

Let's Toke Business

By Ted Ohashi

Week Ended May 12, 2017

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[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

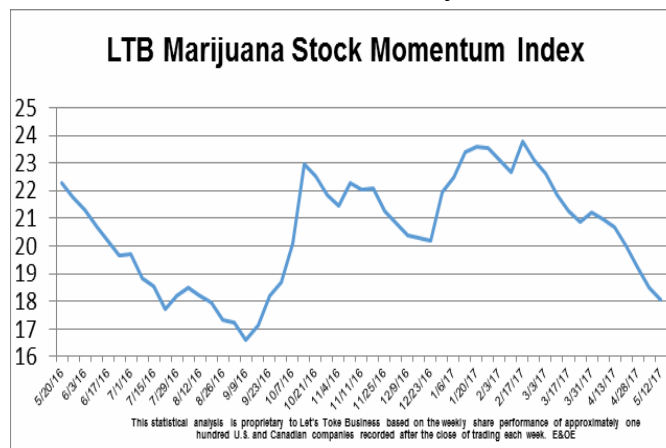
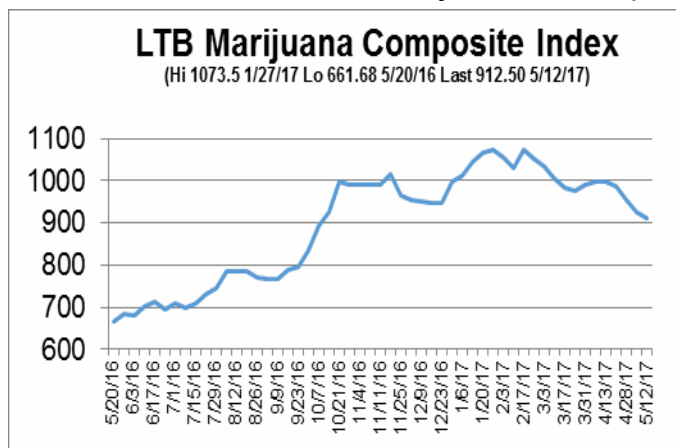
[Reassessing the Ever Changing Outlook for Canadian Cannabis Stocks](#) January 30, 2017

[Update: My Confidence in Buying Organigram is Affirmed](#) January 20, 2017

Marijuana Stock Market Review & Outlook

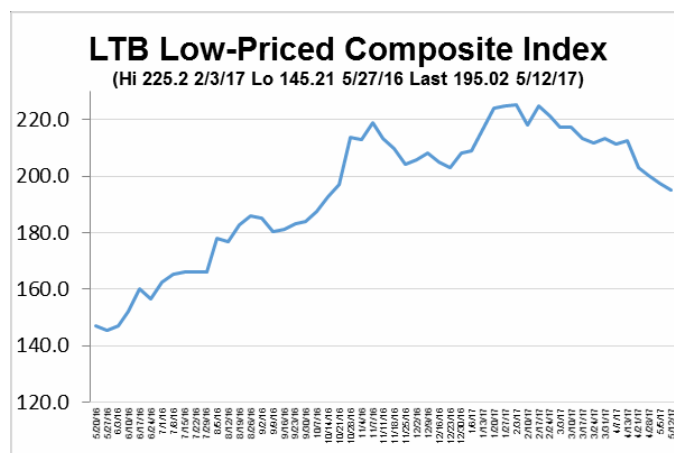
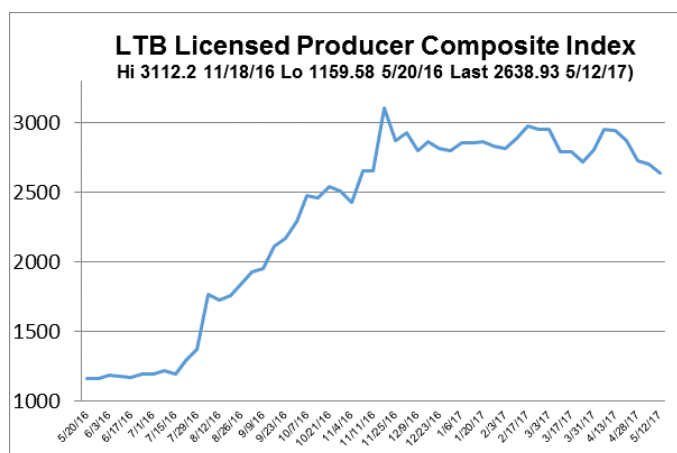
LTB MJ INDEX: 1wk -1.5% 1 mo -8.5% 3 mo -11.5% 6 mo -7.9% 1 yr +36.4%

As we said last week, the marijuana stocks produced a fourth consecutive weekly decline. As the



charts below indicate, the Let's Toke Business Marijuana Composite Index declined 1.6% last week as momentum also headed downhill.

