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Fundamental Research Corp.
Investment Analysis for Intelligent Investors

December 6, 2018

Plus Products Inc. (CSE: PLUS) – Initiating Coverage: Exposure to High Growth California Cannabis Edibles Space

Sector/Industry: Cannabis **www.plusproducts.com**

Market Data (as of December 6, 2018)

Current Price	**C$4.31**
Fair Value	**C$7.99**
Rating*	**BUY**
Risk*	**4**
52 Week Range	N/A
Shares O/S	39,295,349
Market Cap	C$169.36 M
Current Yield	N/A
P/E (forward)	N/A
P/B	32.06x
YoY Return	N/A
YoY CSE	-42.08%

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

Highlights

- Plus Products Holdings Inc. ("Plus Products", "company") is a cannabis edibles manufacturer based in California. In Q3-2018, the company was ranked as the top-selling manufacturer of edibles in the state (by market share).
- The Californian cannabis market is forecasted to have $3.7 billion in annual sales in 2018. Based on a 16% edibles market share, we estimate the Californian edibles market at $592 million.
- The company intends to grow existing manufacturing capacity by an additional 120,000 square-feet, which is forecasted to support $450 million in additional revenues.
- The company's management and board of directors is comprised of individuals with experience at blue-chip companies and large publicly-traded cannabis corporations.
- **We are initiating coverage with a BUY rating and a fair value estimate of C$7.99 per share.**

Risks

- Cannabis is illegal at the federal level in the U.S., posing significant risk to investors in the case of federal governmental intervention.
- Cannabis businesses in the U.S. face difficulty raising capital due to lack of bank lending.
- Contamination and other biological risks associated with cannabis business.
- Access to capital and share dilution risk.
- Exchange rate risk.
- Illiquidity risks.

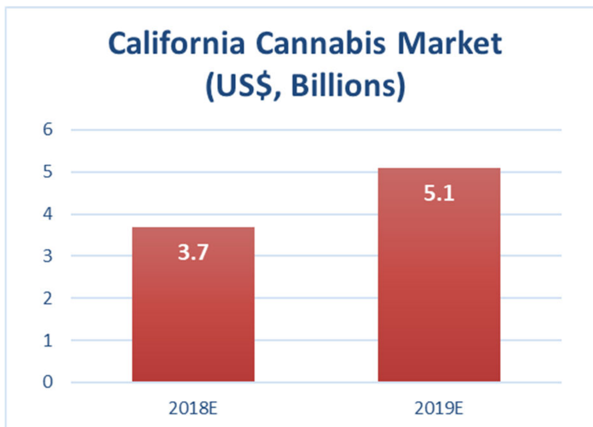
Key Financial Data (FYE - DEC 31) (US$)	2017	2018E	2019E
Cash	$ 150,122	$ 13,682,615	$ 5,859,417
Working Capital	$ -56,382	$ 15,116,790	$ 8,216,258
Assets	$ 1,821,500	$ 22,943,958	$ 18,118,023
Total Debt	$ 600,000	$ -	$ -
Revenues	$ 1,070,256	$ 7,518,302	$ 15,036,603
Net Income	$ -3,056,206	$ -6,125,538	$ -7,474,461
EPS (basic)	$ -0.27	$ -0.16	$ -0.19

Company Overview

Plus Products is a branded cannabis edibles manufacturer operating in the U.S. state of California, considered to be one of the largest cannabis markets in the world, and projected to be the largest cannabis consuming state in the U.S. **Despite their relatively brief operating history, the company already has the top edibles brand in the state by sales.** The company, which is poised to enter a rapid growth stage with several notable catalysts on the horizon, recently completed an IPO, and listed on the CSE. In addition to an existing manufacturing facility in Adelanto, California, the company has raised funds to acquire, or build, a new manufacturing facility and expand their total production capacity. Against this backdrop of rapid growth and growing market share, the company is ramping up production and preparing to solidify their operations in the California cannabis market.

Cannabis in California

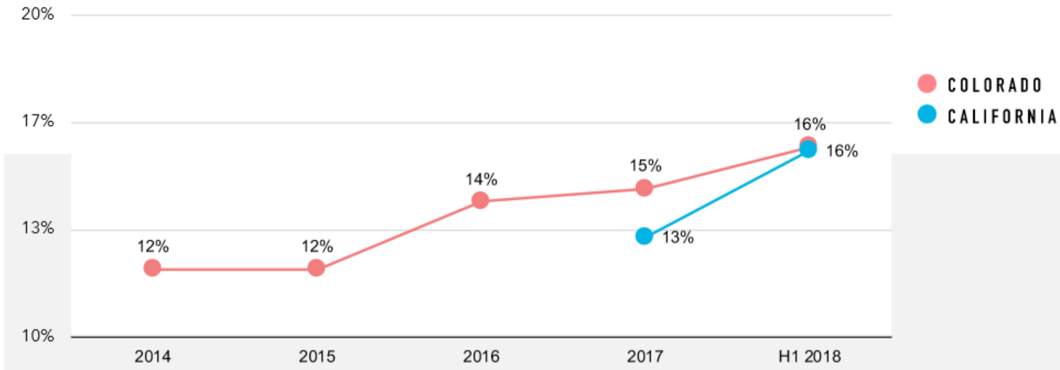
California made the full adult use of cannabis legal at the beginning of 2018, joining the continuously increasing list of U.S. states where cannabis is legalized at the state level. Despite only recently having legalized the full adult use of cannabis, a strong cannabis culture, and a large population, has made California one of the largest cannabis markets in the world by value, with outsized growth expected to continue. According to Arcview Market Research and BDS Analytics, the cannabis market is expected to reach $3.7 billion in value by the end of 2018, before growing 37.84% to $5.1 billion by the end of 2019.



