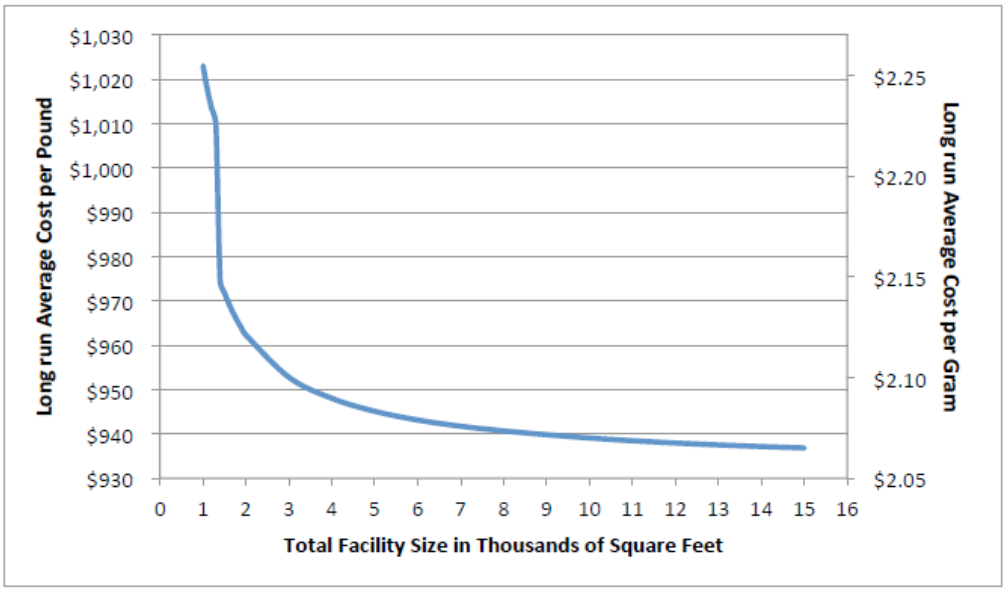
Source: Google Images

- **Soils vs. Hydroponic -** Plants are either grown in soil or a soil-less mixture. Hydroponics is the growing of plants with roots immersed in a nutrient solution, allowing growers to increase yield and rate of growth. Plants typically grow bigger and faster than in a soil medium. Hydroponic is considered a more advanced technique as several factors must be taken into account, including water temperature, nutrient levels, and Ph. HC has given few restrictions on how LPs grow, but certainly has quality standards expected of the product. As such, soil, hydroponic, green house, indoor, are all accepted methods. Most LPs have master growers from the MMAR program that plan to essentially scale up existing grow methods, while some are starting from scratch testing out a variety of different strategies. Soil types, fertilizers, even light configuration is a closely guarded secret and seen as proprietary by LPs.
- **Indoor vs. Outdoor** - Growing outdoors is less highly regarded than indoor cultivation, and not allowed by HC. The detractors from growing outdoors are clear - safety concerns, quality assurance, wind and rain destroying plants, inability to closely monitor growth, etc. Indoor growing, whether in a closed facility or greenhouse is the method of choice for MMJ production - increased yields, pest control, quality control, enhanced security, etc.

Most LPs believe long-run costs can normalize in the $2-$4/g range implying 47%-73% gross margins using a $7.50/g price

- **Cost of production -** According to BOTEC Analysis Corp. out of LA, the average cost of cannabis production depends on the facility size but tends to normalize around ~$2/g after one year (see figure below). Most LPs believe long-run costs can normalize in the $2-$4/g range implying 47%-73% gross margins using a $7.50/g price.

Figure 5: BOTEC Analysis long run average cost of cannabis production.



Source: BOTEC

Seed to sale can take 17-20 weeks, or 4-5 months. Time will vary based on plant type (sativa vs. indica) and strain variety (THC vs. CBD content)

- **Seed to sale can take up to 5 months.** Time will vary based on plant type (sativa vs. indica) and strain variety (THC vs. CBD content). Most LPs will aim at speeding the process up by taking cuttings from a mother plant and planting them (clones). Once cut, cloned, and planted, plants enter the vegetation stage for up to six weeks. Following vegetation the plants enter production rooms for typically eight weeks. After fourteen weeks the plants are essentially finished, but the product is still 2-4 weeks from sale. Plants must be dried, trimmed, tested, and packaged. In some cases LPs will irradiate product to get rid of any potentially harmful molds and bacteria - this adds costs and about a week of time. Patients have been known to dislike irradiated product due to taste and destruction of terpenes which impacts scent.

Source: Google Images, Dundee Capital Markets

Use of Cannabis for Medical Purposes

Cannabis has been used for thousands of years across numerous cultures for medicinal purposes. Mounting evidence is supporting the case for MMJ as a legitimate medicine

Cannabis has been used for thousands of years across numerous cultures for medicinal purposes. MMJ can be administered in several ways - smoked, vaporized, ingested through resins or oils, capsules, or even in synthetic form. Medically, cannabis is legal in several countries across the world and even recreationally in some cases. The most typical medicinal use for cannabis, and oft associated with, is for chemo patients dealing with nausea and appetite. But MMJ has been proven to help with several other ailments, including depression, back pain, epilepsy, among others. Despite the mounting evidence supporting MMJ the FDA still cites lack of research and has not approved smoking cannabis for any condition (while legal in 24 states).

Cannabinoids (the two most common being THC and CBD) have several therapeutic benefits:

Analgesic-hypnotic
Appetite stimulant
Gastrointestinal sedative
Anti-epileptic
Anti-spasmodic
Prophylactic and treatment of the neuralgias
Anti-depressant
Tranquilizer
Anti-asthmatic
Oxytocic
Anti-tussive
Topical anesthetic
Withdrawal agent for opiate and alcohol addiction
Childbirth analgesic
Antibiotic

Ailments proven to benefit from MMJ include: AIDS, Alzheimer's, Anxiety, Anorexia, Depression, Dementia, Epilepsy, Fibrosis, Glaucoma, HIV, Insomnia, IBS, MS, Obesity, Parkinson's, Spinal Cord Injuries, Tourette's syndrome, and more.

HC believes that despite the lack of formal and comprehensive scientific medical information and research that all Canadians have the right to reasonable access of MMJ.

Source: www.medicalmarijuana.ca

HC view on MMJ: In the eyes of HC, there hasn't been a conclusive study to date suggesting MMJ is safe and effective for medical use. In saying that it recognizes the right for Canadian's to access MMJ as a medicine. Following announcement of the changes to MMAR on 17-June-11 HC launched a 45-day public consultation period. In addition it consulted with the US DEA and International Narcotics Control board informing on the proposed changes. HC received a total of 1,663 comments, most of which came from current license holders under MMAR (1,433), concerned of course with losing their right to produce. But questions were raised about the efficacy of MMJ for patients. HC response was candid in saying it recognizes the lack of research (in its view) but also sees the right for reasonable access. An Expert Advisory Committee (EAC) was put together, assisting HC in creating a standard drug monograph for physicians.

Case Study - Cannabis for Neuropathic Pain. Dr. Mark Ware, a renowned MMJ researcher and Director of clinical research at the Alan Edwards Pain Management Unit at McGill University Health Centre, launched a landmark study in 2010: 21 participants smoked low doses - one puff three times daily for five days - of cannabis containing different amounts of THC. People were treated over four different periods, with THC contents of 0-9%. They reported less pain and improved sleep after smoking MMJ with the highest potency of THC (Smoked Cannabis for Chronic Neuropathic Pain: A Randomized Controlled Trial, published in the Canadian Medical Association Journal).

Infused products not allowed… yet. HC one again cites lack of clinical research, and while it doesn't make any suggestion on how to ingest MMJ, vaporizing or smoking appears to be the preferred method. We are okay with the lack of edibles - a proper supply network with LPs should be set up first, with quality assurance for dried marijuana. HC has its hands full inspecting facilities, adding edible production centers into the mix creates a whole new level of complexity for inspections and approvals. We do think edibles will eventually enter the Canadian market as they have in the US. In August/14 a court of appeal in BC ruled that it's unconstitutional to deny patients the right to edible MMJ products (R. v. Smith). Justice Risa Levine said this specification "is arbitrary and cannot be justified in a free and democratic society." Health Minister Rona Ambrose's office said in a statement that it is "reviewing the decision in detail and considering our options."

Figure 6: Left to Right - THC Oil; Kif Butter; MMJ Infused Peanut Butter.

Source: Google Images

Catalysts in the Canadian MMJ Space

Consolidation is more likely than acquisition in the near-term, in our view

Consolidation more likely than acquisition - While we believe interest could come from several industry groups, such as Tobacco, Pharmaceutical, and even Alcohol - all industries that operate in tightly regulated environments - we think the prospect of acquisition could be a ways out. Our industry sources also suggest that interested parties are waiting on the sidelines to see which way the court injunction goes, 2015 Federal Election, legality of edibles, and general progress in the industry. HC is regularly modifying regulations and the final appearance of this industry could still be years out. We view consolidation within the space as a more likely pre-cursor to eventual acquisition from outside the industry. Combining production facilities, giving existing patients more options, and diversifying supply are some of the potential synergies from two LPs merging. We also see the potential for an experienced producer to pick up a well advanced non-LP, as the production expertise and vetted reputation of an LP could expedite licensing timelines.

Edibles Legalization - As discussed above, a court of appeal in BC ruled (Aug/14) that it's unconstitutional to deny patients the right to edible MMJ products (R. v. Smith). While the federal government acknowledged the ruling, its uncertain how serious HC is on eventually legalizing edibles, and what the timeline to legalization is. But eventual legalization could be a huge boon to LPs which are currently destroying all non-bud plant products, including stems and leaves. Should edibles be legalized, those 'waste' products could be utilized for edible production, adding a new revenue stream for LPs and layer to valuation.

Insurance Coverage - While not covered currently, we could see coverage for MMJ the same way conventional pharmaceuticals are. Our industry sources suggest that several insurance companies are already looking into it. We aren't sure on the timeline but this could make MMJ considerably more affordable for patients - a major sticking point for most current or would be users.

Recreational Legalization - With federal elections coming up in October 2015, the legalization of marijuana for recreational use has already become a talking point. Liberal Party leader Justin Trudeau has voiced his parties support for legalization saying evidence

supports his policy to legalize, regulate and tax marijuana sales like alcohol. Marijuana is the most commonly used illegal drug in Canada. Almost half (44%) of Canadians say they have used marijuana at least once in their lifetime. A recreational market would be an obvious benefit for LPs and the Country, with Colorado bringing in more than $43 MM in taxes during the first nine months under legalization. In the US, three states voted in favor of legalization in 2014, including Alaska, Oregon, and DC, joining Colorado and Washington which passed similar ballot measures in 2012.

