

Let's Toke Business

Week Ended June 2, 2017 – By Ted Ohashi

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New! [Is the MedReleaf IPO a Disaster Waiting to Happen?](#) May 31, 2017

[NXTTF - It's Time to Fill Your Boots](#) May 22, 2017

[Under The Cannabis Act the Rich Get Richer](#) May 4, 2017

[What the Cannabis Act Says and Means for Your Marijuana Stocks](#) April 20, 2017

[Canadian Cannabis Companies Set to Advance on Legalization legislation](#) April 3, 2017

[Before You Can Sell LXP High, You Must First Buy it Low](#) March 17, 2017

[Why Organigram Merits a 'Must Buy' Rating](#) March 8, 2017

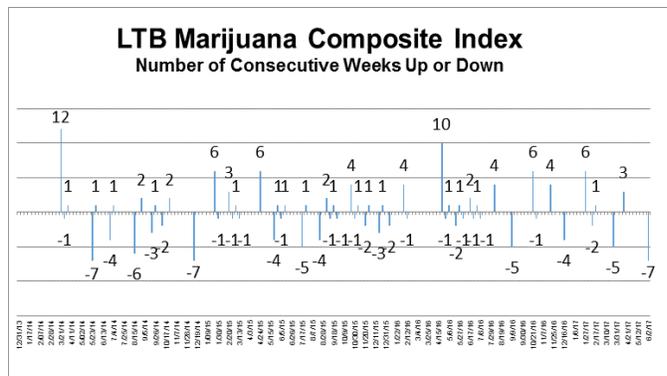
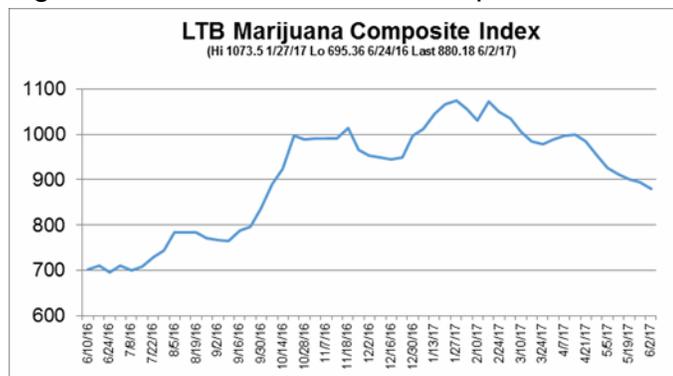
[How Attorney General Sessions can Derail the Marijuana Gravy Train](#) February 27, 2017

[High Growth Cannabis Company Trading Less Than One Times Sales](#) February 20, 2017

Marijuana Stock Market Review & Outlook

LTB MJ INDEX: 1wk -1.7% 1 mo -7.6% 3 mo -14.9% 6 mo -8.9% 1 yr +29.3%

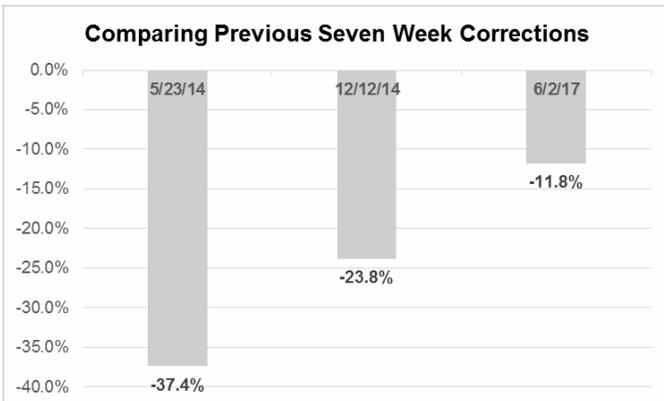
The marijuana sector posted a seventh consecutive week of lower prices with the Let's Toke Business Composite Index recording a loss of 1.7%. As the chart below right shows, this index has only recorded seven week long corrections twice before and it may be counterintuitive to look for an eight week but that is what we expect now.



