

Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

October 21, 2019

CannaOne Technologies (CSE: CNNA / FSE: 3CT / OTCPK: CNONF) – Looking to Establish an International Online Marketplace for CBD Products – Initiating Coverage

Sector/Industry: Cannabis Technology

[Click here for more research on the company and to share your views](#)

Market Data (as of October 21, 2019)

Current Price	\$0.64
Fair Value	\$1.00
Rating*	BUY
Risk*	4
52 Week Range	\$0.50 - \$1.84
Shares O/S	20,621,762
Market Cap	\$13.20 million
Current Yield	N/A
P/E (forward)	N/A
P/B	35.89x
YoY Return	-7.14%
YoY CSE	-55.20%

*see back of report for rating and risk definitions.

*\$ denotes C\$ unless otherwise specified.



Highlights

- CannaOne Technologies Inc. (“CannaOne”, “company”) develops cannabis ecommerce tools to serve cannabis markets around the world.
- The company has a proprietary ecommerce solution called the BloomKit Product Suite. This solution incorporates many innovative tools and uses artificial intelligence (“AI”) and predictive analytics to establish a strong economic moat for online marketplaces that utilize the company’s underlying ecommerce solution.
- Through a partnership, the company launched the BWell Market on June 2019. The BWell market is a premium online U.S. cannabidiol (“CBD”) marketplace that specializes in the sale and distribution of over 140 CBD edibles, CBD oil drops, hemp extract products, and other wellness products throughout the U.S. **In September 2019, the company entered into a Letter of Intent (“LOI”) to acquire 100% ownership of the BWell Market. This outlines the company’s desire to operate their own online marketplace powered by their ecommerce platform.**
- The company is presently pursuing partnerships to launch online marketplaces internationally - **CannaOne has already entered into an agreement to operate an online CBD market in Mexico and has signed a Memorandum of Understanding (“MOU”) to operate an online CBD market in the United Kingdom.**
- **We are initiating coverage on CannaOne with a BUY rating and a fair value of \$1.00 per share.**

Risks

- The company has a limited operating history and has not generated a profit since inception.
- The company operates in a highly regulated industry subject to governmental intervention.
- There is no guarantee that the company will be able to secure future financing to further develop its ecommerce solution.
- There is no guarantee that company partnerships will be successful.
- The company may be subject to cyber-security threats.
- There is no guarantee that marketing efforts by the company will increase the market share of the BWell Market.

Key Financial Data (FYE - OCT 31) (C\$)	2018	2019E	2020E	2021E
Cash	46,043	126,956	379,926	302,284
Working Capital	7,538	(52,322)	454,938	560,483
Debt	53,848	315,386	76,924	88,462
Total Assets	538,631	2,641,597	2,976,831	3,354,812
Revenue	14,286	99,796	1,144,934	4,514,447
Net Income (Loss)	(445,527)	(1,398,321)	(1,688,099)	(280,108)
EPS	(0.02)	(0.06)	(0.06)	(0.01)

Company Overview

CannaOne Technologies Inc. (“CannaOne”) was formed on October 19, 2016, and focuses on developing cannabis ecommerce software platforms to serve cannabis markets around the world. The company completed its initial public offering (“IPO”) in October 2018, and is currently trading at a level that is approximately 60% higher than its IPO price of \$0.40. Since inception, the company has successfully developed a comprehensive ecommerce solution for the cannabis industry called the BloomKit Product Suite (“BloomKit”). **The company’s main business plan is to focus on, and specialize in, the building and operation of online cannabis marketplaces that are driven by the company’s ecommerce solution.** In addition, the company has a data engine embedded in BloomKit that collects, stores and sorts data of consumers of CannaOne’s online marketplaces and uses machine learning to provide predictive analytics. **As such, the company has developed an ecommerce solution that uses predictive analytics to drive sales in online marketplaces that use the company’s ecommerce solution as its underlying platform.** The company’s business model provides a global cannabis market specific solution and aims to replicate that of ecommerce giant Amazon (NASDAQ: AMZN), a company that uses data to establish a strong economic moat and drive online sales.

We now discuss the company’s technology platform in more detail.

BloomKit – An Ecommerce Solution

BloomKit is the company’s flagship product – an ecommerce solution that allows for the operation of an online cannabis marketplace. Although there are many companies that provide third-party businesses with an online cannabis marketplace, such as Shopify Inc. (TSX: SHOP), the company differentiates itself from such competitors by incorporating software tools within its flagship product: (1) BloomWallet, (2) BloomMachine, and (3) BloomStar. In doing so, the company believes that they have a strong first-mover technology advantage over others. Readers should note that BloomStar and BloomMachine are currently deployed on the company’s ecommerce solution while BloomWallet is not currently deployed.

Software Tools in BloomKit



BloomWallet



BloomMachine



BloomStar

Source: Company

The main features of each software tool are explained below:

- **BloomWallet:** BloomWallet is the payments portal for BloomKit and will feature a loyalty rewards program that is engineered into the software to help strengthen consumer retention within the online marketplace(s) operated by the company.
- **BloomMachine:** BloomMachine is the most innovative software tool of the three,

Webpages
Powered by
BloomKit

largely due to the fact that it incorporates artificial intelligence (“AI”). BloomMachine is planned to gather information about cannabis users and use AI to predict consumer behavior, recommend products to consumer, and track purchases. In short, BloomMachine will provide predictive analytics to help personalize a consumer’s buying experience. This tool is anticipated to add significant value to online marketplaces that use the company’s ecommerce solution. With that said, it is not to say that incorporating AI automatically adds value – a large customer dataset is generally required to attain meaningful insights from using AI.

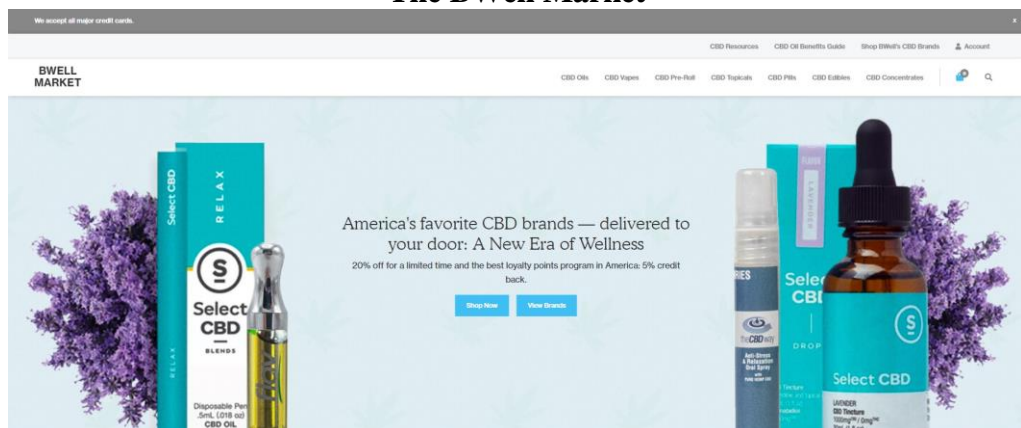
- **BloomStar:** BloomStar is a tool that is to address (according to the company) a currently overlooked component of ecommerce sites: consumer reviews. BloomStar will use a predictive review engine to filter relevant consumer reviews and thereby aid a consumer in their purchasing process.

Shown above, tools such as BloomWallet, BloomMachine, and BloomStar can add significant value to the functionality of online marketplaces that use the company’s ecommerce solution. In addition to the tools mentioned, BloomKit’s consumer interface can be easily configured and customized, meets legal and compliance requirements for the sale of cannabis-based products in different countries, and has inventory, shipping, logistics, payment, marketing, consumer service, and website management features, among other things.

Next, we discuss two webpages that currently uses BloomKit as its underlying platform.

The BWell Market and Primo are examples of webpages powered by BloomKit. Both webpages are discussed further below.

