Sprott Equity Research

May 21, 2019

GTEC Holdings Ltd. (GTEC:TSX)

RECOMMENDATION: **Buy** *1 YR-TARGET PRICE:* **$2.00** *RISK RATING:* **HIGH**

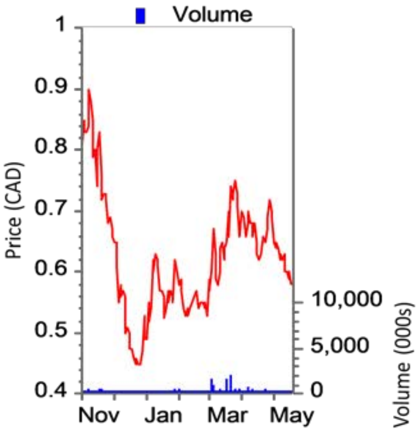
Growing an Ultra-Premium Business

SHARE DATA	
Price (5/17/19)	$0.58
Shares outstanding (basic)	140M
Shares outstanding (diuted)	184M
Market cap (basic)	$81M
Market cap (diluted)	$107M
Net Cash (debt) 2019E	$5M
Enterprise Value (Diluted)	$112M

FINANCIALS	2018A	2019E	2020E
Revenue ($M)	$0.1	$13.1	$62.2
EBITDA ($M)	-$10.4	-$3.0	$29.3
EPS (FD) ($)	$ (0.10)	$ (0.02)	$ 0.11

RATIOS	2018A	2019E	2020E
EV/Sales	1933x	8.5x	1.8x
EV/EBITDA	n/a	n/a	3.8x
P/E	n/a	n/a	5.2x

VALUATION:	
Recommendation:	Buy
One Year Price Target:	$2.00
Valuation:	12.5x 2020E EV/EBITDA



Source: FactSet Prices

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Initiating Coverage on GTEC with a Buy Rating and 1 Yr Target of $2.00/sh

We are initiating coverage on GTEC, with a buy rating and a one year target price of $2.00/sh. We believe GTEC is set to become a significant supplier of ultra-premium cannabis as its new facilities come online. This roll out of capacity should result in dramatic growth in revenue and profitability which should drive the stock higher.

Short Term Growth Supported by New Facility Production

GTEC currently operates one indoor facility, Alberta Craft Cannabis (ACC), has two new facilities in the regulatory approval process and two additional locations under construction. GTEC's management has a proven track record of building and licensing facilities and we are confident they will be able to bring these assets online this year. This should result in significant growth in production, and we forecast an increase in revenue to over $60M and EBITDA to approximately $30M in 2020.

Experienced Growers Expected to Produce Ultra-Premium Product

GTEC's cultivation experts have years of experience growing ultra-premium cannabis under Canada's medical program and in other legal jurisdictions within the U.S. As a result, we believe GTEC will be one of the few LPs capable of consistently supplying the market with high end ultra-premium flower, which we expect to be in short supply and command premium pricing. In addition, given the strict Canadian regulations related to marketing products, we believe quality will be the key attribute required to build brand awareness and loyalty.

Longer Term Upside Could Come from Execution of Retail Strategy

We have chosen to be conservative with our forecasts for GTEC's retail strategy and currently only include it's one Vancouver based store, Cake Cannabis Co, and the GTEC Saskatchewan assets in our outlook. Successful execution of its planned roll-out of additional locations in British Columbia, Alberta, and Manitoba could provide material upside to our current valuation.

Attractive Valuation and Potential for Significant Multiple Expansion

Based on our forecast, GTEC is currently trading at an attractive 3.9x 2020 EBITDA, which is a deep discount to similar small to mid-cap LPs which trade at 13.5x. We see significant room for multiple expansion over the coming year as GTEC receives regulatory approvals and executes on growing its high quality cannabis.

Quick Summary

GTEC is a licenced cannabis company with a focus on producing ultra-premium craft flower for the Canadian market. The company currently operates one facility, Alberta Craft Cannabis, is in the process of licensing two facilities (Grey Bruce and Tumbleweed), and completing construction of two additional locations (GreenTec Biopharma “GBP” and F20). As these facilities come online, we expect GTEC’s annualized production capacity to increase from a current rate of 1,300 kg to 10,000 kg by early 2020. Given GTEC’s experienced team and strong track record of building and operating high quality cultivation facilities, we believe this target is achievable and expect the increase in production to drive revenues from $13M in 2019 to $62M in 2020. Beyond cultivation, GTEC also has a presence in both the retail and manufacturing verticals, the majority of which is not reflected in our current forecasts. These assets have the potential to deliver upside to our numbers, and provide the company with an option into these derivative markets in the future. **Overall, we see GTEC as undervalued, and expect the shares to rerate as the company receives regulatory approvals for its new facilities and production comes online. As such, we are initiating coverage on the shares with a Buy rating and a one-year target price of $2.00 per share.**

Investment Thesis

Our investment thesis for GTEC is simple and is based on the following:

1. **GTEC possesses a top quality management team with a track record of producing ultra-premium flower at scale**. As a results, we have confidence that GTEC can reach its production goals of suppling the market with up to 10,000 kg of high quality flower in 2020.
2. **Value of near term production increase is not reflected at current valuation level.** Factoring in the incremental growth from the new facilities, GTEC is trading at a significant discount to the smaller cap Canadian LPs at 1.8x and 3.9x our 2020 revenue and EBITDA estimates. As the company receives Health Canada approvals and begins production (next 4-6 weeks), we expect the multiple to rerate higher to reflect the value of these assets.
3. **Retail assets could provide upside to our forecast**. Currently, we only include the value of Cake Cannabis Co (Vancouver. B.C.) and GTEC Saskatchewan in our forecasts. The company plans to expand its retail footprint substantially in the next 12 to 18 months through its investments in Cannabis Cowboy (Alberta), and expansions in British Columbia and Manitoba. If successful, these assets could provide significant upside to our current estimates and valuation We note that cannabis retail companies currently garner valuations between ~$35M to ~$150M (Figure 7).
4. **Ultimately, we see GTEC as a take-out candidate.** We see GTEC as a target for Large LPs or new entrants into the Canadian Cannabis market, for its cultivation footprint, operational know-how, and brand positioning.

