Marijuana - Bubble Index

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Marijuana - Stock Bubble Index
June 26, 2017 - August 14, 2017

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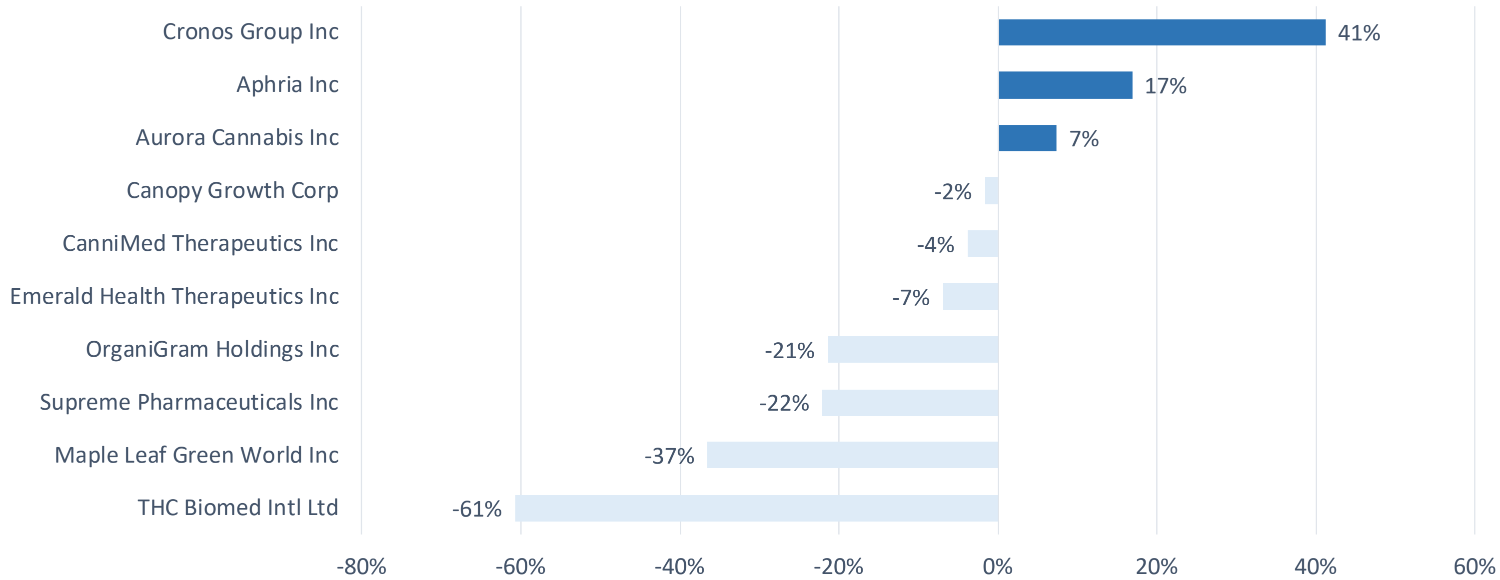
Canadian Marijuana Stocks Rebound from June Selloff

The Ubika Marijuana Stock Bubble Index increased 11% since our last report dated June 26, 2017, outperforming the TSX-V, which declined 1.5% over the same period. Its performance can be attributed to improved fundamentals, as many marijuana companies have reported better-than-expected earnings that pleased investors. Improved fundamentals are obviously a positive sign, as investors have larger expectations for marijuana companies, and seeing them meet performance expectations has surely pleased investors.

Industry Performance (2017-YTD)



Source: Ubika Research

Industry Highlights

- **Canada's legal marijuana market will not be able to meet demand if legalization happens next summer.** Aaron Salz, a marijuana industry consultant, reported that the industry would not be able to expand quickly enough to supply the estimated five million Canadians who might want to buy recreational marijuana. Health Canada recognizes this problem, and in late May they announced the streamlining of the process to review applicants for growing licenses. A streamlined process means we could see increased competition between Canadian licensed marijuana producers, so market share of existing producers might be diluted, creating a risk that should be monitored.
- **On June 7th, MedReleaf Corp. (TSX: LEAF) completed its initial public offering,** the Company issued 10.6mm shares at $9.50 per share for gross proceeds of $100.7mm, representing North America's largest pot IPO to date. It was also Canada's worst IPO debut since 2001. The Company's share price fell 22% on opening day, the largest decline in a sizeable Canadian IPO in 16 years, amid growing concerns that pot stocks are overvalued.
- **The Horizons Medical Marijuana Life Sciences ETF has plunged 11% since it started trading in early April.** The decline is due to marijuana valuations pulling back from highs earlier this year. PI Financial analyst Jason Zandberg stated, "all marijuana companies rose during pot mania, regardless of their investment merit, and the industry is now seeing the opposite as strong businesses like MedReleaf, Cronos Group, and Aphria fall in line with inferior cannabis stocks."

