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FSD Pharma Inc. (HUGE - NASDAQ)

First Patient Dosed in FSD Pharma's Phase 2a randomized, controlled, double-blind study on 352 patients of FSD201 for the treatment of hospitalized patients with COVID-19; Cobourg Plant Under Contract

Based on comparative analysis that utilizes the valuation metric of price-to-book (P/B), a second quartile P/B ratio indicates a share price target of US$9.20

Current Price (12/15/20)	$1.77
Valuation	**$9.20**

OUTLOOK

FSD Pharma (NASDAQ: HUGE; CSE: HUGE) has evolved into a specialty biotech pharmaceutical R&D company focused on developing a pipeline of FDA-approved compounds. FSD Pharma successfully **completed Phase 1** human safety and tolerability trials for FSD201, an **ultra-micronized** formulation of **PEA**. The FDA has authorized a **Phase 2 clinical trial** for FSD201 to **treat patients** with a suspected or confirmed **COVID-19 diagnosis**. The **first patient** in the Phase 2 trial was **dosed in mid-December 2020**.

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SUMMARY DATA

52-Week High	**$14.00**
52-Week Low	**$1.28**
One-Year Return (%)	**-67.29**
Beta	**1.23**
Average Daily Volume (shrs.)	**1,438,235**
Shares Outstanding (million)	**19.16**
Market Capitalization ($mil.)	**$33.92**
Short Interest Ratio (days)	**0.04**
Institutional Ownership (%)	**0.7**
Insider Ownership (%)	**12.1**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/M**
P/E using 2019 Estimate	**N/M**
P/E using 2020 Estimate	**N/M**

Risk Level	**Above Average**
Type of Stock	**Small - Value**
Industry	**Specialty Drug Mfr.**

ZACKS ESTIMATES

Revenue
(In millions of $CDN)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2018	0.0 A	0.0 A	0.0 A	0.0 A	0.1 A
2019	0.0 A	0.0 A	0.0 A	0.3 A	0.3 A
2020	0.0 A	0.0 A	0.0 A	0.0 E	0.0 E
2021					0.0 E

Earnings per Share
($CDN EPS - operating earnings before non-recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2018	-$2.43 A	$0.76 A	$0.59 A	-$9.54 A	-$3.85 A
2019	-$0.17 A	-$2.17 A	-$2.20 A	-$2.49 A	-$7.37 A
2020	-$1.33 A	-$0.58 A	-$1.30 A	-$0.70 E	-$3.75 E
2021					-$3.55 E

Revenues & EPS are in $CDN (FSD's reporting currency)

Quarterly EPS may not equal annual EPS total due to rounding

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RECENT PHARMACEUTICAL NEWS

FSD Pharma is pursuing the advancement of ultra-micronized PEA through the regulatory process as an anti-inflammatory agent for the **treatment for COVID-19 patients**. Management became aware that some Italian physicians/scientists supported the use of ultra-micronized PEA to treat the symptoms of COVID-19 due to the drug's mechanism of action and its anti-inflammatory profile, particularly the reduction of the production of pro-inflammatory cytokines, which are invoked by an over-exuberant inflammatory response in hospitalized COVID-19 patients. The life-threating stage of COVID-19 is characterized by an acute, elevated inflammatory response in the lungs that too often leads to death.

Historically (between 1969 and 1979), PEA was used to treat patients with influenza and the common cold in Czechoslovakia. At the time, six randomized, double-blind, placebo-controlled clinical trials were conducted that demonstrated PEA was safe and effective for the treatment of respiratory infections.

Phase 2a Clinical Study

On December 15, 2020, FSD Pharma announced that the **first patient was dosed** in the company's Phase 2a randomized, controlled, double-blind study (n=352 patients) of FSD201 (ultra-micronized palmitoylethanolamide, or ultra-micronized PEA) for the treatment of hospitalized patients with COVID-19.

The FSD201clinical trial is a randomized, controlled, double-blind, multi-center (25-30 sites in North America) study. The study will assess the efficacy and safety of FSD201 at two dose levels (600mg and 1200mg twice-daily) plus SOC (Standard of Care) versus SOC alone in symptomatic patients. The clinical trial is being conducted on **352 patients** that recently have tested positive for COVID-19 or are presenting symptoms consistent with influenza/coronavirus (fever, dry cough, malaise, difficulty breathing etc.).

The **treatment period** in the trial is 14 days, and the **primary end point** will be determined at 28 days. The **primary endpoint** is to see if FSD201 plus SOC improves the clinical outcome, particularly reducing the length of time to attain symptom relief. **Secondary objectives** include the **reduction of time**

- to normalization of fever
- to improvement of oxygen saturation
- of required hospitalization, including time of necessary mechanical ventilation

The exploratory endpoint is the clearance of the "cytokine storm" (the exuberant immune response that is responsible for many of the deaths attributed to COVID-19) as measured by ELISA (Enzyme Linked Immunosorbent Assay).

