



Equity Research: Healthcare - Cannabis

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LGC CAPITAL LTD. TSXV:LG

(Currency is CAD\$ & estimates are attributable, unless noted otherwise)

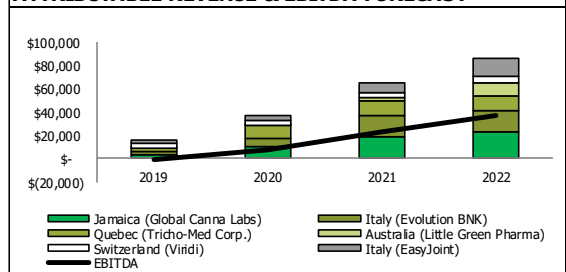
Last Price	\$0.095
Target Price	\$0.20
Potential Return	111%
Net Asset Value Per Share	\$0.21
52 Week Low / High	\$0.08 / \$0.25
Average Daily Volume (30-Day)	806K

CAPITALIZATION	Basic	Diluted
Shares Outstanding (M)	495.0	600.9
Market Capitalization (\$M)		\$47.0
Enterprise Value (\$M)		\$33.8
Cash Balance (\$M)		\$15.5
Total Debt (\$M)		\$2.3

LGC CAPITAL OPERATIONS	2019E	2020E	2021E
Flower Produced (kg) - 100%	10,700	30,800	51,800
Revenue (\$M)	\$15.6	\$37.8	\$65.8
Cash Costs (\$ per gram)	\$0.96	\$1.00	\$0.96
AICC (\$ per gram)	\$2.31	\$2.10	\$1.66
EBITDA (\$M)	-\$0.7	\$7.3	\$23.6
FCF (\$M)	-\$14.1	-\$15.1	\$0.1
Total CAPEX (\$M)	\$12.7	\$19.0	\$14.6
CFPS	\$0.00	\$0.01	\$0.03
Cash At Year End (\$M)	\$6.1	\$3.0	\$2.6
Debt At Year End (\$M)	\$2.5	\$6.0	\$6.0

RELATIVE VALUATION	P/NAV	EV/EBITDA
		2019E 2020E
LGC Capital Ltd	0.5x	nm 4.6x
Cannabis Holdings Companies	n/a	5.4x 6.4x
Gold and Oil Royalty Companies	1.4x	8.5x 8.0x

ATTRIBUTABLE REVENUE & EBITDA FORECAST

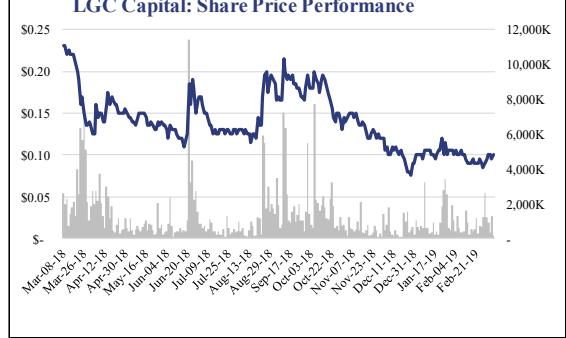


MAJOR SHAREHOLDERS

Management & Insiders (21.3%)

DISCLOSURE CODE:

Disclosure: None (See back page for further details)



Source: Ubika, Capital IQ

INTERNATIONAL CANNABIS EXPOSURE TRADING AT A DISCOUNT

COMPANY DESCRIPTION

• **LGC Capital Ltd. is a Canada-based investment holdings company focused on acquiring production, brands, and distribution in mature and emerging cannabis markets.** Through its portfolio of companies, LGC Capital has a unique focus on international markets. As international markets continue to expand, the Canadian and U.S. markets should take notice, and international cannabis plays that invested in the early stages should have premium positions in the market. The Company mainly directs its investments to companies with high-margin product offerings, which include edibles, concentrates, oils, vapes, and CBD-based products.

INVESTMENT THESIS

- **A compelling international portfolio of assets with brands and distribution across four continents.** LGC Capital is focused on identifying and developing successful consumer brands. In terms of a cultivation footprint, LGC has access to more than 450,000 sq. ft. with plans to increase this to 2.1M sq. ft. on a fully consolidated basis by 2020E. For reference, **Canopy Growth Corp. (TSX:WEED, \$60.81 | N/R)**, the largest cannabis company by market cap at \$21B, has ~1.3M sq. ft. under construction.
- **LGC has invested \$29M to date.** These investments range from modest ownership of vertically-integrated operators in mature medical markets to cultivation/sales licenses in geographies ripe with potential for significant recreational upside. To date, the Company has made investments across five countries.

VALUATION

- **We are initiating coverage of LGC Capital with a BUY rating and a target price of \$0.20/share.** We utilize a 50/50 blended net asset value (NAV) and EV/EBITDA methodology for our valuation. For NAV, we use a 10-year DCF, discounted one-year out for \$0.21/share. For EV/EBITDA, we utilized a conservative 4.0x multiple, consistent with cannabis holdings companies and intermediate cannabis producers, applied to our 2021E EBITDA estimate, equating to \$0.18/share. We utilize a fully-financed share count, which presumes an \$8.0M raise at \$0.10 and \$6.0M in debt at a 10% interest rate.
- **Trades at a discount to peers.** LGC currently trades at 4.6x our 2020E EBITDA estimates of \$23.6M, a discount to cannabis holdings companies and gold and oil royalty companies, which trade at an average of 6.4x and 8.0x, respectively. We believe this gap should close as LGC begins to make material cash flow.

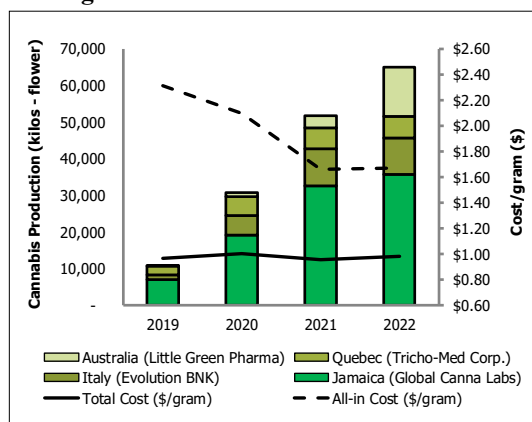
COMPANY HIGHLIGHTS

Figure 1: LGC Capital Logo



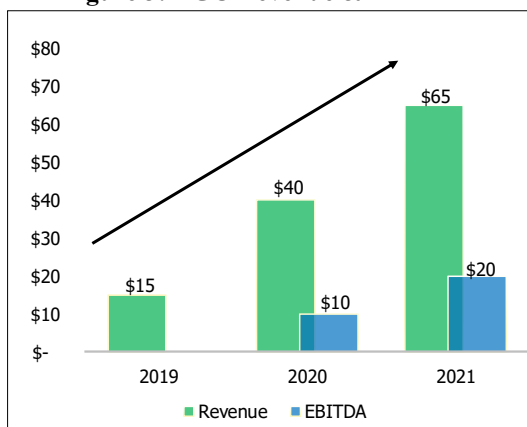
Source: Company Reports

Figure 2: LGC Cannabis Production



Source: Ubika

Figure 3: LGC Revenue & EBITDA



Source: Ubika

- Global Canna Labs, the current 220,000 sq. ft. Jamaican asset with significant expansion potential, is expected to produce 22,000 kg of medical cannabis by 2020E and over 44,000 kg by 2021E.** We anticipate first revenues to be generated from Jamaica in Q1/19. We highlight that LGC paid \$2.5M for a 30% equity stake in Global Canna Brands for an implied valuation of \$8.3M, which we believe was the lowest acquisition price disclosed by an outside public company in Jamaica. Comparatively, **Aphria Inc. (TSX:APHA, \$12.76 | N/R)** paid \$205M for Marigold Projects Jamaica.
- First-mover advantage in Australian and Asian markets.** LGC owns a 15% equity stake, with an option to purchase an additional 4%, in Little Green Pharma (LGP) for ~\$4.7M, Australia’s largest licensed producer in terms of production capacity. LGP was one of eight producers to receive the first cultivation licenses from the Australian government. We believe that Little Green Pharma has significant upside, potentially driven by the \$3B+ Australian recreational market, and further expansion opportunities to move into the Asian cannabis markets.
- Well positioned to take advantage of the potential \$100B European recreational market.** With two portfolio companies focused in Italy at 47% (EasyJoint) and 49% (Evolution BNK) equity stakes, respectively, LGC Capital has been quickly adding to its geographic exposure in Europe. We believe both of these assets have an annual revenue potential of \$27.6M by 2021E. Importantly, LGC Capital also has a distribution network of 400 retail locations in Italy and 90 retail locations in Switzerland.
- Opportunity to gain supply deals with Quebec.** There are currently 12 LPs with cultivation licenses in Quebec, compared to the ~65 LPs with cultivation licenses in Ontario. Tricho-Med, LGC’s Canadian asset, is located in Quebec with a 49% equity stake. Importantly, due to the low concentration of Quebec producers, we believe that Tricho-Med has an advantage and could secure a supply agreement with the Quebec government. We are forecasting that Tricho-Med can achieve revenues of \$2.8M by 2019E, and \$12.7M by 2022E, once construction of the second facility is completed.
- Business model includes royalty agreements with portfolio companies.** The Company currently has 5% royalty agreements on net revenues with four of its portfolio companies (Tricho-Med, Global Canna Labs, Evolution BNK, and Viridi). We are forecasting that these royalty agreements could generate ~1.2M in revenues by 2019E, and ~\$5.8M in revenues by 2021E. With high margins, LGC Capital should have ample cash flow to provide additional financing to its portfolio companies or to acquire other assets.

COMPANY OVERVIEW

LGC Capital is an investment holding and royalties company, focused on building a portfolio of early-stage cannabis companies in legal markets around the world. Investing globally allows the Company to diversify geopolitical and regulatory risks specific to one country or region. LGC's portfolio of companies produce a range of cannabis products, including flowers, oils, and a variety of products for the recreational and medicinal markets. LGC's investment model is structured strategically by selecting early cannabis leaders in legal cannabis markets, providing financing through debt or equity and, in many cases, negotiating a royalty arrangement. The Company's current portfolio of companies are active in Canada, Jamaica, Italy, Switzerland and Australia.

