

# FinCanna Capitalizes on California's Surging Cannabis Market

Cannabis sentiment in the United States has surged since the November election.

Tailwinds pushing the legal cannabis industry include being deemed "essential" during the current COVID-19 health crisis, five U.S. states passing legalization ballot initiatives, and the Joseph Biden election win that could result in easing some of the cannabis restrictions at the federal level.

This year could be another inflection point in the U.S. cannabis industry and the beginning of a multi-year growth cycle as more states legalize medical and recreational cannabis use.

A top cannabis market research firm recently pegged the United States cannabis market at more than US\$18 billion in 2020 and expects it to grow by a staggering 33% to US\$24 billion in 2021.

## **FinCanna is a Royalty Company**

FinCanna Capital Corp. (CSE: CALI | OTCQB: FNNZF) is a cannabis-focused royalty company and does not operate as a cultivator, manufacturer, or dispensary. Instead, it is a capital company, looking to invest in businesses in California's cannabis industry and earns revenue from royalties paid by its investee companies.

FinCanna's royalty structure focuses on top-line revenue, enabling the company to fully benefit as sales grow and not be impacted by cost inflation. Currently, the company owns a diversified portfolio of royalties, lowering the overall

company risk, and continues to search for other investment opportunities.

As a royalty business, FinCanna operates with low corporate overhead, making the business easily scalable as it does not have to worry about operations and can focus on the next investment. Also, as the cannabis supply increases, retail prices have been under pressure which makes royalties a better business to be in.

FinCanna's investment model is to seek "best in class" businesses, provide capital to reduce the need for debt or equity financing, and are structured to align with the business' long-term goals.

To fund the coffers, in July 2020, FinCanna closed a \$2.5 million convertible debenture financing with FinCanna's management subscribing to \$500,000 of the offering.

### **Portfolio Companies**

FinCanna made its first investment in Cultivation Technologies Inc. (CTI) in 2017. CTI, operating as Coachella Manufacturing, runs a 5,200 square foot cannabis extraction facility in Palm Desert, California.

CTI produces butane hash oil (BHO), which is a type of cannabis concentrate that is produced using butane. CTI has been operating for three years and FinCanna started receiving royalties in the second half of 2020.

CTI provides licensed BHO concentrates for white label manufacturing, toll processing, and packaging to brands and cultivators in California. FinCanna recently commented that CTI's management team is working on growing their core business and expanding into other large-scale activities. FinCanna expects these activities to result in an increase in royalty revenues in 2021.

FinCanna's second portfolio company is QVI Inc (QVI), doing business as The Galley, and is FinCanna's largest investment and potentially the largest source of royalty revenues.

The Galley is a modern, 8,300 square foot, cannabis facility located in Santa Rosa, California. It operates as a co-manufacturer to provide large scale production and packaging for all types of edibles, topicals, and tinctures in California.

The Galley began operations in July 2020 and has already onboarded 25 established brands. FinCanna expects to start receiving recurring royalty payments from QVI starting in early 2021.

An important note to make is that edibles market growth outperformed the overall cannabis industry growth in 2020 as consumers chose edibles over inhalables. This surge prompted edible manufacturers to invest more in product development and manufacturing making QVI an important player in that market.

FinCanna's third portfolio company is ezGreen Compliance, which offers Health Insurance Portability and Accountability Act (HIPAA) compliant point-of-sale (POS) software for cannabis dispensaries. Features include integrated management and multi-store functionality with taxation and reporting functionalities.

In August 2020, FinCanna announced the acquisition of ezGreen and in October completed the transition of ownership. Recently, ezGreen began a marketing initiative with a marketing partner to focus on sales efforts, targeting dispensaries in California.

### **California is King of the Cannabis Market**

California ranks as one of the largest legal cannabis market in the world and over 30% of the U.S. legal cannabis market. The COVID-19 shut-in measures resulted in higher purchase

volumes and a very substantial and positive shift for the cannabis industry.

