Fundamental Research Corp.
Investment Analysis for Intelligent Investors

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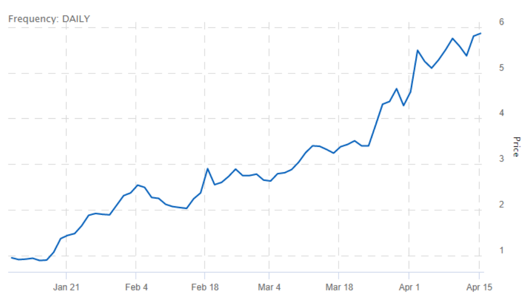
TransCanna Holdings Inc. (CSE: TCAN) – Vertically-Integrated Cannabis Business Utilizing Acquisitions to Control Seed-to-Sale – Initiating Coverage

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

Market Data (as of April 16, 2019)

Current Price	**C$5.83**
Fair Value	**C$7.80**
Rating*	**BUY**
Risk*	**5**
52 Week Range	\$0.77 - \$6.05
Shares O/S	24,995,654
Market Cap	\$145.72 M
Current Yield	N/A
P/E (forward)	N/A
P/B	N/A
YoY Return	N/A
YoY CSE	-18.74%

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



Highlights

- TransCanna Holdings Ltd. ("TransCanna", "company") is a Vancouver-based cannabis company operating solely in the state of California. Originally focused on distribution and transportation, TransCanna is set to become a vertically-integrated cannabis business.
- **Facility with Significant Capabilities to Scale:** The company has purchased an existing 196,000 square-foot facility on a 5.57-acre property in a "green zone" in Northern California. The acquisition also includes existing cannabis packaging and extraction equipment. The facility, which has received US$8 million in renovations over the past two years, allows the company to control their complete ecosystem: including cultivation, manufacturing, bottling, extraction, transportation and distribution.
- **Strategic Satellite Facility Network:** Recognizing a sub-optimal inventory storage and distribution issue in California, the company has signed a Letter of Intent ("LOI") to lease a 15,000 square-foot warehouse facility in Southern California that is expected to be one of four such facilities located throughout the state. This will allow for inventory longevity and distribution of product to where it is most in-demand.
- **Ample Capital:** The company has raised \$18.20 million in equity financings since its IPO in January 2019.
- **We are initiating coverage on TransCanna with a fair value estimate of \$7.80 per share.**

Risks

- Highly regulated industry.
- Cannabis is federally illegal in the USA.
- Licensing/ production delay risks.
- Biological contamination risks.
- Access to capital and share dilution.
- Liquidity risks.

Key Financial Data (FYE - NOV 30) (C$)	**2018**	**2019E**	**2020E**
Cash	\$ 74,310	\$ 991,924	\$ 18,951,016
Working Capital	\$ -531,575	\$ 76,903	\$ 23,884,516
Assets	\$ 412,381	\$ 23,449,465	\$ 50,671,057
Total Debt	\$ 388,659	\$ 388,521	\$ -
Revenues	\$ -	\$ -	\$ 74,100,000
Net Income	\$ -2,160,505	\$ -6,774,108	\$ 20,102,613
EPS (basic)	\$ -0.21	\$ -0.27	\$ 0.62

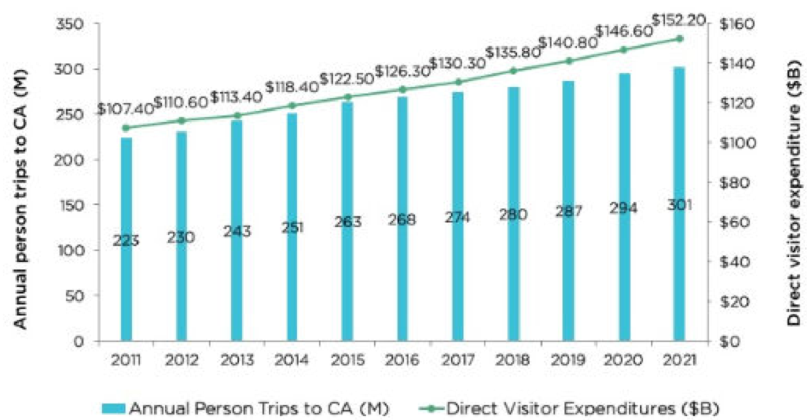
Company Overview

TransCanna is a cannabis company with a focus on the Californian cannabis industry. The company was incorporated on October 26, 2017, and went public on January 9, 2019, via an Initial Public Offering ("IPO") on the Canadian Securities Exchange ("CSE"). The company's original model was focused on connecting growers and manufacturers to retailers and dispensaries through professional means. This involved targeting multiple intermediate segments of the cannabis supply chain, including transportation/ logistics, distribution, branding, design, marketing and sales. However, the company believes that challenges across the cannabis supply chain would compromise its goals, and negatively impact their future financial performance. Subsequently, the company is strictly focused on maintaining complete control of their supply chain by building a vertically-integrated cannabis business. To accomplish this, the company anticipates that they will acquire or develop up to 15 premium brands for the California cannabis market over the next three years. The company is in the process of establishing an integrated operation that, if successful, will control a large portion of the seed-to-sale supply chain.

