

**Delta 9 Cannabis Inc
VRNDF
Investment Notes**

Please read Disclaimer at bottom of these notes!

<https://www.delta9.ca/>



The Company is a vertically integrated cannabis company, with operations in cannabis cultivation, processing, extraction, wholesale distribution, retail, and business to business activities. The Company, through its wholly-owned subsidiary, Delta 9 Bio-Tech Inc. (“Delta 9 Bio-Tech”), is a licensed producer of cannabis pursuant to the Access to Cannabis for Medical Purposes Regulations (Canada) (the “ACMPR”) and operates an 80,000 square foot production facility, located at 760 Pandora Avenue East in Winnipeg, Manitoba, Canada (the “Delta Facility”). Delta 9 Bio-Tech holds a license from Health Canada (the “Health Canada License”) to produce and sell cannabis. The Health Canada License is currently valid until August 30, 2019.

All dollar values are in Canadian currency, unless otherwise stated!

September 27, 2019 (0.58) Increased our holdings to a ~0.50% position for qualifying accounts

We accumulated more shares over the last several days. We now own 481,255 shares with an average cost of \$0.8232 per share. During this week we increased our position by 283,862 shares at an average cost of ~\$0.58 per share.

September 25, 2019 (\$0.56)

Thesis and 2-minute drill:

We own 197,393 shares, with an average cost of \$1.17. Price deterioration brought our position from 0.50% to the current level of 0.20% of our portfolio.

Delta 9 is a “Seed to shelf” vertically integrated cannabis company, with a strong presence in Manitoba. They were awarded one of four retail licenses in Manitoba during 2018. They use “Grow Pods” to cultivate high-quality indoor cannabis in repurposed shipping containers.

This is a speculative investment, as are most pure play cannabis companies currently. Yet, this is probably one of the most, if not the most speculative cannabis investment of ours. We have a ~0.20% portfolio allocation, with an average cost of \$1.17USD.

Our thesis is basically a pure play cannabis investment, with a company that will potentially grow their revenues to commensurate their current market capitalization of ~\$69M USD. We could see the possibility of F2021 revenues of \$110M CAD (\$82.9M USD using 75.32% conversion). This would be a forward F2021 price to sales ratio of 0.83X. At this point financial statement analysis and projections are rather meaningless. We must wait and see if they can increase revenues in a meaningful fashion, of their vertically integrated operation.

I am concerned they are spreading themselves too thin with claiming to be both a seed to sale company (vertically integrated), as well as being a Grow Pod manufacturer and seller. My concern is one of hype versus execution. This was common in the telecom bubble, where the phrase of “*show us the steak and not the sizzle*” was popular for projections which would never evolve into fruition. Delta 9 claims the Grow Pod division complements their vertical integration, as when they sell a Grow Pod, it is taken directly from one that would have been used in their own cannabis production. We discuss more of the Grow Pods in our chronologically written notes below.

Some other concerns, which if happens would possibly hurt the stock price short-term but shouldn't have any permanent effect on this company or any Canadian cannabis company would be, the potential of revenue misses because of new Canadian excise tax laws, as well as the potential for inventory and biological asset impairments.

Delta 9 claims the differentiator they have over many of the other growers is the quality of their flower. They seem to pride themselves on high grade flower, whereas the competition has lower level products. Again, this could be hype over reality, and time should let us know the reality.

Insiders own > 40% of the common stock. I like seeing management have skin in the game, as often their interests are aligned with shareholders'. As noted below, there has been insider selling, but the ownership position is still large, whereas the percentage of insider sales has not been huge.

#	Investor Name	% Outstanding	Position	Position Change	Value (\$)	Filing Date	Filing Source
1	Arbuthnot (John William III)	21.32%	18.74	-0.04	20.24	15-05-2019	Proxy-CA
2	Arbuthnot (John William IV)	20.47%	17.99	+0.01	11.62	19-08-2019	SEDI

They do not have a big 4 auditor. I like to see a company commitment to quality with a Big 4 auditor. The auditors are a large recognized firm, of Baker Tilly International. I spoke with management on this, and they use this firm over a big 4 firm to contain costs, by using a smaller auditing firm.

As in all our cannabis research, we expect eventual world-wide legalization of cannabis, like the alcohol industry today. Canada is the first G-7 nation to legalize cannabis, and we expect other G-7's to follow suit, including the USA.

