



## **Quinsam Reports 2018 Results, Restatement of Prior Results, Announces Dividend and Provides Corporate Update**

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TORONTO, May 01, 2019 -- Quinsam Capital Corporation (CSE:QCA) ("Quinsam" or the "Company") is pleased to announce strong 2018 results, with net income for the year of \$10.6 million (\$0.09 per share basic, \$0.09 fully diluted) versus a restated profit of \$1.7 million (\$0.05 per share basic, \$0.04 fully diluted) in 2017.

### **Q4 Results**

The cannabis sector overall performed poorly in Q4, with many companies in the sector seeing share price declines. The Canadian Marijuana Index opened the quarter at 802.29, just off its all-time high. On December 31, 2018, the Canadian Marijuana Index stood at 451.57, a drop of 43.7% in the quarter. This index is comprised of 21 of Canada's largest cannabis companies.

In this context, Quinsam performed well, with a pre-tax income loss of \$0.2 million (\$nil per share basic, \$nil fully diluted). The company had a tax expense of \$3 million in Q4/2018, including deferred taxes of \$0.9 million. After tax, the company had a Q4/18 loss of \$0.03 per share (basic; \$0.01 fully diluted). This compares with a restated profit of \$1.7 million (\$0.05 per share basic, \$0.04 fully diluted) in Q4/2017.

"At year-end, taking into account the shares which were bought back in Q4/2018, we had net assets of approximately \$0.37 per share outstanding (\$0.38 before deferred taxes)," said Roger Dent.

"In the context of the overall cannabis sector, we are pleased with our performance. A key event on the quarter was the listing by Acreage Holdings. Quinsam acquired 160,000 shares of Acreage in early 2018 at a price of approximately C\$8.03 per share and continues to hold the majority of these shares. We also saw a substantial gain in our holding of Xanthic, which closed its merger with Green Growth Brands and had a very successful trading debut in Q4/2018."

As a result of the implementation of IFRS 9 in 2018, all investments must be measured at "fair value", which complicates matters for the valuation of private entities where there is no quoted market. Since the cannabis index suffered a decline in Q4/2018, Quinsam was required to adjust the values of private investments downwards in Q4 if there was no specific evidence that it would not be fair to assume that their values had declined in line with the cannabis index. As a result, Quinsam reduced the carrying value of three of its private investments by an aggregate of \$0.3 million.

For 2018 as a whole, Quinsam generated net income of \$10.6 million. Given that we started the year with equity of \$19.6 million and added \$11.7 million of net new equity in 2018, our net income for 2018 represents a return (after taxes and all expenses) of 34% on this average available capital. Before taxes and non-cash stock based compensation expenses, the return was approximately 51%.

### **Restatement**

Following discussions with its independent auditors, the Company has filed audited consolidated financial statements and management discussion and analysis for the twelve months ended December 31, 2018, which include restated comparative figures for the twelve months ended December 31, 2017 as well as an opening restated balance sheet as at January 1, 2017.

Prior to the restatement, Quinsam's accounting policy for many years had been to value its unlisted warrants at intrinsic value, with comparable treatment for valuing the equity component of convertible debentures. Quinsam now values these instruments at their fair value using approaches such as Black-Scholes modelling or Monte Carlo simulations. This has necessitated, at considerable effort and expense, the revision of the accounting for much of our investment activity over the last two years.

The restatement had the effect of increasing the Company's assets and shareholders' equity by \$321,516 as at January 1, 2017 and by \$291.907 as at December 31, 2017. For 2017, the restatement reduced net income by \$29,608. Full details of the restatement can be found in the company's financial statements filed on SEDAR.

### **Recent Activity**

Since our last report, Quinsam has made a number of new investments.

We made a number of smaller (typically \$200,000 to \$300,000) investments in Swiss Luxe, Vegas Valley, Leaf, Molecule and Frontier Wellness. All of these companies are currently unlisted. We anticipate listings by Swiss Luxe, Leaf, Molecule and Frontier Wellness. In the case of Vegas Valley, CSE-listed Ionic Brands has announced its intent to acquire the company.

We made follow-on investments in new issues by Halo Labs, Empower Clinics, Cannabis 1-5 and Aura Health. We added \$400,000 of the Halo debentures and \$396,000 in Aura units. The Empower and Cannabis 1-5 investments were smaller sized investments.

We invested approximately \$500,000 in CBD Acres Mfg Inc., a company focused on hemp-based consumer products. CBD Acres has approximately 4500 acres of hemp production under contract for 2019.

We invested approximately \$500,000 in Seven Leaf Ventures, which is pursuing a US retail strategy with an initial focus on California.