Last week, the Let's Toke Business Licensed Producers Index dropped -3.2% while the Let's Toke Business Low-Priced Index fell -5.2%.

An important factor in the decline has been the MedReleaf Initial Public Offering. (see Breaking & Corporate News below). The issue sold just over \$100 million worth of stock which had the effect of taking that amount of potential buying out of the market for other marijuana stocks. As we observe in G&CN below, the MedReleaf stock is expected to start trading in the middle of the week ahead. We are still inclined to wait-and-see how trading goes before we look for an uptrend to resume.

The next chart compares the declines recorded in the three seven week long downturns in the LTB Composite. What it shows is the current correction has fallen only about half as far as the one that



ended in December 2014 and only one-third as much as the correction May 2014. This means although the current decline has lasted as long as the previous ones, the amount of the loss has been far less.

We do not expect this downtrend to last much longer but we still believe it may go on for another week or two. But financial markets always seem to do the unexpected. If the indexes should begin to recover ahead of our expectation, don't be surprised to see us switch horses in short order. We

believe the trend is our friend and right now that trend is still down so we'll stay with it for now.

In the meantime, don't be afraid to nibble at stocks that have been carried much lower in recent weeks. As we said last week, our focus remains on the Licensed Producers and smaller cap companies. Of the Licensed Producers, we like Canopy Growth ([TSX: WEED](#)), Organigram ([USOTC: OGRMF](#)) and Aphria ([TSX: APH](#)). Of the smaller cap companies, we continue to favor Lexaria Bio ([USOTC: LXP](#)), Namaste Tech ([USOTC: NXTTF](#)) and Radiant ([USOTC: RDDTF](#)). We are looking at other small cap, revenue generating opportunities.

Marijuana Matters

In the April 13, 2017 issue of Let's Toke Business that covered the legalization bill introduced by the Liberals, we commented on Canada's three tiered system of government (Federal, Provincial/Territorial, Municipal), with each level having certain governance responsibilities. Legalization will be a combination of law and regulation. The law enacted by the Federal Government covers the "broad brush" matters and the regulations will be handled by the Provinces and Municipalities. In effect, the law is put into force by the regulations. According to the Cannabis Act, many of the regulations covering the distribution and sale of marijuana will be developed by the provinces.

Now that the provinces have begun to address these issues, they are discovering the massive volume of work ahead of them and they are complaining about the high costs they will incur. Issues that need to be addressed include: minimum legal age, retail sales, security, public health and education. The provinces are looking for financial assistance from the Federal Government using the general theme that the workload has been created by the Federal Government and it is made all the more because of their self-imposed "rush" to legalize. Quebec Public Health Minister Lucie Charlebois said 13 different departments in her government have been hustling to prepare for legalization.

Every province appears to be on the same track except for New Brunswick. Health Minister Victor Boudreau said in a recent interview with 'Independent Publisher the National Observer' that their idea is cannabis can boost their small, struggling economy. They began their due diligence before the Cannabis Bill was introduced and have invested months in pre-planning for it. "We didn't just wait for the federal legislation and then start — we started doing our homework and our due diligence well before, anticipating what the federal legislation was going to look like," said Boudreau. New Brunswick has provided growers with financial incentives, has developed a college course in marijuana cultivation and Fredericton's St. Thomas University will establish a new cannabis research chair, with a goal of guiding public policy.

Boudreau says it appears the Feds will offer financial assistance and New Brunswick won't turn it down but the province won't sit idly by waiting for money from Ottawa. New Brunswick Premier Brian Gallant is leading the charge.