Again, this is a speculative investment, in a speculative industry, and cannabis is Federally illegal in the USA. The company could have execution risks, which are also inherent in the industry. The industry is in its infant stages, and there could be several catalysts to increase the share price over time. These catalysts could include legalization in the USA, changes in laws of a Canadian company selling to States in the USA, greater acceptance of cannabis as a long-term future industry in the USA and the world.

September 4, 2019 (\$0.73) 2Q19 results

Fully diluted shares outstanding are 123,051,875, which produces a market capitalization of \$89.8M USD.

Type of Security	Number Outstanding
Common Shares	87,863,478
Convertible Debentures ^[1]	11,800 (\$11,800,000 principal amount convertible into 9,752,066 Common Shares)
Warrants ^[2]	8,521,500
Warrants ^[3]	9,746,800
Agents Warrants ^[4]	30,478
Agents Warrants ^[5]	596,505
Agents Warrants ^[6]	682,276
Stock Options ^[7]	2,084,197
Stock Options ^[8]	593,700
Stock Options ^[9]	361,500
Stock Options ^[10]	2,819,375
Fully Diluted	123,051,875

Company informed me via an email that they sold 24 grow Pods for \$2 million during the quarter. This is an average price of \$83,333 per pod.

Three-month revenues of \$8.9M. First quarter revenues were \$5.6M. Reducing for Grow Pod revenues of \$2M (none in prior quarter), cannabis revenues were \$6.9M for the quarter.

The company completed a convertible debenture, generating gross proceeds of \$11.8M. The debentures are due on July 17, 2022, at a rate of 8.5%. Each \$1,000 warrant is convertible into 826

common shares, at a conversion price of \$1.21 CAD to \$1.33 CAD (~\$0.9075 to \$0.9975 USD using 75% conversion). The company paid \$826K for this issuance. They also transferred 682,276 broker warrants, which are exercisable at \$1.21 CAD.

The company has secured additional credit subsequent to quarter end. The financings are all at what I consider to be decent rates, such as the demand loan of \$4.5M being 1.00% over prime. Another facility of \$1M being used to purchase or lease equipment is at 1.75% over prime. The current applicable rate is 6.02%.

The company is burning a great deal of cash. I would like to see the burn stop in hopes that the infrastructure build is nearing an end. I don't recall this being discussed in the conference call. The recent financings have given me greater confidence that there is light in the tunnel, but of course time will tell if that light is one of future prosperity, or that of an oncoming train.

"As at June 30, 2019 the Company maintained a strong working capital position of \$15,446,531 versus \$20,662,676 for the period ending December 31, 2018. Working Capital has been adjusted to remove \$6,250,000 in current portion of lease liabilities which is attributable to the purchase of certain properties due to those liabilities being contingent on closing of the proposed transaction."

The company mentioned in their August 2019 highlights that there are over 300 full time employees.

August 16, 2019 (\$0.70) Company releases preliminary guidance and an increase in its credit facility

The company announced an increase to its existing loan and credit facility by the addition of certain loan segments and amendments to certain existing loan segments. The changes will bring the Company's total credit facility with the Bank to approximately \$18.19 Million. *"This increased debt financing, together with our recently completed short form prospectus offering of debenture units have well-positioned us to continue the Company's growth and implementation of its business plan for the remainder of the year,"* said Delta 9 CEO John Arbuthnot.

The limit for the demand operating loan under the Original Financing, for the purpose of financing day-to-day operations of the Company, will increase to \$4,000,000 from its limit of \$2,000,000 under the Original Financing. The interest rate under this loan segment is unchanged from its rate under the Original Financing at 1.00% per annum above the Bank's prime lending rate.

Updated guidance:

Based on preliminary results, the Company anticipates revenues for the three-month period ending June 30, 2019 to be between \$8.1 million and \$8.8 million.

Management believes that continued revenue growth and disciplined cost management initiatives will allow the Company to achieve positive cashflows from operations in fiscal 2019.

"Going forward, we continue to see strong demand for our premium quality products from the recreational usage market and with the anticipation of Health Canada's rules on extraction this October, we expect revenues to continue to grow this year," said John Arbuthnot, CEO of Delta 9. *"These factors, together with our B2B growth in Grow Pod sales to micro producers and our growing portfolio of higher margin products, puts us in a position to achieve positive cashflow this year."*

The Company claims to continue to ramp up its production capacity to 5,350 kilograms of cannabis per year during 2019.

April 23, 2019 (\$1.20) Year end 2018 results issued

Fully diluted shares warrants and options outstanding total 103,129,490.

Market capitalization is \$123.8M USD.

