



# Analysts' Ideas of the Week

Strong Revenue Growth from Tech Company Targeting Kids' Digital Ad Market

March 9, 2020

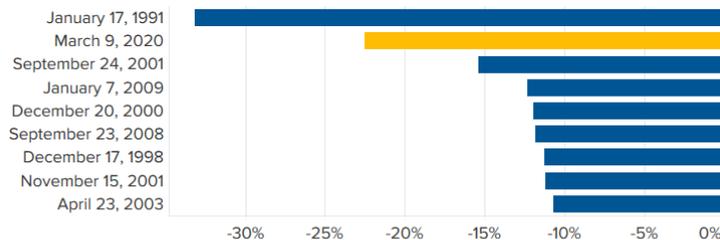
[www.researchfrc.com](http://www.researchfrc.com)

## Weekly Mining Commentary

Oil prices fell 26% over the weekend following Saudi Arabia’s decision to cut prices. The move from Saudi Arabi was a response to Russia’s refusal to support OPEC's proposal to cut oil production to combat softer demand due to the coronavirus. Global stock markets plunged today as a result of the sharp decline in oil prices. The S&P/TSX Composite was down 9% today.

### Biggest one-day percent drops in oil prices

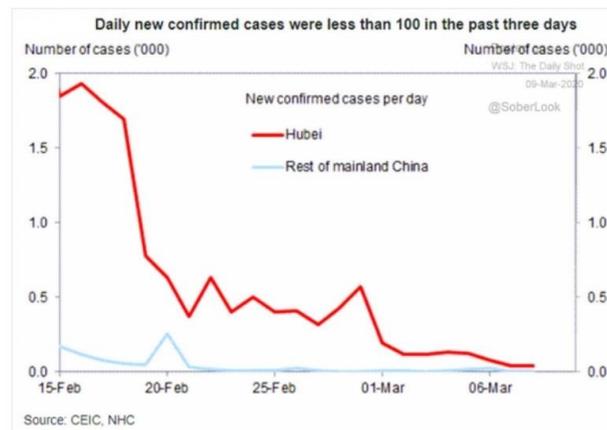
West Texas Intermediate (WTI) is on pace for its worst day since the Gulf War and second-worst day since it began trading on the NYMEX in 1983



SOURCE: FactSet. Data as of 8 a.m. ET on 3/9/20.

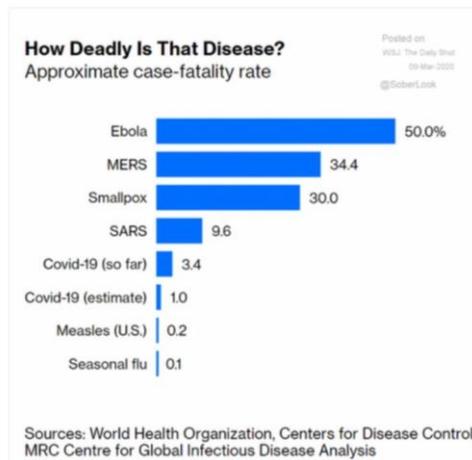


Although the number of new coronavirus cases in China are declining (see chart below), the number of cases outside China are rising.

