

KEYSTONE'S

Small-Cap Stock Report

Editor: Ryan Irvine, BBA (Finance)
Senior Analyst: Aaron Dunn, CFA

Independent Equity Advisors

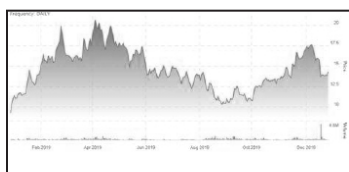
Trulieve Cannabis Corp.

Current Price (January 8, 2020): \$13.35

(TRUL:CSE)

RECOMMENDATION: SPEC BUY

PROFITABLE TOP TIER INTEGRATED CANNABIS COMPANY OFFERS EXPOSURE TO HIGH RISK, HIGH GROWTH U.S. CANNABIS MARKET - MAINTAIN SPEC BUY



Industry: Cannabis - Integrated
Recommended: November 2019
Recommendation Price: \$16.00
Current Price: \$13.35
Market Cap: \$1.5 Billion
Shares Outstanding: 110,213,649
Fully Diluted: 110,213,649

Discovery Portfolio

Trulieve Cannabis Corp., together with its subsidiaries, operates as a medical marijuana company. The company is a vertically integrated “seed-to-sale” business and is the first and largest fully licensed medical cannabis company in the State of Florida with a current market share estimated at 55%. Trulieve cultivates and produces products in-house and distributes its products to Trulieve branded stores (dispensaries) in Florida, as well as directly to patients through home delivery. It produces approximately 260 stock keeping (SKU) units, including smokable flowers, flower pods for vaporizing, concentrates, topicals, capsules, tinctures, and vape cartridges. At present, the company operates 40 stores in Florida. Trulieve is headquartered in Quincy, Florida. The company also operates in California, Massachusetts and Connecticut.

EVENT

On December 17, 2019, a “short-selling” report from a website called Grizzly Research was released on Trulieve. Trulieve’s share price dropped on Monday as the market digested to allegations of fraud from short-seller Grizzly Research which contended, among other things, that Trulieve’s greenhouses produce low-quality output and that the company is involved in an FBI probe into corruption in the state of Florida, a well-documented event about which Trulieve’s board has commissioned an independent legal review. The FBI probe was well detailed as a risk in our initial report.

MANAGEMENT RESPONSE

Trulieve responded immediately to the report.

“On December 17th, the company released that it was aware of a short-seller report (Report) released earlier today which contains several false, slanderous and misleading statements about Trulieve. Trulieve’s successful and profitable business model is supported by several respected and reputable analyst firms, and as a publicly traded company its financial activity is communicated regularly and accurately to the in-

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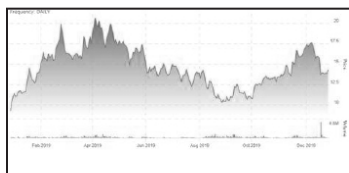
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vestment community. The quality of Trulieve's products and production facilities has never been in question, as evidenced by more than 230,000 satisfied customers in the Florida market. It appears today's report is a disingenuous attempt to manipulate Trulieve's stock price, and the Company is planning to pursue legal action against this outlet, which has no history or credibility in assessing cannabis companies."

Kim Rivers, the Chief Executive Officer of Trulieve, remarked, "We ask that our investors be aware that the Report reflects the opinions of an acknowledged short seller, whose sole interest is in profiting from a decline in the price of the Company's shares. I have full confidence in our management team and their abilities to continue to serve our customers without being distracted by these baseless allegations. Trulieve reserves all of its rights to take appropriate legal action against those responsible for the Report."

Rivers continued, "Trulieve sells high quality flower, cultivated in our indoor facilities, and was recently recognized by an award from the Cannabis Business Association of having the best flower in Florida. We stand behind the quality of our products and have a long-standing no-questions-asked return policy. Trulieve set a record for flower sales in Florida just last week, capturing over 51% of the market."

In an effort to calm investor fears, management made three positive moves following the report.

Share Lock-up Date Moved Forward

Trulieve announced on December 18th, company founders have agreed to extend the lock-up provisions on 11.2 million shares that were originally scheduled to be released on January 25 but will now be locked up until May 25, with 54.0 million other shares still scheduled for release on July 25. CEO Kim Rivers said that extending the release demonstrates the founders' confidence in the company and in management's ability to execute to strategy.

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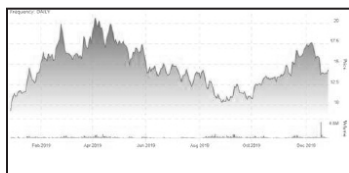
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“We believe this new schedule will reduce uncertainty in the coming quarter while we focus on our mission to be the leading customer-focused cannabis brand in the US and enhance shareholder value,” wrote Rivers in a press release.

Company Board of Directors Strengthened

On December 19, 2019, Trulieve announced the company had broadened its management and oversight capabilities with the appointment of Susan Thronson and Thomas Millner to serve as advisors to the Trulieve Board of Directors. Trulieve intends to propose both Ms. Thronson and Mr. Millner as nominees for election as directors of the Company at the next Trulieve annual general meeting of shareholders.

