

## ACB .39 - Marijuana Tsunami of Change Underway

By Danny Deadlock, TickerTrax

### TWO PART REPORT:

- I. Introduction of **Aurora Cannabis** (CSE: ACB, Stock Forum) (39 cents)
  - II. The Marijuana Industry - Dramatic Changes & Early Opportunities
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**CNN Special Report with Dr. Sanjay Gupta** (3 part series started August 2013)

***"I think we have been terribly and systematically misled"*** – [Dr. Gupta following his one year journey researching the marijuana industry]

I have personally been indifferent to the marijuana stocks and not a huge fan of the industry overall. I was of the opinion that it was a recreational drug (like alcohol) easily abused but, for the most part, under the guise of being medicinal. And for those that did use it recreationally, it was likely as bad as smoking and would typically lead to the use of stronger drug use. From an investment perspective, I also felt it had run its course and valuations even now were marginally over-inflated.



I was wrong (uneducated) on almost all accounts! I still believe marijuana should not be used by people under the age of 21 while the brain is still developing, but there appears little reason this should not be legalized and regulated in the same manner as alcohol. And from a medical perspective, Cannabis is shockingly beneficial. I have seen the argument that marijuana is far better for people than alcohol - I now understand why that claim is made.

Dr. Gupta with CNN is very intelligent and unbiased. He spent a tremendous amount of time researching the marijuana industry in great detail and I recently decided to spend time properly educating myself on marijuana. I had read several publications and watched some documentaries but it was the CNN series by Dr. Gupta that finally had me changing my entire outlook on marijuana users, the industry, and the investment potential.

My report is a bit long but if you have the time to read it, I believe you will also understand why I had the dramatic change in opinion - and why you may want to research Aurora further. If you are not interested in Aurora, here are some other public marijuana companies in Canada:

Tweed ([TSX: TWD](#), [Stock Forum](#)) (\$2.00) - market cap \$100M / [www.tweed.com](#)

T-Bird Pharma ([TSXV: TPI](#), [Stock Forum](#)) (45 cents) - market cap \$21M / [www.tbirdpharma.com](#)

OrganiGram ([TSXV: OGI](#), [Stock Forum](#)) (50 cents) - market cap \$27M / [www.organigram.ca](#)

Bedrocan Cannabis ([TSXV: BED](#), [Stock Forum](#)) (71 cents) - market cap \$50M / [www.bedrocan.ca](#)

Mettrum Health ([TSXV: MT](#), [Stock Forum](#)) (\$1.80) - market cap \$62M / [www.mettrum.com](#)

I am focusing on Aurora because I believe users (recreational or medical) will eventually demand higher standards (pharmaceutical grade manufacturing) throughout the entire process. Right now for millions of users across North America, it is an industry dominated by "**Marijuana Moonshiners**" (illegal grow-ops).



**Aurora has one of the only "purpose built" marijuana facilities in North America** - meaning they did not convert an old building, but constructed their facility from the ground up using state of the art equipment - and they will maintain that high standard right through to distribution.



## First a Note on the CSE

I have not followed any Canadian Stock Exchange (CSE) listed companies this past year because several of the major banks were not allowing CSE stocks to be purchased online - they required a person to phone in. This was a giant pain for most people so I avoided them.

Fortunately they have started supporting more and more CSE listed companies and providing quotes and trades the same way they do with the TSX and TSXV. Aurora is one such company that can be traded conveniently.

## Marijuana Sector

Marijuana stocks had a HUGE rally in early 2014 with many gaining hundreds of percent over a few months. The froth came off that as regulatory hurdles surfaced and investors realized that most of these companies were ninety percent fluff (promotion) and ten percent substance. When the smoke settled they left a path of investor destruction.

In 2014 Tweed (TWD.V \$2.00) garnered most of the media attention - primarily because it was a high profile IPO (in a unique industry) out of Toronto. Tweed's current market cap is \$100 million.

Many people view those running medical marijuana companies as hippies. That may be the case in many situations (small growers) but in the case of several companies (public in particular) these are very well run companies.

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### **Aurora Cannabis** (CSE: ACB, Stock Forum) (39 cents)

<http://auroramj.com/>

Shares Outstanding: 105 million /  
Market Cap \$42 million

Aurora insiders and directors all have large vested interests - with the majority investing seven figures each and in total controlling over 40% of the paper.

