

Marijuana Industry Update: 2017 Was A Great Year; Looking For Company-Specific Catalysts In Q1/FY18

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Company	Ticker	Market Cap. (MM)	EV (MM)	Last Price	Target Price	Potential Return	Rec.
Top 4 Potential Catalysts							
The Hydrothecary Corp	THCX-V	\$541	\$438	\$4.39	\$8.50	94%	BUY
Village Farms International Inc	VFF-T	\$319	\$368	\$7.60	N/A	N/A	N/A
CannTrust Holdings Inc	TRST-C	\$941	\$914	\$10.35	N/A	N/A	N/A
Canaccord Genuity Group Inc	CF-T	\$707	\$445	\$6.23	N/A	N/A	N/A
Other Companies With Potential Catalysts							
Supreme Cannabis Company Inc	FIRE-V	\$574	\$535	\$3.04	\$2.50	-18%	BUY
CannaRoyalty Corp	CRZ-C	\$207	\$219	\$4.50	\$4.50	0%	BUY
iAnthus Capital Holdings Inc	IAN-C	\$119	\$112	\$3.16	\$3.75	19%	BUY
Canopy Growth Corp	WEED-T	\$6,239	\$5,895	\$34.00	\$16.50	-51%	HOLD
Cronos Group Inc	MJN-V	\$1,614	\$1,546	\$10.54			RESTRICTED
Aphria Inc	APH-T	\$3,287	\$3,009	\$19.16	N/A	N/A	N/A
MedReleaf Corp	LEAF-T	\$2,739	\$2,615	\$27.20	N/A	N/A	N/A
Namaste Technologies Inc	N-C	\$793	\$780	\$3.25	N/A	N/A	N/A
Liberty Health Sciences Inc	LHS-C	\$709	\$679	\$2.27	N/A	N/A	N/A
DOJA Cannabis Company Ltd (will be dba Hiku Brands Company Ltd)	DOJA-C	\$352	\$322	\$2.80	N/A	N/A	N/A
Delta 9 Cannabis Inc	NINE-V	\$203	\$178	\$2.70	N/A	N/A	N/A
Aurora Cannabis Inc	ACB-T	\$5,922	\$5,582	\$13.16			RESTRICTED

Source: Company reports, ThomsonReuters, Beacon Securities.

- **2017 was a fantastic year for the cannabis sector.** The average investment was up 161% during the year, with Cronos Group Inc. (MJN-V, RESTRICTED) leading the way, up 558%.
- **We suspect that a rising tide will lift all boats in the sector during Q2/FY18 in the run up to legalization of recreational marijuana. Where does this leave us for Q1/FY18?** On one hand, given the extraordinary increases in the past few weeks, **we see a heightened risk of a healthy pullback. However, this may not happen** given: the **growth in ETFs** in the sector; **four multi-LP potential catalysts** we believe are imminent; and **momentum which may just keep feeding off itself.**
- **Regardless of what the broader sector does, we recommend investors focus on names with foreseeable company-specific imminent catalysts.** While in this report we highlight several others, the top four companies we believe have catalysts which are the most likely to occur, probably are announced within 60 days, and have the potential to be most impactful to their respective company's share prices are:
 - **The Hydrothecary Corp. (THCX-V) – Major contract with SAQ. Hydrothecary is our top pick in the sector.**
 - **Village Farms International Inc. (VFF-T, not covered) – Receipt of cultivation license for its Pure Sunfarms JV.**
 - **CannTrust Holdings Inc. (TRST-C, not covered) – Uplisting to the TSX.**
 - **Canaccord Genuity Group Inc. (CF-T, not covered) – Q3/FY18 results ahead of consensus boosted by the cannabis sector.**
- We also believe **2018 will be the year that investors get more discerning.** It will become obvious over the course of the year that not all Canadian LPs will be successful. Simultaneously, **we believe investors will become increasingly comfortable with U.S. cannabis operators, resulting in a narrowing of the valuation gap between them and Canadian LPs.** The two companies with U.S. operations we cover are iAnthus Capital Holdings Inc. (IAN-C) and CannaRoyalty Corp. (CRZ-C). For more information on developments in the U.S. sector, please refer to the other industry report we published today.