The BWell Market



Source: www.thebwellmarket.com

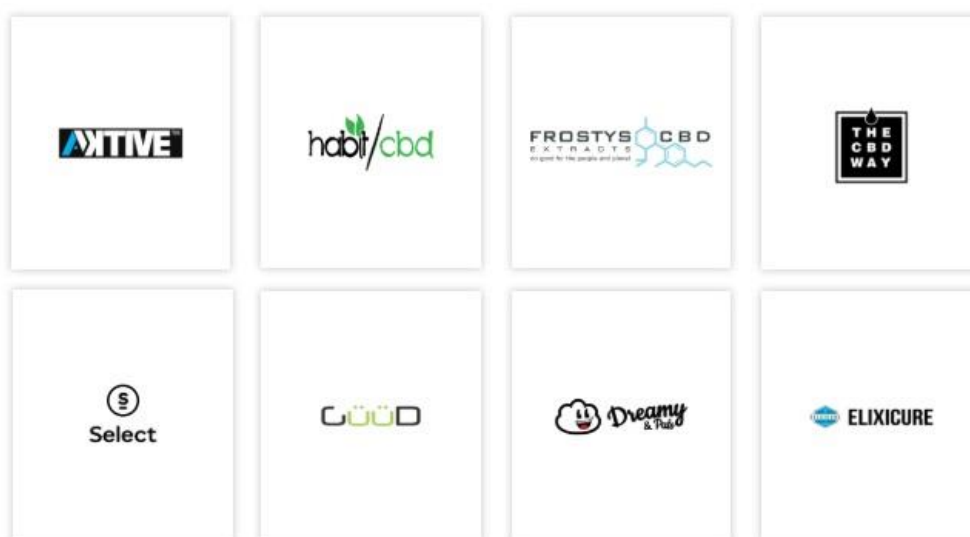
The BWell Market (www.thebwellmarket.com) was launched in June 2019, operates in the United States (“U.S.”), and is a premium online U.S. CBD marketplace that specializes in the sale and distribution of over 140 CBD edibles, CBD oil drops, hemp extract products, and other wellness products throughout the U.S. According to Forbes, “BWell Market provides consumers with all the information they could want about CBD products, from

delivery method to purity and biodiversity”.

Readers should note that the BWell Market was initially launched through a company partnership with Real Life Sciences Inc. (“RLS”) – an unrelated party. As a managing partner of the BWell Market, RLS maintained a 75.10% ownership interest in the BWell Market. However, on September 4, 2019, the company entered into a LOI to acquire a 100% interest in RLS for \$2 million to be paid through the issuance of CannaOne shares priced at a 20% discount to the date of closing (expected to be October 25, 2019). Previously, CannaOne only provided digital marketing expertise and the underlying ecommerce solution (BloomKit) to the BWell Market. As such, the company’s pending acquisition of RLS outlines the company’s desire to operate their own online marketplace that is powered by their ecommerce solution. **Management has indicated that the BWell Market is anticipated to be a major source of revenue and is to act as a “model website” for additional online marketplaces that the company plans to launch worldwide (discussed later in the report).**

As of October 2019, we found 10 CBD brands on the BWell Market. Given that the company plans to launch additional online marketplaces in other countries, we believe the company could leverage these brands by selling such branded products in other countries. A number of these CBD brands are shown below.

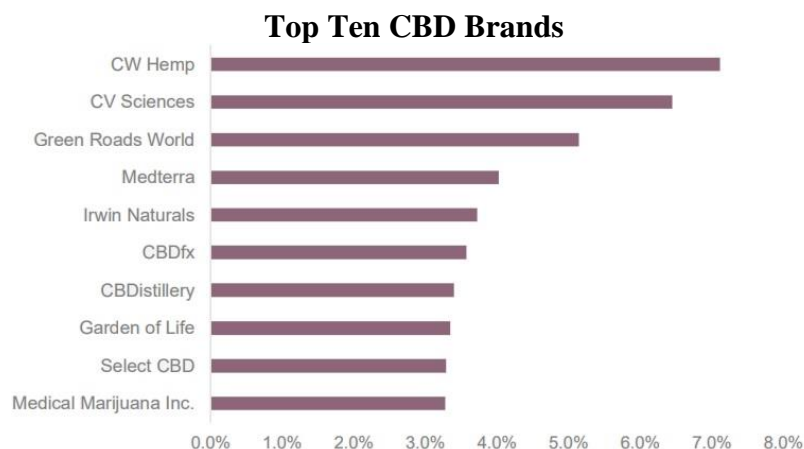
CBD Brands on BWell



Source: www.thebwellmarket.com

In our discussions with management, it was noted that the company receives a large number of daily inquiries from CBD brands that are interested in listing their products on the BWell Market. Furthermore, management has indicated that they are actively pursuing additional popular CBD brands to list on the BWell Market. As such, we anticipate BWell Market to have a more comprehensive suite of CBD brands and products in the future. **Of the CBD brands available on the BWell Market, one of the CBD brands available is among the top ten CBD brands in the U.S (the CBD Brand is called “Select CBD”).** The top ten

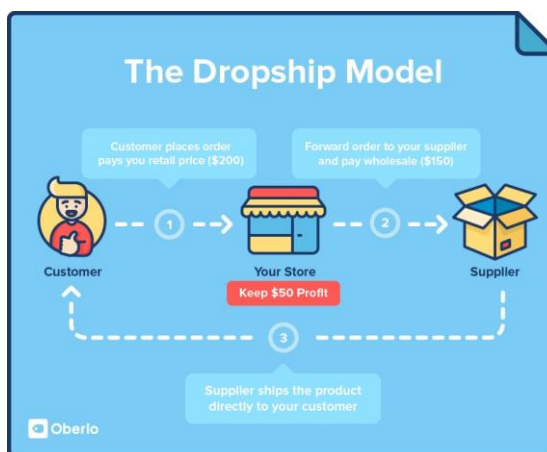
CBD brands, according to Brightfield Group, is shown below.



Note: A label for the horizontal axis was not given, but we assume this to be the market share held by the CBD brands.

Source: Brightfield Group

Contingent on the success of the proposed acquisition of RLS, the company's business model for the BWell Market is expected to follow a dropship business model. The dropship business model can be simply explained as follows: As a consumer places an order on the BWell Market and pays the retail price, CannaOne forwards the order to its supplier and pays the wholesale price. The product ships from the supplier's site directly to the consumer. The dropship business model is illustrated below.



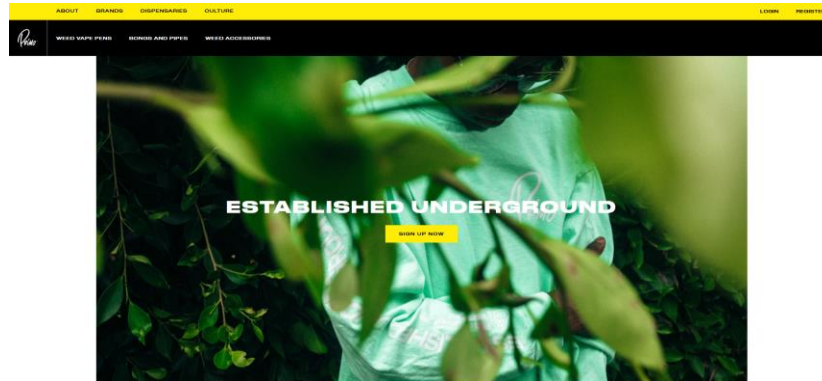
Source: Oberlo

A dropship business model is extremely attractive to employ – it was estimated that 22% to 33% of internet retailers adopt drop shipping as their primary method of order fulfillment. (Source: Americommerce). Such internet retailers include Amazon, Sears (OTCMKTS: SHLDQ), and Wayfair (NYSE: W). The primary benefits of utilizing a dropship business model include: (1) not having cash tied up in inventory, (2) not having to pay for inventory storage costs, and (3) no capital expenditure (“CAPEX”) outlay for the building of warehouses. Through a dropship model, the company is able to adjust the retail sales price accordingly and maximize profits. Although a dropship business model holds many advantages, the barriers to entry of employing such a business model is low and can

be easily replicated by competitors.

Next, we briefly discuss Primo (www.itsprimo.com).

Primo



Source: www.itsprimo.com

Primo was launched in February 2019, operates in the U.S., and is owned by Primo Networks Inc. (with the underlying webpage platform provided by CannaOne). Primo, a related company (Co-founder of CannaOne Carlos Plaschinski holds a marketing manager position at Primo Networks Inc.), is currently a review-driven marketplace that provides information regarding high-rated cannabis accessories, merchandise and brands. In addition, Primo provides general cannabis information. Management has stated that the company provides Bloomkit to Primo on a preferential contract pricing basis (amount undisclosed) and is a means for the company to further develop and innovate its ecommerce solution in a live setting.