No change in thesis (See below April 4, 2019). A boring and uneventful quarter. Thesis is based on future operations. I am skeptical, and not so sure I would have owned this if I started researching today.

I remain concerned of them being potentially “sizzle and not steak,” especially with Grow-Pods.

Notes to Financials and MD&A:

Clean opinion from Baker Tilly.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(CANADIAN DOLLARS)

AS AT DECEMBER 31

	2 0 1 8	2 0 1 7 <i>(Restated)</i>
A S S E T S		
CURRENT		
Cash	\$ 16,229,605	\$ 23,548,451
Trade and other receivables <i>(Note 6)</i>	1,972,676	258,544
Inventories <i>(Note 7)</i>	2,566,943	384,247
Biological assets <i>(Note 8)</i>	3,787,640	125,943
Prepayments and other current assets <i>(Note 9)</i>	1,765,920	477,484
Due from shareholders <i>(Note 14)</i>	<u>54,504</u>	<u>51,507</u>
	26,377,288	24,846,176
PROPERTY, PLANT AND EQUIPMENT <i>(Note 10)</i>	16,839,328	275,192
INVESTMENT <i>(Note 11)</i>	<u>2,759,000</u>	<u>-</u>
	\$ 45,975,616	\$ 25,121,368

LIABILITIES

CURRENT

Accounts payable and accrued liabilities <i>(Note 12)</i>	\$ 5,105,461	\$ 443,448
Customer deposits <i>(Note 13)</i>	122,102	
Due to shareholders <i>(Note 14)</i>	48,951	48,951
Due to related parties <i>(Note 14)</i>		72,571
Current portion of borrowings <i>(Note 15)</i>	<u>478,098</u>	<u>-</u>
	5,754,612	564,970

BORROWINGS *(Note 15)*

	<u>4,915,835</u>	<u>-</u>
	10,670,447	564,970

SHAREHOLDERS' EQUITY

SHARE CAPITAL <i>(Note 16)</i>	53,156,044	36,223,754
WARRANTS <i>(Note 16)</i>	685,849	819,342
CONTRIBUTED SURPLUS	2,751,641	217,136
ACCUMULATED DEFICIT	(21,135,850)	(12,650,277)
NON-CONTROLLING INTEREST	<u>(152,515)</u>	<u>(53,557)</u>
	35,305,169	24,556,398
	\$ <u>45,975,616</u>	\$ <u>25,121,368</u>

Shareholder's equity \$35.3M, all of which appears to be tangible.

Revenue of \$7.6M, Net loss of (\$8.6M).

Very large cash drain of \$11.1M, plus acquisitions of PP&E \$17.5M, plus Investment in LP \$3M.

Borrowings of \$5.5M, and proceeds of stock issuance \$16.7M.

Cash of \$15.6M, of which \$650K is restricted.

For the year ended December 31, 2018, John William Arbuthnot III and John William Arbuthnot IV, the chairman and president and chief executive officer of the Company received total compensation of \$112,308 each. The chief financial officer received total compensation of \$77,692, the vice-president of marketing and sales earned total compensation of \$79,227 and the chief technology officer received total compensation of \$73,076.

Conference call notes:

Incredibly uneventful call, and quarter.

Projects positive eps for Calendar 2019.

The company is not yet able to provide calendar year 2019 revenue projections. They expect 1st quarter 2019 guidance over the next few weeks.

April 4, 2019 (\$1.27)

Quick thesis and 2-minute drill:

Delta 9 is a “Seed to shelf” producer with a strong presence in Manitoba. They were awarded one of four retail licenses in Manitoba during 2018. They use “Grow Pods” to cultivate high-quality indoor cannabis in repurposed shipping containers.

This is a speculative investment, as are most pure play cannabis companies currently. Yet, this is probably one of the most, if not the most speculative cannabis investment of ours. We have a ~0.50% portfolio allocation, with an average cost of \$1.17USD. Our thesis is basically a pure play cannabis investment, with a company that will potentially grow their revenues to commensurate their current market capitalization of \$120M USD. We could see the possibility of F2021 revenues of \$125M CAD (\$93.75M USD). This would be a forward price to sales ratio of 1.04X. At this point financial statement analysis and projections are rather meaningless. We must wait and see if they can increase revenues in a meaningful fashion, of their vertically integrated operation.