Risks to the Canadian MMJ Space

Legislation Changes - Brought in by the Conservative Government in 2013 (made effective on 1-April-14) MMPR has its fair share of detractors - especially in the opposing Liberal party. Leader Justin Trudeau has been quite candid about his distaste with the MMPR program. Should the Liberal Party win 2015 federal elections it could effectively wipe out the new regulations and create a new system but we don't see this as a credible risk. MMPR took three years of drafting and consultation. Current LPs have created jobs often in smaller rural communities, and a safe supply network. Trudeau has discussed plans for recreational use and a more hybrid system that would combine aspects of MMAR with MMPR - allowing individuals to grow their own product, but maintain a secure supply network. We don't believe LPs would be shut down immediately but rather some augmentation to the program. Any revenue that would be lost from personal production would be more than made up should recreational use be legalized, which Trudeau vocally supports.

Valuation Uncertainty - The MMJ space is unlike a typical consumer driven industry. LPs are only able to grow and sell what HC licenses, and any future growth hinges on further licensing and the need for more supply. HC could have 50 LPs, all with minimal capacity, or it could permit 25 with larger capacity and therefore potential revenue streams. Current LPs purchased/build facilities with considerable room for expansion. Return on investment for those facilities, and potential for valuation expansion based on growing revenue depends on HC and its choices on where to unleash new supply for growing demand - this is probably our greatest concern with the industry.

Adoption Rates Still Uncertain - While early growth rates of 13-17% MoM suggest growth faster than HC expected, the program is still in its infancy. We aren't sure if the market will ever reach penetration rates similar to the US of 1-2%, and if so, what the timing on that adoption is. As discussed earlier we also worry about physician comfort with prescribing the medicine, but believe that the combined work of LPs educating health care practitioners should soon help onboard more physicians.

Product Quality and Public Perception - Allegations of fraud and pump and dump schemes in the MMJ space started long before companies even went public and persevere today (see Globe & Mail Article here). Retail and institutional investors alike remain extremely cautious, and that caution is a headwind for valuation. Product recalls and quality are important factors as well, with Whistler Medical one of the latest companies to recall a large batch of MMJ due to mold in August/14 (see here). The best way to overcome these hurdles is a united industry, with a clear message from all stakeholders and a clear focus on delivering high quality medicine to patients. We aren't seeing that yet, with some LPs still sending a recreational message, and aiming to build/steal market share. Certain LPs, like Bedrocan, might be considered thought leaders in trying to unite the industry, grow and protect it together, before playing the market share game.

Bedrocan Cannabis Corp.

(BED-T: C$0.77)

January 12, 2015

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BUY, Speculative Risk
Dundee target: C$1.20

Budding Producer Seeks To Become LP Of Choice For Patients

BED-T	New	Last
Rating:	**BUY**	--
Target:	**C$1.20**	--
Risk:	**Speculative**	--
2016 EBITDA (MM$)	6.7	--
EV/EBITDA	6.3x	--

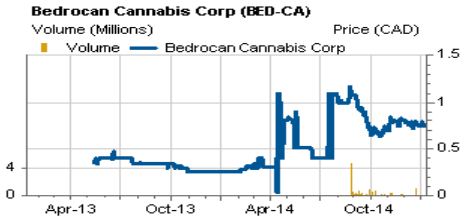
Company Data		
Price (01/09/15):		$0.77
52-Week Range (H-L):	$1.45	$0.64
Market Capitalization (MM$):		$53.26
Enterprise Value (MM$):		$42.14
Shares Outstanding - Basic (MM):		69.17
Shares Outstanding - Diluted (MM):		89.47
Avg Daily Volume (3 Mos) (000s):		309.2
Cash (MM$):*		$11.12
Debt (MM$):		$0.00
Working Capital (MM$):		$7.65
Fiscal Year End		January

** Includes short-term investments*

Forecasts	2015E	2016E	2017E
Price per gram ($/g)	7.50	7.50	7.50
COGS ($/g)	4.87	3.88	2.67
Revenue (MM$)	1.5	4.7	18.0
EBITDA (MM$)	(1.6)	(2.2)	6.7
EPS ($/sh)	(0.08)	(0.05)	0.05
OP CF (MM$)	1.7	(5.1)	3.2
CF/share ($/sh)	0.03	(0.07)	0.04
Capex (MM$)	(10.3)	(0.5)	(0.5)
FCF (MM$)	(8.6)	(5.6)	2.7

All Figures in C$ Unless Otherwise Noted
Source: FactSet, Company reports, DCM

BED-T: Price/Volume Chart



Source: Factset

Company Description

Bedrocan is an experienced producer of pharmaceutical-grade medicinal cannabis with over 13 year's expertise through its Dutch partner. Licensed by Health Canada, Bedrocan is one of 15 LPs under MMPR. Currently importing from Bedrocan BV, the company plans to grow domestically from its 52,000 sq ft. facility capable of 4,000 kg pa. A license is expected in Q1/15 with first harvest in Q2/15.

We recommend Bedrocan as a BUY with a C$1.20 target price. Bedrocan Cannabis is on the verge of graduating into a full blown licensed producer (LP), domestically producing up to 4,000 kg pa of Medical Marijuana (MMJ) from its state of the art 52,000 sq. ft. facility in Ontario. The company is already selling imported product from Bedrocan BV (in Holland), a significant shareholder in BED, building a patient base, brand, and consumer awareness. It's the go-to entity for regulators and governments, and produces a truly 'standardized' and 'research grade' MMJ product. This puts BED in a unique situation once fully licensed, and we expect fairly rapid growth in top line as a result (167% 3 year CAGR). Health Canada (HC) is due to inspect the near completed facility in January. BED could have its license by Feb (at the earliest), putting it in a situation for first harvest in May/June. With an Enterprise Value of $42 MM, BED is near the bottom band of LP valuations. Should the license come as expected, the stock could be an early winner in 2015 for investors willing to take on timing risk.

Strong patient base and brand: Not only has importing product meant surpassing the $1 MM revenue mark faster than most peers, but BED built brand awareness and a 1,500 patient base before growing a single gram domestically. Future harvest has essentially been sold forward with the work already put in.

Product standardization appeals to physicians: BED's pharmaceutical grade product is 'research grade' and without significant variation. Physicians like the approach to MMJ as a medicine, not a business opportunity. This should pay off.

Bedrocan BV experience: BV has over 13 years' experience growing and selling MMJ to the government of Holland and six other EU countries. BV's master grower is relocating to Canada to head production for the first two years - mitigating start up risks. BV CEO and Head of Research are part of the BED team.

Management has sector experience. CEO Marc Wayne worked with physicians in his previous role at CCIC (2008-2013). He's also Chair of the Canadian Medicinal Cannabis Industry Association (CMCIA), representing Canadian MMJ LPs.

Near-term catalysts could make Bedrocan an early winner in 2015:

- **Jan/15 -** HC due to inspect its 52,000 sq. ft. facility (4,000 kg pa)
- **Feb-Mar/15 -** Production license; initiate import of plant material from BV
- **May-June/15 -** First harvest in May and sale in June (after HC testing)
- **Q4E/15** - We expect positive EBITDA to begin (solidifying valuation)

Valuation: We base our valuation on a 12x 2016E EV/EBITDA multiple, reflecting the average multiples for comparable sectors with a slight premium crediting the high growth nature of this industry. We expect BED to have 8,000 patients by 2017, consuming 1.3g/day at $7.50/g. At 54% long-term EBITDA margins, below managements view of 70%+, we estimate long-run EBITDA of $15 MM. On 2016 EV/EBITDA and EV/Sales BED remains at a slight premium to peers, but we view a migration towards comparable sectors of 10-12x EBITDA as likely.

Bedrocan Cannabis - Poised to Be a Leader

We see Bedrocan as a thought leader in the industry - influencing peers and health care practitioners.

- Experienced producer of pharmaceutical-grade MMJ with over 13 years growing expertise through Dutch partner Bedrocan BV*;*
- Licensed by Health Canada (HC), BED is one of 15 LPs capable of selling MMJ under the new MMPR program; this is a high growth industry with high barriers to entry;
- Importing from BV (240 kg pa) through Dutch Ministry of Health, BED has built a strong brand and 1,500 patient base*;*
- Product standardization appeals to physicians and should pay off*;*
- Management expertise, and master grower relocation to Canada reduce start up risk*;*
- 52,000 sq ft. domestic facility capable of 4,000 kg pa near completion
- HC inspection in Jan sets the stage for licensing in Q1/15 with first harvest in Q2/15

Valuation & Forecasts

We rate Bedrocan as a BUY, Speculative Risk, with a C$1.20 Target Price. We base our valuation on a 12x 2016E EV/EBITDA multiple, reflecting the average multiples for comparable sectors with a slight premium crediting the high growth nature of this industry. We only considered the 4,000 kg pa domestic production facility and did not model potential upside factors such as a US market entry, South America licensing fees, potential for a second domestic production facility, and wholesale MMJ revenues.

Why EV/EBITDA? Several methodologies for valuation have been used in the space already, including highly discounted DCF's (up to 30%), multiples (most commonly EV/EBITDA), and blend methods. We would refrain from using earnings metrics given uncertain capital structures over the near-term. DCF's, at this point, are too susceptible to forecasting errors given the uncertain growth and market adoption rates over the long-term. Given the aforementioned uncertainties we settled on EV/EBITDA as our highest confidence valuation method, and use a 2016 time period as we only expect positive EBITDA from BED in calendar Q4/15. The company expects a similar breakeven time period.

Determining an appropriate forward multiple: We choose a multiple of 12x 2016 EV/EBITDA, reflecting Biotech & Life Science, Food Beverage & Tobacco, and Pharmaceutical industries. We believe all three S&P 500 sub-groups represent similarly regulated, high barriers to entry, growth rates, R&D focus, and risks as Canadian MMJ companies. While less mature, we believe the MMJ market deserves a slight premium to reflect its high growth, very high barriers to entry, potential for >50% EBITDA margins and low Capex requirements.

Table 1: Forward EV/EBITDA, P/E and EV/Sales multiples for comparable industries.

