

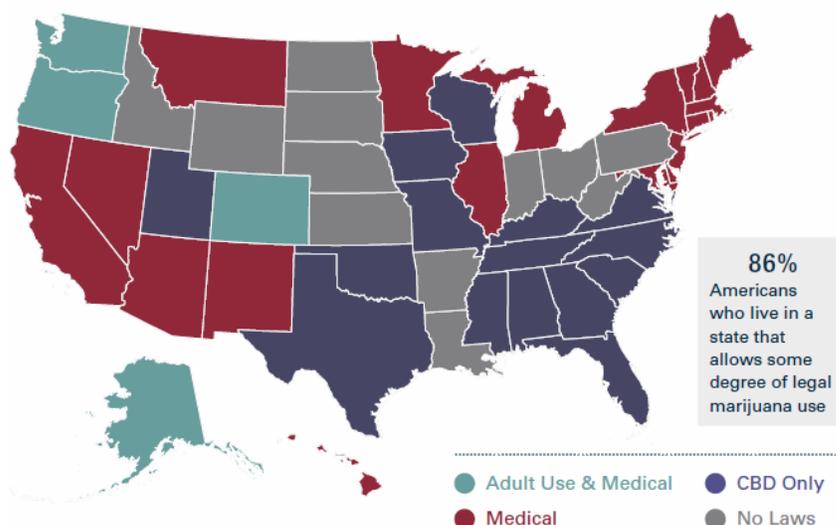
November 8, 2016, Could Mark A Breakthrough For The U.S. Marijuana Sector

November 2, 2016

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Source: Source: 2016 Arcview Market Research & New Frontier, Beacon Securities.

- The U.S. government views marijuana as a drug with no medical benefits and it remains federally illegal. However, the directive from the Department of Justice is to allow states which have chosen to permit legal medical/recreational marijuana and have set up robust regulatory regimes which are aligned with federal priorities (such as restricting access to minors) to **leave it to the states to enforce their own laws** and not interfere directly. 25 states currently allow some form of legal medical marijuana. **Popular support for legalization has never been higher, currently at 57%.**
- While there have been some early adopters which have legalized recreational marijuana to date (four states plus D.C.), they are **now starting to come in batches, rather than one-offs**. Specifically, **voters in five states** (California, Massachusetts, Arizona, Nevada and Maine) **will be voting on ballot initiatives to legalize recreational marijuana on November 8, 2016**. The "in favour" side is leading in the latest poll in each state. **Should all five initiatives be successful, come November 9, 2016, 23% of the population in the U.S. could be living in states which allow recreational marijuana**. We believe this could open up the floodgates for the rest of the country. While each state will likely have its own unique regulatory structure no doubt causing some confusion/headaches, we believe that **a positive result at the polls will attract significant investor attention and dollars looking to participate in the upside** from a massive and developed industry moving from black to white.
- Legal marijuana sales are forecast by Arcview Market Research & New Frontier to reach \$7.1B this year. In what we view to be an unusual situation, **the growth rate of sales is actually expected to meaningfully accelerate after 2017, with sales reaching \$22.8B in 2020**.
- **In this report, we highlight a few companies with exposure to U.S. marijuana sector that we are keeping an eye on: Namaste Technologies Inc. (N-C, not covered); Tinley Beverage Company Inc. (TNY-C, not covered); Nutritional High International Inc. (EAT-C, not covered); and Cannabis Royalties & Holdings Corp. (private company expected to start trading later this month).**

All figures in US\$ unless otherwise noted.

Federal Status – Still Illegal, But Stance Seems To Be To Let The States Do Their Own Thing

Official Position Remains Hardline

- Cannabis is a Schedule I drug under federal law, which the government determines to have “no currently accepted medical use and a high potential for abuse”. Other Schedule I drugs include heroin, LSD and ecstasy.
- “The [Obama] Administration steadfastly opposes legalization of marijuana and other drugs because legalization would increase the availability and use of illicit drugs, and pose significant health and safety risks to all Americans, particularly young people.”
- “It is this rigorous FDA approval process, not popular vote, that should determine what is, and what is not medicine.”