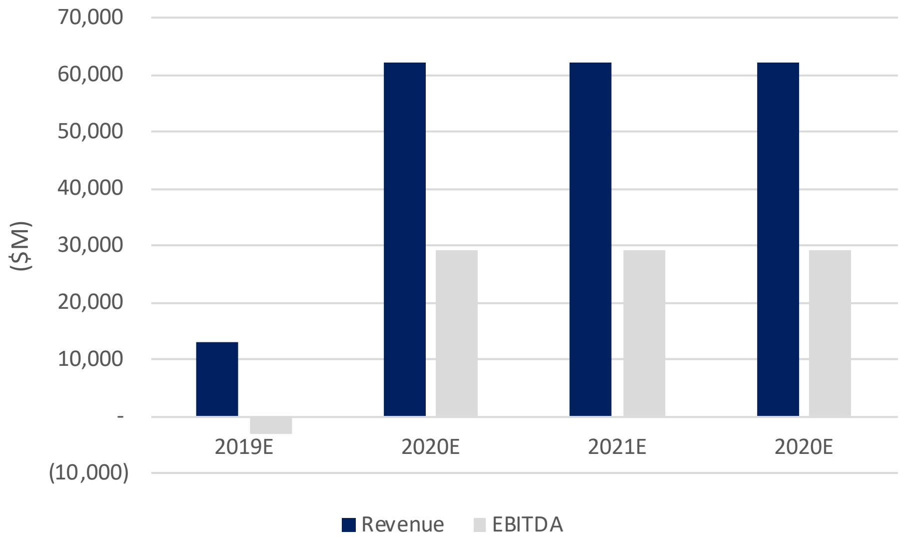
Financial Summary

Our current forecasts are based on cultivation from the five facilities expected to be built and licensed by year end and contributions from Cake Cannabis Co and GTEC Saskatchewan (Figure 1):

- **Cultivation**: As GTEC ramps up cultivation from its one operating facility, ACC, to five facilities including Grey Bruce, Tumbleweed, GBP, and F20, we see output climbing to 2,407 kg in 2019 and 10,000 kg in 2020. We expect this to drive revenue of $13M in 2019 and $56M in 2020 (Based on $5/g for flower, $2.50/g for trim). We forecast costs from cultivation at ~$1.75/g.

- **Retail**: On the retail side, we have only included contributions from Cake Cannabis Co and GTEC Saskatchewan. Based on a late Q4/19 opening, we see revenues from retail operations contributing ~$5.9M in 2020 and beyond, at a gross margin of 30%.
- **EBITDA**: Based on the revenue expectations above, along with our assumptions for COGS and corporate G&A, we expect EBITDA to be ($3.5M) in 2019 and $29.3M in 2020.

Figure 1: Revenue & EBITDA Forecasts



Source: SCP estimates

An Investment in Ultra-Premium Flower

Overall, we see an investment in GTEC as an investment in high quality craft cannabis. The company is in the process of building out top tier cultivation assets, which when complete, will supply upwards of 10,000 kg of ultra-premium flower annually. As we have stated in the past, we see the high-end market as being undersupplied both in the short and long term, and expect companies who can consistently deliver quality product, such as GTEC, to command sustained pricing power and strong demand. With GTEC, the key differentiator in achieving these ambitions comes from its experienced management team, state-of-the-art facility design and a strict focus on quality. GTEC is spearheaded by Norton Singhavon (Co-Founder & CEO), Michael Blady (Co-Founder & VP), David Lynn (COO), Jeremy Wright (CFO) and David Buckle (VP Operations), who bring a wealth of capital markets, consumer packaged goods, and cannabis cultivation experience to the company. Most importantly, the team has a track record of consistently producing high quality flower, which we believe will help GTEC differentiate itself from competitors over the long-term. In our opinion, the consistency comes down to management's focus on quality through small batch indoor growing, along with their use of adaptive fertigation programs and dynamic environmental management. This gives growers full control over the operating conditions, and delivers superior yields compared to large indoor, greenhouse and outdoor cultivation facilities. Under these conditions, the team has developed over 26 unique cultivars which we believe will be in high demand amongst cannabis connoisseurs. A clear example of the team's cultivation ability is its recent results with Cold Creek Kush (CCK), a cultivar grown by a number of LPs, which the company produced with industry leading THC content of 24.3%. We consider CCK to be a mid-level cultivar which could be phased out as the company expands its offering to higher quality current strains. GTEC will market and sell its strains under its trademark brands; BLK MKT, Tenzo, GreenTec, Cognoscente, Treehugger and First Nations (Figure 2).