In California, legal cannabis retail sales are expected to exceed US\$5 billion in 2020, up almost 70% from US\$3 billion in 2019.

## **2021 Outlook**

FinCanna's management recently reported that it expects to see a "sizeable increase" in royalty revenues in 2021 and the positive cannabis market outlook, especially in California, should help generate operating profits that will grow throughout the year.

FinCanna is currently trading at \$0.11 with a market cap of \$8.5 million.

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**Betting it all on California cannabis global dominance, FinCanna focuses on being the capital partner of choice**

**Cannabis is essential in California!**

That statement may reflect the opinion of certain members of California society, but in actuality, at the start of the coronavirus pandemic in early March 2020 cannabis retailers were in fact declared an essential service industry by California state.

We were reminded of that in a video conference presentation in September done by CEO and Director, Andriyko Herchak, of FinCanna Capital Corp. (CSE: CALI | OTCQB: FNNZF). We were also reminded that California is the largest cannabis market in North America and in 2019, had legal sales of 21% of the global market – Canada was only 11%, the US was 61% and the rest of the world was only 7%.

Putting that into numbers, in 2019 the global market was \$14.9 billion, with California representing \$3.1 billion in legal cannabis sales, although black market sales are estimated to be double that number. According to the LA Times, licensed cannabis sales are projected to total US\$7.2 billion by 2024, making California the global leader. Keep in mind that the state of California is the fifth largest economy in the world and has had legalized medical cannabis since 1996 with new laws that came into effect in January 2018 which significantly changed supply and demand dynamics.

**Key success factors for the cannabis business – go to the biggest market, be the early entrant, keep your cost structure low and be the most profitable.** Unfortunately, as many investors will attest, investing in cannabis has been a real challenge to navigate as capital intensive companies continue to lose money quarter after quarter. Recognizing this fact, FinCanna has a business model that is low cost, not capital intensive and is designed to be profitable.

FinCanna is first and foremost a capital company and their vision is to become the capital partner of choice for high growth, rapidly emerging private companies operating in the licensed U.S (California) cannabis industry. Management is focused on delivering high impact returns to its shareholders by way of a strategically diversified investment portfolio. They seek to invest in “best in class” businesses and align the interests of the existing company owner/operators with FinCanna shareholders.

This is done predominantly as a royalty company, which is perfectly designed for this business model. Management of FinCanna invests in various private cannabis industry companies that do not compete against each other – it could be said that they are complementary to each other in the overall cannabis market. So far, this strategy has worked well for FinCanna.

FinCanna became public as a result of a reverse takeover transaction that closed in late 2017. Recognizing the opportunity for a first-mover advantage ahead of new regulations coming into effect in early 2018, FinCanna invested in Cultivation Technologies Inc. who have a cannabis extraction facility in California. Their other manufacturing investment is in QVI, Inc., a contract manufacturer of high demand items, including edibles, topicals, tinctures, chocolates, hard candies, gummies, beverages, among others. Their third company, ezGreen Compliance offers a state-of-the-art enterprise compliance and point-of-sale software solution (“ezGreen”) for licensed cannabis dispensaries and cultivators. The ezGreen software is the only HIPAA (Health Insurance Portability and Accountability Act) certified point-of-sale software in the market. In August 2020, FinCanna acquired from its former royalty portfolio company 100% of the assets and economic interests of ezGreen and is currently focused on sales in California and certain other states.

As a result of this portfolio and royalty approach, FinCanna has low operating costs and once the corporate G&A is covered, the remaining royalty income streams are essentially a 100% margin business. Their largest investment (QVI), a leader in the high-growth edibles business, recently started operations in a brand-new facility.

Management has significant personal wealth invested in the company which should give investors comfort that their interests are in fact aligned with all shareholders. Management sees increasing revenues from all of their business

segments in California, which is a positive for cashflow and profitability potential going forward. There is approximately \$2.0 million of cash on the balance sheet with a total of just over C\$6.0 million of convertible debentures which do not mature until early 2023. This appears to be a company that is well positioned in a market with significant barriers to entry. Actual performance by their private company investments will drive FinCanna's share price.

