**Struthers Report V24 # 5.0     Marijuana market, WEED, ACB, CBW, LXX     Feb. 12, 2018**

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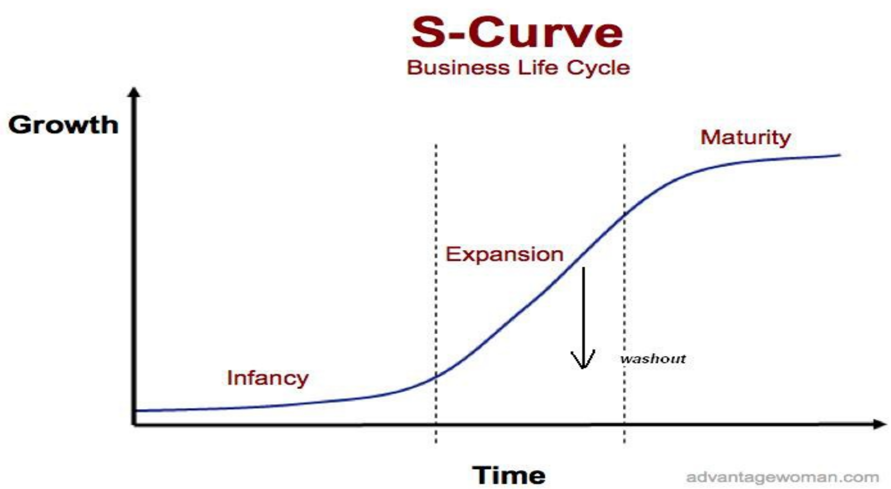
## The S-Curve reveals it is early days in the Marijuana Growth Cycle

- Top producers like Canopy Growth and Aurora Cannabis stand to benefit.
- Cannabis Wheaton has a unique streaming model with many producers.
- Lexaria's patented DehydraTECH™ technology could become an industry wide standard.

I have been following the Marijuana sector since it began to surface as a new market in 2013. At the time I just followed Tweed Marijuana (now Canopy Growth) because they were moving into the old Hershey factory in Smith Falls Ontario. At the time I lived not far away, it was making local news and the potential looked enormous. In hindsight we now know how enormous that potential became.

In January 2014 Tweed Marijuana became the first to be granted a license to legally produce marijuana and when the Marijuana for Medical Purposes Regulations (MNPR) came into effect in April of that year, Tweed was the first approved. I eagerly awaited their first trading day in April 2014 after a reverse takeover of a shell company called LW Capital Pool. The stock vaulted upwards to $4.60 per share and ended the day at $2.59 for a market cap of $90 million. Today, less than four years later the valuation has increased 57 fold with a market cap of $5.2 billion.

Before I dive more into individual stocks, let's look into the underlying market forces. A lot of the rage in 2017 and January 2018 was crypto currencies, block chain technology and marijuana. I find it very difficult to predict crypto currency and block chain trends as to me they exhibit all the signs of a mania or bubble. Marijuana markets on the other hand are far more easier to analyze using typical new innovation trends and the tried and true 'S-Curve'.




From an Investor's perspective there is always a wash out among the market players in a particular industry when you get over the half way mark in the expansion phase. I think of the 'S' on it's side and after a new technology or innovation obtains acceptance, the strongest growth occurs climbing up the first side of the 'S'. Acceptance usually occurs around 5% market penetration and this first phase of growth will go somewhere between 50% to 75% market penetration. If a market goes from 10% to 50%, that is 400% growth rate while from 50% to 75% is only a 50% growth rate. Every market participant can do well in this strong initial growth phase and even the turkeys will fly.

Simply relate back to internet, PC and cell phones in the 1980s to 90s. They achieved acceptance and seen strong market penetration up until around 2000. In 2001 about 50% of US population used the internet and this number has peaked out around 75% the last several years. In February 1999, Dataquest reported home PC penetration hit 50% up from 27% in 1995. In 2000, the number of cell phone subscribers in the U.S. went over 100 million. These were all experiencing the strong growth phase.

Among some other things this 'S-Curve' penetration was a key factor that helped me predict the 1999/2000 tech bubble top. Once you get over that 50% penetration, it is not long before you have a severe wash out in that market as the growth slows and there is usually too many suppliers. From there, the strong survive and they become stronger as they pick up the pieces and the best parts of failures. This is your 2nd wave up in the 'S-Curve' and that is where we seen the likes of Google, Amazon, Facebook and Apple etc., who become dominant as the market matured.

I don't believe many are analyzing the Marijuana market using innovation trends and the 'S-Curve' but it is not very difficult to do. I believe this will be great benefit to investors if they have an idea where we are in the growth cycle of this market. The U.S. market has some challenges because it is segregated by different laws in different States, but Canadian laws are nation wide. The California Marijuana market is around the same size of Canada so some similarities may be drawn there.

Legal pot sales in Canada will hit $3.65-billion (U.S.) by 2021, up from $1.07-billion for medicinal marijuana this year, according to the latest projections from BDS Analytics, a cannabis specialist based in Boulder, Colorado. A senior economist at CIBC World Markets extrapolated from Colorado's sales figures to come up with a $10 billion estimate of the Canadian demand for legal cannabis, and projected provincial and federal governments could rake in $5 billion per year in tax revenue. Probably the "most independent" report on the marijuana market has come from the Parliamentary Budget Officer. That report, issued November 2016, estimates annual national demand for recreational pot at 650 to 690 tons, for a total retail market of $5.5 to $5.8 billion.

The most accurate measurement of current medical demand is from the Health Canada site and in the latest reported quarter, sales were about 2,000 kgs per month which would be 24,000 kgs/year. Cannabis oil was reported about the same number, so a total for the two is 48,000 kgs/year or around 50 tons. Therefore the current market penetration is less than 10% of projections when cannabis is legal. There is a lot of growth ahead in this industry as we are near the bottom of the 'S-Curve'.