However, Reaction To The States Striking Back Has Been Muted

- California was the first state to legalize medical marijuana in 1996. Currently, medical marijuana is legal in 25 states and recreational marijuana is legal in four states (Colorado, Washington, Oregon and Alaska) as well as, ironically, the federal District of Columbia.
- **Cole Memo Gives Green Light To States Which Legalize Marijuana As Long As They Have Sufficiently Robust Regulation** – On August 29, 2013, the U.S. Department of Justice issued a memo to all federal prosecutors. While the memo reiterated that “Congress has determined that marijuana is a dangerous drug”, it stated that “The Department is also committed to using its limited investigative and prosecutorial resources to address the most significant threats in the most effective, consistent, and rational way.” The memo outlines several specific priorities the department has regarding the industry (distribution to minors, proliferation of criminal enterprises, violence, drugged driving etc.) which it wishes to focus on – as opposed to possession of small amounts of marijuana for personal use. The department believes that states which have legalized marijuana in some form and have implemented “strong and effective regulatory and enforcement systems” are less likely to threaten federal priorities. In such circumstances “**enforcement of state law by state and local law enforcement and regulatory bodies should remain the primary means of addressing marijuana-related activity.**” (emphasis ours)
- **2015 Federal Budget Prohibits Using Federal Funds To Interfere With State Marijuana Laws** – Section 542 of the 2015 U.S. federal budget bill specifies that “None of the funds made available in this Act to the Department of Justice may be used, with respect to any of the [list of 40 states, D.C., Guam and Puerto Rico] to prevent any of them from

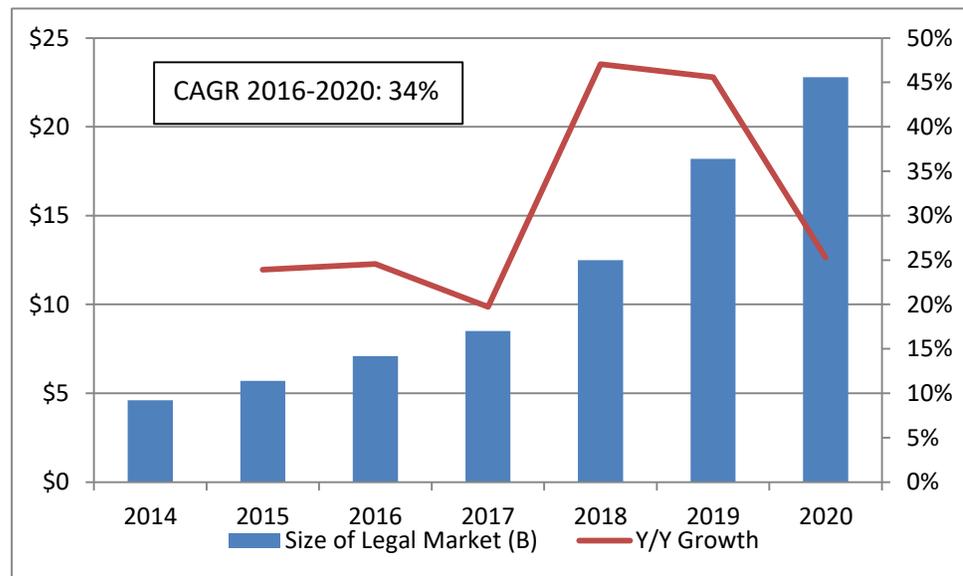
implementing their own laws that authorize the use, distribution, possession, or cultivation of medical marijuana.”