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## **FinCanna Capital's CEO on being the only pure royalty company in the cannabis industry**

InvestorIntel's Tracy Weslosky spoke with Andriyko Herchak, CEO of FinCanna Capital Corp. (CSE: CALI | OTCQB: FNNZF), about FinCanna's cannabis royalty portfolio and its competitive advantages in the cannabis industry. "We are the only pure royalty company in the cannabis sector," he said. "We don't need much revenue to be profitable."

Andriyko went on to say that while other companies in the capital-intensive cannabis sector "are losing money quarter to quarter, we are opposite. We have low capital cost, low operating cost and we are designed to be profitable." He added, "The companies we invest in are synergistic. They are working together to expand their customer base and market together." By investing in FinCanna, he said, "you are investing in different companies that don't compete against each other but actually work with each other to maximize

revenue. FinCanna is like an index that works together.”

Andriyko also provided an update on QVI, FinCanna’s largest investment that just started operations and is scaling up. He said, “They are located in Sonoma county California. They are offering a co-manufacturing edibles facility in large scale. They can produce essentially any type of edible under one roof. Demand is off the charts for them right now.”

To watch the complete interview, [click here](#)

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## **FinCanna Capital looks set to benefit from their cannabis royalty portfolio after a win-win deal with QVI Inc.**

The latest good news announced this month is that FinCanna Capital Corp. (CSE: CALI | OTCQB: FNNZF) (“FinCanna”) has restructured its royalty agreement with QVI Inc. The new deal sees FinCanna commit a further US\$1.5 million in financial support and in return receive a boosted royalty of a flat 20% (it was a tiered 15% to 6%) of QVI’s revenues, an increased annual supplemental payment of a minimum of 70% of QVI’s after-tax income, and finally 70% of sales proceeds if QVI is sold.

The royalty business can be extremely profitable. Just look at Franco-Nevada the gold royalty company with a market cap of



US\$25.85 billion. The trick is for the royalty company to invest early and to select growing companies that end up producing lots of revenue. The same principles can be applied to the cannabis industry, especially given it is in the very early stages of growth as legalization spreads globally.

FinCanna is a royalty company for the licensed US cannabis industry, with a focus on the emerging California cannabis market. The Company earns its revenue from royalties paid by its investee companies that are calculated based on a percentage of their total revenues.

### **FinCanna Capital highlights for investors**



The infographic titled "FinCanna Highlights" features a light green background and a dark green title. It lists five key points, each accompanied by a gold-colored icon: a map of California, a dollar sign, a tree with three branches, a square with a right-pointing arrow, and a network of nodes with a dollar sign in the center.

-  U.S. Focused with Emphasis on California
-  Royalty Model is Very Attractive for Operators and FinCanna
-  Diversified Investment Portfolio over Multiple Sectors
-  Early Entrant in U.S. with Extensive Network for New Projects
-  Invest in Private Companies Not Available to Individual Investors

Source: FinCanna company presentation

FinCanna currently has a portfolio of three active and operating royalty businesses in their portfolio advancing in California – QVI Inc., Cultivation Technologies Inc., and ezGreen Compliance. The good news is that the Californian cannabis market is growing rapidly and royalty revenues for FinCanna are just beginning now.

FinCanna's three royalty companies all show great potential

for near term revenues.

- **QVI Inc.** has recently acquired its Californian licenses and begun production on a wide range of cannabis infused products such as chocolates, hard candies, gummies, beverages, vapes, pre-rolls and flower packaging. They also produce other edibles, topicals, and tinctures.
- **Cultivation Technologies Inc. (CTI)** has a new cannabis extraction and manufacturing facility at New Palm Desert which has also recently commenced production. CTI provides high quality legal Butane Hash Oil (BHO) concentrates for white label manufacturing, toll processing and packaging to hand-selected brands and cultivators in California.
- **ezGreen Compliance** has completed an installation of its Point-of-Sale (POS) software with a leading Los Angeles based cannabis dispensary. This is the flagship store of a multi site operator so there is potential for this deal to grow across to a broad network of recreational and medical dispensaries in California. The total addressable market for ezGreen in the U.S. is 13,800+ licensed dispensaries and retailers.

