Medicinal Cannabis

23 April 2020

Sativa Group Plc

Deal to create vertically integrated group

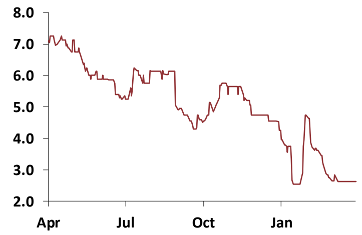
Sativa Group Plc has announced that it has entered into a letter of intent with StillCanna where StillCanna will acquire the entire issued share capital of Sativa for StillCanna shares. StillCanna is one of the EU's largest hemp biomass cultivation and extraction companies, and the combination with Sativa creates a vertically integrated and fully compliant seed to sale EU business. We believe the businesses complement each other significantly and that the deal is attractive to shareholders of both. The entity would continue to trade on the Canadian Securities Exchange, OTC Markets in New York and the Frankfurt Stock Exchange, and will be an EU focussed business that we believe will be run out of the UK and led by Sativa CEO, Henry Lees-Buckley.

- **StillCanna has large cultivation and extraction assets and is on the cusp of significant revenue growth:** It is one of Europe's largest CBD companies with 1500 hectares of hemp cultivated in Poland in 2019 with this expected to grow to 3000Ha in 2020. It has two large extraction facilities based on a proprietary closed loop ethanol-based design with combined capacity to produce up to 29 tonnes of CBD isolate pa. Its wholly owned extraction in Poland has recently started production with the group recording its first revenues in the quarter to January 2020, and its JV facility with DragonFly in Romania recently received its final operating permit and awaiting the lifting of the COVID-19 lockdown before resuming commissioning.
- **It complements Sativa's leading position in UK distribution and branding** and puts the group in a strong position with regards to Novel Food compliance: both companies share a culture of compliance and the resulting vertically integrated entity will be able to provide full traceability of testing and compliance from seed to sale. Both were already engaged in the process of achieving UK and European FSA Novel food compliance prior to the UK March 2021 deadline. We believe success in the UK by Sativa's Goodbody brands is likely to help generate demand in other jurisdictions, as well as for wholesale and white label CBD supply.
- **Attractive deal structure for both sets of shareholders**: Based on the current share prices, the resulting group will be 65% owned by Sativa shareholders with Sativa not just bringing branding and distribution in the most important EU CBD market, but also a cannabinoid testing laboratory, as well as medicinal and veterinary cannabinoid asset development. For Sativa, StillCanna brings compliant EU cannabinoid supply at scale, as well as balance sheet strength which, combined with potentially significant third-party CBD sales this year, should see the group well through COVID-19 but potentially also be able to trade to self-sufficiency without further equity funding.

BUY

Price at COB 22 Apr 20	2.6p
52-week range	2.55-7.25p
Ticker	SATI LN

Share Price Performance



Source: Morningstar

Performance	1m	3m	12m
Absolute	(4.4)	(38.1)	(63.7)

Stock Data

Market cap	£15m
Shares outstanding (m)	596

Activities

Sativa Investments engages in the production, testing and compliance, commercialisation, sales, and marketing of cannabidiol products

Directors

Henry Lees-Buckely	CEO
Joseph Colliver	CFO
Jonathan Wearing	Chairman
Geremy Thomas	Deputy Chairman
Angus Kerr	NED
Mark Blower	NED

Significant Shareholders

Mr Geremy Thomas (Director)	41.1%
Bmak Inv.LTD / K Lawrence	8.0%
Ms T N Rogers	3.3%
Ms R J Lonsdale	3.3%
Mr Sean O'Driscoll	3.3%

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Transaction terms and process

- The proposed transaction being explored will see StillCanna acquire the entire issued share capital of Sativa in consideration for which StillCanna will issue StillCanna Shares to the Sativa shareholders on the basis of 0.33651 StillCanna Shares for each Sativa share in issue.
- All options and warrants in Sativa are expected to be exchanged for options and warrants in StillCanna using the same ratio.
- It is envisaged that the transaction would be achieved through a UK Scheme of Arrangement under Part 26 of the UK Companies Act 2006.
- The process gives 28 days for due diligence before requiring court approval ahead of a shareholder vote at a General Meeting where a simple majority of shareholders holding at least 75% in value of those shares represented at the meeting vote in favour.
- The LOI provides for an exclusivity period, allowing Sativa Group to conduct due diligence on StillCanna. StillCanna will not pursue any alternative transaction to the proposed acquisition of Sativa during the exclusivity period.
- Other than in a limited number of circumstances, if StillCanna does not proceed to make an offer to acquire the shares of the Company pursuant to the LOI, StillCanna will be required to pay a break fee to Sativa at the greater of either, £1m, or if StillCanna enters into an Alternative Transaction, 25% of the value paid by StillCanna or for StillCanna's securities or assets (as the case may be) in such alternative transaction.
- The announcement notes discussions remain at an early stage and accordingly there can be no certainty that a firm offer will be made. That said, we believe that a considerable amount of work would have been done prior to this announcement based on the detail provided and the majority of the negotiations are complete.