I looked at this in late June 2017 with my 'Pot Eyes wide open chapter 2' and came up with similar numbers, indicating 5% to 10% projected market penetration. If some growth is considered we are likely closer to the 10% area now, but again, this indicates it is just early days in this market and there is several years of strong growth ahead.

To look at this another way, Canopy Growth has signed up about a third of the roughly 200,000 medical marijuana customers in Canada, and CEO Linton said he expected some 3 million Canadians to use legal non-medical pot next year. Assuming he is an over optimistic industry insider and we go with 2 million, the current 200,000 is 10% of the market.

Canadian cannabis companies are on a strong growth spurt and recently raised nearly $2 billion for expansion. Most expansion plans I see entail a doubling in production capacity. It does not matter what industry you are in, doubling production is no easy task. In the last half of 2017, Health Canada nearly [doubled](#) the number of production licenses. There is also a lot of new production coming on stream. I invested in a private company, FV Pharma that bought the old Kraft food facility in Colbourne Ontario. It will soon be public and more info available, but it looks to be a bigger production facility than Canopy has. Looking at the landscape I can see production doubling to tripling in 2018 and this actually supports the numbers you see at the start of the 'S-Curve'.

Health Canada data is behind by 3 or 4 months and even if production moves from 50 tons to 200 tons in 2018, it will not be near adequate. **There are two other important factors that most are missing.** Health Canada data shows around 50% of sales are Cannabis based oil. There is a conversion factor involved to make oil from dried marijuana that can vary, but based on different numbers I have seen it would be around 8. Therefore 100 tons of oil would require 800 tons of dried marijuana and production growth will not be close to this in 2018. Sector leader, Canopy Growth is well aware of the rising trend in Oils, so in October announced a deal with Valens Groworks (VGW). Valens will produce Oils from some of Canopy's production and in turn market the finished product through the Canopy's CraftGrow network.

The 2nd factor is the export market. According to data from Health Canada, in 2016, 44.8 kilograms of dried cannabis and 100.8 kilograms of cannabis oil were shipped overseas. No cannabis export permits were issued in 2015, while 43 were handed out in 2016 and 75 as of July 20, 2017. The most current information is in a recent CBC news article that highlights seven Canadian producers who have been granted licenses to export the crop. By the end of March 2018 they will have sent 528 kilograms of dried cannabis flower and 911 litres of oil overseas. That is 10 times the number for all of 2016. One can easily assume that exports will consume 10% of Canadian marijuana production and that number could grow significantly.


The North American index highlights the strong performance in late 2017 and January 2018. The index ran from 120 in November to a high around 360 that we seen in January. The recent correction knocked the index down about 100 points and very close to the Fibonacci 61.8% re-tracement level. After such a strong run up, a correction was warranted and very healthy. **I believe this correction provides another good entry point in this market.**

The big producers like Canopy and Aurora are obvious benefactors in this first growth phase. **I am not adding these two on the Selection list, but am sticking with Cannabis Whaeton and Lexaria.**

**Canopy Growth (TWMJF) TSX:WEED 198M shares outstanding (approx.)**

**Market cap C$ 5.148 billion Cash at Sept. 30, 2017 = C$108M +$200M (recent financing)**

Canopy was the first major grower and they have the first to market advantage. I expect they will continue as a leader in the market. They have expanded their Smith Falls operation considerably, expanded across Canada and are venturing out into Global markets. I have highlighted a number of recent press releases that will ensure a continued strong growth profile.

- On Sept. 8, 2017, the company announced construction of a new 212,000-square-foot greenhouse and the purchase of a neighbouring 450,000-square-foot greenhouse in Niagara-on-the-Lake, Ont., which upon completion will expand the total area under glass at Tweed Farms to over one million square feet;
- On Sept. 11, 2017, the company and its wholly owned subsidiary Spektrum Cannabis GmbH announced a supply license agreement with Spain's Alcaliber SA. Per the supply license agreement, Canopy Growth and Spektrum granted Alcaliber a license to use certain strains and seeds to be grown and cultivated at Alcaliber's facilities for sale worldwide;
- On Sept. 21, 2017, Canopy Growth announced that it had established a binding strategic partnership in the Danish market. Spectrum Denmark ApS will be a joint venture between Canopy Growth and Danish Cannabis ApS which will serve the needs of Danish medical cannabis patients with Spectrum's proven products. In late December they received a production license for a planned 40,000 square meter facility in Odense, Denmark;
- On Oct. 11, 2017, Canopy Growth announced that it had entered into a definitive joint venture agreement with a greenhouse operator to develop 1.3 million square feet of greenhouse growing capacity in British Columbia with an option for an additional 1.7-million-square-foot greenhouse also in British Columbia;
- On Oct. 25, 2017, the company announced that it launched a strategic partnership in the Jamaican cannabis market as part of its continuing international expansion. Grow House JA Ltd. -- to operate as Tweed Limited JA -- will serve the needs of the Jamaican medical cannabis market. Canopy Growth holds 49 per cent of the share capital of Tweed JA, which, with conditional licence approvals already in place, has already begun construction of its facility;
- On January 16, 2018, Canopy Growth and the Victorian State Government announced the signing of a significant Memorandum of Understanding ("MOU") to further develop research and technical capabilities in the production of medical cannabis in Australia;.

Canopy will report Q3 2017 results on Valentines day and the last quarterly, Q2 2017 was reported on November 14, 2017.