Potential Q1/FY18 Catalysts

Exhibit 1. Listing Of Potential Catalysts – By Company

Company	Ticker	Highlights
Top 4 Potential Catalysts		
The Hydrothecary Corp	THCX-V	Obtaining an SAQ contract Supply agreement with Jean Coutu Group PJC Inc. (PJCa-T, not covered)
Village Farms International Inc	VFF-T	Obtaining a cultivation license for its Pure Sunfarms JV Pure Sunfarms exercising its option to acquire D2 immediately after licensing
CannTrust Holdings Inc	TRST-C	Uplisting to the TSX Supply contract with the LCBO RFP to cultivate in Germany Exports and new forms of drug delivery given partnership with Apotex
Canaccord Genuity Group Inc	CF-T	Likely to beat Q3/FY18 expectations, due mainly to cannabis financings in the quarter Possibility that the Street is encouraged by the immediate impact of the company's acquisition of Hargreave Hale Limited
Other Potential Catalysts		
Supreme Cannabis Company Inc	FIRE-V	BC allowing the sales of cannabis in liquor stores LCBO contract RFP to cultivate in Germany
CannaRoyalty Corp	CRZ-C	Legalization in California Consolidation in California More potential licensing deals (inlicensing & outlicensing) More potential investments/acquisitions/divestments
iAnthus Capital Holdings Inc	IAN-C	Closing acquisition of Citiva Medical USA (NY) Entering into / closing acquisition of GrowHealthy Holdings LLC (FL) Repayment of US\$7.5MM loan by The Green Solution (CO)
Canopy Growth Corp	WEED-T	SAQ contract LCBO contract RFP for retail in Manitoba RFP for cultivation in Germany Further penetration in South America
Cronos Group Inc	MJN-V	RESTRICTED
Aphria Inc	APH-T	Shoppers Drug Mart getting a license from Health Canada to sell medical marijuana LCBO contract SAQ contract Expansion into other provinces/countries
MedReleaf Corp	LEAF-T	Unveiling greenhouse strategy Shoppers Drug Mart getting a license from Health Canada to sell medical marijuana LCBO contract SAQ contract RFP to cultivate in Germany
Namaste Technologies Inc	N-C	Licensing of wholly-owned subsidiary CannMart Uplisting to the TSX Venture Exchange or having a large LP acquire a stake in it Clarity on importing from Israel Replicating model in other jurisdictions Disclosing more information on the seed to sale technology it is working on
Liberty Health Sciences Inc	LHS-C	Opening four dispensaries in Q1/FY18 in FL Potential acquisition of Aphria's stake in Copperstate Farms (AZ) Potential to enter other states
DOJA Cannabis Company Ltd (will be dba Hiku Brands Company Ltd)	DOJA-C	Completion of the merger transaction between DOJA and Tokyo Smoke to form Hiku Closing of financing Acquiring more brands / retail concepts RFP for retail in Manitoba Opening retail outlets in other provinces Franchising Tokyo Smoke Obtaining sales authorization for existing Dominion facility Starting construction of FUTURELAB
Delta 9 Cannabis Inc	NINE-V	RFP for retail in Manitoba MLLC contract Ramping up production Entering other private retail markets Distributing into any province Canopy distributes to through CraftGrow 'Catching up' on under-performance over the past two months
Aurora Cannabis Inc	ACB-T	RESTRICTED

Source: Company reports, Beacon Securities.

Exhibit 2. Listing Of Potential Multi-LP Catalysts

Potential Multi-LP Catalysts	Potentially Impacted	Explanation
LCBO contract	TRST-C	To supply marijuana to the Liquor Control Board of Ontario (LCBO)
	FIRE-V	
	WEED-T	
	APH-T	
SAQ contract	LEAF-T	To supply marijuana to the Société des alcools du Québec (SAQ)
	THCX-V	
	WEED-T	
	APH-T	
Manitoba retail	LEAF-T	Manitoba government has issued an RFP for the right to open retail stores in the province
	WEED-T	
	DOJA-C	
Germany RFP	NINE-V	For cultivation of medical marijuana in Germany
	TRST-C	
	FIRE-V	
	WEED-T	
	LEAF-T	

Source: Company reports, Beacon Securities.

2017 Recap

Exhibit 3. Share Price Performance In 2017

Ticker	29-Dec-17	30-Dec-16	Return
MJN	\$9.74	\$1.48	558%
VFF	\$7.64	\$1.35	466%
ACB	\$9.60	\$2.30	317%
EMH	\$5.21	\$1.30	301%
APH	\$18.70	\$5.04	271%
WEED	\$29.74	\$9.14	225%
CMED	\$22.55	\$10.75	110%
BE	\$2.66	\$1.40	90%
FIRE	\$2.29	\$1.45	58%
OGI	\$4.10	\$2.90	41%
CRZ	\$3.73	\$3.30	13%
IAN	\$2.50	\$2.33	7%
ICC	\$1.02	\$0.97	5%
THC	\$0.96	\$0.98	-2%
EMC	\$2.28	\$3.82	-40%
Beacon Coverage			241%
All Avg			161%

Source: ThomsonReuters, Beacon Securities.

- Up 558%, Cronos was the best performing company during 2017. We launched coverage of Cronos on February 13, 2017, at a price of \$2.08.
- For the year, the names covered by Beacon (albeit we launched coverage of some of them over the course of the year) were up 241%

on average, significantly outperforming the sector, which was up 161% on average. Excluding Village Farms, which wasn't a cannabis company at the start of the year, the average was up 140%.

- The best performer in Q4/FY17 was Friday Night Inc. (TGIF-C, not covered), on the back of its acquisition of Body & Mind Inc. (BAMM-C, not covered) which increased market share in the Nevada market. The best Q4/FY17 investment not impacted by material M&A was Emerald Health Therapeutics Inc. (EMH-V, not covered), up 304%.
- During Q4/FY17, the names covered by Beacon were up 112% on average. Excluding those engaging in material M&A in Q4/FY17, the sector was up 109%.

Exhibit 4. Share Price Performance: Q4/FY17 (left); 2018 YTD (right)

