

# The business of goodwill.

“Goodwill to others is constructive thought. It helps build you up. It is good for your body. It makes your blood purer, your muscles stronger, and *your whole form more symmetrical in shape*. It is the real elixir of life. The more such thought you attract to you, the more life you will have.” – Prentice Mulford

Negotiating with a potential partner in Vancouver who will remain nameless, I offer him a profit-sharing program which he responds pleasantly with: “we are satisfied with your goodwill.”

“What?! Are you serious?” I respond incredulously. After all, what would this mean if we started everyday motivated by goodwill instead of our usual java and race for capital...I wonder about my priorities.

My partner tells me that no one in our business ever says “goodbye”. He’s right. We finish a call, and click, boom – bang, it’s over. So how the heck are we going to possibly integrate goodwill into our business practices when there is no time for pleasantries?

So, let’s review the source who tossed this ‘new age’ approach my way last week. He seemingly has plenty of capital, an abundance of clients and quite frankly, he looks a decade younger than he is. Vibrant, vital and energized by life, I take a call from one of my endless associates who is tired, on the brink of fatigue, and life is literally sucking the life out of him: he needs \$20k to keep his deal alive. I point out that this will get him only so far, what is he really needing? Could tossing in some goodwill be the missing variable required for prosperous living? After all my less energetic associate is working from dawn to dusk and he always seemed gracious to me – what gives?

Mi3's Mario Drolet just called me back about an interview preparation on our what works for financial media marketing interview series we are doing, I ask: "Can you tell me what your greatest success was in business whereby you utilized goodwill?" He pauses and responds with a cleverly trained ear once I explain the reason for what he deemed an unusual question with – "Tell your associate it's very hard to deposit goodwill in the bank."

I laugh...but...in the last year, I have quit drinking, stopped eating sugar and toyed with giving up coffee, albeit while the last one has been unsuccessful – isn't the goal better living? We all understand that no fulfilling lifestyle can be built on investing inward only, there must be an investment outward and in others, but how does this formula work on optimum drive? The promise of greater life satisfaction, higher productivity, perhaps the new age investment advisor should be recommending some old fashioned giving...

Scandalous, I imagine the faces of our wealthy investor's faces receiving information from their IAs that they should start giving more away...for fun, ask your IA who you should give your money too.

Testing this theory, I told two companies last week that I was motivated purely by goodwill and volunteered some services for free. One has not called me back – indubitably in shock, and the other one has been ringing me hourly for results. Brought this up with my best friend over coffee this morning, and his conclusion was that the goodwill recipient simply did not deem my action to be genuine or that of goodwill, but one that was masking an inevitable ulterior motivation. And the other one, understanding that this was a short-lived window of opportunity, was moving rapidly to ensure that I did not renege perhaps.

Though the definition I am reflecting on is "a kindly feeling of approval and support: benevolent interest or concern" the

cavalcade of definitions for business are as complex as this debate, especially when integrated into the business success formula.

“Goodwill is a type of intangible business asset. It is defined as the difference between the fair market value of a company’s assets (less its liabilities) and the market price or asking price for the overall company.”

Mired in controversy, this word is classically used for exchanges that range from hard dollar value to an act of kindness – they all end up in the grey zone. Wikipedia takes it a step further and writes: “The accounting treatment for goodwill remains controversial, within both the accounting and financial industries, because it is, fundamentally, a workaround employed by accountants to compensate for the fact that businesses, when purchased, are valued based on estimates of future cash flows and prices negotiated by the buyer and seller, and not on the fair value of assets and liabilities to be transferred by the seller. This creates a mismatch between the reported assets and net incomes of companies that have grown without purchasing other companies, and those that have.”

With competitors heightening their game, technologies more ferocious driven by capital gain, and the absence of a good glass of wine to alleviate the pressure, at the very least one may debate that goodwill at its very core is indeed a nice break in the usual money hustle, a life hack? Perhaps a season or two of goodwill is the basis for better living -- or is this simply another workaround, a modern translation of a “you owe me a big one”, or a justification that one is not simply driven by money. The point is that “good” may be an overstatement.

Looking at the market, Aurora Cannabis Inc. (TSX: ACB) has had some challenges with the art of goodwill or are they in fact, a champion leader on this front? You decide.

Aurora's Q3 2019 results show \$3.18 billion in goodwill. The total asset of the company is \$5.55 billion, which means that approximately 57% of the total asset is goodwill. Some opinionated writes posing as analysts believe it is too much and there is ongoing debate on whether or not the company has overpaid for most of its acquisitions ([click here](#)).