We acquired \$450,000 of FlowerOne convertible debenture units. FlowerOne is building a large-scale greenhouse in Nevada. We continue to hold the debenture position of these units, which now trade at an approximate 20% premium to our total unit cost. We recently disposed of the warrants included in the units.

We participated in the go-public transactions by both Vireo and Consortium. In the case of Vireo, we took advantage of market conditions and exited our position to lock in a gain of close to 20%. In the case of Consortium, we exited at an approximate break even and we are redeploying the capital into the company's announced issue of convertible debenture units, which we feel is a more attractive package of securities.

We acquired units of Zenabis after it announced an equity financing at a highly discounted price. We have since disposed of the warrants and the remaining shares are at a premium to our cost net of the warrant sale.

We made a number of divestitures in Q4 as part of our ongoing portfolio management activity. All of our portfolio changes can be determined by reviewing our quarterly MD&A, which includes comprehensive portfolio disclosure.

## **Q1 Outlook**

With the restatement of our results complete, Quinsam will now prepare its Q1/2019 as expeditiously as possible.

"The overall market tone in Q1/2019 was much improved from Q4/2018. While work on our Q1 results is not yet complete, we anticipate reporting a positive result for the quarter," said Roger Dent.

## **Dividend**

The Board of Directors of Quinsam has approved the company's nineteenth consecutive quarterly dividend. The dividend is \$0.00125 per share (\$0.005 per share per year). The distribution will be paid on May 29, 2019 to shareholders of record on May 8, 2019. This dividend will be designated as an "eligible dividend" for Canadian income tax purposes. Future quarterly dividends will be subject to Board approval.

## **Issuer Bid**

The Company previously announced an issuer bid to acquire up to 5,928,951 common shares. In Q4, a total of 1,381,000 shares were repurchased pursuant to the bid, bringing our total purchases in 2018 to 1,981,000 shares. All purchases were made at substantial discounts to our net asset value and were accretive to net asset value per share. Quinsam currently intends to reactivate activity under the issuer bid following the release of Q1/2019 results.

## **About Quinsam Capital Corporation**

Quinsam is a merchant bank based in Canada that is focusing on cannabis-related investments. Our merchant banking business may encompass a range of activities including acquisitions, advisory services, lending activities and portfolio investments. Quinsam invests its capital for its own account in assets, companies or projects which we believe are undervalued and where we see a viable plan for unlocking such value. We do not invest on behalf of any third party and we do not offer investment advice.

Generally, Quinsam does not believe that individual investments are material reportable events. Quinsam chooses to announce certain investments once the company is certain that it has finished buying its position because the Company feels that this information helps Quinsam's investors understand its investment decision making process. Generally, Quinsam does not announce the sale of investments.

For further information please contact:

Roger Dent, CEO  
(647) 993-5475  
[roger@quinsamcapital.com](mailto:roger@quinsamcapital.com)

This press release may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events, which are inherently uncertain. Forward-looking statements can often, but not always, be identified by forward-looking words such as

“anticipate”, “believe”, “continue”, “expect”, “goal”, “plan”, “intend”, “estimate”, “may”, “project”, “predict”, “potential”, “target”, and “will” or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance.

By their nature, forward-looking statements require us to make assumptions which include, among other things, that (i) Quinsam will have sufficient capital under management to effect its business strategies, (ii) the business strategies will produce the results intended by Quinsam, and (iii) the markets will react and perform in a manner consistent with the business strategies.

Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes that the expectations reflected in the forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct. Some of the risks and other factors that could cause actual results to differ materially from those expressed in forward-looking information expressed in this press release include, but are not limited to: cannabis companies Quinsam has invested in obtaining and maintaining regulatory approvals including acquiring and renewing U.S. state, local or other licenses, and the uncertainty of existing protection from U.S. federal or other prosecution; regulatory or political change such as changes in applicable laws and regulations, including U.S. state-law legalization; market and general economic conditions of the cannabis sector or otherwise, interest rates, regulatory and statutory developments, the nature of the Company’s investments, the available opportunities and competition for investments, the concentration of the Company’s investments in certain industries and sectors, reliance on key personnel, risks affecting the Company’s investments, management of the growth of the Company, and exchange rate fluctuations. Readers are cautioned that the foregoing list of risks and factors is not exhaustive. Although the Company has attempted to identify important factors that could cause actual events or results to differ materially from those described in forward-looking information, there may be other factors that cause events or results to differ from those intended, anticipated or estimated.

The forward-looking information contained herein is provided as at the date of this press release, based upon the opinions and estimates of management and information available to management as at the date of this press release. The Company does not undertake and specifically disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, unless required by applicable law. Readers are cautioned not to place undue reliance on forward-looking information contained in this press release.