

**Equity Research: Healthcare - Cannabis**

**Patrick Smith** | Analyst | patrick@ubikaresearch.com | (647) 444-5506  
**Chris Bednarz, MBA** | Associate | chris.b@ubikaresearch.com | (416) 558-5548  
**Emma Widman** | Associate | emma@ubikaresearch.com | (289) 795-3662

**TRICHO-MED RECEIVES CULTIVATION LICENSE BUT HEADWINDS REMAIN**

**Tricho-Med receives Health Canada cultivation license.** On July 15, 2019, Health Canada awarded Tricho-Med a cultivation license at its recently-built facility in Brownsburg, Quebec. According to the terms of the original agreement with Tricho-Med approved by the TSXV on December 18, 2017, LGC is now entitled to convert its convertible debenture for 49% of the asset, including a 5% royalty. For reference, the debenture agreement was for \$4M at 10% interest (payable from cash flow). Proceeds were used by Tricho-Med to build its current 34,000 sq. ft facility.

**Tricho-Med is attempting to cancel the debenture agreement.** On July 12, 2019, Tricho-Med served LGC with a motion for a declaratory judgment to cancel the convertible debenture and instead repay LGC the owed funds plus accrued interest. Declaratory judgement is generally used in common law to declare the rights of parties who are in a disagreement about respective obligations of a contract and would like arbitration by the court. Tricho-Med is attempting to have the court cancel the equity convertibility of its debenture with LGC Capital. The Company believes the motion is without merit and that the matter should be resolved as quickly as possible, allowing LGC Capital to convert its debenture into an equity position. We note that in a worst-case scenario, if Tricho-Med successfully cancels the debenture agreement, then LGC is likely justified a higher payment price than \$4M plus interest, as the cost of capital for the Company should be considered much higher. We estimate LGC's stake in Tricho-Med is worth considerably more at \$11.7M, or \$0.018/ share.

**Tricho-Med is on pace to capitalize on the shortage of cannabis supply in Quebec, as the Quebec government has a history of supporting local companies.** In May 2018, Gatineau, Quebec's HEXO Corp. (TSX:HEXO, \$6.58 | N/R) received the largest supply deal of all Canadian LPs from the Quebec government for ~100,000 kg over three years. Terranueva Corp. (CSE:TEQ, \$0.65 | N/R), a Laval-based cultivator, announced on May 22, 2019, it has signed a letter of intent with the SQDC, under which Terranueva will supply the SQDC with recreational cannabis for distribution and sale in the province of Quebec. Under this agreement, Terranueva will supply 128 kg of product with the potential for additional supply agreements once TEQ increases its capacity. In our view, as a Montreal-based cultivator, Tricho-Med should also receive a favourable supply agreement from the SQDC.

**VALUATION**

**Trades at a discount to peers.** We believe that the motion for a declaratory judgment is without merit and LGC should be able to convert its debenture into an equity position, albeit the process could be delayed as this matter is brought before the courts. As a result, we have reduced our expectations on the Trico-Med asset, which reduced our NAVPS to \$0.23 (was \$0.25). LGC currently trades at 0.6x our F2021E revenue estimate, a discount to U.S. small-cap MSOs and gold and oil royalty companies, which trade at an average of 1.9x and 9.7x, respectively. We believe this gap should close as LGC begins to make material cash flow.

**LGC CAPITAL LTD. TSXV:LG**

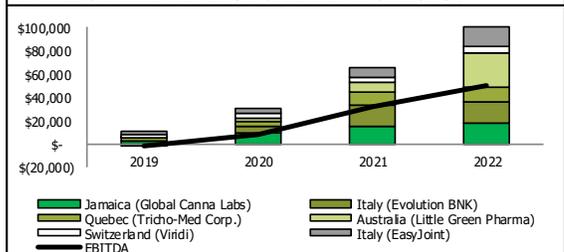
*(Currency is CAD\$ & estimates are attributable, unless noted otherwise)*

Last Price	\$0.09
Target Price	\$0.20
Potential Return	122%
Net Asset Value Per Share	\$0.23
52 Week Low / High	\$0.07 / \$0.25
Average Daily Volume (30-Day)	494K

CAPITALIZATION	Basic	Diluted
Shares Outstanding (M)	416.2	504.4
Market Capitalization (\$M)		\$37.5
Enterprise Value (\$M)		\$36.9
Last Reported Cash Balance (\$M)		\$2.9
Last Reported Total Debt (\$M)		\$2.3