Management expects that the Phase 2 trial will demonstrate ultra-micronized PEA's capability to down-modulate the immune response, particularly the cytokine storm. The **exploratory endpoint** is cytokine clearance as measured by ELISA (Enzyme Linked Immunosorbent Assay).

Phase 1 In-Human Safety and Tolerability Study of FSD201 Successfully Completed

In June 2020, a **Phase 1** randomized, double-blind, placebo-controlled human safety and tolerability clinical trial **was successfully completed for FSD201 ultra-micronized-PEA** at Alfred Hospital in Melbourne, **Australia**. Single and multiple ascending doses of FSD201 were administered to **48 healthy** adult men and women **volunteers**. The trial consisted of single ascending doses ranging from 600 mg to 2,400 mg tablets as well as multiple ascending doses ranging from 600 mg to 1,200 mg tablets administered twice daily for 7 consecutive days. All subjects completed the trial. All dose levels were well tolerated without any serious adverse events, even up to the highest dose of 2,400

mg/day. **The study found FSD201 to be safe and well tolerated**. The clinical study was completed in accordance with FDA-approved guidelines. The study validated the body of scientific literature (comprised of at least 22 clinical studies with more than 4,000 patients) published in the European Union.

EXECUTIVE SUMMARY

FSD Pharma (NASDAQ: HUGE; CSE: HUGE) has **evolved into a specialty, pharmaceutical R&D company** as management advances its strategic objective of developing, over time, a pipeline of FDA-approved synthetic compounds that target the human endocannabinoid system. Currently targeted pharmaceutical applications include managing chronic pain via an anti-inflammatory agent and down-regulating the exuberant immune response (as well as the "cytokine storm") for the treatment of COVID-19.

Through the **acquisition of Prismic Pharmaceuticals** in June 2019, FSD Pharma attained the worldwide rights (except for Italy and Spain) of the micronized and ultra-micronized formulations of palmitoylethanolamide (**micro-PEA** and **ultra-micronized-PEA**). Prismic had previously acquired the license to conduct R&D and commercialize micronized-PEA and ultra-micronized-PEA as a prescription medication for the **relief of inflammation** and pain from Epitech Group SpA. Today, Prismic Pharmaceuticals is the core of the FSD Pharma Bioscience Division.

PEA targets the CB2 receptor of the human endocannabinoid system and is a naturally occurring anti-inflammatory agent. It is expected to be effective in many inflammatory ailments, including chronic pain, and arthritis (particularly early stage osteoarthritis), among others. **Micronization of PEA improves its oral bio-availability**, and this micronization technique is protected by patents until 2030.

FSD Pharma also is seeking to address the opioid crisis, by developing opioid-sparing prescription drugs utilizing ultra-micronized formulations of palmitoylethanolamide (PEA) and to target other diseases of the CNS (central nervous system).

The company's lead compound is FSD201 (ultra-micronized PEA). Thus far, FSD Pharma has achieved the following milestones:

- **Completed Phase 1** first-in-human safety and tolerability study of ultra-micronized PEA
- **Received permission** from the FDA to **design a proof-of-concept study** for the use of ultra-micronized PEA (FSD201) as a treatment for COVID-19 patients
- **Submitted** an IND to the **FDA** for the use of FSD201 (ultra-micronized PEA) for the treatment of hospitalized COVID-19 patients
- **Received FDA authorization to commence a Phase 2 study** for the use of FSD201 to treat patients that are either symptomatic or have recently tested positive for COVID-19
- **First patient dosed in mid-December 2020**

Management is also looking to expand the company's drug development pipeline through **acquisitions**.

Management **closed down the company's medicinal grade cannabis operation** in Cobourg, Ontario and now is concentrating solely on advancing pharmaceutical R&D efforts. FV Pharma has **forfeited its cannabis-related licenses** and **ceased all cannabis-related activities**. FSD Pharma is in the process of liquidating all of FV Pharma assets. The facility in Cobourg, Ontario was listed at realtor.ca up until late-September 2020, when a message appeared that the listing no longer exists. The listing re-appeared in early December 2020.

The company has sold and is divesting non-core equity investments to help fund management's strategic objective. Through the first half of 2020, the company has received **CDN$8,610,275** in proceeds from sale of investments. In addition, several recent equity financings and the exercise of stock options have provided FSD Pharma with an impressive amount of capital, **approximately CDN$21.99 million** since December 31, 2019.

THIRD QUARTER FINANCIAL RESULTS

On November 12, 2020, FSD Pharma reported financial results for the third quarter ending September 30, 2020. **General & administrative expenses** increased 23% from $3,044,731 to $3,734,788, primarily due to operations associated with Prismic and fees & insurance expenses related to the company's NASDAQ listing. **External R&D fees** were $4,668,253 compared to $nil in the comparable quarter last year due the expenses incurred for R&D and the Phase 1 and 2 studies this year.

