

Impact of COVID-19 on Lenders and Borrowers

Governments worldwide are taking aggressive measures to combat the COVID 19 outbreak. On March 13, 2020, the Bank of Canada slashed the overnight interest rate by 0.50% to 0.75%. The U.S. Federal Reserve recently slashed rates to a range between 0% and 0.25%. The Canadian government also announced a \$82 billion aid package through various initiatives (including tax deferral plans) for households and businesses. The Canada Mortgage and Housing Corporation (CMHC) has announced its plans to purchase \$50 billion of insured mortgage pools to provide liquidity to banks and lenders and encourage continued lending.

Canada Overnight Lending Rate



Five-Year Fixed Mortgage Rate



Source: Ratehub

The current market consensus is that the economic impact of COVID-19 will last two to three quarters. Considering that China has been gradually getting the virus under control, we speculate that rest of the world, like China, will also experience a short-term spike in cases, but will be able to contain the virus in the coming months. **We feel the economic impact of the virus is likely to last two quarters. It important to note that, unlike typical recessions, in this case, we believe the fundamentals and earning capacity of households and businesses have not changed beyond two quarters.**

In order to help borrowers, Canada's six largest banks recently announced plans to allow mortgage payment deferrals for up to six months. We feel that the MICs will likely offer a similar deferral plan to its borrowers. Within the MIC sector, we believe MICs focused on individual homeowners will be most vulnerable. MICs lending to real estate developers will also be impacted, but to a lesser extent considering that most developers tend to have funds kept aside as reserves to meet interest payments.

As mentioned earlier, similar to the banks, we expect MICs will likely offer payment deferral plans. The following table shows the economics of an average MIC. The base-case scenario returns a 7.9% yield to investors. A six-month payment deferral plan to 25% of borrowers (which we believe is the most likely scenario) will result in a 12.5% decline in revenues, which will result in a 20% decline in yield to investors from the base-case scenario. A deferral plan to 50% of the borrowers will result in an 82% decline in yield to investors. An extreme scenario is when 100% of borrowers suspend payments for six months, which, as shown below, will result in a 1.8% decline in the value of equity; this is the point where investors will start losing invested capital. However, considering that we expect the market to normalize within two quarters, we expect operations to be back to normal in 2021. MICs will be able to make up for lost capital by paying out a lower yield to investors.

| % of Mortgage Receivables | Base-Case | X% Decline in Interest + Other Income | | | |
|--------------------------------------|--------------|---------------------------------------|--------------|---------------|---------------|
| | | 12.5% | 25% | 50% | 100% |
| Interest + Other Income | 9.00% | 7.88% | 4.50% | 2.25% | 0.00% |
| <i>Less:</i> | | | | | |
| Management Fees | -1.25% | -1.25% | -1.25% | -1.25% | -1.25% |
| Provision for Loss | -0.50% | -0.50% | -0.50% | -0.50% | -0.50% |
| G&A | -0.25% | -0.25% | -0.25% | -0.25% | -0.25% |
| Interest (30% debt to capital) | -1.50% | -1.50% | -1.50% | -1.50% | -1.50% |
| Net | 5.50% | 4.38% | 1.00% | -1.25% | -3.50% |
| Dividends as a % of Equity | 7.86% | 6.25% | 1.43% | -1.79% | -5.00% |
| % Decline in Dividend from Base-Case | | -20.45% | -81.82% | | |