Source: Arcview Market Research, BDS Analytics, FRC

Within the Californian cannabis market, one of the highest growing market segments is the edibles market. This follows market trends in more mature cannabis markets such as Colorado, where the edibles market has continuously grown since legalization in 2014, to represent a larger share of overall retail sales of cannabis products. Given that the Canadian medical cannabis market data has also demonstrated a shift in popularity from dried product to cannabis oils and extracts, we conclude that in general, processed forms of cannabis products are likely to become increasingly popular products over time in most legal cannabis jurisdictions. Assuming a 16% share (based on the below chart) of a total cannabis market of $3.7 billion in 2018, we believe that the Californian cannabis edibles market could post as much as $592 million in sales in 2018.

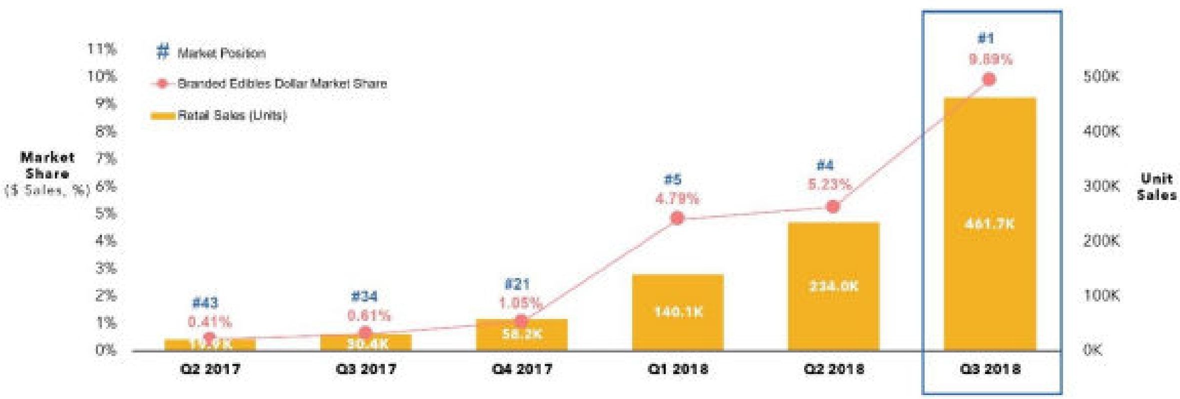
Edibles Sales as a Percentage of Retail Sales



Source: BDS Analytics, Company

Apart from operating in one of the fastest growing segments in one of the largest cannabis markets globally, the company also boasts a rapidly increasing market share. **BDS Analytics reported that Plus became the number one best-selling cannabis-infused edibles brand in California for Q3-2018, with unit sales growing 97% QoQ. The company had a market share of 9.89%, according to BDS Analytics.** The company was previously in fourth place during Q2-2018.

Plus Retail Sales (Units) and Market Share ($) Over Time



Source: BDS Analytics, Company

Product Portfolio

With regards to their product offerings, Plus Products currently sells a single product line of cannabis-infused gummy candies, with products within the line differing in flavor. The company's four primary flavors, which are offered year-round, include:

- Restore (blackberry and lemon): contains 90 mg of THC and 10 mg of CBD per container.
- Uplift (sour watermelon): contains 100 mg of THC and 0 mg of CBD per container.
- Create (sour blueberry): contains 100 mg of THC and 0 mg of CBD per container.
- CBD Relief (Pineapple and coconut): Contains less than 2 mg of THC and 100 mg of CBD per container.

Plus Products Restore, Uplift and CBD Relief Gummy Candies

Source: Company

On occasion, the company will introduce new limited-edition flavors such as vanilla & rose or rainbow sorbet, but these products are not mainstays of the company's product line. The company's products are packaged in aluminum tins and contain 20 servings with approximately 5 mg of cannabinoids per serving. We believe that each serving is approximately 20 grams in net weight. With regards to retail pricing (the company sells their product wholesale to a single distributor, which we discuss below), we believe that the company's products will exhibit differing prices depending on the retailer. However, according to Eaze.com, a legal online cannabis delivery platform, Plus Product's candies were selling for $16 per container.

Supply

Raw cannabis materials used in the production of Plus Products' goods are sourced from California Refined Essentials ("CRE") Cooperative, with whom the company maintains a non-exclusive supply agreement. CRE is a fully licensed cannabis products manufacturer under California state laws. Under the terms of their supply agreement with Plus Products, CRE provides raw materials, extraction and processing of cannabis, allowing for the infusion of cannabinoids into gummy candies. At current, CRE is the only supplier to Plus Products, with the company reporting that this is to ensure product and cost consistency. With regards to pricing, the company reported that in the first half of 2018, they had used approximately 100 kg of cannabis oil costing $0.45 million, for an average cost per gram of cannabis oil of $4.50. Though the company currently maintains a single supplier, as they look to expand their production capacity, their supply base may change to accommodate growing raw material demands. In this situation, accommodating increasing production may lead to a change in the company's cost profile, due to a potential increase in the number of suppliers contracted and the prices paid to source cannabis oils.

