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PotNetwork Holding, Inc. (POTN – OTC Other)

Phenomenal Growth Across All Product Lines and Insulation from Any Changes in U.S. Federal Enforcement Policies, Due to International-only Source of Hemp-Derived Cannabidiol (CBD) **Strong Speculative Buy**

Summary and Investment Opportunity

- The Legalization of Medicinal and Recreational Marijuana Has Spawned a \$10B+ Industry**

In the United States during the 2012 – 2018 period a wave of legalizations and decriminalization swept over the country, and almost overnight a group of cannabis-related industries sprang into the spotlight. From the very first legalization of recreational marijuana use in Colorado in November 2012, through the most recent cannabis referendums of this last election cycle, the U.S. now has nine states plus its capitol Washington D.C. where recreational possession and use of marijuana is fully legal, and some 30 more states where doctors are now free to prescribe marijuana for ailments as diverse as headache and muscle pains to treatment of MS pain and epileptic seizures, to appetite stimulation for AIDS and cancer patients on chemo therapy.

- The Only Concerning Issue is that Under U.S. Federal Law Marijuana is a Schedule I Narcotic**

That's right – according to 39 out of 50 states, marijuana is medicine a doctor can prescribe, and in 9 of these 39 states it's okay to consume it for fun, much like beer, wine, or liquor. But under Federal Law, as administered by the Dept. of Justice, the FBI, and the DEA, it is a serious felony to cultivate marijuana in the United States and is also a crime to sell or possess it in any quantity. In many investors' minds, this introduces a very high degree of risk to any companies in the cannabis space, including PotNetwork Holding. Are there serious or even catastrophic risk events hanging over these enterprises? We think not.

- We Do Not Believe that POTN Faces More than Moderate Regulatory Risk to its Business**

This is because all of the Company's products are based on CBD (Cannabidiol) extracted only from foreign-grown hemp. Because hemp produces no more than 0.3% of THC by weight, it is very difficult for hemp or hemp extracts to intoxicate anyone, which explains why in some cases CBD is legal to use in the U.S. Furthermore, CBD has been shown to reduce stress and assuage muscle and joint pain; its stress-relieving properties suggest that it could serve as an excellent medication for all things related to anxiety disorders (Panic Disorder, OCD, Social Anxiety Disorder, etc.) and for Epilepsy and Multiple Sclerosis pain. This explains why the target markets for the Company's products are so large; in fact almost incalculably so.

- Analysis and Investment Recommendation**

PotNetwork Holding is an emerging market leader with in many cases first-mover advantage in its target markets. As its sequential monthly revenue growth clearly shows, this Company has gotten it right. It knows how to reach and sell to its target markets through a variety of online and brick-and-mortar channels, and its products are very well received by its distributors and retailers as well as by the consumers who use and enjoy them. We are especially impressed by its rather innovative application of CBD products to the pet space, where relatively high-income pet owners are more than happy to spend \$50/month or even \$100/month to ease their aging pet's pain, or for example to calm down and relax their high-strung, always-barking dog. Only time will tell, but we believe that POTN's solid management team, ever-growing innovative product lines, and a very well executed sales and marketing strategy could very well be the key to becoming one of the sector's first billion-dollar enterprises. Although the Company does have a high number of shares outstanding based on what it has already disclosed in public filings, and some uncertainty in this regard yet to come, as well as traditional risks inherent in any young company and new industry, we believe that this industry has the potential to become extremely large, and to make the most successful first-movers in the space extremely large and successful along with it. *Therefore, we rate POTN shares as a Strong Speculative Buy, and set our 12-month price target at \$1.25 per share.*

Recent Price:	\$0.4199
Market Capitalization (mln)*	\$113.3
Enterprise Value (mln)*	\$116.9
Institutional Ownership	unknown
Insider Ownership	unknown
Regular Shares Outstanding (000s)*	269,920
Fully Dil. Shrs. Outstanding (000s)*	unknown
Average Daily Trading Vol (30 day)	17,384,701
Exchange	OTC Pink

* Based on Common Shrs Outstanding Only; Data Provided by the Company
 ** The Series A Preferred currently converts into an additional 175,936,585 shares; conversion of Series D Preferred unknown at the time of this writing; Conversion of \$2,888,624 in convertible long-term debt unknown at the time of this writing. Data provided by the Company and its filings at OTC Markets (www.otcm Markets.com)

Balance Sheet Data

Shareholders' Equity (mln)	(1,714)
Price/Book Value	N/A
Cash (000s)	258.5
Net Working Capital (000s)	357
Long-Term Debt (000s)	3,324
Total Debt to Equity Capital	N/A

Company Overview

Diamond CBD the Company's wholly-owned, primary operating subsidiary, develops, formulates, manufactures, and sells a family of proprietary CBD-infused products that include: topical oils, "dabs," and creams; smokable products such as vapes and additives to enrich and improve them, edible products such as herbs and gummies designed for people and/or their pets, and certain high quality implements such as premium grinders. The Company trades on the OTC Pink Sheets under the symbol POTN.

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Profit & Loss Model, POTN

In (000s), except per-share data	FY'17E	FY'18 Q1 E	FY'18 Q2 E	FY'18 Q3 E	FY'18 Q4 E	FY' 18E	FY '19E	FY '20E
Revenues	14,499	6,000	7,200	8,640	10,368	32,208	63,678	113,454
Revenue Sequential Gr.	1309%	21%	20%	20%	20%	122%	98%	78%
Gross Margin	36%	36%	37%	38%	39%	38%	39%	39%
Operating Income	214	1,350	1,800	2,376	3,110	9,662	19,104	35,036
Operating Margin	1.5%	22.5%	25.0%	27.5%	30.0%	30.0%	30.0%	30.0%
Net Income	214	1,350	1,800	2,376	3,110	9,662	19,104	34,036
Earnings per Share	0.000	0.005	0.007	0.009	0.0012	0.036	0.056	0.100
Basic Shares Out. (mln)	269.9	269.9	269.9	269.9	269.9	269.9	269.9	269.9

Industry Background – Medicinal Marijuana

Introduction – Legality and the Rapidly Changing Legal Landscape in the U.S.