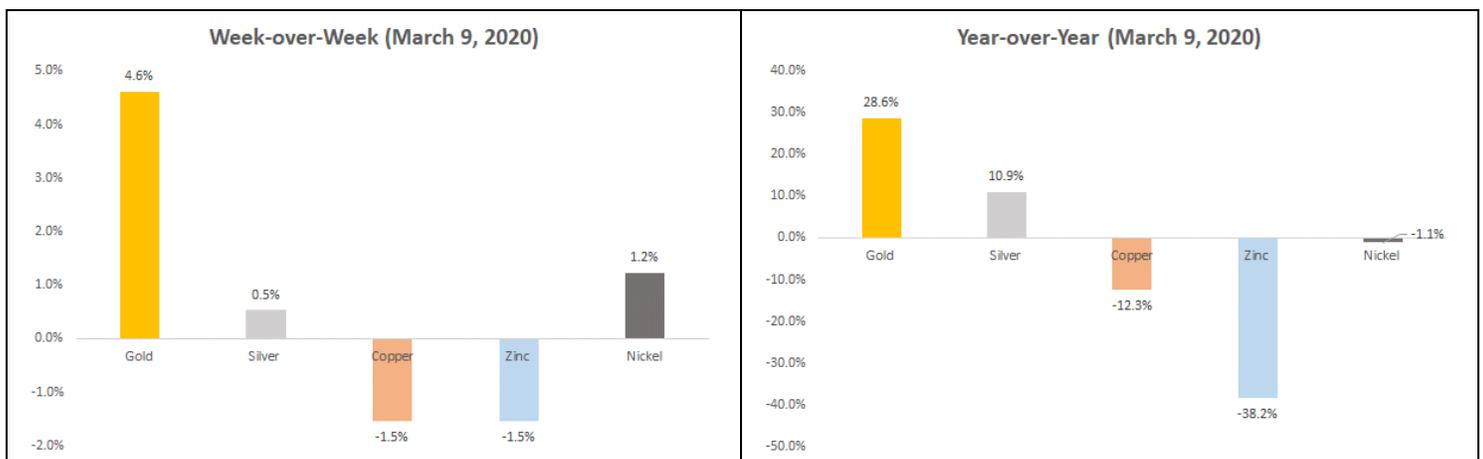


Source: [Goldman Sachs](#)

More importantly, the fatality rate (although significantly lower than other major outbreaks) is currently at 3.4% up from a previously reported 2%.

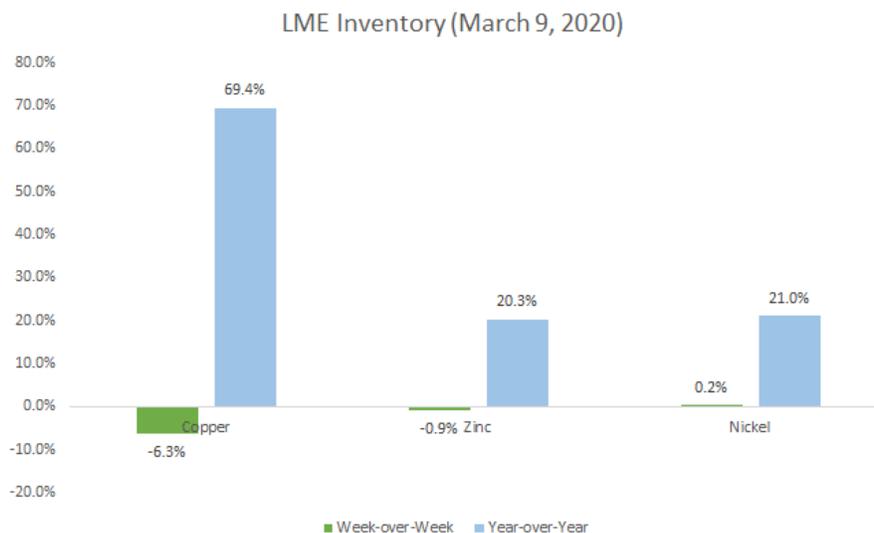


The rising global count and fatality rates are increasing panic in the commodity markets. Gold continues to outperform as investors pursue capital preservation.



Source: FRC / Various

The inventory levels of base metals are experiencing weekly volatility, but remain significantly higher on a YoY basis.



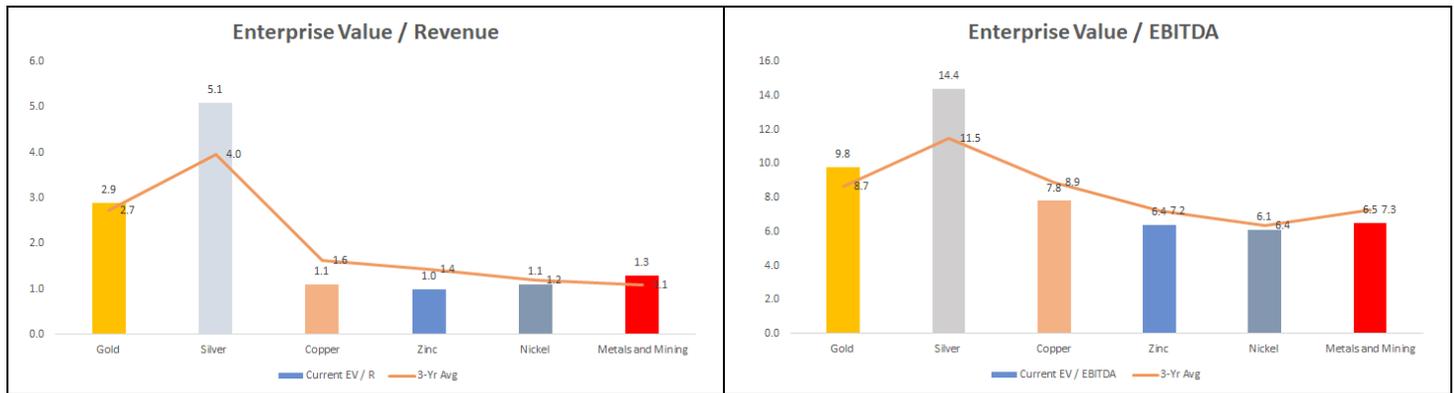
Source: FRC / Various

We are raising our 2020 gold price forecast again; this time from US\$1,575 to US\$1,600 per oz, while maintaining all other short-term and long-term commodity price forecasts.