Distribution

With regards to sales channels and distribution, the company does not maintain retail storefronts, and currently sells their product wholesale to a single licensed distributor, who sells the company's products under their PLUS™ brand to over 200 licensed dispensaries and delivery service customers. The distributor is Calyx Brands Inc. ("Calyx"), an unrelated company, who under their agreement with Plus Products, have agreed to provide warehousing, transportation and brand promotion services in relation to the company's products.

Manufacturing Facilities and Production Capacity

In order to manufacture their products, the company aims to lease, or otherwise own, dedicated production facilities designed to infuse gummies with cannabinoids and refine them into finished candy products. **At current, Plus Products leases and operates a 12,000 square-foot manufacturing facility located in Adelanto, California, on which they signed the lease in July 2017.** Carberry, the subsidiary of the company that handles manufacturing at the Adelanto facility, was issued a Type 7 Temporary Manufacturing License for Medical Cannabis Products by the State in December 2017. This license permits the extraction and infusion of cannabinoids, and the packaging and labelling of cannabis products. Operations at the Adelanto facility began on December 3, 2017.

According to the company, the term of the lease ends July 25, 2020, and management have indicated that upon expiration of the lease, they will seek a lease extension if planned facilities are not complete. Prior to leasing the Adelanto facility, the company had operated out of a facility in Oakland, California, which supported previous operations. **The Adelanto facility, which includes one building housing two production lines, is capable of producing up to $50 million worth of products.**

Moving forward, the company intends to capitalize on their growing market share by significantly increasing their production capacity. As mentioned earlier, the company currently operates a 12,000 square-foot facility with the manufacturing capacity to support $50 million in annual revenues. However, the company has disclosed their intention to acquire additional manufacturing capacity, which should complement, and potentially replace the Adelanto facility, upon expiration of the current lease, though management have not confirmed this assumption. **Management have plans to increase their square-footage and manufacturing capacity by an additional 120,000 square-feet, yielding a potential $450 million in additional production capacity.**

The expansion is expected be completed via a three-phase build-out, with each phase comprising 40,000 square-feet, three production lines and an additional $150 million per annum in expected production capacity. Though phase one is expected to be completed before March 2020, management do not anticipate that phases two or three will be started prior to 2020. **Based on management's guidance, we expect the CAPEX for each phase to total $5 million, for total CAPEX for the full 120,000 square-feet build-out of $15 million.** The following table outlines the company's expansion plan.

KEY PARAMETERS	CURRENT	PHASE I		PHASE II		PHASE III
Square Feet	12,000	40,000	+	40,000	+	40,000
Production Line Capacity (Number of Lines)	2	3	+	3	+	3
Annual Production Capacity (Incremental, USD)	$50M	$150M	+	$150M	+	$150M

Source: Company

Based on the run-rate projected above, it is possible that the company may be able to fund future phases through cash flows, especially if the company is able to realize actual topline equal to expected production capacity. In the event that they choose to fund the expansion via equity or debt, it is likely that the company will go back to the market to raise required funds, unless cannabis is legalized in the U.S. at the federal level. Because of the unique regulatory environment, Plus Products is unlikely to be able to raise bank debt, leading us to believe that future raises may be necessary. As an alternative, the company may be able to attract debt from non-bank sources, but this is likely to carry a high interest-rate relative to other rates available in the market.

Regardless of the potential dilution, the expansion of the company's manufacturing capacity is likely to lead to an increase in market share held by the company. Earlier in this report, we had reported that the California cannabis market is estimated to reach $5.1 billion in 2019. Assuming that the edibles segment continues to represent 16% of this market, the edibles segment in 2019 may reach $816 million. **With only existing production capacity, and phase one production capacity of $200 million, the company could potentially grow to capture almost a quarter of the projected California edibles market, up from their present estimated market share of less than 10%.** Note that this assumes that the company will realize topline sales equal to their total production capacity, which is not guaranteed, especially if there is a growth in competitive forces and entry of new competing products.

Go Public Transaction

In order to fund phase one of their expansion plan, and unlock value in the Canadian markets, Plus Products completed an IPO for gross proceeds of C$20 million, issuing 6.15 million shares at a price of C$3.25 per share. The IPO took place on October 26, 2018, with the company listing on the CSE under the ticker PLUS. The following table outlines the company's expected use of the proceeds from the IPO, adjusted for finder's fees and exchange rates:

Use of Proceeds	Amount
Listing on the CSE	$75,000
Production expansion and other capital expenditures	$5,850,000
Strategic partnerships and sales and marketing expenses	$2,209,000
General and administrative expenses [(1)]	$3,799,000
Unallocated working capital	$2,525,279
Total	**$14,458,279**

Notes:
(1) General and administrative costs are broken down as follows: (i) personnel costs ($1,776,000), (ii) professional fees ($780,000), and (iii) rent, travel, supplies and other G&A ($1,243,000).

Source: Company

Future equity raises may be required to fund phases two and three of the planned manufacturing facilities. Furthermore, depending on the ability of the company to streamline operational expenses and generate positive free cash flow before this period, additional raises may be required to fund working capital.