The Licensed Producer Index moved 2.3% lower while the Low-Priced Stock Index gave up 1.2% as the following charts show.



Last week, the marijuana stocks appeared to make an interim low during the Wednesday trading session rallying broadly toward the close. But stocks were unable to hold the gains on Thursday and fell back again on Friday.

As if to prove the adage “it isn’t a stock market, it’s a market of stocks,” there was a spread in the performance of individual stocks. For example within the Licensed Producer group, WeedMD (TSXV: WMD) dropped 7.9% and Cannimed (TSX: CMED) declined 6.0% while Supreme Pharma (USOTC: SPRWF) gained 2.4% and THC Bio (CSE: THC) added 0.9%. Of the other marijuana stocks, Lexaria (USOTC: LXP) was a standout gaining over 20% in intraday trading on Thursday and holding onto a significant part of that gain on Friday.

We had a number of questions last week and it seemed noticeable that many came from people who know more about cannabis than stocks. For them, this was the first time their marijuana investments have been in a prolonged decline. Our response was and is that stocks move up and down and over the long term they move up 9%+ a year. Marijuana stocks should do much better than that over the long term because this is a new industry with extremely high growth potential and there will be many opportunities for profits. Having said that, marijuana stocks will go up and down and right now they are going down. Without being too corny, follow the words of Bobby McFerrin:

***Here's a little song I wrote
 You might want to sing it note for note
 Don't worry, be happy
 In every life we have some trouble
 But when you worry you make it double
 Don't worry, be happy
 Don't worry, be happy now***

From our perspective, our advice from last week remains unchanged.

1. Look for the marijuana stocks to correct for a fifth straight week next week.
2. Hold on to your Licensed Producer positions and small caps with strong outlooks.
3. Exercise some caution. Don't rush into new investments unless it is exceptional.

We add individual cannabis stocks will be driven more by specific company news than overall industry developments. The correction is probably coming to an end so it won't be long now.

Marijuana Matters

There is something troubling about the upcoming Initial Public Offering (IPO) of MedReleaf. According to the preliminary prospectus, the company is raising approximately \$100,000,000 at an expected price of \$9.50 to \$10.50 per share and 20% of the shares to be sold in the IPO will be from current shareholders. Six months ago, MedReleaf issued shares at \$2.96 per share.

When existing shareholders sell as part of a new issue it is called a secondary offering and is often interpreted to mean that “smart money” is selling shares they bought at a much lower price while at the same time they are asking new investors to buy their shares at the much higher price.

The sellers are:

- (a) Neil Closner, Chief Executive Officer and Director of MedReleaf.
- (b) MENA Investment owned by Stephen Arbib, a Director of MedReleaf since 2013.
- (c) AJA Holdings owned by the same Stephen Arbib, a Director since 2013.
- (d) Rayray Investments owned by Raymond Leach, a Director of MedReleaf since 2015.
- (e) 2564459 Ontario owned by the same Raymond Leach, a Director since 2015.
- (f) Baronford Heights owned by Theodore Wine who we suspect is related to Annette Wine, a Director of MedReleaf since 2013.
- (g) Tikun Olam, MedReleaf's Israeli partner. The owner of these MedReleaf shares is Tsachi Cohen who is a 'foreign person or company' according to the preliminary prospectus.
- (h) MedMen Opportunity Fund, a Los Angeles based professional cannabis investment firm that purchased shares in September and October 2016 at an average cost of \$2.09 per share.
- (i) Eva Fashion purchased in 2015 by Vadim Soiref who is another 'foreign person or company.'
- (j) Zola Finance owned and controlled by Tarik Ouass.