I am concerned they are spreading themselves too thin with claiming to be both a seed to sale company (vertically integrated), as well as being a Grow Pod manufacturer and seller. My concern is one of hype versus execution. This was common in the telecom bubble, where the phrase of “*show us the steak and not the sizzle*” was popular for projections which would never evolve into fruition. Delta 9 claims the Grow Pod division complements their vertical integration, as when they sell a Grow Pod, it is taken directly from one that would have been used in their own cannabis production. We discuss more of the Grow Pods in our chronologically written notes below.

Some other concerns, which if happens would possibly hurt the stock price short-term but shouldn't have any permanent effect on this company or any Canadian cannabis company would be, the potential of revenue misses because of new Canadian excise tax laws, as well as the potential for inventory and biological asset impairments.

Delta 9 claims the differentiator they have over many of the other growers is the quality of their flower. They seem to pride themselves on high grade flower, whereas the competition has lower level products. Again, this could be hype over reality, and time should let us know the reality.

The two large insider shareholders, and founders, claim to make \$120K CAD in compensation annually. That of course is low to the industry and other public companies. Management claims they retain high insider ownership, and low compensation, so they are aligned with shareholder's interests. “*We are the lowest CEO's in the cannabis industry.*” John Arbuthnot February 22, 2019.

Insiders own about 38.5% of the common stock, as of September 30, 2018 (MRQ). I like seeing management have skin in the game, as often their interests are aligned with shareholders'. As noted below, there has been insider selling, but the ownership position is still large, whereas the percentage of insider sales has not been huge. Share count as of September 30, 2018 is 103,488K including options and warrants. Insiders own, with warrants and options 39,880K shares.

They do not have a big 4 auditor. I like to see a company commitment to quality with a Big 4 auditor. The auditors are a large recognized firm, of Baker Tilly International. I spoke with management on this, and they use this firm over a big 4 firm to contain costs, by using a smaller auditing firm.

I am most concerned that this company is aggressive in their shareholder communications. It was mentioned to me during a February meeting they hope to have the year-end financials around the 3rd week in March. We are already in the first week of April, and still no financials. I also find their selling prices per gram to be a bit high for the industry.

As in all our cannabis research, we expect eventual world-wide legalization of cannabis, like the alcohol industry today. Canada is the first G-7 nation to legalize cannabis, and we expect other G-7's to follow suit, including the USA.

Again, this is a speculative investment, in a speculative industry, and cannabis is Federally illegal in the USA. The company could have execution risks, which are also inherent in the industry. The industry is in its infant stages, and there could be several catalysts to increase the share price over time. These catalysts could include legalization in the USA, changes in laws of a Canadian company selling to States in the USA, greater acceptance of cannabis as a long-term future industry in the USA and the world.

Mackie Research initiated coverage with a buy rating and a \$4.00 CAD target, which equates to \$3.00 USD at 75% currency conversion

“Additionally, on April 2, the company announced the grand opening of its 4,500 ft² Delta 9 Cannabis Superstore in Brandon. Through the balance of 2019 the company will be open one additional retail store in Thompson. Once these stores are fully operational, we believe that they will generate revenue of approximately \$30+ million per year.”

They project revenues of \$7.9M CAD for 2018, \$65.9M CAD for 2019, and \$98.0M for 2020. They project eps of (\$0.08) CAD for 2018, \$0.10 CAD for 2019, and \$0.18 for 2020.

March 11, 2019 (\$1.17) Some insider selling

Filing Date	Transaction Date	Insider Name	Ownership Type	Securities	Nature of transaction	Volume or Value	Price
Mar 8/19	Mar 6/19	Arbuthnot IV, John William (John)	Direct Ownership	Common Shares	10 - Disposition in the public market	-225,000	\$1.47
Mar 8/19	Mar 6/19	Arbuthnot III, John William (Bill)	Direct Ownership	Common Shares	10 - Disposition in the public market	-125,000	\$1.45

February 22, 2019 (\$1.13) Conference with John Arbuthnot

I asked John about the Grow Pod business and questioned if that gets in the way of a vertically integrated cannabis business. John thought it complements the business well. When they sell a Grow Pod, they take it directly from one that would be going to Delta 9 production. He said the main competition was from Canna Box Containers (<https://www.cannaboxcontainers.com>). John claims that B2B, which includes sales of Grow Pods is projected to be ~10% of their F2019 revenues. He thinks there were 6 units sold in 1Q19, yet as he said that he retraced, since that hasn't been disclosed yet.

