



INITIATING COVERAGE December 9, 2016

EMBLEM CORP.
(V-EMC) \$1.15 (Price of recent financing)

RATING: BUY
(initiating)

TARGET: \$3.25
(initiating)

New Competitor in MMJ Market sets High Standards

- ▶ Emblem Corp. is a fully integrated Canadian medical marijuana, healthcare and cannabinoid-based pharmaceutical company licensed to carry on business as a producer and seller of medical cannabis.
- ▶ Strong management. Gordon Fox leads a strong team of professionals with deep roots in the medical field. Harvey Shapiro, President of GrowWise a joint venture partner, co-founded an independent pharmacy chain with Gordon Fox as well as co-founding Dynacare – a medical diagnostic services company. John Stewart, President of Emblem’s pharmaceutical division was CEO of Purdue Pharma Canada.
- ▶ Emblem has a state-of-the-art facility in Ontario, which boasts the most up-to-date growing technology and is built on clean room standards. The facility is able to produce 700kg of MMJ and will expand shortly to 2,100kg by early 2017.
- ▶ Solid patient on-boarding strategy. GrowWise, a joint venture partner, operates clinics and works with physicians to register patients.
- ▶ Pharmacy background. We expect pharmacies will eventually be a distribution point for medical MJ. We believe management’s experience within this industry through White Cedar Pharmacy is a competitive advantage.
- ▶ Non-irradiated product. Emblem produces a high quality MJ product which does not require the use of gamma-irradiation like several LPs utilize. We believe this will be a differentiator for premium cannabis within the medical and recreational markets.
- ▶ **FORECAST/OUTLOOK:** We are forecasting Emblem to reach breakeven by Q218 and ramp up sales to \$29.7M in FY18 and \$55.8M in FY19. Our EBITDA projection for FY18 and FY19 is \$5.3M and \$17.8M respectively.
- ▶ **VALUATION/RECOMMENDATION:** We believe Emblem will rank among the leading cannabis producers over the next few years. The Company has a strong medical MJ strategy and intends to be a niche player in the recreational market selling premium cannabis.
- ▶ **We are initiating coverage of Emblem Corp. (V-EMC) with a BUY rating (Risk rating: SPECULATIVE) with a 12-month target of \$3.25.**

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Company Statistics

Risk:	SPECULATIVE
52-week High/Low:	na
Shares o/s ('000):	65,165
Shares o/s (fd) ('000):	113,178
Market Cap (fd) ('000):	\$130,155
Cash ('000):	\$28,344
Debt ('000):	\$5,304
CEO:	Gordon Fox
CFO:	John Laurie
Shareholders:	Mgmt/Insiders 15% Institutional 12%

Financial Summary

YE Dec 31)

\$CAD	FY16e	FY17e	FY18e	FY19e
Revenue (\$K)	139	7,560	29,671	55,784
EBITDA (\$K)	(5,541)	(3,010)	5,281	17,808
EBITDA (%)	na	-39.8%	17.8%	31.9%
Net income (\$K)	(11,937)	(5,622)	1,073	9,362
EPS (\$)	(0.11)	(0.05)	0.01	0.08
EV/EBITDA	na	na	9.8x	2.9x
P/E	na	na	121.3x	13.9x
Quarterly EPS (\$)	Q1	Q2	Q3	Q4
FY16	na	na	(0.32)a	(0.03)e
FY17	(0.01)e	(0.01)e	(0.01)e	(0.01)e

* Emblem Corp. has no prior trading history

PI Financial Corp. has received compensation for acting as a fiscal agent for EMC in the previous 12 months. See the disclosure section for additional details.

Corporate Information

Emblem Corp. is a fully integrated Canadian medical marijuana, healthcare and cannabinoid-based pharmaceutical company licensed to carry on business as a producer and seller of medical cannabis. Emblem has production facilities in Paris, Ontario.

A Disclosure fact sheet is available on Pages 19-20 of this report.

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Overview

Emblem Corp. is a fully integrated Canadian medical marijuana, healthcare and cannabinoid-based pharmaceutical company licensed to carry on business as a producer and seller of medical cannabis. Emblem Corp. has built three verticals that include:

- Emblem Cannabis - A marijuana production facility in Paris, Ontario.
- Emblem Pharmaceutical – A research and development vertical for new dosage forms of cannabinoid medication.
- GrowWise Health – Marijuana education for patients & physicians.

Medical Focus with an Eye on the High End Recreational Market

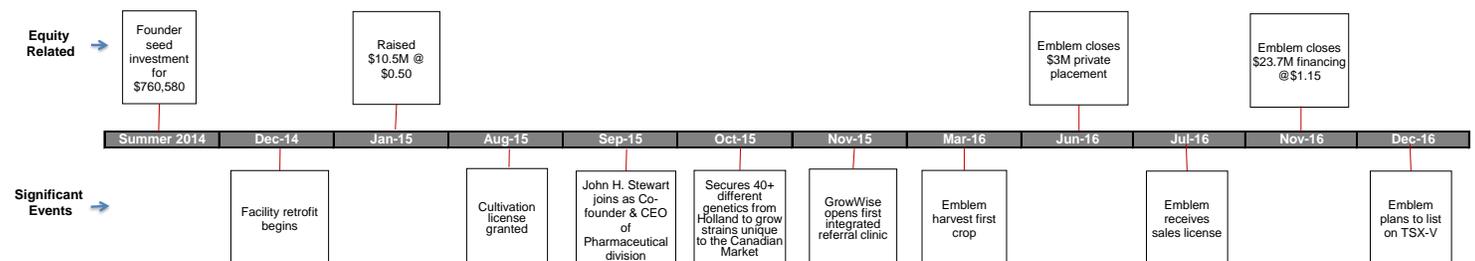
Emblem has deep roots in the medical industry. The CEO, Gordon Fox founded White Cedar Pharmacy with GrowWise President, Harvey Shapiro. White Cedar Pharmacy is an independent chain of pharmacies operating in Ontario. In addition to co-founding White Cedar, Harvey Shapiro also co-founded Dynacare, a medical diagnostic services company. Finally, John Stewart, President of Emblem’s Pharmaceutical division, was president and CEO of Purdue Pharma Canada which launched several new products during his tenure including OxyContin.