- **Attorney General Says Marijuana Is Not A Gateway Drug** – On September 20, 2016, U.S. Attorney General Loretta Lynch publicly declared that “When we talk about heroin addiction, we unusually, as we have mentioned, are talking about individuals that started out with a prescription drug problem, and then because they need more and more, they turn to heroin. It isn’t so much that marijuana is the step right before using prescription drugs or opioids ... **It’s not as though we are seeing that marijuana is a specific gateway.**” (emphasis ours)
- **Hillary Clinton Has Pledged To Reschedule Marijuana From Schedule I To Schedule II, Seems Open To Legalization On The State Level** – In August 2016, a campaign spokesman declared that “Marijuana is already being used for medical purposes in states across the country, and it has the potential for even further medical use. As Hillary Clinton has said throughout this campaign, **we should make it easier to study marijuana so that we can better understand its potential benefits**, as well as its side effects ... As president, Hillary will build on the important steps announced today by rescheduling marijuana from a Schedule I to a Schedule II substance. She will also **ensure Colorado, and other states that have enacted marijuana laws, can continue to serve as laboratories of democracy.**” (emphasis ours)
- **Donald Trump Has Stated Multiple Times That “What I Do Support Is Medical Marijuana In Some Form”** (emphasis ours). At a rally in Nevada in October 2015, he indicated that “In terms of marijuana and legalization, I think that should be a state issue, state-by-state”. However, he seemed less bullish on recreational marijuana when answering a question at a town hall in March 2016 “I’m watching Colorado very carefully, see what’s happening out there. I’m getting some very negative reports, **I’m getting some ok reports, but I’m getting some very negative reports coming out of Colorado as to what’s happening, so we’ll see what happens.**” (emphasis ours)
- **Proposed Legislation Would Loosen Banking Restrictions** – The Compassionate Access, Research Expansion, and Respect States Act of 2015 (CARERS Act) would prohibit a banking regulator from penalizing or taking action against a depository institution which provides banking services to a marijuana-related legitimate business, or recommending/incentivizing depository institutions to not provide financial services to marijuana-related business or individual. While it remains to be seen if the legislation will pass by the end of the year, we note that it has 19 co-sponsors in the Senate.

Current & Potential Market Size

Sales Growth To Actually Accelerate Going Forward

Exhibit 1. U.S. Legal Marijuana Sales (B, left) & Y/Y Growth % (right)



Source: 2016 Arcview Market Research & New Frontier, Beacon Securities.

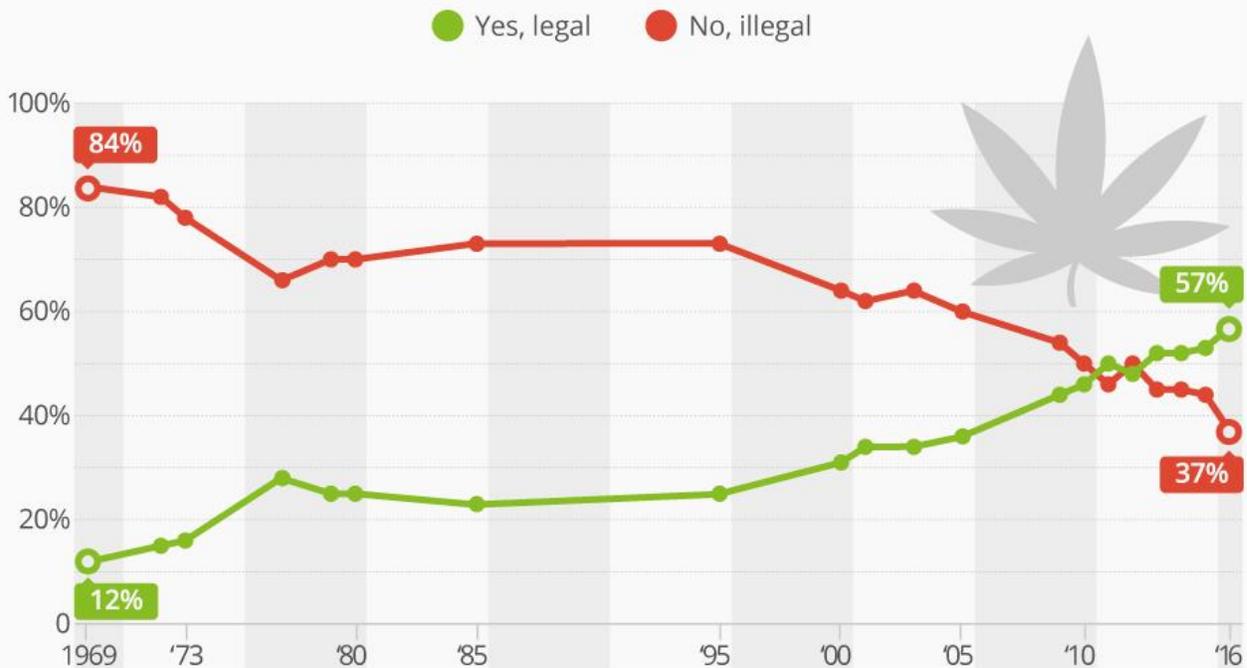
- Arcview Market Research & New Frontier and forecasting legal marijuana (medical + recreational) sales to reach \$7.1B this year. Sales are forecast to rise 20% in 2017 to \$8.5B – and then accelerate meaningfully, up 47% in 2018 (to \$12.5B), and 46% in 2019 (to \$18.2B), before reaching \$22.8B in 2020.