	EV/EBITDA		P/E		EV/Sales	
Indexes	**2015E**	**2016E**	**2015E**	**2016E**	**2015E**	**2016E**
S&P 500 Biotech & Life Sciences	12.2x	11.0x	17.7x	15.5x	4.8x	4.5x
S&P 500 Food Beverage & Tobacco	12.5x	11.8x	19.1x	17.7x	2.5x	2.4x
S&P 500 Pharmaceutical	11.7x	10.6x	17.9x	16.0x	4.3x	4.1x
Average	**12.1x**	**11.1x**	**18.2x**	**16.4x**	**3.9x**	**3.7x**
BED Current Valuation	--	**7.5x**	--	--	**10.5x**	**2.8x**

*As of 9-Jan-15

Source: Bloomberg, Dundee Capital Markets

Sector Comparable Valuation

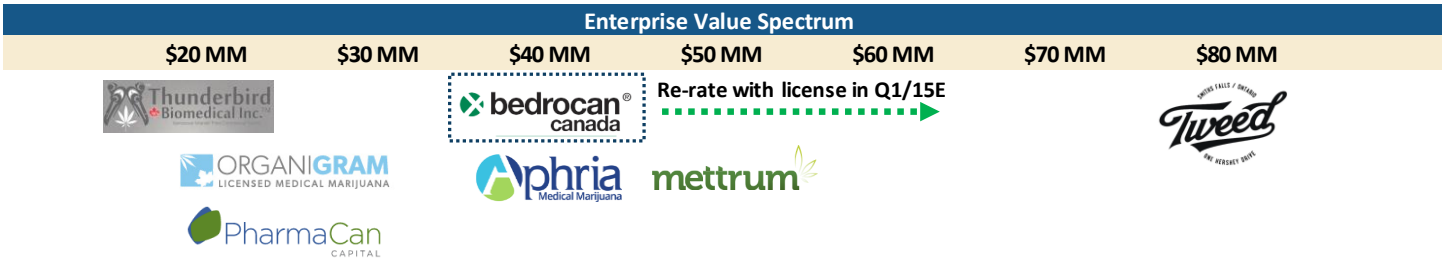
Similar to our peers covering the MMJ space, finding accurate and appropriate multiples/metrics is a challenge. The sector remains in its infancy, and valuations aren't

Valuation in the space is a challenge and there seems to be a disconnect between market value and company track records

necessarily reflective of patient counts, harvest success, or licensed capacity. It appears that LPs are arbitrarily given valuations of $25-$50 MM with Tweed (TWD-T, Not Rated) being an outlier at $80 MM. We believe that qualitative factors at this point carry more weight than implied metrics such as EV/production, EV/patient and even forecasted financial multiples given the uncertainty in current forecasts. When looking at MMJ companies we focus on management's history in the industry, marketing tactics towards doctors and patients, harvest/grow success, and growth plans - BED checks off all of these factors hence our launch and BUY rating.

Enterprise values range between $15-$80 MM with T-Bird Pharma and Tweed as both low and high bookends. Bedrocan (circled in blue) sits towards the middle along with Aphria at ~$40 MM.

Figure 1: Enterprise Value Spectrum for public LPs.



Source: Company Reports, FactSet, Dundee Capital Markets

- **T-Bird (TPI-T, Not Rated)** is an early stage LP that had its ability to sell license revoked earlier this year (hence the valuation disparity); zoning issues with its current facility is a concern for investors;
- **Organigram (OGI-T, Not Rated)** is somewhat unproven, only making its first sale to patients in September the company is behind other LPs from a revenue standpoint; OGI is focusing on the veteran market and plans to expand grow capacity to 4,000 kg pa;
- **PharamaCan (MJN-T, Not Rated),** listing only last month, has seen the expected rush to take profits but is one to watch given its diversification through large equity stakes in various stage MMJ co's (equity represents 1.5 LPs);
- **Aphria (APH-T, Not Rated)** is an early stage LP, with first sales in December the company is still demonstrating it can provide reliable supply of MMJ; CEO Vic Neufield has extensive pharmaceutical connections that may pay off;
- **Mettrum (MET-T, Not Rated)** is well-funded, has strong institutional support (Fidelity and Pyramis own ~25%), and two licensed facilities; Its patient base of ~2,100 ranks the highest among public LPs;
- **Tweed (TWD-T, Not Rated),** despite production issues earlier this year appears poised for a strong harvest in 2015, and maintains its large premium valuation to peers given its first mover advantage (first LP to go public), marketing savvy, and two licensed facilities.

We believe Bedrocan is due for a re-rate towards Mettrum and Tweed with the licensing of its 52,000 sq. ft. domestic facility anticipated in Q1/15. With only a small import operation the company has managed to tally up one of the largest patient bases amongst public LPs with potential to double it over the near-term. And while Mettrum and Tweed both have two licensed facilities, BED's intensely pharmaceutical approach, relationship with HC, and harvest experience are three intangibles it has over peers.

Premium to peers on conventional multiples. Looking at EV/EBITDA and EV/Sales the company appears at a premium to peers. Although we aren't placing considerable weight right now on comparable valuation metrics for three key reasons: 1) Small peer group of

public LPs; 2) Consensus is not robust yet with only 1 Analyst estimate for most LPs (aside from BED); 2) Uncertain patient growth rates in the industry mean revenue estimates may be over/under stated.

Table 2: MMJ comparable peer table (as of 9-Jan-15).

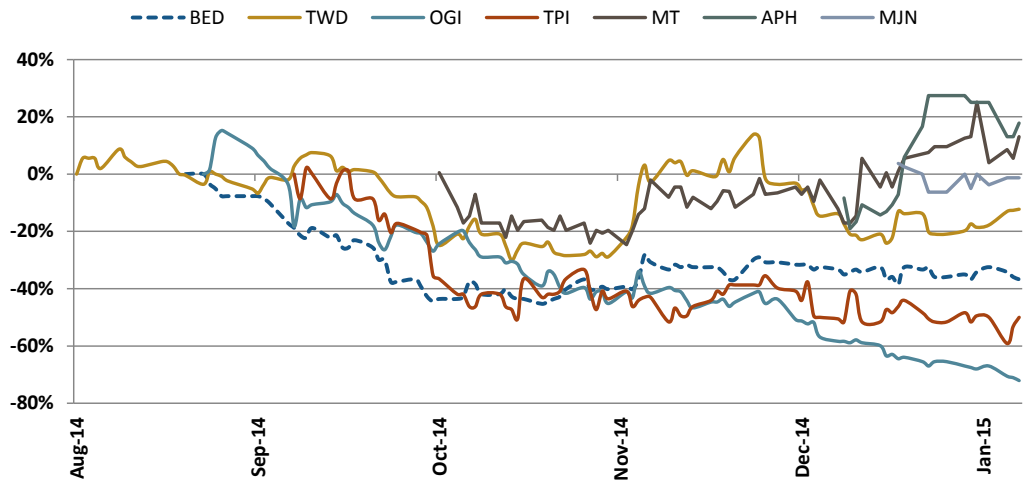
	Ticker	Last	S/O	FD S/O	Mkt. Cap	Cash	Debt	EV	2015 Est. Production	Patients Est.	EV/ Patients	EV/EBITDA		EV/Sales		Analysts
		C$/sh	MM	MM	MM$	MM$	MM$	MM$	kg	000	$/g	2015	2016	2015	2016	
Aphria Inc.	APH-CA	$1.00	52.5	75.5	52.5	$12.0	$0.0	$40	1,000	--	--	7.5x	3.7x	3.5x	1.9x	1
Bedrocan Cannabis[1]	BED-CA	$0.77	69.2	89.5	53.3	$11.1	$0.0	$42	1,000	1,500	28	--	6.3x	8.9x	2.3x	3
Mettrum Health	MT-CA	$2.25	33.8	50.5	76.0	$27.8	$2.0	$50	2,500	2,100	24	18.3x	3.4x	2.7x	1.4x	1
OrganiGram	OGI-CA	$0.58	51.6	51.6	29.9	$5.5	$0.0	$24	1,500	1,600	15	--	--	--	--	--
PharmaCan Capital	MJN-CA	$0.78	34.8	45.7	27.1	$1.5	$0.2	$26	1,000[2]	--	--	--	--	--	--	--
T-Bird Pharma	TPI-CA	$0.43	46.1	55.0	19.8	$3.0	$0.0	$17	250	--	--	--	--	--	--	--
Tweed Marijuana	TWD-CA	$2.22	40.1	44.2	89.1	$8.4	$0.0	$81	3,500	1,000	81	9.2x	3.2x	3.4x	1.7x	1
Average					**49.7**	**9.9**	**0.3**	**$40**	**1,536**	**1,550**	**37**	**11.7x**	**4.2x**	**4.6x**	**1.8x**	
Median								**$40**	**1,000**	**1,550**	**26**	**9.2x**	**3.6x**	**3.4x**	**1.8x**	

[1] Estimates are Dundee not consensus

[2] Attributable based on equity ownership of LP's

Source: Company Reports, FactSet, Dundee Capital Markets

Figure 2: Indexed equity performance since August/14.



Source: FactSet, Dundee Capital Markets

Key Model Assumptions:

A) Sales Price - We assume C$7.50/g into perpetuity for the company, in-line with current pricing. While we acknowledge the possibility of price wars with downside towards marginal cost, our expectation is for current pricing to hold given HC incentive to keep near "street" prices and little threat of oversupply (see industry section for more detail). We include BV's 2.5% top line royalty in our model (impacts NAV by -7%).

B) Patient Growth - Management has a target of 4,000 patients by YE15, with potential for the facility to service 8,000-11,000 over the long term. We suggest a slow growth to 8,000 patients by 2017, which using our own industry growth analysis assumes a 10% market share. This seems reasonable given the company's current ~10% share and ability for patients to split prescriptions across LPs (sharing of patients).

C) Patient Consumption Rate - Given only half of BED's 1,500 patients could be considered 'regulars' with a 1.3g/day average consumption rate, we use 0.5g/day to be conservative for the entire patient base. We ramp that up towards 1.3g/day over time

assuming BED's patient base firms up with higher quality patients and evolution in MMPR program potentially weeding out non-users/abusers.

D) Annual Sales - Considering our patient growth and consumption rates we see the company hitting ~3,800 kg pa of sales by calendar 2017 (strain dependent). It currently sells about 25kg per month under its import strategy.

		Calculation	MM$
Long Run Revenue	=	**A*B*C**	**C$28.40**

E) Cost Per Gram - While management believes it can achieve $1.5-$2/g over time we remain conservative with a $2.50/g COGS. We see the company reaching that cost by calendar Q3/16 (fiscal Q3/17). The two largest cost components are hydro and labor. And while labor is somewhat fixed, hydro use is variable meaning the company doesn't need to necessarily hit 4,000 kg pa to reach long-term costs per gram.

		Calculation	MM$	Margin
Long Gross Profit	=	**D - E**	**C$18.20**	**66%**

F) Sales & Marketing - Management guided us towards a $2-$3 MM pa expense over the near-term with potential to near eliminate the cost over time as once its patient base hits capacity it's foreseeable that BED will no longer need to actively market. But spending will depend heavily on marketing campaigns and activities. Should the company ramp up a certain initiative then costs could be above and beyond our estimate in the quarter/year. We expect costs to head towards $1 MM pa by 2018 (fiscal 2019) as marketing ramps down with maturity of MMPR and BED.