Since the advent of widespread marijuana use beginning in the United States during the 1960s, there has existed a vibrant “counter-culture” centered around researching the myriad putative health benefits of the approximate 11 active compounds found in marijuana extract. Over the ensuing 35-40 years, researchers did make great strides in educating the public about the potential benefits of some of these compounds, and even managed to get medical marijuana legalized in a few states for primarily “appetite-restoration” benefits for those combating chronic low appetite and weight loss, such as advanced AIDS or later-stage cancer patients, where unintentional weight loss is a major problem.

Unfortunately for the many individuals who could have benefitted from the medicinal properties of the marijuana plant, access to marijuana-based medicines remained largely out of reach; that is, unless the patient was willing to break the law and obtain marijuana illegally. But broad awareness of and support for legalizing medical marijuana and decriminalizing marijuana was growing steadily, especially in the Western and North Eastern parts of the country.

More recently, however, we have seen a sea change in the laws governing marijuana and the potentially therapeutic compounds related to it. Beginning with the State of Colorado in November of 2012, we have witnessed an extremely rapid movement toward legalizing or at least decriminalizing the recreational and medicinal use of marijuana. The plant and its buds can now be possessed for personal recreational use in nine states plus the District of Columbia (minimum age of 21 years), and marijuana is legal for medicinal use with a doctor’s prescription in 29 more states, making it (under state law) completely illegal in just 12 U.S. States. While this rapidly changing legal landscape does seem to suggest broader legal availability of marijuana in future, there is currently a concerning holdout in the popular movement to legalize Marijuana: The U.S. Attorney General and the Federal laws of the United States of America, and in the federal agencies in charge of enforcing these laws, namely the DEA (Drug Enforcement Administration) and the FBI (Federal Bureau of Investigation).

Under U.S. Federal law, marijuana is still classified as a Schedule I substance, putting it on par with Heroin, LSD, and a whole host of other strong and dangerous drugs that have no documented clinical or medicinal use. Both cocaine and methamphetamine, two of the most addictive and dangerous drugs of the modern era, remain classified by the FDA as Schedule II, indicating that they do indeed have valid medical uses. Based on years of research into cannabis toxicity and addictive potential, and now based on newer studies of “new addiction rates” in States where cannabis is newly legal for recreational use, the data strongly suggest that when compared to the universally legal drug ethanol (alcohol), marijuana is less addictive, less unhealthy, and causes far fewer violent and non-violent impairment-related incidents. Therefore, in our view, at least the decriminalization of marijuana will probably happen in each and every state as well as under U.S. Federal Law, although there can be no assurances that this will ever happen, or if it does happen, that it will happen in a short enough timeframe to be relevant to participants and investors in this industry.

However, as confusing and to some extent confounding as the U.S. legal environment may seem to investors and regulators alike, it is actually almost irrelevant to the Company, PotNetwork Holding (POTN – OTC Pink), through its wholly-owned subsidiary Diamond CBD, researches, designs, manufactures, and markets under its own brands a plethora of products containing CBD (Cannabidiol), one of the most promising therapeutic compounds found in the marijuana plant. This is particularly relevant to us and to the investor community at large, because CBD derived from foreign-grown hemp has long been considered a legal substance in the United States, primarily because the hemp plant makes only very low levels of THC (Tetrahydrocannabinol), the compound in marijuana responsible for giving its users the “high” that they widely report after smoking or orally ingesting small amounts of cannabis buds. So while Federal laws pertaining to marijuana and CBD are of some concern to us, they increase the risks to the Company’s sales growth trajectory, we believe POTN is highly insulated from potentially adverse changes in marijuana laws, largely because the Company sources its CBD strictly from internationally-grown hemp plants. If this legal insulation proves to be effective, then the rather extraordinary sales growth POTN is currently seeing in all of its markets could make its shares an attractive investment opportunity indeed.

The Science of Marijuana “and Hemp?”

Unbeknownst to most people, marijuana and hemp are both examples of exactly the same species, namely *cannabis sativa*, which has been used by mankind for at least as long as we have been recording history (approximately 12,000 years). Hemp and cannabis plants have nearly identical DNA-based genes (e.g. two members of a single ethnic group), look very similar, have similar growth characteristics, similar nutritional and climatic needs, and exhibit roughly the same physical properties in their leaves and stems. However, these two variants of the cannabis plant do differ in one important respect: medicinal and recreational marijuana tends to have a relatively high concentration of THC (THC levels in genetically-engineered marijuana often approach 20%) whereas the name “Hemp” refers simply to marijuana plants that consistently produce THC in concentrations of 0.3% or less. The THC concentration “ceiling” is stipulated under U.S. law, and other countries sometime use higher or lower THC concentrations in their laws, although 0.3% seems to be a fairly universal norm.

