

# Fundamental Research Corp.

Investment Analysis for Intelligent Investors

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## RavenQuest BioMed Inc. (CSE: RQB) (OTCQB: RVVQF) (Frankfurt: 1IT) – B.C. Supply Agreement and Micro-Cultivator Investment

Sector/Industry: Cannabis

[www.rqbglobal.com](http://www.rqbglobal.com)

### Market Data (as of August 1, 2018)

Current Price	C\$0.43
Fair Value	C\$2.05
Rating*	BUY
Risk*	4
52 Week Range	C\$0.48 - C\$2.50
Shares O/S	105,440,013
Market Cap	C\$45.34 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	1.44
YoY Return	N/A
YoY TSXV	-7.96%

\*see back of report for rating and risk definitions.

\* All figures in C\$ unless otherwise specified.



### Highlights

- RavenQuest Biomed Inc. (“RavenQuest”, “company”) reported Q2-FY2019 (quarter ended April 30, 2018) revenues of \$614,360, growing 0.48% QoQ. There are no comparable YoY figures.
- We have lowered our FY2019 revenue and increased net loss forecasts to \$3.17 million and \$8.53 million (EPS: -\$0.08), respectively. Our previous full year forecasts for revenue and net loss were \$4.40 million and \$3.46 million (EPS: -\$0.04), respectively. Long-term forecasts remain unchanged.
- Signed an agreement with the British Columbia (B.C.) Liquor Distribution Branch to supply cannabis from the Bloomera facility. This is a major milestone for the company and provides a wholesale buyer for the company’s product.
- Acquired a 51% stake in a B.C. based micro-cultivator. This expands the company’s product portfolio.
- The company’s shares have performed poorly since our initiating report, presenting a potential opportunity for investors.
- We are revising our fair value per share estimate to \$2.05 per share, versus our previous estimate of \$2.22, due to an increase in shares outstanding.

### Key Financial Data (FYE - Oct 31)

(C\$)	2018	2019E	2020E
Cash	\$3,379,856	\$4,025,840	\$8,961,626
Working Capital	\$2,536,539	\$4,455,456	\$18,687,019
Debt	\$0	\$12,859,583	\$12,859,583
Total Assets	\$8,699,909	\$54,393,512	\$80,415,069
Revenue	\$112,351	\$3,174,245	\$46,420,000
Net Income (Loss)	-\$3,301,081	-\$8,528,323	\$6,353,756
EPS	-\$0.05	-\$0.08	\$0.06
Shareholder's Equity	7,568,826	40,192,430	62,706,686

**Operational  
Updates**

**Supply Agreement with the British Columbia Liquor Distribution Branch**

On July 11, 2018, RavenQuest announced that its wholly-owned subsidiary Bloomera Inc. (“Bloomera”) signed a Memorandum of Understanding (“MOU”) with the British Columbia Liquor Distribution Branch (“BCLDB”). The MOU relates to the wholesale distribution of the company’s cannabis production, and management believes that the agreement will cover the first twelve months following the launch date of legalization, which is expected to be October 17, 2018. The company also believes the MOU will cover all of Bloomera’s expected production during that period. Bloomera has an expected production capacity of 4,000 kg. Note however, that the MOU is not a binding agreement, and details of the agreement will be confirmed via future negotiations. Specific terms, such as pricing, remain undisclosed.

The BCLDB is the arm of the B.C. government that has been given the responsibility of regulating the province’s private retail cannabis licensing and distribution. It is also B.C.’s sole legal wholesaler of non-medical cannabis. Though B.C. is one of the provinces that has allowed the private retail of cannabis (in addition to government channels), the wholesale distribution of cannabis will be controlled by the government. On July 11, 2018, the BCLDB announced supply agreements with 31 Licensed Producers (“LP”), with initial product assortment to feature more than 150 different strains of cannabis and ranging in quality.

**Acquires Majority Stake in Elephant Extracts**

The company announced on June 14, 2018, that it had entered into a Letter of Intent (“LOI”) to acquire 51% of Elephant Extracts Ltd (“Elephant Extracts”). Elephant Extracts is an Access to Cannabis for Medical Purposes Regulations (“ACMPR”) applicant, and to our knowledge, is not a related party of the company. Elephant Extracts intends to apply for a “micro-cultivator” license, a sub-category of the LP license that allows the activities of a regular cultivator, but on a smaller scale. Based on the government’s summary of comments received during public consultation (regarding proposed regulation of Canadian recreational cannabis distribution and sale), it is proposed that micro-cultivator licenses would authorize a growing area/canopy of no greater than 200 square meters (approximately 2,150 square-feet).