Having discussed the BWell Market and Primo, we discuss the importance of an aesthetic consumer interface.

From our research, we believe that an important consideration for companies that develop ecommerce solutions is the aesthetic nature of the consumer interface and ease of webpage navigation. We strongly believe that a well-designed ecommerce page improves the brand image of the online marketplace, establishes credibility, and has a significant impact on a consumer's purchase decision.

According to a presentation by Veopix Design (a creator of graphic design materials), 75% of consumers admit to making judgments about a company's credibility based on the design of the webpage and 94% of a webpage user's first impressions are design related. As such, the consumer interface of an online marketplace plays a significant role in (1) driving consumer traffic and (2) improving the consumer conversion rate (the percentage of visitors that ends up purchasing from the webpage).

Importance of Consumer Interfaces in Online Marketplaces



Source: Veopix Design

Importance of Artificial Intelligence in Online Marketplaces

In our opinion, we found The BWell Market and Primo webpages to be aesthetically pleasing and easily navigable. The BWell Market has a 5% credit back loyalty program and a live consumer support agent who, when we interacted with, was very responsive and informative. Both webpages loaded quickly and had a very fast response time when we were navigating around.

In the following, we discuss the importance of incorporating artificial intelligence (“AI”) into an ecommerce solution.

Although a well-designed webpage is vastly important for business success, we believe it is equally important to incorporate back-office artificial intelligence (“AI”) to drive the consumer conversion rate. In today’s ecommerce world, it is important to understand what consumers want and to make the purchasing process for consumers as easy as possible. CannaOne has noted the importance of AI and has resultingly incorporated predictive analytics (a subset of AI) into its ecommerce solution. According to BlackCurve (a company that uses AI in its pricing optimization software for retailers), predictive analytics allow for ecommerce companies to, among other things:

- Understand what consumers want
- Provide targeted product recommendations and price promotions.
- Actively manage prices.
- Manage the supply chain.

Management has indicated that BloomKit features all the capabilities mentioned above. Given that CannaOne incorporates predictive analytics in BloomKit, we believe that BloomKit provides the company with a significant value-added ecommerce solution for servicing and operating online marketplaces. Readers should note that predictive analytics is not new and that a number of online ecommerce companies (such as Amazon and Macy’s) currently use predictive analytics to drive sales. As the ecommerce space progresses, we believe predictive analytics will be a pre-requisite for the success of ecommerce companies.

Having discussed the company’s ecommerce solution, webpages that currently use the company’s ecommerce solution, and the capabilities of predictive analytics for online marketplaces, we turn to the demand for cannabis in the U.S. – a country where the company currently operates the BWell Market. In addition, we outline demand for cannabis in other countries that the company plans to operate online marketplaces in (through

International Online Marketplaces

partnerships).

The company is in the midst of expanding its online CBD marketplace to encompass other countries internationally. As of current, the company has decisive plans to engage in partnerships and establish online marketplaces in the United Kingdom (“U.K.”) and Mexico. Management has stated that they expect the revenue model of these new online marketplaces to consist of a gross profit-sharing model between partners. Countries that the company is in the midst of expanding into, in addition to a number of other countries that the company has expressed interest of entering into, are shown below.

Target Countries for CannaOne to Expand Into



Source: Company

In our discussions with management, they have expressed that the company is primarily focused on establishing itself in the U.K., U.S., and Mexico cannabis markets over the next 6 to 12 months. Management has stated that other markets (such as Canada, Australia and Germany), at the moment, are currently secondary to the company’s business plan. Contingent on the success of its online U.K. CBD marketplace, the company’s longer-term plan would be to expand its online marketplace in the U.K. to encompass the entirety of Europe. Given this understanding, our discussions below will be on the company’s primary markets of operation.

Cannabis Demand in the United States

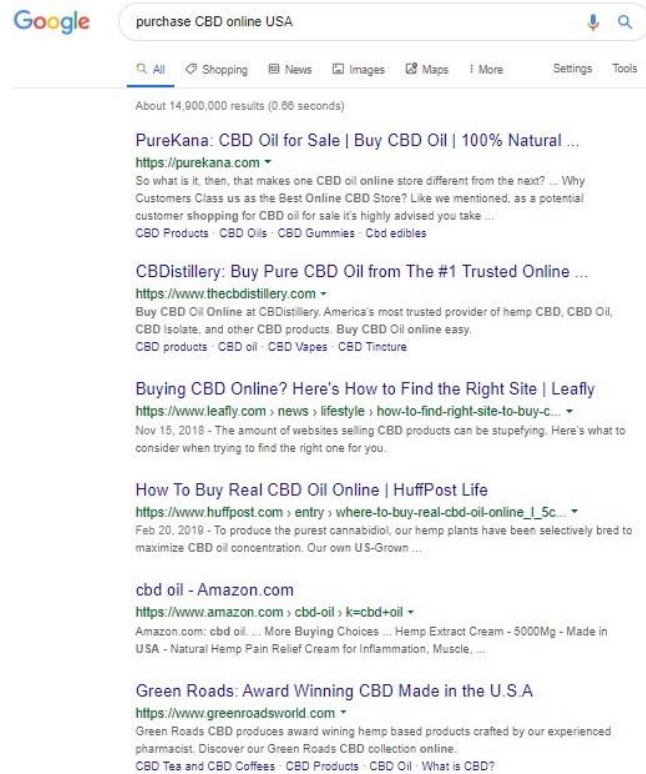
Cannabis Demand in the United States

In the U.S., the 2018 Farm Bill paved way for the legalization of CBD products. As such, purchasing CBD products are federally legal as long as it is derived from hemp and contains no more than 0.3% THC (this type of CBD is referred to as hemp-derived CBD). Although hemp-derived CBD products are federally legal, each state has laws that may not be in-line with federal regulations. For example, yourhemp.co.uk (a website that sells CBD products) indicated that hemp-derived CBD products were illegal in Idaho, Nebraska, and South Dakota.

As mentioned earlier in the report, the company operates the BWell Market in the United States – an online marketplace for all things CBD. **As indicated by the company, the BWell Market is one of the first online marketplaces in the U.S. for CBD products.** The company has indicated plans for an online THC marketplace in the U.S. as it becomes federally legal in the U.S. The legalization of marijuana, if and when, is currently undeterminable in the U.S. As of current, we will be primarily discussing the demand for

CBD products in the U.S.

The online U.S. CBD marketplace is highly competitive, with several online marketplaces to purchase CBD products from. For example, inputting “purchase CBD online USA” in the Google (NASDAQ: GOOGL) search engine would yield a plethora of online CBD marketplaces to purchase from. This is illustrated below.



Source: Google

Given that the BWell Market is not listed on the first page (it is listed on the second page), it is our expectation that the company will need to incur high advertising costs in order to stand out against other online U.S. CBD marketplaces. Management has advised that they are highly cognizant of the need to expend consistent digital marketing and ad spend monies towards the BWell Market such that it gets placed on the first page of Google search engines. Management has estimated that the company will incur monthly expenditures of \$50,000 - \$100,000 to achieve this.

Through our research into the traffic of the BWell Market, we gained meager insights. As the website is relatively new, Alexa (a webpage analytics tool) was not able to generate insightful traffic insights on the BWell Market. However, it was noted that the BWell Market had a bounce rate of 83.3% (this compares to a bounce rate of 46.9% from cbdmarketplace.com, a close competitor to thebwellmarket.com). The bounce rate refers to the percentage of visitors that leave immediately after visiting the page. As the company expends marketing dollars to promote the BWell Market, it is our expectation that the bounce rate will resultingly decrease. Information regarding the search traffic and bounce

rate for the BWell Market, taken from Alexa, is shown below.

The BWell Market – Search Traffic and Bounce Rate

COMPARISON METRICS ?

Search Traffic ?

Bounce rate ?

This site

No Data

This site

83.3%

Comp. Avg. ?