Figure 4: LGC's Global Investee Companies


Source: Company Reports

Figure 5: LGC's Portfolio of Companies

Asset	Asset	Asset	Asset	Asset	Asset	Asset	Asset
Tricho-Med	Quebec	49% for CAD\$4M (10% Conv. debt)	5% net sales	Medical	2019	24,000 kg	200,000 kg
Global Canna Labs	Jamaica	30% for CAD\$2.5M (7% Conv. debt)	5% net sales	Medical	Q2 2018	25,000 kg	
Little Green Pharma	Australia	15% Equity for AUD\$1.5M Option for 19%		Medical	Currently Growing	Not available	50,000 kg
Viridi	Switzerland	30% Equity for CHF\$3M in LGC shares	5% net sales	Cannabis Light (<1.0% THC)	Distribution focused	Not in production	
Evolution BNK	Italy	EUR\$4.7M conv. debt convertible to 49% equity	5% net sales	Cannabis Light (<0.2% THC)	Currently Growing	32,000 kg	
EasyJoint	Italy	47% equity for EUR\$4.78M in cash and stock		Cannabis Light (<0.2% THC)	NA	Distribution to 450 retail outlets	

Source: Company Reports, Ubika

Figure 6: LGC Capital NAV Summary

Ubika Alpha Research Estimates				
Portfolio Company	Project NAV	Breakdown %	Attributable Revenue	
			2019E	2020E
Tricho-Med	\$13.3	11.8%	\$2,825	\$11,415
Global CannaLabs	\$24.0	21.2%	\$3,708	\$10,734
Little Green Pharma	\$17.5	15.5%	\$163	\$1,099
Easy Joint	\$31.2	27.7%	\$2,832	\$4,746
Viridi Unit SA	\$11.4	10.1%	\$3,100	\$3,674
Evolution BNK	\$15.5	13.8%	\$2,988	\$6,110
Total:	\$113.0	100.0%	\$15,616	\$37,778

Source: Ubika

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OVERVIEW OF PORTFOLIO COMPANIES

JAMAICA



STATE OF THE MARKET

Since the decriminalization of cannabis in February 2015, Jamaica formally became a medical-only destination. However, the system remains relatively loose, similar to grey-market dispensaries in Canada before legalization. Without much effort, a consumer (tourist or local) can purchase cannabis after a short consultation with an onsite medical professional.

To take advantage of the Jamaican market, low-cost cultivation, and the opportunity for major international exports, international companies have taken note of Jamaica's vibrant medical cannabis industry characterized by its ability to grow cannabis outdoors for 12 hours a day, year round. According to the 2017 World Drug Report by the United Nations Office on Drugs and Crime, 7.2% of the Jamaican population between the ages of 15-64 use cannabis annually. Given a population of nearly 2.9M people, this translates into approximately 210,000 users every year. Assuming that each cannabis user consumes an average of 8 grams per week (in comparison, Canadians who smoke cannabis weekly consume an average of 11 grams per week), and that the retail price is US\$1.50/gram (obtained from the 2017 UN World Drug Report), the total cannabis market in Jamaica could be worth US\$450M to US\$600M, including tourism (Figure 7).

According to the [Jamaica Information Service](#), tourism generates over US\$3B in revenues for Jamaica annually, a number that is projected to increase as legal production in the country grows. Currently, cannabis can be obtained by anyone with a medical prescription, including from outside the country and non-resident tourists. Under the current process, a patient is typically interviewed by a doctor for a fee, the doctor will then state that you can be prescribed cannabis for medical reasons, then the dispensary can sell you medical cannabis for a fixed period. As the laws surrounding recreational use are not particularly harsh, marijuana is readily available to tourists looking to visit the island nation.

Since Jamaica is a federally-regulated medical cannabis market, it has been able to export medical cannabis products, including cannabis oils that have been [exported to Canada](#) in September 2018. The shipment, approved by both Health Canada and Jamaica's Cannabis Licensing Authority, represents a turning point for Jamaica's cannabis industry. This presents an enormous opportunity for Jamaican cultivators should the international markets further open for exports, as the country's climate allows for low-cost production. Other markets that could become prime destinations for export include Europe (notably Germany), Chile, Brazil, and Australia. Jamaica is also part of a Caribbean trade union called [CariCom](#), which is working to ensure duty-free export of cannabis from the Caribbean.

OVERVIEW OF THE ASSET


LGC Capital owns a 30% equity stake, with a 5% royalty in Global Canna Labs, a Jamaican cannabis company with a currently operational 220,000 sq. ft. facility. Global Canna Labs has a Tier 3 cultivation license, which allows the Company to grow medical-grade cannabis over 5 acres. Of the 220,000 sq. ft., 31,000 sq. ft. is greenhouse and 189,000 sq. ft. is outdoor. GCL has expansion plans to increase the greenhouse space by 58,000 sq. ft. during H2/2019.

In comparison, the largest greenhouses in Canada include Aurora's 800,000 sq. ft. Aurora Sky facility in Edmonton, Alberta, with a planned production capacity of 100,000+ kg by year end, and Canopy's 1.7 million sq. ft. facility in B.C., with over 900,000 sq. ft. of growing space. We expect Global Canna Labs to produce 23,000 kg of medical cannabis by 2020E, and over 39,000 kg by 2021E. The facility is located in Montego Bay, a major tourist hub for the country. We believe the Company could attain significant margins by supplying tourists with premium cannabis at hotels. We are also bullish on the opportunity to export oil to international markets.

Figure 7: Jamaican Cannabis Market Sizing

Jamaica		2019E	2020E	2021E	2022E	2023E
Population	<i>millions</i>	2.9	2.9	2.9	2.9	2.9
% Adult Population (20+ yrs.)	%	69.2%	69.6%	69.9%	70.3%	70.6%
Adult Population (20+ yrs.)	<i>millions</i>	2.0	2.0	2.0	2.1	2.1
% Population using cannabis	%	12.1%	12.5%	12.8%	13.2%	13.6%
Total cannabis users	<i>millions</i>	0.2	0.3	0.3	0.3	0.3
Conversion from illegal to legal - Downside Case	%	40.0%	42.0%	44.0%	46.0%	48.0%
Conversion from illegal to legal - Base Case	%	60.0%	62.0%	64.0%	66.0%	68.0%
Conversion from illegal to legal - Upside Case	%	85.0%	87.0%	89.0%	91.0%	93.0%
Add tourism	<i>millions</i>	4.3	4.4	4.5	4.6	4.7
Tourist conversion	%	15.0%	16.0%	17.0%	18.0%	19.0%
Total tourists using cannabis	<i>millions</i>	0.6	0.7	0.8	0.8	0.9
Jamaica - Total legal cannabis users (incl. tourism)						
Downside Case	<i>millions</i>	0.7	0.8	0.9	0.9	1.0
Base Case	<i>millions</i>	0.8	0.9	0.9	1.0	1.1
Upside Case	<i>millions</i>	0.9	0.9	1.0	1.1	1.1
Jamaica - Demand metrics						
Average daily consumption	<i>grams/day</i>	1.10	1.12	1.14	1.17	1.19
Annual consumption - Downside Case	<i>kg/year</i>	298,046	330,822	365,845	403,247	443,085
Annual consumption - Base Case	<i>kg/year</i>	317,586	351,504	387,734	426,413	467,564
Annual consumption - Upside Case	<i>kg/year</i>	342,010	377,355	415,094	455,369	498,163
Jamaica Market Value						
Retail price	<i>dollars</i>	1.50 USD	1.43 USD	1.35 USD	1.29 USD	1.22 USD
Cannabis market value - Downside Case	<i>\$U/M</i>	447.1M	471.4M	495.3M	518.6M	541.3M
Cannabis market value - Base Case	<i>\$U/M</i>	476.4M	500.9M	524.9M	548.4M	571.3M
Cannabis market value - Upside Case	<i>\$U/M</i>	513.0M	537.7M	561.9M	585.6M	608.6M
Cannabis market value - Base Case \$C	<i>\$C/M</i>	628.8M	661.2M	692.9M	723.9M	754.1M

Source: Ubika, World Bank, United Nations Office on Drugs and Crime

NOTE ON OUTDOOR VS. INDOOR PRODUCTION ECONOMICS


According to a 2010 [report](#) by the RAND Corporation, a Washington-based global policy think tank, the estimated outdoor production cost for cannabis ranges between US\$100-\$265/pound (US\$0.22-\$0.58/gram). The report utilizes cultivation costs of cherry tomatoes as a proxy, due to the similarities in cultivation between the two plants. In our view, the availability of machinery and automation could significantly reduce production costs to below \$0.30/gram.

In contrast, indoor greenhouses require large CAPEX, and consume a significant amount of power (\$0.11-0.18/Kwh in Ontario) to maintain optimal growing conditions. Canopy Growth Corp. (TSX:WEED, \$60.81 | N/R), Aurora Cannabis (TSX:ACB, \$10.37 | N/R), and Aphria (TSX:APHA, \$12.76 | N/R), which use indoor facilities, and have estimated cash costs per gram ranging from \$1.53 - \$1.82. Outdoor growing, however, offers dramatically lower costs. We note that on the downside, the market rates for greenhouse/outdoor are likely to be significantly lower than indoor quality (we estimate by 40-60%). However, economics are still robust, as there is a significant amount of land available, costs are lower, and there are substantially lower CAPEX requirements.

Figure 8: Jamaican M&A Table

Company	Parent	Ownership	Price	Implied EV	Licences	Production Capacity
Global Canna Labs Ltd. ("GCL")	TSXV:LG	30% convertible, 5% royalty	\$2.5M	\$8.3M	Tier-3 cultivation license	278,000 sq. ft (220,000 sq. ft / Oct 2018 + additional 58,000 by Dec 2019)
R&D Pharma	CSE:YOLO	100% Equity	\$10.0M	\$10.0M	Tier-3 cultivation license	Under Construction
Marigold Projects Jamaica	TSX:APHA	49% Equity, 95% royalty	\$100.4M	\$204.8M	Tier-3 cultivation license	2,500 kg/harvest
Grow House JA Limited (Tweed JA)	TSX:WEED	49% Equity	Not Disclosed	Not Disclosed	Tier-3 cultivation license	30,000 plants
Epican Medicinal Ltd.	TSE:TGOD	49% Equity	Not Disclosed	Not Disclosed	Tier 1 cultivator licence	125,000 sq. ft / 14,000 kg

Source: Ubika, Company Reports

Global Canna Labs Ltd (GCL) has one of the largest footprints of all the Jamaican LPs and, as a result, LGC Capital is strategically positioning itself as a leader in the Jamaican cannabis market. We believe that Global Canna Labs should be able to achieve revenue of \$18.9M by 2021E, with a selling price of ~US\$1.76 per gram. The Company estimates are reaching 540,000 sq. ft. by 2020E, however, for conservatism purposes, we have only modeled a max of 264,000 sq. ft.

LGC's stake in Global Canna Brands was purchased at a significant discount to the market for an implied valuation of \$8.3M (Figure 8). The purchase also included a full greenhouse on the site, which according to management, is likely to be further advanced than other licensed producers that operate in the country. Comparatively, **Aphria (TSX:APHA, \$12.76 | N/R)** paid \$205M, which equates to 24.7x more than LGC Capital's purchase price, for a significantly less advanced facility with no greenhouse.

