Trickle Research

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

Initiating Research Coverage

CORDOVA CANN

CordovaCann Corp.

(OTC: LVRLF; Canada: CDVA.CN)

Report Date: 08/20/20

12- 24 month Price Target: $.56

Allocation: 4

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

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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.

Company Overview

CordovaCann Corp. (formerly LiveReel Media Corporation) (the "Company" or "CordovaCann") is a Canadian-domiciled company focused on building a leading, diversified cannabis products business across multiple jurisdictions including Canada and the United States. CordovaCann primarily provides services and investment capital to the retail processing and production vertical markets of the cannabis industry. On January 3, 2018, the Company changed its name from LiveReel Media Corporation to CordovaCann Corp. The Company is headquartered in Toronto, Ontario Canada.

The Company entered the public markets via a reverse merger with a public company in an unrelated business. That combination was consummated in late 2017, at which time the Company's focus became opportunities in the U.S. and Canadian cannabis markets. Through calendar 2018, CordovaCann attempted to assemble a handful of cannabis related assets in the United States. Those endeavors included properties in the states of Oregon, Colorado, Washington, Nevada and California. We would note, these particular states represent some of the most advanced cannabis markets in the U.S. However, during that time, the competition to consolidate properties, especially in some of these jurisdictions, was robust. As a result, several of their efforts to close those deals failed as they were unable to compete with offers from larger players. However, they are still pursuing some of these opportunities.

More recently, in April (2020) the Company announced its first efforts to enter into the Canadian cannabis market. That transaction included the purchase agreement of Canadian intellectual property for a successful cannabis retail brand called "Star Buds". The agreement includes the licensing rights to open certain Star Buds branded stores in Canada and we believe it may ultimately include the licensing of stores in U.S. markets as well. We will expand on this arrangement later in this report as we believe it is the cornerstone of the Company's growth strategy.

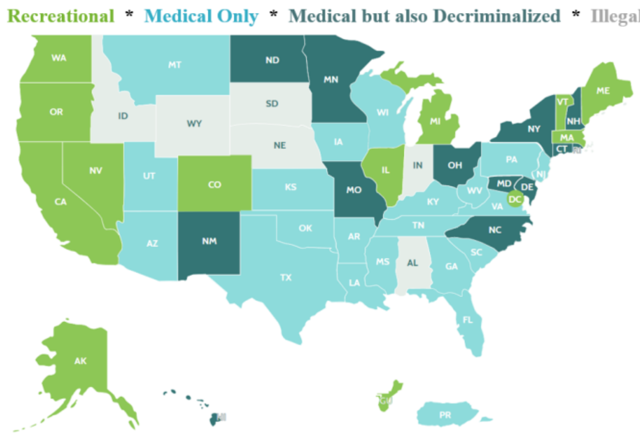
As a result of the aforementioned purchase agreement, the Company recently completed the opening of 2 Star Buds dispensaries in Ontario, Canada, and it anticipates opening 2 additional Ontario stores prior to calendar yearend (2020). The Ontario stores are the result of a separate transaction that we will delineate below. Further, they also plan to add 6 stores collectively in Alberta (5) and British Columbia (1) pending regulatory approvals. They believe those stores should be in operation before year end. These openings represent the Company's transition to operations, revenues and we believe, ultimately, profitability. Again, we will address the specifics of those openings later in the report.

Industry and Regulatory Overview

As we have noted in some of our prior research, despite being located in one of the U.S.'s more advanced cannabis states/markets (Colorado) we have not provided a considerable amount of research in the space. Granted, some of that stems from our generalist focus. However, beyond that, our reluctance has generally stemmed from a handful of issues that have driven our caution, especially as it relates to companies solely doing business in the U.S.

First and foremost, as most are aware, while many states in the U.S. have enacted laws legalizing marijuana with various caveats, the federal government has remained steadfast in its stance that marijuana is not only illegal, but is still considered a Schedule I narcotic, which puts it on the same list as heroin and LSD among others. That said, we believe the federal stance on cannabis legalization has perhaps softened over the years as public opinion in favor of legalization has grown markedly over the years. The result(s) of that growing support is in part manifested in the spread of legalization across many U.S. states. To put that into perspective, all but a few states have legalized marijuana on some level, while several have legalized recreational use and it is anticipated that others will follow that path as well.

Map of Marijuana Legalization by States in 2020 (Medical & Recreational)



https://www.weednews.co/marijuana-legality-states-map/

Again, as those who follow the space even on a cursory level have likely surmised, the lack of Federal legalization/legislation has led to a myriad of consequences for the industry both across and within state boundaries.

Perhaps most notably, over the past several years, while the Federal government has provided nominal opposition in terms of states enacting their own legalization laws, they have used the power of the federal banking system to counter the adoption of legalization. The impact of that approach has been to slow the acceleration of business within the space by impeding traditional banking function of businesses within legalized jurisdictions, but also on a broader scale by inhibiting capital from flowing into the space as well. In our view, that stance has created some provided complexities within the cannabis market.

In addition to the above, the state-by-state adoption of legalization, which includes the various levels of legalization (or otherwise) in each state, has added to the complexity by resulting in a patchwork of laws and regulations that differ from one state to the next, but also amongst varying local jurisdictions within individual states. From an investment perspective (again in our view) the sum of these variables has complicated the analysis of the space in part by impeding visibility, which is one of the major tenants of most equity valuation approaches.

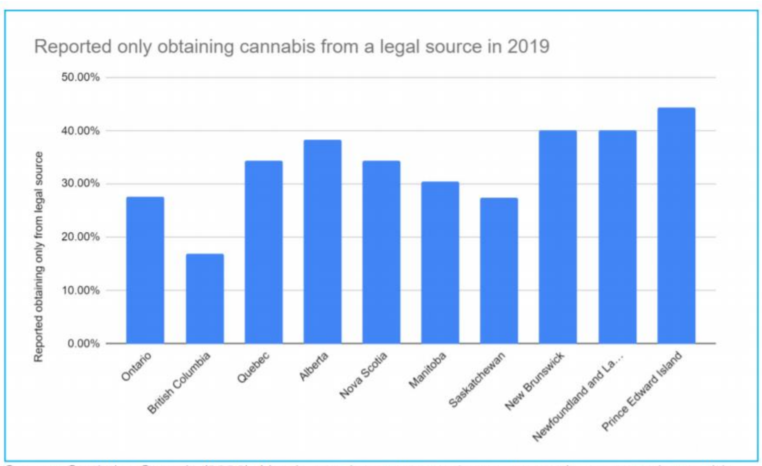
We submit, we think the general specter of Federal influence in the space has waned. However, it remains a wildcard to the industry and continues to impact the industry in a variety of ways. In fact, outside of the continued limitations provided by the Federal banking system, we tend to believe that there may be scenarios where Federal legalization of cannabis could be a net negative for existing U.S. players. For instance, we believe Federal legalization would shuffle the deck in terms of the relevance and influence of current state laws, which (on a jurisdiction by jurisdiction level) may favor particular portions of the supply chain, and/or particular jurisdictions. Further, Federal legislation would likely lead to increased participation in the industry by large, well established companies that absent Federal legalization have generally avoided the space. That heightened competition could prove negative for smaller incumbent players.

