

## Pharmadrug Inc. (BUZZ)

December 14, 2019

Pharmadrug is building a leading vertically-integrated medical cannabis company with a focus on the European and Israeli markets. Reasons to own Pharmadrug stock:

**1. A cannabis gateway to Europe:** by 2028 the European medical cannabis market is estimated to be \$123 billion, making it the largest cannabis market on the planet. Pharmadrug has one of 15 licenses in Germany and is early to the European medical cannabis game. Before long, we believe markets will begin to pay attention to Pharmadrug, as one of the only pure plays into Europe.

**2. Sales Growth in Germany:** Pharmadrug is currently producing revenue from its operations in Germany. Currently the company is importing product from the Netherlands, but significant upside exists through larger allocations from the Netherlands and supply agreements from Canada and Israel.

**3. Valuation:** at a \$2 million market cap, Pharmadrug is one of the cheapest companies on our radar. Trading for less than half of its invested capital, management and insiders continue to purchase shares in the Company. As some of our sensitivity analysis will show, Pharmadrug is on the verge of generating significant revenue at healthy margins.

We reiterate our buy recommendation for Pharmadrug with a price target of \$0.21, which is 600% above today's stock price.



■ **4. Building a Retail Dispensary Brand:** We are very bullish on the Company's recent closing on their majority acquisition of CannabiSendak in Israel. Israel is a global leader in medical cannabis with a burgeoning number of patients. Most importantly, Pharmadrug has partnered with the country's biggest cannabis guru and it doesn't take many patients for the cash to begin rolling in under their retail dispensary/clinic model. This retail presence will grow to Pharmadrug's base in Europe.



Market Data	
Price	C\$0.03
Sector	Cannabis
52-Week Price Range	C\$0.30 - C\$0.025
Shares Issued (m)	83.30
Market Cap (m)	C\$2.50
Listings	BUZZ (CA) & LMLLF (US)
Website	www.Pharmadrug.co

## THE COMPANY

Pharmadrug is focused on building an international network of vertically integrated cannabis assets, through development of a product line of cannabis-infused edible products and oil extracts. The Company is targeting a potentially high margin downstream business in the legalized medical marijuana sector in Europe.

The German market is desirable for Canadian licensed producers for a number of reasons. First and foremost, wholesale prices are much higher than what's become the norm in Canada. Canopy Growth reported that in 2018, the average price they received for their dried flower was \$13.50 a gram – and that was purely wholesale. Second, medical cannabis is covered by insurance providers similar to any other prescription. Reimbursements within Germany totalled over €73.68 million (CAD\$110.92mm) in 2018.

When it comes to access to the German market there are a number of ways that Canadian licensed producers have opted to gain exposure. The simplest, and most common method is simply obtaining a supply agreement with a licensed German importer and distributor. A number of companies, such as Zenabis, Invictus MD, Tilray, and Aleafia Health have gone through this route to acquire access to the nascent market.

There are some requirements however to be able to export cannabis product to the German, and European, markets. For instance, facilities must conform to European Good Manufacturing Practice (eGMP) standards. This requires certification from the German regulating body to ensure that all cannabis is grown to pharmaceutical standards.

Others, such as Vivo Cannabis, Aurora Cannabis, Wayland Group, and Aphria, have attempted to gain access by means of acquiring an allotment through a recent lottery to grow cannabis within the country. This method however is limited in size due to small production limits of 200 kg per annum per lot acquired, with a company receiving a maximum of five lots over a period of four

years. All of Aurora Cannabis, Wayland Group, and Aphria were successful in this bid, however the revenue from such efforts will be minimal until such time that the German regulator elects to increase production allowances.



**Pharmadrug owns 80% of German medical cannabis and pharmaceutical distributor Pharmadrug Production GmbH, which gives the Company access to the entire European Union.**

The final method that a select few companies have taken is purchasing a licensed German importer, exporter, and distributor itself. Only four Canadian firms have elected to go this route to gain access to the European cannabis medical market, Canopy Growth, Aurora Cannabis, Aphria, and... Pharmadrug. Arguably, this is the ideal method to gain access to the German as well as the even larger European markets.

While Aurora, Canopy Growth, and Aphria will utilize their distribution license to import product grown in their own Canadian facilities, Pharmadrug is taking a slightly different approach. The firm will be utilizing its license to secure supply agreements with a number of licensed producers.

However, Pharmadrug will also be utilizing the distribution license to import their product

from their Israel-based operation known as HolyCanna, a 60,000 square foot cultivation facility located in Central Israel.