Notable Performers

CanniMed Therapeutics (TSX:CMED)

CanniMed is an international plant biopharmaceutical company with 15 years of pharmaceutical cannabis cultivation experience, modern, Good Manufacturing Practices (GMP) compliant processes, with a wide range of pharmaceutical-grade cannabis products. In addition, the Company has an active plant biotechnology research and product development program focused on the production of plant-based materials for pharmaceutical, agricultural, and environmental applications. The Company's stock price increased 29% since our last report due to strong Q2/2017 financial results, and the approval to commence construction on a new facility in Saskatchewan.

CanniMed reported Q2/2017 financial results on June 12th, detailing increased sales and active patients. Sales for the quarter were $3.7mm, a 66% increase from the same period a year ago. Higher sales were driven primarily by rising demand, as dried medical cannabis sales of 373 kg increased 72% from Q2/2016 and the Company saw a 14,000 increase in active patients. On the downside, the Company reported a loss per share of $0.08 in Q2/2017, a 4x increase from a $0.02 loss per share in Q2/2016. The increased net loss was due largely to an increase in SG&A expenses and higher freight and distribution costs as the Company increased its capability to support growing sales levels.

Figure 1: CanniMed Financial Highlights

	Three Months Ended April 30 2017	2016	Six Months Ended April 30 2017	2016
Select Financial Data				
Revenue	**$3,688**	$2,220	**$7,099**	$3,985
Cost of sales	**$1,966**	$173	**$2,958**	$519
(Gain) loss on derivative instruments	**$(20)**	$(127)	**$2,424**	$(104)
Loss from continuing operations before income tax	**$(1,849)**	$(149)	**$(5,279)**	$(1,115)
Income from discontinued operations, net of taxes	**-**	$(27)	**-**	$57
Net loss per share from continuing operations (basic and diluted)	**$(0.08)**	$(0.02)	**$(0.26)**	$(0.08)
Adjusted EBITDA from continuing operations[1]	**$(251)**	$(608)	**$241**	$(953)
Select Operating Data				
Total dried marijuana equivalent sold (000s grams)	**373**	217	**714**	403
Revenue per gram of dried marijuana equivalent	**$9.80**	$9.57	**$9.54**	$9.19

Source: Company Filings

During the quarter, the Company also announced that directors have approved the commencement of capital projects to increase the Company's current cannabinoid oils processing capacity by constructing a new GMP-compliant facility in Saskatchewan. The facility has a planned capacity of 12mm, 60 kl bottles of cannabis oil per year. Initial capital costs for the facility are expected to be $10.5mm over a 20-month schedule from start to commissioning.

CanniMed has a solid balance sheet with a 12x current ratio, $59mm in cash, and a 15% debt to equity ratio. At a multiple of 7.7x NTM revenue, the Company trades at a discount to their peer average of 9.3x NTM revenue.

Maple Leaf Green World (TSXV: MGW)

Maple Leaf currently operates three cannabis projects located in British Columbia (B.C.), California, and Nevada. The Company applies its eco-agricultural knowledge and cultivation technology to produce a contaminant-free, organic cannabis product. The long-term objective of the Company is to produce cannabis oil and export its products to approved countries. The Company's stock price increased 14% since our last report due to operational updates on all three of their projects.

The Company announced it has signed with Paramount Structures Inc (PSI) to commence construction immediately on its cannabis cultivation facility in B.C. ("the B.C. Facility"). Design, engineering, and procurement will begin immediately on the B.C. Facility, followed by site preparation in mid-August. The building is estimated to be completed in early December, indicating the Company will be ready to ramp up its operations by the time recreational marijuana is legalized in Canada next June.