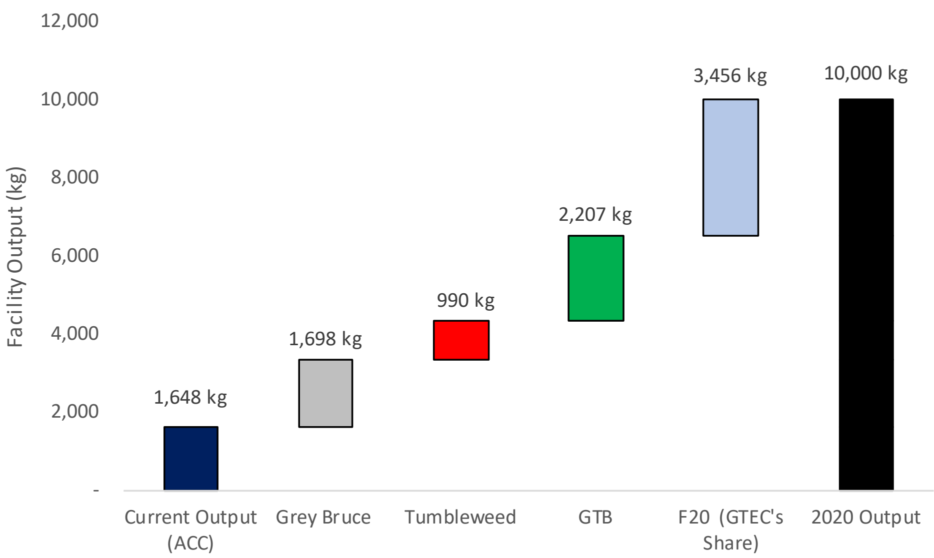
Figure 2: GTEC's Craft Cannabis Brands

Source: Company Reports

Build out of Top-Tier Cultivation Assets to Support near Term Growth

GTEC currently operates one indoor facility, Alberta Craft Cannabis, has built two facilities, Grey Bruce and Tumbleweed Farms, which are awaiting Health Canada approval to begin cultivation, and is building two additional facilities, GBP and F20. In total, these new locations are expected to boost total annualized production capacity from 1,300 kg/annum to over 10,000 kg/annum (Note: We only include GTEC's 49% shares of production at F20). Given GTEC's experienced team, their track record of finishing project construction on time and history of producing consistent high quality flower, we see these projections as achievable and forecast a peak production rate of 10,000 kg/annum (Figure 3). In addition to the 10,000 kg of dried flower available for sale, we believe there is a market for GTEC to sell its trim, which we believe will contribute another 20-30% of total biomass (2,000 kg to 3,000 kg).

Figure 3: Incremental Flower Output from New Facilities



Source: SCP Estimates

Facility Overview

We provide an overview of each cultivation asset in detail below:

1. **Alberta Craft Cannabis ("ACC")**: Located in Edmonton, Alberta, ACC is a 14,000 sf fully built and operational indoor facility capable of growing in excess of 1,300 kg of dried flower annually. The facility is currently licensed to cultivate which allows the company to sell its product business to business ("B2B") under the Cannabis Act. GTEC is in the process of obtaining a final sales license from Health Canada which is expected to come sometime over the next 4 to 6 weeks. Based on a conservative wholesale price of $5.00/g (relative to current realized pricing of $5.86/g), and annual production of 1,648 kg in 2020, we expect ACC to generate ~$8.2M in sales. For ACC, the company paid a total consideration of $16M ($6M in cash and $10M in shares).

2. **Grey Bruce Farms ("Grey Bruce")**: GTEC's second facility, Grey Bruce, is a fully built, 15,000 sf facility located in Kincardine, Ontario. The company is in the final stages of submitting its evidence package for the site and expects approval from Health Canada in Q2/Q3 2019. Once approved, the team is targeting an annual production rate of ~1,650 kg. Based on the average turnaround time of 1 to 2 months for Health Canada, we believe that the facility can be operational in early Q3/19. Given a $5 per gram price, we forecast revenue contribution from Grey Bruce of ~$3.7M in 2019, growing to $8.5M in 2020. For the facility, GTEC paid a total consideration of $4M ($0.25M in cash, with $3.75M due in shares), the majority of which is due upon completion of certain milestones (regulatory approval and quality of harvests).

3. **Tumbleweed Farms Corp. ("Tumbleweed"):** GTEC has completed the construction of the 10,000 sf Tumbleweed facility and submitted the evidence package for the location to Health Canada on March 13, 2019. The facility is located on 23 acres of land in Chase, B.C. which gives GTEC significant expansion capabilities. Upon approval, which management expects to come sometime before Q3/19, the facility is projected to produce 1,000 kg of high quality cannabis annually. We forecast revenue contribution from the facility of ~$2.2M in 2019, increasing to $5.0M in 2020. For the asset, GTEC paid a consideration of $4.75M in stock, with approximately $2.5M paid as of February 28, 2019, and the rest vesting upon the reaching of certain milestones.

4. **GreenTec Bio-Pharmaceuticals ("GBP")**: Located in Kelowna B.C., GBP is planned to be GTEC's flagship cultivation facility. Currently, the company has completed the exterior of the building and plans to finish the interior in Q4 of 2019. The first phase of development will include ~20,000 sf of growing space, which is anticipated to produce ~2,150 kg of dried flower annually. Additional expansion could add an extra 60,000 sf of grow space, which would bring the facility's annual production to over 10,000 kg. We expect revenue contributions from the facility to be ~$11.0M in 2020 as the initial capacity comes online. GTEC has committed to pay $8.25M in stock for the GBP asset, which is dependent on the reaching of certain milestones (regulatory approvals).

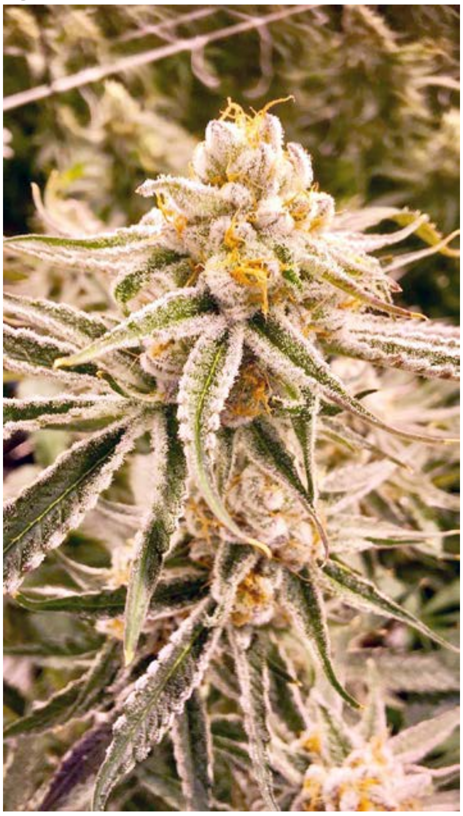
5. **F20 Developments**: Last, GTEC has entered into a JV (49%) with a private company to develop a 60,000 sf facility in Vernon, B.C., with an expansion option to increase the size to 180,000 sf. Phase one expansion to 60,000 sf is currently being built, and the company anticipates that the facility will produce 6,000 to 8,000 kg of flower annually. We forecast total cultivation production of ~7,500 kgs, 50% of which would provide a revenue contribution of ~$17.3M in 2020. For its interest in F20, GTEC issued 1.6M shares the private

company, and has also agreed to advance a shareholder loan of up to a maximum of $1M to fund the completion of the facility.