Source: FRC

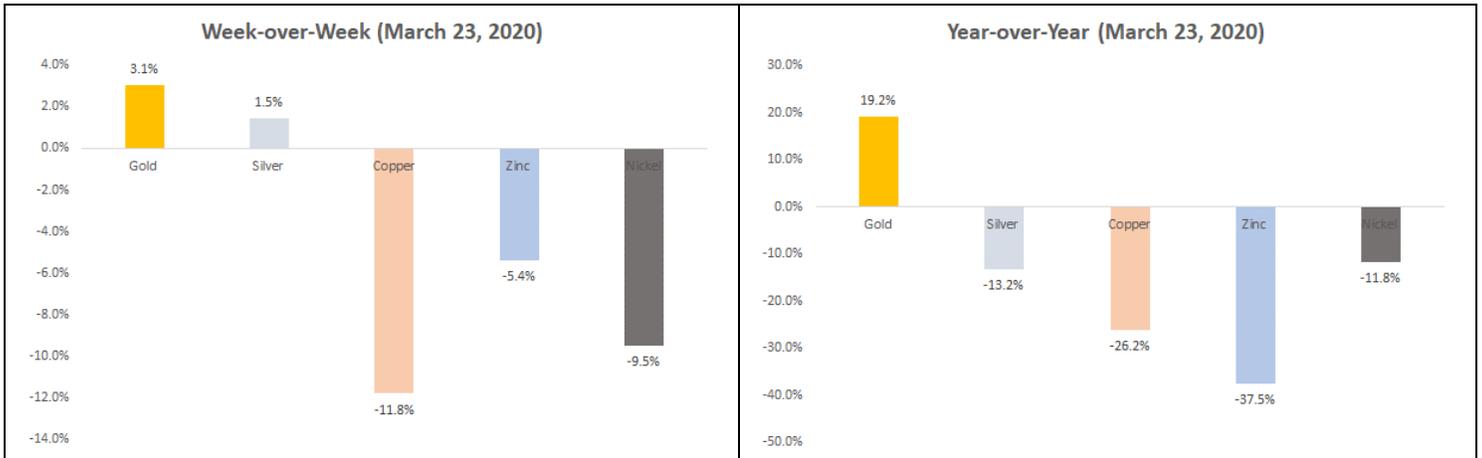
The following table shows the significant increase in yield (as a result of the decline in share prices) of MICs and other financial institutions since February 2020. The average yield of MICs has increased from 7% to 11.5%, which implies that, on average, share prices have dropped by 39%. Considering that we are expecting a 20% decline in dividends in 2020, we believe that the market is currently oversold.

| | Name | Dividend Yield |
|---------------------------|------------------------------------|----------------|
| 1 | Timbercreek Financial | 10.3% |
| 2 | Firm Capital MIC | 11.2% |
| 3 | Atrium MIC | 13.2% |
| 4 | MCAN Mortgage Corporation | 11.2% |
| Average - current | | 11.5% |
| Average - Feb 2020 | | 7.0% |
| | | |
| 1 | Home Capital Group Inc | 0.0% |
| 2 | Equitable Group Inc | 2.9% |
| 3 | First National Financial Corp | 8.7% |
| 4 | Royal Bank of Canada | 5.5% |
| 5 | Canadian Imperial Bank of Commerce | 8.0% |
| 6 | The Bank of Nova Scotia | 7.2% |
| 7 | The Toronto-Dominion Bank | 5.9% |
| 8 | Bank of Montreal | 6.8% |
| Average - Current | | 5.6% |
| Average - Feb 2020 | | 3.6% |

Source: S&P Capital IQ / FRC

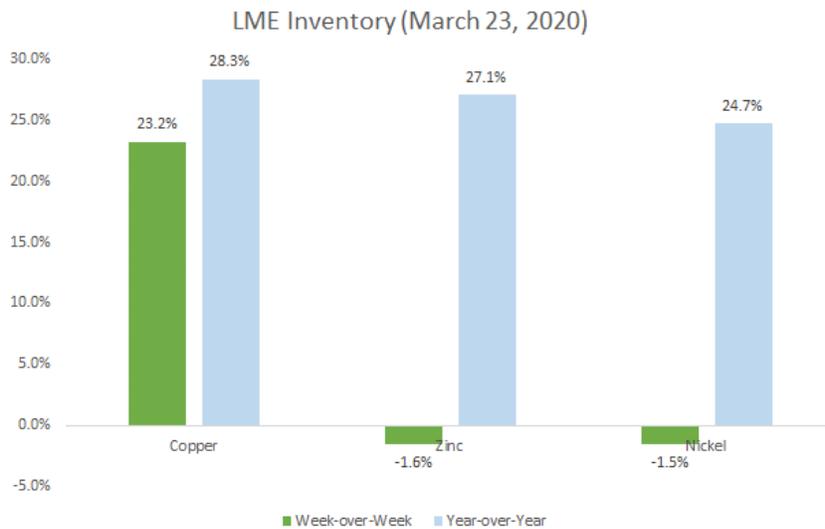
Weekly Mining Commentary

After a significant decline in prices in the prior week, gold and silver rallied this past week and were up 3.1% and 1.5%, respectively. In the past week, the biggest loser among the mainstream metals was copper, as prices dropped 11.8%, followed by 9.5% nickel, and 5.4% zinc.



Source: FRC / Various

The significant decline in copper prices was a result of a 23% rise in inventory levels. The inventory levels of all three mainstream base metals continue to experience weekly volatility, but remain significantly higher on a YoY basis.