For the third quarter, FSD Pharma reported a net loss from continuing operations of approximately CDN$5.22 million (or CDN$1.30 per diluted share).

As of September 30, 2020, working capital was approximately CDN$10.99 million, which was slightly less sequentially from approximately CDN$11.36 million on June 30, 2020. Thus far in 2020, **shares outstanding have increased by 87.8%** to 14,843,441 shares **since December 31, 2019**.

RECENT FINANCINGS

To date, FSD Pharma has been successful in raising capital so that management has been able to continue advancing its strategy of creating a pharmaceutical R&D company.

Through the first nine months of 2020, the company has received **CDN$8,610,275** in proceeds from sale of investments and **CDN$21,985,425** from the issuance of shares and the exercise of stock options.

Subsequent to the end of the third quarter, in October, FSD Pharma closed a registered direct offering and issued 4,318,179 Class B shares and 3,454,543 5-year warrants exercisable at USD US$2.60. **Gross proceeds were approximately US$9.5 million**.

SALE OF NON-CORE ASSETS

FSD Pharma Sells Non-Core Equity Interests in Cannara Biotech, High Tide and Pharmadrug

In February 2020, FSD Pharma **sold its 12% equity interest of Cannara Biotech** to a consortium of buyers for approximately **$7.74 million in cash**. FSD Pharma had acquired the shares of Cannara Biotech when the FSD entered into a Partnership Agreement with Cannara Biotech on June 19, 2018, and subsequently acquired additional shares by participating in a private placement that closed on July 24, 2018. With a **cost of $1.0 million**, the $7.7 million in proceeds represented a 670% return on FSD Pharma's investment in Cannara Biotech.

In addition, on November 22, 2019, FSD Pharma **sold its 2.2% equity interest** (including warrants) **of High Tide** for total **cash proceeds of $614,520**.

In May and June of 2020, FSD Pharma sold **about 62%** of its position of **Pharmadrug Inc**. **Cash proceeds were $727,032**.

Cobourg Facility Under Contract

In November corporate update**, the company announced that it had entered** into a conditional contract to sell its Cobourg facility, a former Kraft food production plant and formerly licensed for the cultivation, processing and sale of cannabis by Health Canada. The 620,000 square foot building complex is located at 520 William Street, Cobourg Ontario. Originally purchased for $5.5 million, FSD subsequently made property improvements of over $10.0 million. The property and equipment is valued for accounting purposes at $10,963,208 on the balance sheet. The asking price is CDN$19.9 million on realtor.ca. We expect the selling price to be in the $15 million-to-$18 million range. The sale is expected to close before the end of 2020.

The sales strengthen FSD Pharma's cash position. Management's goal is to increase the company's cash position to roughly $50 million by monetizing non-cash assets and raising capital in order to fund the company's pharmaceutical R&D program.

COMMON STOCK CHRONICLE

FSD Pharma's Class B shares began trading on the CSE on May 29, 2018 under the trading symbol HUGE, following a three-cornered amalgamation with Century Financial Capital Group on March 24, 2018. On June 15, 2018, FSD Pharma was added to the CSE 25 Composite Index.

In the U.S., the company's shares have been listed and subsequently twice uplisted on the U.S financial markets. In June 2018, the company was listed on the OTCQX with the trading symbol FSDDF; then on September 19, 2018, FSD Pharma was upgraded to the OTCQB Venture Market.

FSD Pharma's stock is also listed on the Frankfurt Stock Exchange under the ticker 0K9 (WKN: A2JM6M).

FSD Pharma Uplisted to NASDAQ in January 2020

Subsequently, on January 9, 2020, the company's Class B shares were **uplisted to the NASDAQ Capital Market** under the ticker symbol **HUGE**. The uplisting of the Class B shares to NASDAQ elevates the company's corporate profile and benefits the company through enhanced investor awareness, **increased institutional investor participation** and improved share liquidity.

Many institutional investors are prohibited by covenants from investing client funds into OTC stocks, particularly on the OTC Pink Market, but also on the OTCQB Venture Market and OTCQX Best Market. The NASDAQ listing is a strategic advantage relative to the many other alternatives available to investors in the pharmaceutical R&D space.

On October 16, 2019, FSD Pharma's class A and class B shares underwent a reverse split on a 1 to 201 basis. Fractional shares were not issued. Management anticipates that the share consolidation will help advance management's strategic plan of increasing the company's visibility among U.S. investors by helping achieve an uplisting to NASDAQ, a major U.S. stock exchange.