Cannabidiol (CBD)

Cannabis is known to have some 115 biologically-active compounds in the fluids that can be readily extracted from the plant, and among the most promising of these is CBD, which is not psychoactive (unlike THC) and accounts for almost 40% of extracted chemicals by volume. Studies confirm that the typical adult can ingest CBD in quantities of up to 500mg or more per day without experiencing any noticeable side effects, and at these levels CBD consumption has been shown to have many general health and medicinal benefits, including

- **Chronic Pain Relief.** One of cannabis' historical uses was as a pain reliever, and rodent studies suggest that CBD may in fact be an effective remedy for chronic pain of the type common in aging individuals (e.g. joint pain).
- **Multiple sclerosis (MS).** A debilitating and ultimately fatal disease, the symptoms of MS are extremely difficult to treat. However, a large trial published in 2012 found that cannabis extract significantly decreased muscle stiffness and other MS symptoms.
- **Cessation of Smoking Cigarettes.** Preliminary studies have shown CBD ingestion to be effective at helping tobacco-addicted individuals smoke fewer cigarettes per day without craving additional cigarettes.
- **Help in Beating an Opioid Addiction.** A study posted to Neurotherapeutics found that CBD may be a promising substance in the use of Opioid addiction treatment.
- **Anxiety.** Anxiety disorders are among the most common medical disorders, affecting up to 31% of the general population at some point in life; specific disorders include obsessive-compulsive disorder, panic disorder, post-traumatic stress disorder (PTSD), social anxiety disorder, and generalized anxiety disorder. CBD has been shown to have a relatively pronounced effect in terms of reducing anxiety in general, and this general down regulation of anxiety has positive effect on all anxiety-related disorders. Note that while there are other highly effective treatments for these disorders (e.g. benzodiazepines, such as Xanax and Valium) these treatments also have moderate to severe side effects (e.g. short-term memory loss) and can also be highly habit-forming.

Although the eventual outcome of various studies pertaining to CBD's efficacy in treating these and other maladies is unknowable, one thing is certain: a large percentage of the population reports that CBD use helps them and alleviates the symptoms that they are experiencing at an acceptable level of side effect, if any. This tells us that demand for these products is likely to be robust for the next several years at a minimum, and perhaps for much longer. There is no question in our minds that this high degree of consumer acceptance and demand will ultimately drive large numbers of customers to the Company.

Company Analysis

Introduction

PotNetwork Holding, Inc. is a cannabis-focused holding company based in Ft. Lauderdale, FL that owns and operates six wholly-owned subsidiaries that work in various sub-segments of the cannabis industry. Note that all of the Company's products use only CBD that is derived from imported foreign hemp; CBD sourced this way has a long-standing legal protection under U.S. Federal Law.

PotNetwork Holding, Wholly-Owned Subsidiaries	
Diamond CBD	A leader in the production of legal CBD, perhaps the most medicinally valuable cannabis extract.
Meds Biotech, Inc.	A new subsidiary offering pharmacist-formulated CBD products designed for the medical industry
PotNetwork, Inc.	Potnetwork.com is a cannabis-focused digital business and financial website, publishing cannabis business news, stock information, interviews, and more.
First Capital Ventures, Inc.	Advanced research and production of the industry's finest premium hemp extracts, primarily Cannabidiol (CBD) oil, with a focus on making these extracts globally available to the public
MediPets, Inc.	Manufactures, distributes, and sells a variety of CBD products for canine and feline pets
Grinders Distribution	This subsidiary is a distributor of high quality grinders in all 50 states

Of these six active subsidiaries, the Company's primary revenue driver is Diamond CBD, which produces the CBD used in all of the Company's other subsidiaries' products. Diamond's CBD is made from foreign-grown and imported hemp plants. Because hemp plants have a THC concentration of 0.3% or less, hemp qualifies as "industrial use" cannabis and is not subject to the same illegality as cannabis plants containing THC concentrations higher than 0.3%. These plants are known as marijuana.

The Company began aggressively marketing its products via tradeshows and word-of-mouth just over a year ago, and via its online sales platform beginning in the early months of 2017. Its products can be broadly categorized as

- **Consumables** that can be in either liquid or solid form, such as its Chill Gummies product line
- **Topicals** that consist of creams, gels, and lotions, such as the Company's CBD Biotech Cream used to assuage muscle pain
- **Vape-related** products that are either inhaled or used to enhance other vape products, such as Liquid Gold vape liquid

In addition, the company recently signed a distribution agreement with Total Vapor, Inc, a subsidiary of the Vapor Group that allow it to distribute Vapor's revolutionary, electronic herbal grinder to all of its subsidiary's customers.

The Company has recently begun to experience sales growth of a higher than anticipated rate, generating revenues of approximately \$1,000,000 during the Feb 1 – Feb 15 period vs. just \$297,000 in that same year-ago period. We believe that the Company will likely continue to exhibit double-digit month-over-month growth in revenues for the foreseeable future, as it seems to be an emerging market leader in an industry in the midst of what can only be called a hypergrowth cycle.

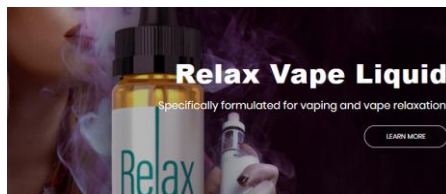
The Company trades on the over-the-counter pink sheets under the symbol POTN. Notably, the Company retained a PCAOB accounting firm (East West) last year, for the purpose of auditing its financials in preparation for an uplisting to the OTCQB sometime during the next 60-90 days. The Company also plans to raise additional capital sometime this year, mostly likely through a Regulation A+ offering.

Brands (Products)

Through one or more of its subsidiaries, the he Company now offers a fairly wide range of topical and ingestible CBD-infused products, which broadly fall into one of three categories: edible products, both for people and their pets, smokable products for the Vape market, and lotions, oils and salves, which are absorbed through the skin. They also offer niche implements, such as their premium line of electric grinders.

