

Let's Toke Business

By Ted Ohashi

Week Ended May 19, 2017

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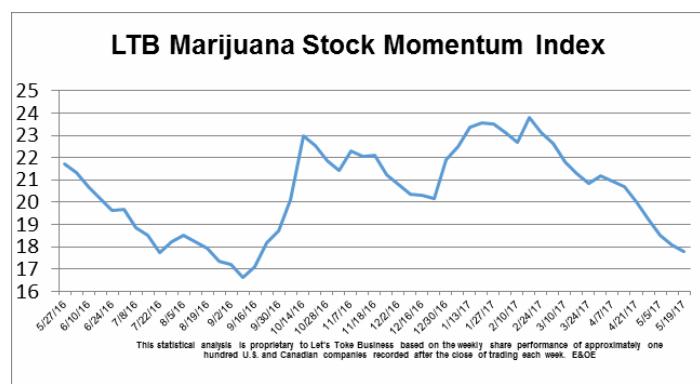
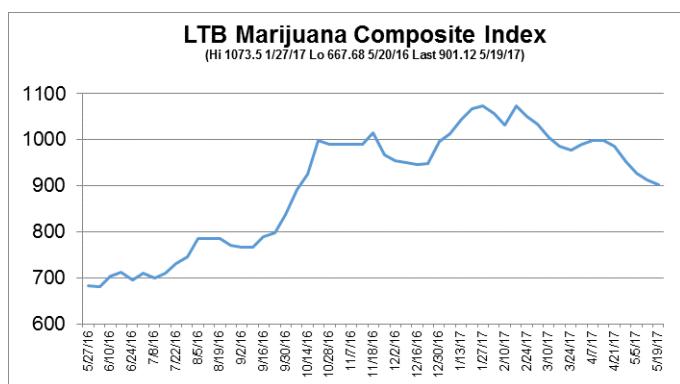
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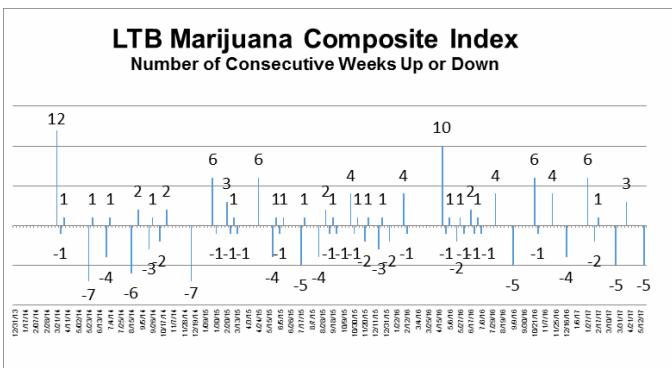
Marijuana Stock Market Review & Outlook

LTB MJ INDEX: 1wk -1.2% 1 mo -9.7% 3 mo -16.0% 6 mo -9.1% 1 yr +35.2%

It was another down week last week with a couple of signs of hope. The Let's Toke Business Marijuana Composite Index dropped 1.3% and momentum confirmed the loss although the loss of momentum was eased slightly.



The better news was the Licensed Producer Index moved 1.4% higher while the Low-Priced Stock



This chart will be familiar to our regular readers. It shows that in the three and one-half years that we have been producing the Let's Toke Business Composite Index, there have been 32 declines in the Index lasting from one week to seven weeks.

It also shows that over this time period there have only been three instances in which corrections have lasted longer than five weeks. In other words, in 93% of cases, corrections have ended at or before this point: one lasted six weeks and

two lasted seven weeks. As they say in sports, "Records are made to be broken." In other words there is no reason to assume a correction marijuana stocks cannot last longer than seven weeks. It is simply an indication that the current correction may be getting long in the tooth.

Our sense of the marijuana stocks is that we are probably close to a low point based on the indexes. Whatever happens, we expect the marijuana stocks will gradually begin the act like the broader markets. If you'll forgive an adjusted metaphor, "The low hanging marijuana buds have been picked."