KEY POINTS

- FSD Pharma has **evolved into a specialty, biotech pharmaceutical R&D company** as management advances its strategic objective of developing, over time, a pipeline of FDA-approved synthetic compounds that target the human endocannabinoid system. The company has entered into several strategic alliances and R&D agreements
  - Acquired **Prismic Pharmaceuticals** on June 28, 2019
    - Prismic owns the worldwide license (except Italy & Spain) to conduct R&D and commercialize **ultra-micronized-PEA** as a prescription medication for the relief of inflammation and pain
      - June 2020 Successfully completed Phase 1 human safety and tolerability trials for FSD201 in Australia
      - September 2020: FDA authorized Phase 2 study for FSD201 for treatment of COVID-19
      - **October 2020: Phase 2 study to commence**

- **Divesting non-core assets**:
  - Sold 85,003,750 shares of **Cannara Biotech** for **$7,743,492**
  - Sold 2.2% equity interest (including warrants) of **High Tide** for **$614,520**
  - Sold 3,000,000 shares in **Pharmadrug Inc**. for **$866,783**.
  - **Assets held for sale:** the Cobourg facility, related equipment, all biological assets and inventory on hand
    - the Cobourg facility is a 620,000 square foot building complex that was a former Kraft food production plant
    - Facility is listed for sale with an asking price of $19.9 million

FSD PHARMA BIOSCIENCES (Prismic Pharmaceuticals)

Acquisition of Prismic Pharmaceuticals

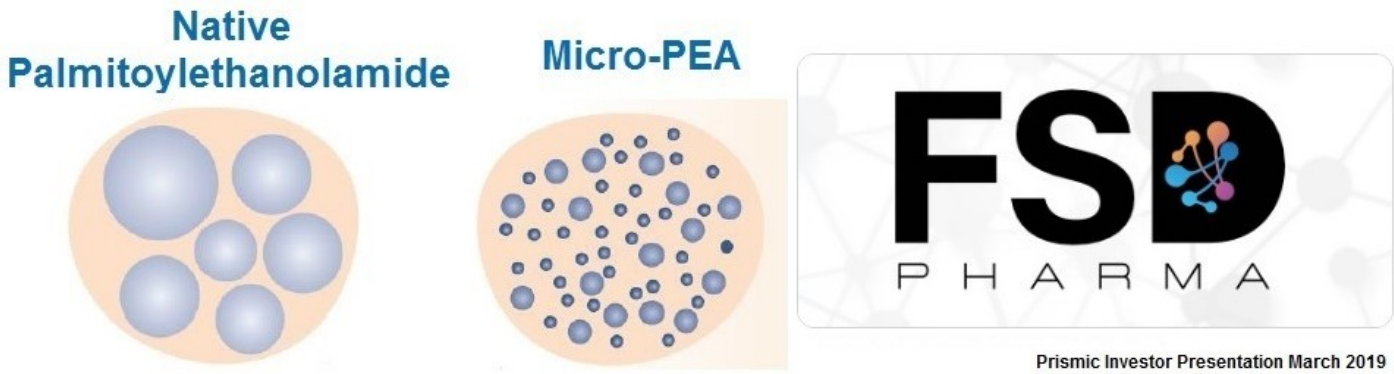
On June 28, 2019, FSD Pharma **acquired privately-held Prismic Pharmaceuticals** Inc., an emerging **specialty pharmaceutical company** focused on developing novel, non-addictive prescription drugs based on its patented **ultra-micronized and micro-PEA development platform**. The acquisition of Prismic represents the **tangible transition of FSD Pharma's corporate emphasis** towards capturing the value of drug discoveries.

FSD Pharma acquired Prismic Pharmaceuticals **for approximately CDN$27.5 million** (approximately US$20.6 million) paid through the **issuance of Class B subordinate voting shares** valued at CAD$23.4 million (approximately US$17.5 million) and the assumption of Prismic's long- and short-term liabilities valued at CAD$4.07 million (approximately US$3.05 million). Prismic's stock options and warrants were converted into FSD Pharma options and warrants.

Prismic Pharmaceuticals is now part of **FSD BioSciences Division**, which is envisioned to be a collection of promising, incubator companies, each conducting research and development (R&D) on prescription drug candidates and navigating the molecules through the clinical trial process towards FDA approval. Management was especially attracted to Prismic's micro-palmitoylethanolamide molecule due to its enhanced effect within the endocannabinoid system, specifically the inhibition of the enzyme (fatty acid amide hydrolase or FAAH) that breaks down cannabinoids, thereby indirectly increasing the activation of CB2 and CB1 receptors, the same receptors activated by CBD and THC. Prismic Pharmaceuticals will serve as a platform to develop and advance ultra-micronized PEA in combination with cannabinoids to address multiple therapeutic categories.

PRISMIC PHARMACEUTICALS INC.