While we expect the Company to deliver on the medical market Emblem is not ignoring the upcoming recreational opportunity. Management plans to develop several “high end” strains that will appeal to the cannabis connoisseur. In the US, for example, there is a high-end, low volume market which is priced at 2 – 3x higher than the low-end, high volume market (CheatSheet.com). We feel Emblem’s technically advanced, indoor grow facility is well suited to grow a consistent, high-end strain of cannabis which fit into this potential niche market. A few examples of a high-end product in the US are strains with rich flavours and aromas (quality terpene profile) or strains that promote a certain type of experience (Skinny Weed was developed to eliminate the munchies). We believe Emblem’s experience in developing high quality, targeted medical cannabis will transfer over to developing high-end recreational products.

History

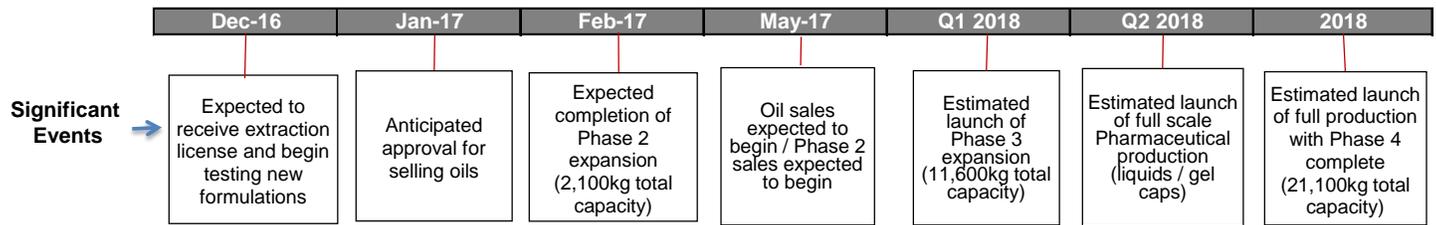
Emblem received its cultivation license in August 2015 and harvested its first crop in March of 2016. A couple months later in July 2016, Emblem received its license to sell marijuana. Emblem has laid out a 4 Phase expansion plan to expand annual production capacity from 700kg to 21,100kg with estimated completion in 2018. Management, founders, advisors and employees have to-date invested \$6M personally into Emblem.

Figure 1 - Timeline



Source: Emblem Corp. Corporate Presentation

Figure 2 – Roadmap Ahead



Source: Emblem Corp. Corporate Presentation

Facilities

Emblem currently has 14,500 sqft of total cultivation space across two enclosed buildings situated on 4.1 acres of land located in Paris, Ontario. Emblem has invested heavily in its environmental control systems which include custom HVAC units and ideal temperature, humidity, and climate control. Each room is outfitted with dedicated CO2, humidification and HVAC units. The current facility has two growing rooms equipped with 50 lights per room and capable of producing 350kg per room. The Phase 2 expansion which is currently under construction will add four additional grow rooms and increase total capacity to 2,100kg. The build-out and Health Canada approval will likely be completed by February 2017.

Figure 3 – Inside Emblem’s Facility



Source: Emblem Corp. Corporate Presentation

Total licensed production capacity: 100kg

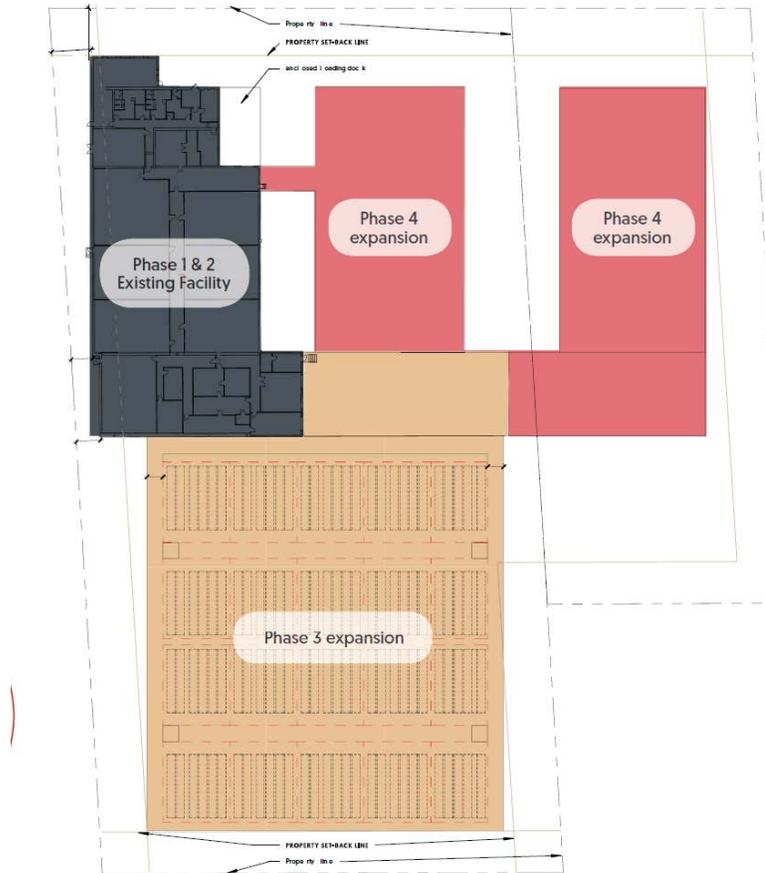
Total annual growing capacity: 700kg / 2,100kg by February 2017

Potential expansion: The Phase 3 expansion is expected to be completed later in 2017 and will add an additional 9,500kg of production capacity and increase total production of medical marijuana to approximately 11,600kg’s on an annualized basis. In addition, a proposed Phase 4 expansion with an estimated 2018 completion date, could add an additional 9,500kg per year bringing the total amount at full production to ~21,100kg. See Figure 4 for an illustration of the expansion plans.