Figure 4: Flower Room at ACC

Source: Provided by Company

Figure 5: Ultra-Premium Flower at ACC



Source: Provided by Company

Retail Assets Could Provide Upside

In addition to cultivation, GTEC owns interests in a number of retail assets including, Cake Cannabis Co., GTEC's fully owned Vancouver store, majority interest in GTEC Saskatchewan (75% ownership) and a minority stake in Cannabis Cowboy (25% ownership). GTEC also plans to expand its retail footprint in Manitoba, where the company has submitted an RFP for 7 locations, and British Columbia, where GTEC is currently evaluating additional sites. We have chosen to remain conservative with the potential for retail operations and have only included the fully owned Vancouver store and GTEC Saskatchewan in our outlook. As such, we believe that there could be material upside to our forecasts from Cannabis Cowboy, and the company's potential expansion in British Columbia and Manitoba.

1. **Cake Cannabis Co:** After evaluating a number of opportunities throughout British Columbia, GTEC entered the retail marketplace through the acquisition of a metro Vancouver storefront from a privately listed company. The ~4,000 sf location, which will be branded "Cake Cannabis Co", is currently in the process of obtaining certain Municipal and Provincial approvals to sell cannabis recreationally. Given its prime location, which sees significant pedestrian traffic (~1,400/day), we believe that the store has the potential to do over $5M in sales annually once operational. For the asset, GTEC paid a total consideration of $2.1M, with the majority ($2M) payable in shares. In addition to this first location, we see potential expansion of the Cake brand, and the team has noted that they are investigating a number of additional locations in B.C. As noted above, we have only included the one initial location in our forecasts currently.

2. **Cannabis Cowboy Inc. ("Cannabis Cowboy"):** In March 2018, GTEC purchased a 25% stake in Cannabis Cowboy, a Calgary based company with plans to develop up to 30 retail storefronts in Alberta. Currently, the company has received 10 development permits from municipalities in Calgary, Red Deer, and Lethbridge, and expects to receive final provincial and municipal licenses sometime in 2019. Given the uncertainty surrounding the roll-out of store fronts, we do not include the upside from this investment. In addition to their 25% interest, GTEC holds the right of first refusal on (1) partnering with Cannabis Cowboy on any future locations within Canada, (2) participating in any future financing, and (3) purchasing any shares that are offered up for sale.

3. **GTEC Saskatchewan ("GTEC Sask"):** GTEC also has a small presence in Saskatchewan consisting of a retail store located in Nipawin, and an e-commerce fulfilment centre located in Saskatoon. The company expects sales to commence from these assets in Q3/19. We forecast the Nipawin store generating ~$1.5M in sales per year starting in 2020.

In terms of upside from the retail strategy, we note that cannabis retail companies currently garner valuations between ~$35M to ~$150M (Figure 7), with valuations appearing to be based on the size of the footprint and structure of ownership (owned vs. franchise). As GTEC executes on new store openings, we believe the market will begin to accord GTEC with value for its retail strategy, adding upside to both our valuation and estimates.

Figure 6: GTEC's Potential Retail Network

Source: Company Reports

Figure 7: Market Values for Cannabis Retail Players

	National Access Cannabis (META-TSX)	High Tide (HITI-CNQ)	Choom (CHOO-CNQ)	Westleaf (WL-TSX)	Inner Spirit Holdings (ISH-CNQ)	Solo (SOLO-TSX)
# of Stores currently operating	25	15	3	3	5	1
Forecast future # of stores	110	122	39	50	75	22
Market Cap ($M)	$147	$106	$100	$79	$48	$34

Source: Company Reports, FactSet

Extraction and Analytical Assets Give Option for High End Derivatives

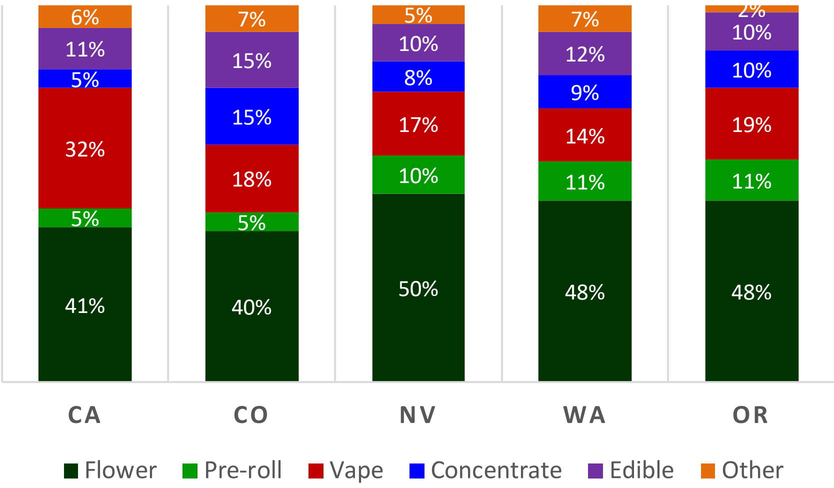
Beyond cultivation and retail, GTEC also owns two extraction/analytical facilities in Kelowna B.C., Zenalytic Laboratories ("ZenLabs"), and Spectre Labs ("Spectre"). Zenlabs operates as a diagnostics lab for testing soil, water and cannabis. GTEC plans to use the facility for the internal evaluation of cannabis strains including potency and cannabinoid profile. Additionally, Zenlabs has a processing license which GTEC could leverage in the near term for small scale extraction of oil for second generation products like vape pens, concentrates and edibles. Spectre is currently being used for warehousing but the company will evaluate if a large extraction/processing facility is needed and if so build out the facility based on this analysis.