Here are some of the issues we would like to raise:

1. A secondary offering as part of an Initial Public Offering is almost always problematic. It puts those sellers many of whom are often corporate insiders in a position of encouraging investors to buy the shares some of which they, the insiders, are selling.
2. Neil Closner, the CEO and a Director of MedReleaf is selling by participating in the secondary offering.
3. If we are correct in our suspicion that Theodore Wine is related to Annette Wine, it effectively means each current Director is selling by participating in the secondary offering. Put another way, every member of the existing Board of Directors is selling shares.
4. At least two of the individuals participating in the secondary offering is a 'foreign person or company' which means, according to the preliminary prospectus, "...it may not be possible for purchasers of Offered Shares to collect from any of the foregoing Selling Shareholders, or to enforce, judgments obtained in Canadian courts predicated upon the civil liability provisions of applicable Canadian securities laws against any of them...."
5. This is not a "bought deal" underwriting that MedReleaf, as probably the second largest Licensed Producer in terms of sales, should merit. The preliminary prospectus says, "The obligations of the Underwriters under the Underwriting Agreement are conditional and may be terminated at their discretion on the basis of... "market out." In other words this is a "best efforts" offering and if the underwriters can't sell it, they can exercise the "market out" clause.
6. The planned pricing of the offering is over three times the price at which MedReleaf sold shares in November 2016. This was just over six months ago. At the same time, the Let's Toke Business Licensed Producer Index and the Let's Toke Business Marijuana Composite Index are both down in the range of 5% to 10%.

7. The investment experience with newly public Licensed Producers of late has not been positive. Each of Abcann (TSXV: ACBN), Cannimed (TSE: CMED), Hydropothecary (TSXV: THCX), Maricann (CSE: MARI) and WeedMD (TSXV: WMD) are currently trading below their initial pricing on the public markets.
8. You can't rewrite history. The insiders have tipped their hand and we know they want to sell. The underwriters did not rate this offering to be worthy of "bought deal" status. You know a \$9.50 to \$10.50 per share pricing is expected. If insiders agree not to sell; if the underwriters agree to make it a bought deal; if the pricing is reduced a lot; the issue might sell. But everyone will know the difference between the actual result and the expectation.

The most serious concern is the fact MedReleaf should be one of the leading publicly traded Licensed Producers. The underwriting group is a Who's Who of Canadian cannabis underwriters including GMP Securities, Clarus Securities, Canaccord Genuity, Cowen and Company, Eight Capital and PI Financial. So if the MedReleaf offering "bombs" it could have a seriously debilitating impact on more than just this company. The result could negatively impact the entire medical marijuana public company group.

Breaking & Corporate News

Attorney General Jeff Sessions proved our point that he would be very disruptive to the U.S. marijuana industry. On May 10 Sessions directed his U.S. attorneys to charge defendants as follows:

- (a) "This memorandum establishes charging and sentencing policy for the Department of Justice....
- (b) First, it is a core principle that prosecutors should charge and pursue the most serious, readily provable offense....By definition, the most serious offenses are those that carry the most substantial guidelines sentence, including mandatory minimum sentences...
- (c) There will be circumstances in which strict application of the above charging policy is not warranted. In that case, prosecutors should carefully consider whether an exception may be justified...any decision to vary from the policy must be approved....
- (d) In most cases...a sentence within the advisory guideline range will be appropriate....
- (e) Any inconsistent previous policy of the Department of Justice relating to these matters is rescinded, effective today....
- (f) Each United States Attorney and Assistant Attorney General is responsible for ensuring that this policy is followed, and that any deviations from the core principle are justified by unusual facts."

Under President Obama, Attorney General Eric H. Holder issued a similar sentencing memo that came to be known as the "Smart on Crime" initiative. The policy called for major changes to sentencing of lower level drug offenses being those not belonging to a large drug trafficking organization, a gang or cartel. There were two specific issues: Blacks were incarcerated six times more than Whites and the U.S. with 5% of the world population had 25% of the prisoners in jail. This sentence reform had bipartisan consensus but Sessions was opposed.

Given his historical position on marijuana and drugs, we think it is likely this is a result of Sessions' views. As we reported in Let's Toke Business for the week of November 25, 2016, he had said "I think one of [Obama's] great failures, it's obvious to me, is his lax treatment in comments on marijuana....It reverses 20 years almost of hostility to drugs that began really when Nancy Reagan started 'Just Say No.'" Sessions now says, "We are returning to the enforcement of the laws as passed by Congress, plain and simple. If you are a drug trafficker, we will not look the other way, we will not be willfully blind to your misconduct. Drug trafficking is an inherently dangerous and violent business. If you want to collect a drug debt, you can't file a lawsuit in court. You collect it with the barrel of a gun." He did say,

“These are not low-level drug offenders we, in the federal courts, are focusing on. These are drug dealers, and you drug dealers are going to prison.”

Many observers see this is a step backward that repeats a failed experiment – the ‘War on Drugs.’