With the expected surge in medical patients within Germany and the European Union as a whole, early positioning is key to securing long term market positions.

Pharmadrug has acquired an 80% stake in Pharmadrug Production GmbH, a German medical cannabis and pharmaceutical distributor. Pharmadrug Production GmbH is a Schedule I Narcotics distributor, allowing the German Business to export GMP medical cannabis to other EU countries as and when those countries legalize cannabis.

Pharmadrug intends to rapidly expand its operations through sourcing additional cannabis from Canadian and Israeli operators. It will do so by assisting operators attain eGMP certification, where applicable, through sponsorship to enable their product to enter the nascent German market.

With respect to Israel, Pharmadrug is a debt holder of HolyCanna, an Israeli based cultivator currently constructing its cultivation facility. The 60,000 square foot greenhouse is expected to begin exporting cannabis in the second half of 2020, while third party Israeli cannabis is expected to begin shipping to Germany in the first quarter of 2020.

Although Pharmadrug is in advanced talks with several cultivators for the supply of cannabis for the German market. Israeli sourced cannabis is ideal for the German and European market in that facilities are already built to eGMP standards and thus no addition certification is required from the regulatory body. (Also Read Recent Events)

Last month, Israel's Ministry of Health announced that it will soon be publishing its guidelines regarding the export law on medical cannabis that was passed in January. These guidelines will enable companies to start exporting cannabis grown in Israel to Germany and other European markets. Israel recognizes the economic opportunity of exporting cannabis, with the unmet need in Germany and the rest of the Eurozone being a prime target.

Finally, Pharmadrug has a LOI to purchase 57% of CannabiSendak Ltd, the builder of a planned network of dispensaries in Israel. The first clinic opened in Tel Aviv in August 2019 with the full-service dispensary and club to launch in the first half of Fiscal 2020.

## OPERATIONS

### Pharmadrug Production GmbH

Management's thesis is that the European medical cannabis market will soon command significant attention. Europe is home to more than 740 million people, a population which is more than double that of the United States and Canada combined. Industry analysts expect Europe to be one of the largest consumers of medical cannabis around the world.

In May 2019, Pharmadrug closed the acquisition of an 80% equity interest in Pharmadrug Production GmbH, a German EU-GMP pharmaceutical distribution company, for EUR 4,600,000. The seller, Anquor Pharmaceuticals, retains a 20% interest in Pharmadrug Production GmbH.



**Pharmadrug Production GmbH holds one of less than dozen coveted German class one narcotics licenses that is permitted the business to import and distribute medical cannabis throughout legalized areas in the European Union.**

The acquisition of Pharmadrug Production GmbH made Pharmadrug a player in the European medical cannabis market overnight, as it holds one of fifteen coveted German Schedule I narcotics licenses that permits the import and distribution of medical cannabis throughout legalized areas in the European Union.

Currently, Pharmadrug Production GmbH has a 190 kg 12-month allocation from the regulator in Germany, the Federal Institute for Drugs and Medical Devices, known as BfArM ("BfArM").

The German subsidiary buys medical cannabis from The Netherlands Office of Medicinal Cannabis and supplies the products to pharmacies in Germany. It received its second, much larger shipment of medical cannabis from the Netherlands at the end of June 2019.

Based on Pharmadrug Production GmbH's current growth trajectory and the continued chronic supply shortage of medical cannabis in Germany, management is confident in its ability to distribute its full allocation of cannabis over the next several months. Based on the current selling price of EUR 9,50 per gram, selling its full allocation would equate to ~CAD\$2.7M in 12-month revenue for Pharmadrug.

Management sees two ways to materially increase Pharmadrug Production GmbH's German supply and revenue for Fiscal 2020:

- Increase in the quota from BfArM, achievable once current allocation run rates have been met. Once Pharmadrug Production GmbH is at a run rate of approximately 15-16 kg per month and has sold through the brunt of the allocation, the company will request from BfArM for a larger annual allocation. Given the shortages of medical cannabis in the country and the select number of distribution licenses, management is optimistic that a larger allocation can be achieved. Until then, Pharmadrug Production GmbH will be aggressively growing its distribution base of pharmacies to continue to increase sales velocity.
- Source additional suppliers of cannabis. The Company is in active supply discussions with producers in both Canada and Israel, adding to the current 190 kg quota. Pharmadrug already has a supply agreement with FSD Pharma [CSE:HUGE].