	Current Price	FRC Forecasts	
		2020E	Long-Term (2023+)
Gold (US\$/oz)	\$1,677	\$1,600	\$1,400
Silver (US\$/oz)	\$17.01	\$17.50	\$18.00
Copper (US\$/lb)	\$2.56	\$2.70	\$3.00
Zinc (US\$/lb)	\$0.90	\$1.00	\$1.10
Nickel (US\$/lb)	\$5.76	\$6.00	\$8.00

Source: FRC

With regard to the valuation of producers, gold and silver continue to be the only two sectors (among the mainstream commodities) that have higher Enterprise Value (“EV”) to Revenue and EV / EBITDA ratios versus their three-year averages.



Source: S&P Capital IQ

Although we continue to speculate that the impact of the coronavirus will be a short-term event, we now expect the impact to last longer than previously expected. We expect the markets to continue to remain highly volatile in the near-term. The Prospectors & Developers Association of Canada (PDAC), the world’s largest mining conference, was held in Toronto last week. The event organizers indicated that attendance was down 10% YoY, and the lowest since 2016. We typically look at PDAC’s attendance to get a view on market sentiment, and these numbers clearly indicate the weak sentiment.

Only one company from our coverage universe in the resource sector had a significant press release last week; most companies had made announcements the prior week.

**Mining / Exploration**

<b>Company Name:</b>	<b>Ticker Symbol</b>	<b>Current Share Price:</b>	<b>FRC Fair Value Estimate:</b>	<b>Date of PR:</b>
<b>Bayhorse Silver Inc</b>	TSXV: BHS	\$0.07	\$0.68	Mar-3-2020
<b>PR Content</b>		<b>FRC Opinion</b>		
<p>Assay results from ore-sorting at the Bayhorse silver mine in Oregon returned very low silver grades of 15 g/t in the rejected material.</p>		<p><b>Positive</b> – We are encouraged by this as it demonstrates that ore-sorting is likely to be viable for Bayhorse’s material. The company has shipped samples to smelters for off-take pricing, and we believe the viability of ore-sorting improves the project’s economics. Note that the project has a high-grade inferred resource estimate of 292,300 short tons at 21.65 opt for 6.33 Moz of contained silver. The project can be quickly put back into production. The company also holds the Brandywine gold project in B.C.; historic samples from this project have returned up to 1.52 meters of 20.2 g/t gold.</p>		

### Special Situations

Company Name:	Ticker Symbol	Current Share Price:	FRC Fair Value Estimate:	Date of PR:
<b>Kidoz Inc.</b>	TSXV: KIDZ	\$0.25	\$0.95	Feb-26-2020
<p><b>PR Content</b>            Reported a summary of their Q4-2019 financials. The year-end audited financial statements are expected later this month. In Q4-2019, the company reported \$2.02 million in revenue, up 60% QoQ. The company also reported net profit of \$98k in Q4, versus a net loss of \$59k in Q3.</p>		<p><b>FRC Opinion</b>  <b>Positive</b> – Q4-2019 revenue blew past our estimate of \$1.50 million. Approximately 93% of the revenue in Q4 came from ads. We believe a key driver of revenue is the certification of the KIDOZ Safe Ad Network as one of only 11 approved advertising networks for apps targeting kids by Google (Nasdaq: GOOG) in 2019. The KIDOZ network has over 100 million monthly active users across 3,500+ apps. Brands advertising with KIDOZ include global names such as Disney (NYSE: DIS), Lego, Mattel (Nasdaq: MAT), McDonald’s (NYSE: MCD), Nintendo (TYO: 7974), etc. PwC estimates the global kids’ digital ad market could grow by approximately 22% p.a. from 2018 (\$0.9 billion) to 2021 (\$1.7 billion). We will be publishing an update report when the year-end financial statements are released.</p>		

<b>Company Name:</b>	<b>Ticker Symbol</b>	<b>Current Share Price:</b>	<b>FRC Fair Value Estimate:</b>	<b>Date of PR:</b>
<b>Siyata Mobile Inc.</b>	TSXV: SIM	\$0.24	\$1.14	March 9, 2020
<b>PR Content</b>		<b>FRC Opinion</b>		
Launched its Uniden UV350 with Verizon.		<b>Positive</b> – According to Gigabit Magazine, Verizon (NYSE: VZ) is the world’s second largest telecommunications company (behind AT&T). Launching with Verizon provides the company with greater product reach.		