They have 154 Grow Pods up and running. Each produces 32 Kilos per year, and 4,200 Kilos overall. John claims that would generate \$30M wholesale, or \$50M retail. He claimed that wholesale selling price per gram is ~\$7.50, and retail is ~\$12.00+. John mentioned that wholesale to retail ratio is approximately 50/50. John mentioned there are ~11 members on staff in the Grow Pod division, and they are producing several Grow Pods per week. John mentioned they have 25 to 30 Trades people around at all times, which help service the machines via HVAC, etc.

John claims the differentiator for Delta 9 over many of the other growers is the quality of their flower. They seem to pride themselves on high grade flower, whereas the competition has lower level products. Just a different market.

John confirmed that the historic ratio of flower to trim is 6:1. He claims that when they quote production of 4,200 Kilograms, that is all flower. Trim forms the basis of abstract. He used the term, “getting cash for trash.”

They claim to be close with PAX labs. John had not heard of the PAX Era. I explained to him that is like the Juul (developed and sold off by PAX) using cannabis. John will investigate it. I told him that it seems to be an excellent product.

John and his dad (referred to as “Bill”) each own ~20M shares. They have a tiered lock-up as required by the TSX. He did sell shares to buy a residence. He claims they are long-term holders and expect to hold material number of shares for a long-time. He claims his interests will always be aligned with shareholder’s interests.

John and Bill each make ~\$120K per year. He seemed to be somewhat kidding tongue and cheek, “We are the lowest paid CEO’s in the cannabis industry.”

I was surprised to hear that John thinks the black market is having a negative effect on the industry. I am only surprised as I just figured that was a state specific situation in the USA. I guess not. He thinks that will be cured with a maturing market, and as prices come down to meet the black market. I mentioned I thought, at least in the USA, the lawmakers and protectors could be a help in that area.

John confirmed the sale of the JV which did extractions, was to pave the way for Delta 9 to develop their own extractions in-house. John mentioned that doing extracting on their own, controls the process and creates a value chain.

I asked John, “What are the weaknesses you see competitively for Delta 9, and how are you addressing them?” His responses were, he is concerned the largest competitors with billions of capital might start squeezing the pricing. To date, he has not seen that, and has even noticed them raising prices. They have electrical power concerns if they continue their growth path and are working with the local utility company in making sure that does not become a hinderance. He also indicated execution risk in the scaling of the company is certainly a concern. In all the instances he mentioned, he seemed confident that business will continue in an expected manner.

February 19, 2019 (\$1.09) Conference with IR last week

“Year end results should be out around the 3rd week in March. We have not set the date yet.

Our rough estimate for cannabis sales is \$7.80 for wholesales and \$12 for retail sales.

Below are the selling prices for Canopy based on their news release.
Their avg. selling price was \$7.33.

Average Selling Price per gram - Recreational \$6.96 - NM
Average Selling Price per gram - Canadian Medical \$9.77
Average Selling Price per gram - International Medical \$13.28
Average Selling Price per gram \$7.33

Keep in mind that most of their sales are wholesale i.e. B2B.
84% of their Canadian recreational sale are wholesale.

Canadian Recreational Cannabis Gross Revenue - Business to Business \$60.1 - NM
Canadian Recreational Cannabis Gross Revenue - Business to Consumer \$11.5 - NM

A rough estimate is a ratio as low as 6:1 (flower to trim) sorry that was my fault. the answer should have been flower to trim.

We have not stated how many grow pods we have sold to date. We provide consulting and grow pods units and have generated about \$1 million in revenue so far.”

Observations:

1. I find their sales price per gram to be on the high side. Perhaps they are mistaken, perhaps Manitoba has greater demand. I am concerned with future deflation via commoditization.
2. They cite flower: trim at 6:1. I could be wrong, but I thought the standard was more of 1:1, yet if true, all the better.
3. 32,000 grams per pod of dried cannabis. Pods cost ~\$78SF of growing space.
4. Expects new structures at Delta 9 to be stacked 3 high.
5. Claims they will sell Grow Pods to other producers. Selling for \$55K to \$80K, whereas cost is ~\$25K.