Figure 9: Overhead View of the GCL Property in Montego Bay, Jamaica



Source: Global Canna Labs

Figure 10: Inside the Greenhouse



Source: Global Canna Labs

CANADA



STATE OF THE MARKET

Canada made history by becoming the first country in the G20 to federally legalize recreational cannabis consumption. Legalization marks a significant transition for Canadian society and has the potential to set an example for other countries to follow. According to Deloitte's [2018 Canadian Cannabis Report](#), the size of the legal market in Canada is estimated to be in the neighbourhood of ~\$4B, while medical cannabis is expected to be ~\$1B. Not surprisingly, a majority of sales are expected to come from Ontario and Quebec. Importantly, we note, Statistics Canada reports the current black market makes up 70% of the market. In our opinion, one of the essential differentiators from Canada and the U.S. is that Canada can export internationally. This opens up significant market reach; recall the move by **Tilray (NASDAQ:TLRY, US\$70.00 | N/R)** when it announced the signing of a Joint Venture (JV) agreement with **Novartis (SWX:NOVN, CHF89.94 | N/R)**. The signing was driven by Tilray's milestone in being the first licensed producer to obtain a current Good Manufacturing Practice (GMP) certification in accordance with EU standards. The JV represents the intentions of the two companies to jointly operate in jurisdictions where cannabis is approved for medical purposes. For reference, GMP is a requirement needed for Active Pharmaceutical Ingredient (API) products. This certification is important for any cannabis sales that are medically related, especially cannabis oil.

Canadian cannabis companies are heavily concentrated in Ontario. Some of the largest Canada-listed companies, such as **Canopy Growth Corp. (TSX:WEED, \$60.81 | N/R)** and **Aphria Inc. (TSX:APHA, \$12.76 | N/R)**, are headquartered in the province. Since supply agreements (a critical factor in generating stable and reliable cash flows) are determined by provincial governments, some provinces, such as Quebec, offer preferential treatment to those based within the province. For example, **HEXO Corp. (TSX:HEXO, \$7.23 | N/R)**, a Quebec-based cannabis company, was awarded the largest supply agreement out of the six companies that secured agreements. HEXO agreed to supply the SAQ with as much as 100,000 kg to the province over three years (Year 1: 20,000 kg, Year 2: 35,000 kg, Year 3: 45,000 kg). Due to the saturation of licensed producers in Ontario, Quebec presents a prime opportunity for companies such as Trico-Med, an investee company of LGC Capital, to expand their operations.

According to a [report](#) from BDS Analytics and ArcView Research, retail THC/CBD concentrate sales are projected to reach US\$8B annually by 2022E. Based on data provided by [Health Canada](#), cannabis oil sales grew 32% to 4,455 kg in September 2018 from 3,374 kg in April 2018. In comparison, dried cannabis sales were down 25% to 1,755 kg in September 2018 from 2,354 kg in April 2018. In our view, once recreational edibles sales begin on October 17, 2019 (government target date), the growth of extract sales should increase significantly. We believe that being a medicinal cannabis producer, Tricho-Med is well positioned to supply the extraction market with its premium indoor low-cost production.

Quebec's low cost of power is ideal for indoor/greenhouse operations. Electricity rates, a key cost driver for cannabis growing facilities, are significantly lower in Quebec, allowing for a lower cost structure and higher margins. Electricity rates in Ontario can range from \$0.11 - \$0.18 per kWh, while prices in Quebec fluctuate around the \$0.04 range. Other significant operating expenditures include labour costs, lease payments for the property, alarm & security services, and hydro services. In our view, due to the low price of electricity, production costs in Quebec should be less than \$1.00/gram. **HEXO Corp. (TSX:HEXO, \$7.23)** [reported](#) Q3/18 results, with an average cost per gram of \$0.88, compared to **Aurora Cannabis (TSX:ACB, \$10.37)**, which has a cost per gram of \$1.92.

Figure 11: Canadian Cannabis Market Sizing

Canada		2019E	2020E	2021E	2022E	2023E
Population	<i>millions</i>	37.3	37.7	37.9	38.2	38.5
% Adult Population (20+ yrs.)	%	78.5%	78.6%	78.5%	78.5%	78.5%
Adult Population (20+ yrs.)	<i>millions</i>	29.3	29.6	29.8	30.0	30.3
% Population using cannabis	%	16.0%	16.5%	17.0%	17.5%	18.0%
Total cannabis users	<i>millions</i>	4.7	4.9	5.1	5.2	5.4
Conversion from illegal to legal - Downside Case	%	35%	37%	39%	41%	43%
Conversion from illegal to legal - Base Case	%	55%	57%	59%	61%	63%
Conversion from illegal to legal - Upside Case	%	85%	87%	89%	91%	93%
Canada - Total legal cannabis users						
Downside Case	<i>millions</i>	1.6	1.8	2.0	2.2	2.3
Base Case	<i>millions</i>	2.6	2.8	3.0	3.2	3.4
Upside Case	<i>millions</i>	4.0	4.2	4.5	4.8	5.1
Canada - Demand metrics						
Average daily consumption	<i>grams/day</i>	0.56	0.57	0.58	0.59	0.61
Annual consumption - Downside Case	<i>kg/year</i>	335,666	376,158	419,636	466,899	518,273
Annual consumption - Base Case	<i>kg/year</i>	527,475	579,487	634,834	694,655	759,330
Annual consumption - Upside Case	<i>kg/year</i>	815,188	884,480	957,632	1,036,289	1,120,916
Canadian Market Value						
Retail price	<i>dollars</i>	7.00 CAD	6.65 CAD	6.32 CAD	6.00 CAD	5.70 CAD
Cannabis market value - Downside Case	<i>\$/B</i>	2.3B	2.5B	2.7B	2.8B	3.0B
Cannabis market value - Base Case	<i>\$/B</i>	3.7B	3.9B	4.0B	4.2B	4.3B
Cannabis market value - Upside Case	<i>\$/B</i>	5.7B	5.9B	6.0B	6.2B	6.4B

Source: Ubika, World Bank, United Nations Office on Drugs and Crime

Overview of the Asset

LGC Capital has exposure to the Canadian market through its \$4M purchase of a 49% equity stake in Tricho-Med, a Quebec-based cultivator and distributor of medical cannabis. As part of the acquisition of the equity interest, LGC Capital will also receive a 5% royalty on Tricho-Med's net sales.

Tricho-Med is expected to begin growing operations in early 2019, with production expected to reach nearly 25,000 kg by 2022E. Quebec's low electricity costs, a major expenditure for greenhouse operations, gives the Company a competitive advantage over cannabis companies operating in Ontario. As of late August 2018, Phase I construction of Tricho-Med's initial 31,000 sq. ft. facility – located in Brownsburg, QC – was underway. We model the Tricho-Med facility becoming operational and reaching 70,000 sq ft in Q2/19, followed by a small expansion to 81,000 sq. ft. in Q2/21.

We are forecasting that Tricho-Med can achieve revenues of \$2.8M in 2019E, and \$12.7M in 2022E. Our forecast assumes a long term wholesale ~US\$3.74/gram price. We believe that Tricho-Med has a unique advantage in securing a supply deal with the Quebec government, as the Quebec government has a history of supporting local companies. In May 2018, Gatineau, Quebec's HEXO Corp. (TSX:HEXO, \$7.23 | N/R) received the largest supply deal of all Canadian LPs from the Quebec government for ~100,000 kg over three years.

ITALY 

STATE OF THE MARKET

Cannabis is a heavily-regulated industry in Italy, where it is legal for medical and industrial markets and is decriminalized for recreational use. Italy has a history of cannabis production. According to [The Independent](#), Italy is said to have been the world's second-largest industrial cannabis producer in the 1940s. More recently, the country passed Law 242/16 in December 2016, which allows Italian farmers to plant and grow certified hemp varieties with a THC content under 0.2% without prior authorization. Any non-certified hemp is strictly prohibited. For reference, hemp has several industrial uses, including fabrics, clothing, and biofuels.

As a result of this change in regulatory environment, farmers can now plant cannabis seeds if the THC content is below 0.2%, which has paved the way for a new type of CBD product in Italy that is gaining in popularity and is commonly called **Cannabis Light**. In Italy, legally, hemp products cannot be eaten or smoked. To get around this, Italian merchants must market these low THC hemp flowers with labels including “for technical use” only, and “not for human consumption,” while selling them as collectors’ items. These products sell for over €10/gram in Italy.

Matteo Salvini, the Deputy Prime Minister and Minister of the Interior of Italy, has stated his government’s intentions to tighten the cannabis light market. He seeks to implement a zero-tolerance policy towards cannabis retailers, stating that any hemp that exceeds the defined 0.2% THC limit by any margin should be considered a narcotic. According to the Italian newspaper La Stampa, as many as 8 out of 10 cannabis products on the market could be in a “gray zone,” in which the hemp contains THC content that is slightly outside of the 0.2% THC limit.

Figure 12: Italian Cannabis Market Sizing

Italy		2019E	2020E	2021E	2022E	2023E
Population	millions	60.5	60.4	60.4	60.3	60.2
% Adult Population (20+ yrs.)	%	81.9%	82.0%	82.1%	82.2%	82.3%
Adult Population (20+ yrs.)	millions	49.5	49.5	49.5	49.5	49.6
% Population using cannabis	%	14.6%	15.0%	15.5%	16.0%	16.4%
Total cannabis users	millions	7.2	7.5	7.7	7.9	8.1
Conversion from illegal to legal - Downside Case	%	35%	37%	39%	41%	43%
Conversion from illegal to legal - Base Case	%	50%	52%	54%	56%	58%
Conversion from illegal to legal - Upside Case	%	80%	82%	84%	86%	88%
Italy - Total legal cannabis users						
Downside Case	millions	2.5	2.8	3.0	3.2	3.5
Base Case	millions	3.6	3.9	4.1	4.4	4.7
Upside Case	millions	5.8	6.1	6.4	6.8	7.2
Italy - Demand metrics						
Average daily consumption	grams/day	0.45	0.46	0.47	0.48	0.49
Annual consumption - Downside Case	kg/year	415,647	461,827	511,340	564,866	622,598
Annual consumption - Base Case	kg/year	593,781	649,055	708,009	771,524	839,783
Annual consumption - Upside Case	kg/year	950,050	1,023,509	1,101,348	1,184,841	1,274,154
Italy Market Value						
Retail price	dollars	12.00 EUR	11.40 EUR	10.83 EUR	10.29 EUR	9.77 EUR
Cannabis market value - Downside Case	\$EUR/B	1.5B	1.6B	1.7B	1.8B	1.9B
Cannabis market value - Base Case	\$EUR/B	2.2B	2.3B	2.3B	2.4B	2.5B
Cannabis market value - Upside Case	\$EUR/B	3.5B	3.6B	3.6B	3.7B	3.8B
Cannabis market value - Base Case \$C	\$C/B	3.3B	3.4B	3.5B	3.6B	3.8B

Source: Ubika, World Bank, United Nations Office on Drugs and Crime

OVERVIEW OF THE ASSET

Evolution BNK is in the process of completing Phase I construction of a 70,000 sq. ft. greenhouse facility, allowing it to grow certified hemp with THC content under 0.2%. The facility is expected to be completed in H2/19, with Phase II + III expected to be completed by 2021, adding 150,000 sq. ft. yielding ~35,000 kg. LGC Capital has announced a letter of intent to purchase nearly \$4.7M of its convertible notes, which can be converted into a 49% equity stake under certain circumstances. LGC Capital is planning on converting the notes into an equity stake among successful achievement of a first harvest milestone. The Company expects the deal to close in early Q2/19.