This means when the upturn begins, it will not make immediate headlines. It will turn quietly on lower volume in an unspectacular fashion. As this happens, look to the Licensed Producer group to play a leading role. Looking ahead, we think the Liberal government passing the Cannabis Act prior to the summer recess that is due to begin on June 24, 2017 could be a positive. On the negative side, we believe a fiasco surrounding the MedReleaf underwriting would cause investors to adopt a wait-and-see attitude. The components of such a flop would include: cancelling the offering, insiders being forced to cancel their plans to sell or a completed financing that results in a publicly traded MedReleaf stock heading sharply lower, say, down 20% or more from the offering price in the early trading sessions.

The advice remains little changed. Although the past five weeks have been a new experience for less stock market seasoned marijuana investors, it feels very normal from a typical market perspective. Corrections of five weeks or longer are common.

Marijuana Matters

From time to time, we have expressed our respect and appreciation of the men and women who pioneered the cannabis industry in Canada to get us to the point where, today, legalization is a reality. Recently, we were in communication with a couple of those people and were reminded of the valuable role they are still playing. The last time we expressed our gratitude to the industry pioneers was June 5, 2015. This was three months before Justin Trudeau was elected Prime Minister.

Our message at that time was many of us in the industry today are carpetbaggers. We are opportunists taking advantage of the evolving cannabis industry. We had little or nothing to do with the success of the industry today. In the meantime, many of the early participants who stood up for the right of people to use marijuana and enjoy the benefits of the plant are being left in the dust. They stood up when standing up put you in the minority and subject to serious possible legal consequences.

We must not forget that being a pioneer did not mean you had to be a grower. But when growing was legalized for medical marijuana and, the near future, recreational marijuana, the old hands were not

completely shut out. Some existing Licensed Producers started growing in the underground economy and successfully transitioned into legally accepted operations.

This happened as the law evolved from Marihuana Medical Access Regulations (MMAR) to Marihuana for Medical Purposes Regulations (MMPR) to the current Access to Cannabis for Medical Purposes Regulations (ACMPR). Licenses to legally grow medical marijuana under these acts were received by some people with direct links to businesses that grew and sold marijuana in contravention of the prevailing Health Canada regulations of the day.

This is worth reflecting on because in the next 12 – 14 months, more marijuana related activities will become regulated and legal. The two main areas are dispensing cannabis and commercial marijuana edible making and marketing. When this happens, approvals will be granted to parties that are illegally dispensing and making and selling edibles in the past or present.

Our point is we believe this is an acceptable result. It is nothing new. There are high profile Canadian and Americans who are said to have family fortunes in illegal activities such as bootlegging during Prohibition. Who better to operate marijuana dispensaries or edible manufacturing than people with experience? This will not happen evenly across Canada because dispensaries, for example, will be regulated at the provincial level and there will obviously be differences. Ontario seems to be headed toward introducing dispensaries through liquor stores while other provinces will probably agree with the Task Force and proceed with independent sellers and it is not out of the questions that a province might drag their feet and leave residents with access to marijuana only through mail order.

But let's not forget the valuable contribution made to the success of the industry by a group of pioneering men and women. We anticipate there will be many major medical applications from marijuana that will benefit countless numbers of human lives in the future. Our hats off to the people who contributed to this result.

Breaking & Corporate News

BNN hosted the CFOs of [Canopy Growth](#) (TSX: WEED), its partially owned subsidiary, [Canopy Health Innovations](#), and [Emblem](#) (TSXV: EMC) on [Money Talk](#) on May 17, 2017 to discuss the opportunities and challenges in the cannabis industry. One of the most interesting aspects of the conversation was how licensed producers Canopy Growth and Emblem, which are positioning for legalization. The summary was published by Alan Brochstein in New Cannabis Ventures.