Cannabis in California

California, the world's fifth largest economy with a GDP of US$2.75 trillion, made the full adult use of cannabis legal at the beginning of 2018. It joins 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 of 39.56 million, has made California one of the largest cannabis markets in the world by value, with outsized growth expected to continue. An indirect contributor to future growth may be the tourism traffic generated by California, with an expected US$140.80 billion in tourist expenditures from 294 million tourists forecasted in 2019.

California Travel and Tourism Forecast



Source: Visit California Industry Tourism Economics

According to BDS Analytics, in 2018, **California generated US$2.51 billion in sales**, leading the U.S. as the highest grossing state in cannabis sales. For reference, the next highest selling cannabis market in the U.S., Colorado, reported sales of US$1.57 billion, making California's inaugural cannabis sales over 60% higher. California's 2018 sales of US$2.51 billion were 38% dried flower, 33% concentrates, 12% ingestibles and 8% pre-rolls, according to BDS Analytics.

Though California has only recently made cannabis fully legal for adult use, California was actually one of the first states in the U.S. to legalize medical Marijuana in 1996, through the passage of Proposition 215 and later SB420. Despite this early legislation, California lagged behind other U.S. states such as Colorado, Washington, Oregon, and Nevada, in enacting follow up legislation to keep up with evolving Federal regulatory guidelines. The regulatory and operational issues that have arisen as California's fledgling cannabis industry has rolled out has, until recently, discouraged substantial capital investment in its cannabis market. As a result, California is characterized by small-scale market participants, many of whom are not capable of producing quality product to scale or complying with future expected state regulations. **We believe the fragmented market, lack of capital investment in prior years, and issues with compliance, are prominent issues for cannabis businesses not only in California, but in most U.S. states that have only recently legalized cannabis for full adult use.**

Cannabis is illicit at the federal level in the U.S. and cannabis businesses in states where cannabis is legal to some degree operate under guidelines delivered by the Department of Justice under the "Cole Memo". In 2013, James Cole, then the U.S. Deputy Attorney General, issued a memorandum that suggested that cannabis businesses would not be federally prosecuted, or be subject to asset forfeiture, if they complied with state law and did not impinge upon federal "enforcement priorities". Though former Attorney General Jeff Sessions rescinded the Cole Memo in early 2018, he has since been terminated by President Donald Trump. Furthermore, the legislation known as the Rohrabacher-Farr amendment prohibits the U.S. Department of Justice from using federal funds to interfere with state medical cannabis laws. The legislation now renamed the Rohrabacher–Blumenauer amendment, was first introduced by U.S. Representative Maurice Hinchey in 2001, and passed in 2014, following six failed attempts. The amendment has been largely responsible for hindering federal drug enforcement agendas aimed at U.S. states where medical cannabis use is legal. However, the amendment does not change the legal status of cannabis at the federal level and must be renewed on an annual basis in order to remain in effect. For this reason, investors should be cautious of investing in cannabis businesses in California (or any other U.S. state) and reconcile potential investments with personal risk tolerances.

On January 1, 2018, adult-use of cannabis was legalized, and the state began regulating all aspects of the cannabis supply chain, from seed to sale, as well as ancillary operations. The regulatory framework for licensing cannabis businesses in the state is comprehensive in that there is an extensive licensing system with different license types for different types of operations. Generally, the licenses available vary for cultivation, manufacturing, distribution, testing, retail and cannabis events. The California Department of Food and Agriculture is responsible for the issue of cultivation licenses, the California Department of Public Health issues manufacturing licenses, and the California Bureau of Cannabis Control handles distribution, testing, retail and cannabis events licensing. In addition, management have advised us that prior to applying for a state license, a cannabis company must first lease or purchase a facility in a town or city's "green zone" (specific areas in select towns or cities zoned for cannabis operations). Only once a cannabis company obtains a town or city license and/or permit, can it apply to receive a state license.