Ticker	29-Dec-17	29-Sep-17	Return	Ticker	5-Jan-18	29-Dec-17	Return
TGIF	\$1.16	\$0.21	466%	HIP	\$1.51	\$0.56	170%
EMH	\$5.21	\$1.29	304%	THC	\$2.55	\$0.96	166%
MJN	\$9.74	\$2.61	273%	CBW	\$2.53	\$1.71	48%
DOJA	\$2.38	\$0.65	266%	HVST	\$1.78	\$1.28	39%
ACB	\$9.60	\$2.78	245%	EMH	\$7.22	\$5.21	39%
VFF	\$7.64	\$2.59	195%	ACB	\$13.16	\$9.60	37%
WEED	\$29.74	\$10.72	177%	FIRE	\$3.04	\$2.29	33%
WMD	\$2.45	\$0.91	169%	LEAF	\$27.20	\$21.24	28%
APH	\$18.70	\$7.12	163%	IAN	\$3.16	\$2.50	26%
TRST	\$9.15	\$3.66	150%	ABCN	\$1.90	\$1.53	24%
MPX	\$0.82	\$0.35	138%	CRZ	\$4.50	\$3.73	21%
CMED	\$22.55	\$9.66	134%	CMED	\$26.95	\$22.55	20%
LEAF	\$21.24	\$9.22	130%	ICC	\$1.21	\$1.02	19%
LHS	\$2.07	\$0.90	130%	DOJA	\$2.80	\$2.38	18%
THCX	\$4.09	\$1.80	127%	HMMJ	\$22.11	\$18.93	17%
CBW	\$1.71	\$0.81	111%	WMD	\$2.86	\$2.45	17%
HMMJ	\$18.93	\$9.36	102%	OGI	\$4.78	\$4.10	17%
HIP	\$0.56	\$0.32	75%	MARI	\$3.06	\$2.65	15%
MARI	\$2.65	\$1.52	74%	WEED	\$34.00	\$29.74	14%
HVST	\$1.28	\$0.80	60%	MPX	\$0.93	\$0.82	13%
ABCN	\$1.53	\$0.96	59%	TRST	\$10.35	\$9.15	13%
FIRE	\$2.29	\$1.46	57%	BE	\$3.00	\$2.66	13%
BE	\$2.66	\$1.70	56%	LHS	\$2.27	\$2.07	10%
CRZ	\$3.73	\$2.50	49%	MJN	\$10.54	\$9.74	8%
OGI	\$4.10	\$2.84	44%	THCX	\$4.39	\$4.09	7%
EMC	\$2.28	\$1.79	27%	EMC	\$2.38	\$2.28	4%
THC	\$0.96	\$0.80	20%	APH	\$19.16	\$18.70	2%
ICC	\$1.02	\$0.96	6%	VFF	\$7.60	\$7.64	-1%
IAN	\$2.50	\$2.75	-9%	NINE	\$2.70	\$2.78	-3%
				TGIF	\$0.98	\$1.16	-16%
Beacon Coverage			112%	Beacon Coverage			18%
All Avg			131%	All Avg			27%
Ex-Material M&A			109%	Ex-Material M&A			24%

Source: ThomsonReuters, Beacon Securities.

What Can We Look Forward To In 2018?

- Looking at 2017 as a guide, investors knew legislation legalizing recreational cannabis was coming in the spring. The sector started running in advance of it, then sold off around April 13, 2017 – when legalization was actually introduced.
- We think we can see a similar phenomenon in 2018. With legalization expected to take effect this summer, **we anticipate the tide may lift all boats around April through June**. Then **if legalization is perceived to be going well, the sector may rise to the next level**. Alternatively, if legalization is perceived to not be going well, or profit taking takes hold, **we could see a sell on news come July**.
- It has been a very interesting couple of weeks marked with significant volatility. One thing we think investors need to keep an eye on is the increasing influence of the ETFs in the sector. With the Horizons Marijuana Life Sciences Index ETF (HMMJ-T, not covered) now at \$713MM in net assets and ETFMG Alternative Harvest ETF (MJX-US, not covered) now at US\$302MM in net assets (from essentially zero two weeks ago), **we calculate that these two ETFs alone have increased net assets by ~C\$585MM over the past two weeks** – most of which has had to be invested in marijuana stocks. **We note that Aphria Inc. (APH-T, not covered) is not included in MJX – likely due to its investments in U.S. cannabis operators.**

Exhibit 5. Top Holdings For HMMJ & MJX (In C\$) – HMMJ Is Much More Concentrated

HMMJ			MJX		
Ticker	Weighting	Position Size	Ticker	Weighting	Position Size
ACB-T	16.57%	\$118,139,351	MJN-V	8.77%	\$32,871,332
WEED-T	14.77%	\$105,305,867	ACB-T	7.15%	\$26,785,321
APH-T	11.62%	\$82,847,270	LEAF-T	6.76%	\$25,324,636
LEAF-T	11.60%	\$82,704,675	WEED-T	6.74%	\$25,264,093
SMG-US	7.45%	\$53,116,365	TRST-C	5.18%	\$19,398,132
Top 5	62.01%	\$442,113,527	Top 5	34.60%	\$129,643,514
Net Assets	100%	\$712,971,339	Net Assets	100%	\$374,718,771

Source: Company websites, ThomsonReuters, Beacon Securities.

- Developments in the U.S. have also impacted Canadian LP valuations. Despite the fact the CannaRoyalty is essentially the only company with material revenue in the jurisdiction, there was broad based investor enthusiasm when California legalized recreational marijuana on January 1, 2018. Investors reacted to negative headlines last Thursday arising from the Sessions Memo, but stocks recovered last Friday as investors better digested the implications of the developments – and that an actual crackdown remains unlikely (for more information please refer to our other industry report published

this morning titled "U.S. Marijuana Industry Update: Reality On The Ground Unlikely To Change As A Result Of The Sessions Memo").

