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# Let's Toke Business



The Commerce of Cannabis

Ted Ohashi MBA, CFA

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[How to Make Money on Cannabis Stocks in the Next Three Months](#) November 27, 2017

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[If You Missed Some Of LXRP's Gains, Don't Miss Them All](#) November 3, 2017

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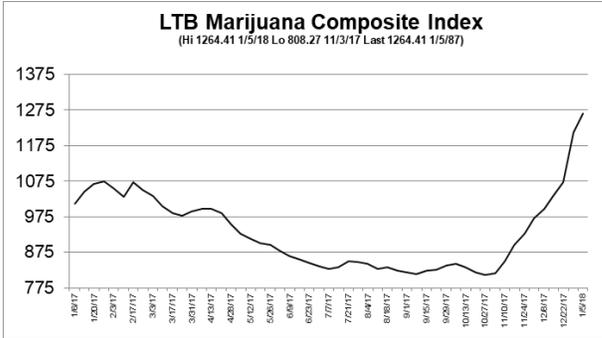
No matter the size or sector of a company, successful investors invariably look for exceptional management and innovation. [Enterprise Group \(E:TSX\)](#) (a consolidator of infrastructure and rental services in Canada) shares those critical characteristics with many of the companies discussed in the popular Cannabis newsletter "Let's Toke Business". Enterprise management recognised a unique opportunity to sponsor a high quality and informative independent publication, while increasing its visibility to a group of like-minded investors it might not normally be exposed to.

Following the significant 2014-15 resource downturn, Enterprise and its four subsidiaries--unlike many peers-- used the opportunity to streamline operations, deliver positive cashflow every quarter and return to profitability. [Here](#) is the most recent corporate update with contact information. Each week we will bring you Enterprise highlights alongside Ted Ohashi's great Let's Toke Business' in-depth analysis. Enterprise Group is listed on the TSX.



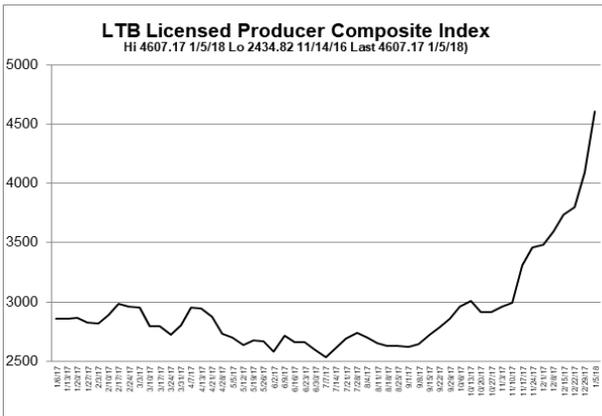
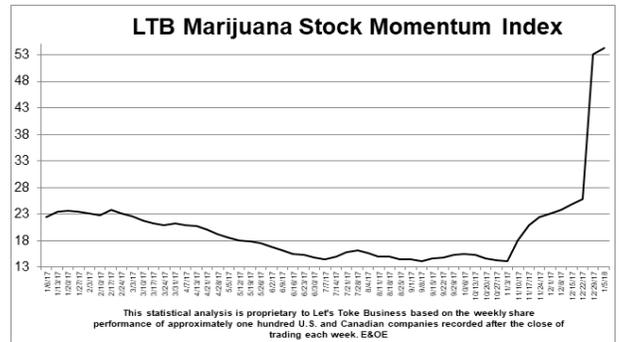
# Marijuana Stock Market Review & Outlook

**LTB MJ INDEX: 1wk +4.3% 1 mo +26.9% 3 mo +50.2% 6 mo +52.7% 1 yr +26.9%**



The Let's Toke Business Marijuana Composite Index posted an advance of 4.3% and a ninth consecutive weekly gain. This would not be remarkable if it weren't for the fact that U.S. Attorney-General Jeff Sessions rescinded the Cole Memo. (see Marijuana Matters below). This event produced a one day setback for the cannabis stocks followed by a recovery to another new high. In its current mood, the market just didn't care about an event that would have created a larger reaction just a few months ago. We continue to expect the market to go higher.