In addition, LGC will have a claim on 5% of Evolution's net sales in the form of a royalty. In its first year of operation, the 70,000 sq. ft. facility is expected to produce 2,500 kg of Cannabis Light product. According to the Company, Evolution BNK is targeting B2B markets in Italy, and elsewhere in Europe, where the sale of Cannabis Light is legal.

Figure 13: EasyJoint Hemp Flower


Source: LGC Instagram

EasyJoint. According to LGC, EasyJoint is one of Italy's largest vertically-integrated legal cannabis producers and a leader in the sale of Cannabis Light products. EasyJoint offers a portfolio of 40 branded products ranging from high CBD dried flower, CBD oils, and edibles. According to a LGC [press release](#), the Company is estimated to have an 85% market share and operates a network of over 400 retail stores. In addition, EasyJoint recorded over \$6M in sales for the 10 months ended October 31, 2018. LGC Capital's investment in EasyJoint includes a 47% equity stake for €4.8M, €2.6M (\$3.8M) in cash and €2.2M (\$3.3M) in stock. The Company may apply for a U.S. listing in the future. We estimate revenue of \$2.8M, \$4.7M, and \$8.7M for 2019E, 2020E, and 2021E, respectively.

Figure 14: Italian Cannabis Comps Table

Company	Parent	License Type	Ownership	Current Annual Production
EasyJoint	TSXV:LG	Cannabis light	47% equity LGC Capital	No Production (buy wholesale)
Evolution BNK	TSXV:LG	Cannabis light	49% equity LGC Capital	70,000 sq. ft 2,500 kg cannabis light
Aphria Italy S.p.A.	TSX:APHA	Import	100% Aphria	None
Aurora Italia	TSX:ACB	None	100% Aurora	None
FL-Group	TSX:APHA	Medical cannabis import license	100% Nuuvera (TSXV: NUU)	None
CBD Italian Factory	CSE:WAYL	Cannabis light	50.1% equity	Unknown
Canapar	Private	Cannabis light	Private	Unknown
Flower Farm	Private	Cannabis light	Private	Unknown

Source: Ubika, Company Reports

As shown in the Italian Comps table above, LGC Capital has a first mover advantage in Italy, with top disclosed production capacity and a distribution network of 400 retail outlets. We believe that with both of its Italian assets (Evolution BNK & EasyJoint), LGC Capital has positioned itself well to take advantage of a potential €1.5B - €3B worth of upside from the Italian cannabis market. We have forecasted revenues of \$18.8M for Evolution BNK by 2021E, at an average wholesale price of ~US\$3.53/gram.

AUSTRALIA 

STATE OF THE MARKET

Australia legalized medical cannabis in 2016, allowing patients with a prescription to obtain the drug for therapeutic purposes. Due to the shortage of physicians licensed to prescribe cannabis, patients in need of medical cannabis are forced to turn to the illicit markets.

A lengthy and bureaucratic process makes it difficult for physicians to obtain licensing, making it hard for patients to even find a doctor that can prescribe medical cannabis. As such, data from the [New South Wales](#) government shows that as of August 2018, 1,000 patients have been given a medical prescription, representing a fraction of the population in need of the products. Compared with 342,103 patients reported by [Health Canada](#) (as at September 31, 2018), Australia's population is ~70% of Canada, which implies the number of patients could be ~240,000. According to the United Nations Office on Drugs and Crime, ~13% of Australians have used cannabis in the last three months. Based on our forecasts, the recreational Australian cannabis market could be worth between A\$1.7B and A\$4.8B by 2021.

Stringent licensing requirements make it difficult for new companies to enter the industry, potentially limiting the country's capacity to export large volumes of product. As of January 2019, 26 medical licenses, allowing for the cultivation and production of cannabis, have been granted in Australia, compared with 146 in Canada. This provides a significant first-mover advantage for early shareholders. In Canada, it took early investors of Canopy Growth, Aurora Cannabis, and Cronos Group, 1-2 years to achieve substantial upside. The Australian cannabis market also opens future opportunities for market access in Asia under free trade agreements that Australia has with many Asian countries. According to the Australian [Department of Agriculture](#), Australia has ten free trade agreements (FTAs) currently in force with China, Japan, Republic of Korea, New Zealand, Singapore, Thailand, US, Chile, the Association of South East Asian Nations (ASEAN) (with New Zealand), and Malaysia.

Figure 15: Australian Cannabis Market Sizing

Australia		2019E	2020E	2021E	2022E	2023E
Population	millions	25.2	25.5	25.8	26.1	26.4
% Adult Population (20+ yrs.)	%	74.8%	74.8%	74.7%	74.6%	74.6%
Adult Population (20+ yrs.)	millions	18.9	19.1	19.3	19.5	19.7
% Population using cannabis	%	12.9%	13.3%	13.7%	14.1%	14.5%
Total cannabis users	millions	2.4	2.5	2.6	2.7	2.9
Conversion from illegal to legal - Downside Case	%	35%	37%	39%	41%	43%
Conversion from illegal to legal - Base Case	%	55%	57%	59%	61%	63%
Conversion from illegal to legal - Upside Case	%	85%	87%	89%	91%	93%
Australia - Total legal cannabis users						
Downside Case	millions	0.9	0.9	1.0	1.1	1.2
Base Case	millions	1.3	1.4	1.6	1.7	1.8
Upside Case	millions	2.1	2.2	2.3	2.5	2.7
Australia - Demand metrics						
Average daily consumption	grams/day	0.56	0.57	0.58	0.59	0.61
Annual consumption - Downside Case	kg/year	174,126	195,676	218,949	244,419	272,296
Annual consumption - Base Case	kg/year	273,627	301,447	331,230	363,647	398,945
Annual consumption - Upside Case	kg/year	422,878	460,104	499,652	542,490	588,919
Australia Market Value						
Retail price	dollars	10.00 AUD	9.50 AUD	9.03 AUD	8.57 AUD	8.15 AUD
Cannabis market value - Downside Case	\$AU/B	1.7B	1.9B	2.0B	2.1B	2.2B
Cannabis market value - Base Case	\$AU/B	2.7B	2.9B	3.0B	3.1B	3.2B
Cannabis market value - Upside Case	\$AU/B	4.2B	4.4B	4.5B	4.7B	4.8B
Cannabis market value - Base Case \$C	\$C/B	2.6B	2.7B	2.9B	3.0B	3.1B

Source: Ubika, World Bank, United Nations Office on Drugs and Crime

OVERVIEW OF THE ASSET


LGC Capital paid ~\$4.7M for a 14.21% interest in Little Green Pharma (LGP), a licensed cultivator and producer of medical cannabis based in Western Australia. Little Green Pharma produces premium products with high bioavailability of active cannabinoids, allowing patients to reap the therapeutic benefits using low doses.

The Company's line of products includes the LGP Classic Range, the LGP Plus Range, and the LGP Advanced Range. The LGP Classic Range offers locally-grown medical cannabis with varying THC:CBD ratios in an oil formulation. The 1:1 THC:CBD ratio products in this range are an ideal starting point for medical practitioners. The LGP Plus Range is manufactured using liposomal small-particle oil technology, allowing the consumer to micro-dose the product to obtain therapeutic benefits. The LGP Advanced Range takes the liposomal small-particle oil technology a step further and allows for products with higher CBD to non-intoxicating THC ratios.

Little Green Pharma recently announced many updates to its current operations. The Company completed harvest of 220 kg of cannabis, making its first commercial sale to Australian patients. LGP also began negotiations to export product to Germany, and is planning to expand to a 400,000 sq. ft. facility which is expected to yield 50,000 kg of flower annually.

Figure 16: LGP Products


Source: LGC Instagram

Figure 17: Australian Cannabis Comps

Company	Parent	Current licences	Ownership	Production Capacity
Little Green Pharma	TSXV:LG	Medicinal Cannabis Licence	14.2% equity	400,000 sq. ft (50,000 kgs)
Indica Industries Pty Ltd (MedReleaf Australia)	TSX:ACB	Medicinal Cannabis Licence	10% equity	86,000 sq. ft
CannaPacific Pty Ltd	TSX:ALEF	Medicinal Cannabis Licence and Cannabis Research Licence	10% equity	53,000 sq. ft (under construction)
Althea Company Pty Ltd (ASX:AGH)	TSX:APHA	Medicinal Cannabis Licence	25% equity	43,000 sq. ft
Medcan Australia Pty Ltd ATF Medcan Australia Trust	Private	Medicinal Cannabis Licence	Not Disclosed	~6,500 kg (operational by Q1 2019)
Cann Group Ltd. (ASX:CAN)	TSX:ACB	Medicinal Cannabis Licence and Cannabis Research Licence	19.9% equity	6,500 sq. ft
AusCann Group Holdings Ltd (ASX:AC8)	TSX:WEED	Medicinal Cannabis Licence	9.9% equity	~2,000 kg
Canndeo Ltd (ASX:THC)	ASX:THC	Medicinal Cannabis Licence and Cannabis Research Licence	100% equity	Not disclosed

Source: Ubika, Company Reports

LGP is poised to become a leader in the emerging Australian medical cannabis market with the new 400,000 sq. ft. facility. LGP is quickly expanding its footprint as a heavyweight Australian LP with top production capacity. If the recreational market is legalized in Australia, we forecast that Little Green Pharma can achieve revenues of ~\$11.2M by 2022E, based on the LGP reaching 200,000 sq. ft. (400,000 sq. ft. capacity), and a wholesale selling price of US\$6.61 per gram. We believe that the Australian legal cannabis market is 2-4 years behind the Canadian market and that Little Green Pharma is positioning itself to become a major global producer that can rival Canadian LPs. LGP has international supply agreements for the German market and has plans to expand into the Asian market.

SWITZERLAND 

STATE OF THE MARKET

Switzerland legalized the sale of cannabis with less than 1.0% THC content. This has led to a thriving market for cannabis with low THC content but very high CBD content, which can be found in many Swiss shops, pharmacies, and general stores. The cannabis market in Switzerland is currently estimated to be worth between CHF150M to CHF390M (US\$150M to US\$390M). According to data from the United Nations Office on Drug and Crime it is estimated that ~800K of Switzerland's 8M residents have used cannabis in the past three months.