Founded in 2011, Prismic Pharmaceuticals secured the exclusive licensing rights to PEA (palmitoylethanolamide), including the micronized form, for Chronic Kidney Disease from the Epitech Group SRL in June 2013. A few months later, in August 2013, Prismic secured **the rights to PEA for all conditions in all regulatory categories** through a strategic partnership agreement with Epitech. As a result, Prismic holds the worldwide licensing rights (with the exception of Italy and Spain) to ultra-micronized (nonexclusive) and micro-PEA (exclusive), a form of palmitoylethanolamide with particle sizes between 0.6 and 6 microns (ultra-micronized) and between 2 microns and 10 microns (micronized), respectively. The particle sizes of native PEA range from 100-to-700 microns.



By 2015, through clinical work, Prismic confirmed that certain formulations of PEA had demonstrated a **synergistic effect** when administered concurrently with certain prescription drugs for severe and/or chronic pain, including oxycodone, morphine and other opioid analgesics. The ability to achieve the desired therapeutic pain relief effect with lower doses of these addictive drugs is a significant clinical benefit.

FSD's management was drawn to Prismic Pharmaceuticals because of micro-PEA's **well-documented safety profile**, its **patent protection** for all conditions in all regulatory categories, its **increased oral bio-availability** and its **synergistic or entourage effect** on certain drugs, especially those impacting the endocannabinoid system.

PEA (Palmitoylethanolamide)

PEA is a fatty acid amide that is naturally produced by the body. This anti-inflammatory agent acts on the **CR2 cannabinoid receptor**, which affects the inflammatory process in the nervous system. Also, PEA acts on the **CR1 cannabinoid receptor**, which mediates most of the psychotropic effects of THC, a psychoactive component of cannabis that modulates the efficacy of synaptic transmission.

Ultra-micronized -PEA

The large particle size of native PEA limits its solubility when administered orally. By increasing the drug's surface area through micronization, the rate and the amount of dissolution is dramatically increased, thereby increasing the bioavailability of PEA. Consequently, when administered via an ultra-micronized -PEA formulation, the amount of PEA absorbed increases significantly, which, in turn, enhances the efficacy and potency of PEA's anti-inflammatory and analgesic therapeutic properties.

Safety Profile of Ultra-micronized-PEA

PEA has been **evaluated in at least 22 clinical studies**, all conducted in Europe.[i] Having been tested on more than 4,000 patients in various states of pain,[ii] the studies have demonstrated PEA

has an excellent safety profile. Despite this **robust amount of clinical safety data**, some suggest that too few patients have been treated for more than 60 days for PEA to be classified definitively as safe. However, **over one million doses** of Epitech's Normast (600 mg ultra-micronized PEA) and Pelvilen (200 mg ultra-micronized PEA) have been administered to patients in Italy and Spain without adverse side effects. The average particle size of ultra-micronized PEA is 2.6 microns.[iii]

Therapeutic Indications

The PEA fatty acid amide has been studied for its anti-inflammatory and analgesic actions **for the relief of inflammation and pain**, respectively. There appears to be a substantial amount of efficacy data that establishes its anti-inflammatory and anti-nociceptive properties when administered orally in a micro formulation as a pharmaceutical product. In addition, there are indications that **the concomitant use of micro-PEA with certain addictive drugs** can achieve the same therapeutic effects while delaying the development of dependence in patients through the ability to reduce the dosing of the addictive drugs. In addition, the management of FSD Pharma/Prismic Pharmaceuticals desires to pursue the development of **non-addictive therapeutic treatments** for pain through **the concomitant use of micro-PEA with synthetic cannabinoids**.

Having shown to have a therapeutic effect against pain and inflammation syndromes, management has identified **multiple therapeutic categories** for micro-PEA's potential to address numerous expansion opportunities:

- **Analgesics**
  - treatment of acute pain conditions, e.g. post-operative pain
  - therapeutic relief of chronic pain conditions
  - in combination with cannabinoids as a non-addictive replacement for opioids
- **Anti-inflammatory Agents**
  - conditions where inflammation is an underlying or significant cause of the disorder
- **Gastrointestinal Agents**
  - irritable bowel syndrome
  - irritable bowel disease
- **Central Nervous System Agents**
  - Alzheimer's disease
- **Opioid-Sparing** / **Opioid-Replacement Drug**

Through the development and completion of clinical programs, management plans to navigate the FDA process for ultra-micronized -PEA to be approved for the management of pain and treatment of inflammation, particularly for the treatment of chronic pain associated with acute pain situations where opioids are being currently prescribed.

VALUATION

Valuation analysis of pharmaceutical R&D companies is a very challenging exercise, since many are pre-revenue entities in the development stage. In addition, almost all these companies are reporting negative EBITDA and net income. However, the pursuit of FDA-approval for therapeutic compounds creates unique opportunities to invest in pharmaceutical R&D companies with immense potential.

Empirically, there appears to be **subsets of pharmaceutical R&D companies**, one of which can be defined by several quantitative and qualitative factors, particularly those with a market capitalization between $90 million and $500 million and trading on a major exchange (NYSE, NASDAQ and/or the CSE) with a reasonable, single-digit P/B valuation. This subset usually captures a range of well-

funded pharmaceutical R&D companies that have met the financial hurdles becoming listed on a major stock exchange.