Source: FRC / Various

We are maintaining all of our 2020 year-end and long-term price forecasts.

| | Current Price | FRC Forecasts | |
|------------------|---------------|---------------|-------------------|
| | | 2020E | Long-Term (2023+) |
| Gold (US\$/oz) | \$1,550 | \$1,600 | \$1,400 |
| Silver (US\$/oz) | \$13.10 | \$15.00 | \$18.00 |
| Copper (US\$/lb) | \$2.17 | \$2.70 | \$3.00 |
| Zinc (US\$/lb) | \$0.85 | \$1.00 | \$1.10 |
| Nickel (US\$/lb) | \$5.16 | \$6.00 | \$8.00 |

Source: FRC

With regard to the valuation of producers, not surprisingly, the average Enterprise Value (“EV”) to Revenue and EBITDA ratios of base-metal producers are down WoW, while the ratios of gold and silver producers are up.

| Gold Producers | 16-Mar-20 | | 23-Mar-20 | |
|--------------------------------|------------------|-----------------------|------------------|-----------------------|
| | EV / R (forward) | EV / EBITDA (forward) | EV / R (forward) | EV / EBITDA (forward) |
| 1 Barrick | 3.40 | 7.00 | 3.35 | 6.88 |
| 2 Newmont | 3.30 | 7.30 | 3.35 | 7.45 |
| 3 Polyus | 3.80 | 5.60 | 3.71 | 5.44 |
| 4 Agnico Eagle | 3.40 | 8.20 | 3.40 | 8.00 |
| 5 AngloGold | 1.80 | 3.50 | 2.06 | 3.88 |
| 6 Kinross Gold | 1.50 | 3.40 | 1.51 | 3.46 |
| 7 Gold Fields | 1.70 | 3.30 | 1.72 | 3.45 |
| 8 Sibanye | 0.60 | 1.50 | 0.55 | 1.32 |
| 9 Yamana | 2.20 | 4.40 | 2.12 | 4.18 |
| 10 B2Gold | 2.00 | 3.30 | 2.01 | 3.31 |
| 11 Alamos | 1.90 | 4.30 | 2.26 | 5.08 |
| 12 Harmony | 0.82 | 2.80 | 0.75 | 2.63 |
| 13 Eldorado Gold | 1.40 | 3.10 | 1.31 | 2.81 |
| Average (excl outliers) | 2.14 | 4.44 | 2.16 | 4.45 |
| Min | 0.60 | 1.50 | 0.55 | 1.32 |
| Max | 3.80 | 8.20 | 3.71 | 8.00 |

| Base Metal Producers | EV / R (forward) | EV / EBITDA (forward) | EV / R (forward) | EV / EBITDA (forward) |
|--------------------------------|------------------|-----------------------|------------------|-----------------------|
| 1 BHP Group | 2.00 | 3.80 | 1.99 | 3.83 |
| 2 Rio Tinto | 1.90 | 4.20 | 1.71 | 3.82 |
| 3 South32 | 0.80 | 4.20 | 0.76 | 3.87 |
| 4 Glencore | 0.30 | 4.60 | 0.22 | 4.21 |
| 5 Anglo American | 1.10 | 3.20 | 0.90 | 2.80 |
| Average (excl outliers) | 1.22 | 4.00 | 1.12 | 3.71 |
| Min | 0.30 | 3.20 | 0.22 | 2.80 |
| Max | 2.00 | 4.60 | 1.99 | 4.21 |

Source: S&P Capital IQ

As mentioned last week, during the last recession, from February 2008 to October 2008, gold prices had dropped 25% (from US\$970 to US\$730 per oz). Silver had dropped by 50% to US\$9.5 per oz. During the same time period, the US\$ had reported a 13% gain. **It is key to note that both gold and silver prices ran up 150% and 385%, respectively, from their lows in late 2008 to 2011.** Therefore, we continue to

expect significant volatility in gold / silver prices in the coming weeks. In the following section, we review companies that announced key developments in the past week.

Mining / Exploration

| Company Name: | Ticker Symbol | Current Share Price: | FRC Fair Value Estimate: | Date of PR: |
|---|---------------|--|--------------------------|-------------|
| West Red Lake Gold Mines Inc. | CSE: RLG | \$0.04 | \$0.35 | Mar-17-2020 |
| PR Content | | FRC Opinion | | |
| Completed a non-brokered private placement of \$842k, including, \$736k from common share units and \$107k from flow-through units. | | Positive – We are pleased to see that the company was able to complete a financing amid weak market sentiment. RLG recently completed a successful 12 hole drill program on the NT zone (results of up to 12.14 gpt over 13.5 m), which is located approximately 800 m south of the Rowan mine located at the west-end of the Red Lake Gold District of Northwestern Ontario. The Rowan project has a 2016 inferred resource of 4.45 Mt at 7.57 gpt for 1.09 Moz of gold. | | |