According to [SwissInfo](#), a Swiss-English language newspaper, **Cannabis Light is usually sold between CHF10 to CHF15 per gram (US\$10 to US\$15/gram)**. In addition, the newspaper [reported](#) on July 4, 2018, that the Swiss Federal Office of Public Health (FOPH) has recommended the sales of cannabis for medical purposes and has allowed pilot studies into recreational cannabis. The FOPH has estimated that currently there are about 3,000 medical patients in Switzerland.

Figure 18: Swiss Cannabis Market Sizing

Switzerland		2019E	2020E	2021E	2022E	2023E
Population	<i>millions</i>	8.6	8.7	8.7	8.8	8.8
% Adult Population (20+ yrs.)	<i>%</i>	80.1%	80.1%	80.1%	80.0%	80.0%
Adult Population (20+ yrs.)	<i>millions</i>	6.9	6.9	7.0	7.0	7.1
% Population using cannabis	<i>%</i>	10.5%	10.8%	11.1%	11.5%	11.8%
Total cannabis users	<i>millions</i>	0.7	0.8	0.8	0.8	0.8
Conversion from illegal to legal - Downside Case	<i>%</i>	35%	37%	39%	41%	43%
Conversion from illegal to legal - Base Case	<i>%</i>	50%	52%	54%	56%	58%
Conversion from illegal to legal - Upside Case	<i>%</i>	80%	82%	84%	86%	88%
Switzerland - Total legal cannabis users						
Downside Case	<i>millions</i>	0.253	0.278	0.303	0.331	0.359
Base Case	<i>millions</i>	0.362	0.390	0.420	0.452	0.485
Upside Case	<i>millions</i>	0.578	0.615	0.653	0.693	0.735
Switzerland - Demand metrics						
Average daily consumption	<i>grams/day</i>	0.45	0.46	0.47	0.48	0.49
Annual consumption - Downside Case	<i>kg/year</i>	41,565	46,492	51,819	57,618	63,893
Annual consumption - Base Case	<i>kg/year</i>	59,379	65,340	71,749	78,698	86,182
Annual consumption - Upside Case	<i>kg/year</i>	95,006	103,037	111,610	120,858	130,758
Switzerland Market Value						
Retail price	<i>dollars</i>	11.00 CHF	10.45 CHF	9.93 CHF	9.43 CHF	8.96 CHF
Cannabis market value - Downside Case	<i>\$CHF/M</i>	152.4M	161.9M	171.5M	181.1M	190.8M
Cannabis market value - Base Case	<i>\$CHF/M</i>	217.7M	227.6M	237.4M	247.4M	257.4M
Cannabis market value - Upside Case	<i>\$CHF/M</i>	348.4M	358.9M	369.3M	379.9M	390.5M
Cannabis market value - Base Case \$C	<i>\$C/M</i>	287.4M	300.4M	313.4M	326.6M	339.7M

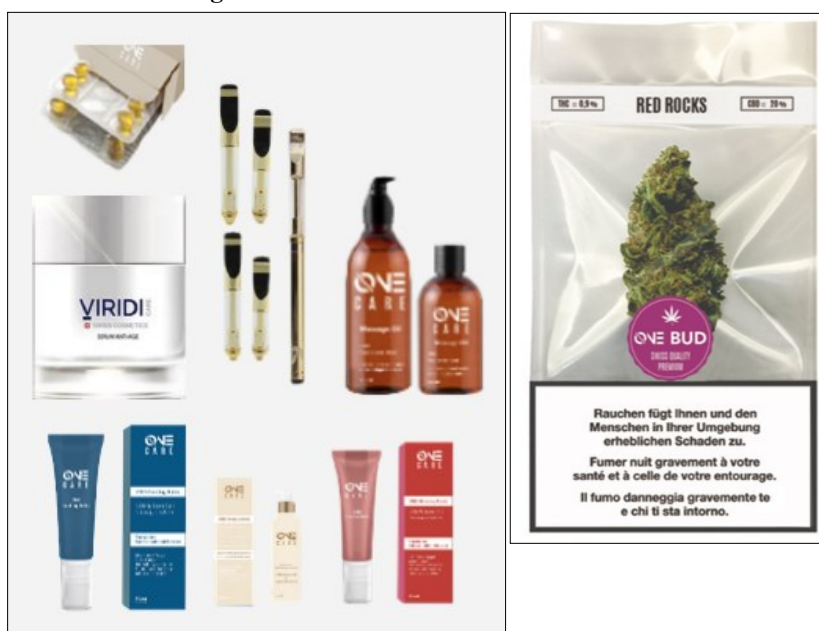
Source: Ubika, World Bank, United Nations Office on Drugs and Crime

OVERVIEW OF THE ASSET 

VIRIDI is a vertically-integrated legal cannabis supplier to the Swiss and European markets, growing its own seeds and flowers, producing and developing a wide range of cosmetics, cigarettes and natural wellness Swiss authorized products. Viridi’s high-CBD dried cannabis products are sold under the ONE Premium Cannabis brand with over 100 retail locations across Switzerland.

LGC Capital owns a 30% equity stake with a 5% royalty on net sales for a period of 10 years. On August 1, 2018, LGC announced a binding agreement for the 30% interest through issuance of common shares. On December 12, 2018, LGC [announced](#) that they had closed their acquisition for 35.2M of LGC shares at \$0.1143/share for total consideration of ~\$4.0M.

Figure 19: VIRIDI Harvest & Products



Source: Company Reports

Figure 20: Swiss Cannabis Comps Table

Company	Parent	License Type	Ownership	Production Capacity
Viridi	TSXV:LG	Cannabis light	30% equity	108,000 sq. ft
Haxxon AG	CSE:WAYL	Cannabis light	100% equity	60,000 sq. ft / ~2,200 kg
BioSuisse	Private	Cannabis light	Unknown	Unknown
Medropharm GmbH	Private	Cannabis light	Unknown	Unknown - Import agreement with (TSXV: NDVA)
Greenfields Health Care	Private	Cannabis light	Unknown	Unknown - Import agreement with Indiva (TSXV: NDVA)

Source: Ubika, Company Reports

VALUATION & ASSUMPTIONS

We are initiating coverage of LGC Capital with a **BUY** rating and target of **\$0.20/share**. We utilize a blended 50/50 NAV and EV/EBITDA methodologies for our valuation. We believe a blended 50/50 valuation with NAV and EBITDA is the most reasonable way to value companies from this emerging industry, because it takes two separate philosophical views and averages to a final number. Our view is that using these methodologies together allow for a more accurate target, supported by two different viewpoints.

Figure 21: Valuation Breakdown

Net Asset Valuation	Discount	\$ Million	\$/Share	Target Derivation	\$/Share
Jamaica - Global Canna Labs	10.0%	\$24.0	\$0.041	Project NAV/shr	\$0.19
Italy - Evolution Bank	10.0%	\$15.5	\$0.027	Multiple	1.00x
Quebec - Tricho-Med Corp.	10.0%	\$13.3	\$0.023	Project NAV/shr	\$0.19
Australia - Little Green Pharma	10.0%	\$17.5	\$0.030	Adjustments	-\$0.04
Switzerland - Viridi	10.0%	\$11.4	\$0.020	Target (US\$/shr)	\$0.16
Italy - EasyJoint	10.0%	\$31.2	\$0.054	Forex	1.33x
Project NAV		\$113.0	\$0.19	1-Year NAV Target	C\$0.21
Corporate Adj. & Additional Costs	10.0%	-\$48.2	-\$0.083		
Last Reported Cash		\$11.1	\$0.019		
ITM Warrants & Converts		\$0.6	\$0.001		
Equity Raised		\$14.0	\$0.024		
Adjusted NAV		\$90.5	\$0.16		
Adjusted NAV		C\$120.7	C\$0.21		
2021 EBITDA		\$23.6			
Multiple		4.0x			
Enterprise Value		\$94.4			
Discount rate (%)		10%			
1-Year EBITDA Target		\$78	\$0.13	Blended Target (50/50)	C\$0.20
1-Year EBITDA Target		C\$104.0	C\$0.18		

*Based on 10 year outlook, discounted FCF one-year out

Source: Ubika

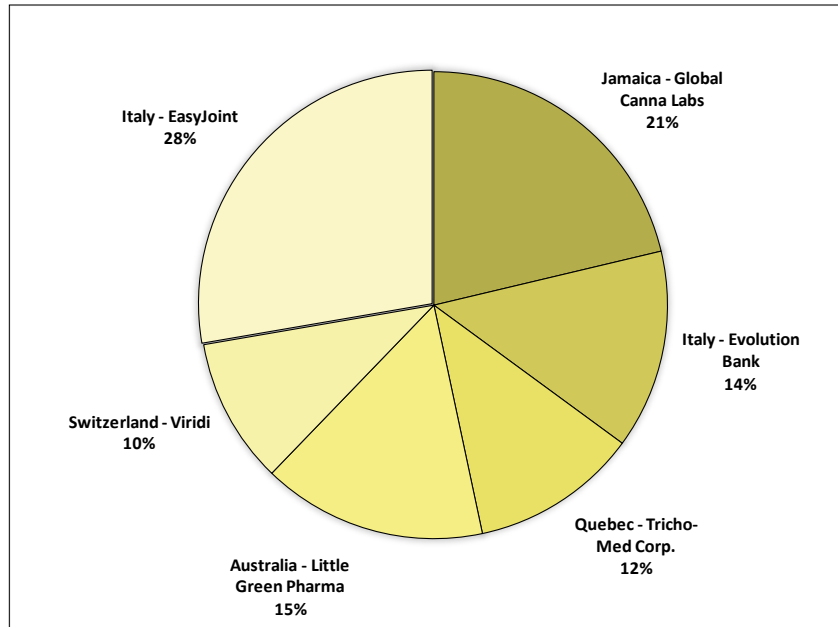
For NAV, we have taken a 10-year discounted FCF at a 10% discount, calculated to one-year out from the Company's last reported quarter. From there we have added the Company's last reported cash balance of \$11.1M and all ITM warrants and options for \$0.6M, equating to a market value of \$120.7M.

For EBITDA, our valuation is derived using a 4.0x multiple applied to our 2021E EBITDA estimate of \$26.0M, discounted at 10%, equating to a one-year market value of \$104.0M. Based on the buoyancy of today's cannabis markets, we believe a 4.0x is a reasonable multiple. There are two important additional factors that support this multiple: 1) the average 2020E EV/EBITDA multiple for cannabis investment companies is 6.4x (there are no consensus 2021E estimates available); 2) this multiple could appear conservative in a one to two-year period, as investment/royalty companies are under-covered by analysts (7/19), and as the industry matures and is more understood, investment/royalties companies could demand a premium (see competitor analysis on page 22).