Cultivation licenses include:

California Cannabis Cultivation Licenses

License	Permitted Activity	Growing Canopy Size
Type 1	Specialty Outdoor Cultivation	≤ 5000 sq.ft
Type 1A	Specialty Indoor Cultivation	≤ 5000 sq.ft
Type 1B	Specialty Mixed-Light Cultivation	≤ 5000 sq.ft
Type 2	Small Outdoor Cultivation	5001 sq.ft - 10000 sq.ft
Type 2A	Small Indoor Cultivation	5001 sq.ft - 10000 sq.ft
Type 2B	Small Mixed-Light Cultivation	5001 sq.ft - 10000 sq.ft
Type 3	Medium Outdoor Cultivation	10001 sq.ft - 22000 sq.ft
Type 3A	Medium Indoor Cultivation	10001 sq.ft - 22000 sq.ft
Type 3B	Medium Mixed-Light Cultivation	10001 sq.ft - 22000 sq.ft
Type 4	Nursery	
Type 5	Unlimited/ Large Cultivation*	>22000 sq.ft

**Note that type 5 licenses are not expected to be issued until 2023, according to regulatory officials.*

Source: FRC, Public Disclosures

Licenses for other types of cannabis businesses include:

California Cannabis Non-Cultivation Licenses

License	Permitted Activity	Notes
Type 6	Manufacturer 1	Producing cannabis products using non-volatile solvents
Type 7	Manufacturer 2	Producing cannabis products using volatile solvents
Type 8	Testing	Holders of this license may not hold licenses of other categories
Type 9	Non-Storefront Dispensary	Retailers that do not have physical stores and deliver directly
Type 10	Storefront Dispensary	Retailers with storefronts who may also deliver
Type 11	Distribution	Allows distribution of products from manufacturer to dispensary
Type 12	Microbusiness	Requires 3 of 4 licenses: Type 1 or 2, Type 6, Type 11 or 13, and/or Type 10
Type 13	Distribution Transport-Only	For transporters of cannabis products between licensees
Type 14	Cannabis Event Organizer	For cannabis-themed events and conferences

Source: FRC, Public Disclosures

For companies such as TransCanna who wish to vertically integrate, there are technically no barriers to this as we understand a cannabis business may hold several different types of licenses. Only testing license holders may not hold other types of licenses. The difficulty in vertically integrating may be the red tape associated with applying for each type of license, as well as the costs to acquire and retain each individual type of license. Note that TransCanna holds a temporary distributor license in Adelanto and submitted an application for a permanent distribution license on December 31, 2018. The company anticipates that they will need to apply for the Type 2 or 3, and 4, 5 (when it becomes available), 6, 7, 9, 11 and 13 licenses in order to become a vertically-integrated business. The time it may take to acquire the above licensing from their local municipality is difficult to predict, according to management. Upon licensing with their local municipality, TransCanna will need to apply to the state for state licensing approval.

It is important to note that whilst Type 3 licenses (medium-scale cultivation) are limited to one per person or business entity, Type 2 licenses can be accumulated and stacked by a single business due to loopholes in California's licensing framework. This caused significant controversy in the state as smaller cultivators bashed licensing authorities for effectively allowing larger businesses to get around regulations designed to limit growing capacity and the emergence of dominant large-scale growers prior to 2023. Regardless, in December 2018, the California Department of Food and Agriculture finalized regulatory changes which, whilst making small-scale cultivation license stacking more expensive, still allowed its existence. As shown in the table below, single business entities are still stacking large numbers of licenses on top of each other to expand their business foot-print without explicitly infringing any regulations.

Top 5 California Cannabis License Recipients – Nov/Dec 2018

Company Name	# of Licenses
Coyote Hills Agricultural Enterprise	210
White Light Farms	173
BDZ, Inc.	134
Iron Angel II, LLC	133
Busy Bee's Organics	79

Source: Cannabiz Media

Facilities: Production, Extraction, Manufacturing and Distribution

As mentioned, the company was originally focused on the distribution, transportation, logistics and branding of cannabis. However, TransCanna recently refined their business model to that of full vertical integration by purchasing a facility that is planned to give TransCanna exposure at all levels of the supply chain from seed to sale. On February 4, 2019, TranCanna announced that they had acquired an option to purchase a real estate package comprising 5.57 acres of land, an existing 196,000 square-foot facility, and cannabis packaging and processing equipment. The price for exercising the option was reported at US$15 million in cash. The seller of the property (unrelated party), is a provider of commercial Heating, Ventilation and Air Conditioning ("HVAC") facilities throughout the U.S. The seller also completed US$8 million in tenant improvements over the past two years, much of which meet U.S. Department of Agriculture ("USDA") standards and will result in the company being able to more easily transition the facility to cannabis operations. An additional US$1.50 million is needed to complete the renovation. **The company believes that the facility is one of the largest vertically-integrated cannabis-focused facilities in California.**

TransCanna intends to use the repurposed existing facility to allow for the following cannabis operations:

- **Nursery & Cultivation:** Growing of dried flower for sale, use in extraction operations, nursery.
- **Manufacturing:** Production of infused consumer packaged goods.
- **Extraction:** Processing of raw biomass to produce derivatives and for use in infusion. Conditional on the property being acquired, the company intends to lease space to an undisclosed third-party lab testing company, as the company cannot legally own a testing laboratory and hold any other license type.
- **Bottling:** Infusing CBD and/or THC into various liquids (such water, sodas, non-

alcoholic beer).