G) G&A Expense - Management guided for a $2 MM budget but we use $2.5 MM in our model to be conservative.

		Calculation	MM$	Margin
Long Run EBITDA	=	**Gross Profit - F - G**	**C$15.00**	**54%**

Target Price Methodology: Using our calendar 2016E EBITDA estimate of $6.7 MM and a 12x multiple, we calculate an EV of $79 MM. After adding cash and dividing by current shares outstanding (69.2 MM) we calculate a target price of C$1.20 for BED. See sensitivity to price per gram, EBITDA multiple, and COG's per gram multiple below:

Target Price Sensitivity	Price Per Gram ($/g)				
2016 EV/EBITDA	$5.00	$6.00	$7.00	$8.00	$9.00
10.0x	$0.12	$0.46	$0.79	$1.13	$1.47
11.0x	$0.13	$0.50	$0.87	$1.24	$1.61
12.0x	$0.14	$0.54	**$0.95**	**$1.36**	$1.76
13.0x	$0.15	$0.59	$1.03	$1.47	$1.91
14.0x	$0.16	$0.63	$1.11	$1.58	$2.06
15.0x	$0.17	$0.68	$1.19	$1.70	$2.21

Target Price Sensitivity	Price Per Gram ($/g)				
LT COGS Per Gram ($/g)	$5.00	$6.00	$7.00	$8.00	$9.00
$1.00	$0.31	$0.71	$1.12	$1.52	$1.93
$1.50	$0.25	$0.66	$1.06	$1.47	$1.87
$2.00	$0.19	$0.60	$1.01	$1.41	$1.82
$2.50	$0.14	$0.54	**$0.95**	**$1.36**	$1.76
$3.00	$0.08	$0.49	$0.89	$1.30	$1.71
$3.50	$0.03	$0.43	$0.84	$1.24	$1.65

Source: Company Reports, FactSet, Dundee Capital Markets

Risks to our valuation: The key risks lies in assumed patient growth, pricing and margins. We believe our assumptions are conservative considering BED believes it can hit 76% EBITDA

margins over the long-term and we hold ours at 54%. COGS per gram were held at $2.50/g while BED believes it can hit $1.50-$2.00. There is potential for price pressure towards marginal cost, but as previously mentioned, we hold a low probability for this scenario and as such maintain a $7.50/g price through the model.

Bedrocan Cannabis Corp. (BED-T)					
Rating	**BUY**	**C$ Target**	**C$1.20**	**Shares O/S (MM)**	**69.2**
Risk*	**Speculative**	**C$ Close**	**$0.77**	**Fully Diluted Shares (MM)**	**89.5**
Aaron Salz, Research Associate		**12-month return**	**56%**	**Basic Mkt. Capitalization ($MM)**	**C$ 53.3**
asalz@dundeecapitalmarkets.com				**Enterprise Value ($MM)**	**C$ 42.1**

VALUATION DATA				
Year-end January	2015E	2016E	2017E	2018E
P/E	--	--	14.5x	6.3x
P/CF	24.3x	--	18.7x	6.3x
EV/EBITDA	--	--	6.3x	3.0x
EV/Sales	28.8x	8.9x	2.3x	1.5x
FCF Yield	--	--	5%	17%

OPERATING STATS				
Year-end January	2015E	2016E	2017E	2018E
Sales (kg)	195	630	2,457	3,796
Price per gram ($/g)	7.50	7.50	7.50	7.50
COGS ($/g)	4.87	3.88	2.67	2.50

FINANCIAL SUMMARY				
Year-end January	2015E	2016E	2017E	2018E
Revenue (MM$)	1.46	4.73	17.97	27.76
Gross Profit (MM $)	0.51	2.28	11.41	18.27
Gross Margin	35%	48%	64%	66%
EBITDA (MM$)	(1.60)	(2.22)	6.66	14.02
EBITDA Margin	--	--	37%	51%

BEDROCAN VALUATION (C$)			
Method:	**NAV (MM $)**	**Target Price**	**Upside**
12x EV/EBITDA	**$79.78**	**C$1.20**	**56%**

Target Price Sensitivity	Price Per Gram ($/g)				
2016 EV/EBITDA	$5.00	$6.00	$7.00	$8.00	$9.00
10.0x	$0.12	$0.46	$0.79	$1.13	$1.47
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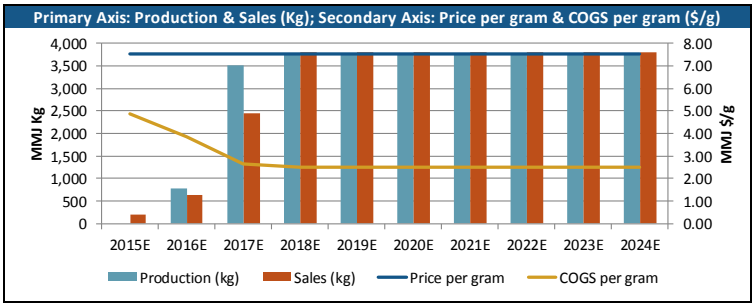


BALANCE SHEET (US$ MM)				
Year-end January	2015E	2016E	2017E	Q3/15
Assets:				
Cash & ST Investments	3.60	0.08	8.40	11.12
Other Current Assets	4.66	3.76	8.60	1.36
Current Assets	**8.27**	**3.84**	**17.00**	**12.48**
PP & E	10.86	10.36	9.86	6.93
Other non-current Assets	0.00	0.00	0.00	0.00
Total Assets	**19.13**	**14.20**	**26.86**	**19.40**
Liabilities:				
Current Liabilities	4.96	3.22	6.14	4.83
Long-term Debt	0.00	0.00	0.00	0.00
Other non-current Liabilities	0.01	0.04	5.62	0.01
Total Liabilities	**4.96**	**3.26**	**11.75**	**4.84**
Capital Stock	18.90	18.90	18.90	18.90
Retained Earnings	-4.74	-7.96	-3.80	-4.34
Total Shareholder Equity	**14.16**	**10.95**	**15.11**	**14.57**

INCOME STATEMENT (US$ MM)				
Year-end January	2015E	2016E	2017E	2018E
Total Revenue	1.5	4.7	18.0	27.8
COGS	1.0	2.4	6.6	9.5
Gross Profit	0.5	2.3	11.4	18.3
G&A	1.2	2.0	2.3	2.3
Sales & Marketing	1.0	2.5	2.5	2.0
Depreciation	0.2	1.0	1.0	1.0
EBITDA	**(1.6)**	**(2.2)**	**6.7**	**14.0**
EBIT	**(1.8)**	**(3.2)**	**5.7**	**13.0**
Interest Expense/Income	(0.1)	0.0	0.0	0.0
EBT	**-1.7**	**-3.2**	**5.7**	**13.0**
Taxes	0.0	0.0	1.5	3.4
Other	-2.6	0.0	-3.0	-6.9
Net Income (Reported)	**-4.3**	**-3.2**	**4.2**	**9.6**
EPS (Reported) $/sh	**-0.08**	**-0.05**	**0.05**	**0.12**
Average Shares (MM)	53.4	69.2	78.6	78.9

CASH FLOW STATEMENT (US$ MM)				
Year-end January	2015E	2016E	2017E	2018E
Net Income (Reported)	(4.3)	(3.2)	4.2	9.6
Depreciation	0.2	1.0	1.0	1.0
Working Capital Changes	3.2	(2.8)	(1.9)	(1.0)
Other	2.6	0.0	0.0	0.0
Operating Cash Flow	**1.7**	**(5.1)**	**3.2**	**9.6**
Operating Cash Flow/sh ($/sh)	**0.03**	**-0.07**	**0.04**	**0.12**
Capital Expenditures	(10.3)	(0.5)	(0.5)	(0.5)
Other	(3.7)	2.0	0.0	0.0
Investing Cash Flow	**(14.0)**	**1.5**	**(0.5)**	**(0.5)**
Common Share Dividends	0.0	0.0	0.0	0.0
Equity financing & W/O Exercis	16.9	0.0	5.6	0.1
Debt Issue	0.0	0.0	0.0	0.0
Debt Repayment	0.0	0.0	0.0	0.0
Other	(1.1)	0.0	0.0	0.0
Financing Cash Flow	**15.8**	**0.0**	**5.6**	**0.1**
Net Change in Cash	**3.5**	**(3.5)**	**8.3**	**9.2**
Cash Balance	**3.6**	**0.1**	**8.4**	**17.6**
Free Cash Flow	**(8.6)**	**(5.6)**	**2.7**	**9.1**

Source: Company Reports, FactSet, Dundee Capital Markets

Bedrocan & BV - History of Success

Formed in February 2012, Bedrocan was a first mover in the Canadian MMJ space. On 16-Dec-13 the company received its license to operate as an LP, with authority to import, package and sell MMJ. On 21-Feb-14 it entered into an exclusive license agreement with BV

for an indefinite term, to use all intellectual property (IP) for cultivation, processing, marketing, sale and other commercializing of cannabis in Canada. The company entered the market with a two phase strategy: 1) Operate an import only facility (3,500 sq. ft.) to sell and build brand equity in the Canadian market; 2) Produce MMJ domestically from a larger state of the art facility (52,000 sq. ft.), servicing a much larger patient base. Phase 1 has been successful, with a strong brand established and 1,500 patients purchasing BED MMJ.

						Expected Timing			
Feb/12	Dec/13	Feb/14	June/14	Nov/14	Dec/14	Jan/15	Feb/15	May/15	June/15
BED Formed	License to import and sell received	Entered agreement with BV	Initiated construction of 52,000 sq. ft. facility	Completion of cultivation rooms	Import license renewal	Completion of production facility & HC inspection	License to produce	First Harvest, HC testing	First sale

Source: Company Reports, Dundee Capital Markets

Dutch partner Bedrocan BV has a history of success and plans to grow the brand globally alongside Bedrocan Canada

Bedrocan BV History: Bedrocan BV is the exclusive producer of MMJ for the Dutch Ministry of Health, Welfare and Sport. BV MMJ has been sold in the Netherlands on prescription since 2003 and exported to patients in Germany, Italy, Finland, Norway and Canada (soon Switzerland and Czech Republic). The company produces a true pharmaceutical quality product - considered research grade. The level of standardization is important, as the reproducible chemical profile allows doctors to monitor dosage and progress like they would for any other treatment. This standardization makes it a true medicine, and remains a major selling point of Bedrocan product for both patients and physicians. BV has a history of providing placebo and plant material to government and academia looking to research the efficacy of MMJ. Those relationships can and will be monetized in the future.