No Data

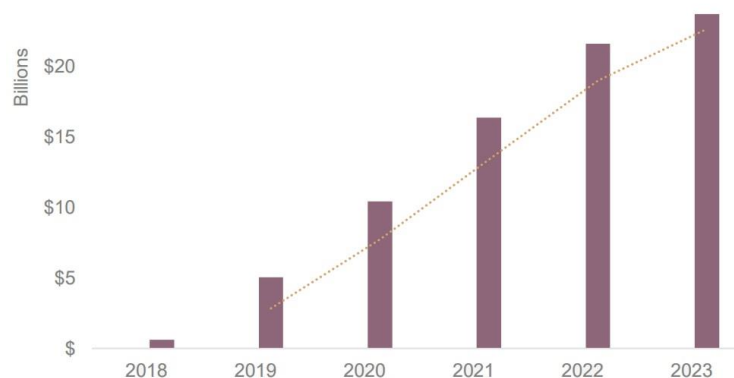
Comp. Avg. ?

No Data

Source: Alexa

According to Brightfield Group (taken from BNN Bloomberg), hemp-derived CBD products could generate sales of up to US\$23.7 billion by 2023. This compares to a forecast of US\$5.7 billion for 2019 – a 706% increase over 2018. The growth from 2019 to 2023 implies an enormous compound annual growth rate (“CAGR”) of approximately 43%.

U.S. Hemp-Derived CBD Market Size and Projections



Source: Brightfield Group

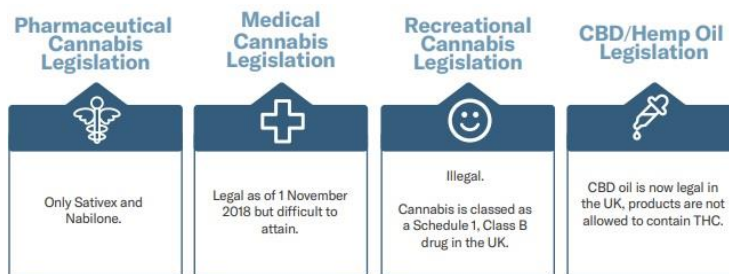
We believe the rich valuation of the CBD market in the U.S. is attributed to health claims made regarding CBD products. According to the New York Times (“NYT”), CBD is wildly popular in the U.S. due to claims that it helps with a variety of ailments such as headaches, diabetes, menstrual cramps, and anxiety. CNET reported that CBD products are being marketed as a “cure-all”, with manufacturers claiming that it can do everything from relieving anxiety to stopping the spread of cancer. Although we believe the claims seem outlandish, they are not entirely unwarranted but further research is necessary. It was indicated that early experiments with CBD have suggested that it may help fight anxiety, reduce pain, and ease schizophrenia symptoms. Given the positive results of early experiments with CBD, we view the emerging CBD market in the U.S. as highly attractive.

Cannabis Demand in the United Kingdom

Cannabis Demand in the United Kingdom

CBD products in the U.K. are legal granted that it contains no more than 0.2% THC. The company has indicated plans for an online THC marketplace in the U.K. as it becomes fully legal in the U.K. The full legalization of marijuana, if and when, is current undeterminable in the U.K. As of current, we will be primarily discussing the demand for CBD products in

the U.K. Legality of cannabis in general in the U.K. is illustrated below.



*Although the illustration above states that CBD products are not allowed to contain THC, several other online sources have stated that CBD products can contain up to 0.2% THC.

Source: Prohibition Partners

On September 25, 2019, the company entered into a MOU with LevelOut U.K. Ltd. (“LO”), an unrelated party, where the company will provide its ecommerce solution and access to its existing U.S. CBD brand supply chain, and LO will provide initial start-up capital of £150k to £200k to establish an online marketplace. Management has indicated that the company is expecting to launch an online U.K. CBD marketplace by March 2020. In addition, it was noted that the revenue-sharing model will consist of the company receiving 32.5% in gross profits from the partnership. We were unable to find a website or additional information regarding Level Out U.K. Ltd.

Through our research, we found numerous online marketplaces for the purchase of CBD products. As such, we believe that the online CBD marketplace in the U.K. is highly competitive. Given our belief that the online CBD marketplace is highly competitive, readers should take this favourably as the company has the opportunity to more easily enter the online CBD marketplace in the U.K. (as opposed to if the company were to enter against the backdrop of a monopoly online CBD marketplace operator), establish its brand image, and consolidate the online U.K. CBD marketplace. Shown below are select online marketplaces to purchase CBD products from in the U.K.

Select Online Marketplaces to purchase CBD products from in the United Kingdom



Source: iceheadshop.co.uk, flawlesscbd.co.uk, cbd.co.uk

According to the Centre for Medicinal Cannabis (“CMC”), it was estimated that 1.3 million consumers are spending over £300 million (C\$493.45 million) per year on CBD products – a figure that is greater than the total current U.K. Vitamin D (£145 million) and Vitamin C market (£119 million) combined. The U.K. CBD market is expected to

Cannabis Demand in Mexico

reach a market size of almost £1 billion (C\$1.63 billion) by 2025. Although valuation for the U.K. CBD market is not as attractive as the valuation for the U.S. CBD market, we believe this valuation could potentially be revised upwards in the future. For example, the £300 million estimate was previously quoted to be £100 million.

Cannabis Demand in Mexico

In November 2018, the Mexican Government announced the approval for the commercial importation and sale of cannabis products in pharmacies and retailers. This is monumental, as, according to Marijuana Business Daily (“MBD”), consumers will be able to purchase cannabis products without a prescription. With that said, these cannabis products are required to have less than 1% THC (i.e. hemp-derived CBD products). This announcement came right before the U.S. passed the 2018 Farm Bill on December 11, 2018. Additionally, on October 2018, Mexico’s Supreme Court ruled that a ban on recreational marijuana was unconstitutional and has set a deadline of October 2019 to end the prohibition. As such, we believe that the sale of recreational marijuana could be legalized as early as January 2020. With that said, we are not privy as to who can supply recreational marijuana once it becomes legalized in Mexico and the type of regulations that will be put in place. Due to the lack of visibility, we have refrained from assuming that CannaOne will be able to operate an online THC marketplace in Mexico. However, CannaOne has an enormous opportunity to establish an online CBD marketplace in Mexico, which we discuss further.

Given that residents of Mexico are now able to purchase hemp-derived CBD products without a prescription, **CannaOne entered into a partnership with Manna Health Services SA de CV (“Manna”) to launch an online CBD marketplace in Mexico.** The term of this partnership is 3 years (starting March 2019) and has an option for a 60 months extension upon conclusion of the initial term. Manna is a company based in Mexico that is primarily involved with the distribution and supply of health and wellness products in Mexico. Manna is currently actively pursuing licensing to import and sell CBD products, to which management expects Manna to receive the relevant licenses before the end of 2019. Upon satisfying licensing requirements, management has stated that they plan to launch an online CBD marketplace by March 2020. The partnership is to follow a revenue-sharing model, with revenue splits undisclosed. However, we believe that the revenue-sharing model will be similar to the company’s partnership with LevelOut U.K. Ltd. in the U.K (a gross profit split). It is our understanding that cannabis products in Mexico are to be approved by the government before they can be sold to consumers. Although the company has not explicitly stated whether they currently have CBD products approved for sale by the Mexican Government, we believe it to be safe to assume that in the 4-month grace period from now until the online marketplace’s launch (March 2019), that the company will have approved CBD products for sale.