The cannabis stock momentum remained positive which augers well for prices to continue advancing. There were slightly more than two advancing stocks for every one that declined last week. Again we view the market as healthier if the advance is made up of more stocks joining in the parade. Although it may seem counterintuitive but it is comforting to note that this week there were nine stocks that declined for every one that dropped in price last week. Momentum is one important component that allows us to measure investor psychology and we like what we are seeing.

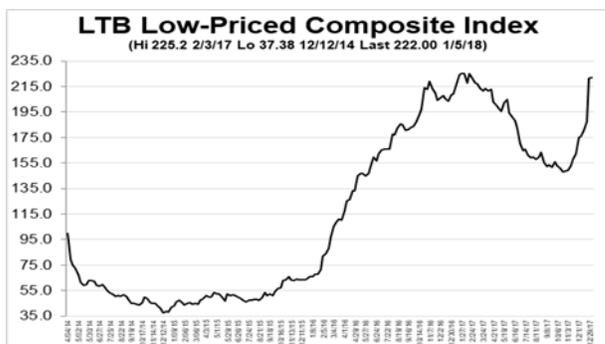


Even a 'black swan' event couldn't stop the Let's Toke Business Licensed Producer Index drive into record high territory. Last week the index gained a powerful 12.6% and for the second week in succession, no Licensed Producer stocks dropped in price on a weekly basis. As we discuss below, U.S. AG Sessions' action was probably positive for the Canadian LPs on balance. In addition because it is the LPs, we are not overly concerned about skyrocketing stock prices. It probably means the cannabis Exchange Traded Funds and some investing institutions are getting into this sector and the LPs are the companies they would focus on.

The Canadian Cannabis Composite Index, published by Davis and Associates Capital Corp., advanced 18.0% last week topping even our LTB Licensed Producer Index. This is what we would expect from an index that is made up of the 20 highest market cap companies. In other words, the 3Cindex confirms that market leadership is coming from the highest quality companies in the cannabis group. ([access the 3Cindex here](#)) We hope you are finding the index useful in your day to day cannabis investment activities. As we get more

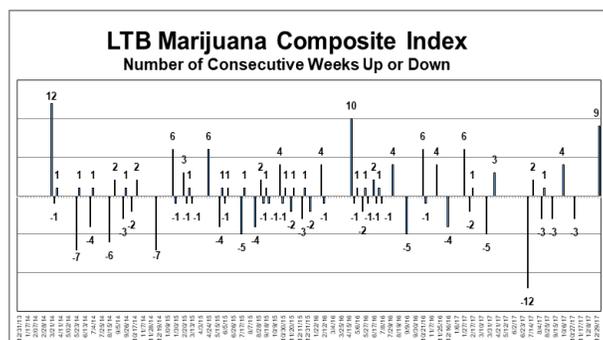


accustomed to the index, we find we are referencing it up to half a dozen times a day.



The LTB Low-Priced Composite Index returned to its proper place at the bottom of the pack in terms of performance posting a gain of just 0.3% last week. It is interesting to note that momentum was negative on the holiday shortened trading week with fewer stocks advancing than declining. Here we show the long-term chart which illustrates the index is meeting some resistance as it tries to break through to an all-time high. If the index can manage to break out, there is plenty of room on the uncharted territory above.

Here is the chart that plots the length of rallies and reactions in the LTB Marijuana Composite Index. You will recall we expressed the opinion that once this rally went beyond six weeks, it was probably headed for 10 to 12 weeks and maybe even longer. That seems to be happening as the current rally has reached nine weeks. The market overcame some bad news last week when U.S. AG Jeff Sessions rescinded the Cole Memo. With our normal momentum index still moving positively, we think our original expectation is still attainable and we expect another up week ahead.



**Conclusion:** We must admit to being a little surprised by the many ways in which the cannabis stocks demonstrate continued strength. But when we consider the LTB Composite is advancing, momentum is positive, the larger stocks are leading the parade as illustrated by the LTB Licensed Producer Index, the 3Cindex that measures a narrower list of the highest quality stocks continues to gain ground and the LTB Low-Priced Stock Index is lagging, it gives us some comfort. But we got a taste of the downward volatility inherent in the market so it behooves us to be alert.