February 18, 2019 (\$1.11) Initiated a ~0.50% position on February 8 and 11, 2019 at cost of \$1.17

February 7, 2019 (\$1.15)

DELTA 9 CANNABIS INC (OT: VRNDF)

1.15 ↓ -0.01 (-0.98%)

Trade Time: 03:52:27 PM 02/07/2019

Change	-0.01	Inst Owned %	
Bid		Cash / Share	0.336
Ask		Sales / Share	0
Low	1.13	12Mo %Tot Return	-36.822
High	1.16	Current Ratio	51.649
Open	1.16	LTD2CAP	
Close	1.15	Mov Avg 200	1.11
52w Low	0.65	Profit Mrgn %	
52w High	2.14	RevGrRate3yr	-7.082
Volume (Total)	8162	Shares Outstanding	55982000
Average Volume	18414	Short Interest	21051
Market Capitalization	64435282	Short Int Ratio	1.12
Dividend Yield	0.000		
Price / BV	4.140815		
Insider Owned %			

Patrick Dorazio of Marketing/Sales emailed me today. I typically ignore, but for some stupid reason, I didn't ignore this.

The company has a current market cap of \$119M (103,488 * \$1.15).

I will use F2021 revenues, not F2020, as they are projected higher by GC of \$164M. This is ~\$123M USD using conversion of 75%. Hence, Price to Future revenues are not out of hand at 1.04X.

Auditors are Collins Barrow. I am not familiar with them. They appear to be a large firm under the banner of Baker Tilly International.

This is what Patrick supplied:

Recreational cannabis in Canada is now federally legal!

Can we connect sometime this week to discuss Delta 9?

Canaccord Genuity Price Target: CAD\$2.40

Highlights:

- Strategic partnership with Canopy Growth (NYSE:CGC).
- As of November 30th, recreational sales generated 3.9 million in revenue.
- Fully funded to produce approximately 17.5 million grams of cannabis annually worth approximately \$150 million per year
- Delta 9 is the first producer in Manitoba licensed to sell cannabis with a 2.3 million gram supply agreement with the government worth approximately \$20 million
- Supply Agreement with Auxly Cannabis Group (TSX:V:XLY) for over 5 million grams per year
- Exclusive license in Canada to manufacture and sell products with Nanosphere Health Science's (CSE:NSHS) patented cannabinoid delivery technology.

On December 3, 2018, Canaccord Genuity instituted coverage. The following are my notes from the report:

“Seed to shelf” producer with a strong presence in Manitoba. They were awarded one of four retail licenses in Manitoba during 2018. They use “Grow Pods” to cultivate high-quality indoor cannabis in repurposed shipping containers.

Claims Delta 9 plans to quadruple production to over 17,000 kg per year over the next year.

94M shares outstanding.

Projected revenues for F2019 is \$104M, F2020 \$174M, and F2021 \$161M.

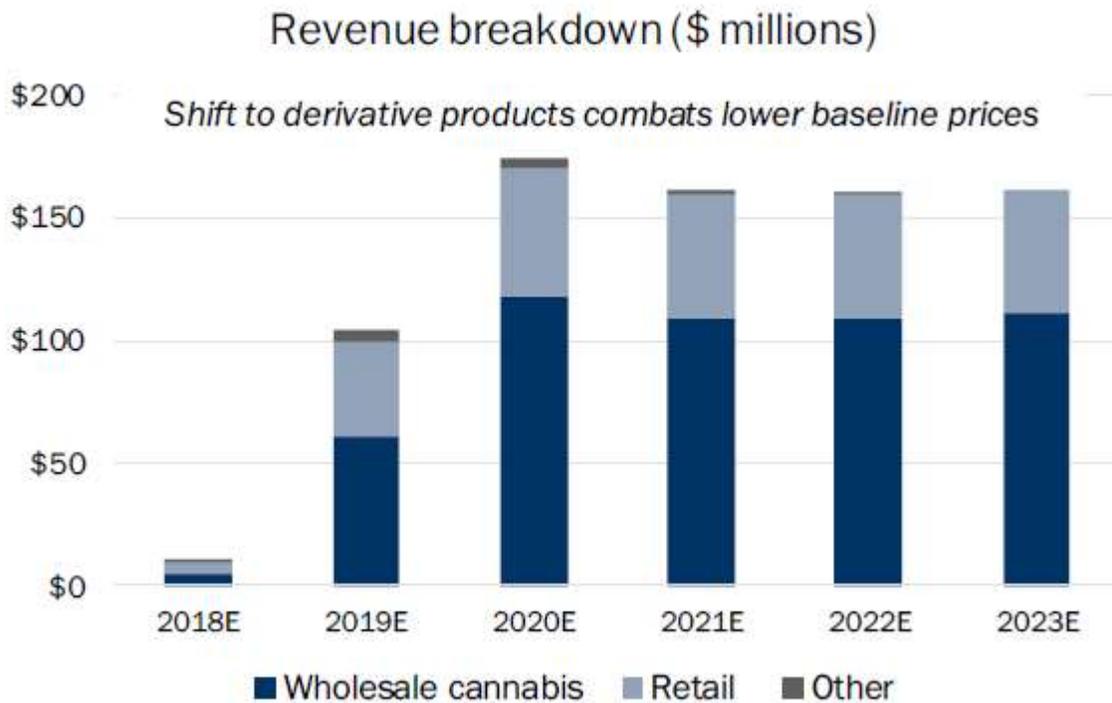
“Management believes its Grow Pods offer strategic advantages over large-scale indoor facilities. Specifically, they: (1) reduce the risk of crop failure, (2) optimize indoor growing space through vertical stacking and (3) provide a high return on capital through their low-cost design. Additionally, we believe craft-like growing conditions should result in relatively high yields, premium product and above average sales prices. In conjunction with low power and labour costs, we expect Delta 9 to generate relatively high margins. The Grow Pods are expected to be EU-GMP compliant in H1/19.