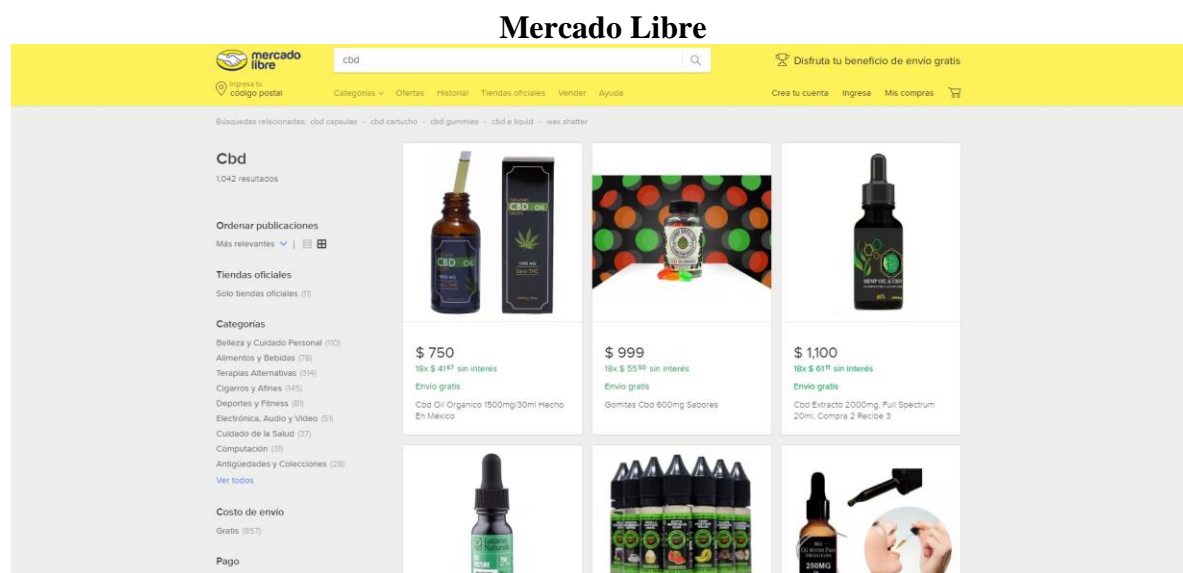
Through our research, we have noted at least seven companies that have been approved to sell CBD products in Mexico. To name a few:

- Farmacias Magistrales S.A. (Acquired by Aurora Cannabis (TSE: ACB) in 2018 for an undisclosed amount.)

- Finat México.
- Acietes Orgánicos de América.
- CBD Life

Readers should note that the companies approved to sell CBD products in Mexico are restricted to sell specific types of CBD products. For example, Leafly (an online website for all things cannabis) noted that CBD Life is the only company approved to sell infused foods and beverages and that Farmacias Magistrales S.A. and Finat México are the only companies approved to sell cannabis oil. Through our research into the companies approved to sell CBD products, we were only able to find an ecommerce site for CBD Life (cbdlife.com.mx). Management has noted that cbdlife.com.mx is a single brand ecommerce site and not a multi-brand driven online marketplace (which is what the company is establishing in Mexico).

With that said, management has identified one online marketplace in Mexico that sells multi-brand CBD products: Mercado Libre (NASDAQ: MELI). Mercado Libre is similar to Amazon where vendors can list their products and sell to consumers. Their webpage is displayed below.



Source: mercadolibre.com.mx

Through browsing the webpage, we noticed that Mercado Libre is a general online marketplace (i.e. they sell a number of different products) and is not a pure-play online CBD marketplace. Management has noted that CBD products on Mercado Libre are technically illegal, as the CBD products listed for sale on Mercado Libre are not regulated by the government and may not contain the advertised amount of CBD. We are unable to confirm these statements by management. **Although we believe Mercado Libre is a competitor to the company in Mexico, we do not believe Mercado Libre to be a direct**

competitor to the company. We believe that pure-play online CBD marketplaces (such as the one that CannaOne plans to establish) are more credible and trustworthy for consumers to purchase CBD products from. Given the lack of established pure-play online CBD marketplaces in Mexico, we believe that the company has a lucrative opportunity to enter and establish a strong foothold for online CBD sales in Mexico.

Given the lack of information regarding the CBD market in Mexico, we have decided to value the CBD market in Mexico based on the CBD market in the U.S. We deem this to be appropriate, as both countries have legalized CBD products at a similar time. We have estimated the CBD market in Mexico to be roughly 5% of the U.S. CBD market. This is based on determining the population of the U.S. versus Mexico (Mexico has a population that is roughly 1/3 that of the U.S.) and adjusting for the GDP per capita difference from the U.S. and Mexico (Mexico has a GDP per capita that is roughly 1/8 that of the U.S.). As such, we believe that the CBD market in Mexico could reach a valuation of US\$1.19 billion by 2023. Readers should note that this is a very rough estimate and that we have revised this downwards when determining the addressable CBD market in Mexico (refer to our valuation section).

Having discussed the company's near-term business plan to operate an online marketplace in the U.S., U.K., and Mexico, we discuss the company's longer-term business plan.

Longer-Term Business Plan

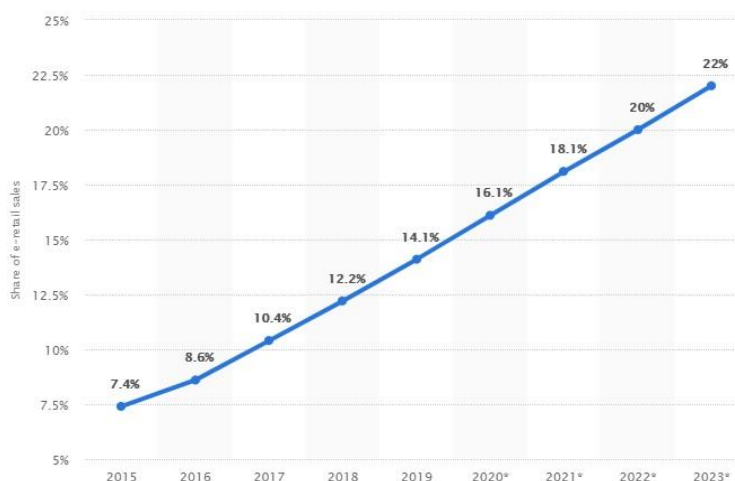
In our discussions with management, it was indicated that the company plans to expand its online U.K. CBD marketplace to service consumers in other parts of Europe. As such, the company plans to eventually operate a fully encompassing online European CBD marketplace. Sundial Growers Inc. (NASDAQ: SNDL) has noted that Brightfield Group's market research estimated the European CBD market to be worth up to US\$1.6 billion (\$2.1 billion) by 2023. Again, we believe such market size estimates are very preliminary due to the early-stage nature of the CBD market. Although management has expressed an interest in targeting the entire European CBD market, we do not have definitive dates for such plans. In our valuation models, we have conservatively assumed CannaOne to be servicing the entire European CBD market starting 2023.

Next, we outline the growing demand for online marketplaces in general.

Growing Online Demand for Products

Establishing an online component to complement existing brick and mortar establishments is essential for business success. Due to convenience and easiness, ecommerce webpages have become a preferred method of purchasing products by consumers. Consumers are able to save time and money by being able to search and purchase products online. **According to Statista, ecommerce held 14.10% of the global total retail sales in 2019. This number is expected to continually rise up to 22% by 2023.**

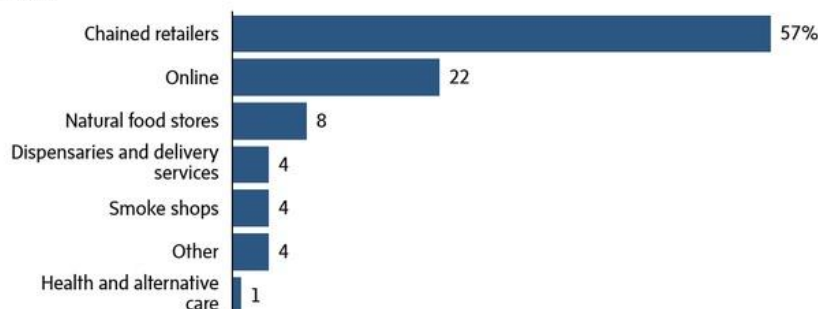
Ecommerce Retail Sales to Total Retail Sales



Source: Statista

As ecommerce retail sales encompass more of retail sales, there is a clear demand for businesses to establish an online sales channel to cater to the shift in medium in which consumers are purchasing products from. We expect this to apply to all products – including CBD products. Given that CBD products are relatively new to the consumer market, we suspect such consumers are more likely to purchase through an online medium rather than in-person (at a retail store). We believe that consumers may not know which retail stores carry CBD products and that they would rather purchase online, where there is a more diverse range of CBD products available. In an article dated July 1, 2019, by Nutra Ingredients (a site that provides news and analysis on supplements, health and nutrition), it was stated that *“the majority of UK consumers of CBD products are purchasing them online, and not in High Street stores, despite their wide availability in pharmacies, health food stores, and supermarkets.”* According to the Brightfield Group, online made up 22% of the U.S. CBD market in 2019 (this figure can be compared to the ecommerce percentage of total retail sales in 2019, which was 14.1%).