**Aurora is one of the companies setting the marijuana bar VERY high.**



- 1) Custom built 54,000 sq. ft. facility in the foothills region of Alberta (almost \$11 million to build)
- 2) One of the largest and most advanced facilities in Canada

- 3) Current (Licensed) growing capacity of 5,500 kg capable of generating > \$50 million in annual revenue from approx. 15,000 "patients".
- 4) Health Canada license received in February 2015
- 5) First harvest should be ready early July
- 5) Will produce up to 20 strains of marijuana
- 5) High profit margins / high demand
- 6) Plan would be to "cookie-cut" in other Provinces or countries

Aurora currently has a License to grow and cultivate BUT they only get a license to SELL after the crop is harvested and inspected by a government agency. In theory after that, they would likely see their crops inspected a couple more times and then be subject to random surprise inspections like Health Canada would do at a meat packing plant.

The company will be targeting same day delivery in major cities and rapid online processing and shipping for all other regions. They have established partnerships across Canada with medical and nurse practitioners, in addition to what are called "compassion clubs" in the medical marijuana industry.

In addition to large production capacity, one of their strongest selling features will be the high grade of their product and the pharmaceutical grade methods employed to grow and harvest their products.



Once in full production, the Aurora facility will be harvesting approximately 2,500 plants every seven days, which will result in up to 100 kilograms of product per harvest.

**Aurora has also entered into 11 non-disclosure agreements, including four in the United States, to review in detail additional synergistic opportunities within the cannabis space.**

## MARKET SIZE

If Aurora can expand their business into the United States and target both medical and recreational pot smokers, the market is enormous. Health Canada estimates there are approx. 50,000 medical marijuana smokers in a market worth approx. \$1.3 Billion annually.

The CEO of Aurora mentions in an interview that **the state of Washington alone has 800,000 recreational marijuana smokers!** In three states, Alaska, Colorado, and Washington, the sale and possession of marijuana is legal for both medical and non-medical use; legalization is pending in Oregon. Washington DC has legalized personal use but not commercial sale.

There is a lot of legal supply competition in the United States but it is also a VERY large market that is still very young. Organized crime controls the supply in 40+ states so it is in the best interest of the American government to legalize marijuana for safety and taxation reasons.

As more states come to grips with this reality, it will open up opportunities for a company like Aurora who are demonstrating that marijuana can be safely manufactured and processed like any commercial drug.

## **THIS SUMMER is VERY IMPORTANT for AURORA**

Shortly after their first harvest comes off in late June or early July, they will bring in government inspectors who (will hopefully) issue them their license to sell. That will be a MAJOR event in the life of the share price. Market optimism after summer is usually good heading into September and a positive approval to sell from the government this summer will no doubt generate a substantial amount of buying.



I believe ACB will be shooting for a U.S. OTC listing so they can tap into that American investor appetite for marijuana stocks (very strong demand in the past) - and Aurora has a very marketable story because of their pharmaceutical manufacturing standards and methodology.

## SHORT TERM VALUATION TARGET

Realistic valuation (based upon peers) should be in the range of 50 to 60 cents. If they get their license to sell this summer, the stock could be valued anywhere from 60 to 90 cents. Beyond that it will depend upon their revenue growth (building / cloning other facilities with new licenses that determine the number of plants that can be grown and harvested annually).

## 2014 SECTOR RALLY

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If the industry garners more attention (which I believe it will over the next year), then these higher quality marijuana investments could attract a lot of buying and speculation again.

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## AMERICAN LEGALITY and COUNTRY STATS

[http://en.wikipedia.org/wiki/Cannabis\\_in\\_the\\_United\\_States](http://en.wikipedia.org/wiki/Cannabis_in_the_United_States)

"Twenty-three states and the District of Columbia have passed laws allowing some degree of medical use of marijuana, and 14 states have taken steps to decriminalize it to some degree. This movement sought to make simple possession of cannabis punishable by only confiscation or a fine, rather than prison. In the past several years, the movement had started to have some successes."

"Some states and local governments have established laws attempting to decriminalize cannabis, which has reduced the number of "simple possession" offenders sent to jail, since federal enforcement agents rarely target individuals directly for such relatively minor offenses. Other state and local governments ask law enforcement agencies to limit enforcement of drug laws with respect to cannabis, however under the Supremacy Clause of the United States Constitution, federal law pre-empts conflicting state and local laws. In most cases, the absence of a state law does not present a pre-emption conflict with a federal law."