In the life cycle of nascent pharmaceutical R&D companies, the appropriate valuation methodology migrates from one metric to another. Initially, as a company's strategy gains acceptance, investors willingly fund operations during the emerging stage through **private placements** to qualified investors. Through these financings, the company's book value increases and the company receives much needed capital to fund growth initiatives. If management successfully executes its strategy, the company's book value will increase through **operational activities**. Furthermore, in the embryonic pharmaceutical R&D company space where strategic alliances are commonplace, strategic partnerships and alliances have spurred **cross-ownership investments**, which reinforce business relationships. The values of these investments are reflected on the balance sheet, impacting the company's book value. As a result, we believe that, at this time**, the appropriate valuation methodology for FSD Pharma should be based on the metric of price-to-book value (P/B)**.

Industry Comparables	**% Chg YTD**	**Ticker**	**Exch.**	**Mkt Cap ($US mil.)**	**Price/ Book**
FSD PHARMA INC	-68.2%	HUGE	CSE	$CDN 43.3	0.93
	-67.4%	HUGE	NYSE	$US 33.9	0.93
S&P/TSX Composite Index	2.6%	^TSX	TSX	N/M	1.88
S&P 500 Index	14.4%	^SPX:US	NYSE	N/M	4.02
Industry Mean	**24.5%**			**236.9**	**3.28**
Pharmaceutical R&D Companies					
ESSA Pharma Inc.	236.9%	RPIX	NASDAQ	234.9	6.36
INmune Bio, Inc	-12.4%	INMB	NASDAQ	124.1	3.01
MediciNova, Inc.	-36.5%	MNOV	NASDAQ	273.6	3.72
Tonix Pharmaceuticals Holding Corp.	-49.1%	TNXP	NYSE	93.2	1.49
Viking Therapeutics, Inc.	-16.5%	VKTX	NASDAQ	458.9	1.81

Currently, the P/B valuation range for well-funded pharmaceutical R&D companies is between 1.49 and 6.36.

The book value of FSD Pharma has been modified in order to update three important factors:

- The value of the Cobourg facility (as a held for sale asset) appears to be understated on the balance sheet. Originally purchased for $5.5 million, FSD has subsequently made property improvements of over $10.0 million, yet the property and equipment is only valued at $10.96 million on the balance sheet. Using the property estimated value provided in a company press release dated November 18, 2018, we conservatively that the sale price of the Cobourg facility will be $15 million and adjust the company's book value accordingly. Currently, the property is listed for sale on realtor.ca with an asking price of $19.9 million.
- FSD Pharma owns minority equity investments in three cannabis-related companies (Huge Shops, SciCann Therapeutics and Solarvest BioEnergy). These investments are marketed-to-market every quarter in FSD's balance sheet. We calculate the changes in value of these investments since the end of the last quarter and adjust book value accordingly.

With the expectation that FSD Pharma's stock will attain a mid-second quartile P/B ratio of 4.8, our **comparable analysis valuation price target is US$9.20**.

It should be noted that other methods, such as discounted cash flow (DCF) analysis, can be employed on emerging companies; however, this technique is not only complex, but also fraught with assumptions and estimates, which often can result in misleading targets. In the future, as the sales profile grows, but with the company having not yet attained profitability, the valuation metric of price-to-sales (P/S) will come into play. In due course, an expanding revenue stream ordinarily manifests into positive earnings, and P/E becomes the suitable valuation metric.