Based on our estimation of 120 grams-per-square-foot as the cannabis industry’s average productivity, most micro-cultivators should exhibit a production capacity of approximately 258 kg. However, RavenQuest’s OG2.0 technology, which maximizes per-square-foot productivity, may allow Elephant Extracts to produce significantly more. Based on expected productivity at RavenQuest’s facilities, we estimate that incorporation of RavenQuest’s technology would allow Elephant Extracts to produce 430 kg (assuming that they use a canopy area measuring 2,150 square-feet).

Whilst the supply chain come legalization is still unclear, it is understood that micro-cultivators will not be able to sell their product directly to the public. Instead, it is believed that micro-cultivators will be able to sell to LPs, who in turn will sell the finished product to either the public or the provincial entity responsible for cannabis sale. Given that micro-cultivators won’t be able to sell their product directly to the public, we believe that Elephant Extracts is likely to sell the entirety of their production to RavenQuest, who may in turn be able to sell Elephant Extract’s product as part of their commitment to the province.

The LOI is currently in its early stages and no specific terms (such as consideration to be paid to Elephant Extracts) have been agreed upon. However, the company has indicated in the associated press release that Elephant Extracts will reserve the right to redeem RavenQuest’s majority interest at such a time that Elephant Extracts receives an ACMPR license to produce. If exercised, the controlling interest of RavenQuest will be removed and RavenQuest will receive a 15% royalty on the gross revenue from Elephant Extract’s production facility in perpetuity. The practicality of execution of this addendum is uncertain and it may not be featured in the final agreement between the two parties.

**WAL Acquisition Advances**

On June 6, 2018, the company announced that it had entered into a binding LOI with WAL and 0929476 B.C. Ltd. (“NumberCo”) to acquire WAL, and a 15-acre land package held by NumberCo. The binding LOI comes as an advancement of a previous MOU between RavenQuest and WAL. WAL is a late-stage ACMPR applicant that is developing a 125,000 square-foot production facility in Port Mellon, B.C. We assume that the 15-acre land package held by NumberCo is the land upon which the WAL facility will be built. WAL also owns 23.75% of Atlantic Cannabis Corp., which intends to build a 50,000 square-foot facility in Nova Scotia.

Terms under the binding LOI include all stock consideration to WAL of 4.34 million shares of RavenQuest at a deemed price of \$0.85 per share, valuing the transaction at \$3.68 million. This is lower than our estimate of \$4.40 million, which we had provided in our most recent note on the company, which covered the WAL acquisition.

Our CAPEX estimate for the WAL facility is \$35.21 million. This is based on a blended CAPEX per-square foot of \$282, which is an average of the initial and expansion build-out costs exhibited by the company’s AGB and Bloomera facilities. The CAPEX table for the company’s current projects is as below. Note that the minority interest in Atlantic Cannabis Corp., which intends to build-out a facility in Nova Scotia, is not included in our models as we do not have sufficient details.

Schedule	FY2019	FY2020	FY2021	FY2022
<b>Total CAPEX</b>	\$ 29,000,000	\$ 8,839,437	\$ 40,940,845	\$ 5,729,577
Bloomera	\$ 15,000,000	\$ -	\$ -	\$ -
AGB	\$ 14,000,000	\$ 6,000,000	\$ -	\$ -
Fort McMurray (30%)	\$ -	\$ 2,839,437	\$ 5,729,577	\$ 5,729,577
WAL	\$ -	\$ -	\$ 35,211,268	\$ -