In Nevada, the Company completed the purchase of four acres of industrial land in the city of Henderson, ("the Nevada Facility"). The Nevada Facility has met the applicable preliminary requirements for a Medical Marijuana establishment. The Company submitted a Marijuana Establishment Certificate transfer application to the City of Henderson and expects its approval soon, as they believe the construction of the 20,000 sq. ft. facility will be approved by the end of 2017.

In California, the Company also reported they are in the process of acquiring land in San Bernardo Country to apply for a medical cannabis cultivation permit. The Company also stated their Joint Venture operative in California reported revenues of ~$220,000 from last year, and the harvesting of the first crop of medical cannabis in 2017 has begun.

The Company has a strong balance sheet with a 23x current ratio, $3mm in cash, and a 26% debt to equity ratio.

Organigram (TSXV: OGI)

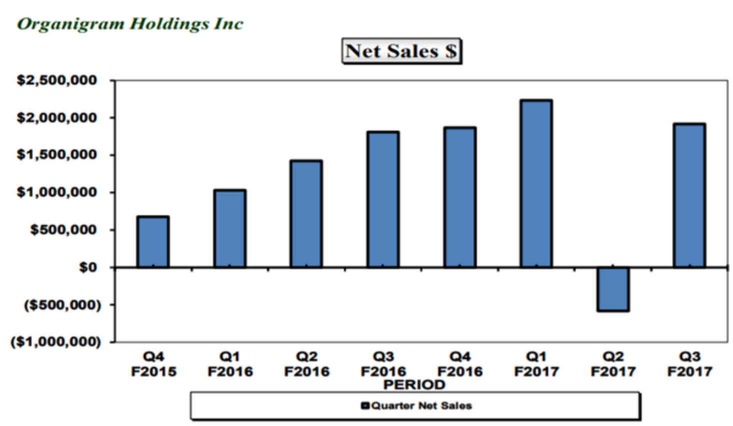
Organigram is a licensed producer of medical marijuana in Canada. They are focused on producing the highest quality, condition specific medical marijuana for patients in Canada. Organigram has one facility located in Moncton, New Brunswick, and the Company is regulated by the Access to Cannabis for Medical Purposes Act (ACMRP). The Company's stock price has increased 6% since our last report due to a polarizing FQ3/2017 financial report.

Medical Purposes Act (ACMRP). The Company's stock price has been flat since our last report due to a polarizing FQ3/2017 financial report.

Some positives from the Company's earnings release were a reported 25% increase in registered patients in FQ3/2017, compared to the same period last year, and 190 litres of marijuana oil sold during the period compared to 0 litres in FQ3/2016. The increase in registered patients illustrates the Company's ability to build a sizeable customer base of medical marijuana patients.

Organigram reported net sales of $1.9mm, a mere 5.5% increase from $1.8mm in Q3/2016. Slower growth causes concern for marijuana investors, as these companies are typically bought for their growth. Organigram's revenue growth is lackluster compared to its peers, who are experiencing double to triple digit revenue growth. Revenue only increased mildly due to a decrease in dried marijuana sales from ~210k grams in Q3/2016 to 200k grams in Q3/2017.

Figure 2: Organigram Sales



Source: Company Filings

Organigram reported a net loss of $2.3mm, compared to a profit of 367k during the same period a year ago. The overall poor performance in the quarter can be attributed to the Company's product recall last year, and its efforts to repair the damage. The Company's CEO stated,

> "The Company has a solid balance sheet with a 14x current ratio, $2.7mm in cash, and a 3% debt to equity ratio. At 4.8x NTM EV/revenue, the Company trades at a discount to their peer average of 9.3x. The discounted multiple is likely due to uncertainty surrounding their ability to recover from last year's product recall."

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Bubble Radar

Trading multiples have compressed slightly since our last report, as stocks in the UM10 index now trade at 41.8x LTM revenue compared to 42.5x in late June. Compressed multiples can be attributed to companies reporting strong revenue growth, indicating that companies are growing into their valuations. The high multiples assigned to marijuana companies display the high-risk, high-reward nature of an investment into the industry. If companies meet their growth expectations investors will be rewarded. If not, a large percentage of their investment.

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