Ian MacNair, CFO of Canopy Health Innovations, explained the process of developing pharmaceuticals, including conducting clinical trials. Tim Saunders, CFO of Canopy Growth, described how successful trials and the award of a drug identification number will pave the way for more acceptance by doctors, who are more likely to prescribe formats that extend beyond smoking or vaporization, and also for coverage by insurance. John Laurie, CFO of Emblem, discussed how the market has been shifting towards products with CBD and towards oils rather than flower, with doctors more comfortable prescribing these types of products. Each of the CFOs pointed to the global opportunities ahead, particularly in Germany. Saunders indicated Canopy Growth will not participate in the United States market as long as cannabis remains federally illegal. ([read full report here](#))

Some current data on the Canadian Stock Exchange (CSE) Composite Index launched on February 27, 2015 were published by the Daily Marijuana Observer. To be included a company must be listed on the CSE and have a market capitalization of \$5 million. Here is a summary:

- As of March 20, 2017, 7 out of the top 10 companies in the CSE Composite Index portfolio represented marijuana or related businesses.
- As of March 20, 2017 there were 125 companies in the index. The 7 cannabis companies in the top 10 make up a combined 26.84% of the index.
- The marijuana stocks in the top 10 holdings are:
 1. Supreme Pharmaceuticals Inc. ([CSE:SL](#)) (OTC:SPRWF) (FRA:53S1) - 6.98% weighting.
 2. Alternate Health Corp. ([CSE:AHG](#)) - 5.69% weighting.
 3. The Canadian Bioceutical Corp. ([CSE:BCC](#)) (OTC:CBICF) (FRA:5CB) - 4.07% weighting.
 4. CannaRoyalty Corp. ([CSE:CRZ](#)) (OTC:CNNRF) (FRA:CY4) - 3.14% weighting.
 5. Marapharm Ventures Inc. ([CSE:MDM](#)) (OTC:MRPHF) (FRA:2M0) - 2.50% Weighting in the CSE Composite Index
 6. THC Biomed Intl Ltd. ([CSE:THC](#)) (OTC:THCBF) (FRA:TFHD) - 2.32% weighting.
 7. Valens Groworks Corp. ([CSE:VGW](#)) (OTC:MYMSF) (FRA:7LV) - 2.14% weighting.

Of the remaining 115 component companies, 27 are cannabis related companies. The total of 34 out of 125 companies represent 44.70% of the index.

The remaining marijuana stocks are:

1. Tetra Bio-Pharma Inc. ([CSE:TBP](#)) (OTC:GRPOF) (FRA:JAM1)- 2.00% weighting.
2. Beleave Inc. ([CSE:BE](#)) (OTC:BLEVF) (FRA:4B9) - 1.93% weighting
3. Cannabix Technologies Inc. ([CSE:BLO](#)) (OTC:BLOZF) (FRA:8CT) - 1.59% weighting.
4. iAnthus Capital Holdings Inc. ([CSE:IAN](#)) (OTC:ITHUF) (FRA:2IA) - 1.24% weighting.
5. InMed Pharmaceuticals Inc. ([CSE:IN](#)) (OTC:IMLFF) (FRA:MWG2) - 1.21% weighting.
6. Namaste Technologies Inc. ([CSE:N](#)) (OTC:NXTTF) (FRA:M5BQ) - 1.05% weighting.
7. Nutritional High International ([CSE:EAT](#)) (OTC:SPLIF) (FRA:2NU) - 0.99% weighting.
8. Golden Leaf Holdings Inc. ([CSE:GLH](#)) (OCT:GLDFF) (FRA:9GL) - 0.98% weighting.
9. The Tinley Beverage Co Inc. ([CSE:TNY](#)) (OTC:QRSRF) (FRA:45T) - 0.92% weighting.
10. Lifestyle Delivery Systems Inc. ([CSE:LDS](#)) (OTC:LDSYF) (FRA:LD6) - 0.89% weighting.
11. Future Farm Technologies Inc. ([CSE:FFT](#)) (OTC:FFRMF) - 0.88% weighting.
12. Lexaria Bioscience Corp. ([CSE:LXX](#)) (OTC:LXRP) - 0.83% weighting.
13. Canada House Wellness Group Inc. ([CSE:CHV](#)) (OTC:SARSF) (FRA:509A) - 0.79% weighting.
14. Abattis Bioceuticals Corp. ([CSE:ATT](#)) (OTC:ATTBF) (FRA:115) - 0.58% weighting.
15. Vodis Pharmaceuticals Inc. ([CSE:VP](#)) (OTC:VDQSF) (FRA:1JV1) - 0.39% weighting.
16. MYM Nutraceuticals Inc. ([CSE:MYM](#)) (OTC:MYMMF) (FRA:0MY) - 0.38% weighting.
17. True Leaf Medicine International Ltd ([CSE:MJ](#)) (OTC:TLFMF) (FRA:TLA) – 0.38% weighting.
18. Wildflower Marijuana Inc. ([CSE:SUN](#)) (OTC:WLDFF) (FRA:RSP) - 0.37% weighting.
19. Lotus Ventures Inc. ([CSE:J](#)) - 0.35% weighting.
20. Affinor Growers Inc. ([CSE:AFI](#)) (OTC:RSSFF) (FRA:1AF) - 0.35% weighting.
21. Liberty Leaf Holdings Ltd. ([CSE:LIB](#)) (OTC:LIBFF) (FRA:HN3P) - 0.33% weighting.
22. Veritas Pharma Inc. ([CSE:VRT](#)) (OTC:VRTHF) (FRA:2VP) - 0.32% weighting.
23. Organic Garage Ltd. ([CSE:OG](#)) (FRA:9CW1) - 0.28% weighting.
24. PUF Ventures Inc. ([CSE:PUF](#)) (OTC:PUFXF) (FRA:PU31) - 0.28% weighting.
25. Laguna Blends Inc. ([CSE:LAG](#)) (OTC:LAGBF) (FRA:LB6A) - 0.25% weighting.
26. Global Hemp Group Inc. ([CSE:GHG](#)) (OTC:GBHPF) (FRA:GHG) - 0.13% weighting.
27. Alliance Growers ([CSE:ACG](#)) (FRA:1LA) - 0.11% weighting.

This is a useful guide to the CSE Composite Index. As you can see, the index has a heavy weighting towards cannabis companies, making it a useful cannabis benchmark to watch. The problem is if and when a different industry takes over the market, the index will be changed over time and will come to reflect the new industry and not cannabis.

Aurora Cannabis (TSXV: ACB) announced financial results for the quarter and nine months ended March 31, 2017. Here are the highlights:

- Revenues were \$5.2 million compared to \$0.2 million for Q3 2016. This was an increase of 33.3% over the second quarter.
- The number of registered patients stood at 13,110 up 7.4% over the second quarter. In grams, ACB sold 653,008 grams, an increase of 21.4% over the previous quarter. The company reports sales are currently exceeding a pace of \$2 million per month.
- Working capital stood at \$126,500,000 at quarter end which is a very strong liquidity position. After the end of quarter, ACB:
 - Commenced sales of cannabis oils.
 - The 800,000 square foot production facility at the Edmonton International Airport, is proceeding well and on schedule. The estimated capital cost of the project is in the range of \$110 million with production expected to commence in 2017 and full capacity in 2019.
 - Further strengthened its financial position with completion of the \$75 million 7% unsecured convertible debentures offering, and converted \$17,500,000 of outstanding 8% convertible debentures into approximately 8,750,000 additional common shares.
 - Completed the acquisition of Peloton Pharmaceuticals Inc.
 - Commenced international expansion with the participation in Cann Group Limited's initial public offering on the Australian Stock Exchange (ASX: CAN) and now holds 19.9% of the shares.
 - Completed phase II of the research collaboration with Radient Technologies Inc. ("RTI"), and a report is expected from RTI, subject to confirmation of analytical results from Anandia Labs, by May 31, 2017.

See the full report ([here](#))

Applications Watch

First Access Medical on Ontario is the latest Licensed Producer approved by Health Canada as a cultivation licensee. There are now 44 Licensed Producers: 27 Cultivation & Sale, 15 Cultivation and 2 Sale Only. Eight producers were licensed in 2016 and seven 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. First Access Medical	ON	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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