For our denominator, we use a fully-diluted, financed share count, which includes the in-the-money (ITM) warrants and options, as well as the recently-announced \$8.0M raise at \$0.10. We also assume all raised funds are 100% deployed into the Company to ensure no double counting. See Figure 23, for illustration cash flow and our quarter-end cash balance projections. Note that in our analysis, the cash balance never reaches or goes below zero.

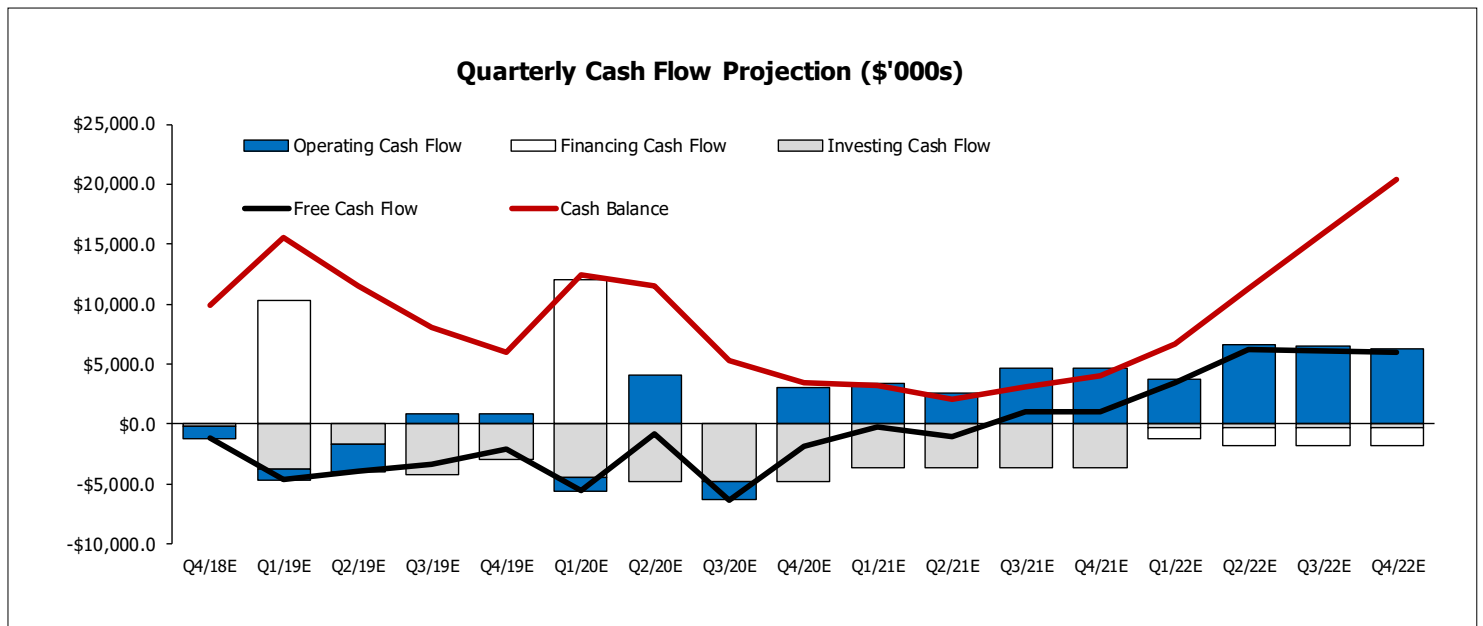
VALUATION & ASSUMPTIONS CONTINUED

Figure 22: Project NAV Breakdown



Source: Ubika

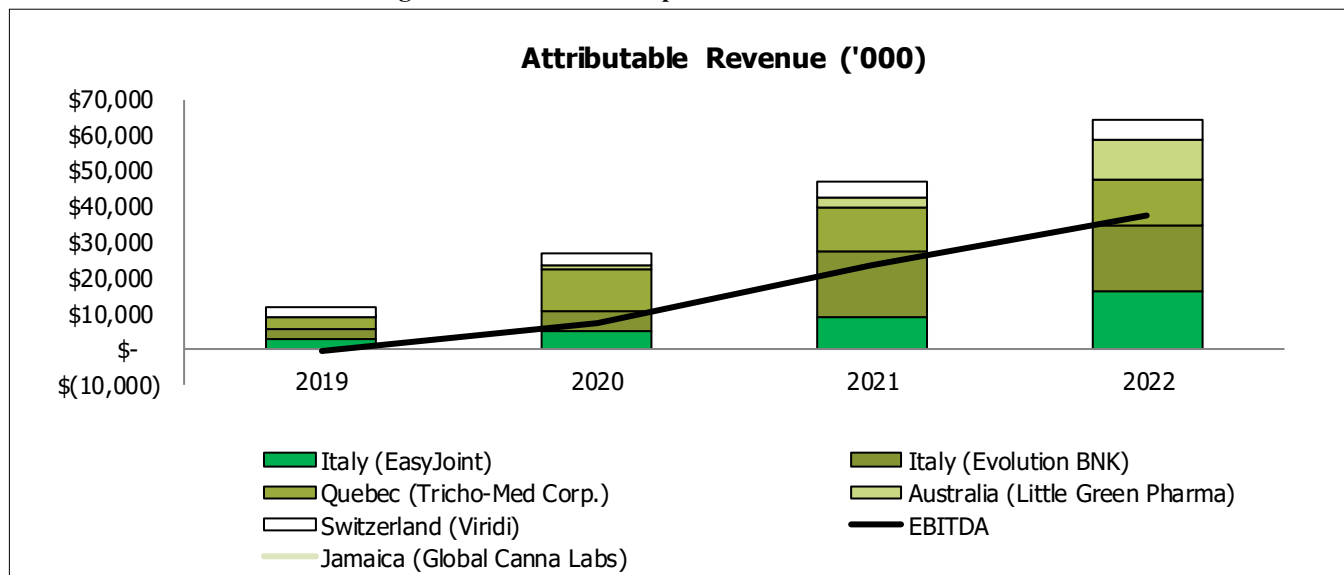
Figure 23: LGC Capital Quarterly Cash Flow Projections



Source: Ubika

VALUATION & ASSUMPTIONS CONTINUED

Figure 24: Portfolio Companies Attributable Revenue



Source: Ubika, Company Reports

Trades at a discount to peers. LGC currently trades at 4.6x our 2020E EBITDA estimates of \$23.6M, a discount to cannabis holdings companies and gold and oil royalty companies, which trade at an average of 6.4x and 8.0x, respectively. For our comparables analysis please see page 22.

We stress to investors that LGC’s valuation is entirely dependent on its underlying portfolio companies. Thus, LGC’s success hinges on the management teams of its portfolio companies to execute on their growth plans. Additionally, our valuation remains highly sensitive to the state of the cannabis market, as well as management’s ability to execute on their strategy over the next two-year period. In different market dynamics, the valuation could justify a higher/lower multiple to EBITDA. To summarize, the four most important factors to our valuation are:

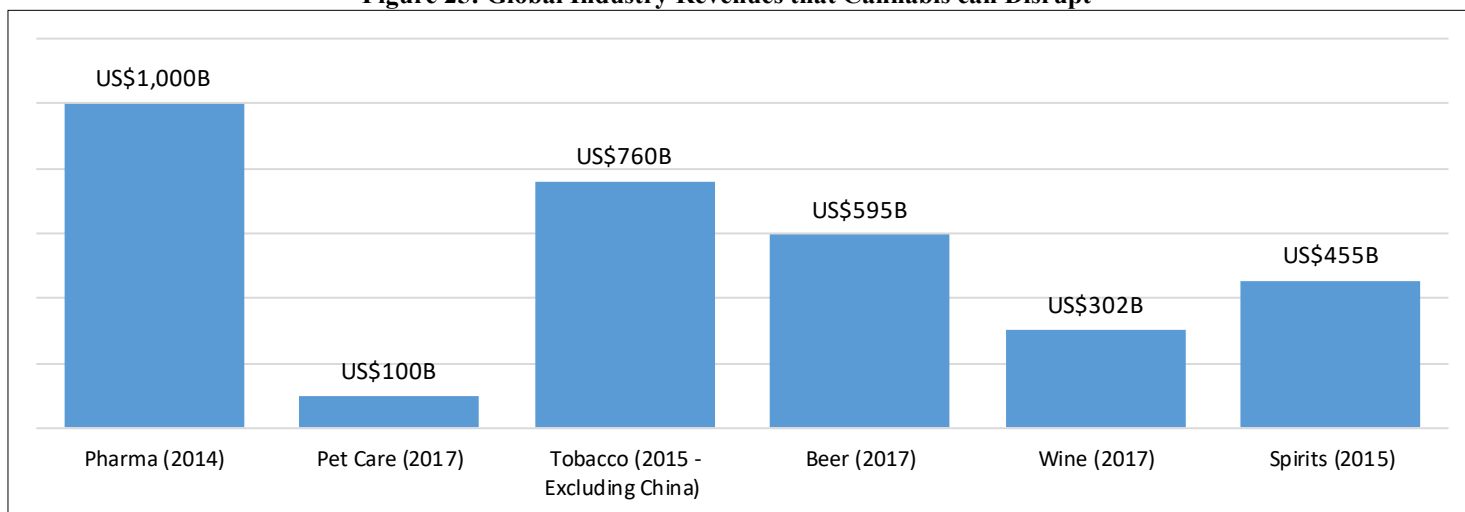
- 1) The demand for LGC’s invested product lines
- 2) The state of the cannabis markets, particularly in Jamaica, Italy, Canada, Australia, and Switzerland
- 3) The quality of new investments, potentially in speculative international locations
- 4) Limiting ongoing dilution, only an additional \$8M at \$0.10 was raised, we estimate additional raise ~\$6M debt at a likely interest rate of 10%

Other factors that can dramatically affect LGC’s valuation include total revenues generated by portfolio companies, unfavourable laws and regulations in the countries where portfolio companies operate, as well as the operational efficiencies (i.e. ability to maintain high margins) of the portfolio companies.

INDUSTRY ANALYSIS: GLOBAL CANNABIS MARKET

Cannabis plants contain hundreds of compounds, including over 100 cannabinoids, each of which has a slightly different effect on the user. Two of the most studied cannabinoids include Tetrahydrocannabinol (THC) and Cannabidiol (CBD). THC is the primary psychoactive compound found in cannabis, and has various properties including analgesic and mood-stimulating properties. Meanwhile, CBD is a non-psychoactive compound with documented anti-inflammatory and therapeutic properties. Lastly, terpenes found within cannabis are responsible for giving each cannabis variety its own aroma and flavour, while also possessing therapeutic benefits. The cross-interactions between the various compounds in a cannabis plant are referred to as the “entourage effect” and are responsible for the wide range of experiences cannabis products can provide to the user. The global cannabis market has the potential to disrupt many industries, including pharmaceuticals, tobacco, beer, wine, spirits, and the pet care industry. Figure 25 provides the estimated market size of these industries, where the cannabis market has the potential to gain market share.