Agreement with BV Lowers Risk

BV is currently licensing all IP to Bedrocan Canada - that is, BED has no direct ownership. Under the license agreement, BED is required to pay BV an annual license fee ranging from 2.5-7.5% based on net sales of cannabis in Canada. In return, and as discussed above, BV will provide product, know-how, marketing, and cultivation expertise. In fact, BV's master grower from Holland will be re-locating to Canada for two years, ensuring start up runs smoothly. The agreement also ensures certain performance guarantees, including minimum production yields and quality standards for LPs. Should the product not meet standards, the license fee will be reduced. We note that license fee payments will be deferred to the second year of production:

- 7.5% of net domestic sales between $0 - $2.5 MM
- 5% of net domestic sales between $2.5 million - $5.0 MM
- 2.5% of net domestic sales greater than $5.0 MM

There are two pieces of the agreement that provide upside:

One of the company's key advantages is its ability to monetize BV's IP in new markets around the world

1) Right of first negotiation for BED to acquire the rights to commercialize BV IP in the US in the event BV proposes to enter the market. BV would also provide certain facility planning and operation services. We view this opportunity as longer term upside and do not consider it in our valuation. Market entry into the US would be fraught with a new set of challenges and management has made no indication of its intent to enter in the near to medium term. In saying that, the company will have a platform to do so - something that can't be said for any other LP.

2) BED has the right to sub-license the commercial use of BV products, strains and production techniques in South America. The amended agreement provides for any revenues generated via BED's sub-licenses to be shared equally between BED and BV (50/50), paid quarterly in arrears. Furthermore, BED and BV will share equally all third

party out-of-pocket costs in regards to generating any sub-license revenues under any sub-license agreement. We believe this highlights one of the company's key advantages - monetization of BV's IP in new and developing markets.

Management & Directors Bring Relationships, Experience

The company has put together a comprehensive team of industry and non-industry experienced executives and board members. As discussed above, CEO Marc Wayne has experience working with physicians in his previous role at the Canadian Consortium for the Investigation of Cannabinoids (CCIC) (2008-2013), coordinating education courses and conferences promoting evidenced based research concerning the therapeutic application of cannabis and cannabinoid-based medicines. He's also Chair of the Canadian Medicinal Cannabis Industry Association (CMCIA), representing Canadian MMJ LPs. Mr. Wayne has a longstanding relationship with HC as a result of both roles.

Chief Production officer Tjalling Erkelens is the CEO and founder of BV, growing it into a world class MMJ provider and the only company worldwide whose cannabis is exported for patient use in full compliance with the Single Convention on Narcotic Drugs (1961). Dr. Arno Hazecamp, also from BV, has come on as an Advisor for BED. As an international authority on biochemical cannabis research, he is considered one of the foremost researchers in the field.

The board includes several notable figures, including Chairman Murray Goldman whose company The Goldman Group is both a significant shareholder (13.97%) and vested partner leasing all real estate to BED. Barry Fishman and Allan Mandelzys, both Directors, are ex-pharmaceutical executives. Connections to the pharma world should pay off from a physician buy-in point of view and even M&A down the road.

Holders Summary

Bedrocan has several significant shareholders, with the top three insiders owning 33% of shares outstanding: Goldman Holdings, CEO Marc Wayne and Bedrocan BV

Bedrocan has several significant shareholders, with the top three insiders owning 33% of shares outstanding:

1) Goldman Holdings, 13.97% - Chairman Murray Goldman, a Toronto real estate magnate, is the largest holder of BED through Goldman Holdings. The group has leased all of BED's current facilities through non-arms-length transactions. We see this relationship as beneficial to the company, as facility and land ownership can often be a contentious issue and risk for LPs. Bedrocan also has an option on a 200,000 sq. ft. facility through Goldman Holdings, although we don't see this as a near-term development.

2) Marc Wayne, 10.08% - CEO Marc Wayne is a vested partner in the success of this company from both a management and shareholder point of view. We like to see management ownership as it aligns interest with shareholders.

3) Bedrocan BV, 9.49% - Partner Bedrocan BV can be seen as both a shareholder and partner in growing the Bedrocan brand globally.

Table 3: Top holders of Bedrocan.

Top Holders	Position	% of S/O
Goldman Holdings Ltd.	**9,668,750**	**13.97%**
Marc Wayne	**6,977,867**	**10.08%**
Bedrocan BV	**6,568,750**	**9.49%**
Pasquale Dicapo	3,350,000	4.84%
Mackenzie Financial Corp.	1,005,900	1.45%
David Donofrio	350,000	0.51%
Hamish Sutherland	225,000	0.33%
Michael Singer	152,500	0.22%
Conan Mcintyre	150,000	0.22%
Front Street Capital	97,100	0.14%
Allan Mandelzys	93,088	0.13%
Redwood Asset Management	53,050	0.08%

Source: Bloomberg, FactSet, Sedi, Dundee Capital Markets

Import & Domestic Production Facility

Located in the GTA, BED has two facilities: 1) MMPR authorized 3,500 sq. ft. import facility; 2) Near completed 52,000 sq. ft. domestic production facility

Located in the GTA BED has two facilities: 1) MMPR authorized 3,500 sq. ft. import facility; 2) Near completed 52,000 sq. ft. domestic production facility.

Import Facility: This facility will act primarily as a call and R&D center following completion and licensing of the domestic production facility. Management indicated that it will not seek to renew the import license post 2015 (unattractive margins relative to domestic production).

Import Facility	
MMPR License:	License to import and sell renewed for a one year term through 2-Dec-15. Allowed to import 240 kg of MMJ.
Ownership:	Secured in a non-arms-length transaction with a Director of the company (Murray Goldman). Lease terms include $41,000 per annum, paid monthly plus certain expenses related to the property. Initial term ends 14-Oct-18 but option for fifteen more years.
Security level:	Level 8 facility, allowing for $6.25 MM or 625 kg of MMJ to be stored assuming a prescribed rate of $10/g.
Patient capacity:	1,500-2,000 patients assuming 1-1.5g/day consumption rates.

Domestic Production Facility: Construction near complete for its 52,000 sq. ft. facility capable of producing up to 4,000 kg annually (strain dependent). We are expecting a shorter review time for this facility given HC's familiarity with BED and its business plans, management's experience, strong track record already established from the import facility, and BV's reputation globally. This will be a level 9 facility compared to level 8 for the import center given the larger quantities of MMJ being produced and stored. That means extra security measures: cameras, video surveillance, secure shipping entry point, motion detection, secured access to every room, and state of the art backup systems.

Domestic Production Facility	
MMPR License:	HC expected to come mid-January for initial inspection. A production license is expected 1-2 months after that with the ability to sell following product testing. First harvest can be expected 2-3 months following the license. BED plans to import mother plants ready for immediate cloning.
Ownership:	Lease signed on 5-May-14 in a non-arms-length transaction with Murray Goldman. Five year lease starting on 1-Oct-14. Minimum annual rent, paid monthly, of $635,000 (subject to inflation and other adjustments). Option for another ten years.
Security level:	Level 9 facility, allowing for $31 MM or 3,100 kg of MMJ to be stored assuming a prescribed rate of $10/g.
Patient capacity:	8,000-11,000 patients assuming 1-1.5g/day consumption rates.

Acquisition could be a logical avenue for future growth as BED has no room to expand within its current domestic production center

Acquisition could be a logical avenue for growth. Most other LPs have facilities on large plots of land with expansion potential; within existing infrastructure or modular additions. Licensing add-ons is relatively simple and doesn't require LPs to start from scratch with HC. And while BED's relationship could expedite its efforts for another facility it would still require the company to go through all eight steps (see industry section for more detail). This takes time and there is certainly risk that by the time BED aims to do so HC may have officially or unofficially shut the doors on new production centers for MMJ. This implies acquisition as a likely avenue for domestic growth. It's too early to suggest targets but a facility in Ontario would certainly make most sense (G&A synergies).

State of the Art Growing Operations

Following licensing the company plans to import plant material (mother plants) from BV. The current import date is estimated to be in February, and is being reviewed with the Canadian Food Inspection Agency. Importing mother plants for immediate cloning could save the company 2-3 months, setting it up for May harvest and June for first sales to patients.

Growing will occur largely in fully automated rooms - lowering the chances of contact with harmful molds or bacteria

Standardized production techniques implemented from BV. BED will be growing MMJ in the exact same way as BV, with room and grow configurations identical to its Dutch partner. We do expect some deviations, at least for the first few batches as kinks are worked out. The company's harvest strategy ensures there is no real bottleneck, and plants will be grown in a hydroponic non-soil material, with fresh crop harvested every week. Yields are expected to be even better than BV with climate controlled compartments and advanced technologies capable of increasing yield per square meter. Assuming BED is licensed for its entire 4,000 kg pa capacity, management suggests it will try to ramp up as quickly as possible. Details for the most part are considered proprietary but we break down the basic flow sheet below:

1) 2 vegetation rooms - Plants enter these rooms for six weeks, with 18 hrs of light and 6 hrs of darkness alternating.

2) 32 production rooms - The rooms will be arranged in groups of four, with plants in climate controlled compartments (no pesticides). They spend eight weeks in the fully automated pods - meaning no human contact after the first day (this should reduce the chances of mold or bacteria exposure from growers entering the rooms). By staggering growing operations into eight groups of four pods the company ensures a constant stream of product, weekly.

3) 2 drying rooms - Each is capable of holding ~80kg of plant material. Growers cut the fully grown plants in the production rooms in half, just above the growing medium. The halves are then hanged on a dolly and pulled into a climate controlled dry room where it remains for a week to remove any moisture.

4) 4 trim rooms - Stems and leaves are removed and the buds are packaged into 5kg bulk containers. The rooms are capable of trimming 80kg of MMJ per week.

5) HC testing and irradiation - Testing is required by HC, and will be performed by an individual laboratory, ensuring there are no harmful pesticides, heavy metals, and levels of cannabinoids are at specified levels. BED will be testing every single batch to ensure patients are receiving the exact same standardized medicine (same THC and CBD levels). Contrary to what some market observers believe, BED does not have to irradiate product (like BV does in Holland). It can chose to do so in order to eliminate any potentially harmful bacteria or fungi, but this certainly adds cost and tends to impact smell and taste to the displeasure of patients. Management told us that it may irradiate at the beginning to ensure contaminant levels meet HC standards, but in the long run BED appears to be stepping away from irradiation.

6) Vault level 1 - Capable of holding six months' supply at -17 degrees to help increase shelf life. MMJ is stored here until sold to patients.

7) Value level 2 - Product is transferred up a mechanical lift meaning it never officially exits the vault. This second level of the facility will be used for product processing with three positive-pressure clean rooms, product control and testing, all located outside the top level of the vault. Product will continue to be packaged in 5g and 15g containers for patients. Duplicate labels are made for record keeping.

