

Trickle Research

Every raging river, every great lake, every
deep blue sea starts ... with a trickle



Research Update

**CORDOVA
CANN**

CordovaCann Corp.

(OTC: LVRLF; Canada: CDVA.CN)

Report Date: 01/27/21

12- 24 month Price Target: US\$.56

Allocation: 4

Closing Stock Price at Initiation (Closing Px: 08/19/20): US\$.22

Closing Stock Price at This Update (Closing Px: 01/26/21): US\$.32

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Disclosure: Portions of this report are excerpted from CordovaCann's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

We initiated coverage of CordovaCann in August (2020). Since that time, they have added some new pieces, which we largely expected, but there have been some nuances to the additions that we think are worth recapping as well as some other initiatives we think merit some color.

Just to refresh, in the initial coverage we included a table that provided a list of 10 expected store openings through calendar 2020. To recap, the Company's first two stores were opened in Ontario in June and July (2020) so those were in place just prior to our initiation. Thereafter, the Company's third location was opened in Ontario in early November (2020) while the fourth was opened in early December. Those openings were largely in line with the Company's expectations at our initiation.

In terms of the remaining 6 stores, the Company anticipated opening 5 stores in Alberta and one additional location in British Columbia. Recall, the addition of these stores was predicated on pending regulatory approvals. As a result of those approvals taking longer than the Company anticipated these stores were delayed. We would add that, while they had hoped to get those stores opened in calendar 2020, the delayed approval(s) were not exactly a surprise. For instance, we actually modeled three of these openings in Q4 and the other three in Q1 (2021). That said, a few days ago (January 12, 2021) the Company announced that it received notification from the Alberta Liquor and Gaming Commission approving them for "up to 64 cannabis retail store stores in Alberta", including the 5 aforementioned retail locations. In the release they further indicated that they intend to open the first of these stores in January (2021) and the remaining 4 in the first half of 2021. As a result, in the aggregate, while the calendar for their first 10 stores has been pushed out a bit, given the environment (Covid19 et al), we feel good about the execution, especially given the fact that the delays were always a moving target. While the Alberta approvals were perhaps the challenges of 2H 2020, the period also involved some more positive datapoints as well.

On November 10, 2020, The Company announced a letter of intent to purchase a majority stake in a licensed Manitoba based cannabis enterprise ("the Manitoba Agreement"). The transaction closed on December 2, 2020 and resulted in the opening of the Company's first Manitoba (Winnipeg) store (as well as its first operations outside of Ontario). This transaction includes the opening of an additional Manitoba store (currently in development) slated to open in the next few months. Recognize, these two stores were *not part of the original first 10* we discussed in the initiating coverage. Further, the Manitoba agreement provides the Company the right to apply to open additional stores in the province as well. We would add, much like Ontario, Manitoba happens to be one of the lower penetrated cannabis markets in terms of retail dispensaries per capita.

In addition to the new Manitoba markets, the Company also made some progress in terms of its US aspirations. Recall, in our initiating coverage we addressed the Company's Oregon (USA) assets. To refresh, these assets were purchased in June 2019. Between the purchase price and subsequent improvements, the Company invested approximately CDN\$3.6 million into the project. Unfortunately, like some of their other assets, the Oregon property has (until recently) been held up awaiting regulatory approvals. However, on November 23, 2020, the Oregon Liquor Control Commission granted the Company the cultivation license they have been waiting for. As a result, we expect the Oregon operations to begin contributing in 2H calendar 2021. Keep in mind, with respect to Oregon, we noted the following in our initiating coverage:

We have not modeled the impact or potential operation of the Oregon assets. On the other hand, as the narrative suggests, the Company intends to deploy these assets, which essentially will include an integrated operation that management believes will make a meaningful contribution to the whole. For now, we view this piece to be a potential valuation leg to the story, but we are more comfortable attempting to model this piece with more (future) visibility.