One public company, Organigram (TSXV: OGI) (USOTC: OGRMF), is well positioned to benefit from this positive attitude being the only Licensed Producer based in New Brunswick. As we said in our original Seeking Alpha report, 'Organigram: a Win-Win in the Canadian Cannabis Group,' "There are many other advantages OGRMF enjoys. Electric power in New Brunswick is priced at one-third the rate in Ontario and because it is an economically challenged region of Canada, cost of living and wage costs are lower and government is motivated to encourage job creating industries. OGRMF has already received a \$1 million wage subsidy." ([read full report here](#))

We continue to like OGI as a long term investment that has been carried down to a very attractive level by the general malaise in the marijuana stocks.

Breaking & Corporate News

MedReleaf Corp. (LEAF) closed its Initial Public Offering selling \$100.7 million of stock at \$9.50 per share. All values are in Canadian dollars. The breakdown is \$80.7 million into the company coffers from the sale of shares from treasury and \$20 million into the hands of insiders including the CEO and all of the Directors representing a secondary offering. Of note is the fact the underwriting group did not take down any of the available overallotment. The shares are expected to open for trading on the Toronto Stock Exchange as LEAF on June 7, 2017. At \$9.50, LEAF has a market cap of \$859 million.

We had been critical of the offering as outlined in Let's Toke Business May 12, 2017 and the Seeking Alpha report on May 31, 2017. ([read Seeking Alpha report here](#)) We are relieved LEAF was able to close the base amount of the offering even though it was at the bottom end of the proposed price range. It was probably a more difficult offering than hoped for as the underwriters did not take down any of the overallotment shares. But given the general market conditions, the massive increase in pricing from the \$2.96 price per share LEAF issued shares just six months ago and the fact that there was a large secondary component to the offering, this was a positive outcome that avoided the potential disaster we outlined as possible.

The next hurdle will come this week as trading in LEAF is expected to begin on June 7, 2017. Recently listed Licensed Producers have all headed lower in the aftermarket and as our Marijuana Market Review & Outlook above suggests we expect the overall market malaise to continue.

We like MedReleaf as an operator and believe it will be one of the leaders of the Canadian LP group. But we saw risks created by the IPO and we still see some potholes on their road ahead. Once the aftermarket has settled down we might recommend LEAF, hopefully at lower prices.

Canopy Growth (TSX: WEED) has added PUF Venture (CSE: PUF) to the Tweed Main Street curated CraftGrow line. PUF is an Ontario-based late-stage ACMPR applicant. Pending a license to cultivate and sell cannabis products, PUF will become the fourth company to join CraftGrow. This program accelerates the time to market for newly licensed producers and provides brand and product exposure by enabling patients to seamlessly access Canada's leading cannabis brands with one medical document rather than being tied to a single producer.

Organigram (TSXV: OGI) announced the closing of the acquisition of Trauma Healing Centres (THC) that currently services over 3,500 patients across seven Canadian locations with plans to open seven more locations. THC will continue to operate independently by providing referrals based on client need to any licensed producer in Canada.

"We are excited to complete the formal acquisition process and look forward to continuing our working relationship with THC and their staff" said Greg Engel, CEO of Organigram. "Over the past two years, both companies have worked very well together and we're excited to further our work in supporting medical cannabis patients across Canada."

The finalized agreement consists of the issuance of 719,425 common shares of Organigram at a deemed value of \$2.78 per share.

We think this is a very positive move for both companies. OGI will provide the financial support to allow THC to grow more rapidly and THC will continue to generate patient referrals to OGI.

ABcann Global (TSXV: ABCN) and Cannabis Wheaton Income (TSXV: CBW) have entered into a binding agreement under which CBW will invest \$30 million in ABcann as follows:

- on the earlier of 10 days of the final closing of CBW's previously announced financing or by June 30, 2017, CBW will subscribe for \$15 million of ABCN common shares at a price of \$2.25; and
- on the earlier of 10 days of CBW raising an aggregate of \$150 million or March 31, 2018, CBW will subscribe for another \$15 million at a price equal to the greater of twice the 10 day volume average trading price of ABCN at that time or \$2.25.