- With a run up expected in Q2/FY18, what may be in store for investors in Q1/FY18? **Particularly given the exceptional run in recent weeks, we believe there is a good chance that stocks come in somewhat in Q1/FY18, before going on a run again in Q2/FY18.** Some may see that as a welcome and healthy pullback, although, of course it may not happen – particularly given the momentum at the end of 2017 / so far through 2018, and the four imminent multi-LP catalysts we see coming (Exhibit 2).
- Accordingly, 2018 may truly be a year of four quarters exhibiting the following characteristics:
 - Q1/FY18 – Investors focus on company-specific catalysts to move stocks given risk of a pullback, as well as a handful of potential multi-LP events.
 - Q2/FY18 – Rising tide likely to lift all boats heading into legal rec sales.
 - Q3/FY18 – Canadian LP stocks either rise to the next level, or pull back, based on how the rollout is perceived. U.S. cannabis operators continue to gain more focus now that the lead up to legalization has subsided from the front pages.
 - Q4/FY18 & Beyond – Investors begin to better distinguish between companies which are executing (revenue, profitability, expansion, production) successfully and those which are not. Investors become more comfortable with U.S. operators leading to a narrowing of their relative valuation discount.
 - We foresee more M&A at all points along this timeline.
- Regardless of what the broader sector does, **we believe investors should focus on names with clear cut imminent catalysts over the next few months.** While large positive developments can occur at anytime (think Aphria announcing an agreement to supply Shoppers Drug Mart and rising 16% in one day), below are **the four stocks which we feel have: foreseeable company-specific catalysts with the highest probability of occurring; are most likely to occur within 60 days; and have the potential to be most impactful to the respective company's share price.**

Top Four Stocks With Potential Imminent Catalysts

The Hydrothecary Corp. (THCX-V) – Obtaining An SAQ Contract

Primary Catalyst

- As we have outlined many times in the past, **we believe Hydrothecary is best positioned to obtain a meaningful contract with the SAQ in Quebec.** Provincial politicians from the Premier down have expressed a clear preference for buying from local suppliers.
- There are only four LPs in Quebec. Hydrothecary is the only Quebec headquartered public company, has the largest planned footprint in the province and has been producing there the longest.
- Hydrothecary is planning to have 300K sq. ft. of greenhouse complete by July 2018 (25,000 kg annually) and 1.3MM sq. ft. of greenhouse complete by the end of 2018 (108,000 kg annually).
- Extrapolating the three MOUs announced by the New Brunswick Government by population results in a **market size for Quebec of 144,000 kg a year (\$1.5B).** Accordingly, by no means will Hydrothecary be the province's only supplier. Others we feel are likely to be named as suppliers include: Canopy Growth Inc. (WEED-T) which owns an LP and an applicant in the province; MedReleaf Corp. (LEAF-T, not covered); Aphria; Agri-Médic ASP Inc., a private company which was recently licensed in the province; and The Green Organic Dutchman, a private company planning an 820K sq. ft. greenhouse in the province.
- Given the points above, **we feel Hydrothecary is likely to receive the most favourable terms** (largest allocation, longest term etc.) among the SAQ's potential suppliers. Also, given the Quebec Government's intention to build an industry essentially from scratch, **we would not be surprised to see Quebec LPs receive other 'bells and whistles' in support, such as grants, loans and capex contribution.** This would not be unprecedented. Along with a supply agreement, the Newfoundland And Labrador government said that it would contribute to Canopy's costs to build a facility in the province through reduced sales remittances to the province until the company's investment is partially recouped, as well as enter into a \$1MM cost-sharing program on R&D in the province.
- In terms of what a potential contract could mean for Hydrothecary's valuation, we point to two agreements as precedent. We note that **Organigram Holdings Inc.'s** (OGI-V, not covered) **market cap rose by 24% over two days after announcing its MOU with the New Brunswick Government** – or \$11.28 of market cap per the number of total grams stated in the company's press release. **The Canopy agreement with Newfoundland And Labrador, which had more 'bells and whistles' saw the company's shares rise 9%** – or \$19.04 in market cap per the number of total grams stated in the company's

press release (Exhibit 6). Hydrothecary's market cap is currently \$541MM.

Exhibit 6. Reaction To Two Government Supply Contracts

	NB OGI	NL WEED
Volume Stated (g)	5,000,000	8,000,000
Number Of Years Stated	1	2
Total Volume (g)	5,000,000	16,000,000
2-Day Increase In Market Cap (%)	24%	9%
2-Day Increase In Market Cap (MM)	\$56.4	\$304.6
2-Day Increase In Market Cap / Annual Volume (MM)	\$11.28	\$38.08
2-Day Increase In Market Cap / Total Volume (\$/g)	\$11.28	\$19.04

Provincial governments, company reports, ThomsonReuters, Beacon Securities.

- We do not believe a potential SAQ contract is priced into Hydrothecary's share price. For reference, since our report dated October 2, 2017, when we first highlighted this potential, Hydrothecary's share price is up 144%, while the average cannabis investment is up 184% (166% excluding those with material M&A).

Secondary Catalyst

- We believe there is also the **possibility for Hydrothecary to enter into a supply agreement with Jean Coutu Group PJC Inc.** (PJCa-T, not covered). Jean Coutu is a major pharmacy chain in Quebec which has expressed interest in retailing marijuana. The company is currently being acquired by Metro Inc. (MRU-T, not covered). Metro's CEO, Eric LaFleche, recently declared that "I think pharmacy is well positioned to provide medical marijuana, that's for sure. We'll just have to see how the provinces regulate the distribution ... If pharmacies are allowed to participate, we will of course participate." When the transaction closes in H1/FY18, 566 of the combined company's 677 pharmacies will be based in Quebec.

Village Farms International Inc. (VFF-T, not covered) – Obtaining A Cultivation License**Primary Catalyst**

- Village Farms' share price has increased 300% since June 6, 2017, when it announced its intention to **convert its 1.1MM sq. ft. greenhouse in Delta, BC (D3) from growing tomatoes to cannabis** via a JV (Pure Sunfarms) with Emerald. Conversion of D3 is well underway.
- **We believe licensing of Pure Sunfarms would be a catalyst for Village Farms' share price** (as well as Emerald's) **as it would make the company's plans to grow cannabis at a large scale and low cost (and related cash flows) more 'real' in the minds of investors.**
- Village Farms' management has targeted completing the first quadrant of D3 to licensing standards by February 2018. However, given the company's very conservative guidance on other metrics (only guiding towards 75,000 kg in 1.1MM sq. ft.), we would not be surprised to see licensing news come even earlier.