## Marijuana Matters

Since it first became apparent that Jeff Sessions might be selected as Attorney General in a Donald Trump administration, our most consistent message was that the Cole Memorandum was not law but policy and could be easily rescinded by the stroke of a pen. That goes back to November 2016. We noted along the way, a comment made by Thomas Figures, a black assistant U.S. Attorney who testified he was present when Sessions said the thought some Ku Klux Klan members were okay until he found out they smoked pot. Figures went on to say he didn't think Sessions was joking.

Well now it has happened. Last week, Sessions retracted the Cole Memorandum that had guided the Justice Department since August 2013. The memo that now bears his name was issued by then Attorney-General James Cole instructed all state AGs that there are eight priorities for prosecutors and law enforcement to focus on when considering marijuana prosecutions in states where it has been legalized. These included keeping marijuana out of the hands of minors, preventing marijuana revenue from going to organized crime and making sure marijuana wasn't being diverted from legalized states to other states. The effect was if states legalized marijuana and addressed these issues, federal prosecutors de-prioritized marijuana-related offenses.

In what Sessions referred to as a "...return to the rule of law..." he said, "Previous nationwide guidance [the Cole memo] specific to marijuana enforcement is unnecessary and rescinded effective immediately." Sessions says instead "In deciding which marijuana activities to prosecute under these laws with the Department's finite resources, prosecutors should follow the well-established principles that govern all federal prosecutions." Digging down a little deeper we find Sessions believes 'well-established principles' means "These principles require federal prosecutors deciding which cases to prosecute to weigh all relevant considerations of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community."

Clearly Sessions' statement is open to different interpretation by those who are anti-marijuana and those who are not. It is a step back to conditions pre-dating the Cole Memo which was marked by frequent Federal actions against cannabis operators. It is also a backward step for the industry in terms of issues such as banking services. This will deter federally regulated banking institutions, for example, from providing banking services to cannabis industry participants.

In assessing the stock market response to this action, here is what we saw:

- (a) It is clear that investors in Canadian Licensed Producers don't care. After a knee jerk sell off in all cannabis stocks, the LPs recovered nicely over the rest of the week. There was not one LP that declined in price last week from the previous week.
- (b) This might actually be good for Canadian LPs that are expanding overseas. As long as the U.S. Federal government keeps harassing U.S. operators, it will leave international markets free of American competition for Canadian operators.
- (c) If it deters investment in U.S. operators, we think it benefits two groups. First, Canadian LPs who don't face competition from American counterparts as per (b) above and those enterprising operators who see this an opportunity to get into the U.S industry as per (d) below.
- (d) There will also be a few enterprising operators who see this as an opportunity and leapfrog those who are held back.
- (e) It is possible there will be a depressing impact on the U.S. cannabis stocks. If you assume that politicians always have some hidden agenda, then you must conclude there was a connection between the timing of Sessions' actions and legalization getting underway in California, the largest state in the Union. So the American cannabis stocks might underperform their Canadian counterparts as a consequence.

We look at Jeff Sessions and see a dinosaur thrashing about in its death throes facing extinction. Of course there is a consistency here. Republicans seem intent on eliminating anything that goes back to President Obama and although we feel President Obama generally let down cannabis advocates, the Cole Memo gets a 👍 from us. Also Trump loves states that voted for him and hates those that didn't. Clearly California is anti-Trump and will probably never vote for him. But this is a dubious reason to go against what the latest Gallup Poll shows is the preference for legalization on the part of two out of every three Americans. Alaska (2015), California (2016), Colorado (2012), Maine (2016), Massachusetts (2016), Nevada (2016), Oregon (2015), Washington (2013) and the District of Columbia (2014) have all approved adult-use marijuana legislation. (Warning: Maine and Massachusetts have not yet started). Also, one out of every five Americans can access marijuana without a doctor's prescription and 29 states have approved medical marijuana.

There might be another shoe to drop. Sessions could issue a memo that directs DOJ people to prosecute cannabis operators more aggressively in states where the locals have approved legalization. This would become known as the "Sessions Memo" and would be as bad as the "Cole Memo" was good. We think such a move by Sessions would be tragic and based on how widely accepted cannabis is already, it would be dumb. But we wouldn't want to be in a position to argue that Sessions is the brightest light on the Christmas tree.