| Company Name: | Ticker Symbol | Current Share Price: | FRC Fair Value Estimate: | Date of PR: |
|---|---------------|--|--------------------------|-------------|
| Latin Metals Inc. | TSXV: LMS | \$0.045 | \$0.43 | Mar-17-2020 |
| PR Content | | FRC Opinion | | |
| Extended the deadline of a previously announced transaction with Patagonia Gold Corp. (TSXV: PGDC). Back in August 2019, the company had entered into an agreement with Patagonia, wherein Patagonia can acquire Latin's interest in the Mina Angela project in Chubut, Argentina. Patagonia has another six months to make a decision. | | Neutral – Mina Angela is a non-core asset. Work in 2019 at the Organullo gold project (fully funded by partner Yamana Gold / TSX: YRI) resulted in the identification of geochemical anomalies over an 8 km strike. A 3,300 m / 16 hole drill program is currently underway. Latin has been actively evaluating projects in Peru. | | |

| Company Name: | Ticker Symbol | Current Share Price: | FRC Fair Value Estimate: | Date of PR: |
|--------------------------------------|----------------------|-----------------------------|---------------------------------|--------------------|
| Voyageur Pharmaceuticals Ltd. | TSXV: VM | \$0.08 | \$0.39 | Mar-20-2020 |

| PR Content | FRC Opinion |
|--|--|
| <p>Dissolved the joint venture with Chief Medical Supplies. Chief and VM have instead decided to move ahead with a new working relationship.</p> | <p>Neutral – Although details were not disclosed, VM stated that this move does not in any way change their go forward plans and that they continue to have an agreement in place with Chief to use Chief’s manufacturing facilities. VM will now own 100% of its operations versus the 50/50 JV with Chief. VM also has the flexibility to plan their go forward strategy. However, as details of VM’s cost to use Chief’s facilities were not disclosed, we are not in a position to comment if the deal is economically beneficial for VM or not. As detailed in our initiating report, VM holds three barium projects in B.C., including one with a resource estimate, and iodine properties in Utah. The company is aiming to manufacture and market contrast agents (made with barium and/or iodine compounds) used for radiology digital imaging in the healthcare industry.</p> |

Special Situations

| Company Name: | Ticker Symbol | Current Share Price: | FRC Fair Value Estimate: | Date of PR: |
|--|---------------|--|--------------------------|----------------|
| Siyata Mobile Inc. | TSXV: SIM | \$0.16 | \$1.14 | March 23, 2020 |
| PR Content | | FRC Opinion | | |
| Commenced delivery on its government tender for up to 15,000 push-to-talk devices pursuant to a previous announcement on December 2, 2019. | | Positive – The company has secured numerous purchase orders since the start of 2020, and is on track to meet our 2020 revenue forecast of \$31 million. | | |

| Company Name: | Ticker Symbol | Current Share Price: | FRC Fair Value Estimate: | Date of PR: |
|---|---------------|--|--------------------------|----------------|
| Marble Financial Inc. | CSE: MRBL | \$0.17 | \$0.42 | March 19, 2020 |
| PR Content | | FRC Opinion | | |
| Closed first private placement of unsecured convertible debentures in the amount of \$400,000 (one-year term, 12% interest rate, paid quarterly). | | Positive – At the end of Q3-2019, the company reported a cash position of \$2.75 million and a current ratio of 2x. These convertible debenture raises provide an indication that the company has been deploying, or is expected to deploy, its cash position to source additional loans. | | |

Cannabis

| Company Name: | Ticker Symbol | Current Share Price: | FRC Fair Value Estimate: | Date of PR: |
|---|---------------|---|--------------------------|----------------|
| Sugarbud Craft Growers Corp. | TSXV: SUGR | \$0.03 | \$0.28 | March 23, 2020 |
| PR Content | | FRC Opinion | | |
| Completed its first harvest and is now in the process of completing post-harvest dry and cure activities. The company plans to start shipping premium dried cannabis flower in early Q2-2020. | | Neutral – In our initiating report, we had expected revenue generation starting 2020. It is unlikely that Sugarbud will meet our 2020 revenue forecast of \$16 million. An update report will be provided shortly. | | |

Weekly Cannabis Commentary

As a proxy for performance of the cannabis market, we show the performances of:

- Horizons Marijuana Life Sciences Index ETF (TSX: HMMJ / “HMMJ”),
- Standard & Poor’s/MX International Cannabis Index (“MCAN”),
- Standard & Poor’s/TSX Cannabis Index (“XCAN”).