[http://en.wikipedia.org/wiki/Legality\\_of\\_cannabis\\_by\\_country](http://en.wikipedia.org/wiki/Legality_of_cannabis_by_country)

[http://en.wikipedia.org/wiki/Annual\\_cannabis\\_use\\_by\\_country](http://en.wikipedia.org/wiki/Annual_cannabis_use_by_country)

"In Canadian neighborhoods there are hundreds of private but legal medical marijuana grow-ops. However, a Federal Court in British Columbia is hearing a case that could shut down all private growers. The federal government replaced this method of growing with large commercial operations in 2013 and 2014, but a court injunction has allowed the small-scale producers to continue. A ruling in the case is due the end of 2015 and it could have an enormous negative impact on small private growers (positive for companies like Tweed and Aurora)."

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## USEFUL MEDIA on AURORA

### Video of the Aurora facility from Global News March 5th

<http://globalnews.ca/news/1866369/watch-sneak-peak-inside-albertas-first-medical-marijuana-production-centre/>

### InvestorIntel Video from April 5th - VERY insightful

<http://investorintel.com/agbusiness-mmj-intel/mmpr-licensee-aurora-cannabis-on-being-first-to-build-a-new-marijuana-facility-in-canada/>

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## PART II. - A LESSON in CANNABIS

***“I think we have been terribly and systematically misled”*** – [Dr. Sanjay Gupta on marijuana]

As I mentioned at the beginning of this report, I recently decided to spend time properly educating myself on the marijuana industry. I read several publications and watched some documentaries but it was the CNN series by Dr. Gupta that really changed my outlook on marijuana users, the industry, and the investment potential.

**In an effort to simplify / summarize what I learned, I have made notes below of the most important points that will be relevant to investing in this industry:**

First understand the most basic concept that there are specific marijuana plant strains (species) for specific purposes. You essentially have plants high in: **THC** (psychoactive), **CBD** (medical or therapeutic) or a combination of both THC/CBD.

> Federal use of Marijuana in the U.S. would not only require FDA approval BUT the National Institutes of Health AND The Drug Enforcement Agency (**marijuana is classified as a schedule 1 controlled substance – addictive drug with no medicinal benefits**). There is a HUGE IRONY here – the U.S. government has a patent on one of the chemicals in the marijuana plant for “medicinal purposes”. **Patent No: US 6,630,507 B1 Oct 7, 2003** -

**Cannabinoids as Antioxidants and Neuroprotectants.** The government sits on this patent so no one can do trials on it without their licensing.

> **This is definitely an important period in history as the perception of marijuana is changing dramatically.** Not just from the public's viewpoint, but that of **academics, doctors, and government.** They refer to this period as the "marijuana revolution", the "green rush vs. gold rush", or "daylighting a black-market industry".

> Both using marijuana and running businesses, these are not the typical pot smoking hippies we picture from the 60's and 70's. They include casual users and people with serious medical problems, but also very well educated, successful business men and women who are simply looking for a way to relax. We do not appear to be creating a generation of slackers and "dope smokers".

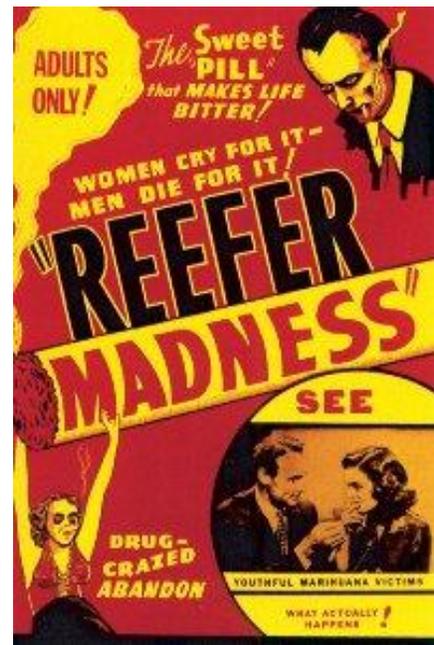
> Many of us (myself included at age 50) have been deeply rooted in **negative beliefs towards marijuana that have existed for over 80 years** – thanks to our parents, grandparents, and the media.