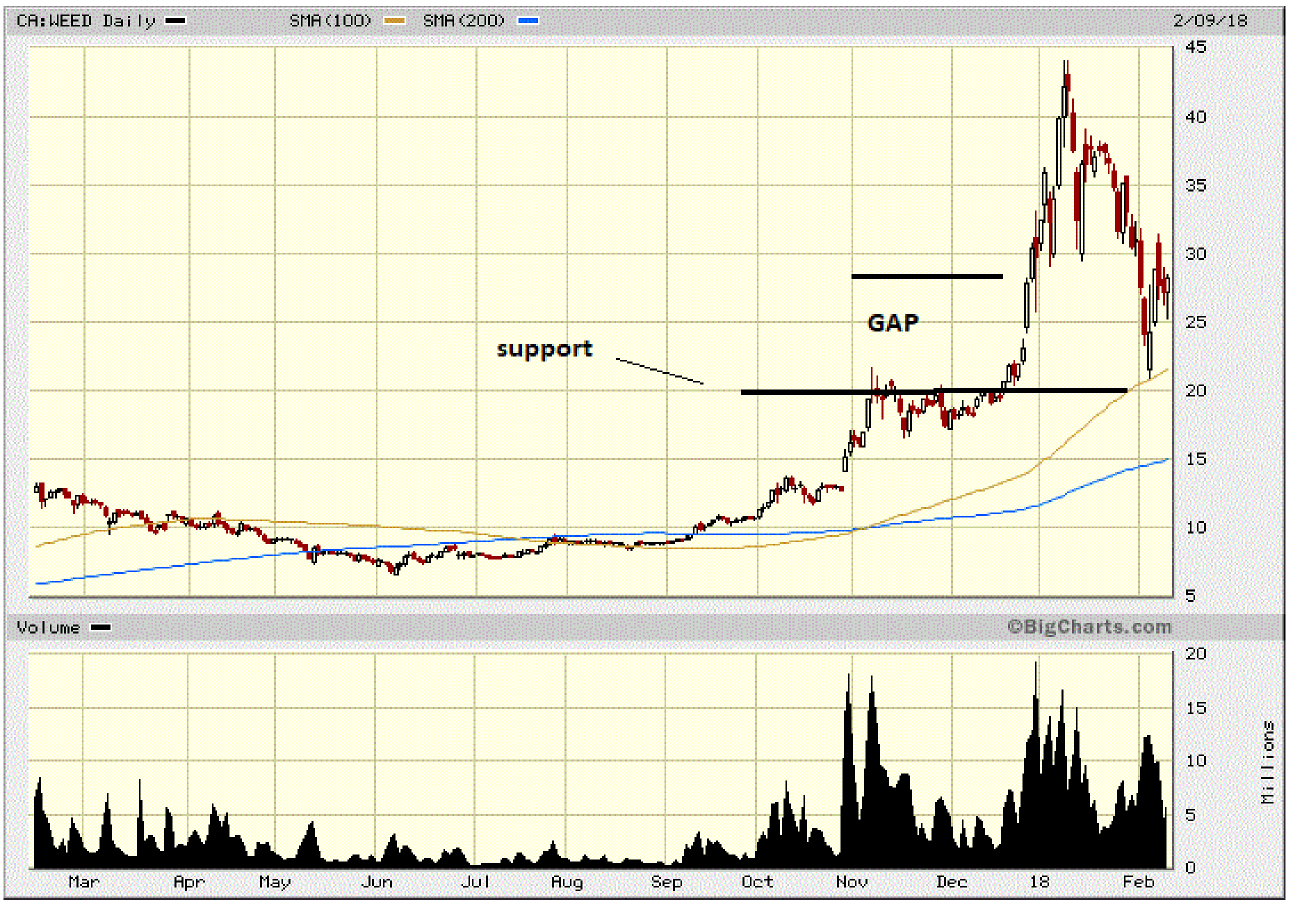
Second quarter revenue was $17.6-million, a 107-per-cent increase over the second quarter ended Sept. 30, 2016, when revenue totalled $8.5-million, and an 11-per-cent increase over first quarter of fiscal 2018 revenues of $15.9-million. Revenue in the six months ended Sept. 30, 2017, totalled $33.4-million, more than double as compared with $15.5-million in the same period last year.

Canopy sold 2,020 kilograms and kilogram equivalents, a 73-per-cent increase over second quarter fiscal 2017, and a 10-per-cent increase over first quarter 2018 when 1,830 kilograms and kilogram equivalents were sold. Their cash costs of sales were $2.73/gram for the quarter with an average selling price of $7.98/gram.

The strong growth is quite evident. Based on the 6 month run rate with no growth, fiscal 2017 would come in at $65 million revenue. Cannacord Capital adjusted their 2018 revenue estimate decreasing from $119.9 M to $116.1 M and adjusted EBITDA from $15.6 M to $12.6 M. Their projected 2020 revenue increased from $736.3 M to $768.9 M and adjusted EBITDA from $257.8 M to $277.6 M. Cannacord is projecting Canopy to penetrate 17.5% to 20% of the recreational cannabis market in Canada. I would agree with that number considering their first mover status and recent deals for market share in Atlantic Canada and Quebec. Such as that on December 18th 2017 when Canopy announced a JV to lease a 700,000 sq. ft greenhouse facility from Bertrand in Quebec. Canopy expects production to begin in May 2018.

What is quite impressive and cements Canopy as the leader is market confidence.

Canopy announced at $175 million bought deal financing on January 17th at $34.60 per share with the stock trading at $37.60 and increased a day later to just over $200 million. By the last week of January the stock price was wavering below the finance price and with the correction in early February it plunged to $24. On February 7th it was announced closed with the stock trading under $28. **It is obvious that large investors appear to be very confident in Canopy's future.**




This is the C$ chart and the correction was quite severe, coming back to the 100 Day MA and stopping just above strong support around $20. The current consolidation between $24 and $30 has filled the Gap up that occurred from around $22 to $30 in late December. This consolidation could continue for a while but provides a much better entry point from what we seen in January.