**FinCanna royalty company QVI Inc. owns the Galley which is an automated contract manufacturing facility of cannabis infused products in Sonoma, California**

Annie Holman CEO and Founder of QVI stated: "We are thrilled to be up and running. Although it has taken longer than anticipated, those hurdles are now behind us. The word is clearly out in the industry about our state-of-the-art facility and our outstanding production team. Our sales funnel is building rapidly from a growing influx of inquiries from interested brands as we continue to move quickly to onboard new customers. We also couldn't be happier with the ongoing support and commitment from the FinCanna team who continue to be excellent partners."

## Closing remarks

FinCanna continues to go from strength to strength. They are set to benefit from a trifecta of tail winds including California's rapid legal cannabis industry growth, near term revenue growth from their royalty portfolio, and in the case of QVI an even higher royalty for FinCanna.

It is little wonder FinCanna CEO Andriyko Herchak recently said: "We are very pleased QVI is fully operational, and we continue to see sizeable escalating demand for QVI's manufacturing services....The additional funds we're providing will enable QVI to meet its goal of becoming the premier contract manufacturer in California, the largest single market in North America, and the revised royalty agreement creates a strong win-win for QVI and FinCanna."

I think FinCanna Capital can be a win-win for shareholders if they get in early. FinCanna Capital's market cap is currently only C\$7 million, so investors should not wait too long.

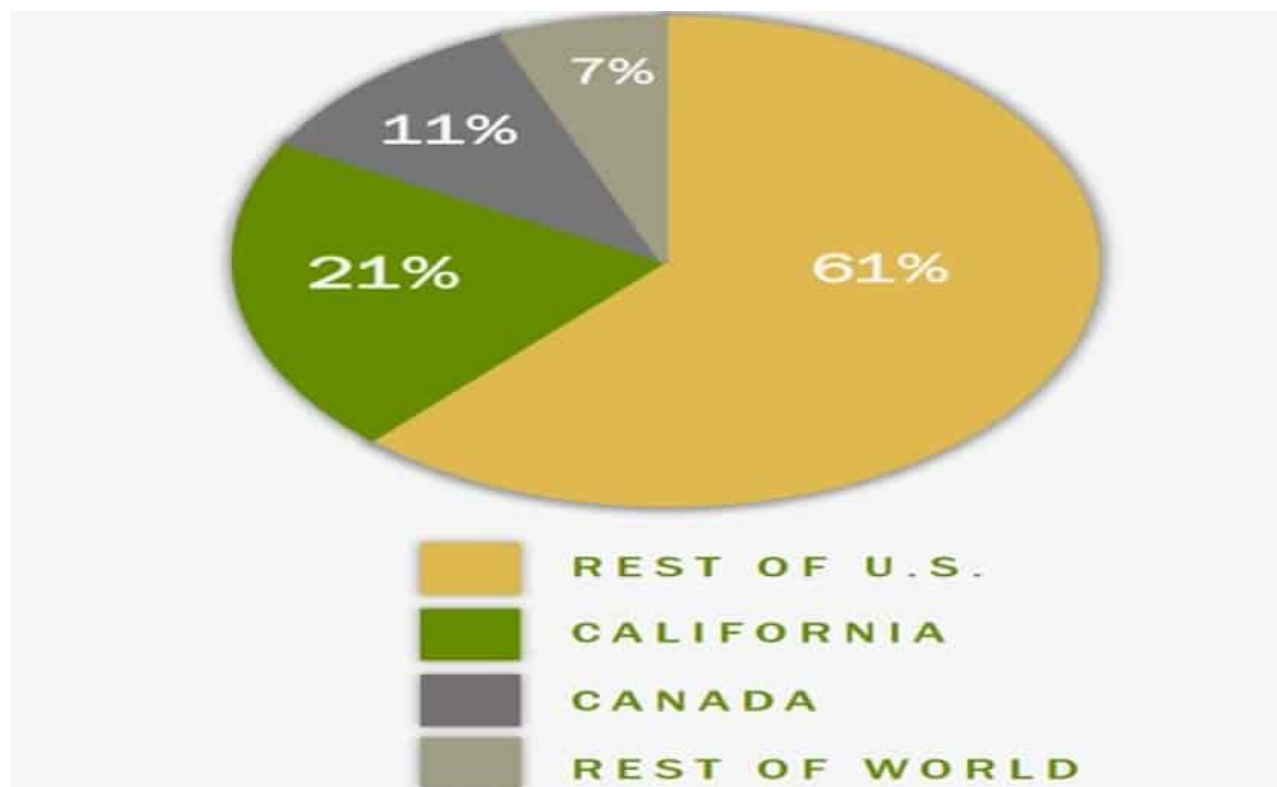
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# **Royalty driven FinCanna on course to capitalize off of their investees in the rapidly growing Californian cannabis market**