PotNetwork Holding, Select Examples of Complete Brand Portfolio

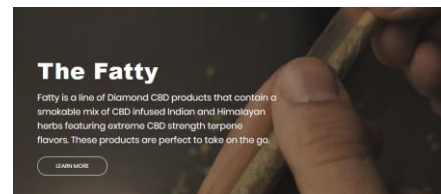
Relax Vape Liquid



CBD Re-Leaf, disposable vaping pens



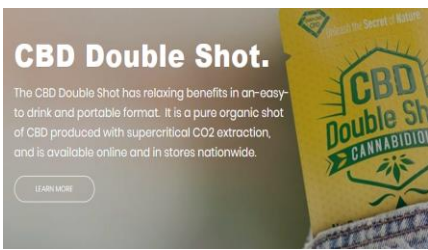
The Fatty, smokable mix of CBD infused Indian and Himalayan herbs with terpene flavors.



PET CBD Food



CBD Double Shot



Chill gummies – sweet and chill



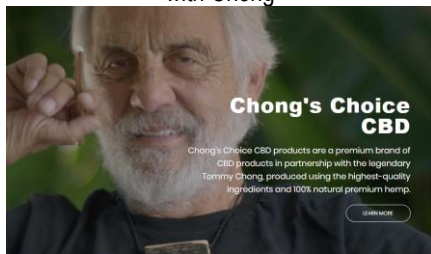
Liquid Gold

This is one of the Company's oldest and most successful vaping products



Chong's Choice CBD

Entire CBD product line done in partnership with Chong



Lawrence Taylor's Pain Master

If anyone knows pain, it's the former NFL great, NY Jet's linebacker Lawrence Taylor



The Company plans to continue aggressively expanding its product lines and the SKUs within each product line as the opportunity for creating new winning products continues to present itself. Whether this is through partnership, as applies to the Company's line of premium electric grinders, or via organic development, one thing is almost certain: the Company will continue to understand its target markets and create innovative new products that the market participants will eagerly purchase.

Domestic Cannabis Industry Size and Segmentation

The U.S. cannabis industry is growing extremely rapidly and has been since the first wave of legalization and decriminalization began back in late 2012. If looked at broadly, the cannabis industry has three primary categories of participants.

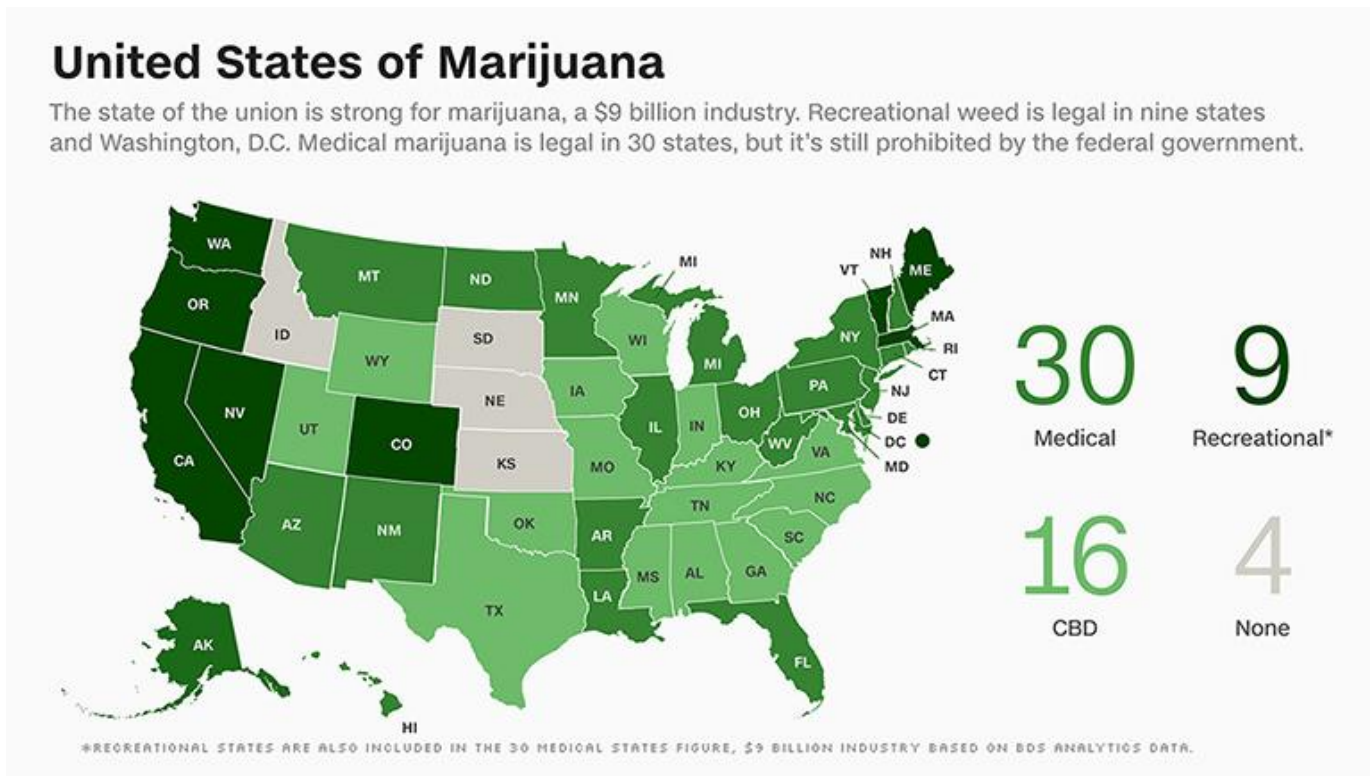
The U.S. Cannabis Ecosystem and the Companies and Entities that Operate Within It