Note: licensed production figures typically lag actual production capacity as Health Canada will increase each LPs license as demand dictates.

Figure 4 – Inside Emblem’s Facility



Source: Emblem Corp. Corporate Presentation

Three Pronged Approach

Emblem has three separate verticals within the Company – 1) Marijuana production, which produces a consistent, high quality dried bud and (soon) oils, 2) Pharmaceutical division, which is developing new pharmaceutical dosage forms of cannabis and 3) GrowWise Health which provides physician and patient education as well as patient on-boarding / referrals.

Marijuana Production

Emblem has a state-of-the-art facility on just over 4 acres of land in Paris, Ontario – an hour west of Toronto. Each production room has been equipped with custom HVAC units, dedicated CO2 and humidification controls. The grow lights represent the latest generation of indoor lighting - double ended high pressure sodium lamps.

The expansion plan will employ a modular approach whereby a 60,000 sqft building will house individual modular growing rooms as needed. Each room will have a fully internalized HVAC, with HEPA and UV light filters. The entire facility will be based on pharmaceutical grade standards.



The cultivation team consists of horticulturalists including growers with environmental science and plant biology backgrounds. The director of operations is Stephen Dinka who was the project manager at Prairie Plant Systems – the first licensed commercial grower under the old MMAR system.

Pharmaceutical Division

Management expects the delivery of medical marijuana to evolve over time. Medicinal cannabis was typically smoked or vaporized and within the last 18 months Health Canada has allowed the production and sale of cannabis oil. We expect gel caps to be permitted by Health Canada soon but even this form of medication lacks consistent dosage and the ability to effectively titrate dosages (find exact dosage for individual needs).

Emblem anticipates sprays, transdermal patches and pills will be the next phase of delivery and the Company is developing its own solutions for this market. We believe Canadian MMJ companies will have a significant head start in developing pharmaceutical MMJ products compared to US companies given the current US federal stance on marijuana as a Schedule 1 drug which restricts research and development.

John H. Stewart, past President of Purdue Pharma, will lead this division. Mr. Stewart has 30+ years of experience in developing and commercializing pharmaceutical products. He has successfully launched 11 products including Biphentin, MS Contin, Zytram XL and OxyContin.

GrowWise Health

Less than 8% of doctors in Canada currently prescribe MMJ to patients. The reason for this low penetration rate of doctors is that many practitioners did not study cannabinoid medicine in school and do not have the specific knowledge / comfort level to prescribe. GrowWise was developed to provide education to not only physicians but patients as well.

GrowWise operates within medical clinics with doctors that prescribe medical marijuana. Patients are referred to GrowWise once a prescription has been issued and the GrowWise nurses counsel patients on strain selection, safety and assist with registering the patient with a licensed producer.

Not only will GrowWise professionals work within established traditional clinics (pain, rehabilitation, etc.) but has also partnered with stand-alone cannabis clinics. Last year, in November 2015, GrowWise partnered in its first cannabis clinic and we expect two additional clinics to open by the end of 2016.

The company is operated as a 50/50 joint venture partnership between Emblem and White Cedar Pharmacy - a pharmacy serving over 2,600 patients in Ontario that is co-founded by Emblem Corp's CEO, Gordon Fox.

Products / Brands

Dried Cannabis

Emblem has four categories of cannabis strains: 1) Elevate, including three sativa strains, 2) Reflect, which includes three indica strains, 3) Balance, which includes four hybrid strains and 4) Heal, which has two strains with high CBD levels. Prices range from \$7 to \$10 per gram with the high CBD strain (Zen's Garden, 11%-13% CBD) and Green Resurrection (21%-23% THC) the highest priced strains.



Figure 5 – Emblem’s Categories and Strains



Source: Emblem Corp. Presentation

Non-irradiated Product

Health Canada standards for finished dried bud include absence of bacteria and mold. Many licensed producers will expose its harvested product to gamma-irradiation to eliminate any foreign organisms. The problem with this process is that it impacts the terpene profile of the product and can change the smell. Emblem does not irradiate its products but rather ensures its growing procedures meet Health Canada specifications and thus irradiation is not required. We believe a non-irradiated product will be one of the differentiators for premium cannabis.

Extracts

The Company does not currently have an oil extract license from Health Canada but has invested in the necessary equipment and is awaiting Health Canada approval. Emblem purchased an oil extraction machine from ExtraktLAB with a throughput of 1-1.5kg of cannabis per day. In our estimation, this machine could extract enough oil to make approximately 80 bottles of cannabis oil in an eight hour shift.

Sales / distribution

As with any licensed producer, the Company can only sell product to patients that have a prescription or recommendation from a physician and who has signed up with Emblem. All sales are shipped via Canada Post or courier to the end user.

Emblem’s GrowWise joint venture provides education to patients and physicians and operates in medical clinics in Canada. Currently GrowWise Health has four locations in Ontario and these four clinics average 50 patient orders per week. This joint venture expects to have eight sites operating by the end of 2016.



Management

John H. Stewart, President, Emblem Pharmaceutical's

Mr. John H. Stewart is President of Emblem Pharmaceutical's. Previously, Mr. Stewart was President & CEO of Purdue Pharma Canada (1991 - 2006) and Purdue Pharma US (2007 - 2013), one of the largest privately held pharmaceutical companies in the world having launched such products including OxyContin among others.

Harvey Shapiro, President, GrowWise Health

Mr. Harvey Shapiro is the President of GrowWise Health. Previously, Mr. Shapiro was the CEO of Dynacare Inc., a medical diagnostic services company which he also Co-founded. Mr. Shapiro practiced securities law at Goodman & Carr LLP from 1973 to 1987.

Gordon Fox, CEO, Emblem Corp.