(Aurora's financial results source). Adding the "Bank of America Merrill Lynch analyst Christopher Carey recommended the stock in April 2019 but the downgraded the stock to neutral rating in July. He said that the cash burn for the company is very high and it may run out of cash by the first quarter of 2020." (source)

Now speaking of goodwill, let's extend some here to Aurora for the sake of this debate. They were first over the mountain, they not only succeeded when no one else could and then made a whole lot of people a whole lot of money, perhaps we should hear what they have to say? I think I will send the founder Terry Booth an email on this and publish his response if he cares to answer because I remember attending meetings with Terry in the early days and having people explain why he couldn't, wouldn't make Aurora successful. Good thing he didn't listen...many might agree.

Been thinking about this since the new partner in Vancouver threw this business formula my way and have been on the fence on this matter, debating it with respected friends and associates with the only possible conclusion being that when someone describes a deal as goodwill as such, accept it rapidly with an onslaught of graciousness and have a very – very good day. Sort of like making money in the stock market. Don't over think it, just assume it's a gift of the right deal at the right time with the right people.

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# Move over Fantasy Football, the Cannabis Market just got very real.

Forget the Fall sport season because if you haven't been watching the Cannabis Breakfast Club, we have some awe-inspiring numbers that may get you on-side and looking at stock charts with your morning coffee. Yesterday, we published [To be a Billionaire or not? The Canadian Cannabis Breakfast Club struggles with U.S. border entry concerns](#) where we address the significant challenges arising from border crossing concerns for Canadian executives and investors alike entering the U.S.

Speaking of entry am I the only suffering from the colossal cannabis market envy and interested in whether there is room to still enjoy what appears to be a bud bull market?

While Terry Booth of Aurora Cannabis Inc. (TSX: ACB | OTCQB: ACBFF) had been a client in 2015, I recall attending meetings for financings and listening as bankers would explain why they were not interested in cannabis... this column is dedicated to all of us that could have, should have but maybe didn't... and more importantly is it too late?

*Wince forward.*

If we had bought \$100k in Aurora Cannabis stock on January 2, 2015 at \$0.40, as of market close last night at \$10.87, our stock would be worth \$2,717,500.

Taking one more step backwards into the past, imagine that we had invested this same fantasy \$100k in the 4 leaders in the

Canadian Cannabis Breakfast Club in 2015... what may we have been worth this morning?

### **Let's break it down.**

Hypothetically, we would have bought 12,195 shares of Canopy Growth Corporation (TSX: WEED) at \$2.05, which closed at \$63.40 today, market cap \$14.5B – and acquired 62,500 shares of Aurora Cannabis Inc. (TSX: ACB) at \$0.40, they closed at \$10.87 today, market cap \$10.35B. Then perhaps we would have selected 23,810 shares of Aphria Inc. (TSX: APH) at \$1.05, they closed at \$19.28 today, market cap \$4.48B. And finally, scoring 31,646 shares of Cronos Group Inc. (TSX: CRON) at \$0.79, they closed at \$16.25 – market cap \$2.87B. And voila, our fantasy 100k would be today worth nearly \$2.5M this morning (\$2,426,574.00) – a stunning 2326.57% lift in 33 months!

Wow.

Now where are we today? I ask an the CEO of CannaIncome Fund Arthur Kwan – is it too late? He responds: “With Tilray (NASDAQ: TLR) reaching an intra-day high of US\$300 and closing at US\$214 today, the mass hysteria surrounding cannabis stocks continues. With a market capitalization of US\$20 billion, it is hard to fathom that Tilray, in a matter of a few short months since going public, is now larger than Canopy Growth (TSX: WEED) and other well-known brands, including WhirlPool, Harley-Davidson, and Hyatt Hotels.

While there is no doubt that this is a very over-heated market, we continue to believe that there's value in this sector, although now you may have to dig a little harder to find that hidden gem. We see opportunities in the next 'wave' of growth companies as we get closer to legalization in Canada including edibles, beverages, and biosynthesis.”

He tells me that CannaIncome is maintaining their market advantage by “investing in the early pre-IP0 rounds at

significant discounts to public company valuations.”

InvestorIntel Editor Matthew Bohlsen provided us with the following updates on half a dozen cannabis sector companies that are advertisers on InvestorIntel. The companies are listed by market cap, these numbers were taken from TD Waterhouse on September 20, 2018.