Ms. Thronson is an experienced independent director with global digital, e-commerce and loyalty marketing experience. Ms. Thronson was Senior Vice President of Global Marketing for Marriott International, leading Marriott's worldwide integrated marketing strategy and execution for its 15 hotel brands. Ms. Thronson formerly served as a director of Angie's List, an internet service company, and SONIC Drive-In, an operator of an American drive-in fast-food restaurant chain based in Oklahoma City, Oklahoma.

Mr. Millner brings a combination of executive leadership, merchandising and multichannel operational skills, and a strong philanthropic background to the company. Mr. Millner served as CEO of Cabela's, a direct marketer and specialty retailer of outdoor recreation merchandise, for nearly a decade. Prior to Cabela's, Mr. Millner spent 14 years as president and CEO of North Carolina's Remington Arms Company, an American manufacturer of firearms and ammunition. Mr. Millner is currently a director and the chair of the audit committee of Best Buy, a multinational consumer electronics retailer and is a former director of Total Wine & More, a large, family-owned, privately held American alcohol retailer.

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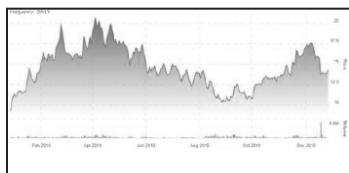
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CEO BUYS Shares in Open Market

Since the Grizzle Research Short Report was released, Trulieve's CEO, Kim Rivers has purchased 17,920 shares of the company worth roughly CND\$250,000 in the open market. While a small percentage of her total holdings in TRUL, she is putting her wallet behind the tough words in reference to the Short Report since it was issued.

DISCUSSION

Short selling is an investment or trading strategy that speculates on the decline in a stock or other securities price – essentially, short-reports are put out by firms arguing their case as to why a stock is overvalued or potentially a fraud. In some cases, they are credible, in others they are predatory and lack credibility or just false. In other cases, some fall within a middle ground. While many short reports deal with significant speculation, innuendo and are sensational in tone, as a check on unfettered optimism or even fraud, we see a place for those who do reliable work in this area. Some market participants do not.

When evaluating the merits of any short report, we most often start with the source. In this case, Grizzly Research. As the company appears to be a website which put out its first report in May of 2019, the track record is very short. The company website has no phone number, no indication who is behind the report with no bios and limited company information generally. There appears to be a significant lack of accountability and credibility with the firm.

Grizzly Research's first Short Report appears to be in reference to Intelligent Systems Corporation (INS:NYSE). At the time of the report, the stock was trading in the \$26.99 level. While the stock initially lost ground, today shares of INS trade at \$41.30, well above the short report after a couple strong quarters. In the midterm, the market has weighed in on Grizzly Research's allegations towards INS and seems

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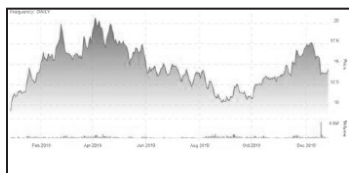
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to have emphatically stated they have little weight. Whether the same will occur with Trulieve remains to be seen, but two of the major contentions of the report seem to have holes.

- The report alleges that Trulieve's profitability is based on paper gains and that based on what it defines as real cash flow or FCF, the company is cash flow negative. The crux of this argument surrounds the impacts Trulieve's biological asset accounting has on its profit and loss statements. The manner in which Trulieve records its biological assets is a requirement of International Financial Reporting Standards (IFRS), a set of accounting standards developed by an independent, not-for-profit organization called the International Accounting Standards Board. If the company did not report results in this manner, there would be a problem. When reviewing Cannabis companies and many agriculture companies for that manner, analysts adjust these items to calculate key operating metrics. The idea that Trulieve should be criticized for reporting gross margin in excess of revenue or sizable net income based on non-cash biological assets when it is required to according to IFRS, seems rather silly. The company's strong EBITDA levels have generated positive operating cash flow over the past year and while free cash flow is negative after removing capital expenditures, this should not be surprising given the major expansion the company has undergone over the past 12-18 months.
- The report also suggests that the majority of the company's cultivation operations produce low-quality output and are constructed in a substandard manner. Trulieve itself has openly stated that the large expansion to its cultivation footprint has been based on experimental greenhouses which were commissioned after the concept was proven out. This style of grow operation produces low-quality output, but as the majority of this output is earmarked for extraction, which does not require high quality flower, the argument appears misguided. Trulieve also maintains substantial indoor capacity mainly devoted to high quality dried flower.

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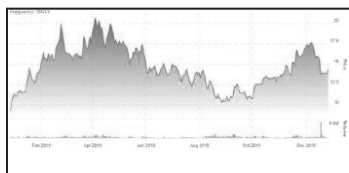
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CONCLUSION

As our upcoming annual Cannabis sector review will detail, the Cannabis sector generally holds a high degree of regulatory, execution, and financial performance risk. While profitable and seemingly executing well, Trulieve's initial report included the largest risk section we have every included on a company in KeyStone's history. Many of the risks were industry specific, but the company also has company specific risks.