Pharmadrug Production GmbH has agreed to assist FSD with obtaining euGMP certification at the existing licensed facility of FSD. Pharmadrug Production GmbH has also entered into

a five year supply agreement with FSD whereby, upon proper euGMP certification, Pharmadrug Production GmbH will commit to purchase an aggregate of 1,000 kilograms of Canadian produced cannabis product at a firm price of \$7.00 per gram FOB Germany, provided that the product is saleable in the German market.

Pharmadrug continues to witness robust demand for dry flower medical cannabis in Germany. In addition, as the Company grows its distribution network of pharmacies in Germany, management is confident that all additional supply will be absorbed by the German market.

Pharmadrug also plans to grow its distribution platform beyond Germany into other EU countries. Pharmadrug Production GmbH is a Schedule I Narcotics distributor, allowing the German Business to export GMP medical cannabis to other EU countries as and when those countries legalize cannabis.

For instance, Poland awarded medical cannabis import licenses in 2018 and began importing this year. The French Senate passed a bill in June 2019 for a trial run of CBD, trace-THC medical cannabis. With no plans of domestic cultivation, France will require importation of GMP medical-grade cannabis. As well, Italy is currently importing from Netherlands.

Daniel Cohen, CEO of Pharmadrug, commented, "We are very excited about this transformative transaction and believe that this is a major building block to establishing Pharmadrug as a leading medical cannabis supplier to the European markets. Pharmadrug Production GmbH fits well strategically with our Israel business. With the imminent opening of the Israeli export law and Israeli GMP complying with European GMP, we will have a strategic avenue to export cannabis from Israel into the European Union."

### HolyCanna Ltd.

Pharmadrug has a first-mover advantage with its two Israeli assets. The first business is HolyCanna, a cultivation and nursery license

holder, of which Pharmadrug holds convertible debt that will convert into 54% equity in the event Israeli regulatory approval is obtained.



**HolyCanna has started to build a 60,000 square foot greenhouse in Israel and expects to complete the facility in the first half of 2020.**

As part of the agreement, the Company subscribed to the (Israeli Shekel) ILS10 million (CAD\$3.57 million) Convertible Note and was awarded four of the seven Board votes of HolyCanna.

HolyCanna is a project to build an IMC GAP cannabis cultivation [facility/operation] 45 minutes north of Tel Aviv in Netanya. The first phase will be approximately 60,000 square feet of greenhouse, with more than 300,000 square feet of additional space available.

The goal is to start building the facility in the early part of 2020. In order to prepare for the launch, Pharmadrug hired the services of master grower, Adrian Richelmi, to build and operate the greenhouse.

Mr. Richelmi offers over 15 years of expertise in growing medical cannabis for both soilless soil and hydroponics projects. His resume includes designing and building large scale production facilities along with extensive knowledge of industry standards and best construction practices.

### CannabiSendak Ltd.

The second Israeli asset is an LOI to acquire 57% of CannabiSendak, which leverages the experience and profile of Shlomi Sendak, a well-known Israeli medical cannabis activist who assisted nearly one-third of Israeli prescription holders in the process of obtaining their patient cards.

CannabiSendak intends to establish licensed medical cannabis dispensaries throughout Israel which will provide an unrivalled customer experience, featuring a café, patient consultations and medical professionals on site. CannabiSendak will use HolyCanna as its primary provider of branded cannabis products. The first clinic opened in Tel Aviv in August of 2019 with the full-service dispensary and club to launch in the first half of Fiscal 2020.

There is a impressive market potential in Israel as the current number of medical patients increases significantly from its current base of more than 50,000. As the new regime rolls out, cannabis patients across Israel will have easier access to the product for medical requirements. Pharmadrug and CannabiSendak will play a leading role in accessing the hundreds of thousands new patients in Israel over the coming years.

### Nutritional High

Pharmadrug is also actively seeking to establish a medical grade extraction and manufacturing facility in Europe or Israel. In order to do so, Pharmadrug signed a LOI with Nutritional High International Inc. [CSE:EAT] in October 2018 to utilize the latter's cryo-ethanol extraction process and other operational expertise.



**Nutritional High has already brought its flagship FLi edibles and extracts product line from production to market in California, Oregon, and Colorado.**

This will enable Pharmadrug to set up facilities to produce high-quality oils and end products ranging from vapes to chocolates and chewable tablets. The partnership will take the form of a joint venture and final economics will be determined on a project by project basis.