California is a global leader in the cannabis market. It is rapidly growing and in need of capital to meet surging demand from consumers. California is the largest cannabis market in

North America, representing \$3.1 billion in licensed cannabis sales in 2019, projected to reach US\$7.2 billion by 2024. Cannabis in California has been legal for medical use since 1996 and for recreational use since late 2016.

### **California accounts for 21% of all global legal cannabis sales**



Source

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### **QVI Inc. receives Californian manufacturing & distribution licences**

QVI is a cannabis infused product manufacturer with a state of the art 8,300 square foot facility operating under the name

**“The Galley”**, located in Sonoma, California. Cannabis infused products include edibles, topicals, tinctures, chocolates, hard candies, gummies, beverages, vapes, pre-rolls and flower packaging. Cannabis-infused products are a huge growth area. The U.S. market for cannabis-infused products in 2020 is projected to reach nearly \$3 billion, up ~40% over 2019.

The Galley’s immediate goal is to be the premier contract manufacturer in California, the largest single market in North America. The facility is differentiated from other cannabis manufacturers by its automated capabilities to produce virtually all high-value cannabis products under one roof. Its growing customer base will include legacy companies already on dispensary shelves, new entrepreneurs with creative IP, and out-of-state brands looking to enter the California market.

FinCanna receives a tiered corporate royalty, adjusted based on revenues, ranging from 15% to 6% of QVI’s total revenues, with the top royalty rate of 15% on the first US\$20 million of annual sales until cumulative royalties to FinCanna of US\$10 million are achieved. Additionally, FinCanna will receive a Supplemental Payment, that when coupled with the royalty, will ensure FinCanna receives a minimum of 35% of the annual after-tax net income from QVI.

In April 2020 FinCanna made two significant QVI related announcements:

- QVI Inc. receives California manufacturing license for production of cannabis infused products.
- QVI Inc. receives California cannabis distribution license.

With these two licences in place QVI stated that “the Galley team expects to be shipping finished products to the market within the next four to six weeks.” This is excellent progress for QVI, and ultimately for FinCanna, as QVI revenues will be ramping up soon.

## **Cultivation Technologies Inc. (CTI) expands with a new facility**

Cultivation Technologies, operating as Coachella Manufacturing is a multifaceted cannabis manufacturing and distribution company. CTI provides high quality legal Butane Hash Oil (BHO) concentrates for white label manufacturing, toll processing and packaging to hand-selected brands and cultivators in California.

### **Butane Hash Oil is a cannabis concentrate**



Source

Medicinal cannabis use is popular due to its relief of pain and inflammation. Cannabis can also act to relax muscles and is helpful in various muscular disorders. It is often prescribed to cancer patients undergoing chemotherapy, as it can help not just with pain but the nausea that comes with treatment.