Once the toothpaste is out of the tube, you can't get it back in. Cannabis is now here to stay. Given its acceptance on the part of Americans and legalization that is about to be passed in Canada, there's no going back. The ones who benefit are those who press forward in the U.S. and get established while others watch.

## Breaking & Corporate News

**Aurora Cannabis (TSX: ACB) is not sitting around waiting for Cannimed (TSX: CMED) shareholders to make up their minds. ACB and The Green Organic Dutchman (TGOD)** that has not yet gone public, announced the companies have completed a definitive agreement covering a strategic investment in TGOD. ACB will acquire by private placement, a 17.62% interest on a non-diluted basis. The placement consists of 33,333,334 units, priced at \$1.65 per unit, for gross proceeds of \$55 million. Each unit consists of one common share and one half of one common share purchase warrant, exercisable at \$3.00 per common share for a period of 36 months following closing of the offering. Upon TGOD achieving certain corporate, operational, construction and financial milestones ACB will have the option to incrementally increase its ownership interest in TGOD to 51%.

As part of the agreement, the companies shall enter into a supply contract, providing ACB with the right to purchase up to 20% of TGOD's annual production of organic cannabis from TGOD's Ancaster and Valleyfield facilities. Consequently, Aurora anticipates being able to procure in excess of 20,000 kg per annum of premium organic products once TGOD's Valleyfield and Ancaster facilities are completed and at full capacity. The supply contract provides Aurora with the right to purchase up to 33% of TGOD's production at the two facilities if ACB increases its ownership interest to 31%.

Aurora is clearing pursuing a policy to become the leading cannabis producer in Canada.

**But don't expect Canopy Growth (TSX: WEED) to sit back and lose its leadership position without a fight.** In a full review and update of its operations, WEED looks toward global growth opportunities. They will make a major effort to establish global leadership positions with a focus on Europe, Latin America and Australia in 2018. In Europe, licensed production in Denmark will help ensure WEED can meet the needs of patients and regulators seeking established producers and stable medical cannabis genetics produced in Europe for Europe. WEED believes Latin America will mature as a market opportunity in 2018. Existing positions in Chile and Brazil will act as a basis for them in the region. They also see Australian cannabis laws and regulations being finalized and WEED plans to bring its global leadership to this region of the world in 2018. They also reiterated their position that "Operating in the United States represents undue risks and could jeopardize the Company's ability to attract major institutional investors and could potentially limit future listings on major securities exchanges."

Finally, WEED has not lost sight of the fact that 2018 will be a historic year in Canada. "Canopy plans to capitalize on the opportunities presented by the regulated recreational market, a multi-billion dollar opportunity. It will do so by continuing to grow quality products presented by brands people know and trust, all while maintaining a supply of these products supported by a massive production platform." ([read full release here](#))

**Lexaria Bioscience Corp. (OTCQX: LXP) (CSE: LXX)** (the "Company" or "Lexaria") announces the filing of a registration statement and shareholder information circular on January 5, 2018. This clears the way for LXP to change its corporate domicile from the State of Nevada to the Province of British Columbia, Canada. This process is known as "conversion" in Nevada and "continuation" in British Columbia. The steps involved include clearing the S-4 registration statement with the SEC and obtaining shareholder approval.

We think this is an important development because:

- (a) It will move the corporate domicile to the more cannabis friendly legal and regulatory jurisdiction of Canada. In any event, British Columbia and Canada is the home base for management and operations.

(b) While we are not dispensing tax advice, a quick review indicates for Canadian shareholders this is not a taxable event. It is almost certain the IRS will deem LXP remains a "U.S. person" in their perspective and it will not be a taxable event for American shareholders.

Although not related to this announcement, please note LXP is now elevated to OTCQX from OTCQB. Of the five levels on the U.S. OTC, QX is the highest. There is only one QX company for every four or so designated QB.

LXP also reported it has received US \$216,851 from the exercise of previously granted options and warrants by third parties who are not officers or directors of the company.

**Aurora Cannabis Inc. (TSX: ACB) (OTCQX: ACBFF) and Namaste Technologies (CSE: N) (OTCMKTS: NXTTF)** announced the signing of a binding term sheet towards a final Private-Label Software Agreement under which NXTTF will provide an ACB subsidiary with a customized version of NXTTF's patient acquisition tool, NamasteMD.com as well as desktop and mobile applications for Google Android and Apple iOS platforms. The companies have 30 days to complete a final agreement.