Market Outlook – Expecting an Undersupply of High End Flower

In Recreational Cannabis Markets, Dried Flower Maintains Large Market Share

There is a broad range of cannabis products being sold in existing legal and illegal markets in the U.S. and Canada including dried flower, oils (low concentration tinctures and high concentration distillates for vaping), concentrates for dabbing (shatter, budder, hash, live rosin, etc.), edibles and beverages, etc. However, in mature recreational markets in the U.S., despite competition from other product types, dried flower remains the largest market segment, typically making up ~40-50% of sales followed by vape pens (~15-30% share), edibles (~10-15% share), and concentrates (~5-15%) (Figure 8). We expect sales of dried flower to continue to fall as vape pens continue to take share but believe the combination of dried flower and pre-roll will likely remain ~25-30% of the market over the long-term.

Figure 8: Market Share of Product Types in Mature U.S. Markets



Source: SCP research

Over time, we believe similar trends will occur in Canada and assume 25-30% of sales will remain dried flower and pre-roll over the long-term. Assuming the Canadian market is ~$7B, a 25-30% share implies sales of dried flower should remain $1.8-$2.1B per year. That said, the Canadian market is complicated by the fact that not all cannabis derived products will be approved at once. Currently, only dried/fresh flower, low concentration cannabis oil (<3% THC), plants, and seeds can be sold by licensed producers. However, post Q4/19, concentrates, higher concentration oils, edibles and beverages will be legalized. As a result, the near and long-term markets in Canada will look very different with the vast majority of all sales being dried flower and pre-rolls. We do not believe the existing cultivation capacity is properly designed to meet the demand for dried flower in the near-term and possibly even the long-term.

Majority of Cultivation Infrastructure Not Built to Supply High Quality Dried Flower

As Canada began approving facilities for cultivation, indoor grows represented a material percentage of the licenses;. however, over time we have witnessed a large shift away from indoor as the majority of the cultivation capacity being planned by the LPs who currently hold cultivation licenses are greenhouses. In our opinion, greenhouse cultivation is geared towards producing low-cost, typically lower-quality flower that is unlikely to be sold as top shelf dried bud. Greenhouse grown cannabis will most likely be used as source biomass for extraction to make medically focused products like tinctures and capsules in the near-term and high concentration distillates for edibles and beverages in the long-term. As a result, we do not believe greenhouse grown product will compete with GTEC's dried flower in terms of quality and likely won't be able to command high pricing. Based on our understanding of the current wholesale market, we believe the provincial distributors are paying on average ~$4 to $5 per gram or less for dried flower. However, based on conversations with GTEC and other companies, we believe premium flower can command up to $8 per gram or more implying a 100% premium.

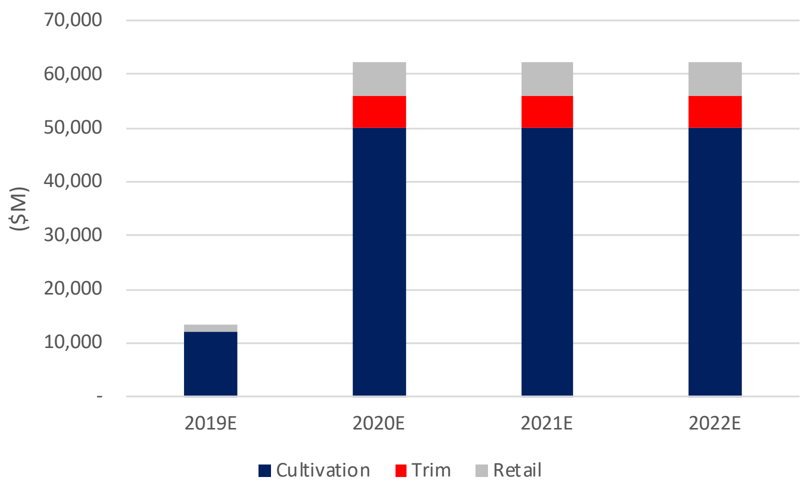
Furthermore, given Canada's restrictions related to marketing, quality is one of the only distinguishing features which can be leveraged by companies and we believe indoor growers have an opportunity to capture market share while the variety of product offerings are limited. That said, we expect many companies to struggle to establish brand recognition for consistent quality in the near-term due to suboptimal building designs, inexperience managing commercial scale grows, and contamination issues at existing indoor grows. GTEC's ability to grow consistent, high quality flower at industrial scale will put it in a great competitive position long-term.

Financial Forecast – Production Ramp to Drive Growth

Facilities expansion to drive material upside to revenue in the short term. Our revenue forecasts for GTEC are derived from the ramp in cultivation at GTEC's five facilities along with contributions from Cake Cannabis Co and GTEC Saskatchewan starting in 2020. Overall, we see these assets driving consolidated revenues of $13.1M in 2019, before growing to $62.2M in 2020.

- **Cultivation ramp the main catalyst for near-term revenue growth**. In 2019, we see revenue being derived from production at ACC, along with the addition of Grey Bruce and Tumbleweed, which we expect to come online in Q3/19. Moving into 2020, we expect both GBP and F20 to receive approval and begin supplying incremental capacity to GTEC. Based on these assumptions, we see total output increasing from a 2019 level of 2,407 kg to 10,000 kg in 2020. In addition to flower, we see GTEC deriving revenues from the sale of trim, which we assume will be ~25% of total production. At a conservative selling price of $5.00 per gram for flower and $2.50 per gram for trim, we see the increased production driving cultivation revenue of $13.1M in 2019 and $56.3M in 2020 (Figure 9). We note that GTEC has the option to expand a number of its facilities beyond their current footprints. Exercising these options could boost annual production and revenues above our current forecasts.
- **Retail stores to provide small contribution initially but have potential to drive upside**. As noted above, we have chosen to remain conservative in our forecasts of GTEC's retail investments and have only included Cake Cannabis Co and GTEC Saskatchewan in our estimates. As these assets become operational in 2020, we expect them to contribute $5.9M in annual revenue to GTEC's consolidated results (Figure 9). Successful execution on the expansion of Cannabis Cowboy, or additional retail expansion in British Columbia and into Manitoba could prove our estimates conservative.