Figure 25: Global Industry Revenues that Cannabis can Disrupt



Source: Statista, Euromonitor, British American Tobacco, Allied Market Research, United Nations, Ameri Research

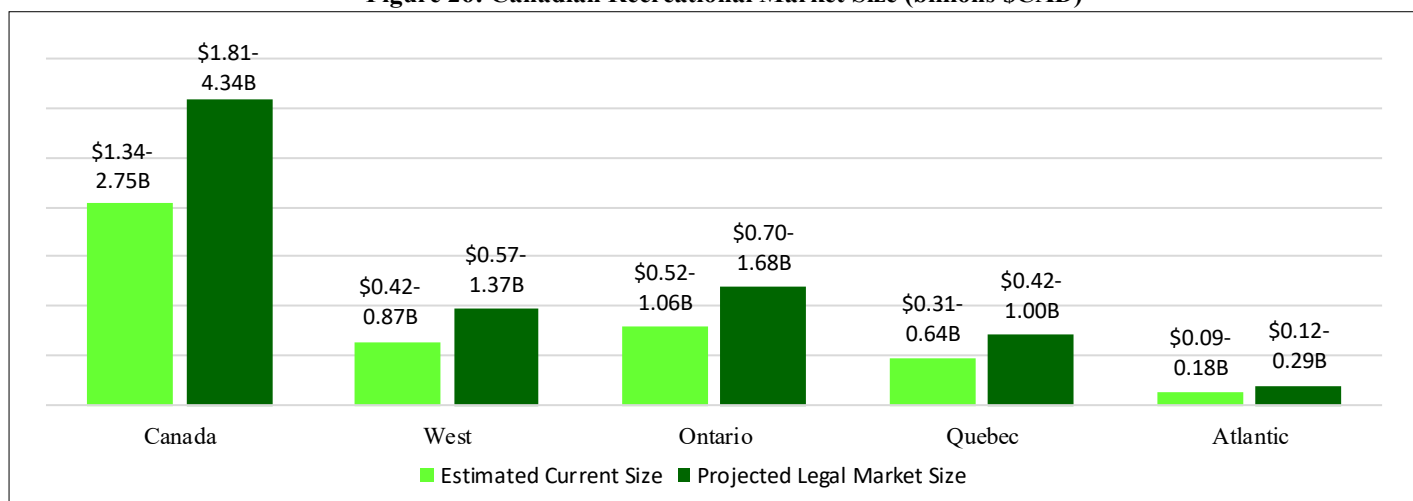
The Global Cannabis Market encompasses the medicinal and recreational markets and is expected to proliferate as the global regulatory environment shifts in favour of cannabis use. The medicinal market involves the use of cannabis for the therapeutic benefits provided by cannabidiol (CBD), an active ingredient of cannabis. Cannabinoids are used to manage many conditions including chronic pain, arthritis, and reducing inflammation, which can disrupt the pharmaceutical and pet care industries. The recreational market involves the use of cannabis for its psychoactive property of THC, which instills a "high" in the user, resulting in a state of euphoria and heightened mood, this has the potential to disrupt the tobacco, beer, wine, and spirits markets. Cannabis can be consumed in many forms, including flowers, concentrates, edibles, oils, powders, and creams.

INDUSTRY ANALYSIS: GLOBAL CANNABIS MARKET CONTINUED

Distribution agreements ensure stable cash flows in a world of ever-increasing supply. Distribution agreements allow producers to lock in a predetermined amount of product to be supplied, as well as pricing. In addition to allowing for steady, predictable revenue streams, distribution agreements can also act as a hedge against fluctuations in demand and supply. If supply were to outpace demand, an agreement would ensure incoming cash flows, whereas a company without an agreement could struggle to sell the product.

Primary sales channels include dispensaries and eCommerce platforms. Dispensaries provide a retail experience for customers looking to purchase the product in person, and offer a plethora of strains of cannabis flower, in addition to other forms of cannabis. Dispensaries can either cultivate product on their own, or purchase product from wholesalers. In Colorado, there are more than 520 dispensaries in operation, more than the number of Starbucks or McDonalds in the state. eCommerce allows customers to purchase cannabis products using their smartphones or computers, presenting a powerful sales channel given the high penetration and usage rates of mobile devices around the world.

Figure 26: Canadian Recreational Market Size (billions \$CAD)



Source: Deloitte 2018 Cannabis Report

We believe the Canadian market will reach a point of saturation in two to three years. Based on current planned production rates from the primary producers, the Canadian market could initially see demand exceed supply, but we expect this trend to swiftly reverse, reaching a point of saturation sometime after 2020E. Based on some estimates, excess supply could exceed 800,000 kg by 2020E, putting downward pressure on margins and forcing the industry into consolidation. This underscores the importance of exporting excess product to international markets. Due to the favourable regulatory landscape, Canadian producers have a first-mover advantage with regards to securing international distribution agreements, providing a lucrative opportunity for Canadian companies to establish themselves as global cannabis powerhouses. In our view, we believe cannabis cultivation will move to countries with warmer climates, that have better production economics, where the cost of under \$0.30/gram can be achieved. This opportunity provides a significant advantage to LGC Capital with Global Canna Labs.

COMPARABLE COMPANIES ANALYSIS

In 2017, LPs started to expand their international footprints and began acquiring assets abroad to gain a first-mover advantage in foreign markets. Companies such as Canopy Growth, Aphria, Aurora Cannabis, Wayland Group, Khiron Life Sciences, and Cronos Group have acquired assets in Europe and Latin America. LGC is uniquely positioned because it is almost a pure-play international cannabis company with only one asset in Canada.

Currently, LGC is trading well below average EV/EBITDA multiples maintained by gold and oil royalty companies primarily because cannabis is a new industry and has significantly more risk. However, in our opinion, over time, the markets should begin to realize the +\$200B global opportunity

Figure 27: LGC Public Company Comparables

Company Name	Last Price 08-March-19	Mrkt Cap (\$CAD)	EV (\$CAD)	Cash (\$CAD)	Debt (\$CAD)	EV/Revenues		EV/EBITDA		P/NAV
						2019E	2020E	2019E	2020E	
Cannabis Holdings										
Acreage Holdings, Inc.	\$22.35	\$1,855	\$1,684	\$95.7	\$75.4	2.4x	1.6x	7.8x	5.3x	n/a
iAnthus Capital Holdings, Inc.	\$6.70	\$1,021	\$961	\$20.2	\$39.3	2.2x	1.3x	7.6x	4.2x	n/a
Origin House	\$9.29	\$609	\$505	\$75.3	\$28.3	1.8x	1.8x	9.8x	9.6x	n/a
TILT Holdings Inc.	\$2.73	\$282	\$282	\$0.3	\$0.0	0.3x	n/a	0.7x	n/a	n/a
Weekend Unlimited Inc.	\$0.14	\$55	\$50	\$4.9	\$0.0	n/a	n/a	n/a	n/a	n/a
Mean Cannabis						1.6x	1.5x	5.4x	6.4x	n/a
Gold Royalty Companies										
Franco-Nevada Corporation	\$103.50	\$19,361	\$19,261	\$99.4	\$0.0	17.0x	15.9x	22.6x	22.2x	2.2x
Royal Gold, Inc.	\$119.84	\$7,851	\$7,148	\$213.6	\$489.7	11.2x	11.3x	14.7x	14.8x	2.6x
Osisko Gold Royalties Ltd	\$15.54	\$2,405	\$1,878	\$174.3	\$352.8	3.4x	3.0x	13.4x	11.2x	1.4x
Sandstorm Gold Ltd.	\$7.64	\$1,383	\$1,375	\$8.0	\$0.0	11.9x	11.6x	17.0x	16.6x	1.3x
Oil and Gas Royalty Companies										
PrairieSky Royalty Ltd.	\$18.67	\$4,368	\$4,362	\$0.0	\$5.8	15.7x	14.9x	17.4x	16.0x	1.1x
Freehold Royalties Ltd.	\$8.52	\$1,009	\$918	\$1.3	\$90.0	6.6x	6.4x	7.5x	7.3x	0.8x
Kimbell Royalty Partners, LP	\$23.78	\$892	\$751	\$21.5	\$119.1	4.1x	n/a	5.8x	5.6x	1.3x
Falcon Minerals Corporation	\$10.59	\$486	\$447	\$10.0	\$28.7	2.9x	n/a	3.6x	3.0x	0.9x
Panhandle Oil and Gas Inc.	\$20.47	\$342	\$284	\$0.6	\$56.6	4.2x	n/a	8.1x	n/a	0.8x
Mean Gold and Oil						6.7x	10.6x	8.5x	8.0x	1.4x
LGC Capital	\$0.095	\$47	\$34	\$15.5	\$2.3	2.2x	0.9x	n/m	4.6x	0.5x

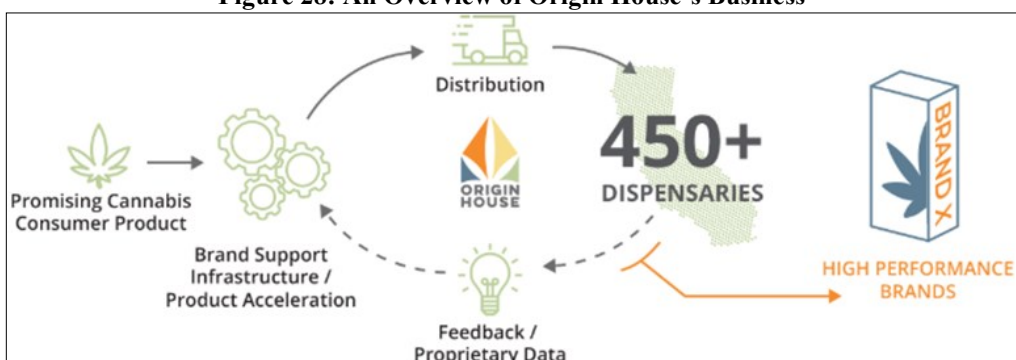
**All figures in millions, except share price data*

Source: Ubika, Capital IQ

SELECT COMPARABLE COMPAINES

Origin House (CSE:OH) is an investment and brand development firm with a focus on cannabis companies in legal markets across the United States and Canada. The Company’s services include providing capital & financing, marketing & brand development, logistics & infrastructure, and legal compliance services. While LGC Capital deals with companies from all over the world, including Jamaica, Australia, Italy, and Canada, Origin House’s activities are predominantly centered around the Californian market. Formerly known as CannaRoyalty, the Company is headquartered in Ottawa, Canada. Origin House’s business model consists of three phases. Phase I involves building brands alongside partner companies and supporting their growth, assisting in the distribution process and collecting proprietary data from over 450 dispensaries. Phase II consists of the acquisition of the top-performing brands. Lastly, Phase III consists of scaling these brands to other jurisdictions. The Company’s brands produce a range of cannabis products including edibles, flowers, and vapes. Brands include FloraCal Farms, Greenrock Botanicals, Simply E-Roll, and Bhang.