RISKS

- As with almost all evolving specialty, pharmaceutical R&D companies, FSD Pharma is an early-stage enterprise that has yet to generate sufficient cash flow from operations to adequately fund its activities. However, the company has been able to effectively fund its operations and initiatives to date.
- The outstanding Class B shares increased 80.3% in 2018 as a result of the three-cornered amalgamation with Century Financial Capital Group and several subsequent private placements, along with the exercise of options and warrants. In 2019, shares outstanding increased 15.5%, primarily due to the acquisition of Prismic Pharmaceuticals for 510,940 Class B shares. Thus far in 2020, shares outstanding have increased 142.4%.
- During the process of the three-cornered amalgamation with Century Financial Capital Group, 15,000 Class A voting shares were created, issued and ultimately conveyed to the holders of the 15,000 Class A voting shares of FV Pharma (namely the three founders: Thomas Fairfull, Zeeshan Saeed and Anthony Durkacz). As a result of the reverse share split on October 16, 2019, today there are only 72 super-voting Class A shares outstanding, which are entitled to 276,660 votes per share while holders of Class B shares have only one vote per share. Subsequently, on March 19, 2020, CEO Dr. Raza Bokhari acquired 24 Class A shares, half from Zeeshan Saeed and the other half from Anthony Durkacz. Shareholders of Class A shares hold significant voting power and are able to exert immense influence over management and the company. In addition, Dr. Raza Bokhari holds approximately 8.5% of the issued and outstanding Class B Shares (on a non-diluted basis).
- Not all of FSD Pharma's strategic relationships have realized management's initial anticipated outcomes. As a result, several have been terminated.
    - A collaboration with Auxly Cannabis Group (TSX.V – XLY), formerly Cannabis Wheaton Income Corp., to develop grow operations at the Cobourg facility was terminated in February 2019 due to Auxly failing to achieve its construction commitments. Consequently, FSD Pharma wrote-down $7,499,977, which was being held in trust by Auxly to cover construction and development costs.
    - The company's investment in Clover Cannastrip Thin Film Technologies required a $1,500,000 write-down in the first quarter of 2019 due to alleged misappropriation of funds by the President and Manager of Clover Cannastrip.
    - The proposed acquisition of Therapix Biosciences was terminated on December 21, 2018
    - FSD Pharma investment in High Tide was sold in November 2019 as management increased its focus on biotech pharmaceutical R&D and downplayed the retail cannabis market.
    - FSD Pharma terminated the Partnership Agreement with Cannara Biotech in June 19 February 2020, when FSD sold its investment in Cannara. FSD's management was no longer interested in leasing 105,523 square feet of Cannara's facility in Farnham Quebec, and the sale of its equity interest in Cannara netted the company $6.7 million, representing a 670% return on FSD Pharma's $1.0 million investment in Cannara Biotech over roughly 21 months.
    - In May 2020, FSD Pharma began the process of selling its investment in Pharmadrug Inc. and sold the remainder by the end of the third quarter.

- In July 2020, management decided to close down the company's medicinal grade cannabis operations and concentrate on advancing its pharmaceutical R&D efforts on FSD201 (ultra-micronized PEA). Management notified Health Canada that the company was going to forfeit its cannabis-related licenses and suspend all cannabis-related activities within 30 days.

BALANCE SHEET

FSD Pharma Inc.				
(in $CDN)	2017	2018	2019	3Q 2020
Period ending	12/31/2017	12/31/2018	12/31/2019	9/30/2020
ASSETS				
Cash and cash equivalents	4,739,988	21,134,930	7,932,737	18,660,730
Sales taxes recoverable	294,508	982,663	0	0
Trade and other receivables	-	8,325	2,070,055	4,726,545
Prepaid and other assets	353,160	444,099	430,381	1,127,506
Inventory	-	-	942,939	0
Biological assets	-	-	-	-
Total Current Assets	**5,387,656**	**22,570,017**	**11,376,112**	**24,514,781**
Assets held for sale	-	-	-	10,963,208
Other investments	-	18,064,541	11,780,864	1,593,676
Right-of-use asset	-	-	127,410	0
Property, plant and equipment	8,292,038	12,141,676	11,804,145	0
Intangible assets	-	-	22,358,932	19,131,128
TOTAL ASSETS	**13,679,694**	**52,776,234**	**57,447,463**	**56,202,793**
Trade payables and accrued liabilities	1,265,995	1,743,806	4,467,826	3,290,037
Lease obligations	-	-	56,207	58,705
Derivative liability	-	-	2,646,269	0
Warrants liability	-	-	-	3,477,581
Legal liability	-	-	-	5,500,000
Short term notes	-	-	1,908,412	1,202,105
Total Current Liabilities	**1,265,995**	**1,743,806**	**9,078,714**	**13,528,428**
Lease obligations	-	-	146,662	112,595
Non-Current Liabilities	**-**	**-**	**146,662**	**112,595**
TOTAL LIABILITIES	**1,265,995**	**1,743,806**	**9,225,376**	**13,641,023**
SHAREHOLDERS' EQUITY				
Class A share capital	201,500	201,500	201,500	201,500
Class B share capital	12,794,963	67,916,302	97,815,149	126,884,138
Warrants	621,900	4,442,145	5,745,034	5,748,62
Contributed surplus	2,990,600	4,977,300	23,091,09	24,279,15
Foreign exchange translation reserve	-	-	(112,690)	416,599
Accumulated deficit	(4,195,264)	(26,504,819)	(78,518,005	(114,968,252)
Stockholders' equity (deficit)	**12,413,699**	**51,032,428**	**48,222,087**	**42,561,77**
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	**13,679,694**	**52,776,234**	**57,447,463**	**56,202,79**
Class A Shares outstanding	75	75	72	72
Class B Shares outstanding	3,794,846	6,843,780	7,905,727	14,843,441

ANNUAL PROJECTED INCOME STATEMENT

FSD Pharma Inc.