**Aurora Cannabis (ACBFF) TSX:ACB 469M shares**
**Market cap C$4.971 billion Cash at Dec 31, 2017 = C$350M + $200M financing (bought deal)**

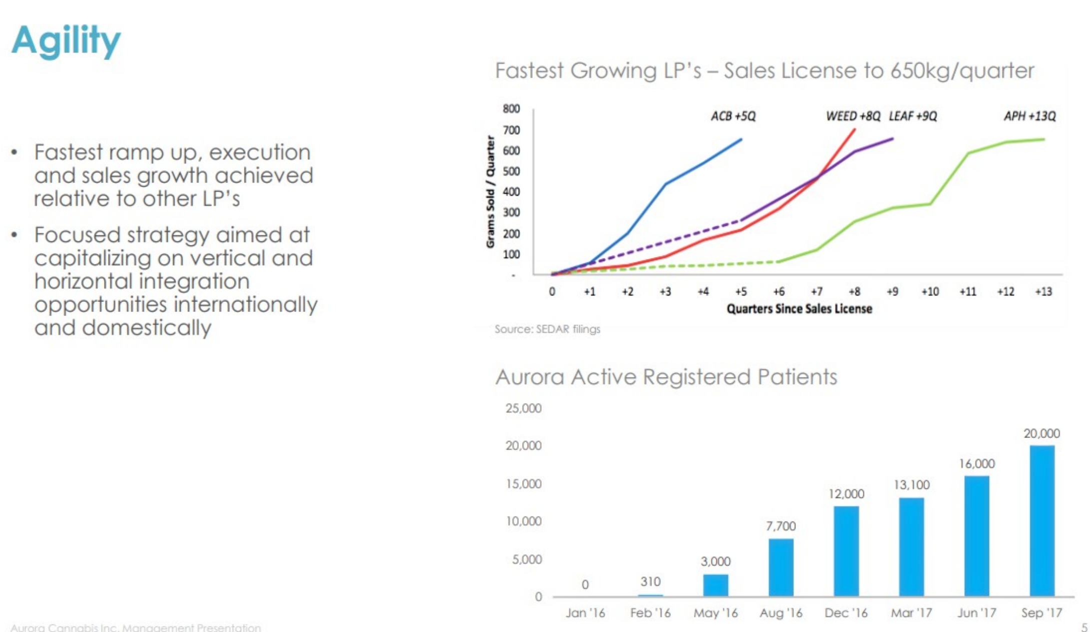
Aurora is another leader in the field and made a lot of press lately with their hostile take over of CanniMed Therapeutics. It started November 11, 2017 when Newstrike (HIP) and CanniMed (CMED) confirmed their intentions to merge, creating a leading medical brand with a high profile recreational brand. The Tragically HIP, an icon in Canadian rock culture is behind Newstrike. I was silently cheering for the Newstrike merger over the  Aurora bid, probably because I am biased as a HIP fan. Upon this news, Aurora announced a hostile take over for CanniMed a few days later. It appeared investors would go with the Newstrike merger, but in the end Aurora carried a bigger stick. They upped their cash and share offer equating to $43 per CanniMed share on January 24, 2018. That was a whopping 181% premium to CanniMed's share price when it all began back in November.  Many will argue that the price paid was too high but Aurora was mostly paying for it with their own inflated stock.

Aurora operates a 55,200 square foot production facility in Mountain View County, Alberta, known as "Aurora Mountain", a 40,000 square foot production facility known as "Aurora Vie" in Pointe-Claire, Quebec, and an 800,000 square foot production facility, known as "Aurora Sky", at the Edmonton International Airport. Aurora is also completing a fourth facility of 48,000 square feet in Lachute, Quebec, and will shortly begin construction on a 1,000,000 square foot production facility in Odense, Denmark, to be known as "Aurora Nordic", via a joint venture with Alfred Pedersen & Son ApS.

Closing the acquisition of CanniMed will add in excess of an additional 20,000 patients, almost doubling Aurora's current number. It will also add 19,000 kgs per year in financed capacity, as well as new drug delivery technologies and high-margin cannabis products.

**The Green Organic Dutchman ("TGOD") is a private deal we bought into months ago** that will soon IPO. Aurora has acquired a 17.62% strategic interest in TGOD who has signed a supply agreement providing Aurora with up to 20% of TGOD's production capacity at its Ancaster and Valleyfield facilities. At full production when completed, that should add approximately 23,000 kgs per year of premium organic cannabis to Aurora's portfolio of products.

What I like about Aurora is the strong growth profile, they are focused, quick to act and they execute well. The CanniMed takeover illustrates this along with a strategic move into TGOD and already a significant foot print in Europe. This  presentation slide gives an idea of patient growth and their ability to execute.



Aurora like other leading Canadian producers are expanding Globally. They received a EU GMP certification (Good Manufacturing Practices), making it one of few companies globally with this pharma-grade designation. Having EU GMP certification is mandatory to sell into EU medical cannabis markets, providing Aurora with a strong early mover advantage to capture significant market share. The European market is estimated at about 3 times the size of Canada.

- In Germany, Aurora received all the required permits to import medical cannabis products into Germany through Pedanios, which has supplied cannabis to over 2,200 pharmacies to date, making it the EU's largest distributor of cannabis. To date, Pedanios has supplied in excess of 2,200 pharmacies, with German sales more than doubling over the previous quarter to $2.5 million.
- In Italy, Pedanios won the first ever public tender to supply medical cannabis to the Italian Ministry of Defense, who control supply of the Italian market. Pedanios was one of only two companies allowed to tender in the final round of the process, winning all lots, totalling 100kg.
- In Australia, Aurora investee, Cann Group, was granted a license to import and/or export cannabis genetics and medicinal cannabis products by the Australian government's Department of Health, through the Office of Drug Control (ODC). The license enables Cann Group to import genetics from Aurora to help broaden the company`s portfolio of medical cannabis products, pending Aurora's receipt of an export permit from Health Canada.
- In Denmark their Aurora Nordic joint venture will be accelerating its time to market in Denmark through the retrofit of an existing 100,000 square foot greenhouse in Odense, Denmark, owned by the Company's Danish partner Alfred Pedersen & Son.