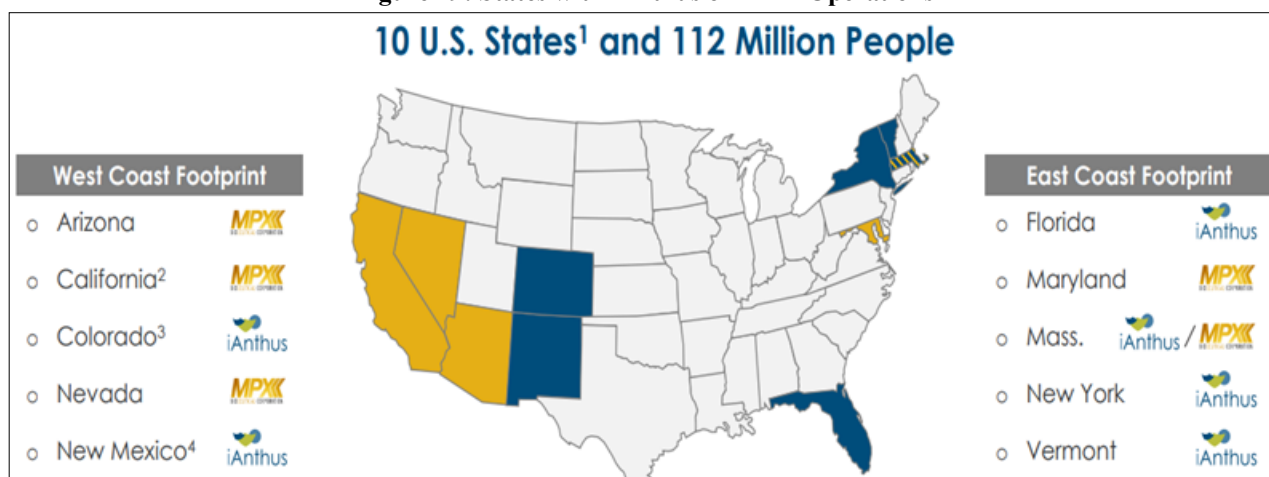
Figure 28: An Overview of Origin House’s Business



Source: Company Reports

iAnthus Capital Holdings (CSE:IAN) is a New York-based owner and operator of cannabis cultivating, processing, and dispensary facilities across legal markets in the United States. The Company invests in cannabis companies that meet strict investment criteria, including access to large addressable markets, favourable regulatory outlook, vertical integration, and a diverse product offering. Following a merger with MPX Biocetual Corp., the combined entity is estimated to have access to an addressable market of 112 million people in 10 states, operating 56 dispensaries. Some of its portfolio companies include Grow Healthy in Florida, Citiva in New York, and Mayflower in Massachusetts. Additionally, the Company has entered into strategic partnerships in companies operating out of New Mexico, and Colorado.

Figure 29: States with iAnthus or MPX Operations



Source: Company Reports

SELECT COMPARABLE COMPANIES CONTINUED

The Weekend, Inc. (CSE:POT) primarily remains a marketing enterprise, with the primary initial goal of developing a unique lifestyle brand structure based in the cannabis industry. By establishing a solid and recognized brand in advance of incurring the costs and complexities associated with growth and production, the Company plans to leverage this market recognition into strategic acquisitions directly suited to its branding strategy. The Company's brands include Orchard Height's Organics, a cultivator in Washington State with a 90,000 sq. ft. facility, Northern Lights Organics, a cultivator in British Columbia with a 40,000 sq. ft. facility, and a letter of intent (LOI) to acquire R&D Pharma in Jamaica. YOLO also owns brands such as Jerome Baker Designs custom glassware.

Although the three mentioned companies have similar elements in their business models compared to LGC Capital, it is important to note that LGC Capital is a unique company due to its significant geographic diversification. Origin House operates in the U.S. and Canada, while iAnthus operates primarily in the U.S. Although these two markets are expected to proliferate, and in the case of the U.S., have significant potential should the regulatory environment change, they come with heightened risks for potential investors. LGC Capital, meanwhile, provides investors with an opportunity to gain exposure to international legal cannabis markets, without being overly exposed to regulatory risks arising from one country.

INVESTMENT RISKS

Due to the global nature of the Company's operations, LGC Capital is particularly sensitive to geopolitical risks. The Company also faces risks involving commodity prices, currency fluctuations, cost, execution, technical, financing, and political factors.

Currency Risk

LGC's portfolio companies operate in several jurisdictions around the world, and thus portfolio companies report revenues in several different currencies. Listed on a Canadian exchange, LGC Capital reports its financial results in Canadian dollars, and so the Company's results could be adversely impacted by currency exchange fluctuations.

Geopolitical and Country Specific Risk

Jamaica

Cannabis has yet to be legalized for recreational use in the country, and there is much uncertainty around whether this will change in the foreseeable future. Exports to North American markets, such as the export of cannabis extract oils to Canada earlier this year, must be approved by government agencies in both countries, a process that could continue to hinder international expansion of Jamaica's cannabis industry.

Canada

As the first G7 nation to federally legalize cannabis for recreational use, investors have flocked to companies listed on Canadian exchanges. The large influx of capital combined with an industry still in its infancy has driven up valuations. The industry likely does not have investor base as do mature, established industries, translating into high volatility, as swings exceeding +/- 10% in a trading day are common. As cannabis stocks tend to move in unison, any negative news or sentiment affecting some of the bigger players could impact LGC's share price as well. Also, junior cannabis companies with market caps of less than \$200M are significantly more volatile with less liquidity, which has the potential to affect LGC Capital negatively.

Italy

The current political and economic environment in Italy – rising populist sentiment along with talks concerns of possible austerity measures and budget cuts – could pose a risk to consumer spending in general and can thus hurt cannabis businesses operating in Italy. The country's laws and regulations pertaining to cannabis may also be adversely affected by the current government.

Australia

Much like other countries, the Australian cannabis industry is highly sensitive to the laws and regulations set by the federal government. In late November, Australia introduced a bill proposing to legalize the recreational use of cannabis. Other issues, such as the inability of many potential medical users to obtain prescriptions for cannabis could slow the growth of the medical market, in addition to other challenges, such as lower population size compared with North America and Europe, and whether medical cannabis can be covered by insurance.

INVESTMENT RISKS CONTINUED

Market Liquidity Risk

The market price for the shares of LGC Capital could have wide fluctuations. Events such as the announcement of further expansions, acquisitions, changes in political regulation, and/or movements in cannabis prices could result in wide movements in the stock price. Additionally, in general, geopolitical events could adversely affect the financial markets, which in turn may result in significant share price variability that may be unrelated to the Company's operating performance. As LGC Capital maintains equity investments in several private companies, it may be difficult to sell these equity positions, adding liquidity risk to the company's investments. Furthermore, LGC may need to raise further funds than what is currently used in our valuation.

Financing Risk

The Company maintained a cash position of \$11.1 million as of June 30, 2018. The inability of the Company to obtain the necessary financing to make additional investments could hamper LGC's growth prospects. The Company does not have a debt facility to draw upon, presenting a liquidity and financing risk, however, we believe the Company has sufficient until 2020E.

MANAGEMENT & BOARD OF DIRECTORS

John McMullen - CEO

John has worked with LGC since its listing on the TSXV in July 2016, he holds over 20 years of capital markets experience, including advising small-cap public companies. He obtained a Bachelor of Arts Degree from the University of Western Ontario. Prior experiences include Investment Banking at Stratigis Capital Advisors, as well as an Investment Advisor at Canaccord Genuity.

Anthony Samaha - CFO & Director

Anthony has over 20 years of experience in accounting and corporate finance and holds a CA from Australia. He brings includes 10 years of experience in various professional services firms, such as E&Y, in a corporate finance role performing valuations, M&A, and IPOs. Anthony also has previously served as the CFO of several resource companies, including Reabold Resources (AIM:RBD), and Altona Energy Plc (AIM:ANR).

Remy Di Meglio - COO

Remy comes from the Fast Moving Consumer Goods Industry (FMCG), particularly Tobacco, where he has 25 years experience in corporate strategy, business development, change management, cross-functional, and multi-country team management. Remy will be leading the LGC Capital team in Europe. Remy holds a BA in Business Management.

David Lenigas - Co-Chairman

David has served as executive chairman of several companies including Rare Earth Minerals, London-based Lonrho for six years, and LGO Energy. At Lonrho, he oversaw the company's expansion into 17 countries in Africa. While at LGO Energy, he led the company through a number of acquisitions. He holds a Bachelor of Applied Science in Mining Engineering from Australia.

Mazen Haddad - Co-Chairman & Director

Mazen holds a B.A. Degree in economics from the University of Atlanta, and Mazen has held several executive positions in the Company, including Chairman, President, and CEO of LGC Capital. He is currently the CEO of Argex Titanium (TSX:RGX), a company involved in the production of titanium dioxide. His experiences in capital markets include serving as the Chairman for SGI Properties Canada Fund, a private REIT, as well as the Vice-President of SGI Capital, a private investment firm.

Daniel Lubienietzky – VP of Corporate Development

Daniel works with the management team to identify investment opportunities, executing deals, and partnering with portfolio companies to improve strategic planning. His prior experiences include Director of Business Development and Director of Sales Strategy at TerrAscend Corp (CNSX:TER), as well as various capital market positions at TD Securities and the Bank of Canada. He obtained his MBA from University of Toronto Rotman School of Management.

Rafi Hazan - Corporate Secretary & Director

Previously CFO of LGC Capital, Rafi has also served as the CEO of Buzz Telecommunications Services Inc., a privatized company in 2012. In addition, he has over 15 years of experience in both engineering and management capacities in other companies within the telecom industry, including SR Telecom and NHC Communications. His education includes a B.Sc. from Israel Institute of Technology, as well as an MBA from Paris-Dauphine University in France, and a MBA from Université du Québec à Montréal (UQAM).

Mohammed Ghafari - Director

Mohammed's experiences include over 27 years of technology and executive management, with a focus on the telecommunications and IT industries. He holds a B.Sc. from Leeds University of England. In addition to his role at LGC Capital, Mohammed serves as the Executive Director for Meem Solutions Inc, a management consulting firm, as well as a board member of Digital Planet, a digital media solutions company.

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Buy: Recommendation: stock is expected to appreciate from its current price beyond 20% in the next 12 months.

Neutral: Recommendation: stock is expected to trade in a narrow range from its current price level in the next 12 months.

Sell: Recommendation: stock is expected to decline from its current price level below 20% in the next 12 months.

U/R: Under Review.

N/R: Not Rated.

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