<b>Company Name:</b>	<b>Ticker Symbol</b>	<b>Current Share Price:</b>	<b>FRC Fair Value Estimate:</b>	<b>Date of PR:</b>
<b>Marble Financial Inc.</b>	CSE: MRBL	\$0.19	\$0.42	March 5, 2020
<b>PR Content</b>		<b>FRC Opinion</b>		
Developed artificial intelligence (“AI”) and machine learning (“ML”) to support the underwriting process to assess credit applications.		<b>Positive</b> – We expect this to improve efficiency of the underwriting process and result in higher-quality clients (whom we define as clients who do not default on their Marble loans).		

<b>Company Name:</b>	<b>Ticker Symbol</b>	<b>Current Share Price:</b>	<b>FRC Fair Value Estimate:</b>	<b>Date of PR:</b>
<b>FinCanna Capital Corp.</b>	CSE: CALI	\$0.07	\$0.34	March 4, 2020
<b>PR Content</b>		<b>FRC Opinion</b>		
Announced its portfolio company, Cultivation Technologies, Inc. ("CTI"), has commenced production at its new facility in Palm Desert, California. Annual capacity is estimated at US\$ 35 million.		<b>Positive</b> – We are pleased to see CTI be in revenue generation. FinCanna is entitled to receive 10% of CTI's top line revenue. The estimated revenue potential per annum from this portfolio company is US\$3.5 million, higher than our forecasts. We will provide an update report shortly.		

### **Cannabis**

<b>Company Name:</b>	<b>Ticker Symbol</b>	<b>Current Share Price:</b>	<b>FRC Fair Value Estimate:</b>	<b>Date of PR:</b>
<b>The Yield Growth Corp.</b>	CSE: BOSS	\$0.20	\$0.45	March 5, 2020
<b>PR Content</b>		<b>FRC Opinion</b>		
Announced first Urban Juve ("UJ") product shipments to OMG Colombia ("OMG") as part of a previously announced five-year distribution deal. According to the company, OMG has a distribution channel of over 44,000 pharmacies in South America and the capabilities to sell through an online medium (e-commerce).		<b>Positive</b> – The cosmetics market in Latin America is a multi-billion industry. Goldstein Research indicated its market value to be US\$32 billion in 2017. This value is expected to grow at a compound annual growth rate ("CAGR") of 4.5% through to 2025. With our research indicating that UJ products are highly rated, we believe that UJ products will be well-received in Latin America.		

## Weekly Cannabis Commentary

As a proxy for the 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”).

HMMJ		MCAN		XCAN	
Current Price	\$6.22	Current Price	\$147.01	Current Price	\$129.05
1-Week Performance	-16.19%	1-Week Performance	-15.36%	1-Week Performance	-18.63%
1-Year Performance	-71.80%	1-Year Performance	NM	1-Year Performance	NM

*Note: MCAN and XCAN was launched on November 18, 2019 and January 20, 2020, respectively.*

*Source: TMX Money, FRC*

Over the past week, the HMMJ, MCAN, and XCAN generated a return of -16%, -15%, and -19%, respectively. **Performance of the cannabis market skidded week-over-week due to:**

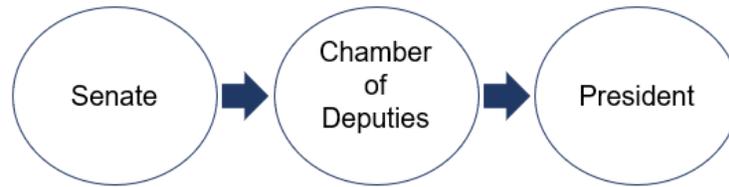
1. **Continued Coronavirus fears** (sparking a sell-off in equities),
2. An **oil price war between Russia and Saudi Arabia** (causing significant market tension).

The sharp fall this week was largely attributed to broader market issues and not industry-specific issues. This week, the Mexican Senate Committees advanced a marijuana legalization bill.

### Mexico Moving Towards Cannabis Legalization

With a deadline of April 30, 2020, to end cannabis prohibition in Mexico, lawmakers have drafted a bill which gained approval from the Mexican Senate Committees. The bill is expected to go to the Senate floor, and if passed, would be ratified by the Chamber of Deputies and enacted by the Mexican President (Andrés Manuel López Obrador).

**Steps to Cannabis Legalization**



Source: FRC

According to Marijuana Moment, pertinent terms of the bill include the following:

- Adults 18 and older are permitted to possess and cultivate marijuana for personal use,
- Recreational users can grow up to 20 plants, with a per annum yield not exceeding 480 grams per year. Medical users can cultivate more than the 20-plant limit,
- 12% tax on cannabis sales.