Secondary Catalyst

- Once licensed, there is the **possibility that Pure Sunfarms immediately exercises its option to acquire D2 – another 1.1MM sq. ft. of production and begin converting it for cannabis production.** Recall that following its recent \$13.5MM financing, Village Farms is now in a position to provide D2 to the JV free and clear of any collateral against it.
- When it contributed D3 in exchange for 50% of the valuation, Village Farms recorded an accounting gain of US\$8.6MM on the transaction. The amount Emerald would have to contribute to the JV to match the value of Village Farms' potential contribution of D2 has not been disclosed; however, we believe it would be higher than the \$20MM valuation for D3.

CannTrust Holdings Inc. (TRST-C, not covered) – Uplisting To The TSX

Primary Catalyst

- We consider CannTrust to be one of the “Big Five” LPs in terms of current operations – particularly revenue and EBITDA, with clear growth ahead from recent expansions.
- That said, the company’s EV is significantly less than the other members of the “Big Five”. As shown in Exhibit 7 below, **CannTrust recognized \$6.1MM of revenue last quarter, which is as much as Aphria’s last quarter. CannTrust also reported \$1.2MM in EBITDA, which was well above MedReleaf’s last quarter and just shy of Aphria’s, yet its EV is only about one-third the size of these two companies.** At 35% CannTrust’s top line posted much faster sequential growth in revenue than any of the “Big Five” except Aurora Cannabis Inc. (ACB-T, not covered – RESTRICTED), and commentary from management suggests a further 12+% sequential growth ahead to \$~7MM in Q4/FY17.

Exhibit 7. Key Stats For The “Big Five” LPs

(MM)	LRQ			Market Cap	EV
	Revenue	Seq. Rev Growth	EBITDA		
WEED	\$17.6	11%	-\$6.2	\$6,239	\$5,895
ACB	\$8.2	39%	neg	\$5,922	\$5,582
APH	\$6.1	7%	\$1.5	\$3,287	\$3,009
LEAF	\$9.8	-6%	\$0.7	\$2,739	\$2,615
TRST	\$6.1	35%	\$1.2	\$941	\$914

Source: ThomsonReuters, company reports, Beacon Securities.

- We believe the main reason CannTrust trades at a discount to these peers is that due to licensing agreements in six U.S. states for its proprietary BrewBudz line of cannabis infused pods for Tassimo, Keurig and Nespresso machines, CannTrust trades on the CSE while the other four companies trade on the TSX. **We believe management acknowledges that it may be leaving hundreds of millions in market cap on the table by being on the CSE – and will look to remedy that by divesting of its agreements in the U.S. and uplisting on the TSX in the near-term.**
- **We would expect CannTrust’s shares to react immediately in the event it makes such an announcement – and then climb further once it switched exchanges.** For a precedent, we highlight the chart of Namaste Technologies Inc. (N-C, not covered) since mid-November when it announced that it was divesting of its U.S. assets.

Secondary Catalysts

- We believe **CannTrust is likely to receive a supply contract with the LCBO** – which would also be a major catalyst for the company’s shares.
- **Winning The RFP To Cultivate Cannabis In Germany.**

- We would not be surprised to see **more international activity from CannTrust – particularly given its partnership with Apotex**, a privately-held pharmaceutical company which operates in over 45 countries and exports to over 115 countries. We believe Apotex can help open doors for CannTrust in terms of exports – as well as provide assistance on getting new forms of drug delivery up and running.

Canaccord Genuity Group Inc. (CF-T, not covered) – Could See A Blockbuster Q3/FY18 (December) Supported By The Cannabis Sector – Reporting February 6, 2018, After The Close

Primary Catalyst

- Canaccord is a global investment bank and wealth management firm. While we caution that we do not cover the company, we note that we have covered it in a past life. During the decade since then the company has significantly expanded and shifted its focus towards its wealth management business (total client assets of \$54.5B globally). Wealth management offers a more predictable and growing earnings stream to help offset the inherent volatility in the company's longstanding capital markets business. Management has set the **goal of having wealth management represent the majority of the consolidated company's earnings**.
- That said, **volatility in the company's capital markets business has often overshadowed steady growth in its wealth management division**. For example, in Q2/FY18 (September) its capital markets division reported adjusted pretax losses from capital markets of \$1.9MM, which was followed by a 5% decline in Canaccord's share price to essentially a 52-week low. In Q1/FY18 (March) the division posted an adjusted pretax loss of \$6.4MM, which was met by a 17% decline in its share price.
- Canaccord has built a very significant cannabis business – we believe it is a strong contender for the second-best cannabis franchise in the country. Digging deeper, it appears cannabis financings have singlehandedly propelled its Canadian capital markets business to likely its best investment banking quarter in years.
- We calculate **Canaccord was the bookrunner in 36 total corporate financings in Q3/FY18 (December) totaling \$971MM, which would represent its best quarter since early calendar 2014**. Looking at the companies financed, we calculate that **cannabis firms represented 52% of the total amount financed** where Canaccord was the book runner. Further, we note that **Canaccord retained 100% of its two largest cannabis financings last quarter**: Cannabis Strategies Acquisition Corp. (CSA.U-NEO) for \$125MM at 6% commission; and Aurora's \$115MM financing at 3.25% commission. Things certainly seem set for a good quarter.