Upon completion of the \$30 million investment, and upon accepting ABCN's construction budget and timeline for the construction of the Expansion Production Area (EPA), Cannabis Wheaton will provide all necessary funding to complete the construction. This expansion is in addition to ABCN's current 100,000 square foot facility that is commencing construction imminently.

In return, CBW will receive 50% of the proceeds (net of certain costs) of future wholesale or retail sales completed by ABCN with respect to cannabis produced in the EPA beginning after the completion of CW's \$30 million investment. The Agreement is subject to certain conditions precedent.

A reader in Israel sent us an article from the Jerusalem Post. Let's Toke Business has readers in Australia, Denmark, France, Germany, Italy, New Zealand, Sweden, Switzerland, Thailand and the United Kingdom as well as Canada and the United States. By the way, if you are a reader from a country we missed, please let us know at letstokebusiness@gmail.com. We appreciate each of our international readers and always welcome their input.

The item from Israel is titled 'A New Harvest for the Harvest Festival' by Byben Fisher and includes comments from Dr. Tamir Gedo, CEO of Breath of Life Pharma who said, "Israel has the ability to build a cannabis industry with a long-lasting competitive advantage." Gedo was referring to a revolution he sees coming in the pharmaceuticals industry in 2018 and 2019 fueled by cannabis and he sees Israel advantageously situated in the center. He sees drug production from cannabis as having four components:

1. Growing cannabis
2. Extracting the active pharmaceutical ingredient
3. Encapsulation of the ingredients
4. The delivery of the drug to patients

The advantage he sees for Israel is the ability to perform all of the processes.

Here is where some of their international thinking can help North Americans who sometimes have a hard time seeing beyond our own borders. When Gedo talks about competition growing cannabis, he isn't thinking about Canada or the U.S. He means it is just a matter of time before we are buried by cheap product grown in Africa or Eastern Europe. But what less developed countries lack is the ability to extract and encapsulate cannabinoids and create accurate dosages for the patient. Even if they develop these technologies, health administrators in the developed world will have a hard time trusting products sourced from these regions.

On the other hand, while the U.S. and Canada have the technology to extract, encapsulate and dose cannabinoids, like Israel we cannot produce enough cannabis at a low enough cost and in enough varieties to make growing viable. Our LPs are limited in both scope and scale.

Gedo says, "If you are building only on the growth, you will lose. In five, six, seven years, even most likely before that, because the hype that surrounds cannabis will be so huge that every country will want to grow cannabis. The only way to secure a competitive advantage is to build a cluster of industries that are bound to each other." He says, "Ninety-seven percent of the pharmaceutical drugs in the world have only one molecule in them. It's isolated, it's purified, it's 99-point-something percent. The only way to make cannabis an FDA drug and prescribe it as a pharmaceutical product is to isolate each one of the cannabinoids and purify it to almost 100%."

This is where the extraction and the other parts come in. "The problem with cannabis is that it is not one product. Cannabis is actually 142 products....majority of which are not well known to science, though nearly two dozen are. Of these 20 or so, scientists are able to tell the exact biological function they have in the body....The research is concentrated now in building the second, third and fourth generation of drugs," says Gedo who adds 20% of humanity is afflicted by a disease that can be treated by cannabinoids. ([read full article here](#))

The message here is for Canadian Licensed Producers and companies. There are 187 applicants at the review stage and Health Canada has accelerated the approval process. There is good news and bad news in this. The bad news is they might all get approved in the short term. Quite apart from international considerations, we have said since at least Let's Toke Business March 6, 2015 that cannabis in Canada will become commoditized. So growers must either uniquely brand their product or diversify into other related activities or into international markets. It also spells opportunity for smaller companies in one of the three non-growing categories. There may be an important and active role for you in the future.

This week Alan Brochstein reports in New Cannabis Ventures some of the success cannabis companies have had with crowdfunding that started as a way to raise funds for a social cause recruiting small amounts of money from a large number of people using the Internet. Today the practice has spread to financing business ventures by soliciting smaller individual contributions from a larger number of people amounting to significant amounts of money. For example, leading crowdfunding platform SeedInvest raised \$2.4 million for Alula Hydronutrients from 582 people or an average of \$4,048 per investor. ([read full article here](#)).