<p>Group I Directly Involved with Cannabis Plants</p>	Biotech	Biotechnology is perhaps rivalled only by Robotics technology in terms of the likely greatest impact on humanity by the year 2100. Cannabis-focused biotech efforts typically focus on finding therapeutic value in the 115 or so cannabinoids found in cannabis sativa.
	Plant Cultivation and Sales	These typically smaller organizations are your local growers and seed providers. The appetite for products offer by Group II companies vary widely on an individual basis.
	Hemp Product Manufacturers	Hemp is one of the most versatile and useful plants in the world, and is a primary ingredient in thousands of products manufactured around the world. Such products include paper, textiles, foods, beverages, biofuels, rope, and hemp is also the primary sources of CBD, the chemical upon which all of the POTN’s products are based.
	Marijuana Product Producers	POTN clearly qualifies for this type of organization, but rather than marijuana, the company uses CBD derived from imported hemp as the cannabis related infusion used in all of its items. In terms of a sub-sector, these are the companies that transform raw marijuana and its extracts into consumables such as candy, pastries, beverages, foodstuffs, baked goods, and other products such as smoke-able or vape products, or pharmaceutical products myriad chronic ailments.
<p>Group II Provide Support to Group I Companies</p>	AgTech	Participants in the AgTech industry provide the high-tech equipment used to cultivate the highest quality marijuana buds, often derived from genetically-engineered seeds and grown in hydroponic environments. AgTech products can also be low-tech, such as lights, heating and cooling system, etc.
	Real Estate	Finding real estate on which you can cultivate cannabis can be extremely challenging, unless you are with a firm with specialized local knowledge that helps you find, negotiate, acquire, and operate facilities without inviting unnecessary legal entanglements. Such firms are highly valuable.
	Secondary / Tertiary Services	Like high-growth businesses in any industry, cannabis cultivators, product manufacturers, and retailers are in need of specialized services such as branding, packaging, laboratory testing, online marketing, and other services that help them grow and prosper.
<p>Group III Cannabis May Not Constitute Entire Business</p>	Consumption-Enabling Tools	The vendors may paraphernalia such as pipes, vape tubes, and other devices that help consumers of cannabis make use of the product.
	Finance	Finance firms help cannabis enterprises fund their growth and expansion, manage cash with services such as receivables factoring, and in the case of the investing public, to find suitable investments in the cannabis space.
	Other	Sometimes, companies just don’t fit into any real category, like those developing intoxication testing kits for the police. We place them here.
	Technology and Media	Although commonly grouped together, technology and media are only loosely associated in this context. As we have seen in more mature industries, we are now beginning to see seed-to-harvest “grow flow” management systems that help cut costs and improve yields. On the media side, we are seeing specialized newsletters, blogs, and more traditional news organizations cropping up to keep those interest in cannabis well-informed. Pot Network is just such a cannabis-focused media company.

The cannabis industry is extremely young in the U.S., having legally existed for just over five years at the time of this writing. However, the industry has grown very rapidly during that time, as a groundswell of popular support has brought some form of legal marijuana to 39 of our 50 states. In terms of cannabis products, the most important segmentation is related to presence of THC, the primary source of the “high” pot users experience. Hemp, defined in the U.S. as cannabis sativa containing no more than 0.3% THC by weight, does not confer a “high,” whereas traditional marijuana, in which THC concentrations can approach as much as 20% by weight, does confer a high – in some cases a very strong one.

Whereas the traditional marijuana segment has both medicinal and solely recreational consumers, the hemp segment has only health, wellness, and medicinal consumers, mostly seeking to ingest a compound called cannabidiol (known as CBD).

Cannabidiol can comprise as much as 40% of a hemp plants extractable material, and has been shown anecdotally and in bona fide research to have relatively pronounced medicinal value for those with anxiety-related health issues, for sufferers of epilepsy and MS, and for those suffering with chronic pain (e.g. joint pain).



Source: CNN Money

Within the two primary product cannabis segments, namely marijuana and hemp, product differentiation is occurring quite rapidly, with most products fitting into one of the following categories:

- **Smokable**, meaning that the actual plant is smoked in the case of marijuana, or that extract from the plant is smoked via a vaping device; for the hemp market, this is typically CBD oils and other related high-concentration extracts
- **Ingestible**, which are most often edible pastries, candies and the like, although this group of products also includes more than a few cannabis beverages.
- **Dermal**, which usually treat maladies of the skin or chronic pain in specific muscles or joints. The products take the typical form of salves, gels, lotions, and ointments.
- **Medicinal**, which take the typical forms of pills and injectable formulations

The Company's six subsidiaries do create a significant level of vertical integration, as they have product lines and/or service offerings in many of the areas described in our discussion of the Cannabis Ecosystem.

Sales and Marketing Initiatives

POTN is an emerging market leader in the nascent CBD-infused consumer product industry, which is currently in the midst of what can only be characterized as a hypergrowth phase, and in many cases it enjoys a powerful first-mover advantage in an entire product class, such as its calming (i.e. anxiolytic (anti-anxiety) products for pets). Because the Company lacks any real legally-defensible intellectual property, other than perhaps "trade secrets" related to product formulation and/or manufacturing, POTN's likely staying power as a market leader in its target markets is highly dependent on how quickly and thoroughly it can penetrate each of them.

Recently, the Company has experienced unheard of month-over-month revenue growth rates of 20% to 30% (795% to 2230% per year, if consistent for an entire 12 months), and it has been achieving these rather incredible growth rates primarily through one of two marketing programs – trade show marketing, and the marketing of its online sales platform). In the future, the Company plans to expand its current sales and marketing initiatives into Canada, China, and several other potentially lucrative markets. Domestically, they plan to begin expanding almost right away into the U.S. medical market.

Trade Shows

The Company currently attends some 20 tradeshows each year, many of which are related to specific markets in which it is currently making inroads. Some of these include tradeshows for pet-related products, tradeshows geared to surfing and other beach/ocean sports, and tradeshows focused on general athletic products. Just this past February, for example, the Company booked some \$270,000 in new sales at a single tradeshow, the CHAMPS Winter Show in Las Vegas. Because of the nature of tradeshows, where vast majority of presenter's benefit is derived from the long-term value of new relationships with retailers and the distributors that serve them, we can only imagine what the actual present value of this single tradeshow must have been for the Company: almost certainly something in the millions of dollars, given that it generated over a quarter million worth in immediate sales.