U.S. CBD market breakdown by distribution channel For 2019



Taken from: The Global and Mail / Source: Brightfield Group

Management and Board

The board of directors consist of three members, two of whom are independent. Management has stated that management and directors own 5 million, or 24.25% of the total current common shares outstanding of 20.62 million. The CEO, Solomon Riby-Williams, is one of the largest shareholders of the company. In regard to the company's board of directors, we would have liked to see a greater number of members on the board. A share ownership table is provided below.

Share Ownership Table

Name	Position	Shares	% Outstanding
Solomon Riby-Williams	President, CEO, CFO, Co-Founder, and Director	1,500,000	7.27%
Dominic Stann	COO, Co-Founder	1,500,000	7.27%
Scott Williamson	CTO, Co-Founder	300,000	1.45%
Carlos Plaschinski	Social Media Specialist, Co-Founder	1,000,000	4.85%
James Petry	Marketing Analyst	300,000	1.45%
Erynn Tomlinson	Independent Director	400,000	1.94%
Rob Goehring	Independent Director	-	0.00%

Note: Although James Petry has been noted as a member of the board in the company's presentation deck, management has clarified that James Petry is not part of the board of directors. This is in-line with the company's Q3-2019 MD&A.

Source: Company

The biographies of management and the board of directors, provided by the company, follows.

Solomon Riby-Williams – President, CEO, CFO, Co-Founder and Director

Solomon Riby-Williams has worked extensively in business and web development for the last 10 years and has an expert understanding of Front-End and Back-End Development. From January 2009 to October 2016 Mr. Riby-Williams served as Creative Director of okaynow Branding & Web Development, a company he co-founded. In that capacity he led development teams, oversaw personnel, implemented strategies for traditional and online consumer acquisition, and worked as a production designer and digital strategist for numerous consumer brands and products. During that time, he also developed expertise in web development for Non-Governmental Organizations (NGOs) which included agencies such Immigrant Services Society of BC, DIVERSEcity Community Resources Society and the Rapid Response to Homelessness (RRH) Program. Previously, from March 2003 to February 2009, he served as National Sales Manager for M13 Functional Juice, a Vancouver, B.C. based juice manufacturer, where he oversaw the brand's North American sales & distribution network and was responsible for marketing and content. Mr. Riby-Williams holds a Certificate in Marketing Management from the British Columbia Institute

of Technology

Dominic Stann – COO, Co-Founder

Dominic Stann has been at the helm of multiple technology start-ups. From July 2013 to February 2017, he served as co-founder and head of marketing for Superdate, an online dating platform where he was responsible for brand identity, user experience modelling for development, and content development. Previously in 2010, Mr. Stann founded Retail Pond, a curated online shopping community. Mr. Stann co-founded M13 Functional Juice, a Vancouver based health food brand. He brings to the Company significant expertise in marketing and web-based technologies particularly in for online community development and multi-vendor platforms. He has successfully executed a variety of launch strategies and is well versed in new technologies that encompass all aspects of consumer acquisition.

Scott Williamson – CTO, Co-Founder

Scott Williamson is the owner and principal of Inspired Networks, a Vancouver, BC based software and web development firm he founded in 2005. At Inspired Networks, his duties include overseeing the firm's network management, web design and application development, and hosted services. He also provides high level network engineer services to many businesses and their in-house IT departments. Mr. Williamson is the project lead developer for BloomKit. He brings to CannaOne more than 13 years of experience in the field of network security, architecture and web platforms. As a technology consultant, he has previously with companies such as Lululemon, Mulgrave School, and the Greater Vancouver Food Bank.

Carlos Plaschinski – Social Media Specialist, Co-Founder

Carlos Plaschinski brings extensive experience in social media, media buying, photo and video production, branding and design, website development, and consulting. In August 2015 Mr. Plaschinski co-founded DORMVIP, a student concierge service. He served as Director of Marketing for DormVIP until February 2016. From May 2015 to September 2016, Mr. Plaschinski was a Project Manager with Antisocial Media Solutions, a Vancouver based digital branding and marketing agency. He also served as Social Media Director from July 2012 to January 2016 for Hyphy Events Ltd., an event and live entertainment production company. Mr. Plaschinski holds a Bachelor of Arts in Art History, Criticism and Conservation from the University of British Columbia.

James Petry – Marketing Analyst

James Petry brings over 11 years' experience as a digital analyst specializing in search engine optimization, conversion rate optimization, and lead generation. From November 2012 to December 2014, Mr. Petry was Manager of Web Analytics & Optimization for shoe manufacturer and retailer TOMS, where he was responsible for analytics and testing for the company's ecommerce department. There he spearheaded optimization opportunities through control testing and data analysis, resulting in incremental sales of at least \$5 million annually. Since December 2014, he has served as Director of Analytics & Optimization for We Are ENVOY, a brand and digital transformation consultancy based in Irvine, California. Mr. Petry holds a Bachelor of Science (Business Administration) with Honours from the University of California Marshall School of Business.

Erynn Tomlinson – Independent Director

Ms. Tomlinson has over 20 years of experience in digital design. Since December 2017, Ms. Tomlinson has served as Vice President of Products Development of Etherparty Smart Contracts Inc., a Vancouver BC based technology firm specializing in blockchain software to support cryptocurrency transactions. In January 2014 Ms. Tomlinson founded EyeLoveBirds (EyeLove Life Interactive Inc.), a bird watching application which uses technology to connect people to nature. From October 2015 to March 2017, she served as CEO of Superdate Networks Inc., and from September 2014 to September 2016, she was director of User Experience for Roadhouse Interactive Limited, overseeing product design across two studios and a dozen mobile game products. From April 2012 to May 2014 she was creative director of Plentyoffish Media Inc., an online dating website.

Robert Geohring – Independent Director

Mr. Geohring is a serial entrepreneur with over 20 years' experience founding and scaling private and public software and hardware companies in telecommunications, financial services and marketing technology. Most recently, Rob was CEO of RewardStream, a leader in referral and loyalty marketing with clients including AT&T, Sprint, TELUS and Rogers (REW.V, acquired by Buyapowa Ltd.) Rob was also the Chief Marketing Officer of TIO Networks (TNC.V acquired by PayPal) and the co-founder of Contigo Systems (acquired by Vecima Networks).

Financials

The company has a fiscal year-end of October 31. For the nine-month period ended July 31, 2019, the company generated revenues of \$96,646. Revenues generated for each quarter are shown below.

Period	Q1-2019	Q2-2019	Q3-2019
Revenues	\$0	\$93,646	\$3,000
Period	Q1-2018	Q2-2018	Q3-2018
Revenues	\$0	\$4,762	\$9,524

Source: Company, FRC

In Q3-2019, the company generated revenues of \$3,000 – a QoQ decrease of 96.80% (from \$93,646). Management has noted that the decrease in revenues were due to revenues paid to the company by Real Life Sciences in Q2-2019, to support expenses related to development of the BWell Market. Prior year periods (before 2019) are not comparable as the company was developing its ecommerce solution. Revenues in 2018 were generated from initial set-up fees and subscription revenues. As the company (1) finalizes its acquisition of RLS and (2) establishes online marketplaces in the U.K. and Mexico, we expect revenues to grow substantially starting Q1-2020. Management has not disclosed any numbers regarding the current amount of sales from the BWell Market.

The company had expenses of \$0.44 million in Q3-2019 – a QoQ decrease of 11.81%. The decrease QoQ in expenses were due to lower professional fees and marketing expenses.

At the end of Q3-2019, the company reported a cash position of \$0.51 million, a working capital of \$0.33 million, and a current ratio of 2.24x. The deterioration in the current ratio

was primarily attributable to convertible debenture of \$0.25 million in Q3-2019 compared to nil in Q2-2019.