Exhibit 8. Canaccord's Corporate Financing Activity By Quarter

Quarter Ended	Bookrunner		All Deals	
	#	\$	#	\$
Mar-14	14	\$700	72	\$8,527
Jun-14	18	\$1,320	68	\$6,348
Sep-14	15	\$1,129	100	\$12,915
Dec-14	9	\$198	55	\$5,229
Mar-15	7	\$861	62	\$9,361
Jun-15	10	\$335	58	\$4,877
Sep-15	3	\$527	31	\$2,981
Dec-15	3	\$58	39	\$8,306
Mar-16	2	\$36	31	\$8,126
Jun-16	10	\$185	65	\$9,711
Sep-16	6	\$172	54	\$7,610
Dec-16	15	\$260	60	\$5,346
Mar-17	22	\$572	89	\$9,060
Jun-17	27	\$749	80	\$10,197
Sep-17	15	\$505	44	\$5,817
Dec-17	36	\$971	100	\$7,185

Source: FPIInfomart, Beacon Securities.

Exhibit 9. Highlights Of Q3/FY18 Financings Where Canaccord Was The Bookrunner

Name	Deal Value
Aurora Cannabis Inc	\$115,000,000
Aurora Cannabis Inc	\$69,000,000
Cannabis Strategies	\$125,000,000
Delta 9 Cannabis Inc	\$23,008,050
Delta 9 Cannabis Inc	\$5,200,000
FinCanna Capital Corp	\$3,000,000
Golden Leaf Holdings Ltd	\$13,540,000
iAnthus Capital Hldgs Inc	\$12,023,250
Maricann Group Inc	\$31,000,000
Supreme Phrmctcls Inc	\$40,250,000
The Hydrothecary Corp	\$69,000,000
Cannabis Deals	\$506,021,300
# Of Cannabis Deals	11
Non-Cannabis Deals	\$465,107,617
# Of Non-Cannabis Deals	25
All Deals	\$971,128,917
# Of Total Deals	36
Cannabis Financings / Total Financings	52%

Source: FPIInfomart, Beacon Securities.

- While we caution that its Canadian capital markets business has several moving parts, and it is just one piece of the company's global business, in Exhibit 10 below we attempt to outline what the company's quarter could look like by ascribing what we feel are quite conservative assumptions. In this scenario, **we arrive at a potential net income before tax figure of \$24.2MM which is well above consensus of \$18.1MM and EPS (f.d.) of \$0.14, again well above consensus of \$0.10.**
- Pulling it all together, **we believe there is a very high likelihood that Canaccord beats the Street on the quarter, which would result in an increase in the company's share price and more attention on the company overall.** One might be willing to dismiss a strong Q3/FY18 as a one-off; however, **we don't see any signs of cannabis financings slowing down. Just last Friday, Canaccord was announced as the bookrunner for another \$200MM convertible debenture financing for Aurora.** Additionally, blockchain financings could represent a new source of growth, and markets generally remain strong overall.

Exhibit 10. Potential Conservative Case For Q3/FY18 Results

Division	Income (Loss) Excluding Significant Items				Potential	Rationale
	Dec-16 Q3/FY17	Mar-17 Q4/FY17	Jun-17 Q1/FY18	Sep-17 Q2/FY18	Dec-17 Q3/FY18P	
Capital Markets						
Canada	\$2,577	\$10,056	\$3,185	-\$1,057	\$14,000	A 14% discount to Q1/FY15 results when the financings where Canaccord was the bookrunner were comparable
U.S.	\$472	\$2,807	-\$2,231	-\$4,366	-\$830	Four-quarter average - which may be conservative as we understand activity was stronger than typical
U.K., Europe & Dubai	\$654	\$17,105	-\$5,445	\$2,542	\$3,714	Four-quarter average - which may be conservative as we understand activity was stronger than typical
Australia	\$2,865	\$7,329	-\$1,315	\$1,059	\$2,485	Four-quarter average - which may be conservative as we understand activity was stronger than typical
Other Foreign Locations	-\$801	-\$440	-\$556	-\$116	-\$478	Four-quarter average
Capital Markets	\$5,767	\$36,857	-\$6,362	-\$1,938	\$18,891	
Wealth Management						
North America	-\$481	\$1,458	\$3,164	\$1,074	\$1,304	Four-quarter average - which may be conservative given 121% y/y growth in AUM and 24% y/y growth in AUA
U.K. & Europe	\$8,101	\$5,525	\$8,460	\$7,471	\$7,389	Four-quarter average - which may be conservative given 76% y/y growth in AUM (acquisition in Sep 2017)
Wealth Management	\$7,620	\$6,983	\$11,624	\$8,545	\$8,693	
Corporate & Other	-\$5,573	-\$4,345	-\$2,498	-\$1,212	-\$3,407	Four-quarter average
Consolidated	\$7,814	\$39,495	\$2,764	\$5,395	\$24,177	

	Potential Q3/FY18	Consensus	Potential / Consensus
Income (Loss) Excluding Significant Items	\$24,177	\$18,070	34%
Taxes (Assumed @ 25%)	-\$6,044		
Net Income	\$18,133		
Less: 50% of NCI In Australia	-\$870		
Less: Preferred Share Dividends	-\$2,351		
Net Income Attributable To Common Shareholders	\$14,912		
Average Diluted Shares Outstanding	104,741		
EPS (f.d.)	\$0.14	\$0.10	42%

Source: Company reports, Beacon Securities.