> Cannabis decades ago was **prescribed by doctors and dispensed by pharmacies.** This all changed in **1937** when marijuana became outlawed. The U.S. government said it had NO medicinal value and they sold the public on the idea that Mexican migrant workers were smoking it and causing major social problems including violence and criminal behaviour. This they said would influence an entire generation of youth. The 1936 movie "**Reefer Madness**" reinforced these beliefs and oddly helped define public opinion for that past eighty years.

> CNN featured many stories of dramatic success using Cannabis to treat all kinds of serious ailments including epilepsy. The most documented story is that of a young child in Colorado with a rare disease that started at 3mths and within two years she was having **300 seizures per week.** She was on a cocktail of prescription drugs that were incredibly dangerous. A specialized liquid strain of Cannabis was created for her called "Charlotte's Web" that was low in THC (makes people high) and high in CBD (neurologically helps the brain). Almost immediately her quality of life improved dramatically. Today over 40 children in Colorado are being successfully treated. They still don't know the long term implications on a child's health - but is it any worse than the life they are currently living?

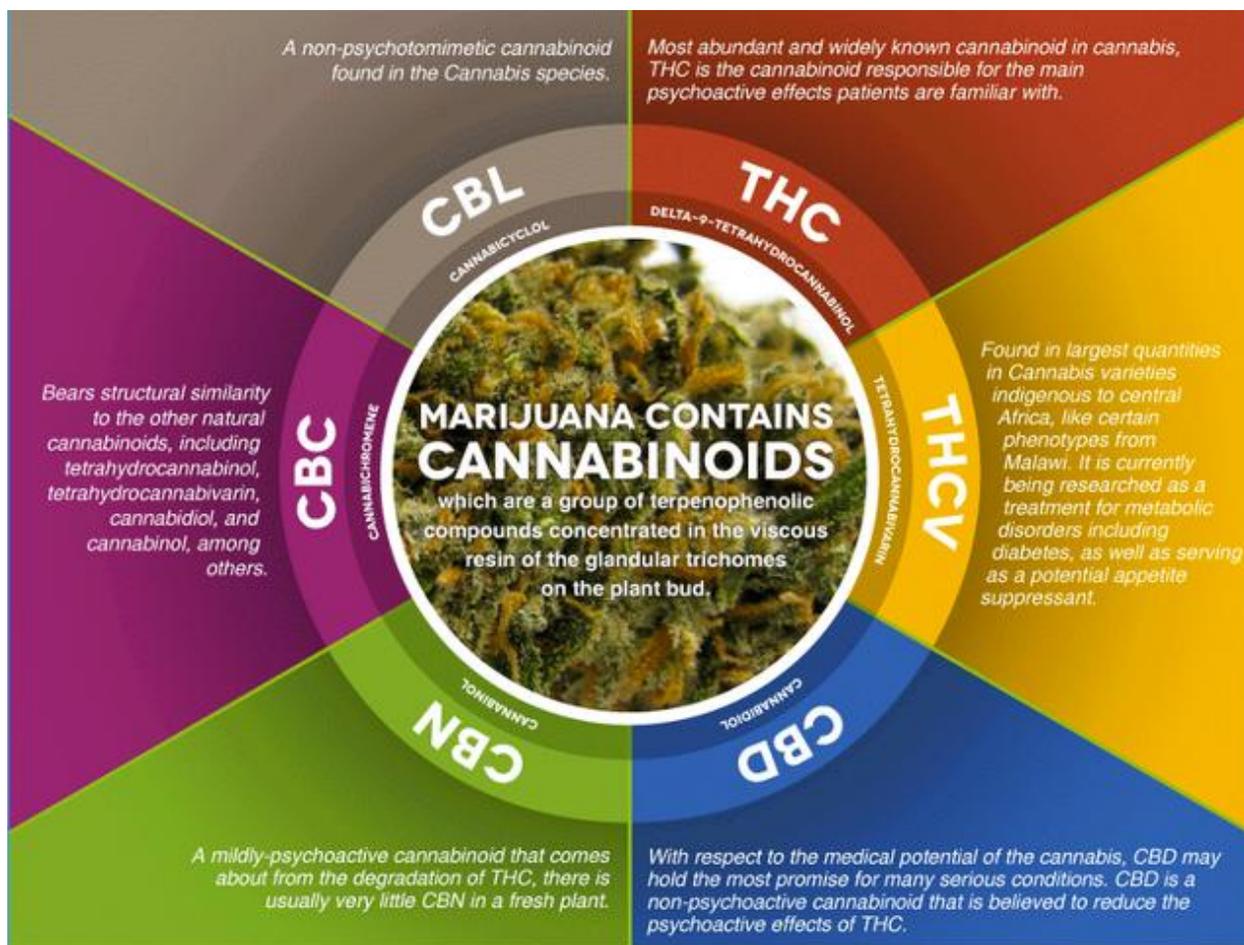
> The THC in Cannabis makes you high while the CBD regulates electrical impulses and chemistry. In the case of the child above, the grower had approx. 21% CBD and < 1% THC. For recreational users you would tend to see just the opposite.