In our view, Grow Pods also provide an interesting near-term revenue opportunity. Pods can be sold to both domestic and international producers and marketed as Health Canada approved facilities. To date, Delta 9 has sold \$100,000 of Grow Pods, and we expect margins to be ~80%. We note that the company has applied for patents in Canada and the US.”

“The company plans to quadruple production over the next year by continuing its build out of Grow Pods in adjacent warehouses. With several automation and efficiency initiatives underway, we believe the company should see its costs dip below \$1.20/gram, while prices should remain high owing to the company’s premium quality.”

“Delta 9 also expects to significantly ramp up its oil production capacity in the coming year so that it is ready to sell derivative products once regulatory changes allow this (expected in Q3/19). As one of the largest facilities of its kind in Canada, the high-end Delta West extraction and production facility is expected to be commissioned in Q1 or Q2 2019. The company has also applied for an oil sales license at its Winnipeg facility, where it may process and package bulk cannabis from other LPs.”

Figure 5: Revenue projections



Source: Company Reports, Canaccord Genuity estimates

“Insiders currently hold 39% of Delta 9’s FD stock, which we believe has a relatively clean capital structure.”

Grow Pod Technology:

“Delta 9’s production methodology is based on a modular, scalable, and stackable production unit called a Grow Pod. Delta 9 currently retrofits standard 40-ft. shipping containers into Grow Pods. Starting with select once-used containers, the company applies an epoxy coating throughout the containers. Floors are then leveled and covered with hospital grade vinyl, which provide a cleanable GMP-compliant surface.”

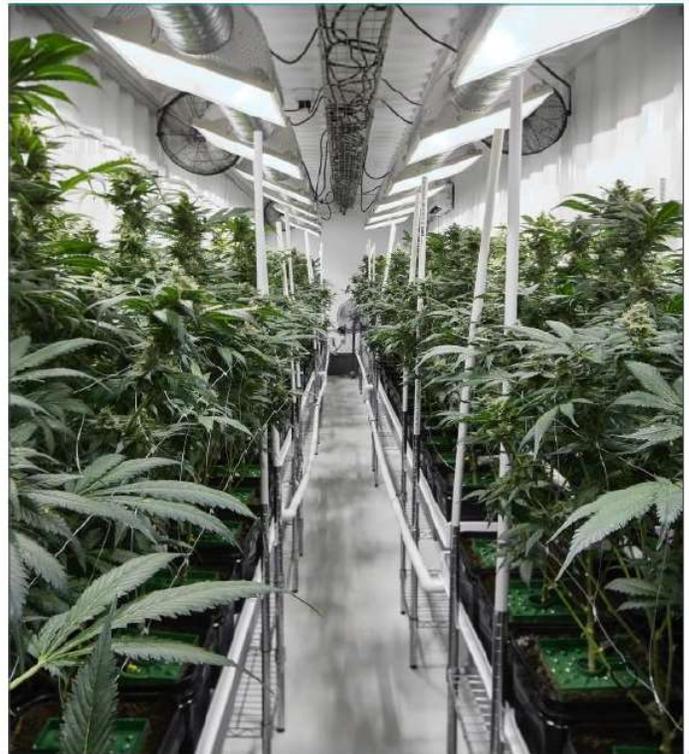
“Grow Pods can be stacked 2-3 units high to optimize warehouse space.”