Bedrocan Product Suite

Contrary to other LPs, BED has taken a pharmaceutical approach to marketing its product

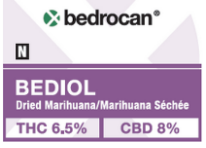
Contrary to other LPs, BED has taken a pharmaceutical approach to marketing its product. You won't find high resolution pictures of bud on the website, street names, or any focus that isn't on the medicine. And while we expect some degree of convergence to BED's marketing tactics given HC's slap on the wrist to 20 LPs, the company set itself apart from the get go and we expect that to pay dividends with both physicians and regulators.

Currently offering five different products, all priced at $7.50/g:

Bedropuur is a "high THC" Indica variety that was originally developed to extract THC for research purposes. It is available exclusively in Canada.

Bedrocan was developed in the Netherlands out of a requirement by the Dutch Health Ministry to have a "high THC" variety available to patients. It's a Sativa plant type, bred because of its high yield and optimal growth characteristics.

Bedica is the newest variety to be added to the product family. Bedica possesses notable amounts of terpenes, especially myrcene.



Bediol is a combination THC/CBD variety of cannabis that has been available in European pharmacies since 2007. The strain is high in CBD, which is the 'non-psychoactive' cannabanoid.

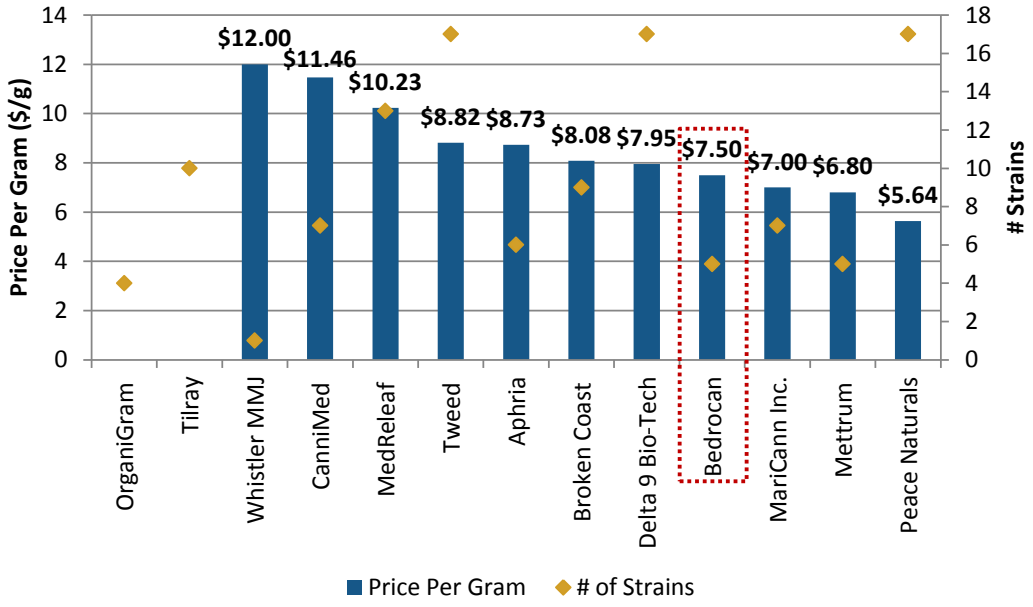
Bedrolite possesses medium levels of CBD and ultra-low levels of THC content.

Source: Company Reports, Dundee Capital Markets

BED has a small product offering covering a wide spectrum of CBD and THC contents. It hopes this simplicity and standardization will resonate in the medical community

Small product offering. Contrary to peers, BED has a fairly small product suite (see below). The company believes this will allow it to better manage production, and serve its patients. An issue that's already arisen in the MMPR program is LPs selling out of a certain strain, and while considered a patch of honor for some, BED's primary goal is to ensure a stable supply of medicine to its patients - similar to any other pharmaceutical drug. The company still covers a wide spectrum of CBD and THC contents, as well indica and sativa plants. It hopes this simplicity and standardization will resonate in the medical community.

Figure 3: LP pricing and strain offering chart.



Source: Company Reports, Dundee Capital Markets

BED should be considered a model LP, taking an intensely pharmaceutical approach from the get-go

BED should be considered a model LP. As a follow up from a 30-Jun-14 advertising bulletin, HC sent out letters to 20 LPs on 25-Nov-14 setting a deadline for advertising practices to change (12-Jan-15). As of today three LPs have yet to comply including public company Tweed (TWD-T, Not Rated). LPs must essentially limit advertising to basic information for prospective clients such as the brand name, proper or common name of the strain, price per gram, cannabinoid content, and the company's contact information. This change cost certain companies who invested considerably in PR, and whose message focused more on the recreational and aesthetic side of the drug instead of its pharmaceutical benefits.

From the get-go BED has taken an intensely pharmaceutical approach, and the company is trying to be an industry leader in this regard, encouraging others to follow suit. HC actually approached BV back in 2011, consulting it for information as how to view any future commercial MMJ set-up (similar to one set up in Holland). In Holland the product is ISO-9000 certified - a globally recognized quality management system. The same certification is in the works for Canada. BV is the only producer with such certification, giving it a leg-up for entering new markets internationally.

Standardization should help with entry into new markets. Laws are beginning to change globally for MMJ, and as such, BED has seen real interest in consistent standardized product from academics. Its already establishing such relationships; especially in South America where it set terms with BV to license out BV IP. We believe the company will eventually monetize these relationships, helping establish new markets globally before entering themselves.

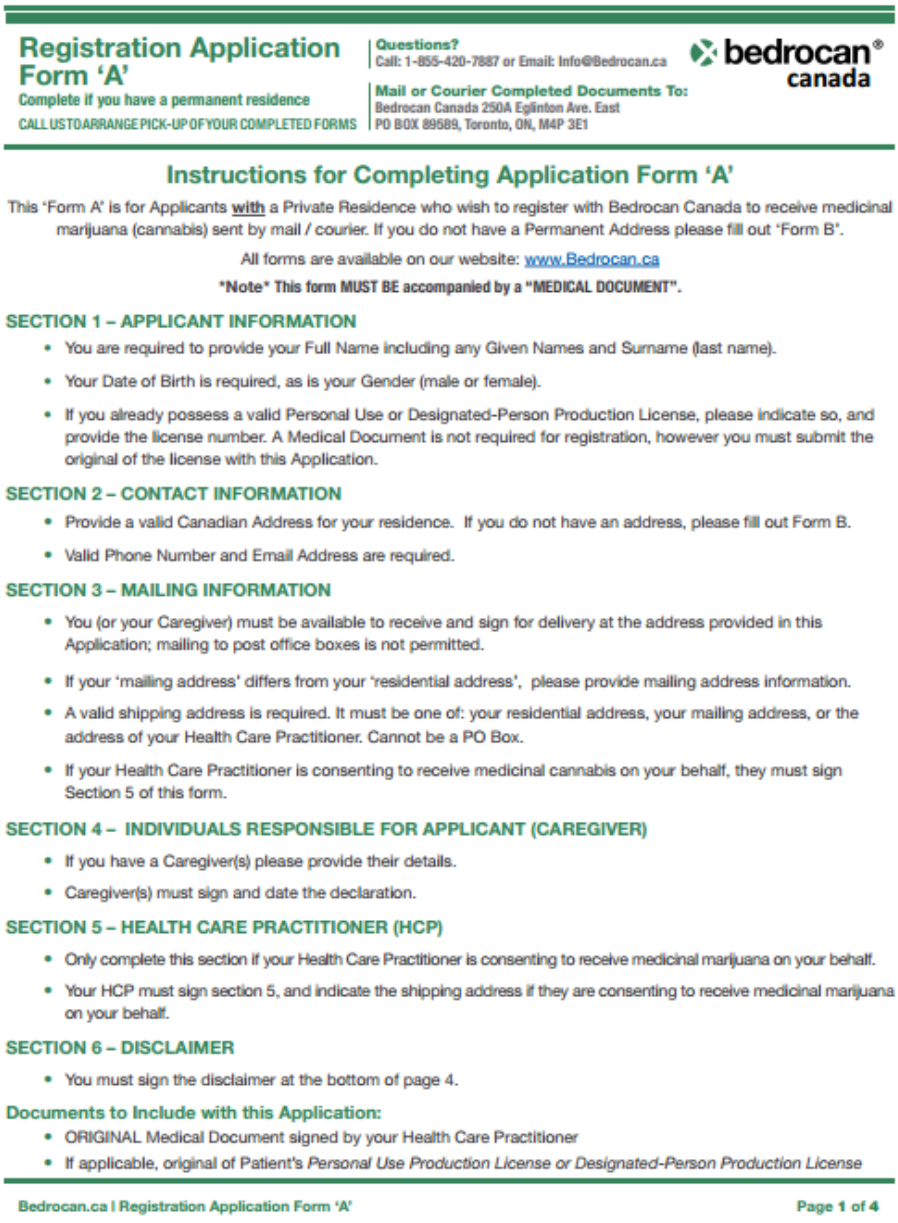
Patient Sign up Process

The process for Bedrocan is really no different than that of any other LP:

1) Obtain a medical document/prescription from an authorized health care practitioner (physician or a nurse). This will include a daily quantity of grams, and prescribed time (maximum of one year). Patients can possess the lesser of 150g or 30 times the daily quantity stipulated by the physician.

2) Send the document/prescription to Bedrocan along with a sign-up form (see below). Patients can spread one prescription over multiple LPs, but each LP will require a separate script from the doctor. Patients will also be required to fill out a second sign up form with each LP.

3) Bedrocan confirms prescription with the doctor, allowing patients to access MMJ. Yearly renewal is required as doctors are only able to give one year prescriptions. BED will not offer volume price discounts, but subsidization is possible. Typically price reductions will range in the amount up to 20% or selling at $6/g for lower income patients.



Registration Application Form 'A'

Complete if you have a permanent residence

CALL US TO ARRANGE PICK-UP OF YOUR COMPLETED FORMS

Questions?
Call: 1-855-420-7887 or Email: Info@Bedrocan.ca

Mail or Courier Completed Documents To:
Bedrocan Canada 250A Eglinton Ave. East
PO BOX 89589, Toronto, ON, M4P 3E1

bedrocan® canada

Instructions for Completing Application Form 'A'

This 'Form A' is for Applicants **with** a Private Residence who wish to register with Bedrocan Canada to receive medicinal marijuana (cannabis) sent by mail / courier. If you do not have a Permanent Address please fill out 'Form B'.

All forms are available on our website: www.Bedrocan.ca

***Note* This form MUST BE accompanied by a "MEDICAL DOCUMENT".**

SECTION 1 – APPLICANT INFORMATION

- You are required to provide your Full Name including any Given Names and Surname (last name).
- Your Date of Birth is required, as is your Gender (male or female).
- If you already possess a valid Personal Use or Designated-Person Production License, please indicate so, and provide the license number. A Medical Document is not required for registration, however you must submit the original of the license with this Application.