Nutritional High is focused on developing, manufacturing and distributing products under recognized brands in the cannabis products industry, with a specific focus on edibles and oil extracts for medical and adult recreational use. The Company works exclusively with licensed facilities in jurisdictions where such activity is permitted and regulated by state law.

## THE MARKET

### European Cannabis Market

With a market of 742 million people and total healthcare spend of €2.3 trillion, Europe is set to become the world's largest legal cannabis market in the world. The market could be worth as much as €58 billion once proper legislation and infrastructure is in place in all markets. Insurance companies in Israel, Germany, Denmark, and Italy are now covering medical cannabis prescriptions, forecasting that in the near future fulfilling medical cannabis prescriptions will become a basic requirement of any public healthcare policy.

Also, the European Parliament voted in February to improve access to medical marijuana, and research its public health effects, urging the European Commission and member states to address regulatory, financial and cultural barriers which burden scientific research and invites them to properly fund research. While non-binding, the Parliament's resolution showed that there is now wide EU support for cannabis legalisation.

More than €500 million has been invested in the cannabis industry in Europe to date, and six countries have announced new legislation regarding the growth, sale, or consumption of cannabis.

Since the beginning of 2018, Germany, Denmark, Malta, Greece, and Italy have all discussed the possibility of a fully regulated cannabis market, while Luxembourg has called on its EU neighbours to relax their drug laws as its health minister confirmed plans to become the first European country to legalise cannabis production and consumption.

Employment opportunities, crime reduction, and potential increases in tax revenue are all key driving forces for the establishment of a legal recreational cannabis market in Europe.

Medical cannabis is currently legal in most of Europe, with doctors prescribing it for relief of symptoms arising from multiple sclerosis, AIDS, cancer, long-term neurogenic pain, Tourette syndrome, Crohn's disease and PTSD. In Germany, cannabis is also prescribed for ADHD, headaches, migraine and other widely spread illnesses.

But the process is loaded with bureaucracy. The situation in the United Kingdom shows how complicated it can be. Medicinal cannabis was legalised in the UK last year but so far, there have only been a handful of actual treatments with the drug. Since it is currently unlicensed, doctors can prescribe it only if a patient has a need that cannot be met by licensed medicines.

When it comes to recreational cannabis, it remains the most prevalent illegal drug in Europe: according to the European Monitoring Centre for Drugs and Drug Addiction (EMCDD), 17.2 million young people (14.1%) used it in 2017. The situation is shrouded in legal uncertainty. For example, while recreational cannabis remains illegal in every EU country, cities like Amsterdam and Barcelona are known for their coffee shops and social clubs, and decriminalisation is gaining ground in countries like Portugal, Germany and Spain. Penalties for marijuana possession and consumption vary: some EU countries maintain prison sentences, but others have completely decriminalised possession of small amounts.

European Union countries still have a patchwork of complex and varying regulations for cannabis use in each individual country, and the sector is still in its early stages. But that could rapidly change, according to market experts.

In other words, it's high time to buy in. Companies are making big moves for a chance to take up on an emerging, almost certainly lucrative market. For now, it's a waiting game – but by the looks of things it's going to be a relatively short one.

Similar to its initiatives in Israel, Pharmadrug's management believes that it is early to the medical cannabis game in Europe. The acquisition of Pharmadrug Production GmbH, a German EU-GMP-approved pharmaceutical distribution company, makes Pharmadrug a player in the European medical cannabis market.

The Company believes it will have a strategic advantage with Pharmadrug Production GmbH as it will be able to access significant quantities of cannabis from both Israel and Canada. Management is well-connected to the cannabis industry in Canada and already in talks with several players for supply agreements. Moreover, Pharmadrug will eventually be able to import its own cannabis production from HolyCanna as well as from other producers.

### Israeli Cannabis Market

Raphael Mechoulam, professor emeritus at the Hebrew University of Jerusalem was among the first scientists to isolate psychoactive ingredients in marijuana and realize their therapeutic potential.

Mechoulam was able to isolate and identify tetrahydrocannabinol, or THC, the main mind-altering component of cannabis, and cannabidiol, or CBD, which has therapeutic properties but does not get the user high. He was building on work by Roger Adams, an early 20th century American chemist who first identified certain chemical components of cannabis in the 1940s but whose efforts were slammed shut by J. Edgar Hoover's FBI.

Professor Mechoulam's discovery was more than half a century ago, but up until today Israel remains one of the world's leading research centers for medical uses of cannabis.