Under the fully funded royalty agreement, FinCanna earns a perpetual royalty of 10% of CTI's consolidated revenues, of which 5% is paid in cash monthly and 5% deferred until certain

triggering events, subject to certain buyback options. Additionally, FinCanna will be entitled to 25% to 50% of the sale proceeds of any change of control.

In a March 2020 announcement FinCanna reported:

“CTI commences cannabis extraction and manufacturing at New Palm Desert facility....The new 5,200 sq. ft. state-of-the-art facility is purposefully designed to maximize workflow efficiencies, optimize productivity and reduce operating costs. Engineered for industrial scale, the facility has approximately over three-times the capacity of CTI’s previous interim facility in Coachella, California, with a new estimated annual capacity of approximately US\$35 million.”

### **ezGreen Compliance**

ezGreen offers a state-of-the-art enterprise compliance and point-of-sale software solution (ezGreen) for licensed medical cannabis dispensaries and cultivators. Their target market consists of the 11 states plus Washington DC where cannabis is fully legal, and the 23 additional states where medicinal cannabis is legalized. Upon completion of funding, FinCanna earns a perpetual royalty equal to 10% of consolidated gross revenues of ezGreen, subject to certain buy-back options.

Last year it was announced that ezGreen had completed an installation of its Point-of-Sale (POS) software with a leading Los Angeles based cannabis dispensary. It is a flagship store of a multi site operator that has a broad network of recreational and medical dispensaries located across California in its portfolio.

Note regarding the Refined Resin royalty: The Refined Resin business was not able to raise the additional capital it needed to become operational so FinCanna has written down its investment and is endeavoring to recover their investment from the sale of Refined Resin’s assets.

## Closing remarks

FinCanna Capital is basically a royalty play on the rapidly growing Californian cannabis market, plus some broader US potential exposure via ezGreen. Specific areas include cannabis-infused products (via QVI Inc.), cannabis extraction/production facility (via CTI), and point-of-sale software solutions (ezGreen).

FinCanna's strategy makes a lot of sense as they are targeting the established and high growth cannabis markets in California. FinCanna's success will ultimately depend on their portfolio company's performance. Judging by the excellent progress the past three months from QVI (licences achieved, production starting) and CTI (new facility and production commenced) it looks like royalty revenues for FinCanna are now just ramping up.

Given the surging demand within the cannabis sector especially in California, FinCanna stock looks very appealing on a market cap of just C\$8.4 million. Marketscreener.com places a Buy Recommendation at C\$0.29, representing a 241% upside.

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# **The sweetening of FinCanna's cannabis royalty streams through baked goods (and chocolate) in California**

As we progress into 2020 and a new decade, the biggest question in the cannabis world is – Will the US legalize cannabis at the Federal level in 2020?



In mid-November 2019, the US House Committee approved the new Cannabis bill. If passed in 2020, it would lead to the decriminalization of cannabis use in the USA. Cannabis is already legal for recreational use in 11 US states, and for medical use in 33 states. President Trump was quoted: "I probably will end up supporting that, yes."

If the US decriminalizes cannabis in 2020 then 2020 will be a breakout year for US related cannabis stocks; similar to what happened in Canada in 2018 in the run up to cannabis legalization in October 2018.