LGC CAPITAL OPERATIONS	F2019E	F2020E	F2021E
Flower Produced (kg) - 100%	5,100	21,700	39,200
Revenue (\$M)	\$8.3	\$30.6	\$65.9
Cash Costs (\$ per gram)	\$0.67	\$1.04	\$1.03
AICC (\$ per gram)	\$1.70	\$2.19	\$1.57
EBITDA (\$M)	-\$1.5	\$8.1	\$31.4
FCF (\$M)	-\$13.4	-\$17.0	\$5.8
Total CAPEX (\$M)	\$7.6	\$21.3	\$14.9
CFPS	\$0.00	\$0.01	\$0.03

RELATIVE VALUATION	P/NAV	EV/Revenue	
	2020E	2021E	
LGC Capital Ltd	0.40x	1.2x	0.6x
U.S. Small-Cap MSOs	n/a	2.5x	1.9x
Gold and Oil Royalty Companies	1.40x	8.6x	9.7x

**ATTRIBUTABLE REVENUE & EBITDA FORECAST**

**MAJOR SHAREHOLDERS**

Management &amp; Insiders (21.3%)

**DISCLOSURE CODE:**

Disclosure: None (See back page for further details)

Source: Ubika, Capital IQ



Source: stockcharts.com

### Important Disclosure

The information contained in this report has been drawn from sources believed to be reliable, but its accuracy or completeness is not guaranteed, nor in providing it does Ubika Corp. assume any responsibility or liability. Ubika Corp., its directors, officers and other employees may, from time to time, have positions in the securities mentioned herein. Contents of this report cannot be reproduced in whole or in part without the express permission of Ubika Corp.

### Analyst Certification

I, Patrick Smith, hereby certify that all the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I am the research analyst primarily responsible for preparing this report.

### Ratings

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

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

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

**U/R:** Under Review.

**N/R:** Not Rated.

### Research Disclosures

### Applicability

- |   |       |
|---|-------|
| 1) Ubika Corp. and its affiliates' own holdings in the subject company's issued and outstanding securities.   | 1) No |
| 2) Ubika Corp. and its affiliates' own holdings in the subject company's securities, in aggregate exceeds 1% of the subject company's issued and outstanding securities.  | 2) No |
| 3) The analyst(s) responsible for the report or recommendation on the subject company, or a member of the research analyst's household, an associate of the research analyst, or any individual directly involved in the preparation of this report, own holdings | 3) No |
| 4) The analyst(s) responsible for the report or recommendation on the subject company, a member of the research analyst's household, an associate of the research analyst, or any individual directly involved in the preparation of this report, have a finan-   | 4) No |
| 5) A company associated with Ubika Corp. has managed or co-managed a public offering of securities for the subject company in the past 12 months.   | 5) No |
| 6) The following director(s), officer(s) or employee(s) of Ubika Corp. is a director of the subject company.  | 6) No |
| 7) A member of the research analyst's household serves as an officer, director or advisory board member of the subject company.   | 7) No |
| 8) The subject company has partially funded previous analyst visits to its projects.  | 8) No |

### General Disclosure

Ubika Corp. and its divisions are not registered with any financial or securities regulatory authority in Ontario or Canada.

Where reference is made to estimate of value or relative value of a specific company, there is no guarantee that these estimates are reliable or will materialize. Readers of these reports and newsletters are advised to conduct their own due diligence before making any investment decisions. Although the content has been obtained from sources believed to be reliable, these sources could include technical or other inaccuracies or errors.

Ubika Corp. and its affiliates make no representation and disclaim all express and implied warranties and conditions of any kind, including without limitation, representations, warranties or conditions regarding accuracy, timeliness, completeness, non-infringement, satisfactory quality, merchantability, merchantable quality or fitness for any particular purpose or those arising by law, statute, usage of trade, or course of dealing. Ubika Corp. and its affiliates assume no responsibility to you or any third party for the consequences of any errors or omissions.

This report may include forward-looking statements about objectives, strategies and expected financial results of companies featured in this research report. Such forward-looking statements are inherently subject to uncertainties beyond the control of such companies. The users of this site are cautioned that the company's actual performance could differ materially from such forward-looking statements.

**THIS PAGE IS INTENTIONALLY LEFT BLANK**