Mr. Gordon Fox is the CEO of Emblem Corp. Previously, Mr. Fox was a former partner at Goodman & Carr LLP from 1979 to 1995 where he practiced securities law. In addition, Mr. Fox Co-founded White Cedar Pharmacy, and is the Founder of Lytton Capital in 1995, a Limited Market Dealer.

Maxim Zavet, President, Emblem Cannabis

Mr. Maxim Zavet is the President of Emblem Cannabis. Mr. Zavet has extensive knowledge of the Cannabis Industry in Canada, in-depth knowledge of medical marijuana, and has a vast network of contacts around the world. Mr. Zavet is a founding partner of Levy Zavet PC.

John Laurie, CFO, Emblem Corp.

Mr. John Laurie is the CFO of Emblem Corp. and brings broad financial experience to the team including budgeting, capital expenditure management, internal controls, cash flow modeling, and risk management. Prior to joining Emblem, Mr. Laurie worked as a former Treasurer and CFO with several Canadian public and private companies.

Source: Emblem Corp.

Share structure

Emblem Corp. has 65.2M shares outstanding and on a fully diluted basis 113.2M shares. The dilution is from 27.8M warrants issued and 4.9M options issued as well as 14.1M management performance shares, and 1.2M issuer compensation options. Insiders, as individuals hold 15% of the total shares outstanding. The figures below illustrate the common share ownership and dilution.

Figure 6 – Common share ownership

	Common stock	% of Total	Market value (@ \$1.15 Price)
Mgmt. & Employees	10M	15%	\$12M
Institutions	8M	12%	\$9M
Other	47M	73%	\$54M
Total	65M	100%	\$75M

Source: PI Financial estimates



Figure 7 – Individual/Insider Holdings

Individual	Common stock	% of Total
Harvey Shapiro, VP and Secretary	2.76M	4.24%
Gordon Fox, CEO, President and Director	2.71M	4.16%
John Stewart, Director	1.80M	2.76%
Maxim Zavet, VP and Director	1.75M	2.68%
Daniel Saperia, COO	0.92M	1.41%
Lorne Gertner, Director	0.07M	0.10%
Total	10M	15%

Source: Company filings

Figure 8 – Timeline for Share Structure

Options outstanding		Warrants Outstanding	
# of Options Outstanding	Weighted average exercise price per share	# of Warrants Outstanding	Weighted average exercise price per share
4,870,000	\$0.50	27,837,103	\$1.20

Source: Company financial statement notes (Q3 FY16), Company filings

Industry

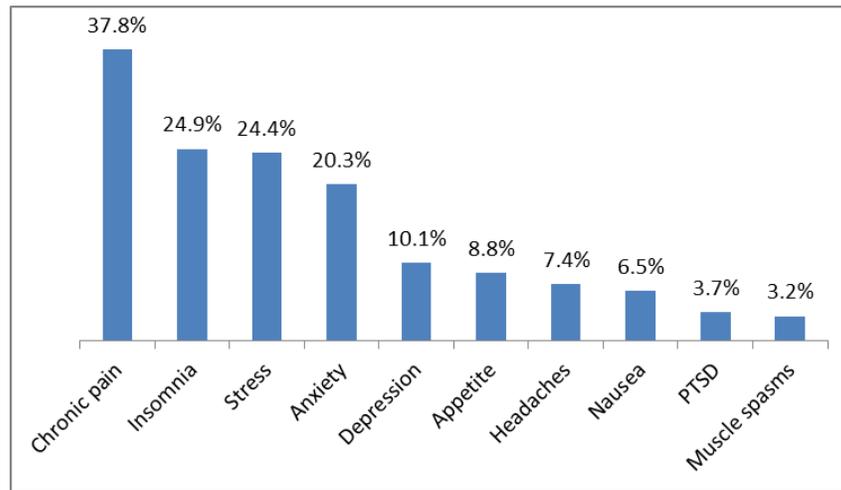
There were 91,178 patients registered across Canada as of August 2016 (latest published Health Canada figures). This figure has increased significantly in 2016 alone as there were just over 43K patients at the end of January 2016, an increase of 110% in 7 months. Health Canada expects this number to increase to 450,000 patients by 2024 but we believe this forecast will be reached sooner and could be significantly higher. California was the first US state to allow medical marijuana and has a population similar to Canada (39M people in California versus 35M people in Canada). Today, there are 760K MMJ patients in that state or 1.9% of the population. Colorado has approximately 2.0% of its population registered as a patient and its recreational market is almost twice that size (measured by sales as there is no requirement to register as a rec user).

We believe the medical market in Canada will be 325,000 patients by mid-2018 when we expect the recreational market to commence and eventually reach 650,000 patients by 2024 (1.8% of the population).

Pain and sleep disorders top the list for patients. According to a survey by a group led by Dr. Marcel O. Bonn-Miller, a US based research health science specialist, 37.8% of marijuana patients stated that they used the product to reduce chronic pain, followed by 24.9% who used MMJ for insomnia. Figure 9 illustrates the 10 most common reasons given for MMJ usage. Emblem Health has stated its target market for its medicinal market will initially focus on pain management and sleep disorders.



Figure 9 – Marijuana’s Most Common Conditions to Treat



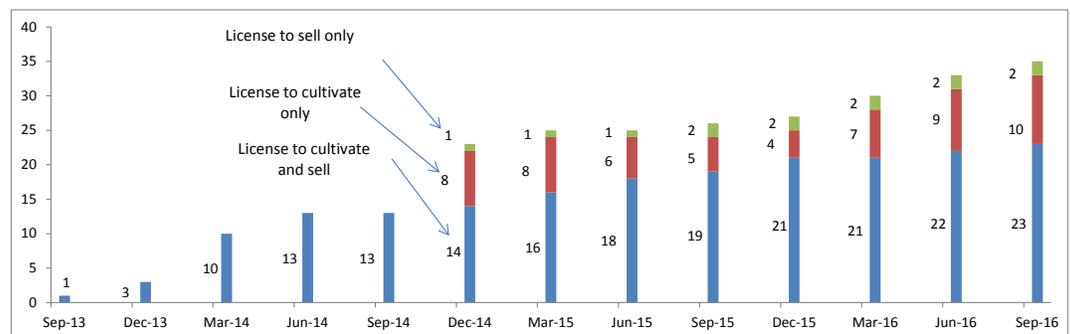
Source: Bonn-Miller et al, 2013

Producers

Health Canada is the gate keeper for ACMPR licenses in which there are hundreds of applicants. Since the program began in 2013, just 36 licenses to cultivate / sell medical marijuana have been granted. Cannabis oil licenses began to be awarded in the summer of 2015. Cannabis oil is a marijuana extract of highly concentrated cannabinoids (i.e. THC, CBD) that are then diluted in plant-based oils.

