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Fundamental Research Corp.
Investment Analysis for Intelligent Investors

November 5, 2019

FinCanna Capital Corp. (CSE: CALI / OTCQB: FNNZF) – Foreclosure on CTI / Revenue Generation from QVI Imminent

Sector/Industry: Cannabis **Click here for more research on the company and to share your views**

Market Data (as of November 5, 2019)

Current Price	**$0.13**
Fair Value	**$0.34**
Rating*	**BUY**
Risk*	**4**
52 Week Range	$0.06 – $0.22
Shares O/S	98,689,734
Market Cap	$12.83 million
Current Yield	N/A
P/E (forward)	N/A
P/B	0.67x
YoY Return	-40.91%
YoY CSE	-51.40%

*see back of report for rating and risk definitions.
**$ denotes C$ unless otherwise specified.

Highlights

- **Foreclosure on Assets of CTI:** On May 2, 2019, FinCanna Capital Corp. ("FinCanna", "company") foreclosed on the assets of CTI in an attempt to reclaim a portion of their loan outstanding.
- **Advanced Second Tranche of US$0.88 million to QVI:** The company advanced a second tranche of financing to QVI, which signals that QVI is attaining its milestones and that revenue generation is likely imminent.
- **Revision in Revenues:** The company reported FY2019 revenues of $1.88 million (our forecast was $1.91 million), a 125% YoY improvement from FY2018 revenues of $0.84 million. The revenues generated in FY2019, and FY2018, were related to CTI and are non-cash. In addition, the company reported revenues of $0.29 million for fiscal Q1-2020 – a 24.98% YoY decrease from revenues of $0.39 million for fiscal Q1-2019. These revenues are also related to CTI and are non-cash. Readers should note that revenues generated to date are primarily from interest income on loans made and not royalty revenues. **We are revising our revenues for FY2020 from $4.36 million to $0.86 million and introducing our revenues for FY2021 of $4.2 million.**
- **Revision in Earnings:** The company reported earnings of $0.21 million (EPS: $0.00) for FY2019, compared to earnings of -$12.70 million (EPS: -$0.31) for FY2018. In addition, the company reported earnings of -$0.68 million (EPS: -$0.01) for fiscal Q1-2020, compared to -$0.65 million (EPS: -$0.01) for fiscal Q1-2019. **We are revising our earnings for FY2020 from -$0.36 million (EPS: -$0.00) to -$2.25 million (EPS: -$0.02) and introducing our earnings for FY2021 of $159k (EPS: $0.00).**

Key Financial Data (FYE - APR 30) (C$)	2018	2019	2020E	2021E
Cash	$ 2,716,030	$ 7,832,298	$ 5,163,295	$ 1,533,784
Working Capital	$ 2,911,104	$ 8,011,701	$ 992,160	$ 1,797,665
Assets	$ 13,132,730	$ 24,409,269	$ 22,644,440	$ 19,291,510
Total Debt	$ -	$ 3,746,701	$ -	$ -
Revenues	$ 838,148	$ 1,882,687	$ 862,342	$ 4,210,751
Net Income	$ -12,695,539	$ 210,179	$ -2,254,651	$ 158,749
EPS (basic)	$ -0.31	$ 0.00	$ -0.02	$ 0.00

Foreclosure on Assets of CTI

On May 2, 2019, the company foreclosed on the assets of Cultivation Technologies Inc. ("CTI") to reclaim a portion of their loan outstanding. In addition, on May 28, 2019, FinCanna was included in a lawsuit filed by certain shareholders of CTI for alleged offences, one of which was the failure to stop FinCanna's foreclosure of CTI. We believe these allegations would drain time and resources of FinCanna, further adding to the net loss incurred from the failure of their portfolio company CTI. In discussions with management, they have indicated that there is a low probability of the lawsuit against FinCanna being successful. Management has not noted whether the foreclosure on CTI will result in an asset sale, or restructure, but have expressed belief that there will be a successful resolution regarding CTI. **Until we have more information on this matter, we have conservatively assumed that the company's investment in CTI (which we estimate to be approximately US$2.10 million) is sunk, and that CTI is not going to provide future cash flows for the company.**

Update on Portfolio Companies

The following table summarizes the amount funded to date in portfolio companies by FinCanna.