ABcann Medicinals Inc. (TSXV: ABCN) completed its qualifying transaction, that is a Reverse Takeover (RTO) of formerly TSXV listed Panda Capital. ABCN received its license in March 2014, making it a fairly early legal grower but did not start production and sale until last year. In early trading, the shares rose to \$1.50 per share but in subsequent sessions traded down to \$1.00 per share.

It turns out we know very little about the marijuana plant. We talk about the cannabinoids such as Cannabidiol (CBD) and Tetrahydrocannabinol (THC) but according to a report in the Daily Marijuana Observer (DMO) these are but two of 111 cannabinoids the marijuana plant produces with more being discovered regularly. DMO lists other known cannabinoids:

1. Cannabigerol that seems to reduce inflammation and is non-psychoactive.
2. Cannabidiolic Acid ("CBDA") that has been shown to possess antibiotic properties.
3. Cannabigerolic Acid ("CBGA") that has also been shown to possess antibiotic properties.
4. Cannabichromene ("CBC") that has been shown to possess antifungal properties and more.
5. Cannabinol ("CBN") that has been shown to possess anticonvulsant and sedative properties.
6. Delta-9-tetrahydrocannabivarin ("THCV") that has been shown to possess pain relief and euphoriant properties.

Daily Marijuana Observer lists **22nd Century Group, Inc. (NYSE: XXII)** as a company active in this field. XXII is a biotechnology company focusing on developing, marketing and licensing genetically-modified cannabis/ hemp/ marijuana plants as well as tobacco plants. Their cannabis focuses on producing hemp plants with low levels of THC for use as food, oil, fabric and more. Additionally, 22nd Century Group's cannabis division works to produce marijuana plant varieties with high CBD levels for the medical cannabis industry. Their tobacco division focuses on producing tobacco plants with low levels of nicotine while maintaining flavor, smell and smokability.

Alan Brochstein in New Cannabis Ventures points out that Canadian Licensed Producer Aphria (TSX: APH) that purchased a 6,000,000 position in Canabo Medical Corp (TSXV: CMM) at \$1.40 per share in December 2016, sharply reduced its exposure, selling 2.5mm shares at \$0.46 on May 10, 2017. APH realized a loss of \$2,350,000 on the sale. ([read full New Cannabis Ventures article here](#)) In addition, Borchstein interviews Chuck Rifici, CEO of Cannabis Wheaton in an article titled ‘Why Cannabis Streaming is Taking Off.’ In the report, you will learn about cannabis streaming and why it is growing in popularity. ([read full New Cannabis Ventures article here](#))

Applications Watch

No new Licensed Producers approved last week. There are 43 Licensed Producers: 27 Cultivation & Sale, 14 Cultivation and 2 Sale Only. Eight producers were licensed in 2016 and six so far in 2017. The pace of approvals is running ahead of last year's pace. No changes to the list of Fresh Marijuana & Oil producers. There are 21 LPs approved: 18 as Production & Sale, 2 approved for Production and 1 approved as Sale Only. A new category “Sale of Starting Materials” has been added. Seven LPs are approved to sell starting materials: 5 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. Green Relief	ON	Cultivation		
22. Hemisphere Pharma	ON	Cultivation		
23. Hydropothicair/Hydro	QC	Cultivation & Sale	Production	
24. In the Zone	BC	Cultivation & Sale		
25. James E Wagner Cult	ON	Cultivation		
26. Maricann, Inc.	ON	Cultivation & Sale	Production & Sale	Plants
27. MedReleaf Corp	ON	Cultivation & Sale	Production & Sale	
28. MedReleaf 2 nd site	ON	Cultivation		
29. Mettrum Ltd.	ON	Cultivation & Sale	Production & Sale	
30. Mettrum Bennett	ON	Cultivation & Sale	Production & Sale	
31. Natural Med	ON	Cultivation		
32. Organigram Inc.	NB	Cultivation & Sale	Production & Sale	
33. Peace Naturals Project	ON	Cultivation & Sale	Production & Sale	
34. Prairie Plant Systems	SK	Cultivation	Production	
35. RedeCan Pharm	ON	Cultivation & Sale		
36. THC Biomed	BC	Cultivation & Sale	Production & Sale	Plants
37. Green Organic Dutchman	ON	Cultivation & Sale		
38. Tilray	BC	Cultivation & Sale	Production & Sale	
39. Tweed Inc.	ON	Cultivation & Sale	Production & Sale	Seeds
40. Tweed Farms	ON	Cultivation & Sale		
41. United Greeneries	BC	Cultivation		
42. WeedMD	ON	Cultivation		
43. Whistler Medical Mari	BC	Cultivation & Sale	Production & Sale	Plants

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