Health Canada continues to grant licenses in this sector and has not set a limit nor projected future numbers of licensees. Emblem was granted its sales license in July 2016 and is one of the more recent entrant (EMC had its cultivation license since August 2015). The rate of new licenses has not accelerated since the MJ-friendly Liberals took power of the Federal government and we are uncertain if that will change in the next few years. What we do believe is that current licensees have a competitive advantage over those that will arrive later to the scene. Figure 10 illustrates the recent growth in licenses for the cultivation and sale of dried marijuana and Figure 11 illustrates the same for cannabis oil extracts.

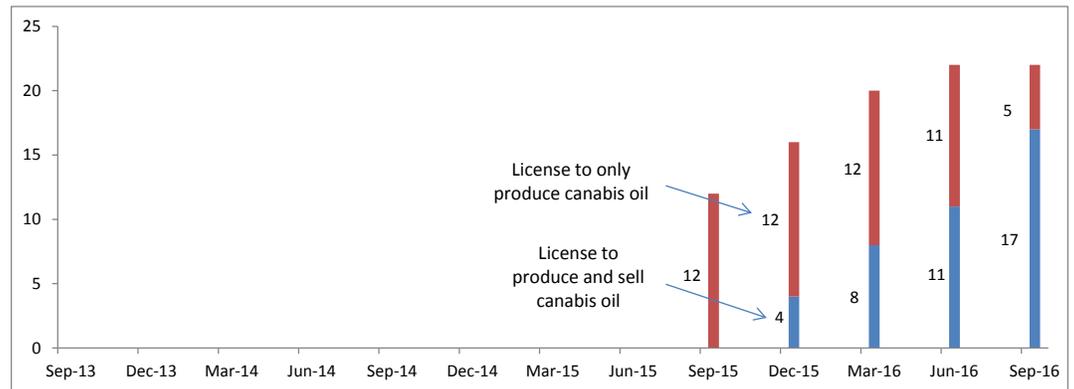
Figure 10 – Cultivation and Sales Licenses for Dried Marijuana



Source: Health Canada



Figure 11 – Production and Sales Licenses for Cannabis Oil Extracts



Source: Health Canada

Future Recreational Market

The Canadian federal Liberal government has stated its clear plan for a recreational marijuana market. A task force was set up to study the market and provide the government with a framework for implementation. Specifically, this committee will provide a report to the Ministers of Justice and Attorney General, Public Safety and Health by November 30, 2016.

The conclusions from the task force will be used to draft legislation that is expected to be tabled next spring and likely voted into law in the fall of 2017. The basic goal of this legislation is to make access for Canadian youth more difficult than the current black market as well as eliminating the profits from marijuana sales from “organized crime”.

While we do not have any insight into the future legislation we do believe that the model will most likely follow a similar structure as the current alcohol system – at least in terms of the provinces independent control. We do see a potential role for dispensaries as this system has worked in the US but we would expect the Federal/Provincial Governments to take a hands-on approach so there is likely to be a vigorous licensing process which may look very different than the current system of unlicensed and frankly illegal dispensaries.

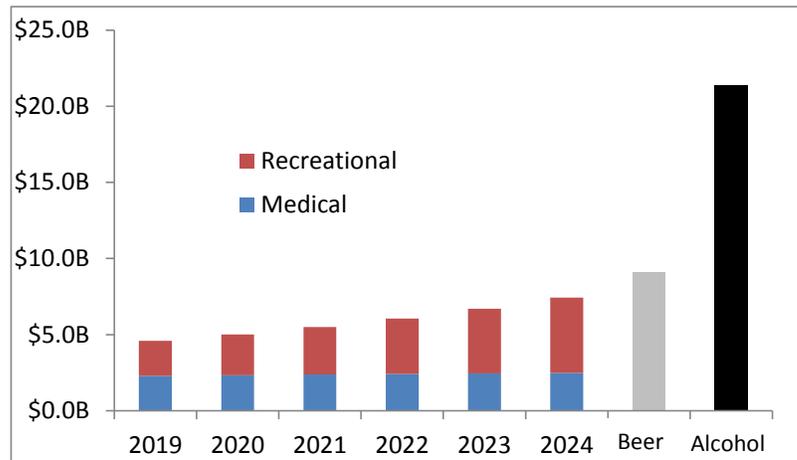
The recreational product is expected to be taxed and we believe medical product may be taxed as well but at a lower rate. The level of taxation would probably be similar to the US where marijuana products are taxed at 10% to 20% not including various sales taxes (GST, HST, PST).

Market Size

We estimate that the total marijuana market in Canada will be \$4.6B in the first year after recreational use is permitted. We expect this market to grow at 10% annually in the first five years to reach \$7.4B. We assume that the first year will be split 50% for medical and 50% recreational with the recreational market increasing its relative exposure to 66% or two thirds of the overall market after five years. As a comparison, Canadians spent \$9.1B on beer in 2013 and \$21.4B on overall alcohol sales. (source: Statistics Canada)



Figure 12 – Estimated Market Size for Medical and Recreational Marijuana



Source: PI Financial estimates, Statistics Canada

Colorado legalized recreational marijuana sales in 2014 and the state reported \$699M in sales of marijuana with 7% of that total represented by non-residents or tourists (source: Colorado Department of Finance). The market grew by 42% in 2015 to \$996M with similar non-resident sales – thus on average approximately \$175 per person was spent by its 5.3M population (our estimate assumes \$122.50 per person - less than the Colorado figures).