Public Acceptance To Marijuana Has Accelerated In Recent Years

Exhibit 2. U.S. Support For Legalizing Marijuana

U.S. Support For Legalizing Marijuana Hits All-Time High

"Should the use of marijuana be made legal or not?"



@StatistaCharts Sources: Pew Research Center, Gallup

Forbes statista

Source: Forbes.

- After two decades of being stuck just below 30% (1980-2000), acceptance of legal marijuana has increased meaningfully in recent years – likely indicating a positive response to the increasing legal availability. A Pew Research survey conducted in August 2016 found that **57% of the U.S. population supported making the use of marijuana legal, versus 37% opposed.**

Election Could Be A Gamechanger For The Industry

Exhibit 3. Key Data Regarding States Voting On Legalizing Marijuana On November 8, 2016

State	Population (MM)	Latest Poll		Funding Raised	
		In Favour	Opposed	In Favour	Opposed
Recreational Marijuana					
California	38.1	55%	38%	\$22.0MM	\$2.1MM
Massachusetts	6.7	49%	42%	\$3.7MM	\$634K
Arizona	6.6	50%	42%	\$3.2MM	\$1.9MM
Nevada	2.8	47%	43%	\$2.9MM	\$2.1MM
Maine	1.3	53%	38%	\$2.1MM	\$230K
Total	55.5				
Medical Marijuana					
Florida	20.3	74%	22%	\$5.5MM	\$3.4MM
Arkansas	3.0	45%	50%	\$885K	\$59K
North Dakota	0.8	N/A	N/A	\$6K	\$0K
Total	24.1				

Source: Ballotpedia, Beacon Securities.

- Voters in five states will be going to the polls on November 8, 2016, to vote on ballot initiatives to legalize recreational marijuana. Of the last five such instances where the people were given the chance to vote, four were approved (Colorado; Washington, DC; Oregon; Alaska).
- The latest polls show side “in favour” of recreational marijuana leading in each state, with the “opposed” side not passing the 43% mark in any instance. The “in favour” side has also outraised the “opposed” side in each contest.
- **All eyes will likely be on California** in particular, simply give its size (largest state in the Union). We note that it is currently polling at **55% in favour versus 38% opposed – the largest spread of all five states** voting on recreational marijuana next week. On November 9, 2016, up to 23% of the U.S. population (74MM people) may be living in states where recreational marijuana is legal, which we believe could open up the floodgates for the remaining states (and possibly federal government) to follow.
- Another three states will also be voting to legalize the use of medical marijuana on November 8, 2016.

Namaste Technologies Inc. (N-C)

Global e-commerce Play on Everything Around Marijuana

(in C\$, MM - except share price)

Company	Ticker	Price	Shares O/S	Market Cap	Net Debt (Cash)	EV
Namaste Technologies Inc	N.CD	\$0.27	115	\$30	-\$2	\$29

Source: Company reports, Beacon Securities.

- Namaste Technologies is a global e-commerce supplier of vaporizers, bongos, pipes and related accessories such as batteries, grinders, etc. to medical and recreational users of cannabis.
- The company has a global presence, with 26 e-commerce retail stores (i.e., websites) operating in 20 countries with estimated monthly traffic of ~550k visitors.
- The company aims to be a consolidator of global e-commerce outlets for vaporizers and related accessories. Currently, it has five different outlets (i.e., websites) that sell products into the U.S., U.K. and international markets (Exhibit 4). The U.S. is Namaste's largest market. **74% of the company's traffic is generated in the U.S.**, 14% from the U.K., 3% from Canada, 3% from continental Europe, and 4% from Asia Pacific.
- The company sources its merchandise from a list of ~200 vendors, with fulfilment centres located in the U.S., U.K., Brazil and Australia. The company leverages multiple established e-commerce platforms to conduct its business including PayPal and Shopify, among others.
- Having recently completed the acquisitions of URT1 (October 1, 2016) and VaporSeller (July 15, 2016), the company generated pro forma revenue of C\$10MM for the fiscal year ended August 31, 2016. The company is projecting revenue of C\$14.6MM for the fiscal year ended August 31, 2017. Namaste aims to be EBITDA positive by the end of calendar 2016 and cash flow positive in 2017.
- Further, the company aims to extract synergies as it continues to build up its portfolio of e-commerce websites by eliminating redundancies in headcount and streamlining/unifying technology platforms.