With a population of 130 million, we expect Mexico to be a material contributor to growth in the global cannabis market. We do not view Mexico to be a significant contributor due to its low GDP per capita (US\$8,902, according to the World Bank), low average cost per gram of cannabis (US\$2.9, according to Prohibition Partners), and the established black market for cannabis.

Country	Population	GDP per Capita
<b>Mexico</b>	<b>130 mn</b>	<b>US\$9k</b>
Canada	38 mn	US\$45k
United States	327 mn	US\$60k
Germany	83 mn	US\$45k

Source: World Bank, StatCan, ONS UK, Eurostat, INSEE, FRC

The channels available to recreational users for acquiring cannabis, when legalized, remain uncertain. Although cannabis prohibition in Mexico is expected to end in the coming months, there remain a number of logistical issues to stamp out.

### **Performance of Select Canadian LPs**

The following shows the performance of select Canadian LPs on a year-to-date (“YTD”) 1-month, 6-months, and 1-year basis.

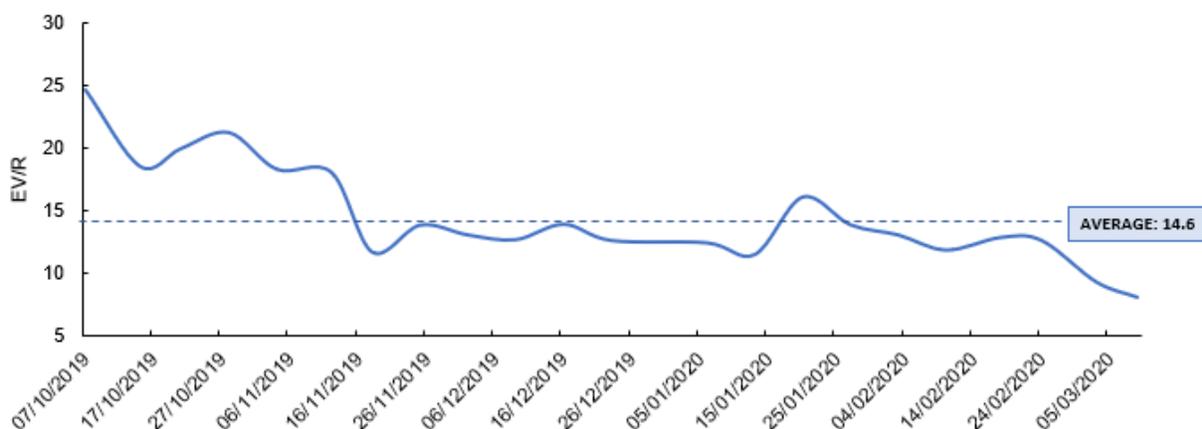
<b>Company Name</b>	<b>YTD</b>	<b>1-Month</b>	<b>6-Months</b>	<b>1-Year</b>
Aphria Inc.	-40.71%	-29.17%	-56.68%	-70.26%
Aurora Cannabis Inc.	-42.08%	-34.62%	-82.81%	-87.19%
Canopy Growth Corp.	-30.69%	-28.64%	-49.27%	-70.53%
Cronos Group Inc.	-25.13%	-19.66%	-51.98%	-74.46%
Tilray Inc.	-52.23%	-51.06%	-74.01%	-88.80%
Hexo Corp.	-43.70%	-27.92%	-79.01%	-83.36%
CannTrust Holdings Inc.	-48.39%	-46.22%	-70.78%	-94.57%
Organigram Holdings Inc.	-21.64%	-21.90%	-61.26%	-73.41%
The Supreme Cannabis Co., Inc.	-61.72%	-40.24%	-83.10%	-88.50%
<b>AVERAGE</b>	<b>-40.70%</b>	<b>-33.27%</b>	<b>-67.66%</b>	<b>-81.23%</b>

*Source: Google*

**The average YTD, 1-month, 6-month and 1-year returns were -40.70%, -33.27%, -67.66%, and -81.23%, respectively.**

### **Valuation of Select Canadian LPs**

The following shows the average Enterprise Value to Revenue (“EV/R”) that cannabis companies are currently trading at. The companies used are outlined further below.