Canada on the other hand, is a different story.

In 2001, following a series of legal challenges, Canada became the first country to legalize the medical use of cannabis. Canada made marijuana legal for recreation use in 2018 making it the first G7 and G20 nation to do so, and that legislation has had a marked impact on the Canadian cannabis industry. To that point, the following provides some narrative regarding Canada's experiences since full legalization. The narrative is excerpted from a recent publication from TRANSFORM Drug Policy Foundation, titled: ***CAPTURING THE MARKET: Cannabis regulation in Canada.*** TRANSFORM is a UK based non-profit organization focused on drug policy analysis. The report is available at: https://transformdrugs.org/product/capturing-the-market/ .

> *The first year of legal regulation was characterised by market instability, including gaps in supply and delays in opening retail stores. Developing and regulating a new market of this size was always likely to have teething problems, particularly owing to a lack of case studies to draw upon. This market instability, however, has had a large impact on recorded consumption rates and limits the conclusions that can be drawn about the comparative success of provincial retail models. Further, the dynamics of the new market are a consequence of multiple, complex factors — including cultural and economic variables that are largely independent of policy and law. It is therefore difficult to disaggregate the drivers of any changes with certainty.*

We think that is probably an insightful observation. To circle back a bit, some of the issues they raise here encompass some of our prior concerns about the industry in general. Succinctly, we tend to believe that market forces ("*cultural and economic variables"* in the above parlance), tend to trump law and policy, which is often enacted to try to reign in and/or control those forces. In that regard, the cannabis industry is in our view atypical. For instance, most other "new" industries begin as a nascent idea and then grow at some pace over time, which give governments time and experience to develop regulations around those industries *as they emerge*. However, the **legal cannabis market** has in some ways been thrust upon governments with little data to back test against, thus the "*lack of case studies to draw upon"* notion noted above. We highlight the term "legal cannabis market", because prior to virtually all legal cannabis markets, illegal cannabis markets existed and still exist today. Consider the follow table from the aforementioned report:



Source: Statistics Canada (2020). Number and percentage of consumers who accessed cannabis from each source. https://www150.statcan.gc.ca/n1/pub/82-003-x/2020002/article/00002/tbl/tbl03-eng.htm

To translate the above, one year after the legalization of cannabis, presumably about 2/3rds of Canadians were still purchasing some or all of their cannabis from illegal sources. (That is not a critique by the way, since it has only been roughly a year and as the above report notes, given some initial legal supply issues, it is reasonable to expect numbers of this nature. Clearly, this relationship (the ratio of legal vs. illegal purchases) will be more relevant as we move forward. The point is, while the legal cannabis market may be new, the illegal cannabis market certainly is not, and that fact has provided and we suspect will continue to provide, marked challenges for the legal players in the space as well as for regulators trying to manage the inputs.

To that end, Canada's approach to legalization at least to this point still includes some of the "patchwork" elements we noted about the U.S. markets. For example, the Federal regulatory framework includes the oversight of some portions of the Canadian supply chain, while other portions have been left to more local jurisdictions. The following tables provides an overview of that apportionment:

Controls on:	**Responsibility of:**
Growing (and producing)	
Personal growing limits*	Federal and provincial government
Commercial production rules Commercial production licensing	Federal government
Distribution	
Unauthorised distribution	Federal government
Sale	
Retail model Retail locations and rules	Provincial government
Zoning laws/local prohibitions on stores	Provincial and municipal government
Advertising and promotion* Packaging*	Federal government
Taxation Ensuring compliance	Federal and provincial government
Consumption	
Possession limits* Age limits* Impaired driving laws	Federal and provincial government
Public consumption	Provincial and municipal government

Source: Adapted from table from Prince Edward Island Provincial Government[3]
**Federal minimums are set but further restrictions can be applied at the provincial level (e.g. a total restriction on personal growing in Manitoba and Quebec).*

To summarize the above, in Canada, the Federal government has full authority over the production/supply of cannabis, while Provincial governments are responsible for the majority of the retail sales portion of the chain. As one might expect that scenario has led to differing results in terms of retail saturation and perhaps by extension, the illegal vs. legal ratio we addressed above. To further the point, the chart below reflects the differences in retail points-of-sale for each Canadian province on a per capital basis:

Retail Stores

Province/Territory	**Retail stores**	**Retail stores per 100,000 residents**
Alberta	415	9.44
British Columbia	147*	2.88
Ontario	55*	0.38
Quebec	43**	0.50
Manitoba	30	2.18
Newfoundland and Labrador	25	4.79
Saskatchewan	24	2.04
New Brunswick	20	2.56
Nova Scotia	12	1.23
Northwest Territories	5	11.14
Prince Edward Island	4	2.53
Yukon	4	9.75
Nunavut	0	0

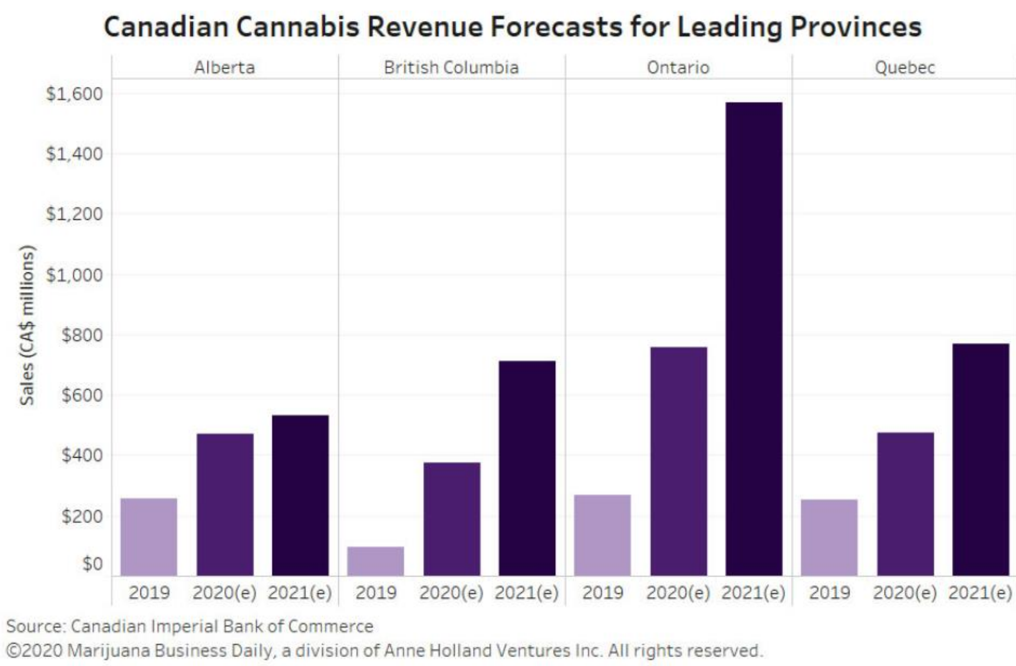
(Figures correct as of 7 February 2020)[62]
**29 retail stores in Ontario were authorised to open and 38 stores in BC were 'in progress' as of 7 February 2020.[63] A further 26 licences were granted to First Nations Reserves in Ontario, which for this table have been assumed to have opened.*
***In an October 2019 article, it was announced that 43 stores would be open within 6 months. Security protocols prevent SDQC's website from being accessed outside of Canada to verify this.[64]*

As the table illustrates, there are marked variances in retail saturation from one province to the next. Presumably, much of those variances are the result of differing approaches to the licensing of retails stores in each jurisdiction, and the approaches might include restrictions on the number of licenses, the pace at which they are allowed to roll out, who or what entities are allowed to own them, the efficiencies of the infrastructure that issues and monitors those licenses and a host of other variables. Specifically, with respect to CordovaCann, notice that Ontario, the Company's "launch" jurisdiction, has the lowest retail saturation amongst all the Canadian provinces with the exception of Nunavut, which has a population of under 40,000 citizens.