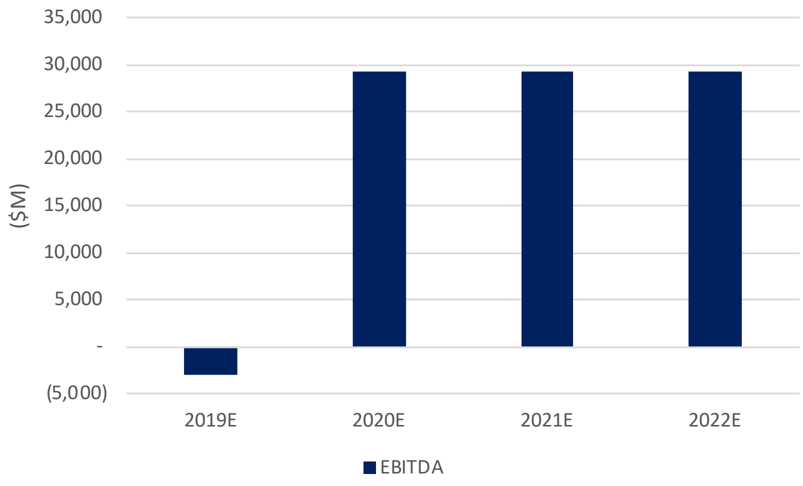
Figure 9: Revenue Forecast Mainly Derived from Increase in Cultivation



Source: SCP estimates

Low cultivation and corporate costs to drive strong EBITDA margins. We see EBITDA growing from ($3.6M) in 2019 to a long term rate of $29.3M in 2020 and beyond (Figure 10). Our forecast is backed by a consolidated gross margins of 68.6% in 2019, dropping to 65.2% in 2020, and relatively stable corporate and selling costs. Solid gross margins along with relatively stable corporate costs, should allow GTEC to drive strong EBITDA margins of ~47% by 2020. Full details of our model and assumptions can be found in Appendix 1.

Figure 10: Low Production Costs and Stable Corporate Costs to Drive Strong EBITDA Growth



Source: SCP estimates

Strong Cash Flows Could Fund Potential Future Expansion. We note that our model only takes into consideration the company's currently announced growth initiatives. However, beginning in 2020, when these first phases of the five cultivation facilities are operational and producing flower, we expect GTEC to be generating positive free cash flow of $18M which should rise to $22M in 2022 and beyond. Based on this cash flow our forecast calls for the company's cash position to grow to >$50M by the end of 2022 which the company will likely be able to deploy into other growth initiatives such as expansion of the existing facilities which we have not factored into our model.

Valuation – Undervalued based on NT Production Increase

Valuing cannabis companies in the current market is difficult given the extreme multiples the group is commanding. As such, we believe the most prudent approach to determining a value for GTEC is to apply a mid to low teens multiple, comparable to alcohol company multiples (10x to 15x), to our EBITDA forecast in the first year that all cultivation facilities are fully producing.

In our current forecast GTEC achieves full production in 2020, contributing to EBITDA of $29.3M in the year. Applying a range of EV/EBITDA multiples to this value, we arrive at an implied one year value range for the shares of between $1.58 and $2.38. For our target price we have chosen to base our valuation on the mid-point of this range at 12.5x 2020E EBITDA. At this multiple, we achieve a one year target price for GTEC shares of $2.00, which represents a significant one year return of ~233% to current levels (Figure 10). Given this potential upside, along with the company's strong intrinsic value, we are initiating coverage on the common shares of GTEC with a buy rating.

Figure 11: Valuing GTEC Under Our Current Forecast

2020 EBITDA ($000)	**29,339**			**1 Yr TP**			
EBITDA Multiple	10.0x	11.0x	12.0x	12.5x	13.0x	14.0x	15.0x
Implied Enterprise Value ($000)	293,386	322,724	352,063	366,732	381,402	410,740	440,079
Less: Net Debt and Cash	4,874	4,874	4,874	4,874	4,874	4,874	4,874
Equity Value	288,512	317,850	347,189	361,858	376,527	405,866	435,204
FD Shares Outstanding	183,042	183,042	183,042	183,042	183,042	183,042	183,042
Implied Equity Value/sh 2019	$1.58	$1.74	$1.90	$1.98	$2.06	$2.22	$2.38

Source: SCP estimates

Risk Factors Potentially Impacting Our Forecasts

Management execution risk: Our forecast is dependent on management executing on its business plans including the completion of construction at its GBP and F20 facilities, gaining regulatory approvals for all four new facilities, and producing consistent high end flower. If management fails to execute on any these points, our forecasts could be negatively impacted.

Commercial/brand risk: GTEC's brand is being built on ultra-premium craft cannabis. If the company fails to produce a product that consumers consider premium quality or if competitors produce higher quality dried flower, our outlook could be negatively impacted.

Market risk: We have made a number of assumptions related to the Canadian recreational cannabis market including an expectation that dried flower will remain a material share of the overall market. In addition, we have assumed a niche market will develop in Canada where consumers will be willing to pay for high priced premium products. If demand for dried flower falls faster than anticipated, or if consumers are unwilling to pay premium prices for higher quality products, our forecasts would be negatively impacted.

Retail risk: GTEC owns interests in a number of retail operations located across British Columbia, Alberta and Saskatchewan. While we have only included a small portion of these storefronts in our current forecast, we have assumed that they will be able to maintain consistent sales and margins. As the Canadian retail space continues to develop, these locations could see increased competition from new stores which would negatively impact our forecast.

Regulatory risk: GTEC operates in a highly regulated industry. If the company is unable to consistently comply with existing regulations or if regulations change in such a way that the company is no longer compliant, our outlook could be materially impaired.