Source: S&P Capital IQ, FRC

March 3, 2020

March 9, 2020

Company	Ticker	TEV/Revenue	TEV/EBITDA	TEV/Revenue	TEV/EBITDA	TEV/Revenue	TEV/EBITDA
Aphria Inc.	TSX: APHA	3.3	NM	2.9	NM	2.6	NM
Aurora Cannabis Inc.	TSX: ACB	10.1	NM	8.5	NM	7.5	NM
Canopy Growth Corp.	TSX: WEED	22.8	NM	19.0	NM	15.1	NM
Cronos Group Inc.	TSX: CRON	37.4	NM	23.0	NM	20.9	NM
Tilray Inc.	NASDAQ: TRLY	17.5	NM	11.5	NM	9.0	NM
HEXO Corp.	NYSE: HEXO	9.2	NM	7.3	NM	7.2	NM
CannTrust Holdings Inc.	TSX: TRST	2.3	136.3	1.8	107.2	1.6	93.3
Organigram Holdings Inc.	TSX: OGI	6.7	NM	5.9	NM	5.3	NM
The Supreme Cannabis Co., Inc.	TSX: FIRE	4.6	NM	4.1	NM	3.8	NM
<b>AVERAGE</b>		12.7	NM	9.3	NM	8.1	NM
<b>MEDIAN</b>		9.2	NM	7.3	NM	7.2	NM
<b>MINIMUM</b>		2.3	NM	1.8	NM	1.6	NM
<b>MAXIMUM</b>		37.4	NM	23.0	NM	20.9	NM

Source: S&P Capital IQ, FRC

The average EV/R, as of March 9, 2020, was 8.1x – a deterioration from an average EV/R of 9.3x as of March 3, 2020. The average EV/R, from October 7, 2019 to date, is 14.6x. As a number of companies are not EBITDA positive, we have refrained from tracking the average Enterprise Value to EBITDA (“EV/EBITDA”).

In the following, we provide commentary on Canadian retail cannabis pricing.

### Canadian Retail Cannabis Pricing

Province (As of 2020/3/9)	Average Price per Gram	Average Price per Gram THC	Average Price per Gram CBD	# of Products	Min. Price	Max. Price
B.C.*	\$ 10.58	\$ 10.63	\$ 10.05	127	\$ 6.28	\$ 19.80
Ontario	\$ 10.97	\$ 11.16	\$ 10.01	235	\$ 5.00	\$ 35.97
Quebec*	\$ 9.68	\$ 9.65	\$ 9.87	135	\$ 4.94	\$ 14.55
Alberta*	\$ 11.25	\$ 11.32	\$ 10.54	253	\$ 4.58	\$ 20.43
N.B.	\$ 10.32	\$ 10.28	\$ 10.46	129	\$ 5.00	\$ 16.28
P.E.I.*	\$ 10.97	\$ 11.01	\$ 10.63	117	\$ 6.28	\$ 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	\$ 13.13	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
<b>CANADA</b>	<b>\$ 11.58</b>	<b>\$ 11.71</b>	<b>\$ 10.95</b>			

Province (As of 2020/3/3)	Average Price per Gram	Average Price per Gram THC	Average Price per Gram CBD	# of Products	Min. Price	Max. Price
B.C.*	\$ 10.63	\$ 10.68	\$ 10.05	116	\$ 6.28	\$ 19.80
Ontario	\$ 10.97	\$ 11.16	\$ 10.01	235	\$ 5.00	\$ 35.97
Quebec*	\$ 9.68	\$ 9.65	\$ 9.87	135	\$ 4.94	\$ 14.55
Alberta*	\$ 11.37	\$ 11.43	\$ 10.73	252	\$ 4.58	\$ 20.43
N.B.	\$ 10.38	\$ 10.36	\$ 10.46	126	\$ 5.00	\$ 16.28
P.E.I.*	\$ 10.97	\$ 11.01	\$ 10.63	117	\$ 6.28	\$ 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*	\$ 11.86	\$ 12.00	\$ 12.47	25	\$ 10.78	\$ 18.69
Northwest Territories*	\$ 13.13	\$ 13.13	\$ 3	3	\$ 14.44	\$ 14.44
Manitoba	\$ 12.48	\$ 12.69	\$ 11.52	232	\$ 6.28	\$ 21.68
Saskatchewan	\$ 13.14	\$ 13.22	\$ 12.71	142	\$ 8.49	\$ 21.37
<b>CANADA</b>	<b>\$ 11.57</b>	<b>\$ 11.70</b>	<b>\$ 10.93</b>			

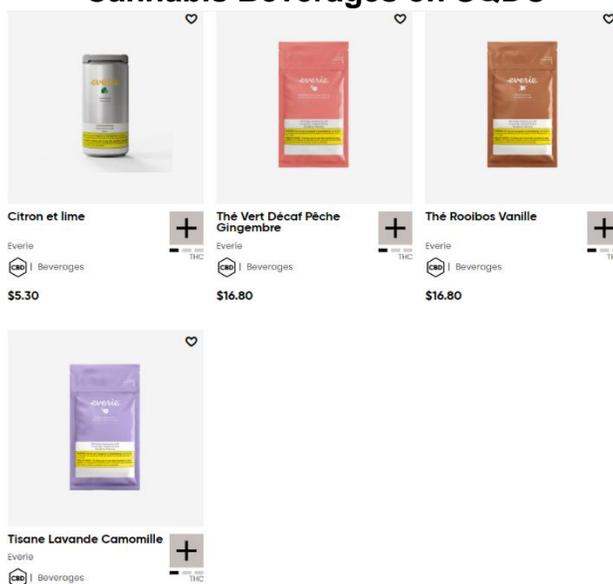
Source: Online Provincial Cannabis Store, FRC