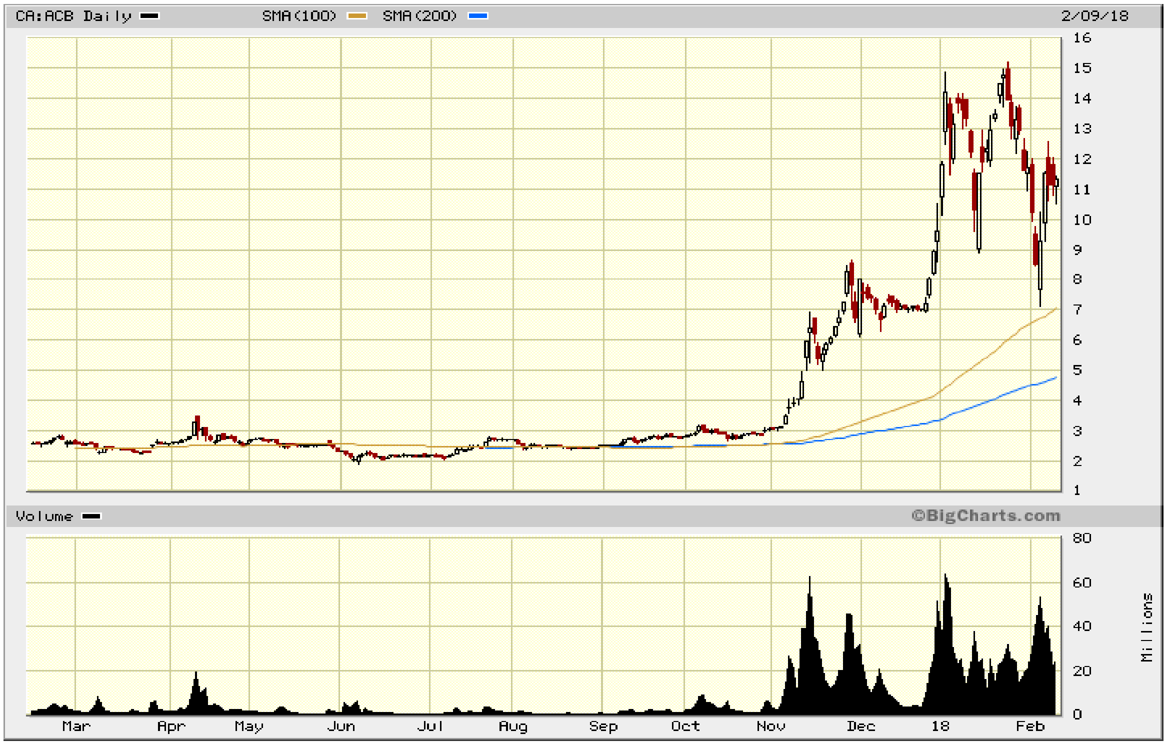
Aurora just released their Q2 2018 financials on February 8th so gives us an up to date snap shot of them and market growth ahead of Canopy's quarterly release.

Continued strong patient and revenue growth:

- As at the date of this release, the company has over 23,000 active registered patients, up 5.9 per cent from Q2 2018;
- Recorded $11.7-million in revenues, up 201 per cent from Q2 2017 and up 41.8 per cent sequentially from Q1 2018;
- Dried cannabis sold in Canada: $5.8-million, up 23.9 per cent sequentially from Q1 2018;
- Dried cannabis sold in Germany: $2.5-million, up 101.1 per cent sequentially;
- Service and other revenues: $2.0-million, up 109.7 per cent sequentially.

Aurora's cash cost of sales is $1.74/gram in Q2 and the selling price averaged $8.36/gram, a 73.8% gross margin. Aurora reported a small profit of $7.2 million but it was not from operations but mostly from gains on derivatives. I expect all the producers to lose money because of the strong emphasis on growth.

The C$ chart on Aurora is pretty much identical action as Canopy.




**Cannabis Wheaton Income OTC:CBWTF TSXV:CBW Recent Price $1.72**
**Entry Price $0.95 Opinion – Hold, Buy back sold position**

I suggested taking part profits on January 9th at $2.72 and the stock hit a high that day of $2.74, and did hit $2.72 again on the 17th. I will list part profits at $2.70 and if you sold some there, you can buy that position back now, $1.00 cheaper.

Cannabis Wheaton is a streaming company, similar to Wheaton Precious Metals if you are familiar with mining streaming companies. Basically they provide working capital, assistance with licensing and building production facilities for a percentage of revenues. Currently the company has 15 agreements across six provinces to fund facility construction, expansion and other related innovations, shown in this slide from their presentation.

The percent of revenues or production varies with different deals, but for the most part are between 15% and 50%. When you add up all their production streams, the number is almost embarrassing and hard to believe. If a good portion of these streams come into production they will be multiple times bigger than the largest producers, like a Canopy Growth. The company does not even advertise the potential number.