SECTION 2 – CONTACT INFORMATION

- Provide a valid Canadian Address for your residence. If you do not have an address, please fill out Form B.
- Valid Phone Number and Email Address are required.

SECTION 3 – MAILING INFORMATION

- You (or your Caregiver) must be available to receive and sign for delivery at the address provided in this Application; mailing to post office boxes is not permitted.
- If your 'mailing address' differs from your 'residential address', please provide mailing address information.
- A valid shipping address is required. It must be one of: your residential address, your mailing address, or the address of your Health Care Practitioner. Cannot be a PO Box.
- If your Health Care Practitioner is consenting to receive medicinal cannabis on your behalf, they must sign Section 5 of this form.

SECTION 4 – INDIVIDUALS RESPONSIBLE FOR APPLICANT (CAREGIVER)

- If you have a Caregiver(s) please provide their details.
- Caregiver(s) must sign and date the declaration.

SECTION 5 – HEALTH CARE PRACTITIONER (HCP)

- Only complete this section if your Health Care Practitioner is consenting to receive medicinal marijuana on your behalf.
- Your HCP must sign section 5, and indicate the shipping address if they are consenting to receive medicinal marijuana on your behalf.

SECTION 6 – DISCLAIMER

- You must sign the disclaimer at the bottom of page 4.

Documents to Include with this Application:

- ORIGINAL Medical Document signed by your Health Care Practitioner
- If applicable, original of Patient's *Personal Use Production License or Designated-Person Production License*

Bedrocan.ca | Registration Application Form 'A' Page 1 of 4

Source: Company Reports

Patient Count Growing

With 1,500 customers and growing Bedrocan isn't worried about selling production but rather selling out

With 1,500 customers and growing Bedrocan already has up to 800 kg of demand assuming a 1.5g/day consumption rate (or 550 kg assuming 1g/day). Able to import only 240 kg in 2015, the company will rely on domestic production this year to satisfy its growing patient base. In a detailed interview with website Stockhouse (see here), CEO Marc Wayne indicated the potential to easily double that patient number. BED isn't worried about selling product, but rather selling out: "We're managing inventory as best we can so that current patients have guaranteed supply. We need that new facility so we're not limited in our growth."

Current patient composition: Of the 1,500 patients, about half could be considered 'regular' purchasers. And of those, the average consumption rate is 1.3g/day, right in line with HC expectations of 1-1.5g. This sort of purchasing behavior from a patient base isn't unusual, and is fairly common across the industry. A lot of patients from MMAR or even the black market rushed to sign up when MMPR was announced as a precaution, and many of those haven't even purchased a single gram yet. We speculate that other patients spread prescriptions across LPs, but have dosage amounts above and beyond their needs deciding to only purchase from one LP.

Wait list: BED's primary wait list is at about 300 patients - that is, patients with BED paperwork and medical documents filed. Another 300 are waiting for a call-back from the company to confirm information and prescription. The company is focused on developing a quality patient base with frequent regular consumption of reasonable quantity. BED hasn't aggressively targeted any particular consumer group (ex. Veterans being the most vocal).

Physician Outreach and Medical Advisory Board

Medical advisory board to help bridge the knowledge gap with other doctors, patients, and Canadian medical bodies

Bedrocan already has a database/rolodex of over 700 prescribing physicians including a medical advisory board of five physicians (3 CAD, 1 US, 1 EU) which include pain, physical rehab, and psychiatry experts. As pointed out in our industry discussion, we don't attribute much value to a physician rolodex. But BED has made a point of using physicians as a gateway to the broader 75,000 Canadian physician community - educating on benefits of MMJ, and removing preconceived notions on the industry. The difference between BED and its peers is the company's aim to convert physicians into prescribers of MMJ in general, not necessarily its own product. This industry first view should be seen favorably by regulators and physicians.

While the medical advisory board is advertised as helping with ongoing research programs, it will likely serve two other important purposes, in our view:

1) Bridging the knowledge gap with other doctors and patients. Patients and doctors alike remain cautious to use and prescribe medical marijuana. One of the largest barriers to this industry taking off, in our view, is adoption rates among both groups. Doctors are key to bridging that gap.

2) Helping convince Canadian medical bodies. Most medical bodies in Canada are not full supporters of the new MMPR program. For the product to be truly considered a medicine, medical regulatory bodies will want to see that it can be consumed effectively - which means consistent transmission of benefits. We see this as one of BED's key advantages - 13 years in clinical research, and ability to deliver standardized consistency without milling (full bud form).

BED, unlike it peers, has 13 years of demonstrated commercial production experience (through Bedrocan BV). The same team, including Tjalling Erkelens (Chief Production Officer) is heading BED. And now with the addition of Arno Hazekamp, PhD, Head of Research and Development for Bedrocan BV to the Medical Advisory Board, BED has arguably the most cultivation experience amongst peers. This will be key, as any sign of product issues, like mold, could see its production license repealed (which happened to a peer earlier this year).

Balance Sheet & Capital Structure

As of 31-Oct-14 Bedrocan had $2.8 MM cash, $8.3 MM in short term investments and no reported debt. Expenditures of up to $10 MM over the next 12 months is expected, meaning a raise may be necessary unless BED is able to ramp up domestic production and sell into a larger patient base profitably. Furthermore, existing warrants issued pursuant to BED's two private placements earlier in 2014 could generate additional capital of up to $14 million providing a source of capital, if needed.

Q3 Results: Nothing that noteworthy or unexpected in the results. We knew the company surpassed the $1 MM revenue mark, and now has ~$1.1 MM sales YTD (or ~145,000 grams at $7.50/g). Gross margins are essentially fixed at 35% based on agreed upon pricing between BED and BED BV for imports.

We wouldn't draw much attention to past results, or even the next six months. The company's COGS, and as a consequence, its gross profit margins are based on a contractual obligation with BV. Financials will become meaningful in H2/15 once the domestic production facility is operating.

		Q1/14	Q2/14	Q3/14	YTD*
Revenue	000 $	95	369	493	1,087
Price per gram	$/g	7.50	7.50	7.50	7.50
Implied grams sold	g	12,645	49,258	65,782	144,899
COGS	000 $	49	255	319	682
COGS per gram	$/g	3.91	5.17	4.85	4.71
Gross Profit	000 $	45	115	174	405
Gross Margin	%	48%	31%	35%	37%
G&A	000 $	267	493	198	1134
G&A as % of rev	%	281%	133%	40%	104%
EBITDA	000 $	(349)	(579)	(344)	(1,444)
EBITDA Margin	%	n/a	n/a	n/a	n/a
Net Loss/Profit	000 $	(355)	(591)	(2,960)	(4,121)
Per share	$/sh	(0.01)	(0.01)	(0.06)	(0.07)
Shares Outstanding	MM	44.3	50.6	53.7	57.5

*Adjustments to prior quarters made for 9mo ended 31-Oct-14

Source: Company Reports, Dundee Capital Markets

Warrants as source of cash: Given forced conversion clauses on the two primary warrant units outstanding (Private Placement and Unit Financing, see below), the company could see cash infusions as the share price appreciates into catalysts this year.

- **Private Placement (4-April-14) -** 9.3 MM warrants at $0.60, expiring 20-Feb-16, have a forced conversion if the share price is above $1.00 for 15 consecutive trading days. That would bring in $5.6 MM, potentially in the near term (52-week high of $1.45).
- **Unit Financing (20-Aug-14) -** 6.8 MM warrants at $1.20, expiring 20-Feb-16, have a forced conversion if the share price is above $2.05 for 15 consecutive trading days. That would bring in $8.1 MM.

Table 4: Capital structure as of fiscal Q3/15 (calendar Q3/14).

	MM	$/sh	Expiry
Shares Outstanding	**69.2**		
Warrants:			
Private Placement	9.3	$ 0.60	20-Feb-16
POCML	0.1	$ 0.30	15-Nov-15
Unit Financing	6.8	$ 1.20	20-Feb-16
Broker Warrants	0.9	$ 0.85	20-Feb-16
Total	**17.1**	**$ 0.85**	
Options:			
Granted	2.9	$ 0.53	Mid-2019
POCML	0.3	$ 0.30	Mid-2018
Total	**3.2**	**$ 0.51**	
Diluted Shares Outstanding	**89.4**		

Source: Company Reports, Dundee Capital Markets

Risks

Licensing - The largest risk to Bedrocan and our whole investment thesis is the licensing of its 52,000 sq. ft. domestic production facility. Funded and built, the facility is due for HC inspection in the coming weeks with potential for a production license in February (at the earliest). There is the risk timing is pushed, although we believe the process should be expedited due to BED's existing relationship with HC and already licensed import facility. There is also risk the company never receives the license, and while we place a very low likelihood on this scenario, it would materially impact our valuation.

Product quality - Importing MMJ from BV has resonated with patients, and while BV has made certain product performance guarantees, there is risk domestic production differs in quality, smell, taste, and effect (also potential for recalls). Irradiating product may be necessary, and patients in Canada have already expressed distaste for irradiated MMJ. With the Head Grower moving to Canada for two years, and both BV CEO and Head of Research on board we see this risk as somewhat mitigated.

Unfavorable publicity - This could stem from poor product quality, an irresponsible public image, or general anger with the MMJ industry in Canada. We believe the company is doing a superb job with factors in its control, and BED is already being recognized for its efforts. But, it can't control its peers and the actions of others could impact BED's public image and even valuation.

Reliance on a single facility - BED isn't the only LP with a single facility, but relative to its peers, BED's facility lacks modularity. Most other LPs have facilities on large plots of land with expansion potential; within existing infrastructure or modular additions. Licensing add-ons is relatively simple and doesn't require LPs to go through the whole process. For BED to expand it would need a new facility and completely new license. This implies acquisition as a likely avenue for domestic growth.

Management

Marc Wayne, CEO - Mr. Wayne is Board Chairman for the Canadian Medicinal Cannabis Industry Association (CMCIA) - membership for licensed producers and applicants. Formerly the Director of Business Development for the Canadian Consortium for the Investigation of Cannabinoids (CCIC), a leading organization of scientists and healthcare professionals established to promote evidenced based research and medical education concerning the therapeutic application of cannabis and cannabinoid-based medicines. Previous to his work in the cannabinoid space, Marc was managing partner and founder of the OAM Computer Group, a leading Canadian integrator and founding investor and Board member of Lasoo.com a leading provider of spatial software ASP services, whose technology was purchased by Yahoo (2000-2001).