Management Overview

The company's Board of Directors has four members, two of which are independent. **Management currently owns 8.82 million common shares, or approximately 22.46% of the shares outstanding – aligning their interest with investors.**

Craig Heimark	Position	Common Shares	% of Total
Jacob Heimark	CEO & Director	4,120,000	10.48%
Craig Heimark	CFO & Director	4,525,000	11.52%
Matthew Schmidt	Director	54,100	0.14%
Serafino Posa	Director	125,000	0.32%
		8,824,100	**22.46%**

Source: FRC, Prospectus

Brief biographies of the senior management and board members, as provided by the company, follow:

Jacob Heimark – CEO & Director

Mr. Heimark has worked in regulated industries for his entire career of 7 years. Prior to founding the Company, he worked in scaling payment technology as a product manager with Gumroad and in risk management with Facebook. He earned a B.S. in Human Biology and an B.A. in Economics from Brown University in 2011.

Craig Heimark – Chairman, CFO, & Corporate Secretary

Craig F. Heimark is currently the managing partner of the Hawthorne Group LLC, a strategic advisory firm founded in 1997 focused on consulting to high growth information technology and financial companies. Prior to joining the Company, Mr. Heimark was chairman and founder of CohesiveFT, a company that enables enterprises to build new and migrate existing applications to the cloud. He also served as a director for Avistar, Inc. Additionally, Mr. Heimark served for over a decade as Supervisory Board member of Deutsche-Börse AG (Frankfurt) where he chaired the Technology Committee. Prior to that, Mr. Heimark was a member of the Executive Board of Swiss Bank Corporation (now UBS) where he served as CIO and Head of Strategic Planning. Mr. Heimark began his career in Chicago where he was a General Partner of O'Connor and Associates, a proprietary options trading firm. Mr. Heimark holds a B.A. in Economics and a B.S. in Biology from Brown University.

Jennifer Tung– Chief Risk Officer

As Legal Director for Payments at Uber, Jennifer Tung was responsible for end-to-end legal support of payments products in the Americas, EMEA (Europe, the Middle East and Africa), and APAC (Asia-Pacific). Prior to joining Uber, she was Lead Counsel for Commerce and Payments at Facebook, where she supported the product, policy, and business development teams and handled regulatory affairs for the company payments subsidiary. Before working in the tech sector, Jennifer practiced at Hunton & Williams as a commercial and securities litigator. A native of Maryland, Jennifer received her J.D from Harvard Law School, and graduated Phi Beta Kappa with a B.A. in Sociology from Stanford University.

Matthew Schmidt – Director

Mr. Schmidt is currently Executive Vice President for Corporate Development of The Green Organic Dutchman Holdings Ltd. ("TGOD"), a licensed producer of cannabis product based in Toronto, Canada, a position he has held since January 2017. Prior to joining TGOD, Mr. Schmidt worked as an investment banker, most recently as Vice President of Investment Banking at Echelon Wealth Partners, a leading independent wealth management and capital markets firm located in Toronto. Prior to Echelon, Mr. Schmidt was Vice President at Pope & Company, Ltd., an independent full-service financial services firm located in Toronto, where he worked as an investment banker from 2007 through 2015. Mr. Schmidt holds a Bachelor's of Commerce Degree from the University of Windsor and a Master of Business Administration from Wilfrid Laurier University.

Serafino Posa – Director

Mr. Posa is currently a member of the board of directors of Perdue Farms, where he serves as chair of its audit committee and formerly the chair of its compensation committee. He also serves on the board of directors of several private companies in which he has invested. Previously, Mr. Posa worked for over 30 years managing a large number consumer products brands at The Quaker Oats Company, Kraft Foods, Polaroid and Gillette. He began his career in marketing/brand management and progressed into general management roles with global responsibilities. After retiring from Gillette, Mr. Posa transitioned into investing in early stage consumer companies, with emphasis on companies with new and innovative technologies. Mr. Posa organized a small group of senior consumer product executives and formed a company to identify and launch startup companies. The first company, HCI LLC, was launched in 2017 and Mr. Posa is the Chairman and CEO of the company. The company has introduced a non-toxic cleaning and disinfecting system under the Force of Nature brand name. Mr. Posa holds a BA in economics from Brown University and a MBA from the University of Chicago.

Financials

The company reported revenues of $5.01 million for the first nine months of 2018, versus revenue of $0.69 million during the same period in 2017, reflecting revenue growth of 631.55% YoY. For Q3-2018 (quarter ended September 30, 2018), revenues were $2.56 million, growing 617.88% YoY. The significant increase in sales was due to the legalization of cannabis for full adult use in California, which resulted in a large increase in cannabis sales state-wide. Prior to this, cannabis was legal for medical use, and as such, sales of cannabis goods were made only to registered patients. Revenues for the first six months of 2018 were also significantly larger than full year revenue of $1.07 million in 2017.