| Company Name | YTD | 1-Week | 1-Year |
|--------------------------------|-------------|-------------|-------------|
| Aphria Inc. | -43% | 22% | -71% |
| Aurora Cannabis Inc. | -61% | 4% | -92% |
| Canopy Growth Corp. | -31% | 24% | -70% |
| Cronos Group Inc. | -22% | 0% | -73% |
| Tilray Inc. | -77% | 22% | -95% |
| Hexo Corp. | -61% | -14% | -90% |
| CannTrust Holdings Inc. | -43% | 6% | -95% |
| Organigram Holdings Inc. | -27% | -1% | -75% |
| The Supreme Cannabis Co., Inc. | -68% | 8% | -91% |
| AVERAGE | -48% | 8% | -84% |
| MIN | -77% | -14% | -95% |
| MAX | -22% | 24% | -70% |

| Indexes | YTD | 1-Week | 1-Year |
|---------|------|--------|--------|
| HMMJ | -38% | 6% | -76% |
| MCAN | -34% | 10% | NM |
| XCAN | NM | 9% | NM |

Note: MCAN and XCAN was launched in November 2019 and January 2020, respectively.

Source: FRC, Google

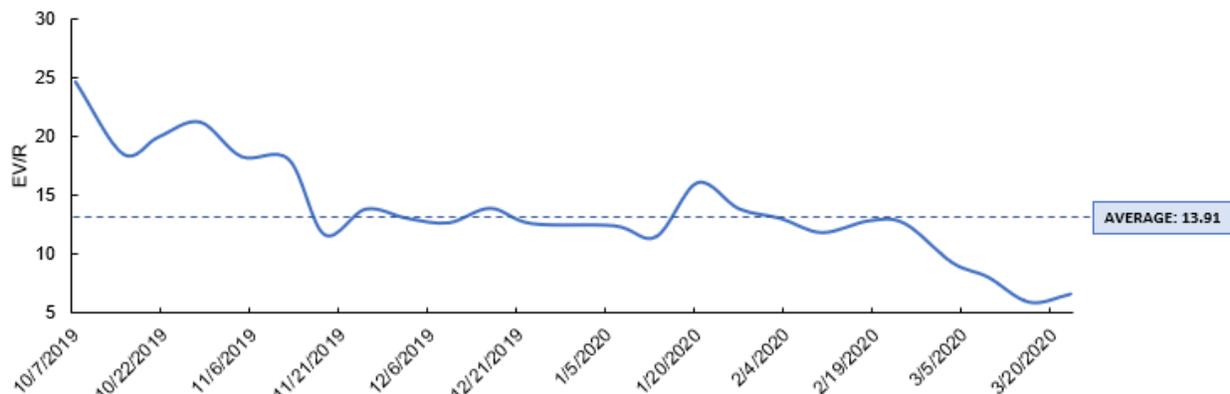
Over the past week, the HMMJ, MCAN, and XCAN generated a return of 6%, 10%, and 9%, respectively. **Performance of the cannabis market improved week-over-week due to a spike in demand for cannabis amidst the coronavirus outbreak.** According to Inner Spirit (CSE: ISH) Chief Executive Officer (“CEO”) Darren Bondar, Spiritleaf retail cannabis stores experienced unprecedented demand for cannabis and served a record number of customers.

The worst performer on a weekly basis from the list of companies that we track is Hexo Corp. (NYSE: HEXO). Over the past week, Hexo Corp. reported that it will delay the release of its upcoming quarterly results due to “certain exceptional circumstances” and reported that a significant impairment of up to \$280 million is to be reported for the quarter (Source: BNN Bloomberg).

Valuation of Select Canadian Licensed Producers

The following shows the average Enterprise Value to Revenue (“EV/R”) multiple that select Canadian Licensed Producers (“LPs”) are trading at. The companies used are outlined further below.

Average EV/R (October 2019 – March 2020)



Source: FRC, S&P Capital IQ

| Company | Ticker | March 16, 2020 | | March 23, 2020 | |
|--------------------------------|--------------|----------------|------------|----------------|------------|
| | | TEV/Revenue | TEV/EBITDA | TEV/Revenue | TEV/EBITDA |
| Aphia Inc. | TSX: APHA | 2 | NM | 2.2 | NM |
| Aurora Cannabis Inc. | TSX: ACB | 5.6 | NM | 5.5 | NM |
| Canopy Growth Corp. | TSX: WEED | 10.3 | NM | 12 | NM |
| Cronos Group Inc. | TSX: CRON | 16 | NM | 21.5 | NM |
| Tilray Inc. | NASDAQ: TLRV | 5 | NM | 4.9 | NM |
| HEXO Corp. | NYSE: HEXO | 5.5 | NM | 4.4 | NM |
| CannTrust Holdings Inc. | TSX: TRST | 1.3 | NM | 1.1 | NM |
| Organigram Holdings Inc. | TSX: OGI | 4.7 | NM | 4.7 | NM |
| The Supreme Cannabis Co., Inc. | TSX: FIRE | 3.3 | NM | 3.6 | NM |
| AVERAGE | | 6.0 | NM | 6.7 | NM |
| MEDIAN | | 5.0 | NM | 4.7 | NM |
| MINIMUM | | 1.3 | NM | 1.1 | NM |
| MAXIMUM | | 16.0 | NM | 21.5 | NM |