- **Logistics:** Transportation, storage and distribution.

In addition to the existing three-story, 196,000 square-foot structure on the property, which is located in an area zoned for cannabis operations in Northern California, the company disclosed that there are architectural plans for an additional 400,000 square-foot facility. The additional facility would be a fully enclosed, two-story cultivation facility. Pursuant to the company executing definitive documents, the company and the seller also agreed that the seller becomes a consultant regarding the management of construction for the additional facility. This is dependent on the company choosing to build-out the additional facility.

On March 20, 2019, TransCanna updated the market with the announcement that it had signed definitive documents to acquire the property. The US$15 million purchase price was paid via a non-refundable US$0.25 million deposit and a US$8 million down-payment funded by proceeds from a private placement that closed on April 4, 2019. The property's seller has agreed to finance the remaining US$6.75 million through a promissory note bearing 7% interest per annum with an initial maturity date of October 15, 2019, subject to a six-month extension. As consideration for the seller's willingness to finance the balance, TransCanna paid an additional US$0.20 million, and will issue a total of 0.50 million common restricted shares (price per share undisclosed) upon closing of the transaction. The company has also issued 1.20 million warrants to the sellers at an exercise price of $2.60 per share. The acquisition closed on April 15, 2019.

The below table, obtained from a recent presentation of the company, outlines the proposed division of their facility:

DIVISION
Manufacturing - 80,000 sq ft:
Extraction - 20,000 sq ft:
Transportation & Distribution - 30,000 sq ft:
Nursery & Grow - 40,000 sq ft:
Non-revenue – 26,000 sq ft
Pending Indoor Grow Facility - 6.57 acres
Indoor Grow - 400,000 sq ft

Source: Company

For pure growing space, we expect that cannabis yields typically range between 150 and 250 grams per square-foot. **Based on this approximation, the company's facility should be able to produce 8,000 kg of cannabis biomass assuming a 200 grams per square-foot yield, and growing canopy of 40,000 square-feet.** Note that the growing canopy is included within the existing 196,000 square-foot facility. This biomass can then be processed and incorporated into manufactured goods at different divisions of the facility, though we cannot forecast exact processing/ or manufacturing rates. Instead, we assume value multipliers which reflect the approximate value-add at each stage of the cannabis supply chain. We will explore these assumptions further in the valuation section.

Strategic Satellite Facilities

In addition to their vertically integrated cannabis facility, which will form the central point for future operations, TransCanna is also planning to acquire or lease strategically located satellite facilities throughout the state of California. These facilities will be smaller facilities, which may be owned outright or leased, and are expected to fulfill storage, packaging and distribution roles as part of a state-wide network. The purpose of this distribution network is to allow for inventory longevity and optimal consumer demand fulfilment. In particular, it will allow the company to package products closer to key sale points throughout California.

In our due diligence discussions, management has highlighted that some of the current issues facing the California cannabis industry include supply shortage of high-demand products, delays in restocking inventory, and delays in directing product to particular regions where supply has become scarce. The issues highlighted suggest that the distribution infrastructure in California is currently sub-optimal. To combat the issue, TransCanna intends to use their strategically located satellite network to distribute their own branded products to regions with high consumer demand.

On February 22, 2019, TransCanna announced that it had executed a Letter of Intent ("LOI") to lease a 15,000 square-foot facility in Adelanto, California. The facility is currently under construction and is expected to be complete by April 30, 2019. According to the company, the facility will be leased for a five-year term at a monthly leasing rate of $2.25 per square-foot, suggesting a total monthly lease expense of $33,750 ($0.41 million annualized).

According to the company's disclosures, they have spent a significant amount of time vetting potential acquisition candidates for their satellite facility network over the past 18 months. Management estimates that they have indirectly reached out to over seven hundred licensed entities. Approximately 10%, or seventy entities fit the first stage of the company's vetting process. From there the company has performed due diligence on approximately thirty entities, and advanced due diligence on four entities. The company has not disclosed their acquisition criteria to the public.