To advance the point, in a recent update Canadian Imperial Bank of Commerce ("CIBC") reduced its expectations for the industry. https://mjbizdaily.com/canadian-bank-slashes-cannabis-sales-forecast-to-ca2-5-billion-for-2020/ That update notes the following:

> *"The catalyst for the Canadian cannabis market in 2020 was obvious: a wave of stores in Ontario – and, to some extent, Quebec and British Columbia – was set to propel the industry," analyst John Zamporo wrote in a report for clients.*
>
> *"COVID-19 has now brought about serious doubt as to when this might occur. Even once conditions allow more freedom of movement, it will take time for regulators to work through the backlog of store authorizations. "And even then, we suspect some would-be market participants will be skittish on deploying significant capital to open stores."*
>
> *Improvements on product breadth, pricing and availability have driven sales somewhat, but the lack of a more fulsome physical retail presence will limit upside, as consumers continue to show preference for buying in person."… "Without meaningful store growth, we believe the per capita consumption in Canada will remain below U.S. states with greater store penetration."*

The graphic illustrates the bulk of their new projections:



Succinctly, the above embodies some of our enthusiasm for CordovaCann. As we will expand on in the Products and Services Overview below, the Company's recent alignment with Star Buds has created an opening for CordovaCann that we think could prove to be a significant catalyst for the Company. As the illustrations we have provide above may suggest, a major portion of the projected growth of Canada's cannabis market is expected to occur in the province of Ontario, which again, is the cornerstone of CordovaCann's growth plans. We submit, that makes sense since Ontario holds Canada's largest provincial population at approximately 14 million or about 37% of the population. However, because of some of the muted regulatory traction we (as well as CIBC) identified, the province has lagged many of the other provinces in terms of legal cannabis sales.

To reiterate, the Company has managed to open two retail stores in the Province in the past 60 days or so, and they should be able to open two additional locations before year end, Their ability to open these stores in the midst of some of the challenges noted above are part of what we see as a fortunate turn of events for the Company, which again we will expand upon further in this report. We would add, as a current operator, CordovaCann can open up to 75 stores into the future. We would note however, that additional stores will require the individual licensing of each, which will be subject to the regulatory process. For reference, the Alcohol and Gaming Commission of Ontario ("AGCO"), notes that it is currently processing and authorizing approximately 20 new stores per month.

Product and Services Overview

As a precursor to this section, a bit of history regarding the genesis of CordovaCann might be helpful. The concept of CordovaCann was the vision of founder Taz Turner. Briefly, Mr. Turner's professional career has largely been in the finance industry. Most notably, he founded and has managed New York City based Southshore Capital Partners since 2009. As a result, Mr. Turner's entrée into the cannabis space was that of an investor. In that capacity he was introduced to a number of cannabis related enterprises and was an early investor in the space. As a result of that exposure, he garnered a sense of the industry including its opportunities, challenges and potential pitfalls. He drew upon that experience to develop his own strategy around the industry. In short, he determined that those aptitudes would be better served creating his own enterprise within the industry than investing (often passively) in the strategies and efforts of others. By the way, we are not suggesting that is unique. We think it is fair to suggest that as the industry has evolved, it has attracted many players with no previous "history" in cannabis. We also think it is fair to suggest that dynamic has been positive for the industry.

While Mr. Turner's approach was not atypical and frankly as we suggested made sense, he certainly found the process of implementing the Company's strategy more difficult than perhaps he anticipated. We do not suspect that realization was atypical either, as CordovaCann is certainly not the only company to enter the market with a better approach only to find that their business aptitudes did not change the complexities of the emerging industry. Succinctly, in spite of some of the obstacles created by legal and other associated issues, the industry (and the public market around it) advanced rather rapidly attracting capital, high valuations and the typical "land grab" that often goes along with those characteristics. The results of that landscape for CordovaCann were a series of pieces they intended to add to the business but failed to close (some in the "11th hour) for various reasons. The exception to those failures is the aforementioned agreement with Star Buds International, as well as an associated acquisition that set the current operating business into motion.

First, there were essentially two separate/unrelated transactions that lead to the current operating platform. An excerpt of the announcement regarding the first is as follows:

CORDOVACANN COMPLETES ACQUISITION OF CANNABIS RETAIL ASSET PLATFORM FROM STAR BUDS INTERNATIONAL

TORONTO, ONTARIO, April 9, 2020 – CordovaCann Corp. (CSE: CDVA) (OTCQB: LVRLF) ("Cordova" or the "Company"), a cannabis-focused consumer products company, is pleased to announce that its wholly-owned subsidiary, Cordova Investments Canada, Inc., has completed the purchase of certain assets including intellectual property (the "Assets") from Star Buds International Inc. ("Star Buds International" or the "Vendor"), an arm's length Canadian corporation (the "Transaction"). Pursuant to the Letter of Intent announced on March 25, 2020, the Assets being acquired will enable Cordova to establish a cannabis retail platform and open up to five recreational cannabis stores and four medical cannabis clinics in Western Canada under the Star Buds brand name in the short term. Further, Cordova has secured exclusive rights to open additional stores in provinces throughout Canada utilizing the Star Buds name, a leading brand of retail cannabis stores and clinics in the United States and Western Canada. Also, in conjunction with the Transaction, seasoned industry veterans, Mr. Jakob Ripshtein and Mr. Ben Higham will join Cordova's board of directors.

Star Buds International is a British Columbia based cannabis venture that owns one of the most significant medical cannabis clinic footprints in Western Canada, in addition to a network of recreational cannabis retail stores awaiting final provincial regulatory approvals. Cordova has purchased the assets related to five such recreational stores and four such medical clinics and expects to have them opened over the next few months. These stores will leverage the Star Buds brand name and proven business model that has created one of the most profitable cannabis retail companies in the United States over the last six years. These stores also expect to be able to utilize the intellectual property of well-established Star Buds product lines of flower, concentrates, and edibles. In the United States, Star Buds USA currently operates a strong base of 20 retail stores in states, generating over US $60 million in annual revenues. Cordova plans on leveraging the business model and the platform to open additional stores across Canada in 2020 and beyond.