The table below outlines the company's consolidated income statements:

STATEMENTS OF OPERATIONS					
(in US$) - YE Dec 31st	**2017**	**Q3-2017**	**Q3-2018**	**2017 (9M)**	**2018 (9M)**
Revenue	1,070,256	356,865	2,561,866	685,151	5,012,201
COGS	1,556,185	528,923	2,175,525	1,007,585	4,328,605
Gross Profit	**(485,929)**	**(172,058)**	**386,341**	**(322,434)**	**683,596**
EXPENSES					
SG&A Expense	2,408,832	993,002	1,801,071	1,279,417	3,847,121
Share-based Compensation	56,520	38,520	255,697	38,520	518,947
EBITDA	**(2,951,281)**	**(1,203,580)**	**(1,670,427)**	**(1,640,371)**	**(3,682,472)**
Depreciation & Amortization	434	1,530	292	1,530	877
EBIT	**(2,951,715)**	**(1,205,110)**	**(1,670,719)**	**(1,641,901)**	**(3,683,349)**
Financing Costs	58,417	13,551	6,645	48,181	32,987
EBT	**(3,010,132)**	**(1,218,661)**	**(1,677,364)**	**(1,690,082)**	**(3,716,336)**
Non-Recurring Expenses	46,074				-3
Taxes			118,472		205,079
Net Profit (Loss)	**(3,056,206)**	**(1,218,661)**	**(1,795,836)**	**(1,690,082)**	**(3,921,412)**

Source: FRC, Financial Statements

Gross margins increased in the first nine months of 2018 to 13.64%, compared to -47.06% in the first nine months of 2017. For Q3-2018, gross margins were 15.08%, up from -48.21% in Q3-2017. The increase in gross margin was attributed to increased sales volume and production efficiency at the company's facility.

Margins	**2017**	**Q3-2017**	**Q3-2018**	**2017 (9M)**	**2018 (9M)**
Gross	-45.40%	-48.21%	15.08%	-47.06%	13.64%
EBITDA	-275.75%	-337.26%	-65.20%	-239.42%	-73.47%
EBIT	-275.80%	-337.69%	-65.21%	-239.64%	-73.49%
Net	-285.56%	-341.49%	-70.10%	-246.67%	-78.24%
Expenses	**2017**				
SG&A	225.07%	278.26%	70.30%	186.74%	76.76%

Source: FRC, Financial Statements

Selling, General and Administrative ("SG&A") expenses grew significantly YoY to $3.85 million in the first nine months of 2018, versus $1.28 million in the first nine months of 2017. However, EBITDA margins improved on a YoY basis, from -239.42% in the first nine months of 2017, to -73.47% in the first nine months of 2018. The improvement can be attributed to the increase in revenues, which offset the increase in operating expenses. Note, however, that absolute EBITDA did deteriorate to -$3.68 million in the first nine months of 2018, versus -$1.64 million in the first nine months of 2017.

The company reported a net loss of $3.92 million in the first nine months of 2018. This compares to a net loss of $1.69 million in the first nine months of 2017. Net losses for Q3-2018 were $1.80 million versus $1.22 million for Q3-2017. Note that the share structure of the company changed significantly post-IPO, and the company's most recent financials cover periods before the IPO. As a result, we do not provide EPS numbers for the Q3-2018 period (though EPS forecasts for our projections are given).

The following table provides a summary of Plus Product' cashflows. Free cash flows ("FCF") deteriorated on a YoY basis due to a larger net loss and increased investment cashflows.

Summary of Cash Flows ($, mm)	2017 (9M)	2018 (9M)
Operating	-$1.54	-$3.62
Investing	-$0.31	-$0.61
Financing	$3.48	$15.22
Effects of Exchange Rate	$0.00	$0.00
Net	**$1.63**	**$10.99**
Free Cash Flows to Firm (FCF)	**-$1.85**	**-$4.23**

Source: FRC, Financial Statements

At the end of Q3-2018, the company had a cash position of $11.14 million and working capital of $12.33 million, as well as a current ratio of 9.19x. In addition to their strong liquidity position, the company is also debt-free.

(in US$) - YE Dec 31st Liquidity & Capital Structure		Q3-2018
Cash	$	11,142,571
Working Capital	$	12,328,486
Current Ratio		9.19
LT Debt		-
Total Debt	$	-
LT Debt / Capital		-
Total Debt / Capital		-
Total Invested Capital	$	2,600,096

Source: FRC, Financial Statements

Stock Options and Warrants: We estimate that the company has 0.91 million stock options (weighted average exercise price of $0.97) and 4.09 million warrants (weighted average exercise price of $1.72) outstanding. All the options and all the warrants are currently in the money. We estimate that the company will be able to raise up to $7.93 million if all these in the money options and warrants are exercised.

Valuation

Revenue Forecasts

Our revenue projections for Plus Product's through to 2026 are presented below:

STATEMENTS OF OPERATIONS										
(in US$) - YE Dec 31st	**2017**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**
Revenue	1,070,256	7,518,302	15,036,603	74,500,000	100,000,000	199,500,000	250,000,000	350,000,000	400,000,000	450,000,000
COGS	1,556,185	6,492,908	12,781,113	61,462,500	80,000,000	154,612,500	187,500,000	262,500,000	300,000,000	337,500,000
Gross Profit	**(485,929)**	**1,025,394**	**2,255,490**	**13,037,500**	**20,000,000**	**44,887,500**	**62,500,000**	**87,500,000**	**100,000,000**	**112,500,000**
EXPENSES										
SG&A Expense	2,408,832	5,770,682	8,656,022	10,820,028	15,959,541	31,919,082	39,898,853	47,878,623	53,863,451	57,903,210
Share-based Compensation	56,520	1,037,894	751,830	827,013	909,714	1,000,686	1,100,755	1,210,830	1,331,913	1,465,104
EBITDA	**(2,951,281)**	**(5,783,182)**	**(7,152,362)**	**1,390,459**	**3,130,744**	**11,967,732**	**21,500,393**	**38,410,547**	**44,804,636**	**53,131,686**
Depreciation & Amortization	434	1,754	322,099	330,994	564,444	561,222	783,161	769,003	755,553	742,775
EBIT	**(2,951,715)**	**(5,784,936)**	**(7,474,461)**	**1,059,465**	**2,566,300**	**11,406,510**	**20,717,232**	**37,641,544**	**44,049,083**	**52,388,911**
Financing Costs	58,417	32,987								
EBT	**(3,010,132)**	**(5,817,923)**	**(7,474,461)**	**1,059,465**	**2,566,300**	**11,406,510**	**20,717,232**	**37,641,544**	**44,049,083**	**52,388,911**
Non-Recurring Expenses	46,074	-3								
Taxes		307,619				2,851,627	5,179,308	9,410,386	11,012,271	13,097,228
Net Profit (Loss)	**(3,056,206)**	**(6,125,538)**	**(7,474,461)**	**1,059,465**	**2,566,300**	**8,554,882**	**15,537,924**	**28,231,158**	**33,036,812**	**39,291,683**