Exhibit 4. Namaste's e-commerce Portals Portfolio

Subsidiary Name	NamasteVapes	URT1	VaporSeller	Grizzly	GreenVapes
Geographic Target	International	U.S. & U.K.	U.S.	International	U.K.
Domain	namastevapes.com	everyonedoesit.com	vaporseller.com	grizzlyoriginals.com	greenvapes.co.uk

Source: Company reports.

Tinley Beverage Company Inc. (TNY-C)

Aiming To Be A First Mover For A THC Beverage In California

(in C\$, MM - except share price)

Company	Ticker	Price	Shares O/S	Market Cap	Net Debt (Cash)	EV
Tinley Beverage Company Inc	TNY.CD	\$0.36	70	\$25	-\$4	\$21

Source: Company reports, Beacon Securities.

- Tinley produces the Hemplify line of beverages. Hemplify is made from the stalk of European industrial hemp, which contains terpenes and phytoconstituents, many of which are common to marijuana. One such ingredient, cannabidiol (CBD), is the chemical in medical marijuana which many believe provides the majority of the health benefits, however it does not get you 'high'. **Hemplify contains CBD, but does not contain tetrahydrocannabinol (THC)** therefore it can provide many of the health benefits of medical marijuana to consumers who do not wish to get 'high'.
- The absence of THC, coupled with the sourcing of CBD from imported hemp, enables Hemplify to be sold in regular stores (i.e., outside the dispensary system) in all 50 states without requiring consumers to have prescriptions. This results in an addressable market consisting of all 50 states (versus being limited to just the recreational marijuana states). Moreover, it enables the company to use mainstream beverage industry infrastructure such as formulators, bottlers, distributors and outsourced sales forces.
- Hemplify is manufactured in southern California by an outsourced, large-scale bottler (i.e., it does not have the capex associated with a bottling line). Further, because it can operate outside the dispensary system, it does not need to share economics with a local licensee or incur the capex associated with obtaining a marijuana license or building a licensed facility.
- Hemplify is available in tropical punch and berry passion flavours. The product has many of the "clean label" attributes currently in demand by premium and health food stores (i.e., sugar free, vegan, non-GMO, gluten free, and "no artificial ingredients").
- **Hemplify began selling in stores approximately two months ago** and it is gathering steam in terms of availability. **On October 6, 2016, the company announced that it was available in 50 stores. Today, it is available in ~100 stores, ~90 of them are in California** (the remainder are in five other states). The majority of these stores are head and "smoke" shops, with others being premium grocery and health food stores. It is also available online across all 50 states at <http://drinkhemplify.com/> and on amazon.com. It typically retails for \$4.99-5.99 per bottle.
- Regarding its growth strategy, management is working to be the first CBD drink to be picked up by a large distributor (i.e. those reaching

20K+ stores). To achieve this, it needs to demonstrate repeat orders by 30+ larger stores within a distributor's delivery region. While there is no guarantee the company can achieve this milestone, **the company believes it will be in a position to apply to such distributors within 6 months.** Until then, it will continue to self-distribute and distribute via smaller distributors.

- Hemplify's current marketing budget is ~\$10K/month. The company plans to use its \$4MM of cash to substantially increase its marketing spend to be competitive with other mainstream and specialty drink companies.
- **Tinley has also developed a THC drink called Tinley '27**, which comes in four flavours – amaretto, dark Jamaican rum, gin, and Canadian Whisky. **A positive election result in California's ballot initiative is expected to allow THC drinks to be sold to a much larger base of consumers in the state and with significantly fewer purchase restrictions.** Most THC drinks currently available in the state (i.e. via the current medical marijuana program) are craft and boutique-style products, and Tinley is working to exploit an early mover advantage for production of CPG-style drinks.
- To maximize distribution, Tinley has developed a turnkey solution for licensed cannabis producers to source and operate beverage bottling equipment to manufacture and resell the Tinley products using such producers' own cannabis. It also enables these producers to develop their own products and operate a contract bottling business for other drinkable cannabis products.
- The company is presently in discussions with licensed producers in Canada and the U.S. to implement this turnkey solution. The form and structure of each of these agreements depend heavily on the regulatory requirements in each jurisdiction. Accordingly, the company is monitoring the November 8, 2016, ballot initiative on recreational legalization in California, where Tinley's current CBD bottling operations are based, as well as the expected unveiling of the Canadian regulatory framework.