The ailments that Mechoulam and his associates say are being treated effectively with cannabis-based medicines include epilepsy, osteoporosis, obesity and all sorts of pain, though they also acknowledge a need for more clinical studies that meet the most rigorous standards of scientific research.

The number of registered cannabis patients in Israel is currently over 50,000. However, the

total patient count grew by more than 70% since November 2018 due to the reform that took effect in April of this year. Moreover, the Israeli Health Department is forecasting the patient base to expand by a factor of eight to ten times over the next several years.



**Israeli sourced cannabis is ideal for the German and European market in that facilities are already built to eGMP standards and thus no additional certification is required from the regulatory body.**

Blessed with mild weather, lots of sunshine and sophisticated research-and-development sectors, Israel also has a tradition of educated farmers through the kibbutz system who can easily implement the "precision agriculture" necessary for high production standards. Israelis have dedicated thousands of acres and millions of dollars to cultivating the plant under controlled conditions.

Researchers say the Israeli government has given enthusiastic support to the industry for decades. Medical marijuana was legalized for use with a prescription in 1973, and this year, the government voted to permit exportation of the drug, opening up a global market for Israeli producers.

As a result, potential investors from as far away as China are visiting Israel to explore opportunities, which so far include nearly 100 start-ups producing cannabis-based medicines and other products. In fact, medical cannabis is one of the fastest growing sectors on the Tel Aviv Stock Exchange.

Israel will continue to garner attention from capital markets in 2019 and beyond, as the nation is a natural global hub for medical cannabis. Israel is a pioneer of modern medical cannabis, a global centre for cannabis R&D, and boasts one of the highest consumption rates per capita. In addition, in

January of 2019, Israel became the third country globally to approve the export of medical cannabis, after the Netherlands and Canada. That being said, the framework has yet to be introduced and the process may take some time.

The primary export market is expected to be the European Union, one of the world's largest markets for medical cannabis. This is particularly beneficial to Pharmadrug, as the Company continues to grow its presence in the E.U. and build a strong vertical integration with our business in Israel.

### Worldwide Cannabis Market

Globally, countries are moving to legalize medical cannabis. The number of conditions treated with medical marijuana is growing rapidly. As new patients are added to the market, the demand for medical marijuana is expected to increase multiple folds over the forecast period.

Typically, medical cannabis legalization is seen as the first step towards full recreational / adult-use legalization. As such, globally-minded cannabis companies are building international businesses to capitalize on the forthcoming opportunity in both the medical and recreational cannabis markets.

Countries like Canada, the U.S., Germany and Australia are expected to emerge as leading markets in terms of sale, whereas, countries like Israel are focusing on research and technology development and are leveraging on knowledge transfer.

The global legal marijuana market is expected to reach USD 146.4 billion by end of 2025, according to a new report by Grand View Research, Inc.

## RECENT EVENTS

### Important Supply Agreement Signed With My Green Fields

Just a few days after our initial Research Report on Pharmadrug was published in September, the Company surprised the markets with a multi-year supply agreement at very attractive conditions.

Pharmadrug Production GmbH signed a five-year supply agreement with Israeli grower My Green Fields Ltd. In the first year, 500 kg (500,000 gram) of dry flower or oil equivalent will be supplied to Pharmadrug Production GmbH at a fixed price of €4,00 per gram. Knowing that Pharmadrug Production GmbH is currently selling dried cannabis within Germany at €9.50 per gram, this deal is expected to generate €4.75 million in sales in the first year at very attractive margins.

In subsequent years, Pharmadrug Production GmbH will have access to up to two tons (2,000,000 gram) of dry flower or oil equivalent per year at market-determined or mutually agreed upon prices. All products will be sold under Pharmadrug Production GmbH's own 'Cannabion' brand.

**This was really the start of Pharmadrug's conquest of the European cannabis market. Up until now Pharmadrug Production GmbH only had a relatively small supply agreement. This agreement with an Israeli grower takes the Company into another category.**

Daniel Cohen, CEO of Pharmadrug, commented, "We are excited to enter this strategic partnership with My Green Fields, providing our German distribution base with additional supply in a market that remains very tight with chronic shortages. Our access to oils and extracts will be extremely beneficial to the Company in serving German pharmacies as well to other European markets.

Located in Northern Israel, My Green Fields is a nursery and cultivation license holder that has nearly completed the buildout of one of Israel's only indoor facilities. The operation will have 300,000 square feet of canopy utilizing advanced growing techniques.