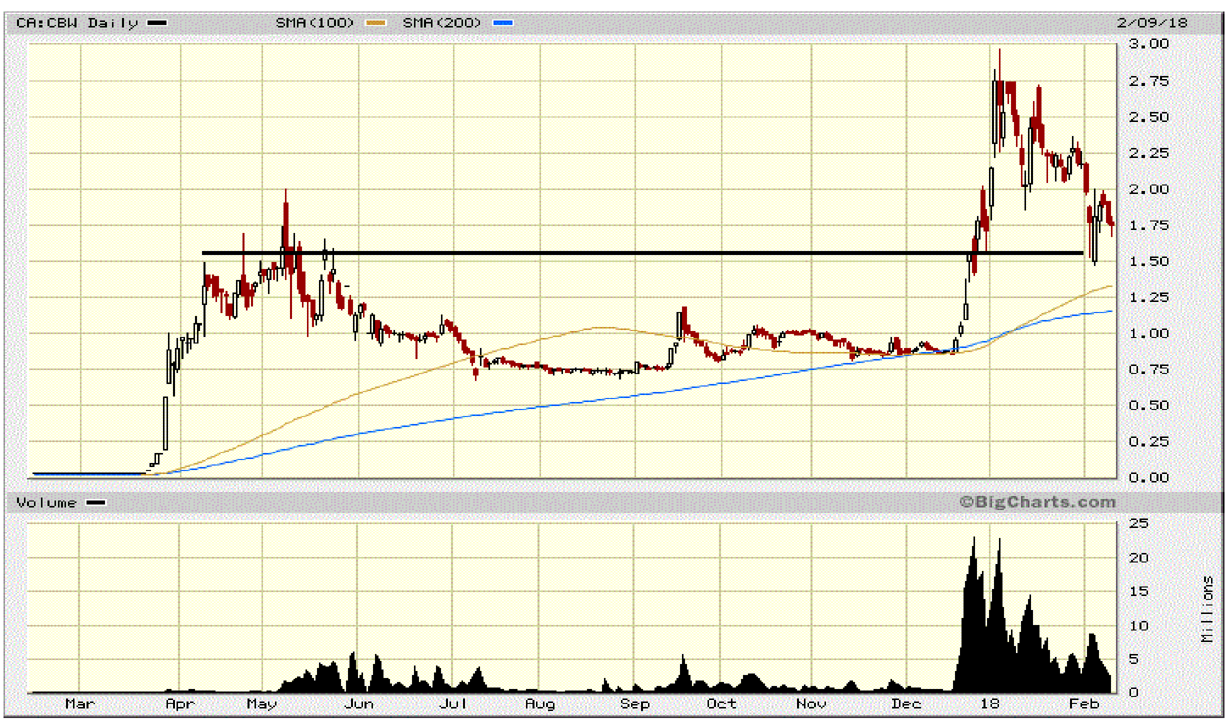
As a public company they are not even a year old and there was a lot of disbelief and skepticism that the company could execute their business plan. The stock was heavily shorted and the financing they would need for streaming deals announced seem astronomical. Perhaps it was good timing in a great market, but since they have now raised over $200 million the market has taken notice.

They do have the expertise and knowledge with Chuck Rifici as CEO, a founder and former CEO of Canopy Growth. Hugo Alves is President and a senior partner at Bennett Jones LLP where he specialized in Cannabis law. Mike Lickver VP Strategy is also a co-founder of Bennett Jones. Ian Rapsey, Chief Creative Officer was instrumental with brands at Tweed Inc. (now Canopy Growth) and Bedrocan Canada.

Two examples of CBW's business model are the ABcann (ABCCF ) TSX:ABCN streaming deal and the FV Pharma joint venture. ABcann is a very efficient grower and has been producing about 250 grams/sq. foot annually, which is almost double the industry average. CBW is funding $55 million of expansion that started in 2017 going into 2019 and for that they will receive 50% of ABcann's production for 99 years. CBW expects this production stream will be over 8,000 kgs per year.

FV Pharma will IPO soon and I did tour their facility this past summer, just before they received their producer license. The facility is huge as it is a former Kraft food production facility with 620,000 sq. feet of building space with the ability to expand to 3,800,000 square feet of indoor cannabis production. CBW is providing expertise and financing with debt and equity for a Phase 1 and 2 construction of 500,000 square feet. CBW will receive 50% of all cultivation except from the original growing space for the next 99 years. For the initial 2 phases CBW expects to receive in excess of 50,000 kgs of cannabis per year. If full build out is completed this number could go over 200,000 kgs per year.

These 2 examples out of 15 could provide 58,000 kgs of cannabis/year which is approx. 7 times Canopy's current production rate. CBW has also built almost 40 clinic relationships to ensure access to users.



Looking at the C$ chart of CBW, it did not correct quite as severe compared to what occurred with Canopy and ABcann. The resistance level around the $1.50 from the spring time has acted as support with this correction.

I was considering at looking into the California market with this report but it is already getting long winded. I will save that for a follow up report, but one company that can benefit from California, Canada and for that matter anywhere in the world is:

**Lexaria Bioscience OTC:LXRP CSE:LXX Recent Price $1.90**
**Entry Price $0.16 Opinion – strong buy**

**Lexaria has raised over US$4 million in the past year and is fully funded for 2018.**

**Judging by what I am hearing and what is alluded to in the Bunka video below, I believe Lexaria is very close to landing one or more royalty sales agreements and it could be with well known companies that could turn heads.**

The use of Cannabis oils and edibles is growing much faster than smoking dried marijuana. Oils are preferable to many, especially medically who do not want the health risks involved with smoking. The only disadvantage with oils and edibles is the metabolism rate is slower and onset of effects takes much longer. That is until Lexaria arrived on the scene with their patented DehydraTECH™ technology.