Amount Funded in Portfolio Companies

Investee Company	Total Funding	Amount Funded to Date
GCI	US$3,000,000	US$1,750,000
RRT	US$4,795,000*	US$3,000,000
QVI	US$3,000,000	US$2,125,000

*The total funding is US$3 million, but the company has an option to fund an additional US$1.80 million to receive a further royalty payment of 2% of RRT's revenues.

Source: Company, FRC

Regarding expected revenue generation start date of each portfolio company, it was indicated by management that:

- ezGreen Compliance Inc. ("GCI") is expected to start generating royalty revenues by July 2020.

- Refined Resin Technologies Inc. ("RRT") is expected to start generating royalty revenues for the company by July 2020.

- QVI Inc. ("QVI") is expected to be in commercial operation and start generating royalty revenues for the company by December 2019.

Other Material Developments

In addition, the company announced numerous other material developments:

- GCI completed integration with Marijuana Tracking Enforcement Compliance ("METRC") in the states of California, Colorado, Maryland, Massachusetts, Montana and Oregon.

- GCI completed an installation of its POS software with an undisclosed Los Angeles based cannabis dispensary.

- QVI is experiencing greater than anticipated demand for its manufacturing services. QVI is expected to meet or exceed revenues of US$10 million in the first 12 months of commercial production. This outlook has been incorporated in our forecasts.

Revenues up 125% YoY

The company reported FY2019 revenues of $1.88 million, a 124.62% year-over-year ("YoY") increase from revenues of $0.84 million for FY2018. Revenues for FY2019, and FY2018, are related to CTI and were all non-cash. For FY2019, we had forecasted revenues to be $1.91 million, which were 1.44% higher than the company's reported revenues for FY2019 (of $1.88 million).

STATEMENTS OF OPERATIONS (in C$) - YE April 30th	2018	2019
Interest income from loan	838,148	1,245,015
Penalties	-	263,130
Profit sharing income	-	374,542
Revenues	**838,148**	**1,882,687**

Source: Company, FRC

For fiscal Q1-2020, the company generated revenues of $0.29 million – a 24.98% YoY decrease from revenues of $0.39 million for fiscal Q1-2019. Revenues for fiscal Q1-2020, and fiscal Q1-2019, relate to interest income generated from the loan made to CTI and are non-cash. The non-cash revenues have been accrued and are not expected to re-occur in future financial results (due to the foreclosure of CTI). **As such, the company has yet to receive royalty revenues from its portfolio companies**.

STATEMENTS OF OPERATIONS (in C$) - YE April 30th	Q1-2019	Q1-2020
Interest Income from Loan	385,953	289,529
Revenues	**385,953**	**289,529**

Source: Company, FRC

In our models, we had expected the company to start generating royalty revenues from all of its portfolio companies starting fiscal Q1-2020. Given that this is not the case, we have pushed out the start date of which portfolio companies will start generating royalty revenues for the company (refer to page two). In addition, we have assumed that CTI will not contribute to company revenues going forward. Given this understanding, we have revised our FY2020 revenues forecast from $4.36 million to $0.86 million. In addition, we are introducing our FY2021 revenue forecast of $4.21 million.

Margins

The company does not record cost of goods sold ("COGS"), which is in line with their royalty investment business model. The company's current margins offer meager insights, as revenues generated by the company were from interest income and not royalties from portfolio companies.

Margins	2018	2019	Q1-2019	Q1-2020
Gross	100.00%	100.00%	100.00%	100.00%
EBITDA	-565.27%	-92.05%	-201.52%	-81.53%
EBIT	-565.27%	-92.87%	-201.52%	-89.80%
Net	-1514.71%	11.16%	-168.39%	-234.87%

Source: Company, FRC

Lower SG&A Expense

Selling, general and administrative expenses ("SG&A") decreased 27.57% YoY from $4.17 million (in FY2018) to $2.98 million (in FY2019). The decrease in SG&A expenses were primarily due to (1) lower professional fees, as the company incurred less accounting and legal fees, and (2) a decrease in marketing and investor relations cost due to decreased business activities.