My Green Fields expects to plant its first harvest in January and should be ready for its first commercial harvest in the summer of 2020. This would be an ideal timing as Israel passed its cannabis export law in January 2019 and the framework is currently being put into place. As a result, cannabis is expected to begin flowing from Israel to Germany as early as the first quarter of 2020.



Very important to note is that Israeli sourced cannabis is ideal for the German and European market in that facilities are already built to eGMP standards and thus no addition certification is required from the regulatory body. My Green Fields ensures that its facility will meet EuGMP standards, German regulatory approvals, and registration requirements.

### Pharmadrug Signs Major Canadian Supply Agreement With Canada House Wellness

Late October, Pharmadrug announced a multi-year supply agreement between its 80% owned German subsidiary Pharmadrug Production GmbH and Canada House Wellness Group Inc. [CSE: CHV]. The agreement is part of the Company's plan to aggressively pursue the medical and potentially recreational cannabis market in Germany and the rest of Europe. All cannabis will be grown in a GMP-certified facility in Ontario, Canada and sold in Europe under Pharmadrug's own 'Cannabion' brand.

The deal calls for up to 500 kg of dry flower or oil equivalent to be delivered in the first year with that doubling to up to 1,000 kg in year two. Gross margins will be robust at 58% as the cost to Pharmadrug will be €4,00 per gram while it is currently distributing its products to pharmacies in Germany at €9,50 per gram. After the second year, Pharmadrug will have access to up to 3,000 kg per year at a price to be negotiated at that time. To put this in perspective, if only a minimum of 250 kg were to be delivered and sold, that would already lead to €1,375,000 in gross profits for Pharmadrug.

Canada House's wholly owned subsidiary Abba Medix Corp. has a 22,000 square foot cultivation facility in Pickering, Ontario that received its Canadian Sales License on October 1, 2019. The facility is ramping to a capacity of 2,000 to 3,000 kg per year.

CEO Daniel Cohen very confidently stated: "We are excited to enter this strategic partnership with Canada House and believe this sets the stage for a very significant development of our business in Germany next

year. With a new sales team and strategic plan now in place, management is confident it will be able to achieve profitability with our current Bedrocan business by the end of Q1 2020. With the introduction of Cannabion-branded supply from Abba in Q2 and from Israel in the second half of 2020, Pharmadrug is set to ramp its business to a significant level of revenue, profitability, and strategic relevance in 2020."

## FINANCIALS

During the third quarter, ended September 30, 2019, Pharmadrug Inc. reached revenues of \$271,000 with a gross margin of \$67,000, or 25%. Gross margin is expected to improve to 40% over the coming quarters. Recall that Pharmadrug has two supply agreements where it will be paying €4,00 per gram of cannabis while it is currently distributing its products to pharmacies in Germany at €9,50 per gram, a 58% margin. Therefore, it is reasonable to expect that the Company will achieve the 40% margin as promised in the near-term. Gross margins may even continue to increase down the line, as Pharmadrug benefits from more efficient logistics and economies of scale.

Amounts in \$000's	09/30/19	09/30/18
Revenue	271	-
Cost of Goods Sold	205	-
<b>Gross Profit</b>	67	-
Management Fees	199	55
Professional Fees	97	97
Travel & Promotion	61	104
Share Based Comp.	-	227
<b>Total Expenses</b>	<b>436</b>	<b>580</b>
<b>Net Loss</b>	<b>459</b>	<b>2,824</b>
Diluted Shares Outs.	83,302	20,973
Diluted EPS	(0.01)	(0.01)

**Selected income statement data for the quarters ended September 30, 2019 and September 30, 2018. Source: Company Filings**

Pharmadrug recorded a \$459,000 net loss for Q3. In the context of being a startup, this is a very reasonable burn rate. Assuming a 40% gross margin, the Company would likely achieve breakeven operations around \$1.5 million in revenue per quarter.

While Pharmadrug is off to a nice start, no one should have been expecting incredible numbers in just its second quarter of operations since purchasing Pharmadrug Production GmbH in May 2019. What should be much more exciting to shareholders are the Company's expectations made for 2020. CEO Daniel Cohen stated, "We expect Pharmadrug's German operations to reach profitability in the first half of 2020 with a surge in growth to begin in the latter half of next year".

While this is a very confident statement from the CEO, we think this goal is achievable. The Company already has two supply agreements in place with plans to close a third. These agreements will supply Pharmadrug with medical cannabis starting in Q2 2020 under the Company's 'Cannabion' brand. Management's goal is to have a run-rate of 1,000 kg of medical cannabis supply by Q4 2020 with 3,000 to 5,000 kg of medical cannabis in 2021.