Source: FRC

Our revenue forecasts are based on the following assumptions:

- Revenue accrues (incrementally) to $450 million by the end of the forecasting period, as per the company's disclosures to the public. As a reminder to readers, we do not expect the company to extend the lease on their current facility, and as a result, maximum revenue capacity by the end of the forecasting period will be $450 million.
  - We believe that revenues of $450 million are possible by the end of the forecasting period, given accelerating cannabis legalization nationwide, as well as a high-growth, and large addressable market in California alone.
- The company's phase one expansion comes online in 2020. This reflects management's disclosure in filing statements.
- Phase two begins upon completion of phase one, and phase three begins upon completion of phase two. We believe phase two expansion will come online in 2022, and phase three expansion will come online in 2024.
- Gross margin and EBITDA margin of approximately 25% and 12% in the long-term, which we believe is reasonable given sector comparables which we have outlined in a below section of this report.
- CAPEX of $5 million per expansion phase, paid upon the beginning of construction of each phase. This results in expansion CAPEX of $5 million in 2018, $5 million in 2020, and $5 million in 2022.

Discounted Cash Flow Valuation

Our DCF valuation on Plus Product's shares is U$4.94 per share.

DCF Model	Q4-2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	Terminal
EBIT(1-tax)	$ -2,101,587	$ -7,474,461	$ 836,977	$ 2,027,377	$ 9,011,143	$ 16,366,613	$ 29,736,820	$ 34,798,776	$ 41,387,240	
Non-Cash Expenses	$ -302,383	$ 1,073,929	$ 1,158,007	$ 1,474,159	$ 1,561,908	$ 1,883,916	$ 1,979,833	$ 2,087,466	$ 2,207,879	
Investment in WC	$ 2,086,847	$ -922,666	$ 1,046,573	$ -1,103,125	$ -3,734,375	$ -3,140,625	$ -3,750,000	$ -1,875,000	$ -1,875,000	
CFO	$ -317,123	$ -7,323,198	$ 3,041,558	$ 2,398,411	$ 6,838,676	$ 15,109,904	$ 27,966,653	$ 35,011,242	$ 41,720,119	
CAPEX	$ -5,000,000	$ -500,000	$ -5,000,000	$ -500,000	$ -5,000,000	$ -500,000	$ -500,000	$ -500,000	$ -500,000	
FCF	$ -5,317,123	$ -7,823,198	$ -1,958,442	$ 1,898,411	$ 1,838,676	$ 14,609,904	$ 27,466,653	$ 34,511,242	$ 41,220,119	$ 42,456,723
PV	$ -5,290,114	$ -6,888,018	$ -1,525,957	$ 1,309,011	$ 1,121,966	$ 7,889,392	$ 13,125,730	$ 14,594,858	$ 15,426,595	$ 158,893,933

Discount Rate	13%
Terminal Growth Rate	3%
Total PV	$ 198,657,397
Cash - Debt	$ 11,142,571
Equity Value	$ 209,799,968
Shares O/S (dil)	42,459,535
Fair Value (US$)	**$ 4.94**

Source: FRC

For our discount rate, we utilized a weighted average cost of capital ("WACC") of 13%. This is based on the average return on equity ("ROE") and debt-to-capital structure exhibited by comparable sectors, including candy, confectionary products, packaged foods, food products and consumer staples. The sector comparables are outlined further below. We also used a return on debt that reflects the average rate of long-term corporate debt. An equity risk premium has also been added to the WACC, to reflect additional risk related to cannabis operations, and geopolitical risk associated with U.S. cannabis operations.