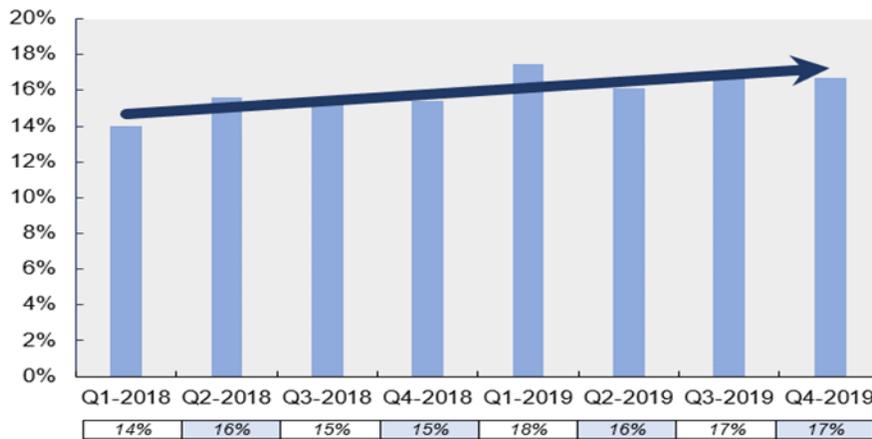
Source: FRC, S&P Capital IQ

The average EV/R, as of March 23, 2020, was 6.7x – an improvement from an average EV/R of 6.0x as of March 16, 2020. The average EV/R, from October 7, 2019 to date, is 13.9x. As a number of companies are not EBITDA positive, we have refrained from tracking the average Enterprise Value to EBITDA (“EV/EBITDA”) multiple.

This week, we further discuss the demand for cannabis amidst the coronavirus outbreak.

Coronavirus and Cannabis

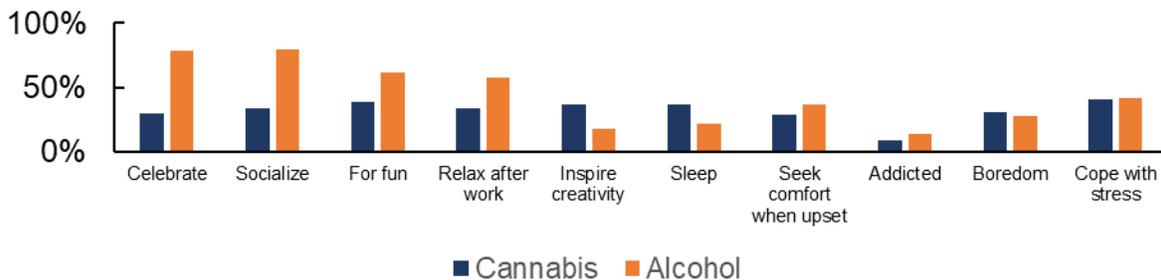
Last week, we discussed the stockpile of cannabis and the resulting shift in the cannabis purchasing pattern. With **cannabis businesses deemed “essential” operations in several states in the United States** (Source: Forbes), an interesting topic is whether the coronavirus could increase the adoption rate of cannabis throughout the world. The following illustrates the trend in cannabis use by quarter in Canada:



Source: FRC, Statistics Canada

As people are forced to stay indoors and practice social distancing, the current environment provides a perfect opportunity for first timers to try cannabis. **We speculate that individuals locked in home due to the coronavirus outbreak may try cannabis to make the quarantine period more tolerable or to reduce anxiety.** According to American Addiction Centers, top reasons for using cannabis include: to cope with stress, boredom, and for fun.