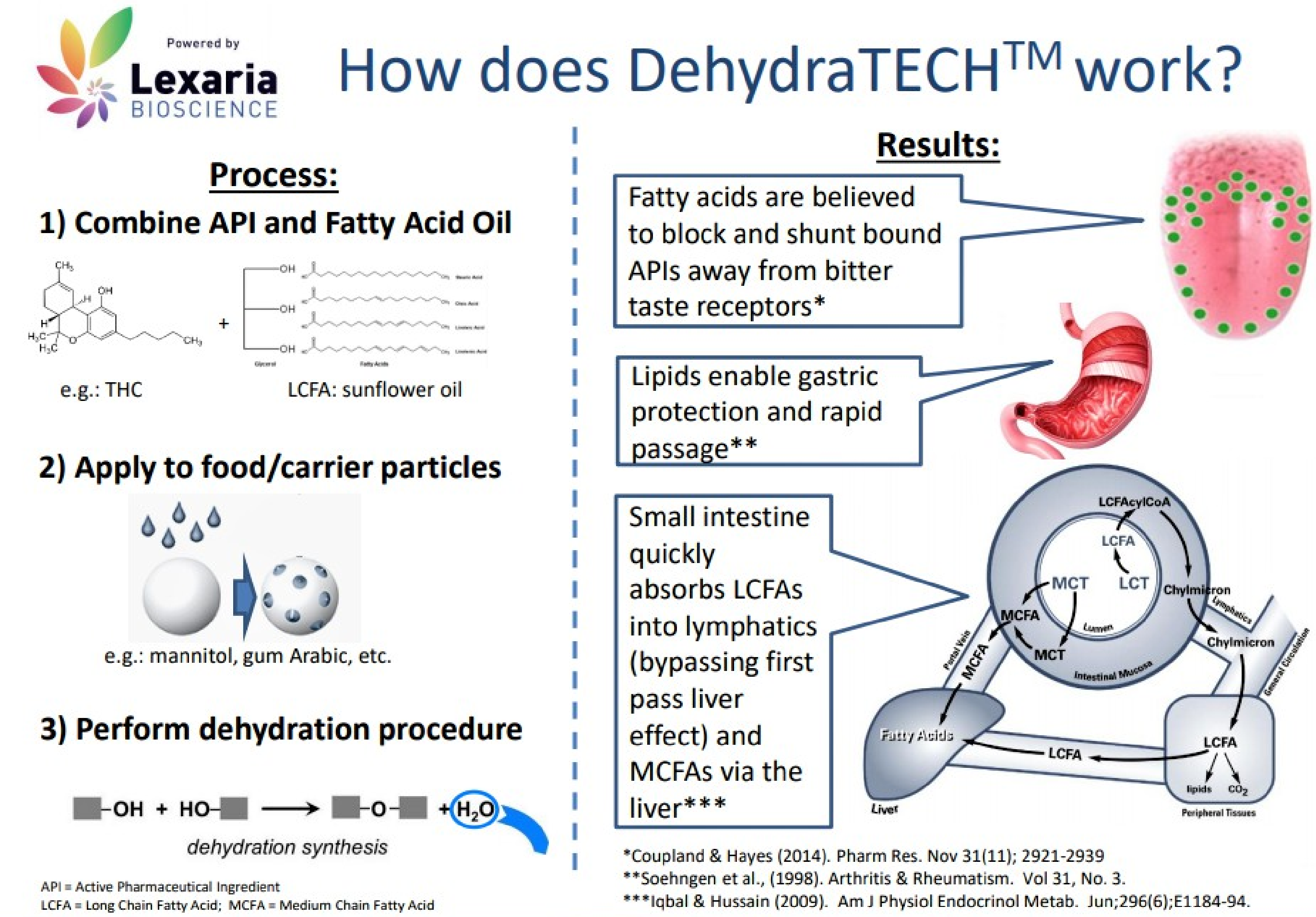
On December 13, 2017 Lexaria was granted U.S. patent number 9,839,612 B2 for the use of DehydraTECH™ technology as a delivery platform for a wide variety of Active Pharmaceutical Ingredients ("APIs") including all Cannabinoids/THC; fat soluble vitamins; non-steroidal anti-inflammatory pain medications ("NSAIDs"); and nicotine. This was Lexaria's 2nd U.S patent award and they were also issued a patent in Australia earlier in 2017. Currently the company has 33 patent applications pending. I believe Lexaria is among or the first to achieve a U.S patent award related to Cannabis.

Lexaria is very unique and has a competitive advantage to most in the sector. DehydraTECH™ utilizing fat molecules improves the absorption rates of nicotine, non-steroid anti-inflammatory drugs (NSAIDs), vitamins and cannabinoids, by as much as five to 10 times. The significance of this edible technology is that this improved absorption **may translate into lower dosages and shorter treatment regimens.**

DehydraTECH™ also improves delivery times, delivering payload molecules to the bloodstream in 15-25 minutes, as opposed to 60-90 minutes for current methods. The new patented, disruptive drug delivery platform changes the way Active Pharmaceutical Ingredients (APIs) enter the body orally. The technology eliminates the need to add high concentrations of sweeteners, since it masks unwanted tastes. **But, more importantly, it avoids first-pass liver metabolism, which mitigates side effects and improves the bio availability of its client drug.**

One of the best analogies I have to explain it is High Definition TV, that improved the resolution of pictures and videos 2 to 3 times dependent on whether it is 720p or 1080i. Nobody buys or wants the old standard definition now and for a little more cost everyone goes with High Definition. Lexaria's DehydraTECH™ is like High Definition on steroids as the improvement multiple is higher. It is just a matter of time and everyone will want DehydraTECH™ marijuana oil/edibles because it will be much better quality for the dollar. Perhaps it will become known as DT Cannabis Oil or Edibles. **Once a few companies deploy Lexaria's DehydraTECH™, all the rest will have to follow to remain competitive.**

This slide from their presentation should help in understanding DehydraTECH™.




I believe licensing agreements and joint ventures are just around the corner. In this Youtube video interview from February 2nd, Chris Bunka explains DehydraTECH™ very well and also **alludes to the fact that they are in discussions with about 20 companies in North America to use/license DehydraTECH™.** Lexaria's recent licensing agreement is with Cannfections Group Inc, a Canadian chocolate company with 85 years experience in chocolates and other confectionery products. This agreement offers other potential licensee partners an option of utilizing Cannfection's expertise to produce cannabis infused chocolates and gummies.

Lexaria started out focusing in the marijuana market but ironically it might end up that nicotine becomes even more lucrative for them than marijuana. There is a strong push from governments and the tobacco industry for alternatives to smoking, such as edibles. This came more to the forefront in July 2017 with the FDA's plan to reduce addictive nicotine levels in tobacco. Phillip Morris, the world's largest cigarette manufacturer is already working on a smokeless future. This Reuters article indicates they had already spent $3 billion developing a vaporizer and currently 70% of their R&D budget is devoted to smokeless alternatives.