> Current **epilepsy drugs** are very strong and can shut off breathing and respiration. They affect the brain stem that can then shut off the body's function if too much is consumed – something the CBD in marijuana does not do.



> There are countless stories of Cannabis successfully treating epilepsy or similar medical conditions and yet medical organizations in the U.S. refuse to admit that **Cannabidiol** (one of at least 85 active cannabinoids identified in cannabis) is effective. Is that because pharmaceutical giants who supply these expensive (often severely damaging) drugs DO NOT want to see something like marijuana working for medical purposes? If medical organizations and research hospitals are financially dependent upon huge funding from drug companies, they are not going to endorse anything that might jeopardize their funding.

<http://en.wikipedia.org/wiki/Cannabidiol>



> Even as medically successful as Cannabis has been shown privately, there is little public proof that can be shown because “legally” the claims cannot be made. If a company or medical organization has not gone through the seven years or more required for **FDA approval** (and spent tens of millions of dollars in the process) then there is little the general public can be shown that is deemed as “credible” evidence.

> **Israel is known as the medical marijuana research capital** – research that was started in the 1970’s. Their research isolated THC and CBD decades ago and they have been the first to successfully help treat **epilepsy, pain, Lupus, Crohn’s Disease and the effects of chemotherapy (nausea effects, appetite stimulant, and help sleeping)**.



> **San Francisco General** is now allowed to do marijuana medical research on select patients with severe pain problems (they are having significant success). Many are hoping this is a much safer alternative to using prescription narcotics. It should be noted that patients do not “smoke” the Cannabis but use a “vaporizer”.

> Alzheimer’s research: it is believed that low doses of THC “slow down” the buildup of sticky proteins that cause a build-up of plaque in the brain (an early indicator of Alzheimer’s disease). Many scientists also believe that the Cannabinoids “help” the brain. So a combination of THC/CDB may help prevent or slow down the progression of brain disease. These are referred to as “**Neuroprotectants**”.

> One of the most reputable marijuana researchers / scientists in the United States is **Staci Gruber, PhD**. The Director, Cognitive and Clinical Neuroimaging Core (CCNC) for a Harvard Medical School hospital. Dr. Gruber is studying the impact of marijuana (Cannabis) usage on the brain. One of her patients consumed cannabis daily for three months and Neuroimaging scans showed **no evidence of impairment to the brain**. There was a change in the portion of the brain responsible for decision making and empathy (which may explain why Cannabis is so effective in treating those who suffer from PTSD).

> The **negatives of Cannabis** (in particular high levels of THC) include panic or anxiety attacks, too analytical, disorganized thinking, disruptions in memory and inhibitory control (these are typically short term impacts). These impairments are particularly dangerous when driving.

> Frequent users for medical purposes often don’t show the same **cognitive function impairment** as recreational users.

> **Young brains (prior to the age of 16) are definitely impacted differently**. Up to 16 is a very delicate time in brain development and research has shown that early smokers of marijuana are slower at tasks, tend to have lower IQ’s, have a higher risk of strokes and increased incidents of psychotic disorders.

> It is estimated that **35% of high school students smoke marijuana** and this could lead to a generation impacted by early smoking. Because the usage is so high already (even though illegal), the government would be better to legalize and regulate closely like tobacco and alcohol. **Marijuana should not be allowed for those under 21 (maybe even 25) when the brain is still developing**.