Reasons for Using Cannabis vs Alcohol



Source: FRC, American Addiction Centers

In addition to our belief that there will be a greater number of first-time cannabis users amidst this outbreak, we note that several countries have made purchasing cannabis easier. For example, reported by Forbes, **some states have enacted temporary policies such as expanded delivery services to make it easier for consumers to acquire cannabis.**

Canadian Retail Cannabis Pricing

| Province (As of 2020/3/23) | Average Price per Gram | Average Price per Gram THC | Average Price per Gram CBD | # of Products | Min. Price | Max. Price |
|----------------------------|------------------------|----------------------------|----------------------------|---------------|------------|------------|
| B.C.* | \$ 10.51 | \$ 10.57 | \$ 9.83 | 130 | \$ 3.93 | \$ 19.80 |
| Ontario | \$ 11.01 | \$ 11.20 | \$ 10.01 | 239 | \$ 5.00 | \$ 35.97 |
| Quebec* | \$ 9.62 | \$ 9.57 | \$ 9.87 | 137 | \$ 4.94 | \$ 14.55 |
| Alberta* | \$ 11.50 | \$ 11.53 | \$ 11.17 | 221 | \$ 4.58 | \$ 20.43 |
| N.B. | \$ 10.35 | \$ 10.32 | \$ 10.46 | 129 | \$ 5.00 | \$ 16.28 |
| P.E.I.* | \$ 10.65 | \$ 10.75 | \$ 9.75 | 90 | \$ 4.71 | \$ 18.04 |
| Newfoundland* | \$ 10.32 | \$ 10.35 | \$ 10.18 | 116 | \$ 5.97 | \$ 15.40 |
| Yukon* | \$ 14.22 | \$ 15.02 | \$ 12.02 | 15 | \$ 9.80 | \$ 16.15 |
| N.S. | \$ 11.24 | \$ 11.34 | \$ 10.48 | 123 | \$ 8.49 | \$ 18.43 |
| Nunavut* | \$ 12.02 | \$ 12.15 | \$ 12.69 | 25 | \$ 10.78 | \$ 18.69 |
| Northwest Territories* | \$ 13.13 | \$ 13.13 | \$ 3 | 3 | \$ 14.44 | \$ 14.44 |
| Manitoba | \$ 12.61 | \$ 12.82 | \$ 11.67 | 232 | \$ 6.28 | \$ 21.68 |
| Saskatchewan | \$ 13.27 | \$ 13.35 | \$ 12.84 | 142 | \$ 8.49 | \$ 21.37 |
| CANADA | \$ 11.58 | \$ 11.71 | \$ 10.91 | | | |

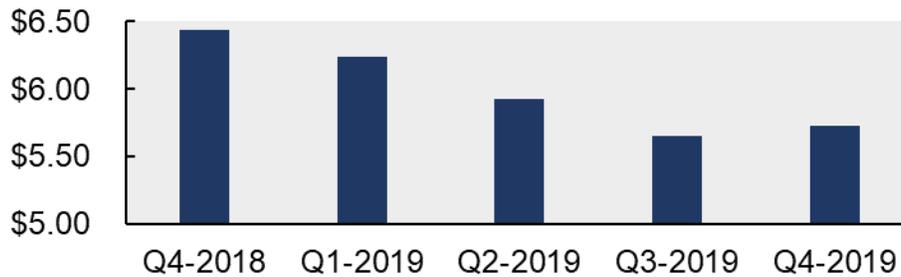
| Province (As of 2020/3/16) | Average Price per Gram | Average Price per Gram THC | Average Price per Gram CBD | # of Products | Min. Price | Max. Price |
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| CANADA | \$ 11.58 | \$ 11.71 | \$ 10.93 | | | |

Source: Online Provincial Cannabis Stores, FRC

Average retail price per gram remained unchanged at \$11.58 week-over-week. Provinces/Territories across Canada witnessed a nominal increase/decrease in their average price per gram over a one-week period. Given the huge recent spike in demand for cannabis, we were surprised to see average price per gram remain unchanged on a week-over-week basis. **According to the Ontario Cannabis Store (“OCS”) communications director, cannabis sales on OCS.ca in the last few days almost doubled compared to the same period last week.**

During this extraordinary period, we expect the average retail prices of cannabis to remain stable or witness a slight upwards increase. However, in the long term, we continue to reiterate our view that the retail price per gram of cannabis will decrease to combat the black market for cannabis. **According to Statistics Canada, the average price of illegal cannabis in Q4-2019 was \$5.73.** The following shows the trend in pricing for illegal cannabis:

Illegal Cannabis Pricing

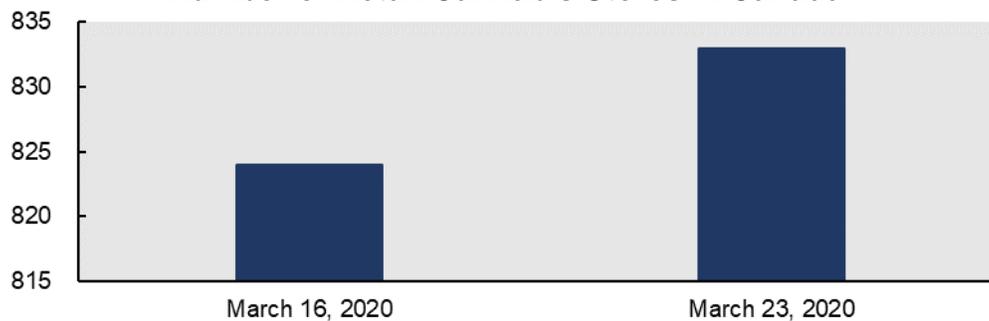


Source: FRC, Statistics Canada

Canadian Retail Cannabis Stores

As of March 23, 2020, there were 833 retail cannabis stores open throughout Canada. **This is a 1.1% increase from a week ago.**

Number of Retail Cannabis Stores in Canada



Source: Provincial Websites, FRC

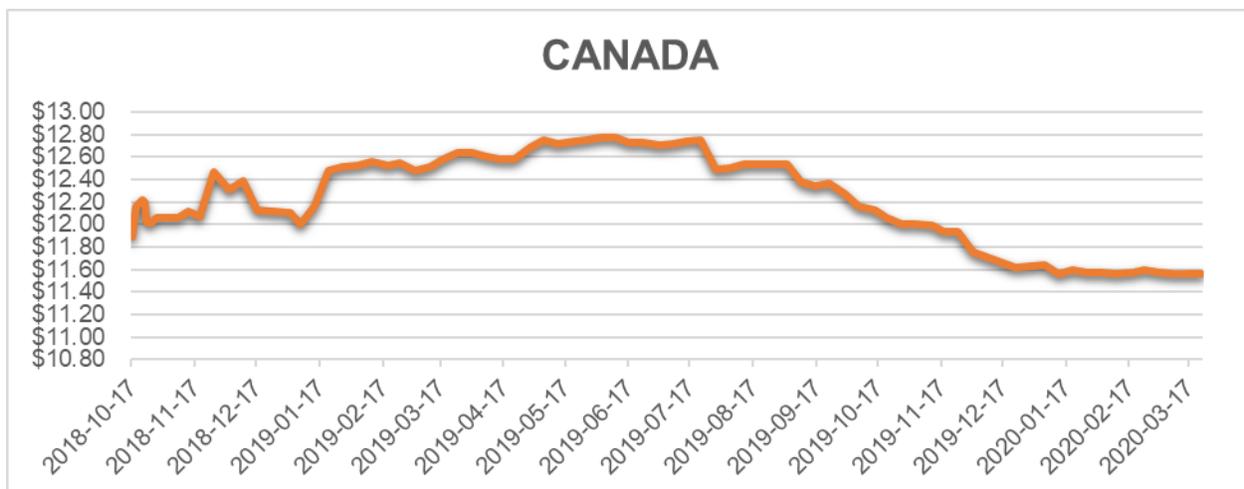
The following shows retail cannabis stores by province/territory:

| Cannabis Stores | March 16, 2020 | | March 23, 2020 | |
|-----------------------|----------------|-------------|-------------------|--------------------|
| | Store Count | Store Count | Population | Population / Store |
| B.C. | 169 | 175 | 5,071,000 | 28,977 |
| Ontario | 47 | 48 | 14,570,000 | 303,542 |
| Quebec | 35 | 35 | 8,485,000 | 242,429 |
| Alberta | 431 | 433 | 4,371,000 | 10,095 |
| N.B. | 20 | 20 | 776,827 | 38,841 |
| P.E.I. | 4 | 4 | 156,947 | 39,237 |
| Newfoundland | 25 | 25 | 521,542 | 20,862 |
| Yukon | 5 | 5 | 35,874 | 7,175 |
| N.S. | 12 | 12 | 971,395 | 80,950 |
| Nunavut | N/A | N/A | 38,780 | N/A |
| Northwest Territories | 5 | 5 | 44,826 | 8,965 |
| Manitoba | 30 | 30 | 1,369,000 | 45,633 |
| Saskatchewan | 41 | 41 | 1,174,000 | 28,634 |
| CANADA | 824 | 833 | 37,586,191 | 45,121 |

Source: Provincial Websites, FRC

We expect the number of retail cannabis stores in Canada to continually grow into the foreseeable future. **Ontario and Quebec remain the two largest underserved cannabis markets in terms of population to cannabis retail stores.**

The below chart shows Canadian retail dried cannabis flower pricing since we began price coverage.



Source: FRC, Online Provincial Cannabis Stores

Disclaimers and Disclosure

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