

CONTENTS:

MORNING OUTLOOK

May 3, 2018

TODAY'S COMMENTS:

**Delta 9 Cannabis Inc. (NINE – TSXV, \$1.21 | N/R)
2.9m shares issued at \$0.65 eligible for trading today**

**Superior Gold Inc. (SGI – TSXV, \$1.50 | U/R)
Superior Intersects More High-Grade Intervals at Plutonic**

Please see back page for important disclosure information

Delta 9 Cannabis Inc. (TSXV: NINE \$1.21)

2.9 m shares issued at \$0.65 eligible for trading today

TSXV: NINE	
<i>(Currency is CAD\$ unless noted otherwise)</i>	
Last Price	\$1.21
52 Week High	\$4.00
52 Week Low	\$1.15
MARKET INFO	
Market Cap (\$MM)	\$95
Enterprise Value (\$MM)	\$95
Shares Outstanding (MM)	79.036
FYE: DEC 31	2017A
Revenue (\$MM)	\$0.944
Gross Margin	46.9%
EBITDA (\$MM)	-\$2.6
EBITDA Margin	NM
CASH	\$23.5
VALUATION	2020E
EV/EBITDA	5.6x
RELATIVE VALUATION EV/EBITDA	2020E
Canopy Growth	29.3x
Hiku	5.6x
Cronos	16.4x
Aphria	8.5x
Aurora	17.5x
Emblem	5.1x
Average (ex outliers)	13.8x
DISCLOSURE CODE:	2
<i>(Please refer to the applicable disclosures)</i>	
Source: M Partners, Company Reports, CapitalIQ	

We anticipate further weakness in NINE today as 2.9m shares of restricted stock becomes freely tradeable. NINE has been facing selling pressure as early stock has come out over the past few months (March 3rd, 2018 & November 3rd 2017) and at this level we feel that the upside warrants a revisit. In addition to its valuable retail license and 20,000 kg's of annual production capacity, NINE has been making progress in marketing its proprietary grow pod methodology to other producers.

The province of Manitoba has laid out a plan for the opening of 40 retail cannabis locations by four approved operators. As one of the four approved retailers, NINE (in a 50/50 JV with Canopy Growth) anticipates opening cannabis retail stores across the province – the first two in Winnipeg, followed by Brandon, and Thompson. We estimate that at an average \$5M in revenue per store NINE's initial four retail stores will generate \$20M in the first full year of operations (2020). NINE's fully funded production expansion is underway and we expect 20,000 kg's annually by 2020. At our anticipated wholesale price of \$3000/kg, we estimate \$60m in notional wholesale revenue. For the purposes this summary valuation, we assume a \$7.50 retail sale price per gram equivalent at retail. Accordingly, we expect NINE's \$20m of retail operations to consume 2,500 kg's of their own production with the remainder going to the established medical and other third party retail channels. At full retail margin and transfer pricing at cost, retail should generate \$10 m in EBITDA (50% or \$5m attributable to NINE). We expect \$1 per gram in wholesale EBITDA on the remainder 17,500 kg's in 2020 or \$17.5m for a combined EBITDA of \$22.5m. At the current market cap, NINE is trading under 4.5x 2020 EBITDA. We maintain that a more appropriate multiple is up towards 10x and reiterate that the retail license is a scarce commodity and the EBITDA generated from this side of the business should carry a higher multiple.

Cost Per Gram: Delta Nine reports current all-in cost per gram to be \$2.25 and is expected to decline to approximately \$1.25 as they continue to ramp up pod production and automate their proprietary growing process. Individual Pod construction costs have also decreased by 30%, due to construction efficiencies, renegotiated material contracts and streamlining of the construction process.

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Disclosure Code: None

Disclosure

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