Applications Watch

No new approvals this week. There are 45 Licensed Producers: 27 Cultivation & Sale, 16 Cultivation and 2 Sale Only. Eight producers were licensed in 2016 and eight so far in 2017. The pace of approvals is about double last year's pace. No changes to the list of Fresh Marijuana & Oil producers. There are 22 LPs approved: 19 as Production & Sale, 2 approved for Production and 1 approved as Sale Only. A new category "Sale of Starting Materials" has been added. Nine LPs are approved to sell starting materials: 7 approved to sell plants and 2 approved to sell seeds.

Producer	Prov	Dried Marijuana	Fresh Mari & Oil	Sale Start Mat
1. 7 Acres	ON	Cultivation		
2. ABCann Medicinals	ON	Cultivation & Sale		
3. A.B. Laboratories	ON	Cultivation		
4. Acreage Pharms	AB	Cultivation		
5. Agripharm Corp.	ON	Cultivation & Sale	Production & Sale	
6. Aphria	ON	Cultivation & Sale	Production & Sale	
7. Aurora Cannabis Enter	AB	Cultivation & Sale	Production & Sale	
8. Bedrocan Canada	ON	Sale		
9. Bedrocan Canada 2 nd site	ON	Cultivation & Sale	Production & Sale	
10. Bonify	MB	Cultivation		
11. Broken Coast Cannabis	BC	Cultivation & Sale	Production & Sale	
12. Canada's Island Garden	PEI	Cultivation & Sale		
13. Canna Farms Ltd	BC	Cultivation & Sale	Production & Sale	Plants
14. CanniMed Ltd	SK	Sale	Sale	
15. CannTrust	ON	Cultivation & Sale	Production & Sale	Seeds
16. DelShen Therapeutics	ON	Cultivation		
17. Delta 9 Bio-Tech	MB	Cultivation & Sale		
18. Emblem Cannabis Corp	ON	Cultivation & Sale	Production	
19. Emerald Health Bot	BC	Cultivation & Sale	Production & Sale	
20. Evergreen Medicinal	BC	Cultivation		
21. First Access Medical (Blv)	ON	Cultivation		
22. Green Relief	ON	Cultivation		
23. Hemisphere Pharma	ON	Cultivation		
24. Hydrophocair/Hydro	QC	Cultivation & Sale	Production	
25. In the Zone	BC	Cultivation & Sale		
26. James E Wagner Cult	ON	Cultivation		
27. Maricann, Inc.	ON	Cultivation & Sale	Production & Sale	Plants
28. MedReleaf Corp	ON	Cultivation & Sale	Production & Sale	
29. MedReleaf 2 nd site	ON	Cultivation		
30. Mettrum Ltd.	ON	Cultivation & Sale	Production & Sale	
31. Mettrum Bennett	ON	Cultivation & Sale	Production & Sale	
32. Natural Med	ON	Cultivation		

33. Organigram Inc.	NB	Cultivation & Sale	Production & Sale	
34. Peace Naturals Project	ON	Cultivation & Sale	Production & Sale	
35. Prairie Plant Systems	SK	Cultivation	Production	
36. RedeCan Pharm	ON	Cultivation & Sale		
37. THC Biomed	BC	Cultivation & Sale	Production & Sale	Plants
38. Green Organic Dutchman	ON	Cultivation & Sale		
39. Tantalus Pharma	BC	Cultivation		
40. Tilray	BC	Cultivation & Sale	Production & Sale	
41. Tweed Inc.	ON	Cultivation & Sale	Production & Sale	Seeds
42. Tweed Farms	ON	Cultivation & Sale		
43. United Greeneries	BC	Cultivation		
44. WeedMD	ON	Cultivation		
45. Whistler Medical Mari	BC	Cultivation & Sale	Production & Sale	Plants

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