(in C\$) - YE Oct 31st				
Liquidity & Capital Structure		Q2-2019		Q3-2019
Cash	\$	298,588	\$	514,948
Working Capital	\$	361,707	\$	330,753
Current Ratio		22.53		2.24
LT Debt	\$	28,301	\$	30,730
Total Debt	\$	28,301	\$	283,031
LT Debt / Capital		0.05		0.05
Total Debt / Capital		0.05		0.43
Total Invested Capital	\$	248,707	\$	135,864

Source: Company, FRC

The following table provides a summary of CannaOne's cashflows. The deterioration in free cash flows to the firm ("FCF") was attributed to a greater net loss, which was a result of greater marketing expenses in the nine months of 2019 compared to 2018. The large increase in cash inflows from financing compared to prior years was a result of the company's IPO in 2019.

Summary of Cash Flows			
in C\$	2017	2018	2019 (9M)
Operating	(136,299)	(254,699)	(1,068,926)
Investing	(53,787)	(50,000)	(1,076)
Financing	440,827	100,000	1,538,907
Effects of Exchange Rate	-	-	-
Net	250,741	(204,699)	468,905
Free Cash Flows to Firm (FCF)	(190,086)	(304,699)	(1,070,002)

Source: Company, FRC

Stock Options and Warrants: We estimate that the company has 0.89 million warrants (weighted average exercise price of \$0.91) and 0.25 million stock options (weighted average exercise price of \$0.40) outstanding. Currently, all of the stock options and none of the warrants are in the money. The company will be able to raise up to \$100k if all the in the money stock options are exercised.

In the following section, we outline our valuation on CannaOne.

Valuation

The image below outlines the addressable markets for CannaOne:

CannaOne Addressable Markets

Market (in bn C\$)	2020	2021	2022	2023	2024
United States	10.83	15.46	22.07	31.52	36.25
Europe	0.61	0.75	0.91	2.13	2.45
Mexico	0.32	0.46	0.66	0.95	1.09
TOTAL CBD MARKET (in bn C\$)	11.76	16.67	23.65	34.60	39.79
ECOMM % of TOTAL SALES	21.10%	23.10%	25.00%	27.00%	29.00%
TOTAL ONLINE CBD MARKET (in bn C\$)	2.48	3.85	5.91	9.34	11.54

Source: FRC

Readers should note that in the European CBD market, the company will be focused on establishing itself in the U.K. from 2020 to 2022. From 2023 onwards, we have assumed the company to expand from the U.K. to encompass all of Europe. This is why the addressable market size in Europe shows a large jump from 2022 to 2023. Additional assumptions include:

- We have used a US\$ to C\$ exchange rate of 1.33 and a Pound Sterling to C\$ exchange rate of 1.67.
- We have estimated the U.S. CBD market to show decelerating growth past 2023 as we have assumed that the U.S. CBD market will mature by 2023.
- Outlined earlier in our report, we have estimated the Mexico CBD market to be 5% of the U.S. CBD market. Understanding that the numbers were roughly calculated, we have revised this down to be 3% of the U.S. CBD market for the sake of conservatism.
- We have revised the ecommerce percentage of total sales upwards to reflect our belief that consumers of CBD products are more likely to purchase online than in retail stores compared to other products.

Noting the addressable markets for CannaOne, we have taken different market share percentages of such addressable markets to reflect our belief of the competitive nature of CannaOne's online marketplace in each market. We have assumed:

- The market share captured in the online U.S. CBD market to start from 0.02% in Q1-2020 and grow quarterly to 0.50% by Q4-2024.
- The market share captured in the online Europe CBD market to start from 0.15% in Q2-2020 and grow quarterly to 0.70% by Q4-2024.
- The market share captured in the online Mexico CBD market to start from 0.15% in Q2-2020 and grow quarterly to 0.70% by Q4-2020.

The Q2-2020 start dates for the online Europe and Mexico CBD market corresponds to when the company plans to launch its online marketplace in those respective countries (March 2020, which is Q2-2020 for the company).

As such, our revenues projection for CannaOne is outlined below:

CANNAONE REVENUES	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
TheBWell Market	\$ 1,114,209	\$ 4,427,691	\$ 12,351,743	\$ 28,666,928	\$ 46,921,898
Online Europe Marketplace	\$ 20,077	\$ 53,883	\$ 103,445	\$ 321,587	\$ 531,744
Online Mexico Marketplace	\$ 10,648	\$ 32,873	\$ 73,646	\$ 148,754	\$ 236,030
	\$ 1,144,934	\$ 4,514,447	\$ 12,528,835	\$ 29,137,269	\$ 47,689,671

Source: FRC

Given that the company is on a gross profit share (which we have assumed to be 32.50% based on our discussions with management) for its online marketplaces in Europe and Mexico, this would explain the low revenues captured by the company from Europe and Mexico. Although these numbers may seem aggressive for a start-up online marketplace

company, we have used a higher weighted average cost of capital (“WACC”), mentioned below, to capture such risks.

The following is our cost of sales estimate for CannaOne:

CANNAONE COST OF SALES	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
TheBWell Market	\$ 568,525	\$ 2,341,679	\$ 6,777,552	\$ 16,296,034	\$ 27,601,026
Online Europe Marketplace	\$ -	\$ -	\$ -	\$ -	\$ -
Online Mexico Marketplace	\$ -	\$ -	\$ -	\$ -	\$ -
	\$ 568,525	\$ 2,341,679	\$ 6,777,552	\$ 16,296,034	\$ 27,601,026

Source: FRC

In our discussions with management, they have expressed confidence that they will be able to mark-up their CBD products by 100%. We have incorporated their guidance into our forecasts but have decreased it over the long run to a product mark-up of 68%. This reflects our belief that the CBD market will exhibit pricing pressure as more competitors enter into the market. In addition, a product mark-up of 68% reflects a gross margin of 40%, which is in-line with relevant industry gross margins.

As such, our forecasted income statements for CannaOne are shown below:

STATEMENTS OF OPERATIONS						
(in CS) - YE Oct 31st	2019E	2020E	2021E	2022E	2023E	2024E
Revenue	99,796	1,144,934	4,514,447	12,528,835	29,137,269	47,689,671
COGS		568,525	2,341,679	6,777,552	16,296,034	27,601,026
Gross Profit	99,796	576,408	2,172,768	5,751,282	12,841,235	20,088,645
EXPENSES						
SG&A Expense	1,453,304	2,179,956	2,257,224	3,758,650	6,555,885	10,730,176
Share-based Compensation	-	57,247	180,578	375,865	582,745	1,192,242
EBITDA	(1,353,508)	(1,660,795)	(265,033)	1,616,767	5,702,604	8,166,227
Depreciation & Amortization	18,275	767	3,537	5,476	6,833	7,783
EBIT	(1,371,783)	(1,661,561)	(268,570)	1,611,291	5,695,771	8,158,444
Financing Costs	15,000	15,000				
EBT	(1,386,783)	(1,676,561)	(268,570)	1,611,291	5,695,771	8,158,444
Accretion expense	11,538	11,538	11,538	11,538		
Taxes					1,537,858	2,202,780
Net Profit (Loss)	(1,398,321)	(1,688,099)	(280,108)	1,599,753	4,157,913	5,955,664
FOREX Translation Adj.						
Comprehensive Net Profit (Loss)	(1,398,321)	(1,688,099)	(280,108)	1,599,753	4,157,913	5,955,664
Shares outstanding	24,528,012	28,434,262	28,746,762	28,746,762	28,746,762	28,746,762
EPS	\$ -0.06	\$ -0.06	\$ -0.01	\$ 0.06	\$ 0.14	\$ 0.21

Source: FRC

In addition to the assumptions made above, we have forecasted selling, general and administrative (SG&A) expenses to be 22.50% of revenues in the long-run – in-line with relevant industry averages. Our models have suggested that the company will need to raise funds in 2020 to account for the large SG&A expenses we expect the company to incur in 2020. We have assumed such funds to be raised via equity financings.