Secondary Catalyst

- Q3/FY18 will also be the first full quarter since Canaccord closed the acquisition of Hargreave Hale Limited, one of the U.K.'s leading wealth management businesses with over \$13.5B in assets (closed September

18, 2017). Management expects the acquisition to be immediately accretive to adjusted earnings. There is also a **possibility that the Street is encouraged by the immediate impact of this acquisition** on the company's wealth management business in Q3/FY18 results (which we have essentially ignored in our calculations above by using the four-quarter average).

Other Companies With Near-Term Potential Catalysts

The Supreme Cannabis Company Inc. (FIRE-V)

- **British Columbia Government Allowing The Sale Of Cannabis In Liquor Stores.** According to a report published by The Globe And Mail, the government will make a decision on this by the end of the month. The article indicates that the BC Government and Services Employees' Union, which represents 73,000 workers, including liquor store employees, is working with the Alliance of Beverage Licensees (ABLE BC), the trade group that represents over 600 private liquor stores, to lobby the government to allow co-location. While it is not an easy task to predict what a government will decide, we note that in the two most populous provinces in the country (Ontario and Quebec), the unions got what they lobbied for (government run cannabis stores). In this case, the private sector is lobbying alongside them. Recall that Supreme announced that it entered into an LOI with ABLE BC to provide it with unique channels of exposure to supply its retail members (see our related research report dated November 27, 2017). Accordingly, we believe Supreme would disproportionately benefit by allowing private liquor stores to sell cannabis.
- **Contract To Supply The LCBO.**
- **Winning The RFP To Cultivate Cannabis In Germany.**
- **Other International Activities, Investments And Acquisitions.** Recall that when the company announced the promotion of Mr. Navdeep Dhaliwal to President, it disclosed that he would be focusing on "capital markets, international growth and strategic initiatives such as investments and acquisitions".

CannaRoyalty Corp. (CRZ-C)

- **Legalization In California.** While the company's stock has done quite well since legal recreational marijuana sales took effect on January 1, 2018 (see our report dated January 2, 2018, for more details), investors may continue to be encouraged as more data comes in regarding actual sales.
- **Consolidation In California.** We expect CannaRoyalty's two announced acquisitions in California (Bhang Vape and Alta Supply) to close imminently. For more information on these transactions please

refer to our research report dated November 29, 2017. As CannaRoyalty seems to be focusing on California, we wouldn't be surprised to see more acquisitions in the state.

- **More Potential Licensing Deals.** We foresee CannaRoyalty both inlicensing more brands, as well as outlicensing them along the lines of its recent deal with Aurora for the MuV line of products.
- **More Potential Investments/Acquisitions Outside California.**
- **Divestments Of Non-Core Investments.** We believe Cascadia in Washington is an obvious candidate.

iAnthus Capital Holdings Inc. (IAN-C)

- **Closing The Acquisition Of Citiva Medical USA In New York.** Total consideration for Citiva, one of 10 licenses in the state of New York, is \$18MM. For more information, please refer to our research report dated August 15, 2017.
- **Potentially Announcing / Closing A Transaction With GrowHealthy Holdings LLC In Florida.** iAnthus owns 6% of the common shares of GrowHealthy and has provided it with a US\$2MM credit facility. We believe it may look to acquire the company. GrowHealthy is one of 12 licenses in Florida. For more information on GrowHealthy, please refer to our research report dated September 15, 2017.
- **Repayment Of US\$7.5MM Loan To The Green Solution (TGS).** The one year anniversary of the company's loan to The Green Solution in Colorado is up on February 6, 2018. Given the other priorities above, we believe iAnthus is more likely to be repaid on its loan, resulting in a fresh infusion of cash, than look to acquire TGS. For more information on the transaction, please refer to our research report dated March 8, 2017.

Canopy Growth Corp. (WEED-T)

- **Contract To Supply The SAQ.** Canopy is one of only three public company LPs in Quebec.
- **Contract To Supply The LCBO.**
- **Winning The RFP To Operate Retail Stores In Manitoba.** Canopy is currently the only LP which has secured retail (in Newfoundland & Labrador).
- **Winning The RFP To Cultivate Cannabis In Germany.**
- **Further Penetration In South America.** Canopy already has exposure to Brazil and Chile.

Aphria Inc. (APH-T, not covered)

- **Shoppers Drug Mart Receiving Its License From Health Canada And Aphria Commencing Shipments.** Recall that Aphria became the first supplier of medical cannabis to Shoppers. For more information, please refer to our industry report dated December 5, 2017.
- **Contract To Supply The LCBO.**
- **International Strategic Investments In Federally Legal Markets, Investment In Product Offerings, Construction Or Acquisition Of Domestic Retail Facilities, Construction Or Acquisition Of Domestic Production Facilities If Required To Support Provincialism Within The Cannabis Act.** (taken from the “use of proceeds” section of the company’s most recent prospectus).