**Average retail price per gram increased from \$11.57 to \$11.58 – a week-over-week increase of 0.13%.** Nunavut and Saskatchewan witnessed the largest week-over-week price per gram increases of 1.35% and 0.97%, respectively. This was slightly offset by week-over-week price per gram decreases in Alberta and New Brunswick of -1.05% and -0.63%, respectively. The other provinces/territories had a nominal, or zero, decrease in their average price per gram.

We continue to reiterate our view that the **retail price per gram will decrease over the long-term to combat the black market for cannabis.**

On March 4, 2020, Le Journal de Montreal reported that cannabis drinks hit the shelves in Quebec. The following are images of the beverages.

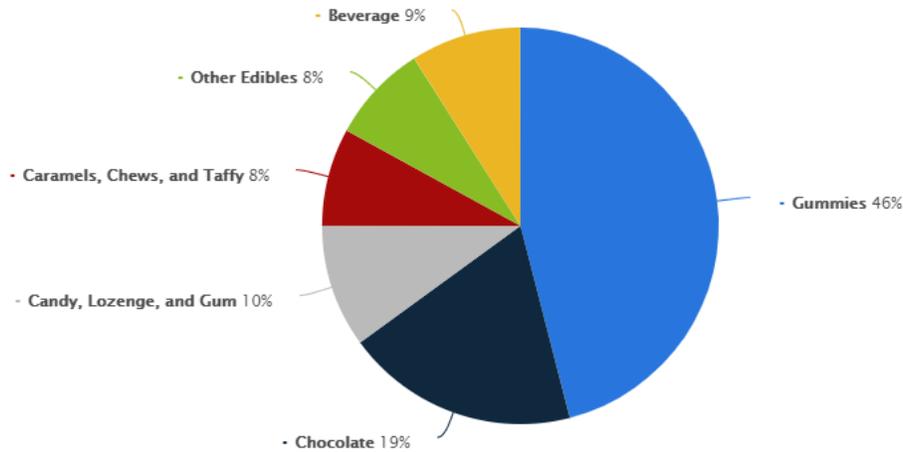
### Cannabis Beverages on SQDC



Source: SQDC

We do note that cannabis beverages have already hit the shelves in other provinces such as British Columbia (“B.C.”) and Ontario. Although cannabis beverages are making its way into the Canadian cannabis market, we do not expect it to comprise a significant portion of the total edibles market. In the state of Colorado (touted as one of the most mature cannabis markets), **beverages only comprised 9% of cannabis edibles.**

**Share of Sales of Cannabis Edibles and Beverages in Colorado**



Source: Statista

We speculate that the low share of cannabis beverages is due to the convenience of other forms of edibles. For example, a consumer could instantly consume a gummy to get high, whereas the same individual would have to continually drink their beverage to get high.

**Canadian Retail Cannabis Stores**

As of March 3, 2020, there were 811 retail cannabis stores open throughout Canada. **This is a 1% increase from a week ago.**

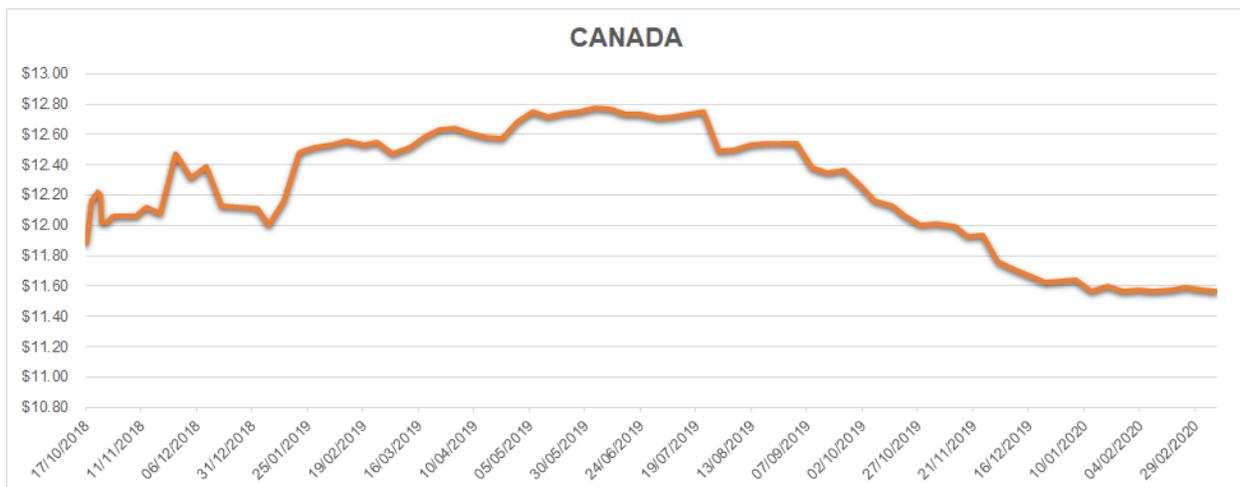
We expect the number of retail cannabis stores in Canada to continually grow into the foreseeable future. Retail cannabis store count by each province/territory is as follows:

Cannabis Stores	Feb-18	Feb-25	Mar-03	Mar-09	Population	Population / Store
	Store Count	Store Count	Store Count	Store Count		
B.C.	153	154	164	168	5,071,000	30,185
Ontario	34	36	42	42	14,570,000	346,905
Quebec	35	35	35	35	8,485,000	242,429
Alberta	420	421	423	424	4,371,000	10,309
N.B.	20	20	20	20	776,827	38,841
P.E.I.	4	4	4	4	156,947	39,237
Newfoundland	25	25	25	25	521,542	20,862
Yukon	4	4	5	5	35,874	7,175
N.S.	12	12	12	12	971,395	80,950
Nunavut	N/A	N/A	N/A	N/A	38,780	N/A
Northwest Territories	5	5	5	5	44,826	8,965
Manitoba	30	30	30	30	1,369,000	45,633
Saskatchewan	41	41	41	41	1,174,000	28,634
<b>CANADA</b>	<b>783</b>	<b>787</b>	<b>806</b>	<b>811</b>	<b>37,586,191</b>	<b>46,345</b>

Source: Provincial Websites, FRC

**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 Store

### **Disclaimers and Disclosure**

The opinions expressed in this report are the true opinions of the analyst(s) about any companies and industries mentioned. Any "forward looking statements" are our best estimates and opinions based upon information that is publicly available and that we believe to be correct, but we have not independently verified with respect to truth or correctness. There is no guarantee that our forecasts will materialize. Actual results will likely vary. Companies mentioned in this report may be covered by FRC under an issuer paid model or be candidates for coverage. FRC or companies with related management, may hold shares in some companies mentioned in this report. Distribution procedure: our reports are distributed first to our web-based subscribers on the date shown on this report then made available to delayed access users through various other channels for a limited time.

To subscribe for real-time access to research, visit <https://www.researchfrc.com/website/subscribe> for subscription options.

This report contains "forward looking" statements. Forward-looking statements regarding the Company, industry, and/or stock's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence on suppliers; systematic market risks and other risks discussed in the Company's periodic report filings, including interim reports, annual reports, and annual information forms filed with the various securities regulators. By making these forward-looking statements, Fundamental Research Corp. and the analyst/author of this report undertakes no obligation to update these statements for revisions or changes after the date of this report.

Fundamental Research Corp DOES NOT MAKE ANY WARRANTIES, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKES NO EXPRESS OR IMPLIED WARRANTIES OR FITNESS FOR A PARTICULAR USE. ANYONE USING THIS REPORT ASSUMES FULL RESPONSIBILITY FOR WHATEVER RESULTS THEY OBTAIN FROM WHATEVER USE THE INFORMATION WAS PUT TO. ALWAYS TALK TO YOUR FINANCIAL ADVISOR BEFORE YOU INVEST. WHETHER A STOCK SHOULD BE INCLUDED IN A PORTFOLIO DEPENDS ON ONE'S RISK TOLERANCE, OBJECTIVES, SITUATION, RETURN ON OTHER ASSETS, ETC. ONLY YOUR INVESTMENT ADVISOR WHO KNOWS YOUR UNIQUE CIRCUMSTANCES CAN MAKE A PROPER RECOMMENDATION AS TO THE MERIT OF ANY PARTICULAR SECURITY FOR INCLUSION IN YOUR PORTFOLIO. This REPORT is solely for informative purposes and is not a solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the company, industry, securities or developments referred to in the material. Any forecasts contained in this report were independently prepared unless otherwise stated, and HAVE NOT BEEN endorsed by the Management of the company which is the subject of this report. Additional information is available upon request. THIS REPORT IS COPYRIGHT. YOU MAY NOT REDISTRIBUTE THIS REPORT WITHOUT OUR PERMISSION. Please give proper credit, including citing Fundamental Research Corp and/or the analyst, when quoting information from this report. The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.