We believe the terms agreed are attractive to shareholders of both companies, but particularly for Sativa Group shareholders, especially with the deal abortion fee. At Sativa's current c£15m valuation, the deal values StillCanna at c£5.25m/C$9.2m (StillCanna has raised C$30m of capital to date and reported net cash of C$6.5m at the end of January 2020).

We also believe that Sativa CEO, Henry Lees-Buckely will lead the group with management based in the UK. The shares would continue to trade on the Canadian Securities Exchange, OTC Markets in New York and the Frankfurt Stock Exchange but with an EU based fully compliant business with a UK management team, we believe the combined entity would be well suited for a UK or EU listing in due course.

StillCanna background

StillCanna Inc is a leader in cannabinoid extraction and agriculture and is focused on the large-scale manufacturing of CBD in Europe and has built two high volume extraction facilities, positioning itself as a leader in the seed to CBD supply. It has engineered its own proprietary closed loop ethanol extraction systems which it believes will allow it to extract CBD at a comparatively low cost.

Origin/Premium Extraction Services

StillCanna's facility in Romania was built under a joint venture agreement with Dragonfly Biosciences of the UK who provides the biomass and offtakes extract at pre-agreed prices for the first three years. The JV is called Premium Extraction Services Limited (called Origin in StillCanna presentations) and is 51% owned by DragonFly 49% by StillCanna. It has an extraction capacity of 13,800kg of CBD isolate pa (StillCanna calculation based on 5.3% CBD in hemp and 60% CBD isolate yield). The facility recently received its final operating permit; however, Romania is currently subject to a lockdown due to COVID-19 and so commissioning will resume once the lockdown is lifted.

Olimax/Nexus

StillCanna's second extraction facility is built in Poland, is called Nexus, and operates under StillCanna's wholly owned subsidiary Olimax which was acquired in May 2019. This has a capacity of 15,300kg pa.

It is planning its next facility in Poland, called Horizon, which will have a capacity of 57,240kg pa with this expected to be built in 2021.

Olimax also has cultivation assets in Poland with 1500 hectares of hemp planted in 2019 with this projected to rise to 3000 hectares in 2020. The hemp flower cultivated in 2019 has been dried and stored using a proprietary storage technology by StillCanna which is designed to retain cannabinoid content.

Offtake

In addition to agreement with DragonFly for PES, and StillCanna now expected to supply CBD product to Sativa Group, StillCanna has two other offtake agreements that it has announced:

- A C$36m supply agreement with Biosciences of California to deliver CBD isolate starting in Q4/19.
- A biomass agreement for approximately C$1 million dollars with Sequoya Cannabis (http://sequoya.ca).

Financials

StillCanna has raised over C$30m in equity financing, including a C$24m raise in April 2019. In its most recent financials, the three months ended 31 January 2020, it recorded its first quarterly revenues C$0.23m (from Nexus) and an operating loss of C$2.06m. It reported cash and equivalents of C$6.72m, $1.23m in inventories and is debt free apart from C$0.20m of leases. This therefore gives it little more than 9 months of cash runway at that cash burn rate. As such, its financial statement included a statement that there is material uncertainty that casts significant doubt about the Company's ability to continue as a going concern.

That said, with the Nexus facility now operational and PES expected to start production in the coming months, and with significant capacity in cultivation and extraction, the company looks like it could trade its way to self-sufficiency within the next six months and with its current cash position. This potentially could then provide headroom in funding to support the combined group with Sativa, especially if cost synergies can be achieved through the combination of the two businesses.

A back of the envelope calculation suggests that the 1500 Ha cultivated by StillCanna in 2019 would theoretically hold over 7 tonnes of CBD (using a conservative CBD yield in flower of c3.5%) which could be extracted in six months. With a wholesale value of over €5/g for traceable compliant EU CBD distillate and isolate, this supply could deliver revenues over €35m this year. Additional revenues could be made by StillCanna by toll processing third-party crop using spare capacity in its Nexus facility as well as from the Premium Extraction Services JV with DragonFly who also has considerable hemp flower in stock to process once fully operational

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Distribution of Investment Recommendations as per 23/04/2020

	Corporate No.	Corporate %	No.	%
Buy	44	67	64	71
Hold	3	4	6	6
Sell	0	0	0	0
Under review	18	27	19	21

Temporary movements by stocks across the boundaries of these categories due to share price volatility will not necessarily trigger a recommendation change. All recommendations are based on 12 month time horizon unless otherwise stated.

Recommendation History

Company	Disclosures	Date	Rec	Price
Sativa Group Plc	2,9	28 Jun 19	Buy	5.9p

Source: Cenkos Securities

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