As we noted, this was the first of the two major announcements regarding the current operating platform, and it was/is important on multiple fronts. First, the agreement includes the licensing and established location of 6 stores in western Canada. However, it also includes the Canadian rights and associated IP for the Star Buds brand across the country. We have provided some color regarding the Star Buds brand below, but to edify, the brand was originally established in the U.S. by Brian Ruden a successful cannabis entrepreneur. As a result of the transaction Mr. Ruden is now an adviser to CordovaCann management as well. The brand has a some similar "look and feel" to the Starbucks coffee brand. As we understand it Star Buds has an arrangement with Starbucks regarding infringements of the Starbucks brand. Aside from aesthetics, the brand includes consistencies with respect to protocols aimed at maintaining that consistency across stores, which we think is paramount to building any retail brand, including those in the cannabis space. Frankly, while we are not discounting the value of any consumer awareness that might be afforded Star Buds vis-a-vis Starbucks, we tend to believe that the more important issue may be the fact that Star Buds has been able to build a successful brand in and of itself. Put another way, we feel far more comfortable with the Star Buds brand knowing that it has successfully operated and grown the brand in the U.S. than we would be if they were just starting out and we were trying to draw conclusions about how the similarities might help Star Buds. That is, the success of the brand may have a lot more to do with their development and execution of it than with the color of their logo and *that* is the greater basis for our enthusiasm about the branding.

Again, there are 6 stores encompassed by this transaction in western Canada (Alberta and British Columbia) and as we understand it, those stores are largely built out. The Company is waiting on the transfer of licenses (as a result of the transaction) to open these locations, and they plan to have them opened before year end (calendar 2020). Our model is not quite that aggressive, but we have modeled openings of all these stores through the first quarter of calendar 2021.

We think Cordova's ability to secure rights to the Star Buds brand in Canada, may have been instrumental in the closing of the second transaction noted below. That is, we think the perceived benefits of a consistent/successful branded approach, not to mention one patterned after one of the most prolific retail brands in the world, is compelling and our sense is that it could potentially help drive additional transactions.

The second of the transactions we allude to is described below. This transaction is the basis for the two recently opened (initial) stores in Ontario and includes 2 additional sites within the province that have already entered the que for opening. To edify, the fact that these stores are opened, which now makes CordovaCann a licensed operating retailer, affords CordovaCann the regulatory ability to open up to 75 stores. This announcement dovetails into some of the narrative we provided above regarding the underserved nature of the Ontario, Canada retail cannabis space and the opportunities we think this announce affords them in the regard. To reiterate, Canadian cannabis law has generally left the approval and regulation of the retail portion of the industry up to the individual provinces. Predictably, the provinces have adopted and implemented varying approaches to those retail rollouts, and that has led to more and less retail points of sale from one province to the next. Again, while Canada's most populated province, Ontario has taken a much more methodical approach to letting retail points of sale and as a result, it represents Canada's most underserved cannabis market in terms of retail outlets per capita. On the face, we view that as an advantage for enterprises that are currently operating in province and or those that have already cleared the regulatory hurdles to do so. Currently, CordovaCann is positioned in both of those categories with the two operating stores and two additional stores with the approvals to move forward with openings.

Here is an excerpt from the second announcement:

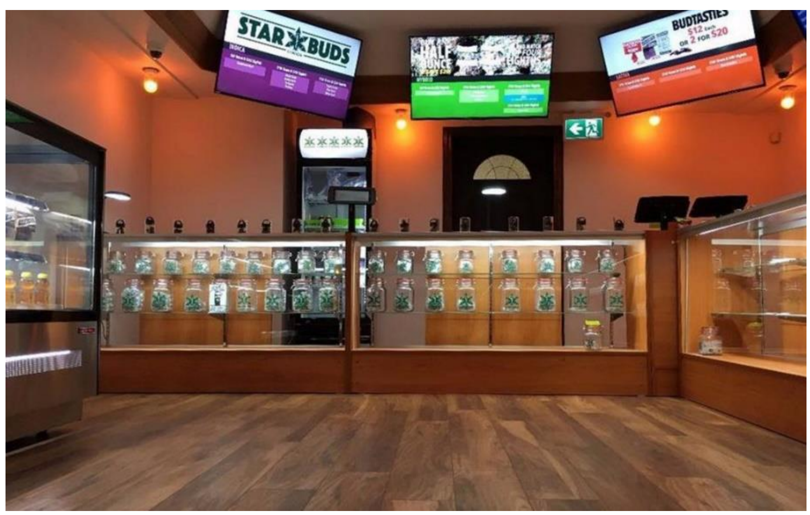
> *CORDOVACANN MAKES INVESTMENT IN AN ONTARIO CANNABIS RETAILER & PROVIDES GENERAL UPDATE*
>
> *TORONTO, ONTARIO, May 19, 2020, CordovaCann Corp. (CSE: CDVA) (OTCQB: LVRLF) ("Cordova" or the "Company"), a cannabis-focused consumer produ cts company, is pleased to announce that its wholly-owned subsidiary, Cordova Investments Canada, Inc., has completed the purchase of its initial stake of 2734158 Ontario Inc. ("273"), an arm's length Ontario-based cannabis retail venture (the "Transaction"). Pursuant to the letter of intent announced on April 13, 2020, the Transaction will enable 273 to quickly open four recreational cannabis stores in Ontario under the Star Buds brand, and gives the Company the right to apply to open a total of 75 stores in the Province of Ontario over time through its investment in 273.*

> *273 is an Ontario-based cannabis venture that has a cannabis retail operating license from the Alcohol and Gaming Commission of Ontario (the "License"). 273 has applied for four retail store*

authorizations, all of which have successfully passed through their public notice periods. 273 will manage the operations, buildout, and regulatory approvals of all Ontario stores, including one store in Alliston, two stores in Barrie, and one store in Bradford. All four of these locations are expected to open over the next few months, and 273 will continue to work on opening additional stores in Ontario under the Star Buds brand in the future.

Cordova has agreed to invest a total of seven hundred twenty-three thousand dollars ($723,000) in 273 in exchange for 50.1% of 273. Cordova invested two hundred thousand dollars ($200,000) for 21.7% of 273 at the close of the Transaction, and has committed to invest (i) two hundred thousand dollars ($200,000) on June 14, 2020, (ii) two hundred thousand dollars ($200,000) on July 14, 2020, and (iii) one hundred twenty-three thousand dollars ($123,000) on August 13, 2020, which collectively gives the Company ownership of 50.1% of 273 after all payments are made. Cordova has the right to accelerate the payments, and may do so to facilitate faster openings of the retail stores. The Transaction is subject to approval from the Alcohol and Gaming Commission of Ontario and compliance with all applicable laws, rules and regulations. Cordova holds 4 of 7 board seats of 273 and has a right of first refusal on any future sale of primary or secondary shares in 273. The retail stores will be operated by 273 under the Star Buds brand name, and Cordova will leverage its recently closed assets of Star Buds International Inc. to provide 273 with retail store designs and layouts, standard operating procedures, staff training, financing resources and systems support.

"We are excited to expand the Star Buds retail brand into Ontario so quickly. Ontario is a very attractive market given the current supply-demand imbalance due to so few cannabis retailers in the market," stated Taz Turner, Chairman and CEO of Cordova. "We anticipate that the initial stores in Ontario will open soon, and look forward to further expanding our retail presence in the province in the near future."