To be frank, the FBI investigation involving Trulieve insiders is a risk. In fact, we detailed this risk at length in our initial report on the company. We have seen other analyst dismiss Kim Rivers' Involvement in the FBI investigation surrounding FBI activities of the Tallahassee Community Redevelopment Agency and its allocation of public funds as "old news". Just because it is has been disclosed openly by management, does not mean it is an ongoing risk that can once again be pointed out. For many, the risk is already factored into the stock price, and as a corporation, Trulieve should be set up to deal with most outcomes. Again, the FBI investigation is an added layer of risk that should not be dismissed.

As we detailed in our initial report on the company, from a reported financial perspective, Trulieve is outperforming peers substantially and dominating one market with 50%+ market share like no other operator. Trulieve dispensaries sold (on average) 247% more dried flower than the average dispensary and 163% more of all other product categories in Florida. In its third quarter, one which saw many sector disappointments, Trulieve produced the strongest revenue, EBITDA and EBITDA margins amongst US operating cannabis companies. The company has consistently beaten revenue/EBITDA forecasts, with its third quarter results beating consensus revenue estimates by over 15% and an EBITDA by nearly 50%.

Most stocks in the emerging Cannabis space hold well above average risk levels and within our coverage universe Trulieve is on the highest end of the risk spectrum. It is

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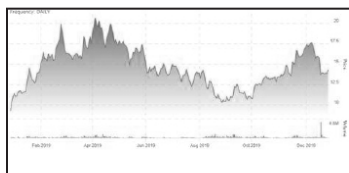
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only for risk tolerant investors. Within its high risk segment, the company continues to significantly outperform financially and we continue to rank it a SPEC BUY in our Canadian Small-Cap Discovery Portfolio in its current range.

BV (BV/Share): Book value (book value per share)

Book value per common share calculated as total shareholder's equity less preferred equity, and divided by the number of common shares outstanding. Should the company decide to dissolve, the book value per common share indicates the dollar value remaining for common shareholders after all assets are liquidated and all creditors are paid.

D/E: Debt-to-equity ratio

A measure of a company's financial leverage calculated by dividing long term debt by shareholders equity. It indicates what proportion of equity and debt the company is using to finance its assets.

Current ratio

One of many ratios designed to evaluate short-term liquidity of a company. Calculated as current assets divided by current liabilities, this ratio gauges the level of cash resources relative to current liabilities as a measure of cash obligations.

EBITDA

Earnings before interest, taxes, depreciation, and amortization. EBITDA is calculated as revenue minus expenses (excluding tax, interest, depreciation, and amortization).

EPS: Earnings per share

A company's earnings available to common shareholders, also known as net income or net profit, divided by the number of shares outstanding.

EV: Enterprise value

Enterprise value is calculated as market capitalization less cash and equivalents, plus debt. Evaluation of EV relative to the company's trailing EBITDA is used in identifying potential takeover targets.

FCF: Free cash flow

Capital expenditures are subtracted from cash flow from operating activities to arrive at free cash flow, which intends to measure the cash available to a company after making all cash outlays necessary to maintain existing productive capacity (as measured by capital expenditures on a company's cash flow statement).

Net working capital

A measure of the company's ability to carry on its normal business comfortably and without financial stringency, to expand its operations without the need of new financing, and to meet emergencies and losses. Calculated by deducting current liabilities from the current assets.

P/B: Price-to-book ratio

Calculated as a stock's market value (current closing price) divided by its latest quarter's book value. While a lower P/B ratio could mean that the stock is undervalued, it could also serve as a sign of weak fundamentals, and as with most ratios, this varies a fair amount by industry.

PEG ratio

The price/earnings to growth, or PEG ratio is calculated as P/E ratio divided by a company's annual EPS growth. The PEG ratio is used to determine a stock's value while taking into account earnings growth.

P/FCF: Price-to-free cash flow ratio

Calculated as a company's current share price divided by its free cash flow per share (i.e., free cash flow divided by the number of company's shares outstanding) over the last four quarters (called "TTM," or "trailing 12 months" calculation). It is a measure of the market's expectations regarding a firm's future financial health.

P/S: Price-to-sales ratio

It is calculated as a stock's current market price divided by its sales (revenue) per share. When calculating this ratio, we use the company's revenue from its latest four quarters, or on a TTM basis.

ROE: Return on equity

A measure of a corporation's profitability, calculated as net income divided by shareholder's equity. ROE is often useful in comparing the profitability of a company to other firms in the same industry.

Featured companies in KeyStone's Small-Cap Stock Report are evaluated on a scale of 1 to 5 on each of the following criteria:

Value: 1 - poor investment value
5 - excellent investment value

Risk/Liquidity: 1 - high exposure to liquidity concerns
5 - low exposure to liquidity concerns

Growth: 1 - poor growth potential
5 - excellent growth potential

Overall: 1 - poor fundamental characteristics
5 - excellent fundamental characteristics

Disclosure					
Stock Holding				Other	
Companies	KeyStone	KeyStone Employees	Related Companies	Investment Banking Client	Related Company Business Relationship
Trulieve Cannabis Corp.	NO	YES	NO	NO	NO

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