When considered over 20+ tradeshows per year, and considering the Company's eventual total addressable target market (in the aggregate) of something approaching or possibly even exceeding \$1 billion in annual sales in the U.S. alone, investors will begin to understand our enthusiasm for the investment potential POTN shares, even at current valuation levels. Needless to say, given the magnitude of their current successes in these venues, the Company plans to continue and aggressively expand its tradeshow activities in the future.

Online Sales

The Company has been pursuing an aggressive online marketing initiative for all of its products, and based on our conversations with management we believe that its online sales growth may be even higher than the Company's overall sales growth rate. If on par with or higher than the Company's overall growth rate, we believe this level of sales growth online to be extremely significant, probably suggesting a pronounced "product vacuum" and extremely high consumer demand for the Company's products. In our vernacular, a "product vacuum" exists when there is extremely strong consumer demand for a product and few if any alternative products available to fill that demand.

An historical analog to this idea of a "product vacuum" – albeit an extreme one – occurred beginning on September 18, 2001 when envelopes containing the deadly Anthrax bacteria began to arrive by mail in the U.S. This caused a near-panic in the general population of the United States, which in turn drove extreme (and price-insensitive) demand for Ciprofloxacin ("Cipro"), the only antibiotic on the market in 2001 widely known to be effective against Anthrax infection. Because at that time there was only one manufacturer of (and Patent holder on) Cipro, when the initial attacks began it would have taken many months' production to satisfy current demand, and many who wanted to product simply could not get it.

Despite the extremity of this historical example, we believe that the success of and recent historical growth in the Company's online sales could suggest a similar dynamic. At this point, at least some consumers are becoming aware of the availability of CBD-infused products and the benefits they confer (i.e. reasonably low price, at least reasonably good efficacy, and few or no side effects), and as a result these consumers want to purchase these products, thus creating immediate demand in the market. But since they are as of yet unavailable through most traditional mass-market channels such as major pharmacies (e.g. CVS), the mainstream medical community (e.g. the family doctor), or in the case of the Company's products for pets, large pet product retailers (e.g. PetSmart), the would-be consumer has no viable choice other than purchasing from the Company directly online, which at this point entails a somewhat significant "search cost" for the consumer. If we are correct at least to some extent in our suggestion of a product vacuum in this space, then this bodes very, very well for the Company's near-term success with more and larger retailers and distributors.

Larger retailers, distributors – or in the case of healthcare, HMOs and similar organizations - tend to have a more bureaucratic product evaluation and vetting cycle that translates into a much longer sales cycle for the Company and a pronounced lag-time from when a consumer wants to purchase a product and the time when that product becomes widely available. That is, unless consumer demand expands quickly enough to cause individual store managers to simultaneously begin asking the corporate purchasing department to begin carrying the product. Under this scenario, it is not uncommon for requests for stocking the product to reach the corporate executives who can then fast-track the product through the approval process, largely due to a fear that not stocking the product could cause the loss of a repeat customer's entire purchasing budget. While we certainly cannot be sure that such a scenario will in fact develop in the case of the Company's product lines, we do believe that it is well within the realm of possibility, given the sales trends we see developing at POTN. Note that our investment thesis is not predicated to a meaningful extent on the occurrence of this scenario; we include a discussion of it here merely to highlight just how exceptional the Company's future near-term opportunities for vastly larger sales volumes may in fact be.

Longer-term, the Company does plan to directly market to the largest distributors and retailers, but for the time being has designed its marketing strategy to effectively go around these large organizations (and thus also avoid the long sales cycles and intense price negotiation that goes with them). In the short-to-medium term the Company plans to mostly do what it does best: continue

to bring new and innovative products based on CBD to the marketplace, and continue to aggressively market these newer products along with its more established products to small and medium sized distributors and retailers.

Also, it is important that investors note that the Company is currently operating on a cash-only basis with most of its customers, unlike many of the more established product companies who will often extend terms of “net 15” or even “net 30” to their customers. Management believes that this is the appropriate strategy for the Company at this point in time, given its relatively limited financial and credit evaluation resources. However, management does acknowledge and many of the mom-and-pop retailers to which it sells are often extremely undercapitalized, and because of this cannot buy the Company’s products with cash upfront – even though they would gladly stock them and sell them. This means that the Company is currently leaving quite a bit of revenues on the table, although these revenues would be of lower quality, and would almost certainly entail some default risk on the Company’s receivables.

Product Manufacturing

The Company researches and develops all of its own formulations at this time. However, because of its relatively small size and early stage of development, it does rely on a contract manufacturer to produce and package its products. This is a common practice for most companies of this size and stage of development, in both the health food and nutraceutical industries, and makes complete sense for POTN as this time. Management informs us that they have a dedicated professional who works directly with the contract manufacturer, both in the development of new products, and especially to ensure that the Company does not develop product formulations that for one reason or another are difficult or impossible for this particular contract manufacturer to produce.

Leadership Team

PotNetwork Holding has assembled an impressive management and advisory team, and will continue to add to this team going forward.