Exhibit 5. Hemplify (left) & Tinley '27 (right) Beverages



Source: Company reports.

Nutritional High International Inc. (EAT-C)

Focused On Edibles & Oil Extracts

(in C\$, MM - except share price)

Company	Ticker	Price	Shares O/S	Market Cap	Net Debt (Cash)	EV
Nutritional High International Inc	EAT.CD	\$0.18	220	\$40	-\$4	\$36

Source: Company reports, Beacon Securities.

- Nutritional High is another player in the U.S. medical and recreational marijuana sectors. The company has no plans to grow marijuana – rather it concentrates on the edibles and oils extraction market.
- The company has the **exclusive rights to manufacture and distribute marijuana and hemp-oil infused products using Jimi Hendrix's name, likeness and song names**. Nutritional High is focusing on products with a longer shelf life, such as **gummies, drinks and hard candies**.
- Nutritional High is one of 52 applicants granted a medical marijuana dispensary license in Illinois (owns 50%). It is also building a facility in Colorado for oil extraction and infused edibles. Nutritional High uses cold ethanol distillation extraction, while most others use the CO₂ or butane hash oil (BHO) extraction methods. The company's approach is to initially sell the extract to other infused product manufacturers, and also manufacture the cannabis-infused products and sell them to dispensaries.
- Other initial THC products the company manufactures includes: solid marijuana concentrates (ex. shatter); liquid marijuana concentrates (oils for edible marijuana-infused products); tinctures and drink additives (flavoured liquids to add to beverages, food or dips); vape pens and cartridges (cartridges which can be inserted into a vape pen); and other products (protein shakes, boxed baking items etc.).
- Nutritional High announced a C\$3MM non-brokered private placement on October 26, 2016, to fund expansion into other states (looking at Washington, Oregon, California, Nevada, Arizona and Maryland).
- The company has also launched its Nutritional Traditions gelatine capsule line, which is available to retail customers in California.

Cannabis Royalties & Holdings Corp. (Private)

Cannabis Diversification By Both State & Market Sector

Company	Ticker	Price	(in C\$, MM - except share price)			
			Shares O/S	Market Cap	Net Debt (Cash)	EV
Cannabis Royalties & Holdings Corp.	N/A	\$2.00	37	\$73	-\$4	\$69

Note: Pricing above is based on the company's most recent financing.

Source: Company reports, Beacon Securities.

- Cannabis Royalties & Holdings Corp. ("CRHC") "is building a platform of holdings via royalty agreements and equity stakes encompassing research, brands and devices covering key segments of the legal cannabis market. CRHC contributes strategic capital and expertise to maximize the return potential of its diversified portfolio of assets and holdings."
- The company recently completed a C\$5MM financing and expects to be **trading on the CSE in November** after amalgamating with Bonanza Blue Corp. (BB-C, not covered) under the name CannaRoyalty Corp. We understand shares have been trading in the private market at a price of C~\$2.25.
- CRHC focuses its investments on "three key verticals: brands and intellectual property, delivery systems and devices, and extraction".
- CRHC currently has **20 investments in its portfolio located in five states**. Given the size of the market, **California is the largest contributor to the company's revenue** – followed by Oregon, Washington, Arizona and Colorado.
- There are no 'typical investment terms' for CRHC. Types of investments include: pure royalties on revenue; equity investments of <20% (to get dividends); equity interests between 20% and 70%; 100% equity interests; secured, convertible loans; and licensing agreements.
- CRHC has exposure to multiple sectors of the cannabis ecosystem: concentrates; pre-rolls; vape pens; edibles; topicals; and animal health.
- The company has raised C~\$17M to date. Notably, Aphria Inc. (APH-V, not covered, C\$384MM market cap) owns ~8% of shares outstanding.

Exhibit 6. Subset of CRHC's Brands



Source: Company reports.

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Buy	62	71%
Speculative Buy	14	16%
Hold	3	3%
Sell	0	0%
Under Review	6	7%
Tender	2	2%
Total	87	100%

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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