Comparables Valuation

As a U.S. focused company, we believe that Plus Products may initially be valued by investors against a basket of major U.S. cannabis stocks. **This is despite the fact that Plus Products is not a cannabis grower, and most publicly-traded cannabis companies are dedicated cultivators, or cultivation represents the majority of their operations.** The following table outlines selected comparables, and the average Enterprise-Value-to-Square-Foot ("EV/ Sq-Ft") metrics for the selected comparables:

Company	Ticker	Facility Area (SQ-FT)	EV (C$)	MC (C$)	EV/ SQ-FT	P/ SQ-FT
Plus Products Inc.	CSE: PLUS	132,000	$ 275,066,180	$ 278,211,071	$ 2,084	$ 2,108
Sunniva Inc.	CSE: SNN	1,248,000	$ 181,383,000	$ 175,565,000	$ 145	$ 141
MedMen Enterprises Inc.	CSE: MMEN	135,000	$2,776,329,000	$2,691,795,000	$ 20,565	$ 19,939
Green Thumb Industries Inc.*	CSE: GTII	215,000	$2,436,149,000	$2,523,207,000	$ 11,331	$ 11,736
High Hampton Holdings Corp.	CSE: HC	254,000	$ 23,079,000	$ 42,711,000	$ 91	$ 168
Friday Night Inc.*	CSE: TGIF	67,750	$ 87,963,000	$ 98,740,000	$ 1,298	$ 1,457
Cannex Capital Holdings Inc.	CSE: CNNX	60,000	$ 111,932,000	$ 117,757,000	$ 1,866	$ 1,963
Liberty Health Sciences Inc.	CSE: LHS	160,000	$ 374,017,000	$ 403,418,000	$ 2,338	$ 2,521
Liht Cannabis Corp.*	CSE: MDM	420,000	$ 63,854,000	$ 61,795,000	$ 152	$ 147
MPX Bioceutical Corp.*	CSE: MPX	553,300	$ 874,331,000	$ 834,629,000	$ 1,580	$ 1,508
Average					**$ 4,145**	**$ 4,169**

**indicates that we have estimated production capacity at 80 grams per square-foot due to lack of information*

Source: FRC

Based on the above table, the company's implied enterprise value ("EV") would be $547.14 million on a square-footage basis. Whilst the company is not a dedicated cannabis cultivator, we believe that until the market matures, and companies with similar business models to Plus Products become publicly-traded, Plus Products is likely to be valued in a similar manner to dedicated cannabis producers with operations in the U.S.

Whilst this is a likely outcome, we do not believe that this trend is likely to hold in the long-term. This belief is supported by the fact that Plus Products business model is fundamentally different to that of a conventional cannabis grower. Plus Products does not focus on the raw cannabis material, and instead is focused on the manufacturing of finished infused goods. **For this reason, we believe a more appropriate way of valuing Plus Products on a comparables basis is to value Plus Products as a consumer-packaged goods and food products company.** The following table outlines several sectors which we believe the company's business model corresponds to in the long-term, and various important metrics.

Sector	Gross Margin	EBITDA Margin	Net Margin	EV/R	EV/EBITDA	P/E	D/C	ROE
Consumer Staples	27.80%	14.20%	7.20%	1.40	11.90	18.60	35.40%	15.30%
Food Products	25.20%	15.00%	6.60%	1.40	12.00	18.10	41.50%	10.10%
Packaged Foods	25.70%	13.60%	7.00%	1.50	12.10	18.30	40.10%	11.00%
Confectionary Products	27.40%	13.20%	4.40%	2.20	13.90	25.20	37.60%	13.00%
Candy	30.70%	10.80%	4.40%	2.30	14.00	21.10	39.40%	12.70%
Average	**27.36%**	**13.36%**	**5.92%**	**1.76**	**12.78**	**20.26**	**38.80%**	**12.42%**

Source: FRC, Capital IQ

Based on the above sector comparables, and the income statement projections we outlined further above, we value the company at $307.55 million on an EV/R basis and $265.27 million on an EV/EBITDA basis. This implies a fair value of $7.24 per share on an EV/R basis and $6.25 per share on an EV/EBITDA basis. Our comparables valuation model is outlined below:

Comparables Valuation					
2026 Forecast (Gross Revenues)	$	450,000,000	2026 Forecast (EBITDA)	$	53,131,686
Average EV/ Revenue		1.76	Average EV/ EBITDA		12.78
Expected EV (US$)	$	792,000,000	Expected EV (US$)	$	679,022,947
Discounted EV (US$)		$296,405,346	Discounted EV (US$)		$254,123,777
Expected Market Cap (US$)		$307,547,917	Expected Market Cap (US$)		$265,266,348
Value per Share (US$)	**$**	**7.24**	**Value per Share (US$)**	**$**	**6.25**

Source: FRC

Based on our review of the company's business model, the quality of the management team, and their execution plan, and our valuation models, we are initiating coverage on Plus Products with a BUY rating and a fair value estimate of C$7.99 per share. This is the average of all three of our valuations, $6.14 per share, converted at a USD/CAD exchange rate of C$1.30.

Risks

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

- The company operates in an industry that is highly regulated and subject to material change from governmental intervention.
- Cannabis is illegal at the federal level in the U.S. This makes the cannabis businesses in California potentially vulnerable to federal prosecution, though current conventions allow for U.S. state governments to enforce their own state cannabis laws.
- We believe there is an inherent discount required to account for risks related to the legal status of cannabis in the U.S. This may cause a basket of operationally identical U.S. cannabis stocks to trade at a lower valuation relative to Canadian cannabis stocks.

- Equity and debt financing may difficult to raise due to existing risks for U.S. cannabis businesses. Equity raises may call for significant discounts to market price (dilution) and debt raises may be done at a high interest-rate relative to market rates, impacting profitability and resulting returns for investors.
- No guarantee that the company will be able to sell the entirety of their production capacity, which would impact our valuation.
- Contamination risk and other risks associated with cannabinoid production.
- Access to capital and share dilution.
- Liquidity risk.
- Exchange rate risk and difference in investor's time horizon.

We are initiating coverage with a risk rating of 4 (Speculative).