420 Global

As part of their initiative to build a vertically integrated cannabis business, the company has begun development of a proprietary software that provides business intelligence and a host of back office solutions tailored to cannabis enterprise. This software, 420 Global, is expected to provide TransCanna with a full spectrum of integrated back office services including accounting, human resources, procurement, manufacturing and project management. 420 Global is expected to significantly streamline TransCanna's future business, potentially minimizing operating costs and optimizing various facets of production. TransCanna will also integrate 420 Global with its Warehouse Management System ("WMS"), and California's Cannabis Track-and-Trace ("CCTT") system, to ensure full compliance of their operations with state regulations.

Goodfellas Group Acquisition

Another important element of TransCanna's commercialization plan is their emphasis on branding and marketing. Originally, these were services to be provided to clientele, but with the acquisition of the facilities outlined above, and resulting production capabilities, strong branding and marketing can boost sales of future production. As we had mentioned at the beginning of this report, the company intends to acquire or create up to 15 premium cannabis brands. **To this end, the company has entered into a non-binding LOI to acquire Goodfellas Group LLC ("Goodfellas"), a cannabis/ hemp focused advertising and marketing agency.** The company disclosed that Goodfellas currently works with twenty-five clients and was formed in 2017. According to the company, their clientele includes cannabis manufacturers of all types of cannabis products, such as oils, tinctures, vaporizers, edibles, etc. The acquisition price, should the company move forward with the transaction, has not been disclosed. However, TransCanna has stated that the price will be two times the LTM revenue of Goodfellas, with 60% of the acquisition price due at closing and the rest payable over the 12 months following the transaction. The purchase price is 50-50 cash and common stock, and TransCanna intends to retain key members of Goodfellas current team. According to Capital IQ, publicly-traded advertising companies are currently trading at a enterprise value to revenue ("EV/R") of 1.30x, suggesting that the company valued Goodfellas at a premium versus industry averages.

Subject to completing the acquisition, the company will also acquire Goodfellas' in-house brand "Simple", a user-friendly cannabis package that allows first-time cannabis users to streamline their experience, and "Daily", a set of three pre-rolled joints. The "Simple" package contains a container/ grinder, an undisclosed portion of dried flower, filter tips, a cannabis scooping device and rolling papers. The package has been released to Goodfellas' dispensary clients and has received positive feedback from consumers, according to the company. With regards to "Daily", management reports that the pre-roll set, which retails for US$6.00 per set, is expected to be a significant source of revenue. In addition, "Daily" has a lower per pre-roll price than regular pre-rolls, which management reports can cost between US$6.00 and US$15.00 in California. According to the company, Goodfellas began sales of "Daily" in February, with increasing monthly sales since their release, though actual figures were undisclosed.

The main asset acquired via the Goodfellas transaction, if completed, will be Goodfellas' client relationships with over 500 (according to management) dispensaries/ cannabis businesses and their existing California-based cannabis sales force. Whilst TransCanna are already in the process of acquiring the production assets which will allow the company internal cannabis production, a retail platform does not seem to be a part of the company's current action plan. As a result, the company will need to establish relationships with dispensaries and storefronts across California in order to maximize future sales. By acquiring Goodfellas, the company should effectively acquire their relationships with dispensaries as well, creating the potential to establish sales channels.

Management Overview

The company's Board of Directors has four members, two of which are independent. We believe that a company's board of directors should include independent or unrelated directors who are free of any relationships or business that could materially interfere with the director's ability to act in the best interest of the company.

Management and directors currently own 3.32 million common shares, or approximately 13.30% of the basic shares outstanding – aligning their interest with shareholders.

Individual	Position	Common Shares	% of Total
James Pakulis	CEO & Chairman	1,500,000	6.00%
Greg Ball	CFO	20,000	0.08%
Arni Johannson	President & Director	1,804,000	7.22%
Steve Giblin	Director		0.00%
Juan Flores	Director		0.00%
		3,324,000	**13.30%**

Source: FRC, Prospectus

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

James Pakulis – CEO, Chairman, Director
Mr. Pakulis has three decades of experience working with public and private entrepreneurial companies in a variety of emerging and high growth sectors. In 2010 he became one of the first CEO's in the public cannabis industry as CEO and Chairman of General Cannabis, Inc. which wholly owned WeedMaps. Mr. Pakulis oversaw the growth of General Cannabis from zero to over $16-million in annual revenue in less than twenty-four months. From 2015-2018 he was President and a Director of Lifestyle Delivery Systems Inc., (CSE: LDS, OTCQB: LDSYF) a vertically integrated cannabis related entity operating in California.

Greg Ball – CFO
Mr. Ball holds a CPA, CGA (British Columbia) designation, and has served as Director and CFO of the Company since November 15, 2017 Mr. Ball has been a professional accountant since 2005 and has over 30 years accounting experience.