SG&A expenses decreased 51.24% YoY to $0.46 million in fiscal Q1-2020. The decrease in SG&A expenses was primarily due to a decrease in marketing and investor relations cost. Our previous FY2020 SG&A expenses of $3.21 million seems aggressive, and we have revised this downwards to $2.04 million. We are also introducing our FY2021 SG&A expense forecast of $2.86 million.

Net Income

As a result, FinCanna reported EDITDA of:

- -$4.74 million for FY2018 compared to -$1.73 million for FY2019.
- -$0.78 million for fiscal Q1-2019 compared to -$0.24 million for fiscal Q1-2020.

For the company's bottom line, FinCanna posted:

- Improvement in earnings from -$12.70 million for FY2018 (EPS: -$0.31) to $0.21 million (EPS: -$0.00) for FY2019. The strong improvement YoY was attributed to listing and other expenses (which is non-recurring) in FY2018 of $7.89 million.

- Deterioration in earnings from -$0.65 million (EPS: -$0.01) for fiscal Q1-2019, to -$0.68 million (EPS: -$0.01) for fiscal Q1-2020. Although EBITDA improved over the same period, the deterioration in earnings was due to $0.21 million in financing costs and greater foreign exchange expenses incurred in fiscal Q1-2020, compared to fiscal Q1-2019.

Due to our revisions made to revenues and SG&A expenses, our revised net loss forecast for FY2020 is -$2.25 million (EPS: -$0.02). This compares to our previous net loss forecast for FY2020 of -$0.36 million (EPS: -$0.00). We are also introducing our FY2021 net income forecast of $159k (EPS: $0.00).

Improvement in FCF

Free cash flows ("FCF") improved YoY from -$11.82 million for FY2018 to -$10.38 million for FY2019. The improvement in FCF, as mentioned above, was due to lower SG&A expenses.

Summary of Cash Flows ($, mm)	2018	2019	Q1-2019	Q1-2020
Operating	-$4.36	-$3.06	-$1.27	-$0.70
Investing	-$7.46	-$7.32	-$1.68	-$1.26
Financing	$14.51	$15.50	$5.92	-$0.03
Effects of Exchange Rate	$0.00	$0.00	$0.00	$0.00
Net	**$2.69**	**$5.12**	**$2.97**	**-$1.98**
Free Cash Flows to Firm (FCF)	**-$11.82**	**-$10.38**	**-$2.95**	**-$1.95**

Source: Company, FRC

Balance Sheet

As of July 31, 2019 (fiscal Q1-2020), the company reported a cash position of $5.85 million, working capital of $5.83 million, and a current ratio of 7.19x. The company reported a total debt position of $4.33 million, which consisted of convertible debentures that mature on January 10, 2021, and February 8, 2021. These debentures bear an interest rate of 12% per annum, and are convertible into common shares at a price of $0.20 per share. In addition, the debentures include sweeteners in the form of warrants that are exercisable at $0.30 per share.

(in C$) - YE April 30th		
Liquidity & Capital Structure		Q1-2020
Cash	$	5,850,766
Working Capital	$	5,829,506
Current Ratio		7.19
LT Debt	$	3,686,556
Total Debt	$	4,333,669
LT Debt / Capital		0.16
Total Debt / Capital		0.18
Total Invested Capital	$	17,636,356

Source: Company, FRC

Stock Options and Warrants: We estimate that the company has 6.85 million stock options (weighted average exercise price of $0.39), and 73.31 million warrants (weighted average exercise price of $0.37) outstanding. None of the options and warrants are in the money.

Valuation

Discounted Cash Flow ("DCF") Valuation

Our updated DCF valuation on FinCanna's shares is $0.27 per share, versus our previous DCF valuation of $0.36 per share. The deterioration in our DCF valuation was due to the push-out of dates in which the company's portfolio companies are expected to generate royalty revenues for the company. In addition, we have assumed that CTI is not going to provide future cash flows for the company. Our DCF model is outlined below.