Lexaria has a got an edge into this market as their one director, Ted McKechnie was once an executive at Phillip Morris. He is the Founder, Chairman and CEO of Canada's Technology For Food. He has held executive positions with Kraft, Frito Lay, General Foods, PepsiCo, and Philip Morris Companies. Ted is the recipient of the Philip Morris Chairman's Award for "recognition of extraordinary contributions having a significant and lasting impact on the Corporation". John Docherty M.Sc. is President of Lexaria and has 20 years senior executive experience in the pharmaceutical and bio science sector. Chris Bunka as

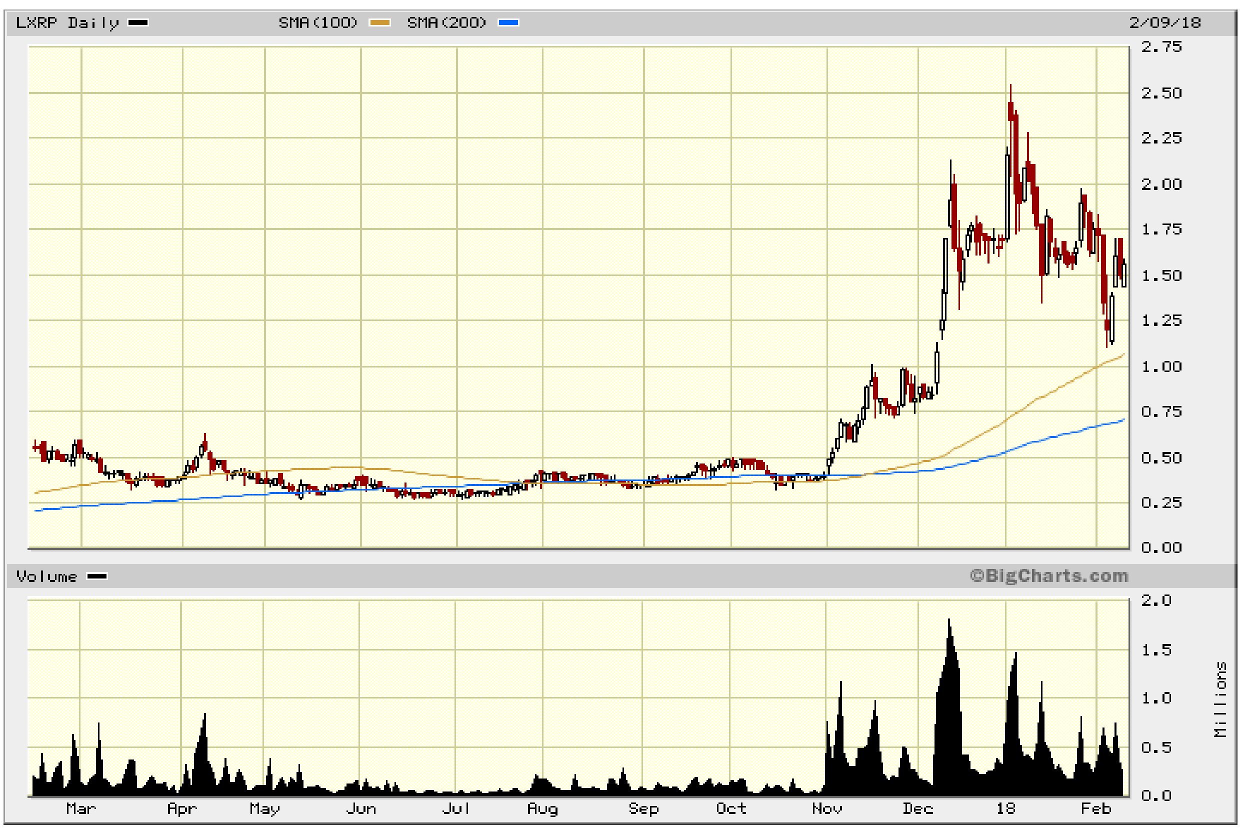
Chairman and CEO has extensive experience in capital markets, corporate governance, M&A and finance.

Lexaria did not expect to get the U.S. patent so quickly for nicotine but since it was awarded in December 2017, they wasted no time. Their Q1 2018 research program will study DehydraTECH™ for CBD topical skin creams, as well as nicotine in edible formats. Nicotine edibles do not currently exist due to nicotine's inability to pass through the human GI tract without irritation. DehydraTECH™ may offer a disruptive alternative to this $770B market, which is aggressively pursuing cigarette alternatives.

[Nicotine](#)

More than 99% of all nicotine that is consumed worldwide is delivered through smoking cigarettes. Approximately 6,000,000 deaths per year around the world are attributed primarily to the delivery of nicotine through the act of smoking according to the Centers for Disease Control and Prevention. Of note: "…it is primarily the toxins and carcinogens in tobacco smoke – not the nicotine – that cause illness and death." (U.K. National Institute for Health and Care Excellence [NICE]). As high as 69% of U.S. adult smokers want to quit smoking and 43% of US adult smokers have attempted to quit in any twelve-month period. Lexaria postulates that delivery of nicotine to satisfy current demand, utilizing their patented DehydraTECH™ technology in common food and consumer product formats, could shift demand away from smoking cigarettes.

Lexaria trades about the same volume in U.S. and Canada so I used the US$ chart here. The stock did not correct as much as others in the sector and I believe that highlights underlying strength. The stock popped back in early December on the U.S. patent news and did briefly trade down to around $1.15 so the criteria of filling the December gap was satisfied.



## Conclusion

If you want exposure to the marijuana sector, it is hard to ignore the leading producers but you should expect volatility. For now they can benefit from strong growth, can raise equity financing to grow and selling margins are high. At this time I prefer Aurora over Canopy. Canopy has held a good lead in market sales, with 2,020 kgs sold in their last quarter compared to Aurora at 1,162 kgs. Canopy will see some growth when they report on February 14$^{th}$, but Aurora's acquisition of CanniMed will add about 500 kgs/qtr. Aurora will be closing the gap and I like their lower cost of sales.

When competition increases in the sector and the first wash out occurs, which I do not expect until 2019, a company like Cannabis Wheaton has a strong advantage with their streaming model. Their costs will not increase much and because they do not cultivate at all, they will enjoy higher margins. However most of their growth will occur late in 2018 and into 2019 as the expansions they have funded start producing.

Lexaria is quite unique with their patent portfolio. They have the benefit of a royalty model similar to Cannabis Wheaton but are focused on down stream products after cultivation. Costs and the first shake out really won't effect Lexaria much at all. The current risk is execution, whether or not they can sign up royalty and license agreements. The potential to be disruptive in the tobacco/nicotine industry is an added kicker.