Key Management

Gary L. Blum, *Chairman of the Board*

Mr. Gary L. Blum previously was the Chief Executive Officer at PotNetwork Holding, Inc. from January 12, 2016 to September 2017, when he became Chairman of the Board and a Director. Prior to that, Mr. Blum had been the Chairman of the Board, Chief Executive Officer, President, Principal Accounting Officer, Chief Financial Officer and Secretary at Thunderclap Entertainment, Inc. since September 15, 2009 and Celpad, Inc. since August 30, 2010. Over nearly the past three decades, Mr. Blum has provided legal counsel for a broad range of closely-held and public companies. He has extensive experience conducting private and public offerings, mergers and acquisitions, achieving SEC and NASD compliance, among other areas of expertise encompassing general corporate and securities law. He has been a practicing attorney since 1986. He is the Principal of the Law Offices of Gary L. Blum, Los Angeles, California, which he founded in June 1988. He also served as Secretary of Arrin Corporation. He has substantial experience in sophisticated business planning and advising clients in connection with the purchase and sale of businesses and has served as a director for many private and publicly traded companies. He has been a Director of Celpad, Inc. since August 30, 2010. He served as a Director of Arrin Corporation since 2009. He has been a Member of the California State Bar since 1979. Mr. Blum received his B.S., Magna Cum Laude, in Mathematics from Loras College in 1962; an M.A. in Philosophy from the University of Notre Dame in 1966; and J.D. and M.B.A. degrees from the University of Southern California Gould School of Law and Marshall School of Business respectively in 1978.

Dr. Richard E. Goulding, M.D., *Chief Executive Officer*

Dr. Richard E. Goulding, M.D. is the Medical Director for Potnetwork420 at PotNetwork Holding, Inc. since March 26, 2014. Prior to that, Dr. Goulding served as Chairman of the Board, Chief Executive Officer and President of Real American Capital Corp. Prior to that, Dr. Goulding was employed at The Nutmeg Group, LLC. Previously, Dr. Goulding has been a Corporate Director of Physicians Healthcare Management Group Inc. since April 2005. Also, he served as a Corporate Secretary of Phyhealth Corp. since January 1, 2008. From 1979 to 1984, he was a General Surgery Resident, Otolaryngology Resident and Chief Resident, Otolaryngology or the Head and Neck Surgery and Facial Plastic Surgery at Jackson Memorial Hospital and University of Miami. He serves as a Director of Real American Brands, Inc. He served as a Director of Phyhealth Corp. since March 12, 2008. He has also been an eminent speaker at various forums. Mr. Goulding graduated, with honors, in 1975 from the University of Florida and received his Doctorate of Medicine in 1979 from Loyola University of Chicago.

Mr. Kevin Hagen, *President (Diamond CBD)*

Mr. Kevin Hagen is the President at Diamond CBD, Inc. Mr. Hagen is a practicing attorney with Hagen & Hagen Law Firm with over 22 years of experience. He is also a member of the Florida Bar Association. He completed his BS from University of Florida and JD from Nova Southeastern University.

Valuation Analysis

It is very difficult to value a company like PotNetwork Holdings, mainly because at this point we have only unaudited financial statements and a partially-disclosed capital structure from which to work. However, the Company is clearly trying to mature its status as a public company by having its financial statements audited (which should be complete by mid-April according to our most recent conversation with management), and by uplisting to the OTCQB, which it seems nearly prepared to apply for. We believe that such an uplisting is a likely event in the near-term (probably during Q2 of 2018), and this should give us far more visibility into the intricacies of the Company's capital structure and higher confidence in the quality of its revenues and earnings.

That said, we have used a rather simplistic P/E multiple valuation measure to value the Company at this time; more elaborate discounted cash flow methodologies could make good sense in the future, however. Our earnings per share estimate for 2020 of \$0.10 per share does not take into account the additional dilution that either already exists or we expect to exist over the coming quarters, but even if we use \$0.05 per share as a base EPS number, companies with growth rates similar to that of POTN routinely have EPS multiples of 40x or even 50x earnings; this is especially true when the entire industry in which they operate has a similar growth rate. So in light of this, a value 18x a 2020 EPS estimate that we have already discounted by 50% for dilution seems relatively conservative, and should give significant upside to our \$1.25 per share price target.

Risks

Investors in a Company such as PotNetwork Holding face several types of risk that are inherent in the equity securities prices of all young, high-growth companies such as POTN. In this particular case, we believe that there are two primary risks and several less important secondary risks about which the prospective investor should be aware.

Legal Risk. Because the Federal Government of the U.S. still classifies both marijuana and hemp-sourced CBD as Schedule I narcotics, an increase in enforcement focus by the U.S.'s Federal agencies on participants in these industries could cause a major and prolonged negative effect on the Company's business and financial results. However, we do not see such an occurrence as being too likely. Even though the Federal Government has its own system, judges, and law-making bodies (e.g. Congress), it is not blind to the wishes of the majority who votes them in or out each term. With so many states passing referendums favorable to marijuana and hemp in this last election cycle, we believe that any Presidential administration and associated legal and enforcement chiefs will be quite hesitant to go against the obvious wishes of an overwhelming majority of the voting public.

Share Price Risk. The shares of small, high-growth companies tend to exhibit extreme price volatility at times, and investors that happen to catch a downtrend in this high price volatility environment can see a substantial portion of their investment lost in a very short period of time. Of course, an investment in this type of security should only be made by those investors who can tolerate high risk and can afford the loss of their entire investment.

Revenue and Earnings Quality. While the company is working aggressively to fix this issue, by moving to a listing on the OTCQB exchange and to fully audited financials by PCAOB auditors, they are not there yet. This means that as of the writing of this report, we have no independent way to verify the veracity of the results the Company has filed with the OTC Markets. Frankly, we do not suspect this Company of any wrongdoing, as all evidence suggests that this is a Company led by extremely hardworking professionals whose only goal is to make the business as successful as it possibly can be. But investors must at least be aware that until the Company becomes "fully reporting" under the SEC definition thereof, revenue and earnings quality is a risk.