Income Statement (in $CDN, except share and per share data)	2017 12/31/2017	2018 12/31/2018	2019 12/31/2019	2020 E 12/31/2020
Cannabis revenues	0	2,107	256,611	0
Other income	0	0	488	0
Total Revenues	**0**	**2,107**	**257,099**	**0**
Cost of sales	-	-	1,959,111	0
Gross (loss) profit before FV adjustments	-	-	(1,702,012)	0
Loss (gain) chg. in value of bio. assets	-	-	682,739	0
Gross (loss) profit	-	-	**(2,407,000)**	**0**
Expenses				
General and administrative	189,826	168,574	14,811,529	14,202,979
Research and development	-	-	-	12,982,514
Depreciation and amortization	-	183,194	3,146,680	4,348,432
Advertising and promotion	-	2,803,588	-	-
Allowance for impairment of Auxly funds	-	7,499,977	-	-
Consulting fees	-	2,037,049	-	-
Loss on change in fair value of biological assets	-	-	-	-
Insurance	-	156,038	-	-
Listing expense	-	7,991,791	-	-
Facility related expenditures	167,477	1,360,477	-	-
Production and growing expenses	-	401,897	-	-
Professional fees	202,555	1,955,253	-	-
Salaries, wages and benefits	-	1,740,720	-	-
Shareholder and public company costs	-	124,973	-	-
Share-based payments	2,990,600	6,440,406	16,061,319	13,447,167
Total Expenses	**3,550,458**	**32,863,937**	**34,019,528**	**44,981,092**
Loss Before Other Income (Expenses)	**(3,550,458)**	**(32,861,830)**	**(36,426,528)**	**(44,981,092**
Other income incl. rental income	25,943	86,656	125,536	22,902
Finance expense	-		(206,454)	(341,506
Legal provision	-		-	(928,541)
Impairments	-		(243,468)	(119,447
(Loss) on settlement of financial liability	-		(24,810)	344,580
Gain (loss) on chg. in deriv. liability	-		(3,568,305)	1,737,550
Changes in fair value of investments	0	10,064,550	(11,669,157)	(1,576,913)
Net Loss	**(3,524,515)**	**(22,710,624)**	**(52,013,186)**	**(45,842,467**
Diluted loss per share - cont. operations	**(1.61)**	**(3.85)**	**(7.03)**	**(3.75)**
Wgted avg. of Class B Shares - basic & diluted	2,190,117	5,905,177	7,056,245	12,219,508

QUARTERLY PROJECTED INCOME STATEMENTS

FSD Pharma Inc.						
Income Statement (in $CDN, except share and per share data)	**2019 12/31/2019**	**1Q 2020 3/31/2020**	**2Q 2020 6/30/2020**	**3Q 2020 9/30/20120**	**4Q E 2020 12/31/2020**	**Estimate 2020 12/31/2020**
Expenses						
General and administrative	14,811,529	4,008,869	2,537,79	3,734,78	3,921,52	14,202,979
Research and development	N/A	403,287	2,075,658	4,668,25	5,835,31	12,982,514
Depreciation and amortization	3,146,680	1,291,14	483,956	1,285,169	1,288,15	4,348,43
Share-based payments	16,061,319	3,062,930	1,321,73	6,870,17	2,192,33	13,447,167
Total Expenses	**34,019,528**	**8,766,234**	**6,419,13**	**16,558,387**	**13,237,33**	**44,981,09**
Loss Before Other Income (Expenses)	**(34,019,528)**	**(8,766,234)**	**(6,419,139)**	**(16,558,387)**	**(13,237,332)**	**(44,981,092)**
Other income (loss)	125,536	18,081	17,614	(30,793)	18,000	22,902
Finance expense	(206,454)	(97,253)	(91,019	(81,054	(72,180	(341,506)
Legal provision	-			(928,541)	0	(928,541)
Impairments	(243,468)	(119,447	0	0	0	(119,447)
Gain (loss) on settlement of fin. liability	(24,810)	0	53,714	290,866	0	344,580
Gain (loss) on chg. in deriv. liability	(3,568,305)	843,301	0	894,249	0	1,737,550
Changes in fair value of investments	(11,669,157)	(2,725,061)	1,220,760	(72,612)	0	(1,576,913)
Net gain (loss) continuing operations	(49,606,186)	(10,846,613	(5,218,070)	(16,486,272)	(13,291,512	(45,842,467
Net gain (loss) discontinued operations	(2,407,000)	(1,597,587)	(753,595)	(1,548,110)	(1,572,849)	(5,472,141)
Net Loss	**(52,013,186)**	**(12,444,200)**	**(5,971,665)**	**(18,034,382)**	**(14,864,361)**	**(51,314,608)**
Diluted loss per share - cont. operations	(7.03)	(1.33)	(0.58	(1.30	(0.70	(3.75
Diluted loss per share - discont. Ops.	(0.34)	(0.20)	(0.08	(0.12	(0.08	(0.45
Wgted avg. Class B Shares diluted	7,056,245	8,149,759	9,051,562	12,676,712	19,000,000	12,219,508

HISTORICAL STOCK PRICE



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