Appendix

STATEMENTS OF OPERATIONS (in US$) - YE Dec 31st	2017	2018E	2019E	2020E
Revenue	1,070,256	7,518,302	15,036,603	74,500,000
COGS	1,556,185	6,492,908	12,781,113	61,462,500
Gross Profit	**(485,929)**	**1,025,394**	**2,255,490**	**13,037,500**
EXPENSES				
SG&A Expense	2,408,832	5,770,682	8,656,022	10,820,028
Share-based Compensation	56,520	1,037,894	751,830	827,013
EBITDA	**(2,951,281)**	**(5,783,182)**	**(7,152,362)**	**1,390,459**
Depreciation & Amortization	434	1,754	322,099	330,994
EBIT	**(2,951,715)**	**(5,784,936)**	**(7,474,461)**	**1,059,465**
Financing Costs	58,417	32,987		
EBT	**(3,010,132)**	**(5,817,923)**	**(7,474,461)**	**1,059,465**
Non-Recurring Expenses	46,074	-3		
Taxes		307,619		
Net Profit (Loss)	**(3,056,206)**	**(6,125,538)**	**(7,474,461)**	**1,059,465**
Net Profit (Loss) to Shareholders	**(3,056,206)**	**(6,125,538)**	**(7,474,461)**	**1,059,465**
Shares outstanding	11,532,228	39,295,349	39,295,349	39,295,349
EPS	$ -0.27	$ -0.16	$ -0.19	$ 0.03

BALANCE SHEET (in US$) - YE Dec 31st	2017	2018E	2019E	2020E
ASSETS				
CURRENT				
Cash and Cash Equiv.	150,122	13,682,615	5,859,417	4,123,462
A/R	329,696	1,503,660	3,007,321	7,450,000
Inventory	307,941	1,127,745	2,255,490	7,450,000
Prepaids	81,000	187,958	375,915	1,862,500
Related Parties	115,709	-	-	-
Total Current Assets	**984,468**	**16,501,979**	**11,498,143**	**20,885,962**
Deposits	20,649			
PPE	816,383	6,441,979	6,619,880	11,288,886
Total Assets	**1,821,500**	**22,943,958**	**18,118,023**	**32,174,848**
LIABILITIES				
CURRENT				
A/P	440,850	1,298,582	3,195,278	15,365,625
Income Taxes Payable		86,607	86,607	86,607
Notes Payable	600,000	-	-	-
Total Current Liabilities	**1,040,850**	**1,385,189**	**3,281,885**	**15,452,232**
Total Liabilities	**1,040,850**	**1,385,189**	**3,281,885**	**15,452,232**
SHAREHOLDERS EQUITY				
Share Capital	4,073,099	30,586,938	30,586,938	30,586,938
Shares to be Issued	648,076			
Reserves		1,037,894	1,789,724	2,616,737
Deficit	(3,940,525)	(10,066,063)	(17,540,524)	(16,481,059)
Total shareholders' equity (deficiency)	**780,650**	**21,558,769**	**14,836,138**	**16,722,616**
Total Liabilities and Shareholders Equity	**1,821,500**	**22,943,958**	**18,118,023**	**32,174,848**

STATEMENTS OF CASH FLOWS (in US$) - YE Dec 31st	2017	2018E	2019E	2020E
OPERATING ACTIVITIES				
Net Profit for the Year	(3,056,206)	(6,125,538)	(7,474,461)	1,059,465
Adjusted for items not involving cash:				
Amortization	23,927	1,754	322,099	330,994
Share-based Compensation	56,520	1,037,894	751,830	827,013
Bad Debt	46,074			
Consulting Fees	648,076			
Loss on Asset Disposal				
Interest Expense	58,417			
Funds From Operations	**(2,223,192)**	**(5,085,890)**	**(6,400,532)**	**2,217,472**
Change in working capital				
A/R	(359,122)	(1,173,964)	(1,503,660)	(4,442,679)
Prepaids	(58,609)	(106,958)	(187,958)	(1,486,585)
Inventory	(272,901)	(819,804)	(1,127,745)	(5,194,510)
A/P	357,074	857,732	1,896,697	12,170,347
Income Tax Payable		86,607	-	-
Related Parties	(88,872)	115,709	-	-
NET CASH USED IN OPERATING ACTIVITIES	**(2,645,622)**	**(6,126,569)**	**(7,323,198)**	**3,264,045**
INVESTING ACTIVITIES				
PPE	(820,561)	(5,606,701)	(500,000)	(5,000,000)
NET CASH USED IN INVESTING ACTIVITIES	**(820,561)**	**(5,606,701)**	**(500,000)**	**(5,000,000)**
FINANCING ACTIVITIES				
Proceeds from Loans	200,000			
Repayment of Loans	(91,600)	(600,000)		
Share Buyback	(12,000)			
Equity Issue	3,251,479	25,865,763		
NET CASH FROM FINANCING ACTIVITIES	**3,347,879**	**25,265,763**	**-**	**-**
Foreign Exchange / Others				
INCREASE IN CASH FOR THE YEAR	**(118,304)**	**13,532,493**	**(7,823,198)**	**(1,735,955)**
CASH, BEGINNING OF THE YEAR	268,426	150,122	13,682,615	5,859,417
CASH, END OF THE YEAR	**150,122**	**13,682,615**	**5,859,417**	**4,123,462**

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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