Figure 13: Stackable Grow Pods, rear exterior



Source: Company Reports

Figure 14: Production Grow Pods, interior



Source: Company Reports

Figure 32: Cultivation and production assumptions and estimates

Cannabis production	2018E	2019E	2020E	2021E...	2027E	2028E
Capacity						
Grow pods - YE	194	608	608	608	608	608
Production capacity (kg/yr)	1,772	8,583	17,194	17,194	17,194	17,194
Sales (kg/year)	738	9,583	17,194	17,194	17,194	17,194
Implied market share	0.1%	1.8%	3.1%	2.9%	2.3%	2.3%
Implied market share (MB, AB and SK)	0.8%	9.5%	16.4%	16.1%	12.3%	12.4%
Bud (%)	100%	82%	64%	50%	45%	45%
Extracts (%)	0%	19%	36%	50%	55%	55%
Recreational (%)	45%	89%	91%	94%	74%	74%
Medical (%)	55%	11%	9%	6%	26%	26%
\$/gram						
Avg. wholesale bud price	\$6.88	\$5.42	\$4.90	\$3.72	\$3.30	\$3.28
Avg. wholesale extracts price	n/a	\$10.37	\$10.33	\$8.97	\$9.80	\$9.71
Avg. wholesale price	\$6.88	\$6.41	\$6.87	\$6.35	\$6.87	\$6.81
COGS (\$/gram)	\$2.93	\$1.97	\$1.86	\$1.66	\$1.69	\$1.69
Gross margin	\$3.95	\$4.44	\$5.01	\$4.68	\$5.18	\$5.12
GM % (cannabis only)	57%	69%	73%	74%	75%	75%
Total - \$ millions						
Cannabis revenue	\$5.1	\$61.4	\$118.1	\$109.1	\$118.2	\$117.2
Other revenue	-	-	-	-	-	-
Total revenue	5.1	61.4	118.1	109.1	118.2	117.2
COGS	2.2	18.8	32.0	28.6	29.1	29.1
Gross margin	2.9	42.5	86.1	80.5	89.0	88.0
SG&A	9.9	21.3	47.3	48.6	40.5	40.1
EBITDA	-\$7.0	\$18.2	\$27.0	\$26.4	\$45.0	\$44.9
EBITDA %	-138%	30%	23%	24%	38%	38%

Source: Company Reports, Canaccord Genuity estimates

My own Notes:

Partnership with Fort Garry Brewing. I looked them up on RateBeer.com and they certainly have low rated beers. The Fort Garry& Delta 9 Legal Lager doesn't have enough inputs for a rating, but the few reviews they had seemed quite poor.

Share count as of September 30, 2018 is 103,488K including options and warrants. Insiders own, with warrants and options 39,880K shares.

There has been some insider selling. It hasn't been terribly excessive.

Filing Date	Transaction Date	Insider Name	Ownership Type	Securities	Nature of transaction	Volume or Value	Price
Nov 2/18	Oct 31/18	Arbuthnot IV, John William (John)	Direct Ownership	Warrants	10 - Acquisition in the public market	15,000	\$0.240
Nov 2/18	Oct 31/18	Arbuthnot IV, John William (John)	Direct Ownership	Warrants	10 - Acquisition in the public market	10,000	\$0.260
Nov 2/18	Oct 31/18	Arbuthnot IV, John William (John)	Direct Ownership	Common Shares	10 - Acquisition in the public market	23,600	\$1.54
Nov 2/18	Oct 31/18	Arbuthnot IV, John William (John)	Direct Ownership	Common Shares	10 - Acquisition in the public market	1,400	\$1.53
Nov 1/18	Oct 31/18	Duhoux-DeFehr, Joanne	Direct Ownership	Common Shares	10 - Disposition in the public market	-2,800	\$1.59
Nov 1/18	Oct 31/18	Duhoux-DeFehr, Joanne	Direct Ownership	Common Shares	☒ 10 - Disposition in the public market	-1,500	\$1.60
Nov 1/18	Oct 31/18	Duhoux-DeFehr, Joanne	Direct Ownership	Common Shares	☒ 10 - Disposition in the public market	-20,700	\$1.58
Oct 20/18	Oct 18/18	Duhoux-DeFehr, Joanne	Direct Ownership	Common Shares	10 - Disposition in the public market	-9,600	\$1.85
Oct 20/18	Oct 18/18	Duhoux-DeFehr, Joanne	Direct Ownership	Common Shares	10 - Disposition in the public market	-400	\$1.84
Oct 22/18	Oct 15/18	Duhoux-DeFehr, Joanne	Direct Ownership	Common Shares	☒ 10 - Disposition in the public market	-10,000	\$1.60

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