As a result of this progress in Oregon, we have recast our model to include this facility and we expect it to begin making meaningful contributions to the whole in the second half of calendar 2021. Just to reiterate, much like the recently added Manitoba assets, the Oregon assets were not part of our initiating model, *so they are additive to those original conclusions.*

In addition to Oregon, subsequent to our initiation, the Company also announced a non-binding letter of intent to purchase a Washington state based company, Extraction Technologies, LLC (“Extraction”). Extraction provides *“cannabis extraction services to multiple cannabis licensed processors within the state of Washington. The transaction will enable Cordova to provide manufactured cannabis products on both a white label and branded basis throughout the state”*. Like Oregon, we are not inclined to begin modeling potential assets until we have a bit more visibility, but we think this particular bit of news may be telling in terms of the direction of the Company. That is, while the Company’s current operating footprint is based in Canada and we know they intend to continue to grow those operations, it is clear that Cordova has also set its sight on U.S. opportunities to compliment the Canadian side of the business. We will update this portion of the story as data points emerge.

To summarize, while the Company’s timeline for the opening of new Canadian locations (primarily in Alberta) has been pushed out a bit, we would reiterate that the bigger picture remains intact and given the addition of new pieces since our initiation, we would argue that the whole has most certainly progressed. Further, the Company has provided some ongoing color regarding the numbers from the operating locations and *that* information suggests that those locations are performing well. Clearly, recognizing that some stores will inevitably perform better than others as well as that a few months do not constitute a trend, maintaining that aggregate performance will be paramount to their success. That said, the story is quickly evolving from one where the germane question is changing from “can they permit and add operating assets?” to “how are the operating assets performing?”. On the face, the latter of these involves better visibility and as such a better basis for valuation in general, although we continue to expect the model to be fluid and volatile until a larger operating base is established.

We have recast our model to reflect the nuances described above. To reiterate, the new model includes some pieces we did not include in our original model. We remain positive on the prospects for CordovaCann. Moreover, we are comfortable suggesting that the Company anticipates the addition of considerably more stores than we are modeling, so we think the opportunity is more open-ended than we are modeling here. Succinctly, we are inclined to raise our target a bit given these new data points, but we will keep that powder dry until we get some added clarity on the Alberta initiatives as well as the Oregon cultivation ramp. We reiterate our allocation of 4 and our 12-24 month target of CordovaCann shares of US\$.56.