DCF Valuation

Our DCF valuation on CannaOne’s shares is \$1.43 per share. Our models are summarized below:

DCF Model	Q4-2019	2020E	2021E	2022E	2023E	2024E	Terminal
EBIT(1-tax)	\$ -395,761	\$ -1,661,561	\$ -268,570	\$ 1,611,291	\$ 4,157,913	\$ 5,955,664	
Non-Cash Expenses	\$ -3,442	\$ 69,552	\$ 195,653	\$ 392,879	\$ 589,578	\$ 1,200,025	
Investment in WC	\$ 251,550	\$ -368,482	\$ -183,187	\$ -385,239	\$ -758,277	\$ -729,323	
CFO	\$ -147,653	\$ -1,960,492	\$ -256,104	\$ 1,618,931	\$ 3,989,215	\$ 6,426,366	
CAPEX	\$ -2,001,076	\$ -10,000	\$ -10,000	\$ -10,000	\$ -10,000	\$ -10,000	
FCF	\$ -2,148,729	\$ -1,970,492	\$ -266,104	\$ 1,608,931	\$ 3,979,215	\$ 6,416,366	\$ 6,608,857
PV	\$ -2,148,729	\$ -1,728,123	\$ -204,669	\$ 1,085,269	\$ 2,353,952	\$ 3,328,814	\$ 31,099,233
Discount Rate	14%						
Terminal Growth Rate	3%						
Total PV	\$33,785,747						
Cash - Debt	\$231,917						
Equity Value	\$34,017,664						
Shares O/S (dil)	23,840,512						
Fair Value	\$1.43						

Source: Company, FRC

For our discount rate, we utilized a WACC of 14.02%. Industry-relevant cost of equity was used as well as a cost of debt that reflects the average rate of long-term corporate debt. An equity risk premium has also been added to the WACC to reflect additional risk given the competitive nature of the US CBD market, as well as whether the company's marketing efforts would help the BWell Market place higher amongst other online marketplaces in search engines.

Comparables Valuation

The following tables show our comparables valuation based on our expected revenues and EBITDA estimates in 2022. The values have been discounted back to the present at our above WACC of 14.02%. As shown below, our valuation on CannaOne is \$0.78 based on an average EV/R ratio of 2.17x, and \$0.80 per share based on an average EV/EBITDA ratio of 17.30x. For comparables, we used numerous sectors that we believe CannaOne could be classified under. The relevant sectors used, followed by our comparables valuation model, are shown below.

Sector	EV/R	EV/EBITDA
Internet and Direct Marketing Retail	3.40	24.40
Online Specialty Retail	1.20	17.30
Online Personal Care Product Retail	1.90	10.20
Average	2.17	17.30

Source: S&P Capital IQ, FRC

Comparables Valuation			
2022 Forecast (Gross Revenues)	\$ 12,528,835	2022 Forecast (EBITDA)	\$ 1,616,767
Average EV/ Revenues	2.17	Average EV/ EBITDA	17.30
Expected EV (C\$)	\$ 27,145,809	Expected EV (C\$)	\$ 27,970,067
Discounted EV (C\$)	\$ 18,310,618	Discounted EV (C\$)	\$ 18,866,604
Expected Market Cap (C\$)	\$ 18,542,535	Expected Market Cap (C\$)	\$ 19,098,521
Value per Share (C\$)	\$ 0.78	Value per Share (C\$)	\$ 0.80

Source: FRC

After reviewing CannaOne's business, the quality of the management team, their execution plan, and our valuation models, we are initiating coverage on CannaOne

Risks

with a BUY rating and a fair value estimate of \$1.00 per share (average of our three valuation models).

We believe the company is exposed to the following risks (list is non-exhaustive):

- The company has a limited operating history and has not generated a profit since inception.
- Low amount of consumers that purchase from the online marketplaces that the company plans to operate would result in lower than forecasted revenue and an ancillary lesser important reduction in data collected and weaker predictive analytics.
- There is no guarantee that the partnerships entered into by the company will be successful.
- The company operates in a highly regulated industry subject to governmental intervention.
- There is no guarantee that the company will be able to secure additional financing to further develop its ecommerce solution. In addition, additional financing may dilute current shares.
- The company may be subject to cyber-security threats which would result in a loss of confidential consumer data.
- There is no guarantee that the company's marketing efforts in the U.S. will increase the market share of the BWell Market. This will significantly affect our valuation on the company.

We are initiating coverage with a risk rating of 4 (Speculative).

Appendix

STATEMENTS OF OPERATIONS		
(in C\$) - YE Oct 31st	2019E	2020E
Revenue	99,796	1,144,934
COGS		568,525
Gross Profit	99,796	576,408
EXPENSES		
SG&A Expense	1,453,304	2,179,956
Share-based Compensation	-	57,247
EBITDA	(1,353,508)	(1,660,795)
Depreciation & Amortization	18,275	767
EBIT	(1,371,783)	(1,661,561)
Financing Costs	15,000	15,000
EBT	(1,386,783)	(1,676,561)
Accretion expense	11,538	11,538
Taxes		
Net Profit (Loss)	(1,398,321)	(1,688,099)
FOREX Translation Adj.		
Comprehensive Net Profit (Loss)	(1,398,321)	(1,688,099)
Shares outstanding	24,528,012	28,434,262
EPS	\$ -0.06	\$ -0.06

BALANCE SHEET (in C\$) - YE Oct 31st	2017	2018	2019E	2020E
ASSETS				
CURRENT				
Cash and Cash Equiv.	250,742	46,043	126,956	379,926
Accounts receivable (includes GST recievable)	-	13,408	77,660	148,841
Prepaid expenses (includes tender deposits)	9,600	34,600	9,600	11,449
Total Current Assets	260,342	94,051	214,216	540,217
NON-CURRENT				
Equipment	37,743	19,755	2,556	11,789
Intangible assets	374,825	424,825	2,424,825	2,424,825
Total Assets	672,910	538,631	2,641,597	2,976,831
LIABILITIES				
CURRENT				
Due to related parties	62,906	-	-	-
Accounts payable	28,518	86,513	16,538	85,279
Convertible debenture	-	-	250,000	-
Loan from a shareholder	-	-	-	-
Total Current Liabilities	91,424	86,513	266,538	85,279
Due to related parties	-	110,026	364,192	-
Loan from a shareholder	-	53,848	65,386	76,924
Total Liabilities	91,424	250,387	696,116	162,203
SHAREHOLDERS EQUITY				
Share Capital	840,828	840,827	3,915,934	6,415,934
Debt discount reserve	-	89,200	69,651	69,651
Stock based compensation reserve	-	63,086	63,086	120,333
Deficit	(259,342)	(704,869)	(2,103,190)	(3,791,289)
Total shareholders' equity (deficiency)	581,486	288,244	1,945,481	2,814,628
Total Liabilities and Shareholders Equity	672,910	538,631	2,641,597	2,976,831

STATEMENTS OF CASH FLOWS				
(in C\$) - YE Oct 31st	2017	2018	2019E	2020E
OPERATING ACTIVITIES				
Net Profit for the Year	(254,842)	(445,527)	(1,398,321)	(1,688,099)
Adjusted for items not involving cash:				
Amortization and depreciation	16,219	17,988	18,275	767
Shares issued for management fees	25,000	-	-	-
Share based compensation		63,086	-	57,247
Accretion expense		8,048	11,538	11,538
Funds From Operations	(213,623)	(356,405)	(1,368,508)	(1,618,548)
Change in working capital				
A/R		(13,408)	(64,252)	(71,181)
A/P (includes goods and services tax payable)	25,018	57,994	(69,975)	68,741
Related parties	61,906	82,120	254,166	(364,192)
Prepaid expenses	(9,600)	(25,000)	25,000	(1,849)
NET CASH USED IN OPERATING ACTIVITIES	(136,299)	(254,699)	(1,223,569)	(1,987,030)
INVESTING ACTIVITIES				
Acquisition of intangible assets	(50,025)	(50,000)	(2,000,000)	-
Acquisition of PPE	(3,762)	-	(1,076)	(10,000)
NET CASH USED IN INVESTING ACTIVITIES	(53,787)	(50,000)	(2,001,076)	(10,000)
FINANCING ACTIVITIES				
Equity Issue (shares and warrants)	440,827	-	3,075,107	2,500,000
Debt Issue	-	100,000	250,000	(250,000)
Advances from related parties	-	-	-	-
Advances from shareholders	-	-	-	-
Debt discount accretion	-	-	(19,549)	-
NET CASH FROM FINANCING ACTIVITIES	440,827	100,000	3,305,558	2,250,000
Foreign Exchange / Others				
INCREASE IN CASH FOR THE YEAR	250,741	(204,699)	80,913	252,970
CASH, BEGINNING OF THE YEAR	1	250,742	46,043	126,956
CASH, END OF THE YEAR	250,742	46,043	126,956	379,926

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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