Capacity

We believe those licensed producers that have the ability to ramp up its production capacity will have a significant advantage in the fight for market share, given our estimate of the recreational and medical market to be \$4.6B in the first year after legalization and the fact that the current industry today could only fulfill 10% of that demand.

While we do expect more producers will receive licenses to grow over the next few years, there will be a delay before new production can come online. This is due to fact that licensing has been a slow process and once certification is awarded there is a learning curve before production can get to scale.

We believe that licensed producers that have an aggressive expansion plan and the capital to follow through will be in the best position to win market share in the future market opportunity.

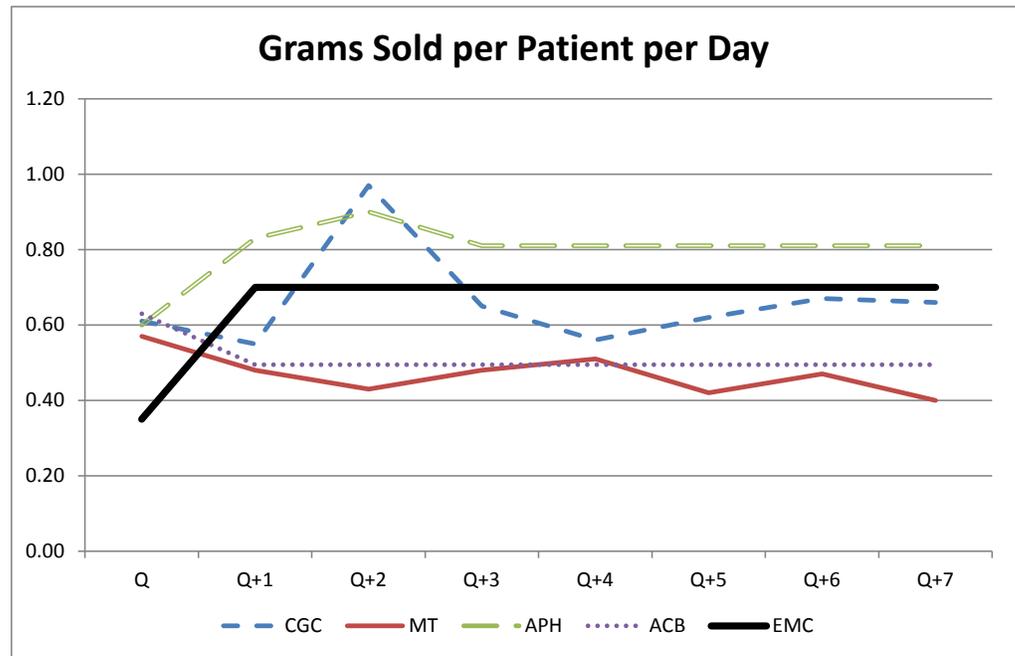
Financials / Outlook

Emblem has just begun to on-board patients in November 2016 so we do not expect material revenue until 2017. We expect the Company to have 400 patients by the end of Q4 (December 31, 2016) and 1500 patients by the end of Q117. We forecast patient count to increase by 1,500 per quarter through the remainder of 2017.

Forecasting revenue from patient counts can be difficult as the average sales per patient varies significantly from LP to LP. This is due to patients that sign up with an LP that never purchase any product or patients that split a prescription among two or more LPs. Figure 13 illustrates the average gram purchased per day at various LPs.



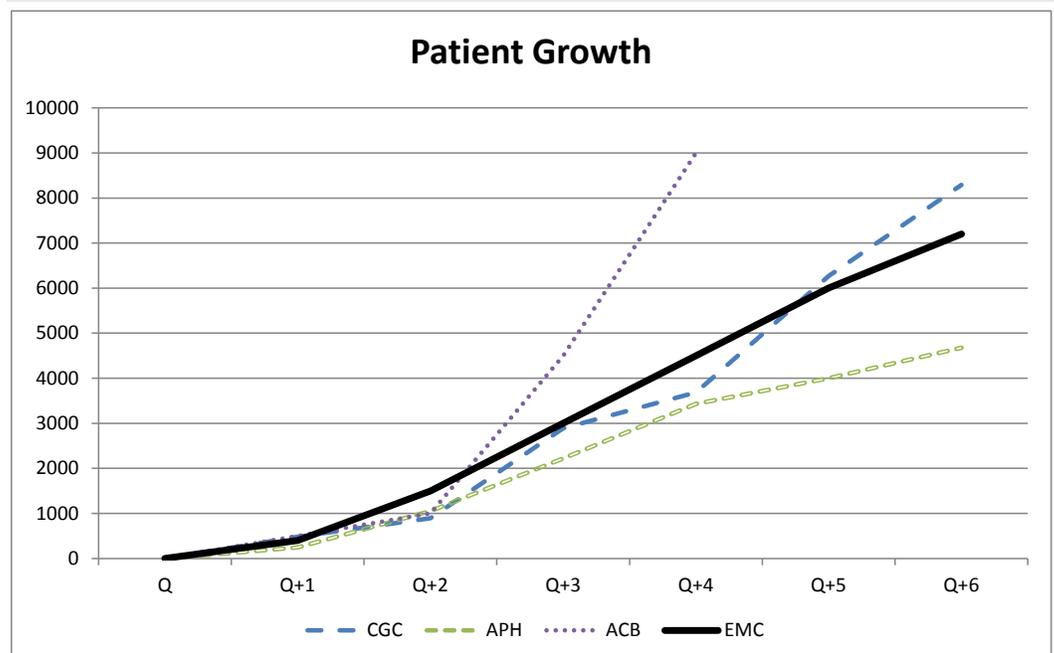
Figure 13 – Average Gram per Day per Patients Stats



Source: PI Financial estimates, Company presentation

We anticipate Emblem sales per patient will be within the average sales of 0.7 grams per day. Using our patient forecast means that for FY17 we expect sales of \$7.6M. This forecast is somewhat arbitrary as patient on-boarding at various LPs has been materially different. Figure 14 illustrates the patient growth of various LPs after initial sales began. We believe that the GrowWise operation could help accelerate patient count similar to Aurora’s rapid patient on-board through its Canvas RX subsidiary.