Appendix 1 – Financial Forecast Assumptions, Management Overview and Financial Models

Assumptions:

To generate our financial forecasts for GTEC we have assumed the following:

- Alberta Craft Cannabis will produce 1,230 kg of dried flower in 2019, before increasing to 1,648 kg in 2020 and beyond.
- Grey Bruce Farms will begin production in Q3/19, producing 743 kg in 2019, increasing to 1,698 kg in 2020 and beyond.
- Tumbleweed Farms will begin production in Q3/19, producing 433 kg in 2019, increasing to 990 kg in 2020 and beyond.
- GreenTec Bio Pharmaceuticals will begin production in 2020, producing 2,207 kg of dried flower annually.
- The F20 facility (JV) will begin production in 2020 producing 6,912 kg of dried flower annually of which GTEC's proportionate share will be 3,456 kg.
- Trim from cultivation will be ~25% of total flower production, which will be sold by the company at $2.50/g
- Average wholesale price for GTEC's dried flower will be $5/g.
- COGS from cultivation will be $1.75/g.
- Cake Cannabis Co. will generate $12,500 in sales per operating day at a gross margin of 30%
- GTEC's Saskatchewan retail operation will generate $4,000 in sales per day at a gross margin of 30%.
- SG&A will be ~18% of sales in 2020 and beyond.
- Cash taxes will be 27%.
- CapEx will total ~$9M in 2019 as the company finishes construction on GTB and F20. Capital spending will drop off to $1M per year post 2019.
- We have included all shares related to milestone payments in our basic shares outstanding.

Management Overview

Norton Singhavon – Founder, Chairmen and CEO

Mr. Singhavon brings extensive capital markets experience to the team both at the investment and advisory level. He has been involved in several large acquisition, consolidation and start-up companies in North America in both the private and public markets, and has been responsible for internally deploying over $100M of capital into the legal cannabis market. Prior to joining GTEC, Norton was an advisor and an early stage investor in Invictus MD, and an Operations Consultant for Cronos Group.

Michael Blady – Co-Founder and Vice President

Prior to joining GTEC, Mr. Blady served as a Director and Senior Executive at Invictus where he oversaw the acquisition, management and growth of a diverse portfolio of cannabis-centric businesses. The portfolio of companies were involved in a number of verticals including manufacturing, hydroponic equipment, laboratory testing and services, cultivation, media, marketing and biopharmaceuticals. Michael has been involved in raising more than $65 million of capital in the cannabis sector. Mr. Blady holds degrees in Kinesiology and Geology from Simon Fraser University.

David Lynn – Chief Operating Officer

Mr. Lynn joined GTEC from Sun-Rype Products where he served as the company's President & CEO. During his tenure, David achieved record net sales and EBITDA while taking Sun-Rype from a $13M EBITDA loss to a $15M EBITDA profit in his first year. Prior to Sun-Rype, Mr. Lynn served as the Senior VP of Marketing at Saputo Canada, where he was in charge of the consumer marketing strategy for the largest division of the company. David holds a Bachelor of Commerce and Master of Business Administration from the University of British Columbia.

Jeremy Wright – Chief Financial Officer

Mr. Wright brings a wealth of corporate experience to the company which includes Director roles with Demetra Minerals, Good Ventures, Pacific Community Resources Society, Budly Software, and the Canadian Freestyle Ski Association. Additionally, Jeremy has served as CFO of several public and private companies including Portofino Resources, Centurion Minerals, PayVida Solutions, and Demetra. Along with his position with GTEC, Jeremy also serves as the President and CEO of Seatrend Strategy Group. Mr. Wright holds a CPA, along with a Bachelor of Arts in Environmental Economics from Brock University.

David Buckle – Vice President of Operations

Prior to joining the company, Mr. Buckle served as the Senior Grower at In the Zone (Now Original BC), which was a LP under the ACMPR. In this role, David was responsible for overseeing the junior growing team, developing a cultivation regiment that would ensure satisfaction to Health Canada's QA/QC standards, overseeing harvests, and general cultivation duties. Mr. Buckle was integral in the first three harvests for In The Zone, which allowed the company to gain their Sales License from Health Canada.

Income Statement

Income Statement (C$000)	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Cultivation Revenue	58	13,084	56,252	56,252	56,252	56,252	56,252	56,252
Retail Revenue	-	-	5,940	5,940	5,940	5,940	5,940	5,940
Revenue	58	13,084	62,192	62,192	62,192	62,192	62,192	62,192
Cost of sales	42	4,110	21,658	21,658	21,658	21,658	21,658	21,658
Gross margin	16	8,974	40,533	40,533	40,533	40,533	40,533	40,533
Unrealized gain on changes in FV of biological assets	160	520	-	-	-	-	-	-
	176	9,495	40,533	40,533	40,533	40,533	40,533	40,533
Operating expenses		68.6%	65.2%	65.2%	65.2%	65.2%	65.2%	65.2%
Amortization	195	848	1,174	1,165	1,157	1,149	1,141	1,134
SG&A	10,859	12,301	11,194	11,194	11,194	11,194	11,194	11,194
	11,054	13,149	12,368	12,359	12,351	12,343	12,336	12,329
Net loss from operations	**(10,879)**	**(3,654)**	**28,165**	**28,174**	**28,182**	**28,190**	**28,197**	**28,204**
Adjusted EBITDA	**(10,406)**	**(3,014)**	**29,339**	**29,339**	**29,339**	**29,339**	**29,339**	**29,339**
EBITDA Margin %	-18017%	-23%	47%	47%	47%	47%	47%	47%
Other income (expense)	(2,072)	(143)	-	-	-	-	-	-
Net Loss before income taxes	(12,950)	(3,797)	28,165	28,174	28,182	28,190	28,197	28,204
Income tax expense/recovery	2,414	(212)	7,605	7,607	7,609	7,611	7,613	7,615
Net loss and comprehensive loss	**(10,537)**	**(3,585)**	**20,561**	**20,567**	**20,573**	**20,579**	**20,584**	**20,589**
Earnings (loss) per share (Basic)	$ (0.14)	$ (0.03)	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.15
Earnings (loss) per share (Diluted)	$ (0.10)	$ (0.02)	$ 0.11	$ 0.11	$ 0.11	$ 0.11	$ 0.11	$ 0.11
Weighted basic shares outstanding	76,349	122,121	138,869	138,869	138,869	138,869	138,869	138,869
Weighted diluted shares outstanding	110,543	165,274	183,042	183,042	183,042	183,042	183,042	183,042