**The cannabis market is forecast to grow very strongly, especially in California USA**

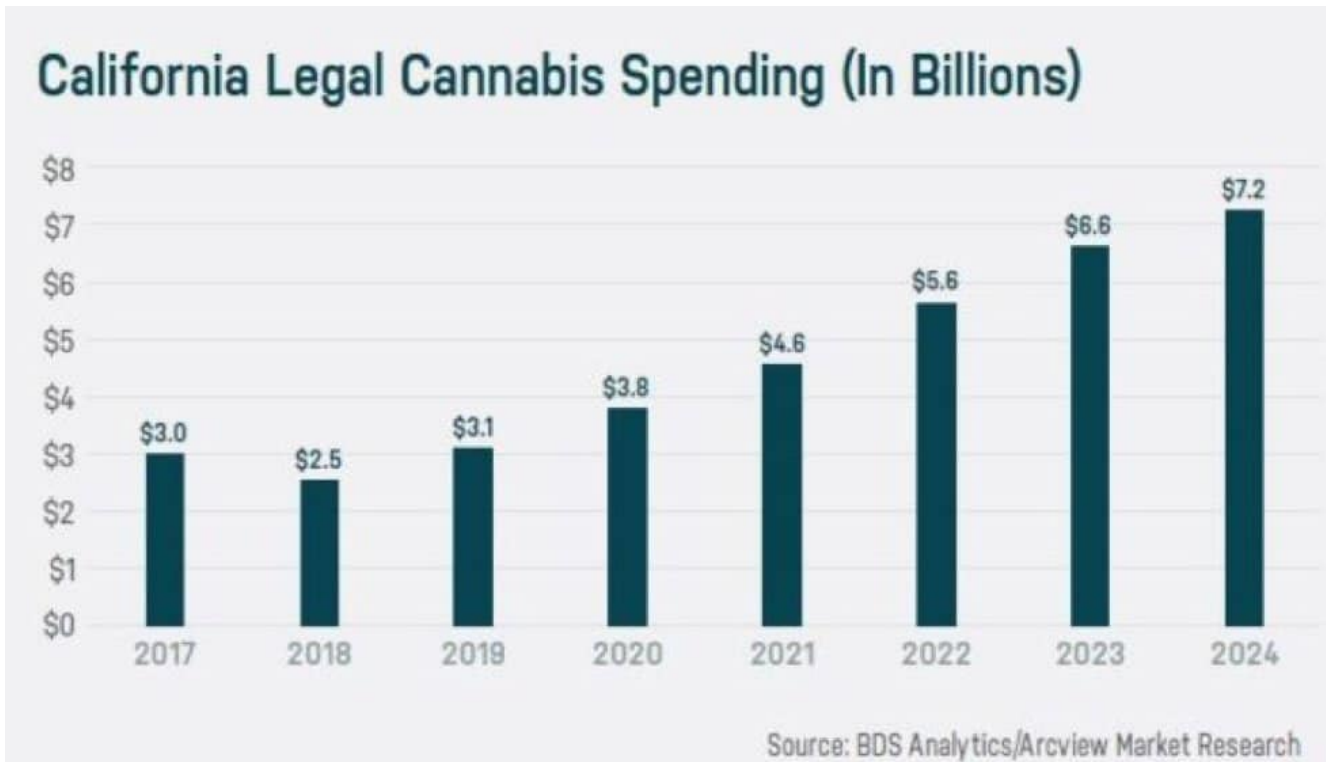
A New Frontier Data report states:

*"Overall sales within the legalized U.S. cannabis industry are expected to reach \$13.6 billion throughout 2019, for a 32% increase over 2018 totals worth \$10.3 billion."*

A 2018 report by Arcview Market Research and BDS Analytics states:

*"The (global) cannabis market could triple in size in the next four years....with the U.S. expected to fuel much of that growth....Much of the current growth we're seeing comes from California's cannabis market."*

**California legal cannabis spending forecast to 2024**



### Source

A Canadian company is ideally positioned to benefit should the cannabis sector get further support in the US. And if not, by focusing on California, where marijuana is already legal for both medicinal and recreational use, this Company should still do very well.

FinCanna Capital Corp. (CSE: CALI | OTCQB: FNNZF) is a royalty company for the licensed US cannabis industry. FinCanna's focus is on the rapidly emerging California cannabis market.

FinCanna's scalable royalty model provides an attractive alternative or complement to debt or equity financing for its investee companies. The Company earns its revenue from royalties paid by its investee companies that are calculated based on a percentage of their total revenues.

### FinCanna's royalty and other portfolios

- QVI Inc. is a cannabis infused product manufacturer with a 8,300 square foot facility operating under the name "The Galley", located in Sonoma, California. Products

include baked goods, chocolate products and a hard candy and gummy line. FinCanna will earn a perpetual royalty ranging from 15% to 6% of QVI's annual revenues, subject to certain buy-back options.