- WeedMD Inc. (TSXV: WMD), \$228.04M Market Cap
- Scythian Biosciences Corp. (CSE: SCYB | OTC – Nasdaq Intl: SCCYF), \$173.9M Market Cap
- Viridium Pacific Group Ltd. (TSXV: VIR), \$44.82M Market Cap
- NanoSphere Health Sciences Inc. (CSE: NSHS) \$37.66M Market Cap
- Global Cannabis Applications Corp. (CSE: APP | OTCQB: FUAPF), \$20.22M Market Cap
- CO2 GRO Inc. (TSXV: GROW), \$10.62M Market Cap

WeedMD Inc. (TSXV: WMD), \$228.04M Market Cap: WeedMD Inc. is a Canadian licensed producer and distributor of cannabis with large production facilities in Canada. The Company recently announced it has completed the export of its cannabis genetics to Australia’s Medifarm.

Edward Harris, Managing Director of Medifarm, said: “Medifarm prides itself on the cultivation of exclusive cannabis genetics, supported by proven breeding programs used in university and hospital clinical trials for therapeutic use. WeedMD’s highly regarded cannabis strains will help us bring Australians continued access to a diverse set of consistent, quality cannabis products, ensuring that our patients have access to clinically validated and cost-effective medicine for their therapeutic use is paramount for Medifarm.”

Early in September 2018, WeedMD announced it has now completed the first harvest from its modern greenhouse in Strathroy,

Ontario. The Company marked the event with a WeedMD “First Harvest” celebration party, a community open house that welcomed well over 120 guests that included WeedMD’s Board of Directors, local government, business leaders, investors, media representatives and employees.

Keith Merker, CEO of WeedMD said: “We’re proud to have been able to share this important milestone with our community, stakeholders, employees and industry. The first harvest was completed in early September and resulted in an impressive yield from our first 10,000 square foot grow room.”

I am guessing it must have been a great party, and I hope to get an invitation to the next one as this WeedMD is having great success both in Canada and soon in Australia.

Scythian Biosciences Corp. (CSE: SCYB | OTC – Nasdaq Intl: SCCYF), \$173.9M Market Cap: Scythian Biosciences Corp. is an international cannabis company with a focus on the burgeoning U.S. medical cannabis marketplace. Its strategic investments and partnerships across cultivation, distribution and retail complement the company’s R&D program with the University of Miami. It is this comprehensive approach that is positioning Scythian as a future frontrunner in the United States’ medical cannabis industry.

Scythian has initiated its international expansion by launching additional cannabis related activities across the globe. The Company is evaluating several strategic initiatives and pursuing partnerships with local cultivators, pharmaceutical import and distribution entities and universities in North America, South America, Caribbean and beyond.

Just as any area of the body begins to swell after impact and injury due to inflammation, brain tissue itself does as well. Unfortunately, because the brain is confined inside the skull, the inflammation naturally triggered ends up causing even more

damage as the process continually pushes already-injured brain tissue against bone. For contact sports players, repeated concussions can have devastating effects later in life. Cannabinoids are an effective treatment for mild brain trauma (concussions). This is going to be great news for professional sports organizations involved in contact sports and should hopefully lead to wide spread adoption for Scythian's therapy and products.

Viridium Pacific Group Ltd. (TSXV: VIR), \$44.82M Market Cap: Viridium Pacific Group Ltd. is a Canadian producer of medical cannabis products. It is proceeding to meet the health Canada requirements to amend its current producer license to include a license to sell. The Company is involved in consumer wellness and biotech innovation, with interests spanning across agricultural production, property development, and financial services.

Viridium Pacific is positioned to develop and expand into new markets across multiple platforms. Earlier this year, a subsidiary of Viridium, Experion Bio-technologies acquired 25 new cannabis strains from a renowned Dutch supplier, increasing the number of strains available from 2 to 27. The new cannabis strains acquired by Experion are proprietary strains developed in one of the most sophisticated breeding programs in the world.

Viridium has signed a Letter of Intent (September 13, 2018) with Montreal Medical Cannabis Inc. ("MMCI") to establish a partnership in Pointe Claire, Quebec. With only 9 of 116 Canadian license producers headquartered in the province, Quebec represents a significant opportunity for Viridium to establish licensed cannabis cultivation and distribution. Viridium Pacific will provide expertise to help prepare the MMCI facility for Health Canada inspections, and expedite the application process under its licensed subsidiary, Experion Biotechnologies Inc. The facility currently under renovation is 76,000 square feet with an

anticipated output of cannabis over 10,000 kg per year. On October 17, 2018, Canada is to become the third nation in the world to formally legalize cannabis for recreational use and become the first G7 nation to do so. Viridium are in a perfect position in a fast-growing industry with new legislation ready to take effect.

NanoSphere Health Sciences Inc. (CSE: NSHS) Market Cap \$37.66M: NanoSphere Health Sciences Inc.'s Evolve Formulas product is the provider of the world's first and only scientifically proven nano particle delivery system for cannabis. For those that can remember the original Star Trek series, the Evolve product administers directly into the system in a similar way to the Doctor on the Enterprise administered medicine. They called it a hypo-spray. This cutting edge technology eliminates the need for inhalation or ingestion of cannabis, offering users a safer and more effective method of consumption.