The demand side also looks robust as Pharmadrug has grown to reach nearly 100 of the approximately 20,000 pharmacies in Germany in just four months. At that pace, we expect the Company to be in several hundred by the end of 2020. Pharmadrug recently bolstered its sales team to expedite its presence in the pharmacies. The Company is looking to resell its product to other distributors in Germany with discussions having commenced with several interested players. Pharmadrug also plans to export GMP medical cannabis to other EU countries as they legalize cannabis.

Based on a sales price of €9,50 per gram and cost of €4,00 per gram, the 250 kg of medical cannabis target for Q4 2020 would lead to €2,375,000 (\$3.5 million CAD) in revenue and €1,375,000 (\$2 million CAD) in gross margin in just that one quarter. Looking at these numbers and comparing them to the reported numbers of Q3 2019, the CEO's claims on revenue growth and profitability suddenly become very realistic.

That amount of gross margin would be more than enough to ensure bottom line profits even when accounting for a modest increase in the current level of operating costs. The

median production and sales target of 4,000 kilograms in 2021 would lead to €38 million (\$56 million CAD) in sales and €22 million (\$32 million CAD) in gross margin.

## Balance Sheet As Of September 30, 2019

Since its inception, Pharmadrug's management team has proven that it is able to raise sufficient funds. In 2019 alone it closed the following financing deals:

On January 10, 2019, the Company closed a non-brokered private placement of 11,493,998 units at a price of \$0.15 per unit, for gross proceeds of \$1,724,100.

Amounts in \$000's	09/30/19	12/31/18
Cash and Cash Eq.	364	155
Accounts Receivable	605	28
Inventories	353	-
<b>Total Current Assets</b>	<b>2,026</b>	<b>528</b>
Investment in FSD		
Pharma	1,625	-
Goodwill	6,810	-
<b>Total Assets</b>	<b>10,961</b>	<b>1,062</b>
Accounts Payable	703	423
Loans Payable	1,809	-
<b>Total Liabilities</b>	<b>3,763</b>	<b>1,553</b>
Total Stockholder Equity	7,135	(490)
<b>Selected balance sheet data on September 30, 2019 and December 31, 2018. Source: Company Filings</b>		

On February 27, 2019, the Company closed the first tranche of an offering of 8,726,954 Subscription Receipts at an issue price of \$0.22 per Subscription Receipt, for gross proceeds of \$1,919,930.

On April 17, 2019, the Company closed the second tranche of the offering of 12,818,500 Subscription Receipts at the Issue Price, for gross proceeds of \$2,820,070 under the same terms as the first tranche of the Offering.

In connection with the offering, Pharmadrug entered into a share exchange agreement with FSD Pharma, a leading licensed producer under the Cannabis Act, whereby FSD acquired 13,562,386 Pharmadrug shares valued at \$3 million issued from treasury in

exchange for 13,181,019 FSD shares issued from treasury valued at \$3 million.

The Company's objective when managing its liquidity and capital resources is to maintain sufficient liquidity to support financial obligations when they come due, while executing operating and strategic plans.

There is sufficient capital to meet all short-term business obligations, including the initial stages of HolyCanna's greenhouse grow facility.

## OUTLOOK & VALUATION

The German medical cannabis market is estimated to reach \$1.6 billion in sales by 2022 based on a recent study completed by Arcview Market Research and BDS Analytics. The problem, however, is that little capacity exists within the country to produce cannabis locally. As a result, the nation has been forced to turn to imports for its medical cannabis needs.

The number of companies that are qualified to bring cannabis into Germany are very limited. In fact, there are only four public companies at the moment. While the first three owners of a distribution license come as no surprise – Canopy Growth Corp, Aurora Cannabis, and Aphria, some of the largest cannabis producing firms in the world – the fourth is Pharmadrug. It joined this list of coveted distribution license holders after its purchase of 80% of Pharmadrug Production GmbH in February 2019.

Pharmadrug currently has supply agreements in place with FSD Pharma, My Green Fields and Canada House Wellness for the importation of cannabis to the German market. These supply agreements are in addition to Pharmadrug's own intercompany supply, which will be coming from Israel upon completion of the HolyCanna facility, which is expected to produce 1,600 kg of cannabis per year, with a portion earmarked to be exported to Germany via Pharmadrug's importation and distribution license.