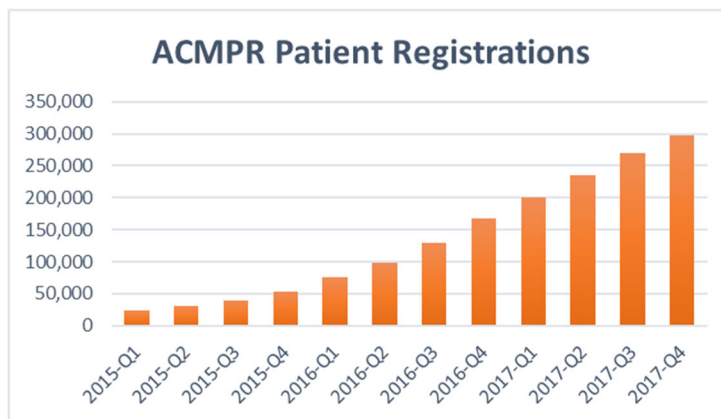
Source: FRC

In a historic milestone on June 19, 2018, the Canadian government moved to legalize cannabis for recreational use with the passing of Bill C-45, with an expected launch date of October 17, 2018. With uncertainty regarding the possibility of cannabis legalization now put to rest, investors are now concentrated on the structure of how legal recreational cannabis will be distributed and sold, with each province having proposed different retail channels. The below snapshot provides an overview of the recreational cannabis market by province:

BRITISH COLUMBIA	SASKATCHEWAN	ONTARIO	QUEBEC	NEWFOUNDLAND & LABRADOR
Licensed producers: 23	Licensed producers: 4	Licensed producers: 59	Licensed producers: 8	Licensed producers: 0
Expected number of retailers in Year One: N/A	Expected number of retailers in Year One: 51	Expected number of retailers in Year One: 40	Expected number of retailers in Year One: 20	Expected number of retailers in Year One: 24
Estimated number of consumers: 725,000	Estimated number of consumers: 125,300	Estimated number of consumers: 1.7 million	Estimated number of consumers: 1.1 million	Estimated number of consumers: 70,100
ALBERTA	MANITOBA	NEW BRUNSWICK	PRINCE EDWARD ISLAND	NOVA SCOTIA
Licensed producers: 6	Licensed producers: 2	Licensed producers: 3	Licensed producers: 1	Licensed producers: 3
Expected number of retailers in Year One: 250	Expected number of retailers in Year One: N/A	Expected number of retailers in Year One: 20	Expected number of retailers in Year One: 4	Expected number of retailers in Year One: 12
Estimated number of consumers: 526,000	Estimated number of consumers: 142,400	Estimated number of consumers: 101,000	Estimated number of consumers: 19,400	Estimated number of consumers: 125,000
YUKON	NORTHWEST TERRITORIES	NUNAVUT		
Licensed producers: 0	Licensed producers: 0	Licensed producers: 0		
Expected number of retailers in Year One: 1	Expected number of retailers in Year One: 7 [in liquor stores]	Expected number of retailers in Year One: Online only		
Estimated number of consumers: 4,400	Estimated number of consumers: 5,100	Estimated number of consumers: 4,400		

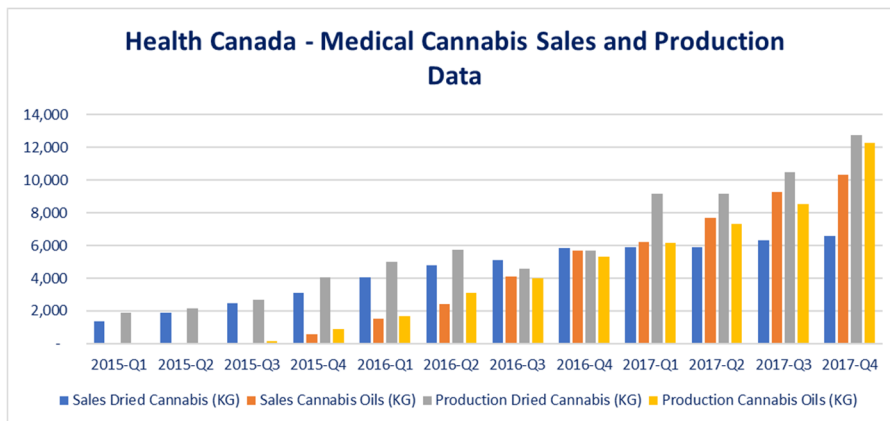
Source: Marijuana Business Daily

The impact of legalization may be eating in to the growth of the Canadian medical cannabis market, as the ACMPR program shows signs of maturation. At the end of March 2018, Health Canada reported there were 296,702 patients registered under the ACMPR program, or less than one per cent of the Canadian population. This reflects growth of 10.09% over the previous quarter, the slowest quarterly growth since the ACMPR program was initiated. Patient data is presented in the chart below:



Source: Health Canada, FRC

Data regarding sales and production are given below:



Source: Health Canada, FRC

We believe the slowdown in the number of ACMPR patient registrations was due in large part to the maturity of the ACMPR program and the onset of legalization. With recreational cannabis set to become legal for consumption nationwide, prospective ACMPR users may be holding off on registration until recreational use becomes legal. The perception that there is little difference between recreational and medically referred cannabis may lead users to wait out the next few months until they can purchase cannabis more freely. This is especially true since medical cannabis tends to command a premium relative to recreational cannabis.

However, we note that a potential catalyst for growth on the medical side of cannabis could come in the form of participation by insurers. At current, most major insurers in Canada do not provide coverage for medical cannabis. If this were to change with the roll-out of legal cannabis, we believe that could contribute to future renewed growth of the medical cannabis market.

The company reported Q2-FY2019 revenues of \$614,360, growing 0.48% QoQ from \$611,395 in Q1-FY2019. For the six months, revenue was \$1.23 million. All the company's revenues are currently from the company's consulting division. The company's consolidated operations are summarized below:

*Financials*

	Q1-FY2019	Q2-FY2019	QoQ Growth
Revenues	\$ 611,395	\$ 614,360	0.48%
COGS	\$ 311,811	\$ 85,190	-72.68%
Gross Profit	\$ 299,584	\$ 529,170	76.63%
Operating Expenses	\$ 1,312,820	\$ 3,501,843	166.74%
EBITDA	\$ -1,013,236	\$ -2,972,673	193.38%
Depreciation	\$ 1,247	\$ 3,958	217.40%
EBIT	\$ -1,014,483	\$ -2,976,631	193.41%
Net Profit	\$ -1,020,542	\$ -3,436,044	236.69%
Gross Margin	49.00%	86.13%	
EBITDA Margin	-165.73%	-483.86%	
EBIT Margin	-165.93%	-484.51%	
Net Margin	-166.92%	-559.29%	
Operating Expenses Margin	214.73%	570.00%	

STATEMENTS OF OPERATIONS					
(in CS) - YE Oct 31st	2017*	2018	Q1-2019	Q2-2019	2019 (6M)
Revenue	2,343,300	112,351	611,395	614,360	1,225,755
COGS		97,697	311,811	85,190	397,001
<b>Gross Profit</b>	<b>2,343,300</b>	<b>14,654</b>	<b>299,584</b>	<b>529,170</b>	<b>828,754</b>
<b>EXPENSES</b>					
SG&A Expense	3,338,559	610,178	610,555	2,840,822	3,451,377
Share-based Compensation		45,800	702,265	661,021	1,363,286
<b>EBITDA</b>	<b>(995,259)</b>	<b>(641,324)</b>	<b>(1,013,236)</b>	<b>(2,972,673)</b>	<b>(3,985,909)</b>
Depreciation & Amortization	120,119	286	1,247	3,958	5,205
<b>EBIT</b>	<b>(1,115,378)</b>	<b>(641,610)</b>	<b>(1,014,483)</b>	<b>(2,976,631)</b>	<b>(3,991,114)</b>
Financing Costs	12,146	147,056	6,059	459,413	465,472
<b>EBT</b>	<b>(1,127,524)</b>	<b>(788,666)</b>	<b>(1,020,542)</b>	<b>(3,436,044)</b>	<b>(4,456,586)</b>
Non-Recurring Expenses	17,338	2,512,415			
Taxes	26,450				
<b>Net Profit (Loss)</b>	<b>(1,171,312)</b>	<b>(3,301,081)</b>	<b>(1,020,542)</b>	<b>(3,436,044)</b>	<b>(4,456,586)</b>
Non-Controlling Interest*	(6,971)	(54)	(166)		
<b>Net Profit (Loss) to Shareholders</b>	<b>(1,164,341)</b>	<b>(3,301,027)</b>	<b>(1,020,376)</b>	<b>(3,436,044)</b>	<b>(4,456,586)</b>
weighted Average Shares outstanding	29,000,000	32,479,065	72,270,818	86,367,988	79,202,576
Earnings per Share	\$ -0.04	\$ -0.10	\$ -0.01	\$ -0.04	\$ -0.06