Figure 14 – Initial Patient Accumulation Figures Among LPs



Source: PI Financial estimates, Company presentation



We believe that as the medical MJ market expands and the recreational market is created, the bottleneck for growth among producers will be capacity. Currently, we believe that today's infrastructure among established LPs could only supply 10% of what we expect the future demand for MJ will be in 2019 (we anticipate recreational sales commencing in mid-2018 and the market to be \$4.6B the following year).

Based on Emblem's capacity expansion, we believe sales will reach \$55.8M in FY19.

We are not forecasting profits until Q2 FY18. Although we believe Emblem can be a low cost producer of MJ, we do not expect sales to hit a critical level to offset overall expenses until revenues exceed ~\$7.5M per quarter.

We believe Emblem can achieve a cost of \$1.50 per gram in FY18. The Company utilizes an indoor growing facility that consumes a large amount of electricity to power lamps. At present, the facility draws power from Ontario Hydro but we anticipate a natural gas power plant will be constructed by the end of 2017. This form of power will not only reduce its power costs but will also be able to generate heat for the facility and power carbon dioxide used to grow the plants (Emblem, like most LPs, currently purchases CO2 from third parties to be released in its growing rooms).

Valuation

We are projecting a 12-month target price of \$3.25 for Emblem Corp. (V-EMC) shares. Our target is based on peer target multiples and discounted cash flow analysis. We calculated our valuation assuming the medical market participation will grow consistently until our assumption of a recreational market commencing in mid-2018. After this point, we assume the medical market and recreational market will continue to grow but at different rates – we anticipate the medical market will grow at 5%-15% per annum whereas the recreational market will grow at 10%-20% per annum. Our valuation calculation is shown in Figure 16.

Valuation Comps within the MMJ Market

We believe that the market is valuing a number of factors for licensed producers today. Given the significant growth in sales among LPs and the common occurrence of product shortages, we believe capacity to produce product is paramount for future success. There are two ways to look at capacity – current capacity and future capacity. When looking at future capacity we believe that funded expansion is the key metric so we have only looked at what capacity increases have capital to back future plans. Figure 15 looks at the various public LPs and measures the valuation per kg of future production. Given Emblem's recent equity offering and potential warrant proceeds, we believe it has capital to complete its phase 3 expansion. We have used 11,600kg per annum in our analysis.



Figure 15 – Valuation based on Funded Capacity

MMJ Key Stats						Capacity (kg)		
Company	Sym	Price	S/O	MC	EV	Licensed	Current	2017 est.
Canopy Growth	CGC.TO	\$10.36	112.3	\$1,163	\$1,127	13,500	13,500	19,300
Aphria	APH.V	\$5.18	111.3	\$577	\$458	2,800	2,800	18,000
Organigram	OGL.V	\$3.44	84.0	\$289	\$294	1,200	3,500	16,000
Mettrum	MT.V	\$6.82	43.5	\$297	\$291	5,600	6,000	12,000

Valuation				
Company	Sym	\$/KG of Capacity		
		Licensed	Current	2017 est.
Canopy Growth	CGC.TO	\$83,449	\$83,449	\$58,371
Aphria	APH.V	\$163,660	\$163,660	\$25,458
Organigram	OGL.V	\$245,303	\$84,104	\$18,398
Mettrum	MT.V	\$51,927	\$48,466	\$24,233
Average				\$31,615
Emblem Funded Capacity			x	11,600kg
Emblem Shares Outstanding (fd)			÷	113,178
Emblem Valuation based on Funded Capacity				\$3.24

Source: PI Financial Corp. and Thompson EIKON

Figure 16 outlines our valuation for Emblem. We used our forecasted revenue, EBITDA and EPS out to FY19 and applied the current trading multiples using a blended average of MMJ producers as well as our small cap growth stock comparables. It is clear that the MMJ sector is trading at significantly higher multiples relative to other growth stocks in Canada and we attribute the higher valuation to the significant growth potential in the overall market. There are few industries that can realistically grow from a few million to our estimated \$4.6B in five years. As can be seen in our summary, we have discounted Emblem's potential valuation due to the lack of operating history. We expect this discount to disappear after the Company establishes a strong record of performance.



Figure 16 – Valuation Summary

Peer valuation

EV/EBITDA	Multiple	Weighting	Weighting
MMJ Average	23.2x	60%	
Small Cap Growth Comparables Average	8.9x	40%	
Average	17.4x	100%	

FY19 EBITDA	17.8M		
Valuation based on 17.4x multiple	\$5.12	40%	

P/E

MMJ Average	35.1x	60%
Small Cap Growth Comparables Average	17.9x	40%
Average	28.2x	100%

FY19 EPS	0.08	
Valuation based on 28.2x multiple	\$2.33	40%

Discounted cash flow

Valuation based on 10% discount rate and 8x terminal multiple	\$3.45	20%
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Overall forward valuation	\$3.67	100%
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Discount valuation based on:

Potential Delay in Recreation Market	10%
Lack Of Operating History	5%
	15%

Discounted forward valuation	\$3.12
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Price target **\$3.25** (rounded up)

Source: PI Financial Corp. and Thompson EIKON

We believe Emblem Corp. (V-EMC) shares provide investors with a target return of 183% based on our target price. We are initiating coverage with a **BUY** rating (risk: **SPECULATIVE**) and a **12-month target of \$3.25**. Our target represents an EV/EBITDA of 11x based on our FY19 estimates.

The biggest risk to our valuation is a delay in legislation for recreational marijuana, a high tax burden imposed on medical and/or recreational MJ, or other amendments to the ACMPR system that negatively impact LPs. See Appendix 2 for a full list of risks.