Projected Operating Model

CordovaCann Corp.						
Projected Operating Model (\$CAN)						
Prepared by: Trickle Research LLC						
	(Actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	<u>9/30/20</u>	<u>12/31/20</u>	<u>3/31/21</u>	<u>6/30/21</u>	<u>Fiscal 2021</u>	<u>Fiscal 2022</u>
SALES						
Store Sales	\$ 1,836,812	\$ 2,513,000	\$ 4,584,983	\$ 6,930,000	\$ 15,864,796	\$ 37,215,800
Cultivation and Processing Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,390,583
Total Sales	\$ 1,836,812	\$ 2,513,000	\$ 4,584,983	\$ 6,930,000	\$ 15,864,796	\$ 39,606,383
Cost of Products Sold	\$ 1,182,139	\$ 1,620,885	\$ 2,957,314	\$ 4,469,850	\$ 10,230,188	\$ 25,701,264
Gross Store Margin	\$ 654,673	\$ 892,115	\$ 1,627,669	\$ 2,460,150	\$ 5,634,607	\$ 13,905,119
OPERATING EXPENSES						
Consulting Fees	\$ 154,016	\$ 156,326	\$ 158,671	\$ 161,051	\$ 630,065	\$ 668,728
Professional Fees	\$ 72,596	\$ 73,000	\$ 73,500	\$ 73,500	\$ 292,596	\$ 323,718
Salaries and Wages	\$ 189,380	\$ 367,600	\$ 616,720	\$ 882,400	\$ 2,056,100	\$ 3,732,640
Office and General	\$ 146,024	\$ 150,130	\$ 170,850	\$ 194,300	\$ 661,304	\$ 872,158
Shareholder Information Services	\$ 36,371	\$ 20,003	\$ 20,004	\$ 20,005	\$ 96,383	\$ 80,030
Stock Based Compensation	\$ 117,598	\$ 100,000	\$ 100,000	\$ 100,000	\$ 417,598	\$ 400,000
Depreciation	\$ 12,639	\$ 15,000	\$ 27,000	\$ 39,000	\$ 93,639	\$ 165,000
Amortization	\$ 114,891	\$ 115,465	\$ 116,043	\$ 116,623	\$ 463,022	\$ 472,352
Leases and Utilities	\$ 71,686	\$ 90,039	\$ 162,255	\$ 235,290	\$ 559,270	\$ 1,019,147
Other Operating Expenses	\$ -	\$ 20,000	\$ 20,001	\$ 20,002	\$ 60,003	\$ 80,018
Total Operating Expenses	\$ 915,201	\$ 1,107,564	\$ 1,465,044	\$ 1,842,171	\$ 5,329,980	\$ 7,813,791
Operating Income/(Loss)	\$ (260,528)	\$ (215,449)	\$ 162,625	\$ 617,979	\$ 304,628	\$ 6,091,328
Other Expenses						
Interest Expense	\$ 184,619	\$ 76,182	\$ 76,182	\$ 76,182	\$ 413,164	\$ 304,727
Accretion Expense	\$ 70,915	\$ 25,000	\$ 25,000	\$ 25,000	\$ 145,915	\$ 100,000
Loss on Settlement Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Foreign Exchange Loss (Gain)	\$ 58,558	\$ -	\$ -	\$ -	\$ 58,558	\$ -
Other Income (Expense)	\$ 45,038	\$ (49,998)	\$ (49,997)	\$ (49,996)	\$ (104,953)	\$ (199,974)
Total Other Expenses	\$ 359,130	\$ 51,184	\$ 51,185	\$ 51,186	\$ 512,684	\$ 204,753
Net Income Before Taxes and Minority interests	\$ (619,658)	\$ (266,633)	\$ 111,441	\$ 566,793	\$ (208,057)	\$ 5,886,575
Minority Interests	\$ 148,989	\$ 209,481	\$ 323,251	\$ 341,410	\$ 1,023,130	\$ 2,023,325
Net Income Available to Common Shareholders before Tax	\$ (768,647)	\$ (476,113)	\$ (211,810)	\$ 225,383	\$ (1,231,187)	\$ 3,863,249
Tax Expense	\$ (1,932)	\$ (123,789)	\$ (55,071)	\$ 58,600	\$ (122,192)	\$ 1,004,445
After Tax Net Income Available to Common Shareholders	\$ (766,715)	\$ (352,324)	\$ (156,739)	\$ 166,783	\$ (1,108,995)	\$ 2,858,805
Basic Earnings Per Share	\$ (0.01)	\$ (0.00)	\$ (0.00)	\$ 0.00	\$ (0.01)	\$ 0.03
Fully Diluted Earnings per Share	\$ (0.01)	\$ (0.00)	\$ (0.00)	\$ 0.00	\$ (0.01)	\$ 0.03
Basic Common Shares Outstanding	71,634,472	83,973,353	83,973,353	83,973,353	80,888,633	90,223,353
Fully Diluted Shres Outstanding	72,134,472	85,134,067	86,081,134	86,926,729	82,569,100	95,413,343
Foreign Exchange Translation	\$ 23,617	\$ -	\$ -	\$ -	\$ 23,617	\$ -
Comprehensive Net Income	\$ (594,109)	\$ (352,324)	\$ (156,739)	\$ 166,783	\$ (936,389)	\$ 2,858,805

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CordovaCann has paid fees to present at an investor conference co-sponsored by Trickle Research.

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Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals \$250) and 10 representing 10 investment units or \$2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit \$25,000 to buying micro-cap stocks, that would assume an investment of \$1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at \$1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same \$250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting \$1000 into the position ($\$250 * 4$). If we later raise the allocation to 6, you might consider adding two additional units or \$500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.