Source: FRC, Financial Statements

Our FY2019 revenue forecast was previously \$4.40 million. Given the company's current revenue run-rate, it seems that RavenQuest may not be able to meet our revenue forecasts. In our previous note, we had mentioned that we expected revenues in Q2-2019 to pick up after disappointing numbers in Q1-2019. Given that the company has underperformed relative to our previous forecasts, we have lowered our revenue forecasts for FY2019. Note that our Q3 and Q4 revenue forecasts remain the same, and the year-end estimate has been adjusted for performance in the previous two quarters. After adjustment, our new FY2019 revenue forecast is \$3.17 million, and our FY2020 revenue forecast remains unchanged at \$46.42 million. Our new forecasts are as below:



<b>STATEMENTS OF OPERATIONS</b>		
<b>(in C\$) - YE Oct 31st</b>	<b>2019E</b>	<b>2020E</b>
Revenue	3,174,245	46,420,000
COGS	2,682,999	24,244,000
<b>Gross Profit</b>	<b>491,246</b>	<b>22,176,000</b>
<b>EXPENSES</b>		
SG&A Expense	6,039,910	11,605,000
Share-based Compensation	2,044,929	1,160,500
<b>EBITDA</b>	<b>(7,593,593)</b>	<b>9,410,500</b>
Depreciation & Amortization	59,730	1,556,744
<b>EBIT</b>	<b>(7,653,323)</b>	<b>7,853,756</b>
Financing Costs	875,000	1,500,000
<b>EBT</b>	<b>(8,528,323)</b>	<b>6,353,756</b>
Non-Recurring Expenses		
Taxes		
<b>Net Profit (Loss)</b>	<b>(8,528,323)</b>	<b>6,353,756</b>
Non-Controlling Interest*		
<b>Net Profit (Loss) to Shareholders</b>	<b>(8,528,323)</b>	<b>6,353,756</b>
Weighted Average Shares Outstanding	105,440,013	105,440,013
Earnings per Share	\$ -0.08	\$ 0.06

Source: FRC

According to management, weaker than expected revenues from the consulting side of the business were due to timing, with most revenue likely to be attributed to Q3 and Q4. As the company was not a comparable entity in previous years, we cannot compare financials from previous years to determine if the company's revenues are subject to seasonality.

Gross margins increased in Q2-FY2019 to 86.13%, compared to 49.00% in Q1-FY2019. For the six months, the gross margin for FY2019 was 67.61%. COGS dropped significantly QoQ due to undisclosed reasons. However, EBITDA margins also deteriorated QoQ from -165.73% of sales to -483.86% of sales in Q2-FY2019. The decline in the EBITDA margin was due largely to the significant increase in operating expenses compared to Q1-FY2019. Major contributors to total operating expenses in the second quarter of FY2019 of \$3.50 million included:

- Management and consulting fees of \$1.38 million
- Share-based compensation of \$0.66 million
- Advertising and promotion expense of \$0.53 million
- Professional fees of \$0.25 million.

Net losses for Q2-FY2019 were \$3.44 million (EPS: -\$0.04) and \$4.46 million (EPS: -\$0.06) for the six months. We had estimated that the company would report a net loss of \$3.46 million for FY2019, which would have implied year-end EPS of -\$0.04. However, the company's net loss of the last six months has already surpassed our net loss estimate for FY2019. Major

reasons for the discrepancy are higher than forecasted operating costs and lower than expected revenue numbers.

**We are adjusting our FY2019 net loss estimate to \$8.53 million (EPS: -\$0.08). Our FY2020 net earnings forecast remains unchanged at \$6.35 million (EPS: \$0.06).**

The following table provides a summary of the company’s cashflows. Free cash flows to the company decreased significantly in the quarter due to substantial capital expenditures related to the acquisition of Bloomera.