Appendix 1 – Medical Marijuana Patients per 1,000 Residents (US)

State	Medical marijuana patients	State population	# of patients per 1,000 state residents
1. Alaska	1,132	738,432	1.5
2. Arizona	89,405	6,828,065	13.1
3. California	758,607	39,144,818	19.4
4. Colorado	107,798	5,456,574	19.8
5. Connecticut	8,685	3,590,886	2.4
6. DC	3,445	672,228	5.1
7. Delaware	102	945,934	0.1
8. Hawaii	13,021	1,431,603	9.1
9. Illinois	4,037	12,859,995	0.3
10. Maine	24,377	1,329,328	18.3
11. Maryland	Not open	6,006,401	--
12. Massachusetts	19,279	6,794,422	2.8
13. Michigan	182,091	9,922,576	18.4
14. Minnesota	1,041	5,489,594	0.2
15. Montana	13,640	1,032,949	13.2
16. Nevada	14,482	2,890,845	5.0
17. New Hampshire	Not available	1,330,608	--
18. New Jersey	3,727	8,958,013	0.4
19. New Mexico	19,629	2,085,109	9.4
20. New York	1,301	19,795,791	0.1
21. Oregon	77,620	4,028,977	19.2
22. Rhode Island	13,105	1,056,298	12.4
23. Vermont	2,542	626,042	4.1
24. Washington	138,056	7,170,351	19.2
Legal Medical Marijuana Patients:	1,246,170	Average:	8.06

Note: Maryland and New Hampshire have only recently started its MMJ programs and no figures are available

Source: MedicalMarijuanaProCon.org

Appendix 2 – Key Risks

Reliance on the License. The Licensed Producers (LPs) ability to grow, store and sell medical marijuana in Canada is dependent on maintaining a license with Health Canada. Failure to comply with license requirements could cause the LP to lose the license and having a material negative impact on the business, financial condition and operating results.

Legislative or Regulatory Reform. The commercial medical marijuana industry is a new industry with regulations that are subject to change as the Federal Government monitors Licensed Producers in action. LP's operations are subject to a variety of laws, regulations, and guidelines relating to the manufacture, import/export, packaging/labelling, advertising, sale, transportation, storage and disposal of medical marijuana and also laws and regulations relating to drugs and controlled substances. Any changes to such laws, regulations, and guidelines due to matters beyond the control of the Licensed Producers could cause a negative impact on operations.

Limited Operating History. The Licensed Producers are subject to many of the risks common to early-stage companies, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no guarantee that the LP's will be successful in achieving a return on shareholder's investment due to the early stage of operations.

Competition. There is the potential that the Licensed Producers will face intense competition from other companies that may have longer operating histories and more financial resources and manufacturing and marketing experience than the LP's. Increased competition by larger and better financed competitors could negatively impact the LP's. This is particularly important with respect to the potential introduction of a recreational model for cannabis production and distribution which could result in increased levels of competition and entry of new competitors in the overall cannabis market.

Risks Inherent in an Agricultural Business. The medical marijuana industry will be subject to the risks inherent in the agricultural business, such as insects, plant diseases, and other agricultural risks. There can be no assurance that natural elements will not have a material negative effect on growing conditions and future production.

Task Force on Marijuana Legalization and Regulation report. The federal government has created a task force to recommend the structure of the upcoming recreational marketplace and re-tool the medical market. This report was due by November 30th and we believe the recommendations in this report will identify future opportunities in this market as well as remove some uncertainty while legitimizing the space. Any potential negative changes to current laws, regulations, and guidelines due to matters beyond the control of the Licensed Producers could cause an adverse impact on operations.

Disclosure Fact Sheet

Ratings

BUY : recommendation: stock is expected to appreciate from its current price level at least 10-20% in the next 12 months.

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

SELL : recommendation: stock is expected to decline from its current price level at least 10-20% in the next 12 months.

U/R : Under Review

N/R : No Rating

TENDER: Investors are guided to tender to the terms of the takeover offer.

Analyst recommendations and targets are based on the stock's expected return over a 12-month period or may be based on the company achieving specific fundamental results. Under certain circumstances, and at the discretion of the analyst, a recommendation may be applied for a shorter time period. The basis for the variability in the expected percentage change for a recommendation, relates to the differences in the risk ratings applied to individual stocks. For instance stocks that are rated Speculative must be expected to appreciate at the high end of the range of 10-20% over a 12-month period.

Price Volatility / Risk

SPECULATIVE : The Company has no established operating revenue, and/or balance sheet or cash flow concerns exist. Typically low public float or lack of liquidity exists. Rated for risk tolerant investors only.

ABOVE AVERAGE : Revenue and earnings predictability may not be established. Balance sheet or cash flow concerns may exist. Stock may exhibit low liquidity.

AVERAGE : Average revenue and earnings predictability has been established; no significant cash flow/balance sheet concerns are foreseeable over the next 12 months. Reasonable liquidity exists. Price Volatility/Risk analysis while broad based includes the risks associated with a company's balance sheet, variability of revenue or earnings, industry or sector risks, and liquidity risk.

Analyst Certification

I, Jason Zandberg, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed in this report. I am the research analyst primarily responsible for preparing this report.

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9) Company has partially funded previous analyst visits to its projects.	9) No
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The attached summarizes PI's analysts review of the material operations of the attached company(s).

Analyst	Company	Type of Review	Operations / Project	Date
Jason Zandberg	Emblem Corp.	Company Call	Vancouver, BC	11/16
Jason Zandberg	Emblem Corp.	Site visit	Paris, Ontario	09/16

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Recommendations	Number of Recommendations	Percentage
BUY	52	85.25%
NEUTRAL	9	14.75%
SELL	0	0.00%
TENDER	0	0.00%
U/R	0	0.00%
N/R	0	0.00%
TOTAL	61	

Stock Rating and Target Changes

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Emblem Corp. (Initiated Coverage: Dec 09/16)

Date	Rating Change	Target Change	Share Price
Dec 09/16	Buy	\$3.25	\$1.15

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