



Marijuana - Bubble Index

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Marijuana - Stock Bubble Index August 15, 2017 - September 11, 2017

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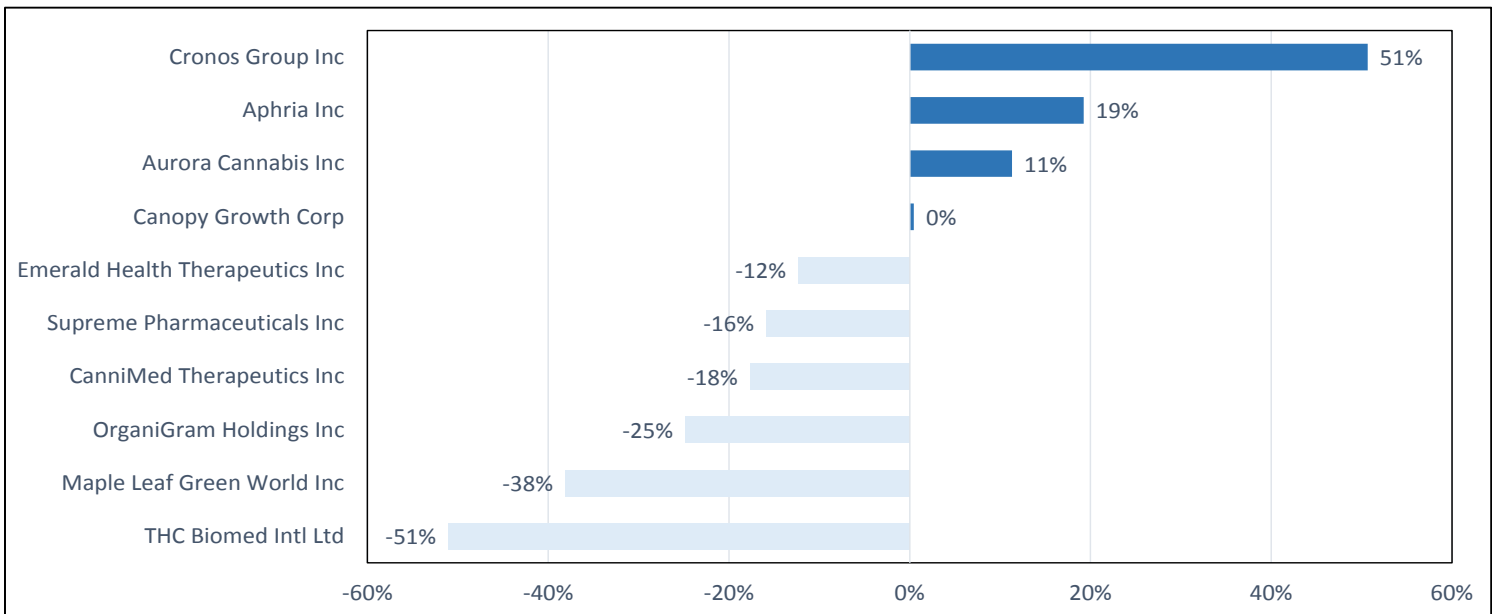
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Canada’s Marijuana Stocks Spark Up as Clarity Cloud Starts to Clear

The Ubika Marijuana Stock Bubble Index has increased 2% since our last report dated August 14th, 2017, slightly outperforming the TSX, which has remained flat over the same period. Since our last report date, there has been some clarity in all of Canada’s province’s plans for legal recreational marijuana. Most importantly, Ontario plans to sell legalized weed through LCBO stores, and marijuana is now expected to be priced competitively with the black market to eliminate the involvement of organized crime.

Industry Performance (2017-YTD)



Source: Ubika Research



Industry Highlights

- **Canada gives the thumbs up to marijuana legalization and regulation.** On September 8, 2017, the Government of Canada announced \$274mm in funding to support law enforcement primarily towards: 1) the detection and mitigation of drug-related impaired driving; 2) the enforcement of legalization; 3) providing assistance with regulation. While this is subject to parliamentary approval, this decision continues to support the Government's plan to legalize recreational marijuana by July 2018. For further details, read the press release [here](#).
- **Liquor Control Board of Ontario (LCBO) will run 150 marijuana stores after recreational weed is legalized.** The Ontario government announced plans to exclusively sell recreational marijuana online by July 2018, and to have 150 LCBO-type stores coming online by 2020. Similar to alcohol and tobacco products in Ontario, only those who are 19 and over will be allowed to purchase marijuana.
- **Provinces agree that legal marijuana must be competitive with the black market.** Scarborough MP Bill Blair has been leading the charge, and reported that all of the provinces have been focused on protecting the community and the youth by eliminating organized crime. He stated: "We don't want to leave this business with organized crime, and in order to defeat organized crime, we have to be able to be competitive with price, quality and access."
- **Licensed producers are looking at opportunities in markets outside of Canada, as they brace for legalization at home.** On September 1, 2017, Cronos Group (TSXV: MJN) announced a supply agreement with German pharmacy wholesaler Cannamedical Pharma, giving it access to the largest federally legal marijuana market in the world (more details on this below). CanniMed Therapeutics has also announced an initial supply agreement for its oil products with South African company Akula Trading 2 (private).