Israel passed its Cannabis export law in January 2019 and the framework is currently

being put into place. It is key to note that Israel is a GMP jurisdiction in regards to cannabis cultivation and that Israeli GMP is compliant with euGMP standards. Cannabis is expected to begin flowing from Israel to Germany as early as the first quarter of 2020.

Moreover, Pharmadrug plans to grow its distribution platform beyond Germany into other European Union countries. Pharmadrug Production GmbH is a Schedule I Narcotics distributor, allowing the German business to export GMP medical cannabis to other EU countries as and when those countries legalize cannabis. For instance, Poland awarded medical cannabis import licenses in 2018 and began importing this year. The French Senate passed a bill in June for a trial run of CBD, trace-THC medical cannabis. With no plans of domestic cultivation, France will require importation of GMP medical-grade cannabis. As well, Italy is currently importing from Netherlands.

After the cannabis blow up of 2019 that particularly impacted CSE-listed stocks, there are many stocks of BUZZ's ilk that have lost a lot of value and appear to be cheap. However, few have a CEO willing to go on the record to forecast profitability in the first half of 2020. Pharmadrug also has a straightforward, easy-to-understand and high margin business plan backed by numbers with the building blocks already in place in order for that plan to be executed.

We have mentioned this before but it bears repeating. BUZZ is trading at a shell valuation of around \$3 million in market cap. The over \$500,000 in revenue achieved in less than half of a year in 2019 implies an annualized revenue multiple of less than 3x and things are just getting started. Even if it were to execute on half of the production and sales goal for 2021, BUZZ would be trading at around 0.1x of expected 2021 revenue.

We continue to believe that it is an opportune time for existing investors to consider adding to their position and new investors to consider initiating a position in the stock. Anyone who has the patience and risk tolerance to hold for the next 12-18 months should be richly rewarded with strong revenue growth and the expectation of profitable operations.

## Valuation

Given that Pharmadrug only generates modest revenues since a few months, a multiple-based valuation is not possible. Instead, we apply a Discounted Cash Flow (DCF) model.

Based on our estimate of 83.5 million shares outstanding, the intrinsic value of Pharmadrug's shares derived from our model is \$0.21.

**As such, we reiterate our buy recommendation for Pharmadrug Inc with a price target of \$0.21, which is 600% above today's stock price.**

## SHARE DATA & OWNERSHIP

As of September 30, 2019, Pharmadrug had approximately 83.30 million common shares outstanding.

In addition, the Company had approximately 25.70 million warrants outstanding with an average exercise price of \$0.31. Each warrant entitles its holder to purchase one common share of the Company.

Finally, Pharmadrug had 3.64 million stock options outstanding with a weighted average exercise price of \$0.19. Each stock option entitles its holder to purchase one common share of the Company. The weighted average remaining life of the outstanding stock options is 1.63 years.

### ▣ MR. DAVID POSNER - CHAIRMAN

Mr. Posner has long been an active player in the public cannabis sector. He is the founder and chairman of Nutritional High (EAT.CN)

The management of the Company, along with a few other significant shareholders, control about 50% of the common stock outstanding.

## MANAGEMENT

### ▣ MR. DANIEL COHEN – CHIEF EXECUTIVE OFFICER

Mr. Cohen has nearly 20 years of experience in the capital markets and most previously served as a partner and head of institutional equity sales at Beacon Securities. Prior to that, he held roles in institutional equity sales, investment banking and equity research at Wellington West Capital Markets, RBC Capital Markets and HSBC Securities. Mr. Cohen holds an MBA in Finance from McGill University and is a CFA charterholder.

### ▣ MR. HOWARD BRASS - CHIEF OPERATING OFFICER

Mr. Brass has nearly a decade of capital markets experience and spent several years leading the restructuring, growth, and sale of Cliplight Manufacturing Company to private equity firm The Jordan Company. Mr. Brass holds an HBA from the Richard Ivey School of Business and is a CFA charterholder.

### ▣ MR. KEITH LI – CHIEF FINANCIAL OFFICER

Mr. Li has over 10 years of experience in public accounting and the private sector. His specialties include audit and assurance, corporate accounting, financial reporting, and regulatory compliance services.

and played an active role in founding Tinley (TNY.CN), Lineage Grow (BUDD.CN), and Xanthic Biopharma (XTHC.CN). Formerly, Mr. Posner ran a real estate development fund with projects in North and Central America.



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US: LMLLF

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