Arni Johannson – President & Director
Arni Johannson is the President of Canadian Nexus Ventures, a family-based business since the early 1990's. He has over 30 years of experience in the Canadian Capital Markets focusing on building assets and senior management teams while executing a defined business plan. Through Canadian Nexus, Mr. Johannson's investments have covered; Health Sciences, Pulp & Paper, Energy, Mining Exploration, Film & Entertainment, Agriculture and Technology sectors in a wide variety of locations around the world. Within the Canadian Nexus model of financing and developing management teams, Mr. Johannson sits on several advisory boards in the public and private sectors and will bring a wealth of expertise to the TransCanna Board.

Steve Giblin – Director
Mr. Giblin is an accomplished leader in the global hospitality, technology, and real estate industries with a demonstrated track record of value creation. Mr. Giblin has strong C suite relationships with Marriott, Hilton, and Radisson brands and he managed the Silverbirch and Delta hotel real estate portfolios for the British Columbia Investment Management Corporation. As CEO of Silverbirch, he grew revenues from $280m to $500m and increased

the portfolio value over 50%. He has worked closely with other companies including established brands like that of Bentall Kennedy, Great West Life and general contractors, Ellis Don, PCL and Bird.

Juan Flores – Director
Mr. Flores received his undergraduate degree from the University of Arizona in 1986, and his law degree from Whittier College in 1990. He is an attorney with more than twenty 25 years of legal experience with a strong background in municipal, government, real estate, corporate and general civil law litigation. Mr. Flores has had a private practice for over 25 years, as well as handling various legal matters for the city of Douglas, Arizona.

Financials

TransCanna is currently not a revenue-generating entity. The liquidity and capital position of the company as per their most recent financial statements is outlined below. Note that this does not accurately reflect their current cash and liquidity position, which we cover in the below section on access to capital.

(in C$) - YE Nov 30th Liquidity & Capital Structure		2017		2018
Cash	$	80,600	$	74,310
Working Capital	$	89,821	$	-531,575
Current Ratio		7.02		0.20
LT Debt	$	-	$	-
Total Debt	$	6,105	$	388,659
LT Debt / Capital		-		-
Total Debt / Capital		0.04		2.85
Total Invested Capital	$	79,146	$	61,901

Source: FRC, Financial Statements

Stock Options and Warrants: We estimate that the company has no stock options and 15.88 million warrants (weighted average exercise price of $2.11) outstanding. All of the warrants are currently in the money. **The company will be able to raise up to $33.42 million if all these in the money warrants are exercised.**

IPO and Access to Capital

TransCanna went public on January 8, 2019, raising gross proceeds of $2.20 million through the issue of 4.40 million units at a price of $0.50 per unit. Each unit comprised a single common share and a warrant exercisable at $1.00 per share. On February 20, 2019, the company entered into a private placement to raise gross proceeds of up to $10 million via the issue of 5 million units at a price of $2.00 per unit. On March 14, 2019, the company announced that the private placement had been over-subscribed and that they were increasing the equity financing's size as result. The amended private placement was updated for gross proceeds of up to **$16 million via the issue of 8 million units at $2.00 per share**. Each unit comprises a common share and a warrant exercisable at $3.00 per share. The private placement closed on April 4, 2019.

The company has raised $18.20 million since their IPO at the start of this year. We look favorably upon the increase in issue price as a reflection of the market's positive outlook on the company.

Valuation

Revenue Forecasts

Our revenue forecasts for TransCanna through to 2021 are presented below:

	2019E	2020E	2021E
Internal Production:			
Canopy Size (Sq.Ft)	40,000	40,000	40,000
Yield per Sq.Ft (kg)	0.20	0.20	0.20
Production Capacity (kg)		8,000	8,000
Value Multiplier:			
Dried Flower Pricing (US$/kg)	$ 5,000	$ 4,750	$ 4,513
Multiplier (Flower to Finished Good)	3.00	3.00	3.00
Finished Good Pricing (US$/kg of Dried Eq.)	$ 15,000	$ 14,250	$ 13,538
Sales:			
Sales (kg of Dried Eq.)		4,000	8,000
Infused Goods Revenues (US$)	$ -	$ 57,000,000	$ 108,300,000
Infused Goods Production Costs (US$/kg)	$ 5,000	$ 4,875	$ 4,753
Infused Goods COGS (US$)	$ -	$ 19,500,000	$ 38,025,000
Total Revenue (C$)	$ -	$ 74,100,000	$ 140,790,000
Total COGS (C$)	$ -	$ 25,350,000	$ 49,432,500
Gross Profit (C$)	$ -	$ 48,750,000	$ 91,357,500

Source: FRC

Our consolidated income statement forecasts for TransCanna through to 2021 are presented below:

STATEMENTS OF OPERATIONS (in C$) - YE Nov 30th		2019E		2020E		2021E
Revenue				74,100,000		140,790,000
COGS				25,350,000		49,432,500
Gross Profit		**-**		**48,750,000**		**91,357,500**
Fair Value Adj. on Biological Assets						
Adj. Gross Profit		**-**		**48,750,000**		**91,357,500**
EXPENSES						
SG&A Expense		4,141,522		18,525,000		35,197,500
Share-based Compensation		2,620,000		3,705,000		7,039,500
EBITDA		**(6,761,522)**		**26,520,000**		**49,120,500**
Depreciation & Amortization		12,586		1,073,654		1,073,654
EBIT		**(6,774,108)**		**25,446,346**		**48,046,846**
Financing Costs						
EBT		**(6,774,108)**		**25,446,346**		**48,046,846**
Non-Recurring Expenses						
Taxes				5,343,733		10,089,838
Net Profit (Loss)		**(6,774,108)**		**20,102,613**		**37,957,008**
FOREX Translation Adj.						
Comprehensive Net Profit (Loss)		**(6,774,108)**		**20,102,613**		**37,957,008**
Shares outstanding		24,995,654		32,270,654		32,270,654
EPS	$	-0.27	$	0.62	$	1.18

Source: FRC

Our forecasts are based on the following assumptions:

- Licensing and build-out of the company's recently purchased facility will take up the majority of 2019, with full cultivation, processing and manufacturing only beginning in Q3-2020.
- Assuming growing canopy of 40,000 square-feet and 200 grams per square-feet of growing canopy, we assume 8,000 kg of dried biomass as the TransCanna facility's production capacity.
- A typical price multiplier on contained cannabinoid content in dried flower being converted into manufactured goods is 3x. We have observed this for products such as edibles and beverages in the U.S., and the same for even simple oils on Canadian provincial webstores (though these are on the pricier end of the oil price spectrum).
- Pricing is based on multiple industry sources and discounted to represent markdowns as the company does not control sales to consumers. Pricing and cost declines over time.
- SG&A margin of 20%.
- CAPEX of US$16.50 million for the facility build-out is incurred in full during 2019. This includes the acquisition price of the facility as well as expenditures required to bring the facility into operation. Note that our model only considers the

FRC Fundamental Research Corp.

existing 196,000 square-foot facility.

- Satellite facilities are leased and the cost of leasing them is an operating expense, not CAPEX.
- Cash shortfalls will be resolved via equity issuance. This reflects difficulty of acquiring debt financing as a cannabis business in the U.S. However, due to the large number of deeply in-the-money warrants, we assume that cash shortfalls are to be financed by the exercising of these warrants, which are accounted for in our diluted share count.

DCF Valuation

Our DCF valuation on TransCanna's shares is $7.80 per share. Our models are summarized below:

DCF Model			2019E	2020E	2021E	Terminal
EBIT(1-tax)			$ -6,274,108	$ 20,102,613	$ 37,957,008	
Non-Cash Expenses			$ 2,132,586	$ 4,778,654	$ 8,113,154	
Investment in WC			$ 309,136	$ -5,460,000	$ -4,186,650	
CFO			$ -3,832,386	$ 19,421,267	$ 41,883,512	
CAPEX			$-21,450,000	$ -1,073,654	$ -1,073,654	
FCF			$-25,282,386	$ 18,347,613	$ 40,809,858	$ 42,034,154
PV			$-23,439,053	$ 14,791,211	$ 28,608,258	$ 245,554,213
Discount Rate		15%				
Terminal Growth Rate		3%				
Total PV	$	265,514,629				
Cash - Debt	$	8,404,894				
Equity Value	$	273,919,524				
Shares O/S (dil)		35,138,235				
Fair Value	**$**	**7.80**				

Source: FRC

For our discount rate, we utilized a weighted average cost of capital ("WACC") of 15%. 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 associated with the company's current lack of several types of licensing, as well as risks associated with U.S. cannabis operations.

After reviewing TransCanna's business, the quality of the management team and their execution plan, and our valuation models, we are initiating coverage on TransCanna with a BUY rating and a fair value estimate of $7.80 per share.

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.

- There is no guarantee that the company will be granted licensing for their production facility or for the expansion phase. Any delay could materially impact our valuation.
- No guarantee that the company will be able to sell the cannabis produced at their facilities, nor successfully secure further long-term supply contracts.
- Contamination risk and other risks associated with biological/ agricultural production.
- Access to capital and share dilution.
- Liquidity risk.

We are initiating coverage with a risk rating of 5 (Highly Speculative).