NamasteMD is an online telemedicine platform for patient consultation and registration, bringing together NXTTF's tested technology platform, including certain proprietary authentication technologies, as well as consultation, education and medical document issuance processes. In consideration of ACB's assistance for the future optimization of NamasteMD, NXTTF has issued ACB 500,000 stock options, exercisable at \$3.35 per common share for 48 months vesting quarterly over 12 months.

In addition, the companies have also signed a non-binding, non-exclusive Letter of Intent to complete a final Consultation & Support Services Agreement under which NXTTF will provide patient referral services to ACB where applicable under Canada's *Access to Cannabis for Medical Purposes* ("ACMPR") regulations. Commercial terms are not disclosed.

The two companies already collaborate on eCommerce and the distribution of BC Northern Lights products.

We think transactions of this sort with a company of Aurora's stature enhances Namaste's credibility and standing in the industry.

**This week in New Cannabis Ventures, Alan Brochstein discusses some signs of "speculative excess" he sees in the cannabis stocks.** He is referring to the rapid growth in Exchange Traded Funds, the response to the news that Australia will approve medical marijuana and some cannabis companies trying to promote themselves by turning to cryptocurrencies. Brochstein is an experienced investor and his ideas are worth keeping in mind. We often benefit from his thoughts and so should you. ([read Alan Brochstein's comments here](#)) Also worth a read is his exclusive article Be Prepared for Consolidation in the Canadian Cannabis Sector in 2018. ([read full article here](#))

## Applications Watch

No new Licensed Producers approved last week. There are still 84 Licensed Producers approved. There were 47 new LPs approved last year and we suspect there will be far more than that approved this year. In the past 34 weeks there have been 42 new Licensed Producer approvals. Of the 84 LPs: 32 are Cultivation & Sale, 47 are Cultivation and 5 are Sale Only. On the list of Fresh Marijuana & Oil producers, there are 30 LPs approved: 19 as Production & Sale, 7 approved for Production and 3 approved as Sale Only. In the category "Sale of Starting Materials," 10 LPs are approved to sell starting materials: 8 approved to sell plants and 2 approved to sell seeds.

There are now 24 public companies that are LPs or own an interest in one or more LPs.

Licensed producers by province are Ontario (47 or 56%), British Columbia (18 or 21%), Alberta (4 or 5%), Saskatchewan (4 or 5%), Quebec (4 or 5%), Manitoba (2 or 2%), New Brunswick (2 or 2%), Nova Scotia (2 or 2%) and Prince Edward Island (1 or 1%). Percent totals may not add up to 100% due to rounding.