Chris Jones, Co-founder and President of 273 commented, "We are thrilled to open stores under the Star Buds brand and are excited to work with the talented team at Cordova. Our vision is to create convenient and memorable retail experiences for consumers and to accelerate our retail footprint across Ontario. Our team is committed to building relationships within local communities while providing a wide assortment of high-quality cannabis products and accessories that can be consumed responsibly."

We do not know all of the nuances to or the genesis of this transaction, but we think it is a milestone event for the Company, especially on the heels of the Star Buds transactions, as it represents their transition to commercial operations. Again, we tend to believe that Cordova's ability to bring the Star Buds brand to these licenses/stores, was likely instrumental to the completion of the transaction.

- **Star Buds**

Recognize, our thesis here is built on a handful of assumptions. One of those assumptions is the general notion that there is value in branding in the cannabis space. We will address our view of that in the Summary and Valuation Overview at the end of this report. But briefly, one of our reasons for believing that branding may ultimately prove important in the cannabis space is that in most industries, branding almost always matters. If that were not true, Starbucks would not have a $90+ billion valuation selling a commodity, largely at retail, in a business with low barriers to entry. Starbucks might be the quintessential example of why branding matters. To be clear, the commodity nature of cannabis has long been one of the industry characteristics we have had a hard time rationalizing, however, to reiterate, Starbucks has built a massive business distributing a commodity, largely at brick -and-mortar retail, and it has done this with superior branding. With that view in tow, its not hard to connect the dots to the place where we believe a similar strategy might be applicable to cannabis. With that said, here is some color regarding Star Buds from recent CordovaCann releases:

> *"…the Star Buds brand name and proven business model has created one of the most profitable cannabis retail companies in the United States over the last six years. In the United States, Star Buds USA currently operates a strong base of 20 retail stores in 3 states, generating over US $60 million in annual revenues. Cordova plans on leveraging the business model and the platform to open additional stores across Canada in 2020 and beyond.*
>
> ***Star Buds International** is a British Columbia based cannabis venture that owns one of the most significant medical cannabis clinic footprints in Western Canada, in addition to a network of recreational cannabis retail stores awaiting final provincial regulatory approvals. Cordova has purchased the assets related to five such recreational stores and four such medical clinics and expects to have them opened over the next few months… These stores also expect to be able to utilize the intellectual property of well-established Star Buds product lines of flower, concentrates, and edibles.*

To edify, Star Buds USA is where all of this started. Star Buds International was originally established as a licensee of Star Buds USA for jurisdictions outside of the U.S. market. Further, as the narrative above notes, the Star Buds brand has been successful in the U.S. and its Colorado stores are currently the subject of an acquisition by another public cannabis company, which we will cover in the Valuation and Summary section below. Again, Star Buds is a "play" on the Starbucks brand, which we think provides some branding benefits in general and perhaps even specifically, however, in addition they also have things like reward programs aimed consumer retention that we think provide value as well. From our perspective, programs of that nature are likely more conducive to a branded concept. Further, we think it is important to note that as we understand it, unlike in the U.S. where the lack of federal cannabis legalization prohibits Star Buds from acquiring a federal trade mark on the brand, Canadian legalization has afforded Star Buds International the ability to protect the brand with Federal trademarks, thus definitively prohibiting others from exploiting the brand across Canada.

- **Oregon**

Lastly, while we noted above Cordova experienced challenges closing most of its endeavors in the U.S. market. The exception to that was/is its acquisition of assets in Oregon and Colorado. Of these two, the Oregon assets are the most promising in terms of transitioning them to operations. the Company intends to deploy the Oregon assets in calendar 2021. Below is a brief summary of the Oregon transaction and associated assets.

> *On April 4, 2018, Cordova OR entered into an agreement to acquire Cordova OR Operations, LLC ("OR Operations") for the acquisition of land and building for a total purchase price of US $1,440,000. Under the terms of the agreement, Cordova OR acquired a 27.5% membership interest in OR Operations for $534,311 (US $400,000) on April 4, 2018, and acquired the remaining 72.5% interest on June 19, 2019 for $1,361,048 (US $1,040,000). The assets of OR Operations consists of land, building and construction in progress with the construction in progress funded by Cordova OR. The total assets acquired through the transaction amounted to $3,645,389 and Cordova OR also incurred transaction costs in the amount of $203,453 in relation to the asset acquisition. The Company intends to continue its buildout of the Oregon property to complete the construction and establish cultivation and processing facilities on the premises.*

The following is some additional color regarding the assets from the Company most recent presentation:

> *Established cultivation operation 16 miles southeast of Portland, in operation since 2016.*
>
> *• Originally ~700 square feet of indoor grow space on 6 acres*
> *• CordovaCann purchased the facility (6/ 19) for $1. 45 million and invested another $1. 3 million to build 4 greenhouses and purchase a pre-fabricated steel building to be used for extraction and manufacturing*
> *• 4 greenhouses expected to add 8,000 square feet of growing capacity – minima l additional capex to finish buildout*
> *• Manufacturing buildout would enable production of crude, distillates, concentrates, and select edibles*
> *• Potential exists for:*
> *• 3,400 lbs. of annual cultivation capacity*
> *• 3,000+ liters of annual distillate production capacity*

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.

Operating Overview

Recognize, we typically reflect our models and other associated analysis in U.S. Dollar terms. However, in this instance, since CordovaCann reflects its filings in Canadian Dollars, we thought it would be easier for our subscribers/readers to evaluate the results in Canadian currency. **We have however, reflected our price targets and share prices in U.S. Dollars.**

We would add, as the Company transitions to commercial operations and revenues, the look of the financial filings will change since in the past they have not reflected any revenues. Our model provides our presentation of those numbers, but subsequent filings by the Company will likely provide a different look. We will adjust our model to reflect that format when they file 2Q numbers.

The table below reflects the 10 stores the Company intends to have opened before year end The Company believes it can have all 10 identified stores operating before calendar year end (2020):

Table I.

Province	City/Location	Square Feet	Proposed Opening	Share Issuances
Ontario	Barrie/Livingston	1,004	Opened June 9, 2020	3,000,000
Ontario	Bradford	2,230	Opened July 21, 2020	3,000,000
Alberta	Canmore	1,200	August 2020	3,000,000
Alberta	Edmonton/Newcastle	3,000	September 2020	3,000,000
Alberta	Edmonton/Westlink	2,200	September 2020	3,000,000
Alberta	Edmonton/Westlawn	2,250	October 2020	nil
Alberta	Calgary/Bowness	1,250	October 2020	nil
British Columbia	Kelowna	1,520	October 2020	nil
Ontario	Innisfil	1,720	November 2020	nil
Ontario	Barrie/Huronia	1,857	November 2020	nil

Clearly, the 10 planned stores include varying sizes and locations and invariably, they will likely not all perform at the same level. That said, the Company has provided some public data on the initial operating results from the first two Ontario stores. Specifically, in a recent update referencing the results of the the first two store opening, the Company notes:

> *The Company's first Star Buds store in Barrie generated gross revenues over $213,000 in the first 15 days of August, with a gross margin of 35%. This equates to a run rate of* ***over $5.1 million in annual gross revenues****. Sales have increased each week the store has been open with the exception of one week, and profits continue to increase with sales.*
>
> *The Company's second Star Buds store in Bradford generated gross revenues over $144,000 in the first 15 days of August, with a gross margin of 35%. This equates to a run rate of* ***over $3.4 million in annual gross revenues****. Sales have increased each week the store has been open, and* ***the store is pacing ahead of the Barrie store at this point in its lifecycle.***

Based in part on those results as well as their own comparative analysis, we think the Company expects these 10 stores to collectively average between $3 million and $4 million in annual sales (Canadian Dollars). To put that into perspective, in recent press releases regarding its potential acquisition, Star Buds U.S. indicates that its 14 Colorado stores currently produce collective annual revenues of approximately $50 million (U.S. Dollars). That equates to roughly $3.57 million per store annually in U.S Dollars, or about $4.76 million per store in Canadian Dollars. Further, recent industry data suggest that in the month of May (2020) Canadian cannabis retail sales were approximately $186 million. Those same data suggest that the average annual run rate of stores in Alberta (the country's densest saturation of stores) was approximately $1.1 million, while the annual run rate of Ontario stores (the least densely saturated province) approximated something closer to $4.9 million in annual run rate sales per store. To translate, on the basis of the performance of the Colorado stores, as well as the Canadian per store averages for May (2020) we think the Company's estimates are reasonable. Obviously, time will tell in terms of the accuracy of that assessment, and that number will largely determine the Company's success.

Our model currently assumes average annual sales run rates of approximately $3.5 million (Canadian) per store. We would add, our model also assumes (what we view as modest) additional store growth beyond the initial 10 but beyond fiscal 2021. Succinctly, unless the initial 10 stores markedly underperform, we think more stores are a likely scenario.

To date, the Company's existing stores (albeit with limited operating history) have managed to achieve store level gross margins in the 35% range. Given that Canadian retailers effectively purchase most of their commodity inventory directly from the government (at regulated prices) we suspect these margins are relatively consistent across the industry. We would add, for a variety of reasons U.S. dispensary margins (certainly in some jurisdictions) are markedly higher than these margins. Again, to translate, we think an assumption of gross margins in the 35% range are reasonable.

We have attempted to project store level expenses based on prevailing rents and labor inputs as we understand them. As a result, we expect store level net margins to fall in the range of 15% to 17%.

We submit, Corporate overhead lacks visibility. Certainly, the transition to an operating entity will impact this portion of the operating statement and we do not think the prior numbers provide many insights. We think our projections in this regard are reasonable, but given the transition to operations, and the preparation therein including store openings etc., we suspect calendar 2020 could include some extra expense in these line items. Recognize, much of the corporate overhead to this point has been aggregated in the Consulting Fees line item. We suspect that future reporting will provide added transparency to the line as well as more predictable numbers. Again, we do not have a good handle on the magnitude of this line item through the balance of calendar 2020.

The second of the Company's two acquisitions is essentially a joint venture. As the majority owner (50.1%) of the enterprise, we believe CordovaCann will consolidate those operations. In that case, we would expect to see a non-operating adjustment for the minority interest in that portion of the business. Our model reflects that approach, but it may end up getting reflected differently.

The Company ended the third quarter (ended March 31, 2020) with just over 41 million shares outstanding. Subsequent to the end of the quarter, they completed an equity raise selling approximately 6.2 million shares. The first of the two acquisitions (Star Buds) required total of 18.5 million additional shares. Further, the acquisition provides for the issuance of 3 million additional shares for the opening of each of the first five Star Buds branded retail stores, for a total of 15 million additional shares. The Company completed an additional raise on August 17, 2020 selling 3 million shares at CAN$.32 We have reflected these additions in our model including assumptions regarding the future issuance of the 15 million acquisition shares. Table I. above reflects our assumptions regarding the timing of new store openings and by extension, the issuance of the associated shares.

Management Overview

Taz Turner, Chief Executive Officer

- 20 years experience in investing and capital markets
- Founded Southshore Capital, former Partner at Trafalet Delta Funds

Ashish Kapoor, Chief Financial Officer

- Over 20 years experience in finance and capital markets

- Extensive public company executive experience

Joe Anto, Senior Advisor

- 20 years experience in finance, investing, M&A and operations
- Former CEO of 550 store retail chain Fred's Inc. (NASD:FRED)

Brian Ruden, Special Advisor

- Founder & CEO of Star Buds Inc., U.S based cannabis retail chain
- Prior to founding Star Buds, was a tax attorney in Colorado

- **Board of Directors**

Ben Higham

- Founder and board member of Star Buds International
- Practiced corporate law in both Canada and the U.S.

Dale Rasmussen

- Executive and consultant to numerous growth companies is cutting-edge markets
- Former board member of Quantum Fuel Systems, Fisker Automotive, and IMPCO Technologies

Jakob Ripshtein

- Former President of Aphria, a leading global cannabis company
- Former CFO at Diageo North America & President of Diageo Canada

Taz Turner

- 20 years experience in investing and capital markets
- Founded Southshore Capital, former Partner at Trafalet Delta Funds

Risks and Caveats

As we have noted above and in some of our prior research, despite being located in one of the U.S.'s more advanced cannabis states/markets (Colorado) we have not provided a considerable amount of research in the space. Granted, some of that stems from our generalist focus. However, beyond that, our reluctance has generally stemmed from a handful of issues that have driven our caution, especially as it relates to companies solely doing business in the U.S. Specifically, notion has been topical to CordovaCann in the past because its original plan was to consolidate U.S. based opportunities. As it has turned out, setting its Oregon assets aside, the Company is clearly focused on the Canadian retail market, and in our view entails some different risks that those faced by U.S operators.

First, Canada adopted federal legal recreational marijuana in 2018. That certainly sets it apart from the U.S. where the lack of federal legislation continues to exert considerable influence on the market(s) despite growing legalization on the state level. However, Canada's federal legalization has not been without challenges, and those challenges continue to shape the market in terms of risks and opportunities. For instance, as we addressed above, despite legalizing cannabis, the Canadian government still controls large portions of the supply chain. Moreover, provincial governments are largely responsible for regulating the retail end of the chain, which creates additional layers of regulation. To translate, the Canadian cannabis market remains highly regulated, and that creates a myriad of risks that in our view may not otherwise exists in "free markets". We would argue that the persistence of illegal/black market cannabis in Canada is symptomatic of the impact of that regulation on free market elements like supply & demand and by extension price. Regulatory burden and the impact of regulation in general is in our view a marked risk in the industry. In addition, we also think the black market will continue to present challenges for legitimate/legal elements of the industry as the avoidance of regulatory layers create comparative advantages including pricing and others, for black market players.

While the Canadian cannabis market has already seen its share of consolidation, we think that dynamic is likely to continue playing out. That may not be conducive to smaller players like CordovaCann. Additionally, in case it is not clear, we are not generally fans of government intervention that attempts to smooth the supply and demand dynamics of free markets. In short, they do not typically get it right, and they often end up with a number of unintended consequences, which often turn into added risks to industry returns.