Summary of Cash Flows		
(\$, mm)	2019 (3M)	2019 (6M)
Operating	-\$0.48	-\$4.71
Investing	-\$0.79	-\$19.14
Financing	\$0.00	\$25.73
Effects of Exchange Rate	\$0.00	\$0.00
<b>Net</b>	<b>-\$1.27</b>	<b>\$1.88</b>
<b>Free Cash Flows to Firm (FCF)</b>	<b>-\$1.27</b>	<b>-\$23.85</b>

Source: FRC, Financial Statements

At the end of Q2-FY2019, the company had a cash position of \$5.26 million and working capital of \$4.88 million, as well as a current ratio of 2.32x. Furthermore, long-term debt increased to \$12.32 million from nil in the previous quarter, resulting from a convertible debt issue during the period.

(in CS) - YE Oct 31st		
Liquidity & Capital Structure	Q1-2019	Q2-2019
Cash	2,108,678	5,258,393
Working Capital	1,432,870	4,876,471
Current Ratio	2.06	2.32
LT Debt	-	12,323,137
Total Debt	239,147	12,323,137
LT Debt / Capital	-	0.28
Total Debt / Capital	0.03	0.28
EBIT Interest Coverage	(167.43)	(6.48)
Total Invested Capital	5,381,018	38,606,596

Source: FRC, Financial Statements

**Stock Options and Warrants:** We estimate that the company currently has 2.43 million options (weighted average exercise price – \$1.25), and 33.21 million warrants (weighted average exercise price - \$1.29) outstanding. None of the options or warrants are in-the-money.

**Financings:** on July 13, 2018, the company announced that it had raised a total of \$8.05 million in gross proceeds. The company issued 11.50 million units (comprising one share and one warrant exercisable at \$0.90) at \$0.70 per unit. The proceeds are expected to be used to advance the WAL and Fort McMurray facilities, and general working capital.



Our consolidated income statement projections are provided below:

STATEMENTS OF OPERATIONS							
(in CS) - YE Oct 31st	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Revenue	3,174,245	46,420,000	80,800,000	203,825,000	232,950,000	237,100,000	237,350,000
COGS	2,682,999	24,244,000	41,980,000	104,262,500	119,565,000	122,470,000	122,645,000
<b>Gross Profit</b>	<b>491,246</b>	<b>22,176,000</b>	<b>38,820,000</b>	<b>99,562,500</b>	<b>113,385,000</b>	<b>114,630,000</b>	<b>114,705,000</b>
<b>EXPENSES</b>							
SG&A Expense	6,039,910	11,605,000	20,200,000	50,956,250	58,237,500	59,275,000	59,337,500
Share-based Compensation	2,044,929	1,160,500	2,020,000	5,095,625	5,823,750	5,927,500	5,933,750
<b>EBITDA</b>	<b>(7,593,593)</b>	<b>9,410,500</b>	<b>16,600,000</b>	<b>43,510,625</b>	<b>49,323,750</b>	<b>49,427,500</b>	<b>49,433,750</b>
Depreciation & Amortization	59,730	1,556,744	1,970,878	3,969,377	4,107,387	3,952,017	3,804,416
<b>EBIT</b>	<b>(7,653,323)</b>	<b>7,853,756</b>	<b>14,629,122</b>	<b>39,541,248</b>	<b>45,216,363</b>	<b>45,475,483</b>	<b>45,629,334</b>
Financing Costs	875,000	1,500,000	625,000				
<b>EBT</b>	<b>(8,528,323)</b>	<b>6,353,756</b>	<b>14,004,122</b>	<b>39,541,248</b>	<b>45,216,363</b>	<b>45,475,483</b>	<b>45,629,334</b>
Non-Recurring Expenses							
Taxes			3,641,072	10,280,725	11,756,254	11,823,625	11,863,627
<b>Net Profit (Loss)</b>	<b>(8,528,323)</b>	<b>6,353,756</b>	<b>10,363,050</b>	<b>29,260,524</b>	<b>33,460,109</b>	<b>33,651,857</b>	<b>33,765,707</b>

Source: FRC

**Valuation**

**Discounted Cash Flow Valuation**

Our updated DCF valuation on RavenQuest's shares is \$2.05 per share versus our previous fair value of \$2.22 per share. The change in our model's outputs are due to an increase in the company's shares outstanding and lowering of our FY2019 forecasts.