Notable Performers

Cronos Group Inc. (TSXV: MJN)

Cronos Group owns and operates two licensed producers of medical marijuana in Canada: Peace Naturals (medical) and In The Zone (recreational). The Company also actively seeks investment opportunities in companies that are licensed under Access to Cannabis for Medical Purposes Regulations (ACMPR) or that are actively seeking a licence. See the figure below for a breakdown of the Company's portfolio. The stock is up 8% since our last report, outperforming its peer group, which is up only 1%.

The Company plans to ramp up production, by the time Bill C-45 (an act to amend the Criminal Code – the marijuana legalization bill) is passed, are well underway. MJN has already begun construction on 300,000 square feet of additional space at its Peace Naturals' facility. On August 24th, Cronos secured \$40mm via a debt finance facility to fund the construction of these new facilities from mortgage lender Romspen.

Cronos recently entered into a partnership with Israeli entity Gan Shmuel to set up a low-cost production facility in Israel. The Company announced a two-phase construction plan that would start off with an annual production capacity of 5000KG, which is planned to grow to 24,000KG. Furthermore, Cronos expects the cost of production at this facility to range between \$0.40 - \$0.50 per gram, which is a significantly lower cost range than the current Peace Naturals' facility that produced at a cost of \$2.18 per gram (as of Q2/17).

On September 1st, Cronos announced a supply agreement with German wholesaler Cannamedical

Figure 1: Cronos Investment Portfolio



Source: Company Presentation

Pharma. Germany (population of ~80mm) is one of the world's largest medical marijuana markets. According to Cronos, Germany is facing a severe supply shortage, following the government's decision to mandate insurance coverage for medical marijuana prescriptions as of March 2017. Next month, Cannamedical (pharmacy wholesaler that distributes in Germany) expects to receive one of the largest medical marijuana shipments in the EU's history (includes Canadian medical cannabis products).

THC Biomed (CSE: THC)

THC Biomed is a medical marijuana producer, which was recently approved by Health Canada on August 24th to sell dried marijuana to patients registered under the ACMPR. THC's stock price is up 30% since the announcement. It was previously only licenced to grow and sell medical marijuana to other licenced producers, as well as selling equipment to registered home growers.

THC has an online website where the Company retails its products to home growers and patients registered under the ACMPR.

In June 2017, THC announced it received a supply order from Germany, however, the Company has not yet received its licence to export medical marijuana to the European Union.

Like its competitors, THC has accessed the capital markets in anticipation of the post-legalization demand for its products. The Company has recently secured \$22mm in two different financings of \$10mm and \$12mm. The \$10mm is expected to fund the day to day operations of the company and the \$12mm financing is planned to be accessed on an as needed basis to finance any expansion projects the company wishes to invest in.

Aurora Cannabis Inc. (TSX: ACB)

Aurora Cannabis is a licenced producer and seller of medical marijuana and cannabis oil under the ACMPR. Aurora sells its products over the phone, online or through its mobile app and offers a delivery service to its customers. Currently, the Company sells dried medical marijuana for \$8 per gram and cannabis oil for \$115 per 30ml. ABC currently operates a 55,000 square foot facility in Alberta that is licenced to produce and sell 5400 KG of cannabis per year. On August 31st, Aurora announced a supply agreement with another licenced producer.

Aurora has commenced construction of its new 800,000 square foot production facility in Alberta called Aurora Sky. The facility is expected to cost \$110mm and has an expected capacity of 100,000 KG. Furthermore, Aurora completed the strategic acquisition of Peloton Pharmaceuticals in Quebec. By doing so, Aurora gained access to a 40,000 square foot facility that was 80% complete. In an operational update on August 30th, the Company announced the Peloton Facility would be complete and ready for production by the end of 2017, six months ahead of schedule.

On August 31st, Aurora announced that its active registered users had reached 19,000, up 46% since April 30th of this year.

Aurora has seen rapid growth in registered patients and by extension over the last year. They

Figure 2: Aurora FQ3/17 Highlights

Financial and Operational Highlights

	Q3 2017	Q2 2017	Q1 2017	Q4 2016
	#	#	#	#
Active registered patients (cumulative) ⁽¹⁾	13,110	12,200	8,200	4,500
Grams sold	653,008	538,045	435,720	200,310
	\$	\$	\$	\$
Revenues	5,175,304	3,884,462	3,071,422	1,220,041
Adjusted gross profit ⁽²⁾	3,142,464	1,479,838	1,348,546	(184,819)
Working capital	126,530,392	60,060,454	23,212,674	(2,751,400)
Investment in capital assets	10,464,414	4,157,709	645,101	278,414

⁽¹⁾ As of the date hereof, the Company has approximately 13,600 active registered patients.

⁽²⁾ Adjusted gross profit is a non-GAAP financial measure that does not have a standardized meaning under IFRS and may not be comparable to other companies. See reconciliation under "Results of Operations".

Source: Company Filings

announced quarterly revenues amounting to \$5.2mm for the period ended March 31st, maintaining an average quarterly revenue growth rate of 70% over the last four quarters.

Upcoming Catalysts

Rejuvenation in the marijuana sector by recent government announcements. The Canadian Federal government's \$274mm commitment to recreational legalization has sparked the fire once again!

The prospect of having legalized recreational marijuana by July 2018 have been strengthened, renewing serious discussions on various legal issues such as the age of consent, distribution channels (such as the LCBO), and pricing. Town hall meetings are being held across Canada to discuss the implementation of C-45. Investors should watch out for ongoing announcements by Canadian provinces as they continue to roll out individual plans for recreational marijuana. Company-specific investors should also follow the releases of Q3/17 financials, focusing on improvements in free cash flow. Reports should be released as early as November.

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