The Company has historically been undercapitalized, and it will likely remain that way for some time to come. That posture will make growing the business more difficult, either acquisitively or organically. Further, while we have developed our model and resulting targets around the initial 10 stores and the (prospects of) the Oregon operation, we think higher valuations for the Company will likely require the prospects for growth beyond these initial assets. That will likely require additional dilution. In addition, they continue to burn cash and while we think the new store additions should get them cash flow positive before calendar year end, if store starts are delayed, if the stores do not perform to expectation, or if expenses prove to be much higher than we anticipate, they may also require additional dilution just to address the cash burn. There is certainly no guarantee that the Company will be able to continue to raise equity capital and if they do it will likely be at prices that represent discounts to the market price(s) of the stock.

As with many small emerging companies, CordovaCann's success likely depends on the efforts of a small group of key players. The loss of any or all of these individuals would likely have a negative impact on the Company.

CordovaCann shares have been volatile. Further, as with many microcap stocks, the Company's shares are thinly traded and generally illiquid despite trading in both U.S. and Canadian markets. That will likely remain topical for the foreseeable future. Investors should consider those characteristics in the context of their own risk tolerances and investment horizons.

While we have used our best efforts to construct a model that we think fairly represents the Company's potential level of business including reasonable margin and other germane operating metrics. That said, many small emerging companies lack visibility, especially with respect to operating results in the near and even intermediate terms. That notion certainly applies to CordovaCann. To translate, while we think we have used reasonable and defensible methodologies to arrive at our operating projections, they will almost certainly be wrong. Further, our price target and valuation assumptions are based on our models. while we attempt to mitigate our price target and valuation conclusions with appropriate discounts to address poor visibility, if our operating assumptions prove substantially overstated, then our target assumptions may prove equally overstated. We will look to improve that process and its accuracy as additional important data points emerge and operating visibility improves.

These are just some of the more visible risks we see in CordovaCann. There are potentially others we have overlooked or perhaps could not identify at this time.

Valuation, Summary and Conclusion

As we suggested, since the commencement of cannabis regulation, the industry and the investment associated with it, has been volatile. While we think some of that volatility is certainly baked in at this point, there is still considerable uncertainty around where the next fork in the road might be and where it might take the industry. That said, we believe volatility is improving and valuations are becoming more reasonable, which in our view from a long term investment perspective, makes the industry more attractive. That may be truer of the Canadian market than its U.S counterpart given that Canada is now two years deep into federal legalization, which we think is a case for better relative visibility. More specifically, CordovaCann's multiple starts and stops trying to develop its own business might be as good an illustration of that volatility as any.

The above said, in our view, over the past year, CordovaCann has managed to assemble a promising handful of assets that we think have reasonable visibility in terms of revenues and cashflow, and the results of the first two store openings appear to be supporting that view. Granted, we submit, a few weeks of results certainly do not constitute a trend, but as we argued above, we think our model assumptions are reasonable in terms of other industry performance we have been able to identify. Obviously, there are a myriad of factors that will determine whether or not they can achieve the run rates we are assuming here, but again, we think we are in the ballpark. In addition, in our view, the fact that they are now generating revenues that should be followed by additional contributing stores in the near term, likely reduces some of the long tail risks in the story. Keep in mind, as our discussion regarding shares counts note, they did not get to this spot without giving something up. To that point, recognize that much of the 10 first stores we are focused on here are largely "completed" in terms of leases, major buildouts and other associated items that take more time and money to commence. To reiterate, in our opinion, many of the risks typically associated with adding 10 new cannabis stores relatively quickly are behind CordovaCann.

We recognize the risks associated with additional saturation and on different levels, that applies to all of the provinces where the Company is currently adding stores. To cut to the chase, we have assumed annual average revenue run rates of these first 10 stores of approximately $3.4 million. The reality is that some will likely do more and some will likely do less. Further, their average over time might be less as well, in which case our targets may also prove aggressive. On the other hand, they may also be more, in which case our model will likely prove conservative.

As an extension to the saturation issue, as we noted above, the black market continues to be problematic to the industry. That by the way is not specific to Canada, because we think it is safe to say that it is an issue, albeit in varying degrees, in all of the jurisdictions within the U.S. Succinctly, this has been one of the issues that has caused concern about the industry from the start. We are not sure they will ever eliminate black market cannabis in any particular jurisdiction. However, surveys do suggest that (all other things being equal) people would prefer to buy cannabis legally rather than illegally. Of course, all things are not equal and they may never be. Good bad or otherwise, regulation will likely continue to provide market distortions to supply and demand, which will continue to provide an opening for illegals players. That is not particularly prescient, since there are many industries where participants do not follow the rules and as such have an advantage over legal players and more times than not, that situation generally manifests itself in price. Put another way, black market cannabis will likely always be cheaper than legal cannabis, and that is a problem for the legal industry. That said, as we have learned with virtually every consumer product on the planet, price is not the only factor that drives consumer buying decisions. In that regard, while saturation may on the face be a risk to legal players, greater access to legal product could tip market share in their favor. Setting aside the "organic" growth of cannabis use in general, certainly, legal market share may not prove to be a "zero sum game" if legalization is in fact able to attract consumers away from the illegal alternatives.

We believe that branding is going to become an increasingly beneficial attribute to the industry. That is not based on any particular notion specific to cannabis, but rather on the notion that it seems to be the progression with most consumer products. Succinctly, we think their stores will sell more cannabis as a result of their branding than they would if they owned 10 separate stores with no branding. We could certainly be wrong about that, but again, we do not think that is without merit.

As we alluded to above, the Company has a considerable asset in Oregon and as we understand it, they are essentially waiting for the transfer of licenses and associated minutia to consolidate those assets. While the Company believes that will be a near term event (perhaps by calendar year end), we have not attempted to model this piece of the business. As a result, we view this as a potential positive catalyst to our model and associated assumptions. We will update that scenario as more visibility becomes available.

In the big picture, while at times in the past we have had our concerns about the cannabis industry, the lessons from the current pandemic seem to indicate that it may prove resilient even in periods of slower economic activity. We think it is fair to say that outside of some weakness around initial lockdowns, market data suggest that the industry has continued to perform well throughout the pandemic.

In summary, CordovaCann's posture has in our view improved measurably with the two transactions we addressed above, and that progress may not be evident to the street at this point. Clearly, our conclusions here depend on their ability to continue to execute on store openings and then follow that with successful ongoing sales from each.

We are initiating coverage of CordovaCann with an allocation of 4 and a 12-24 month price target of $.56 Our targets are based on a combination of our typical DCF analysis of anticipated future cash flow and appropriate risk discounts, but we also have corroborated those conclusions with other industry metrics that we think are relevant including prevailing EBITDA and or sales multiples being paid for retail cannabis stores. We will monitor the Company's progress in the context of these conclusions and make adjustment to those as we deem appropriated based on new/evolving data points.