DCF Model	2019E	2020E	2021E	2022E	2023E	2024E	2025E	Terminal
EBIT(1-tax)	\$ -3,662,209	\$ 5,811,780	\$ 10,825,550	\$ 29,260,524	\$ 33,460,109	\$ 33,651,857	\$ 33,765,707	
Non-Cash Expenses	\$ 691,752	\$ 2,717,244	\$ 3,990,878	\$ 9,065,002	\$ 9,931,137	\$ 9,879,517	\$ 9,738,166	
Investment in WC	\$ 627,627	\$ -9,295,777	\$ -7,110,600	\$ -25,681,250	\$ -5,968,250	\$ -705,500	\$ -42,500	
CFO	\$ -2,342,830	\$ -766,754	\$ 7,705,828	\$ 12,644,275	\$ 37,422,996	\$ 42,825,875	\$ 43,461,373	
CAPEX	\$ -10,856,819	\$ -9,839,437	\$ -41,940,845	\$ -6,729,577	\$ -1,000,000	\$ -1,000,000	\$ -1,000,000	
FCF	\$ -13,199,649	\$ -10,606,190	\$ -34,235,017	\$ 5,914,698	\$ 36,422,996	\$ 41,825,875	\$ 42,461,373	\$ 43,735,214
PV	\$ -12,802,440	\$ -9,103,562	\$ -26,004,233	\$ 3,975,828	\$ 21,666,675	\$ 22,018,270	\$ 19,781,251	\$ 203,746,890
Discount Rate	13%							
Terminal Growth Rate	3%							
Total PV	\$ 223,278,681							
Cash - Debt	\$ 1,263,712							
Equity Value	\$ 224,542,392							
Shares O/S (dil)	109,775,307							
<b>Fair Value</b>	<b>\$ 2.05</b>							

Source: FRC

**We are revising our fair value estimate to \$2.05 per share and maintaining our BUY rating on RavenQuest.**

**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.
- Retail roll-out of cannabis is still uncertain despite the nearing legalization date of October 17, 2018.

- There is no guarantee that the company will be granted an ACMPR license for its AGB facility, Fort McMurray facility, or WAL facility. Failure to secure said licenses will bar the company from producing or selling cannabis in Canada.
- No guarantee that the company will be able to sell the majority of cannabis produced at their facilities.
- Contamination risk and other risks associated with biological/ agricultural production.
- Access to capital and share dilution.
- Liquidity risk.

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

## Appendix

<b>STATEMENTS OF OPERATIONS</b>				
<b>(in CS) - YE Oct 31st</b>	<b>2017*</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>
Revenue	2,343,300	112,351	3,174,245	46,420,000
COGS		97,697	2,682,999	24,244,000
<b>Gross Profit</b>	<b>2,343,300</b>	<b>14,654</b>	<b>491,246</b>	<b>22,176,000</b>
<b>EXPENSES</b>				
SG&A Expense	3,338,559	610,178	6,039,910	11,605,000
Share-based Compensation		45,800	2,044,929	1,160,500
<b>EBITDA</b>	<b>(995,259)</b>	<b>(641,324)</b>	<b>(7,593,593)</b>	<b>9,410,500</b>
Depreciation & Amortization	120,119	286	59,730	1,556,744
<b>EBIT</b>	<b>(1,115,378)</b>	<b>(641,610)</b>	<b>(7,653,323)</b>	<b>7,853,756</b>
Financing Costs	12,146	147,056	875,000	1,500,000
<b>EBT</b>	<b>(1,127,524)</b>	<b>(788,666)</b>	<b>(8,528,323)</b>	<b>6,353,756</b>
Non-Recurring Expenses	17,338	2,512,415		
Taxes	26,450			
<b>Net Profit (Loss)</b>	<b>(1,171,312)</b>	<b>(3,301,081)</b>	<b>(8,528,323)</b>	<b>6,353,756</b>
Non-Controlling Interest*	(6,971)	(54)		
<b>Net Profit (Loss) to Shareholders</b>	<b>(1,164,341)</b>	<b>(3,301,027)</b>	<b>(8,528,323)</b>	<b>6,353,756</b>
Weighted Average Shares Outstanding	29,000,000	32,479,065	105,440,013	105,440,013
Earnings per Share	\$ -0.04	\$ -0.10	\$ -0.08	\$ 0.06