MedReleaf Corp. (LEAF-T, not covered)

- **Announcing A Greenhouse Strategy.** There has been speculation in the market that MedReleaf may look to add greenhouses as a component of its total production. Particularly given the current environment, we feel that merely announcing plans to build/convert a greenhouse could send the company’s stock higher.
- **Contract To Supply The LCBO.**
- **Contract To Supply The SAQ.**
- **Shoppers Drug Mart Receiving Its License From Health Canada And MedReleaf Commencing Shipments.** Recall that MedReleaf became the second supplier of medical cannabis to Shoppers.
- **Winning The RFP To Cultivate Cannabis In Germany.**
- **Other International Activity.**

Namaste Technologies Inc. (N-C, not covered)

- **Licensing Of CannMart.** This would allow the company to achieve its objective of selling medical cannabis online to patients in Canada. The company already has a database of Canadian vaporizer customers which it could leverage for this purpose.
- **Uplisting To the TSX Venture Exchange And/Or Having A Large LP Take A Major Stake In The Company.** Namaste has now divested of its U.S. assets, which makes these potential catalysts possible. We can’t help but point out the relationship Namaste has with Aurora (private label software agreement, patient referral agreement, sale of Namaste-sourced, curated selection of vaporizers through Aurora’s website, distribution of BC Northern Lights products), and Aurora’s track record in taking major stakes in ancillary companies: Radiant Technologies Inc. (RTI-V, not covered); Hempco Food and Fiber Inc. (HEMP-V, not covered); Micron Waste Technologies Inc. (MWM-C, not covered); and Larssen Ltd. – as well as in LPs Green Organic Dutchman and CanniMed Therapeutics Inc. (CMED-T, not covered).

- **Clarity On When The Company May Be Able To Import Medical Cannabis From Israel.** Namaste has two supply agreements with Israeli growers and will focus on importing as a niche.
- **Replicating The Model Of Distributing Legal Cannabis Online In Other Jurisdictions.** Namaste owns and operates online retail sites with a presence in 20 countries worldwide. Again its existing customer database can provide a unique advantage.
- **Disclosing More Information On A Seed To Sale Tracking Technology The Company Is Working On.**

Liberty Health Sciences Inc. (LHS-C, not covered)

- **Opening Of Dispensaries In Florida.** Potentially four locations in Q1/FY18.
- **Acquisition Of Aphria's Investment In Copperstate.** Copperstate is a licensed producer of medical cannabis in Arizona. Aphria estimated the value of its long-term investments in Copperstate at \$33.4MM in its financial statements as at August 31, 2017. It also had a note receivable of \$835K, a convertible note receivable of \$2.5MM and a promissory note payable of \$1.2MM regarding Copperstate.
- **Entry Into At Least One Other State.**

DOJA Cannabis Company Ltd (will be dba Hiku Brands Company Ltd) (DOJA-C, not covered)

- By way of background, on December 21, 2017, DOJA Cannabis (an LP) announced that it will be acquiring Tokyo Smoke (an award-winning cannabis lifestyle brand). The combined entity will use the name Hiku Brands Company Ltd., and contain the brands DOJA, Tokyo Smoke and Van der Pop. Aphria has committed to make a \$10MM strategic equity investment in Hiku.

Hiku Catalysts

- **Completion Of The Transaction.** Expected in Q1/FY18.
- **Completion Of Financing Led By Aphria And Including Uji Capital.**
- **M&A.** Possibilities include a California brand and/or a retail concept.

Tokyo Smoke Catalysts

- **Winning The RFP To Operate Retail Stores In Manitoba.**
- **Opening Retail Outlets In Other Provinces.** Other targeted provinces include Newfoundland & Labrador, B.C., and Saskatchewan. These could be arranged as wholly-owned stores or partnerships.
- **'Franchising' Of The Tokyo Smoke Concept Across North America, Europe, and South America.** The company claims to have 25+ interested parties.

DOJA Catalysts

- **Obtaining Sales Authorization For Its Existing Dominion Facility.** The facility has 7,100 sq. ft. with an estimated 660 kg annual capacity. DOJA “has requested its Pre-Sales License Inspection, the last step prior to receiving a license to sell cannabis under the ACMPR”.
- **Starting Construction Of FUTURELAB.** FUTURELAB will be the company's 22,580 sq. ft. facility located in the Okanagan Valley. This would expand production capacity by more than 5,000 kg per year, diversify strain production, and leverage the economies of scale that come from a larger growing space (Phase 1 completion is expected in Q2/FY18 with its first harvest by summer 2018).

Delta 9 Cannabis Inc. (NINE-V, not covered)

- **Winning The RFP To Operate Retail Stores In Manitoba.** Delta 9 is one of just two LPs in Manitoba and the only one with a sales license – and the company already owns a medical cannabis clinic.
- **Contract To Supply Manitoba Liquor & Lotteries Corporation (MLLC).** MLLC values the potential size of the Manitoba cannabis market at \$300MM to \$500MM.
- **Ramping Up Production.** Having recently completed a financing, the company expects to add a minimum of 28 grow pods in each of Q1/FY18 and Q2/FY18 – which would each represent the addition of 900 kg of annualized production coming online.
- **Entering Other Private Retail Markets.** The company intends on growing its presence in the Prairies (Alberta and Saskatchewan).
- **Distributing Into Any Province Canopy Distributes Into Through The CraftGrow Program.**
- **Closing Thought.** Despite now being funded for its expansion plans, Delta 9's shares inexplicably closed at \$2.70 on Friday, representing a 7% decline vs. November 7, 2017, (the company's second day of trading), in a market where the average cannabis company's shares have risen 123% (107% excluding those with material M&A) during this time. Given the multitude of potential catalysts, **Delta 9 may be the sleeper pick for the quarter.**

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As at December 31, 2017	#Stocks	Distribution
BUY	69	75.0%
Speculative Buy	13	14.1%
Hold	9	9.8%
Sell	0	0.0%
Under Review	1	1.1%
Tender	0	0.0%
Total	92	100.0%

Buy	Total 12-month return expected to be > 15%
Speculative Buy	Potential 12-month return is high (>15%) but given elevated risk, investment could result in a material loss
Hold	Total 12-month return is expected to be between 0% and 15%
Sell	Total 12-month return is expected to be negative
Tender	Clients are advised to tender their shares to a takeover bid or similar offer

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