<b>Producer</b>	<b>Prov</b>	<b>Dried Marijuana</b>	<b>Fresh Mari &amp; Oil</b>	<b>Sale Start Materials</b>
1. 7 Acres	ON	Cultivation & Sale		
2. Abba Medix	ON	Cultivation		
3. ABCann Medicinals	ON	Cultivation & Sale		
4. A.B. Laboratories	ON	Cultivation		
5. Acreage Pharms	AB	Cultivation		
6. Aero Farms	ON	Cultivation		
7. AgMedica Bioscience	ON	Cultivation		
8. Agrima Botanicals	BC	Cultivation	Production	
9. Agri-Médic ASP.	QC	Cultivation		
10. Agripharm Corp.	ON	Cultivation & Sale	Production & Sale	
11. Agro-Greens Natural Prod	SK	Cultivation	Production	
12. Aphria	ON	Cultivation & Sale	Production & Sale	
13. Aurora Cannabis	AB	Cultivation & Sale	Production & Sale	
14. Aurora 2 <sup>nd</sup> site	QC	Cultivation		
15. Bedrocan Canada	ON	Sale		
16. Bedrocan Canada 2 <sup>nd</sup> site	ON	Cultivation & Sale	Production & Sale	
17. Beleave Kannabis	ON	Cultivation	Production	
18. Bloomera	ON	Cultivation		
19. Bonify	MB	Cultivation		
20. Breathing Green Solutions	NS	Cultivation		
21. Broken Coast Cannabis	BC	Cultivation & Sale	Production & Sale	
22. Canada's Island Garden	PEI	Cultivation & Sale		
23. Canna Farms Ltd	BC	Cultivation & Sale	Production & Sale	Plants
24. Cannatech Plant Systems	BC	Cultivation		
25. CanniMed Ltd	SK	Sale	Sale	
26. CannTrust	ON	Cultivation & Sale	Production & Sale	Seeds
27. CannTrust 2 <sup>nd</sup> site	ON	Cultivation	Production	
28. Canveda	ON	Cultivation		
29. DelShen Therapeutics	ON	Cultivation		
30. Delta 9 Bio-Tech	MB	Cultivation & Sale		
31. Emblem Cannabis	ON	Cultivation & Sale	Production & Sale	
32. Emerald Health Botanicals	BC	Cultivation & Sale	Production & Sale	
33. Emerald Health 2 <sup>nd</sup> site	BC	Sale	Sale	
34. Evergreen Medicinal	BC	Cultivation	Production	
35. Experion Biotechnologies	BC	Cultivation		
36. FV Pharma	ON	Cultivation		
37. Green Relief	ON	Cultivation & Sale		
38. Greenseal Cannabis	ON	Cultivation		
39. GrenEx Pharms	AB	Cultivation		
40. Hydropharmacy	QC	Cultivation & Sale	Production & Sale	
41. HyDRx Farms	ON	Cultivation		
42. Indiva	ON	Cultivation		
43. International Herbs	BC	Cultivation		

44. Int'l Herbs 2 <sup>nd</sup> site	NB	Cultivation			
45. James E. Wagner Cultivation	ON	Cultivation			
46. Maricann	ON	Cultivation & Sale	Production & Sale		Plants
47. Maricann 2 <sup>nd</sup> site	ON	Sale	Sale		Plants
48. Medical Marijuana Group	ON	Cultivation			
49. Medical Saints	ON	Cultivation			
50. MedReleaf	ON	Cultivation & Sale	Production & Sale		
51. MedReleaf 2 <sup>nd</sup> site	ON	Cultivation & Sale			
52. Mettrum Bennett North	ON	Cultivation & Sale	Production & Sale		
53. Natural Med	ON	Cultivation			
54. Natura Naturals	ON	Cultivation			
55. Northern Lights	BC	Cultivation			
56. Original B.C.	BC	Cultivation & Sale			
57. Organigram	NB	Cultivation & Sale	Production & Sale		
58. Peace Naturals Project	ON	Cultivation & Sale	Production & Sale		Plants
59. Potanicals Green Grow	BC	Cultivation			
60. Prairie Plant Systems	SK	Cultivation	Production		
61. Quality Green	ON	Cultivation			
62. RedeCan Pharm	ON	Cultivation & Sale			
63. RedeCan Pharm 2 <sup>nd</sup> site	ON	Cultivation	Production		
64. Rock Garden Medicinals	ON	Cultivation			
65. Solace Health	ON	Cultivation			
66. Spectrum Cannabis	ON	Cultivation & Sale	Cultivation & Sale		
67. Sundial Growers	AB	Cultivation			
68. Tantalus Labs	BC	Cultivation			
69. THC Biomedical	BC	Cultivation & Sale	Production & Sale		Plants
70. THC Inc	NS	Cultivation & Sale	Production & Sale		
71. Green Organic Dutchman	ON	Cultivation & Sale			
72. Tilray	BC	Cultivation & Sale	Production & Sale		
73. Tweed Grasslands	ON	Cultivation			
74. Tweed Farms	ON	Cultivation & Sale			
75. Tweed Inc.	ON	Cultivation & Sale	Production & Sales		Seeds
76. United Greeneries	BC	Cultivation & Sale			
77. UP Cannabis	ON	Cultivation	Production		
78. Vert Cannabis	QC	Cultivation			
79. We Grow B.C.	BC	Cultivation			
80. WeedMD	ON	Cultivation & Sale	Production & Sale		Plants
81. Whistler Medical Marijuana	BC	Cultivation & Sale	Production & Sale		Plants
82. WILL Cannabis Group	ON	Cultivation			

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