Appendix

STATEMENTS OF OPERATIONS (in C$) - YE Nov 30th	2018	2019E	2020E
Revenue			74,100,000
COGS			25,350,000
Gross Profit	**-**	**-**	**48,750,000**
Fair Value Adj. on Biological Assets			
Adj. Gross Profit	**-**	**-**	**48,750,000**
EXPENSES			
SG&A Expense	2,070,761	4,141,522	18,525,000
Share-based Compensation		2,620,000	3,705,000
EBITDA	**(2,070,761)**	**(6,761,522)**	**26,520,000**
Depreciation & Amortization	6,293	12,586	1,073,654
EBIT	**(2,077,054)**	**(6,774,108)**	**25,446,346**
Financing Costs	- 2,973		
EBT	**(2,074,081)**	**(6,774,108)**	**25,446,346**
Non-Recurring Expenses	83,308		
Taxes	3,116		5,343,733
Net Profit (Loss)	**(2,160,505)**	**(6,774,108)**	**20,102,613**
FOREX Translation Adj.	-3,526		
Comprehensive Net Profit (Loss)	**(2,164,031)**	**(6,774,108)**	**20,102,613**
Shares outstanding	10,510,207	24,995,654	32,270,654
EPS	$ -0.21	$ -0.27	$ 0.62

BALANCE SHEET (in C$) - YE Nov 30th	2017	2018	2019E	2020E
ASSETS				
CURRENT				
Cash and Cash Equiv.	80,600	74,310	991,924	18,951,016
A/R				7,410,000
Inventory				741,000
Related Party		47,145		
Sales Tax Receivable		1,799		
Prepaids	24,144	10,000	741,000	1,852,500
Total Current Assets	**104,744**	**133,254**	**1,732,924**	**28,954,516**
PPE		35,662	21,473,076	21,473,076
Deposits	63,820	243,465	243,465	243,465
Total Assets	**168,564**	**412,381**	**23,449,465**	**50,671,057**
LIABILITIES				
CURRENT				
A/P	8,818	276,170	1,267,500	5,070,000
ST Debt		388,521	388,521	-
Related Parties	6,105	138		
Total Current Liabilities	**14,923**	**664,829**	**1,656,021**	**5,070,000**
LT Debt				
Total Liabilities	**14,923**	**664,829**	**1,656,021**	**5,070,000**
SHAREHOLDERS EQUITY				
Share Capital	210,000	1,821,991	28,021,991	28,021,991
Reserves	135,000	280,951	2,900,951	6,605,951
AOCI		(3,526)	(3,526)	(3,526)
Deficit	(191,359)	(2,351,864)	(9,125,972)	10,976,641
Total shareholders' equity (deficiency)	**153,641**	**(252,448)**	**21,793,444**	**45,601,057**
Total Liabilities and Shareholders Equity	**168,564**	**412,381**	**23,449,465**	**50,671,057**

STATEMENTS OF CASH FLOWS (in C$) - YE Nov 30th	2018	2019E	2020E
OPERATING ACTIVITIES			
Net Profit for the Year	(2,160,505)	(6,774,108)	20,102,613
Adjusted for items not involving cash:			
Depreciation	6,293	12,586	1,073,654
SBC	-	2,620,000	3,705,000
Accretion	5,511		
Investments	-		
Shares for Services	609,987		
Obligation to Issue Shares for Services	141,955		
Interest Income	(2,973)		
Expensed Deposit	63,820		
Impairment	74,111		
Funds From Operations	**(1,261,801)**	**(4,141,522)**	**24,881,267**
Change in working capital			
A/R	(71,138)	-	(7,410,000)
Prepaids	14,144	(731,000)	(1,111,500)
Inventory	-	-	(741,000)
Sales Tax	(1,799)	1,799	-
A/P	267,352	991,330	3,802,500
Related Parties	(53,112)	47,007	-
NET CASH USED IN OPERATING ACTIVITIES	**(1,106,354)**	**(3,832,386)**	**19,421,267**
INVESTING ACTIVITIES			
PPE	(41,955)	(21,450,000)	(1,073,654)
Investments			
Deposits	(243,465)		
NET CASH USED IN INVESTING ACTIVITIES	**(285,420)**	**(21,450,000)**	**(1,073,654)**
FINANCING ACTIVITIES			
Equity Issue	1,006,000	26,200,000	
ST Debt			(388,521)
LT Debt	383,010		
NET CASH FROM FINANCING ACTIVITIES	**1,389,010**	**26,200,000**	**(388,521)**
Foreign Exchange / Others	(3,526)		
INCREASE IN CASH FOR THE YEAR	**(6,290)**	**917,614**	**17,959,092**
CASH, BEGINNING OF THE YEAR	80,600	74,310	991,924
CASH, END OF THE YEAR	**74,310**	**991,924**	**18,951,016**

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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