Source: SCP research

Balance Sheet

Balance Sheet (C$000)	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Current Assets								
Cash and cash equivalents	918	1,567	12,025	32,757	53,486	74,214	94,939	115,662
Amounts receivable	993	2,024	4,353	4,353	4,353	4,353	4,353	4,353
Advances receivable	-	-	-	-	-	-	-	-
Prepaid expenses	622	1,157	1,866	1,866	1,866	1,866	1,866	1,866
Assets held for sale	2,543	-	-	-	-	-	-	-
Biological assets	56	468	468	468	468	468	468	468
Inventory	86	1,439	3,032	3,032	3,032	3,032	3,032	3,032
	5,217	6,655	21,744	42,476	63,205	83,933	104,658	125,381
Non-current Assets								
Deposits	431	445	445	445	445	445	445	445
Goodwill	7,678	7,678	7,678	7,678	7,678	7,678	7,678	7,678
Intangible assets	9,900	9,900	9,900	9,900	9,900	9,900	9,900	9,900
Investment in associate	860	825	825	825	825	825	825	825
Investments	257	257	257	257	257	257	257	257
Promissory notes receivable	2,450	2,730	2,730	2,730	2,730	2,730	2,730	2,730
Property and equipment	13,523	22,024	21,850	21,685	21,529	21,380	21,239	21,104
	40,316	50,514	65,430	85,996	106,569	127,148	147,732	168,321
Current Liabilities								
Accounts payable and accrued liabilities	1,938	2,313	3,110	3,110	3,110	3,110	3,110	3,110
Income taxes payable	-	-	-	-	-	-	-	-
Interest payable	208	64	64	64	64	64	64	64
Due to related parties	6	5	5	5	5	5	5	5
	2,151	2,382	3,178	3,178	3,178	3,178	3,178	3,178
Non-current Liabilities								
Convertible debentures	5,572	6,441	-	-	-	-	-	-
	7,724	8,823	3,178	3,178	3,178	3,178	3,178	3,178
Shareholders' Equity								
Share capital	41,738	47,493	47,493	47,493	47,493	47,493	47,493	47,493
Subscriptions	224	50	50	50	50	50	50	50
Contributed surplus	5,094	12,196	12,196	12,196	12,196	12,196	12,196	12,196
Deficit	(14,463)	(18,048)	2,512	23,079	43,652	64,231	84,815	105,404
	32,593	41,691	62,251	82,818	103,391	123,970	144,554	165,143
Total Liabilities and Shareholder Equity	40,316	50,514	65,430	85,996	106,569	127,148	147,732	168,321

Source: SCP research

Cash Flow Statement

Cash Flow Statement (C$000)	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Operating Activities								
Net loss for the period	(10,537)	(3,585)	20,561	20,567	20,573	20,579	20,584	20,589
Items not affecting cash								
Accretion expense	230	312	-	-	-	-	-	-
Amortization	195	848	1,174	1,165	1,157	1,149	1,141	1,134
Deferred income tax recovery	(2,414)	54	-	-	-	-	-	-
Equity loss on investment in associate	390	35	-	-	-	-	-	-
Listing expense	1,772	-	-	-	-	-	-	-
Shares issued for services	1,081	119	-	-	-	-	-	-
Share-based payments	2,609	643	-	-	-	-	-	-
Unrealized gain on biological	(160)	(520)	-	-	-	-	-	-
Loss on sale of assets	-	18	-	-	-	-	-	-
Changes in non-cash working capital items								
Amounts recievable	(960)	(1,032)	(2,329)	-	-	-	-	-
Advances recievable	20	-	-	-	-	-	-	-
Prepaid expenses	(151)	(653)	(709)	-	-	-	-	-
Biological assets	104	108	-	-	-	-	-	-
Inventory	(86)	(1,353)	(1,593)	-	-	-	-	-
Accounts payable and accrued liabilities	1,577	376	796	-	-	-	-	-
Income taxes payable	(20)	-	-	-	-	-	-	-
Interest payable	208	(289)	-	-	-	-	-	-
	(6,142)	(4,919)	17,899	21,732	21,729	21,727	21,725	21,723
Investing Activities								
Cash paid for acquisitions	(6,000)	(250)	-	-	-	-	-	-
Cash received from acquisitions	19	-	-	-	-	-	-	-
Deposits	(271)	(14)	-	-	-	-	-	-
Investments	(193)	-	-	-	-	-	-	-
Investments in associates	(0)	-	-	-	-	-	-	-
Sale of assets held for sale	0	2,543	-	-	-	-	-	-
Promissory notes advanced	(2,450)	(280)	-	-	-	-	-	-
Purchase of property and equipment	(13,353)	(9,117)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
	(22,247)	(7,117)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Financing Activities								
Due to related parties	(152)	(1)	-	-	-	-	-	-
Loans acquired	-	-	-	-	-	-	-	-
Loans repaid	-	-	-	-	-	-	-	-
Options exercised for cash	483	304	-	-	-	-	-	-
Proceeds from issuance of common shares	20,331	12,271	-	-	-	-	-	-
Proceeds from (Payments to) convertible debentures, net	6,704	500	(6,441)	-	-	-	-	-
Share issuance costs	(725)	(388)	-	-	-	-	-	-
Subscription received	224	-	-	-	-	-	-	-
	26,865	12,686	(6,441)	-	-	-	-	-
Change in Cash and Cash Equivalents During the Period	(1,525)	649	10,458	20,732	20,729	20,727	20,725	20,723
Cash and Cash Equivilants, Beg. Of Period	2,442	918	1,567	12,025	32,757	53,486	74,214	94,939
Cash and Cash Equivilants, End Of Period	918	1,567	12,025	32,757	53,486	74,214	94,939	115,662

Source: SCP research

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TOTAL	100%