\*Interest bought out subsequent to FY2017

<b>BALANCE SHEET</b>			
<b>(in C\$) - YE Oct 31st</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and Cash Equiv.	3,379,856	4,025,840	8,961,626
A/R	-	634,849	9,284,000
GST Receivable	183,993	183,993	183,993
Prepaid Expenses	103,773	952,274	464,200
Inventory	-	-	4,642,000
<b>Total Current Assets</b>	<b>3,667,622</b>	<b>5,796,955</b>	<b>23,535,819</b>
Reclamation Bond	4,000	4,000	4,000
Deposit	-	-	-
PPE	1,194,603	31,134,873	39,417,566
Intangible Asset	3,833,684	17,457,684	17,457,684
<b>Total Assets</b>	<b>8,699,909</b>	<b>54,393,512</b>	<b>80,415,069</b>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
A/P	898,075	1,341,500	4,848,800
Loans Payable	233,008	-	-
Shareholder Loans	-	-	-
<b>Total Current Liabilities</b>	<b>1,131,083</b>	<b>1,341,500</b>	<b>4,848,800</b>
Convertible Debt	-	12,859,583	12,859,583
<b>Total Liabilities</b>	<b>1,131,083</b>	<b>14,201,083</b>	<b>17,708,383</b>
<b>SHAREHOLDERS EQUITY</b>			
Share Capital	13,096,741	50,066,217	65,066,217
Reserves	53,800	2,098,729	3,259,229
Equity Portion of Convertible Loans	-	2,140,417	2,140,417
Non-Controlling Interest	2,895	-	-
Deficit	(5,584,610)	(14,112,933)	(7,759,177)
<b>Total shareholders' equity (deficiency)</b>	<b>7,568,826</b>	<b>40,192,430</b>	<b>62,706,686</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>8,699,909</b>	<b>54,393,512</b>	<b>80,415,069</b>

<b>STATEMENTS OF CASH FLOWS</b>			
<b>(in CS) - YE Oct 31st</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>
<b>OPERATING ACTIVITIES</b>			
Net Profit for the Year	(3,301,027)	(8,528,323)	6,353,756
<b>Adjusted for items not involving cash:</b>			
Share-based Compensation	45,800	2,044,929	1,160,500
Fair Value of Bonus Warrants	130,202		
Impairment of Goodwill	2,252,495		
Accrued Interest	2,038		
Depreciation	286	59,730	1,556,744
Net-loss attributable to non-controlling interest	(54)		
Accretion on Convertible Debt			
Interest on Convertible Debt			
Transaction Costs			
Finders Shares Issued on Acq. Of Bloomera			
<b>Funds From Operations</b>	<b>(870,260)</b>	<b>(6,423,664)</b>	<b>9,071,000</b>
<b>Change in working capital</b>			
GST Receivable	(151,152)	-	-
A/R		(634,849)	(8,649,151)
Prepaid Expenses	(66,859)	(848,501)	488,074
A/P	(1,422,160)	443,425	3,507,301
Inventory		-	(4,642,000)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(2,510,431)</b>	<b>(7,463,589)</b>	<b>(224,777)</b>
<b>INVESTING ACTIVITIES</b>			
PPE	(952)	(30,000,000)	(9,839,437)
Acquisition-related	(157,659)		
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(158,611)</b>	<b>(30,000,000)</b>	<b>(9,839,437)</b>
<b>FINANCING ACTIVITIES</b>			
Shareholder loans received	36,915		
Repayment of Shareholder Loans	(120,534)		
Bridge Loans	700,000		
Repayment of Bridge Loans	(700,000)	(233,008)	
Equity	6,300,000	23,342,581	15,000,000
Convertible Debt		15,000,000	
Issue Costs	(448,087)		
Proceeds from warrants exercised	280,000		
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>6,048,294</b>	<b>38,109,573</b>	<b>15,000,000</b>
Foreign Exchange / Others			
<b>INCREASE IN CASH FOR THE YEAR</b>	<b>3,379,252</b>	<b>645,984</b>	<b>4,935,786</b>
<b>CASH, BEGINNING OF THE YEAR</b>	<b>604</b>	<b>3,379,856</b>	<b>4,025,840</b>
<b>CASH, END OF THE YEAR</b>	<b>3,379,856</b>	<b>4,025,840</b>	<b>8,961,626</b>

**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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