Projected Operating Model

CordovaCann Corp.											
Projected Operating Model											
Prepared by: Trickle Research LLC											
	(Actual)	(Actual)	(Actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	9/30/19	12/31/19	3/31/20	6/30/20	Fiscal 2020	9/30/20	12/31/20	3/31/21	6/30/21	Fiscal 2021	Fiscal 2022
SALES											
Store Sales			$ -	$ 135,000	$ 135,000	$ 1,495,400	$ 3,835,200	$ 8,144,630	$ 8,502,300	$ 21,977,530	$ 40,881,540
Cost of Products Sold			$ -	$ 87,750	$ 87,750	$ 972,010	$ 2,492,880	$ 5,294,010	$ 5,526,495	$ 14,285,395	$ 26,573,001
Gross Selling Margin			$ -	$ 47,250	$ 47,250	$ 523,390	$ 1,342,320	$ 2,850,621	$ 2,975,805	$ 7,692,136	$ 14,308,539
Store Operations			$ -	$ 18,346	$ 18,346	$ 224,421	$ 624,393	$ 1,335,473	$ 1,383,253	$ 3,567,541	$ 6,697,333
Gross Store Margin			**$ -**	**$ 28,904**	**$ 28,904**	**$ 298,969**	**$ 717,927**	**$ 1,515,147**	**$ 1,592,552**	**$ 4,124,595**	**$ 7,611,206**
OPERATING EXPENSES											
Consulting Fees	$ 417,816	$ 332,715	$ 294,307	$ 382,160	$ 1,426,998	$ 398,926	$ 386,363	$ 355,314	$ 361,037	$ 1,501,640	$ 1,644,105
Professional Fees	$ 41,421	$ 83,224	$ 70,755	$ 46,500	$ 241,900	$ 46,500	$ 46,500	$ 71,910	$ 47,430	$ 212,340	$ 216,587
Office and General	$ 57,094	$ 35,392	$ 44,558	$ 25,675	$ 162,719	$ 32,477	$ 44,176	$ 65,723	$ 67,512	$ 209,888	$ 304,408
Shareholder Information Services	$ 46,136	$ 14,327	$ 22,759	$ 20,001	$ 103,223	$ 20,002	$ 20,003	$ 20,004	$ 20,005	$ 80,014	$ 80,030
Stock Based Compensation	$ 229,865	$ 107,279	$ (446,717)	$ -	$ (109,573)	$ -	$ -	$ -	$ -	$ -	$ -
Depreciation			$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other Operating Expenses			$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Expenses	**$ 792,332**	**$ 572,937**	**$ (14,338)**	**$ 474,336**	**$ 1,825,267**	**$ 497,905**	**$ 497,042**	**$ 512,951**	**$ 495,983**	**$ 2,003,882**	**$ 2,245,129**
Operating Income/(Loss)	**$ (792,332)**	**$ (572,937)**	**$ (14,338)**	**$ (445,432)**	**$ (1,825,039)**	**$ (198,936)**	**$ 220,885**	**$ 1,002,196**	**$ 1,096,569**	**$ 2,120,713**	**$ 5,366,076**
Other Expenses											
Interest Expense	$ 84,793	$ 99,430	$ 117,943	$ 69,000	$ 371,166	$ 69,000	$ 69,000	$ 69,000	$ 69,000	$ 276,000	$ 276,000
Accretion Expense	$ 23,305	$ 30,345	$ 27,670	$ 25,000	$ 106,320	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 100,000	$ 100,000
Loss on Settlement Fees		$ 396,000	$ -	$ -	$ 396,000	$ -	$ -	$ -	$ -	$ -	$ -
Foreign Exchange Loss (Gain)	$ 12,079	$ 3,589	$ (71,246)	$ -	$ (55,578)	$ -	$ -	$ -	$ -	$ -	$ -
Other Income (Expense)	$ (12,184)	$ (36,432)	$ (37,119)	$ (50,000)	$ (135,735)	$ (49,999)	$ (49,998)	$ (49,997)	$ (49,996)	$ (199,990)	$ (199,974)
Total Other Expenses	**$ 107,993**	**$ 492,932**	**$ 37,248**	**$ 144,000**	**$ 782,173**	**$ 44,001**	**$ 44,002**	**$ 44,003**	**$ 44,004**	**$ 176,010**	**$ 176,026**
Net Income Before Taxes and Minority interests	**$ (900,325)**	**$ (1,065,869)**	**$ (51,586)**	**$ (589,432)**	**$ (2,607,212)**	**$ (242,937)**	**$ 176,883**	**$ 958,193**	**$ 1,052,565**	**$ 1,944,703**	**$ 5,190,050**
Minority Interests			**$ -**	**$ 13,443**	**$ 13,443**	**$ 132,008**	**$ 178,034**	**$ 312,913**	**$ 316,629**	**$ 939,584**	**$ 1,270,232**
Net Income Available to Common Shareholders before Tax	**$ (900,325)**	**$ (1,065,869)**	**$ (51,586)**	**$ (602,874)**	**$ (2,620,654)**	**$ (374,945)**	**$ (1,152)**	**$ 645,280**	**$ 735,936**	**$ 1,005,119**	**$ 3,919,819**
Tax Expense	**0**	**0**	**$ (13,412)**	**$ (156,747)**	**$ (170,160)**	**$ (97,486)**	**$ (299)**	**$ 167,773**	**$ 191,343**	**$ 261,331**	**$ 1,019,153**
After Tax Net Income Available to Common Shareholders	**$ (900,325)**	**$ (1,065,869)**	**$ (38,174)**	**$ (446,127)**	**$ (2,450,495)**	**$ (277,459)**	**$ (852)**	**$ 477,507**	**$ 544,592**	**$ 743,788**	**$ 2,900,666**
Basic Earnings Per Share	**$ (0.02)**	**$ (0.03)**	**$ (0.00)**	**$ (0.01)**	**$ (0.05)**	**$ (0.00)**	**$ (0.00)**	**$ 0.01**	**$ 0.01**	**$ 0.01**	**$ 0.03**
Fully Diluted Earnings per Share	**$ (0.02)**	**$ (0.03)**	**$ (0.00)**	**$ (0.01)**	**$ (0.05)**	**$ (0.00)**	**$ (0.00)**	**$ 0.01**	**$ 0.01**	**$ 0.01**	**$ 0.03**
Basic Common Shares Outstanding	**40,786,228**	**40,786,228**	**41,057,392**	**68,767,392**	**47,849,310**	**77,791,913**	**83,791,913**	**83,791,913**	**83,791,913**	**82,291,913**	**90,041,913**
Fully Diluted Shres Outstanding	**40,786,228**	**40,786,228**	**41,057,392**	**68,767,392**	**47,849,310**	**78,291,913**	**84,166,913**	**84,126,734**	**84,090,861**	**82,669,105**	**90,483,974**
Foreign Exchange Translation	**$ (14,132)**	**$ 24,313**	**$ -**	**$ -**	**$ 10,181**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Comprehensive Net Income	**$ (914,457)**	**$ (1,041,556)**	**$ (38,174)**	**$ (446,127)**	**$ (2,440,314)**	**$ (277,459)**	**$ (852)**	**$ 477,507**	**$ 544,592**	**$ 743,788**	**$ 2,900,666**

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Portions of this publication excerpted from company filings or other sources are noted in *italics* and referenced throughout the report.

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.