> Every 19 minutes someone in the U.S. overdoses from prescription drugs but no one (that I could find) ever over-doses from marijuana.

> **9% of marijuana users will become addicted vs, 23% heroin, 17% cocaine, and 15% alcohol**. Although this addiction number is low for marijuana users, it is still 1 out of every 11. That means it is still a substance that needs to be regulated like alcohol or smoking. Adolescents are obviously more susceptible to abuse.

> Addiction experts think regular marijuana smokers will need to smoke again to feel better quicker. Today’s marijuana has much stronger THC which can make the situation worse. High THC content (15% to 20% or more) goes very rapidly to the brain and increases the rewarding effects. This could lead to addiction and offsetting

negative affects like paranoia. **THC in 1972 averaged 1% but now it is 13%.** Recreational users may be seeking higher and higher THC content so it is best to regulate this.

> Marijuana will result in the same addiction problems as any substance that (initially) makes you feel very good – whether that is drug or alcohol related. The primary difference is that you don't see the anger and aggression often associated with alcohol.

> Contamination - **safety, uniformity and reliability are critical aspects of the marijuana industry that need to be carefully regulated - something the Canadian government is focused on and something Aurora Cannabis has focused on from day one.** Medical marijuana patients have self-medicated for years but are doing so without the guarantee that what they are consuming is safe.

> Medical marijuana needs to be SAFE, RELIABLE and EFFECTIVE – this industry needs proper research (without huge regulatory hurdles) but funding can be very difficult for private companies. In the United States this industry is buried in Federal government red tape so **Canada has an opportunity to become a global leader.**

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#### PERSONAL OPINIONS and CONCLUSIONS

> Legalize marijuana for those 21 and older (to reduce the risk of slowing or damaging brain development). Age 25 would be the perfect scenario but 21 would be more socially acceptable because of the majority drinking age in the United States. I always wondered why the American government would send their kids to war at the age of 18, yet they will not allow them to drink in a bar until they are 21. This makes no sense but 21 appears to be a number that is socially acceptable.



> If legalized, place restrictions on the THC content (the chemical in Cannabis that makes you high). If the amount of alcohol can be regulated by the government, then THC levels can be regulated.

> Immediately make very low THC and high CBD (Cannabidiol) strains readily available (legal) for medical purposes. The CBD appears to be the most significant health benefit of Cannabis. That should mean that even medical marijuana users should be focused on the CBD and NOT the THC. I understand that blends may be necessary but this would help limit abuse under the disguise of needing it for “medical” purposes.

> The American government has imprisoned how many thousands of people for selling marijuana? Part of the political problem they face in legalizing it federally, is admitting that a marijuana drug dealer didn't deserve a five to ten year prison sentence (or more)!

> State legislators are deeply rooted in old school beliefs + large pharmaceutical / drug companies are strong lobbyists and financial supporters of all political parties. They carry a lot of clout in state and federal government. Big pharma's desire to keep marijuana in the back alley is a driving force that is diminishing because of public support and changes in public perception BUT it will remain a significant hurdle to Federal legalization in the United States.

> EVERY substance that creates an artificial "high" will be subject to abuse and addiction – that will never change. But when you understand the industry, the positive aspects of marijuana FAR outweigh the negatives and if anything is going to be banned based upon "negatives", it should be alcohol - and we know that will never happen.

> If we are to ban products simply because they could lead to abuse or addiction, then government needs to start with prescription opioids like OxyContin and Vicodin which are huge abused by adults and children aged 12 to 17 years old.

> Marijuana simply needs to be properly regulated and taxed. Penalties for possession under the legal age should be no different than that of alcohol.

### **Why is Aurora one of the marijuana companies in Canada that should emerge as an industry leader commanding a much high market cap?**

- 1) Blue chip management
- 2) State of the art (pharma grade) facilities, production, and distribution methodologies
- 3) Strong network of wealthy investors backing them with a proven ability to attract more investment for expansion once Alberta is in production (plans are well underway in Washington State)
- 4) Existing license to grow and expecting a license to sell this summer (the next catalyst for market valuation "mark-up")
- 5) Tobacco giants or large Pharmaceutical companies may eventually consolidate this industry by acquiring the leading producers in Canada and the United States.

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Disclosure: Danny Deadlock owns 20,000 shares of ACB purchased April 2015

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