DCF Model	Q2-Q4:2020E	2021E	2022E	2023E	Terminal
EBIT(1-tax)	$ -1,420,447	$ 508,054	$ 1,437,737	$ 3,363,674	
Non-Cash Expenses	$ 501,242	$ 659,091	$ 982,469	$ 1,467,536	
Investment in WC	$ 110,872	$ 349,984	$ -139,826	$ -196,720	
CFO	$ -808,333	$ 1,517,129	$ 2,280,380	$ 4,634,490	
CAPEX	$ 40,831	$ -1,217,076	$ -12,335	$ -12,335	
FCF	$ -767,502	$ 300,053	$ 2,268,045	$ 4,622,155	$ 4,760,820
PV	$ -711,544	$ 241,893	$ 1,589,930	$ 2,817,559	$ 24,184,048

Discount Rate		15%
Terminal Growth Rate		3%
Total PV	$	28,121,886
Cash - Debt	$	1,517,097
Equity Value	$	29,638,983
Shares O/S (dil)		108,689,734
Fair Value	**$**	**0.27**

Source: FRC

Comparables Valuation

Our updated comparables valuation is outlined below. To reiterate from our initiating report, we believe that a comparable business model is the mining royalty investment business model. The updated average price-to-book ("P/B") multiple of comparables is 2.02x compared to the previous P/B multiple of 1.97x

Company	P/B
Franco-Nevada Corp.	3.80
Wheaton Precious Metals Corp.	2.40
Osisko Gold Royalties Ltd.	1.20
Labrador Iron Ore Royalty Corp.	2.50
Sandstorm Gold Ltd.	2.20
Altius Minerals Corp.	1.29
Cobalt 27 Capital Corp.	0.73
Maverix Metals Inc.	2.07
Average	**2.02**

Source: S&P Capital IQ, FRC

Based on a P/B of 2.02x, we value FinCanna at $0.42 per share (previously $0.43 per share). Note that the company's book value used in the computation has been adjusted to include remaining funding. Although the P/B multiple improved, our valuation on FinCanna's shares on a P/B multiple basis is lower due to a lower book value.

Our updated valuation on FinCanna is $0.34 per share. This is the average of our models above and compares to our previous valuation of $0.39 per share. We are maintaining a BUY rating. The company has indicated to us that their primary focus at the moment is generating cash flows from their current portfolio and do not intend to originate new deals until that time.

Risks

We believe the company is exposed to the following risks (list is non-exhaustive):

- Cannabis is illegal at the federal level in the U.S. Though it is legal at the state level in some capacity in most U.S. states, the illegality of cannabis federally still poses significant risk to cannabis businesses and the operations of the company's investee. Risks can include changing legislation.
- The company is currently involved in a lawsuit, which could affect future financial performance of the company.
- Access to capital and share dilution.
- Liquidity risk.
- Exchange rate risk.

We are maintaining our risk rating of 4 (Speculative).

Appendix

BALANCE SHEET (in C$) - YE April 30th	2018	2019	2020E	2021E
ASSETS				
CURRENT				
Cash and Cash Equiv.	2,716,030	7,832,298	5,163,295	1,533,784
A/R		418,260	344,937	631,613
Inventory				
GST	68,434			
Prepaids	517,892	598,910	431,171	421,075
Subscriptions Receivable	11,100			
Loans Receivable		53,343	53,343	53,343
Advance to Suppliers				
Related Parties				
Total Current Assets	**3,313,456**	**8,902,811**	**5,992,745**	**2,639,815**
PPE + ROU Asset		61,674	61,674	61,674
Profit Sharing Agreement	758,478	758,478	758,478	758,478
Loan	8,047,696	6,359,934	6,359,934	6,359,934
Royalty Investments	1,013,100	8,326,372	9,471,609	9,471,609
Total Assets	**13,132,730**	**24,409,269**	**22,644,440**	**19,291,510**
LIABILITIES				
CURRENT				
A/P	402,352	364,537	215,585	842,150
Convertible Debt		526,573	4,785,000	
Lease Liability				
Total Current Liabilities	**402,352**	**891,110**	**5,000,585**	**842,150**
Convertible Debt		3,746,701		
Lease Liability			207,603	207,603
Total Liabilities	**402,352**	**4,637,811**	**5,208,188**	**1,049,753**
SHAREHOLDERS EQUITY				
Share Capital	23,041,484	29,135,454	29,135,454	29,135,454
Reserves	2,909,757	3,646,688	4,077,859	4,724,615
Convertible Debt (Equity)				
Deficit	(13,220,863)	(13,010,684)	(15,777,061)	(15,618,312)
Total shareholders' equity (deficier	**12,730,378**	**19,771,458**	**17,436,252**	**18,241,757**
Total Liabilities and Shareholders	**13,132,730**	**24,409,269**	**22,644,440**	**19,291,510**