- Cultivation Technologies Inc. (CTI) has extraction/testing/educational facilities and planned to build a large-scale indoor medical cannabis facility in Southern California. FinCanna has acquired all of the rights and interests in substantially all of the existing property of Cultivation Technologies Inc, obtained via a liquidation sale in May 2019.
- ezGreen Compliance offers a state-of-the-art enterprise compliance and point-of-sale software solution ("ezGreen") for licensed medical cannabis dispensaries and cultivators. FinCanna earns a perpetual royalty equal to 10% of consolidated gross revenues of ezGreen, subject to certain buy-back options.
- Refined Resin Technologies Inc. is a cannabinoid research and refinery company based in Oakland California, that will provide B2B and B2C products and services to licensed dispensaries and distributors in the medical cannabis supply chain. FinCanna will earn a perpetual royalty ranging from 16% to 7% of Refined Resin's consolidated annual revenues, subject to certain buy-back options. The effective royalty rate is 11.75% on the first US\$160 million of Refined Resin's consolidated annual revenues.

**Latest news (QVI and "The Galley")**



**The GALLEY**  
CANNABIS CO-MANUFACTURING & DISTRIBUTION

In late September 2019 it was reported that QVI Inc. “is experiencing greater than initially anticipated demand for its manufacturing services.....Based on this demand, revenue from the first 12-months, upon commencement of commercial production, originally projected to meet or exceed US\$7 million has now increased to over US\$10 million with significant remaining capacity. Furthermore, revenue is expected to continue to escalate as marketing efforts utilizing the founders’

wide network of industry participants gains additional momentum.....

“The Galley”, is built to FDA and CDPH standards and is focused on high demand areas of production – Edibles, Topicals, Tinctures, Chocolate, Hard Candies and Gummies. “The Galley” will be differentiated from its peers by its automated capabilities to produce virtually all high-value cannabis products under one roof. This one-stop production expertise is attractive to top tier in-state and out-of-state brands. The premium equipment and operational design will allow “The Galley” to rapidly scale production as demand escalates.”

### **Closing remarks**

FinCanna has a very smart and strategic royalties portfolio over three expanding Californian cannabis companies, and 100% of the rights and interests in Cultivation Technologies, also in California, USA. Cannabis is legal for recreational and medicinal use in California, meaning FinCanna should do well regardless of whether cannabis is legalized at the Federal level.

EzGreen covers the POS software side used to sell cannabis products, Refined Resin covers research and medical cannabis dispensaries, QVI Inc. covers an expanding cannabis edibles

business and manufacturing facility, and Cultivation Technologies covers a growing/extraction/testing/educational medicinal cannabis business.

Investors can buy stock in FinCanna Capital and get exposure to all of the above for a market cap of just C\$9 million. If FinCanna's portfolio starts to produce revenues on the back of cannabis growth in California, then FinCanna should be a significant winner.

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## **Herchak on how FinCanna offers investors a way to invest in top quality private cannabis companies**

"FinCanna is diversified by investing in four companies to date. We have enough money for a fifth investment. We are diversified both geographically in California and across a number of different sectors. We invest in private companies. If you want to invest in top quality private companies the only way to invest in them directly is through us." States Andriyko Herchak, CEO and Director of FinCanna Capital Corp. (CSE: CALI | OTCQB: FNNZF), in an interview with InvestorIntel's Tracy Weslosky.

Andriyko went on to say that FinCanna is focused on the US with a primary focus on California, the largest cannabis market in North America. Andriyko also provided an update on FinCanna's portfolio companies. He said that FinCanna's four portfolio companies include QVI, ezGreen Compliance, Refined Resin and CTI. All the companies are startups in

different stages of growth. QVI is the last company that FinCanna invested in and is expected to produce royalty this quarter. ezGreen Compliance is a Point-of-Sale software compliance firm that has signed a large client in California.

To access the complete interview, [click here](#)

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