Dilution Risk

We know from public filings that there are two classes of Convertible Preferred Stock – Series A and Series D, but at the time of this writing we only understand the mechanics of the Series A conversion. Those mechanics are beyond the scope of this report, but if we converted that class of preferred stock to common shares today, it would post-conversion equal approximately 37% of the then-outstanding common stock. We do not know how this would change if the Series D preferred were to be similarly converted today, nor do we as of yet have an understanding of the conversion features of the ~\$2.8M in long-term convertible debt on the Company's books. As the Company adds additional transparency to its capital structure, we will reduce the magnitude of this particular risk in our thinking; that said, we have found management to be reasonable and forthcoming with detailed information when it we have requested it, but we simply weren't able to get a full picture of this aspect of the Company before our publishing deadline.

Conclusion, Risks Section. Overall, we view the shares of POTN as being slightly less risk than is common in other companies of this size, maturity level, and growth rate, simply because the Company is already generating cash and seems to be in a simply fabulous industry in terms of its size, growth in participants, and strong, pent-up demand for the Companies' products.

Investment Thesis and Conclusion

POTN is quite simply in the right place at the right time, we believe with both a winning product strategy and a very strong sales and marketing plan in place, upon which they have been executing well. As a result of all of these factors, this Company is quite literally growing like a weed. Because we believe the high sales growth rates the company is currently experiencing are likely to continue or even increase over the next few calendar quarters, the seemingly rich per-share valuation the company currently has may in fact be relatively low. ***We therefore rate the shares of POTN a Strong Speculative Buy, and set our 12-month price target at \$1.25 per share.*** Also, we believe that future upgrades and expansions in our price target are completely possible if the Company's business continues to develop as planned.

PotNetwork Holding (POTN), Profit and Loss model											
(In 000s, except for per-share data)	2016	2017	Q1 2018E	Q2 2018E	Q3 201E	Q4 2018E	2018E	2019E	2020E	2021E	2022E
Revenues	1,029	14,499	6,000	7,200	8,640	10,368	32,208	63,678	113,454	184,403	276,654
Sequential growth		1309%	21%	20%	20%	20%	122%	98%	78%	63%	50%
Cost of Good Sold	581	9,318	3,840	4,536	5,357	6,324	20,130	38,844	69,207	112,486	168,759
Gross profit	448	5,181	2,160	2,664	3,283	4,044	12,078	24,835	44,247	71,917	107,895
Gross margin	44%	36%	36%	37%	38%	39%	38%	39%	39%	39%	39%
Operating expenses											
Research and development											
Sales, general, and administrative	136	4,967	810	864	907	933	3,514	5,731	10,211	16,596	24,899
Total operating expenses	136	4,967	810	864	907	933	3,514	5,731	10,211	16,596	24,899
Operating profit	312	214	1,350	1,800	2,376	3,110	9,662	19,104	34,036	55,321	82,996
Operating margins	30.3%	1.5%	22.5%	25.0%	27.5%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Non-recurring items	21		0	0	0	0	0	0	0	0	0
Other	0		0	0	0	0	0	0	0	0	0
Interest expense (income)	156		0	0	0	0	0	0	0	0	0
Total other expenses (income)	177		0	0	0	0	0	0	0	0	0
Pre-tax profit	135	214	1,350	1,800	2,376	3,110	9,662	19,104	34,036	55,321	82,996
Provision for income taxes	0	0	0	0	0	0	0	3,886	7,148	11,617	17,429
Marginal tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	20.3%	21.0%	21.0%	21.0%
Net income	135	214	1,350	1,800	2,376	3,110	9,662	15,217	26,889	43,703	65,567
Earnings per share, common only		0.000	0.005	0.007	0.009	0.012	0.036	0.056	0.100	0.162	0.243
Earnings per share, common, conv Preferred Series A & D, and LT Debt *											
NOL Carryforwards		2,411	2,128	1,750	1,251	598					
Capitalization Table											
Total shares outstanding, common stock only		569,920	269,920	269,920	269,920	269,920	269,920	269,920	269,920	269,920	269,920

Our Rating System

We rate enrolled companies based on the appreciation potential we believe their shares represent. The performance of those companies rated “Speculative Buy” or “Strong Speculative Buy” are often highly dependent on some future event, such as FDA drug approval or the development of a new key technology.

Explanation of Ratings Issued by Harbinger Research

STRONG BUY	We believe the enrolled company will appreciate more than 50% relative to the general market for U.S. equities during the next 12 to 24 months.
BUY	We believe the enrolled company will appreciate more than 30% relative to the general market for U.S. equities during the next 12 to 24 months.
STRONG SPECULATIVE BUY	We believe the enrolled company could appreciate more than 50% relative to the general market for U.S. equities during the next 12 to 24 months, if certain assumptions about the future prove to be correct.
SPECULATIVE BUY	We believe the enrolled company could appreciate more than 30% relative to the general market for U.S. equities during the next 12 to 24 months, if certain assumptions about the future prove to be correct.
NEUTRAL	We expect the enrolled company to trade between -10% and +10% relative to the general market for U.S. equities during the following 12 to 24 months.
SELL	We expect the enrolled company to underperform the general market for U.S. equities by more than 10% during the following 12 to 24 months.

Analyst Certification

I, Brian R. Connell, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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Analyst Highlight

Brian Connell, CFA

Senior Research Analyst

Mr. Connell has over 20 years' experience in the securities industry, as an equity analyst and portfolio manager, and as the founder and CEO of StreetFusion (acquired by CCBN/StreetEvents), a software company serving the institutional investment community. On the sell-side, Mr. Connell served as the technology analyst for Neovest, an Atlanta-based boutique, and as a Senior Analyst - Internet for Preferred Capital Markets, an investment bank based in San Francisco. Mr. Connell has also held the position of Executive Director of Marquis Capital Management, a technology-focused investment management organization.

Mr. Connell holds degrees in Economics and Psychology from Duke University, and is a CFA Charterholder.