STATEMENTS OF OPERATIONS				
(in C$) - YE April 30th	2018	2019	2020E	2021E
Revenues	838,148	1,882,687	862,342	4,210,751
COGS				
Revenues	**838,148**	**1,882,687**	**862,342**	**4,210,751**
EXPENSES				
SG&A Expense	4,116,059	2,981,443	2,039,783	2,855,696
Share-based Compensation	1,459,878	634,249	431,171	646,756
EBITDA	**(4,737,789)**	**(1,733,005)**	**(1,608,612)**	**708,299**
Depreciation & Amortization		15,419	71,839	12,335
EBIT	**(4,737,789)**	**(1,748,424)**	**(1,680,451)**	**695,964**
Financing Costs		128,054	574,200	478,500
EBT	**(4,737,789)**	**(1,876,478)**	**(2,254,651)**	**217,464**
Non-Recurring Expenses	7,957,750	-2,086,657		
Taxes				58,715
Net Profit (Loss)	**(12,695,539)**	**210,179**	**(2,254,651)**	**158,749**
FOREX Translation Adj.				
Comprehensive Net Profit (Loss)	**(12,695,539)**	**210,179**	**(2,254,651)**	**158,749**
Shares outstanding	41,537,409	94,369,899	98,689,734	98,689,734
EPS	$ -0.31	$ 0.00	$ -0.02	$ 0.00

STATEMENTS OF CASH FLOWS (in C$) - YE April 30th	2018	2019	2020E	2021E
OPERATING ACTIVITIES				
Net Profit for the Year	(12,695,539)	210,179	(2,254,651)	158,749
Adjusted for items not involving cash:				
Amortization		15,419	71,839	12,335
Interest Income on Loan	(838,148)	(1,245,015)		
Restructuring Fee		(1,619,006)		
Penalties		(263,130)		
Profit sharing income		(374,542)		
FOREX	50,975	(359,194)		
Finance Expense on Loan		36,500		
Listing Expense	7,888,398			
SBC	1,459,878	634,249	431,171	646,756
Accretion on debt and lease liability				
Shares for Services	21,000			
Shares for Finders Fees				
Funds From Operations	**(4,113,436)**	**(2,964,540)**	**(1,751,641)**	**817,840**
Change in working capital				
A/R		24,716	73,323	(286,676)
GST	(57,881)			
Prepaids	(494,525)	(81,018)	167,739	10,096
A/P	305,989	(37,815)	(148,952)	626,565
Deferred Charges				
NET CASH USED IN OPERATIN(	**(4,359,853)**	**(3,058,657)**	**(1,659,530)**	**1,167,824**
INVESTING ACTIVITIES				
PPE		(77,093)	(71,839)	(12,335)
Cash on RTO	432,488			
Loans	(6,878,701)	(53,343)		
Royalties	(1,013,100)	(7,193,272)	(1,145,237)	
NET CASH USED IN INVESTING	**(7,459,313)**	**(7,323,708)**	**(1,217,076)**	**(12,335)**
FINANCING ACTIVITIES				
Equity Issue	15,050,091	6,350,087		
Subscription		11,100		
Subscriptions Received in Advance				
Issue Costs	(1,674,015)	(863,661)		
Convertible Debt		4,785,000		(4,785,000)
Proceeds from loan repayment		5,174,107		
Exercise of Options				
Exercise of Warrants	1,131,170	42,000		
Exercise of Agent's Options				
Lease Payments			207,603	-
NET CASH FROM FINANCING A	**14,507,246**	**15,498,633**	**207,603**	**(4,785,000)**
Foreign Exchange / Others				
INCREASE IN CASH FOR THE Y.	**2,688,080**	**5,116,268**	**(2,669,003)**	**(3,629,510)**
CASH, BEGINNING OF THE YEAI	27,950	2,716,030	7,832,298	5,163,295
CASH, END OF THE YEAR	**2,716,030**	**7,832,298**	**5,163,295**	**1,533,784**

For details on FinCanna's disclaimer and Forward Looking Statements please visit:https://www.fincannacapital.com/corporate/forward-looking-statement/

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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