Michael Singer, CFO - Mr. Singer is an accomplished pharmaceutical industry executive and consultant. Previously, he was Chief Financial Officer and Corporate Secretary of Thallion from March 2007 until the successful sale of the company to BELLUS Health Inc. in August 2013. Prior to Thallion, he served as Vice President, Chief Financial Officer and Corporate Secretary of Caprion Pharmaceuticals Inc. (a private company) from February 2000 until its merger with Ecopia BioSciences Inc. to form Thallion in 2007. Until July 2014, Mr. Singer served as Chairman of the Board of Warnex Inc. (WNX-H.V, Not Rated) until successful completion of the company's amalgamation with Diagnos Inc. (ADK-V, Not Rated). On July 24, 2014, Mr. Singer was appointed to the Board of Diagnos Inc. Mr. Singer graduated from McGill University (1991) and is a Chartered Professional Accountant – Certified General Accountant with the Ordre des CPA du Québec.

Tjalling Erkelens, Chief Production Officer - Mr. Erkelens is the founder and CEO of Bedrocan BV. For the past 20 years, he has developed and standardized unique methods of producing cannabis to pharmaceutical standards to a level achieved by no other company in the world. Under his leadership, Bedrocan has become the only company in the world whose cannabis is exported for patient use in full compliance with the Single Convention on Narcotic Drugs (1961). Bedrocan supplies cannabis to patients in Germany, Italy, Finland and Norway, and soon Switzerland and the Czech Republic, and to researchers around the world. Mr. Erkelens is a member of the Advisory Committee on Applied Horticulture of the University of Wageningen's Health and Plant Division, The Netherlands.

Hamish Sutherland, COO - Mr. Sutherland built the Asia Pacific operations for Bid.Com (in Melbourne, Australia) as President and Managing Director of Bid.com Pty Ltd. He established the international server operations, and sales and marketing teams in Japan, South Africa, India, Australia and Hong Kong. He has been responsible for founding the operations of 17 offshore companies entering North America for the first time, including Mincom, Vulcan Software and Whittle, and facilitated $100 MM of direct investment and acquisitions between Australian and Canadian companies. He was a founding limited partner and Board Member for the Upper Canada Brewing Company. Hamish is a Professional Engineer in Ontario and is the active Chair of the Little Geeks Foundation.

Dr. Arno Hazecamp, Advisor, R&D and Education - Dr. Hazekamp is the Head of Research and Education of Bedrocan BV. He is the author of numerous scientific papers on cannabis chemistry, delivery mechanisms, quality control and patient surveys. As an international authority on biochemical cannabis research, he is considered one of the foremost researchers in the field. Dr. Hazekamp was actively involved in creating quality standards used by the Dutch Government, and was a co-founder of the non-governmental organization (NGO) NCSM, intended to inform physicians and patients of the proper use of cannabis in clinical practice. He is a member of the Board of International Association for Cannabis as Medicine (IACM) since 2009.

Board of Directors

Murray Goldman, Chairman - Mr. Goldman is the founder and Chairman of The Goldman Group, a fully integrated real estate development company that has developed and built in Canada, the United States and Israel for over 50 years. The company has a history of innovative and original mixed-use developments that have established precedent-setting neighborhoods in the Greater Toronto Area. In 2010, Mr. Goldman received the NAIOP lifetime achievement award acknowledging his leadership in this field. Mr. Goldman continues to serve as a director of a number of prominent organizations and is a major investor and founder of a number of innovative medical and scientific research companies.

Barry Fishman, Director - Mr. Fishman is currently the CEO of Merus Labs International Inc. (MSL-T, Not Rated) and has over 25 years of experience in the pharmaceutical industry, most recently as CEO of Teva Canada. During his tenure at Teva Canada, Mr. Fishman executed a growth plan that resulted in a five-fold increase in revenue through acquisitions and organic growth. Mr. Fishman is also the past Chair of the Canadian Generic Manufacturers Association. Previously, as CEO of Taro Canada, Mr. Fishman tripled sales through organic growth and market expansion in the form of a new private label division and the establishment of a new branded dermatology business. He began his pharmaceutical career at Eli Lilly, where he advanced through several cross-functional leadership roles, including Vice President of Marketing.

Roderick Budd, Director - Mr. Budd was a partner at Ernst & Young for 25 years until his retirement in 2010. For eight years he served as the Canadian firm's life sciences practice leader. Mr. Budd has over 36 years of experience in public accounting serving emerging and growth companies with a focus on those in the life sciences sector. He has experience with public companies in both Canada and the United States, having assisted in more than a dozen IPOs and numerous secondary issues in the past 15 years. He currently holds board positions in several other companies and industry leading organizations.

Allan Mandelzys, Director - Mr. Mandelzyz is an accomplished biotechnology executive with twenty years of experience, most recently as CEO of a clinical stage, publicly-traded pharmaceutical company. He is a business development professional with more than fifteen years of successfully leading negotiations and executing strategic partnerships, which include product in-licensing and out-licensing agreements, merger and acquisition transactions, research alliances and master service agreements. He has a proven track record in raising capital (more than $200 MM) and communicating effectively with investors, media and external stakeholders.

Marc Wayne, Director - See above.

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A Research Analyst/Associate involved in the preparation of this research report has visited certain material operations of the following issuer(s): Bedrocan Canada Inc. The analyst viewed the domestic production and import facility in Scarborough.

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Dundee target: represents the price target as required under IIROC Rule 3400. Valuation methodologies used in determining the price target(s) for the issuer(s) mentioned in this research report are contained in current and/or prior research. Dundee target N/A: a price target and/or NAV is not available if the analyst deems there are limited financial metrics upon which to base a reasonable valuation.

Recommendations: BUY: Total returns expected to be materially better than the overall market with higher return expectations needed for more risky securities. NEUTRAL: Total returns expected to be in line with the overall market. SELL: Total returns expected to be materially lower than the overall market. TENDER: The analyst recommends tendering shares to a formal tender offer. UNDER REVIEW: The analyst will place the rating and/or target price Under Review when there is a significant material event with further information pending; and/or when the analyst determines it is necessary to await adequate information that could potentially lead to a re-evaluation of the rating, target price or forecast; and/or when coverage of a particular security is transferred from one analyst to another to give the new analyst time to reconfirm the rating, target price or forecast.

Risk Ratings: risk assessment is defined as Medium, High, Speculative or Venture. Medium: securities with reasonable liquidity and volatility similar to the market. High: securities with poor liquidity or high volatility. Speculative: where the company's business and/or financial risk is high and is difficult to value. Venture: an early stage company where the business and/or financial risk is high, and there are limited financial metrics upon which to base a reasonable valuation.

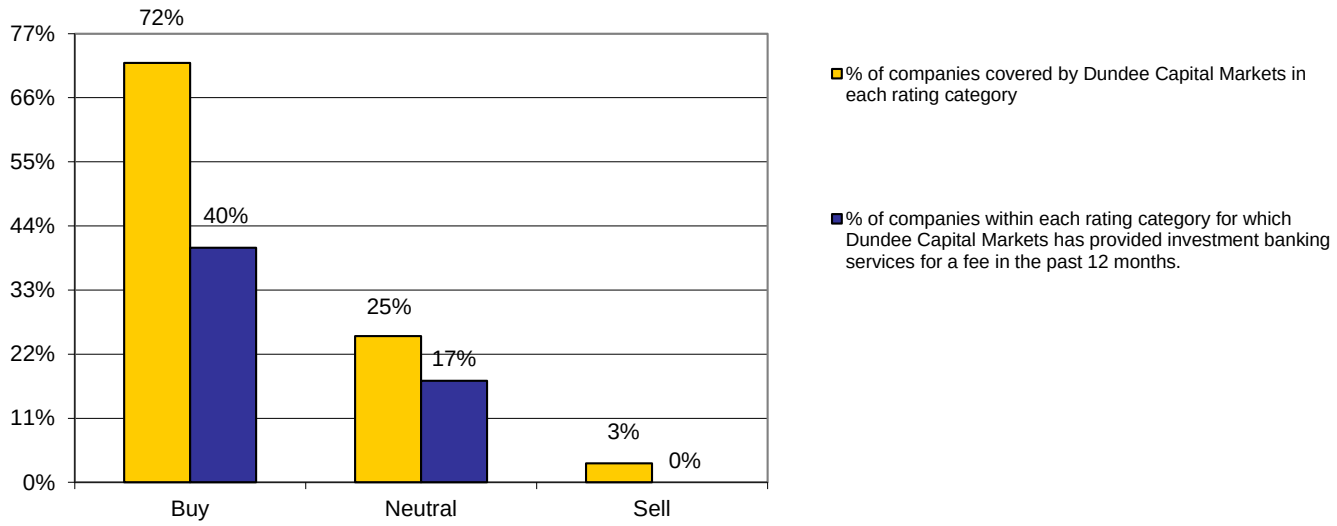
Investors should not deem the risk ratings to be a comprehensive account of all of the risks of a security. Investors are directed to read Dundee Capital Markets Research reports that contain a discussion of risks which is not meant to be a comprehensive account of all the risks. Investors are directed to read issuer filings which contain a discussion of risk factors specific to the company's business.

Medium and High Risk Ratings Methodology: Medium and High risk ratings are derived using a predetermined methodology based on liquidity and volatility. Analysts will have the discretion to raise but not lower the risk rating if it is deemed a higher risk rating is warranted. Risk in relation to forecasted price volatility is only one method of assessing the risk of a security and actual risk ratings could differ.

Securities with poor liquidity or high volatility are considered to be High risk. Liquidity and volatility are measured using the following methodology: a) Price Test: All securities with a price <= $3.00 per share are considered high risk for the purpose of this test. b) Liquidity Test: This is a two-tiered calculation that looks at the market capitalization and trading volumes of a company. Smaller capitalization stocks (<$300MM) are assumed to have less liquidity, and are, therefore, more subject to price volatility. In order to avoid discriminating against smaller cap equities that have higher trading volumes, the risk rating will consider 12 month average trading volumes and if a company has traded >70% of its total shares outstanding it will be considered a liquid stock for the purpose of this test. c) Volatility Test: In this two step process, a stock's volatility and beta are compared against the diversified equity benchmark. Canadian equities are compared against the TSX while U.S. equities are compared against the S&P 500. Generally, if the volatility of a stock is 20% greater than its benchmark and the beta of the stock is higher than its sector beta, then the security will be considered a high risk security. Otherwise, the security will be deemed to be a medium risk security. Periodically, the equity risk ratings will be compared to downside risk metrics such as Value at Risk and Semi-Variance and appropriate adjustments may be made. All models used for assessing risk incorporate some element of subjectivity.

SECURITY ABBREVIATIONS: NVS (non-voting shares); RVS (restricted voting shares); RS (restricted shares); SVS (subordinate voting shares).

Dundee Capital Markets Equity Research Ratings



As at September 30, 2014

Source: Dundee Capital Markets