The onset time of cannabinoids delivered by the NanoSphere Delivery System™ is just 10 minutes, thereby relieving the user from pain and anxiety in an extremely short period of time. NanoSphere was recognized as Company of the Year for Nano Biotechnology and Innovative, Company of the Year for Healthcare, and three 2018 Global Awards from ACQ5, a premier global corporate magazine. NanoSphere has partnered with Delta 9 Cannabis INC to bring products from its cannabis brand, Evolve Formulas, into the Canadian market, under an agreement, that will see a 50/50 net revenue share from sale of Evolve Formulas products.

The NanoSphere Delivery System could be an ideal way to deliver vitamins, minerals, super-nutrients into the system as well as eliminate the use for needles to deliver medicines. That's got to make parents and kids very happy.

Global Cannabis Applications Corp. (CSE: APP | OTCQB: FUAPF), \$20.22M Market Cap: Global Cannabis Applications Corp.

("GCAC") goal is to build a technology-enabled community to improve the health and wellness of medical patients and users alike. The Company has created the Citizen Green Community, a database that uses a mobile app platform for subscribers to interact with other medicinal cannabis users to share benefits, knowledge and personal experiences from their use.

Their Prescriptii app is designed to help patients find the appropriate products for their medical condition. It allows patients to easily rate the cannabis products they have been prescribed, learn about products that have helped other patients, and provide feedback about the effectiveness.

The Company's CannaLife app was designed to create conversation, share ideas, and promote education on a single social platform (the Cannabis Facebook?). Real conversations will take place showing users what is trending, who to follow, tag, subscribe, and communities to join. Users can also lead the conversation by creating their own communities or sharing information by taking a snapshot from a web page.

With the Prescriptii and CannaLife apps, and the Citizen Green data platform, GCAC is establishing a leadership position by using science and advance technology to gain important insight into the medical cannabis industry. Because of legislation, data on cannabis use and its effects hasn't really existed for obvious reasons (who wanted it known that you were a user). Now GCAC is giving medicinal users the chance to record and share experiences on the Company's Citizen Green apps.

C02 GRO Inc. (TSXV: GROW), \$10.62M Market Cap: C02 GRO Inc.'s ("GROW") mission is to accelerate all outdoor and indoor plants naturally, safe and economically using its patented advanced C02 foliar spray technologies. Recent trials are proof of this, with results on C02 foliar spray versus C02 gassing. Spraying dissolved C02 to the top as well as the bottom of a lettuce leaf is more effective in stimulating dramatically faster plant growth and plant size/mass than C02

gassing. This also proves why GROW's CO2 Foliar Spray technology integrated into advanced irrigation boom trials are showing sharply faster and larger plant growth.

CEO John Archibald noted: "This additional St. Cloud State University discovery and success integrating our CO2 technology into irrigation spray booms provides further evidence of the commercial potential of our technology. Our revenue generation model is long term site technology licenses and lease of our integration equipment in both indoor and outdoor boom spray systems."

In August, CO2 GRO conducted their second cannabis trial with a positive commercial indoor trial. The second trial was on a leafier indica strain that yielded an estimated 60% increase in bud value whereas the first trial on a stringier sativa strain yielded an estimated 45% increase. CO2 GRO's Indica cannabis trial bud weight increased 20%, was grown 20% faster and had 75% more THC than the control bud group.

It is kind of amazing when you think how this could possibly solve food shortage problems and create a stronger cannabis strain. More food is going to be needed globally each year, and CO2 GRO can play an important role.

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## **Smoked! Govt Finally Admits No Marijuana Legalization by July**

The cannabis market continues to be a trader's market. It's not for investors. The difference is the inexplicable random gyrations in the trading of the public marijuana companies'

shares. Up three dollars, down two, up four, down two, then sideways... that's the average weekly chart in the cannabis space.

It's a strange market. Good news can send share prices down. News that should crater the stock instead pushes it up. It brings back memories of the internet boom in the late 1990's.

Canopy Growth Corporation (TSX: WEED) is the largest cannabis company in Canada. Its current market cap is \$5.5Billion, with close to 200,000,000 shares outstanding. Its year high was \$44 a share, but those same shares can be bought today for around \$28. That's a \$14 per share difference, and that share price difference represents about \$2.8Billion in market cap difference. But the company is substantially the same – that \$2.8B market cap delta was not driven by a fundamental change in anything except investor sentiment. Value created and destroyed by mere perception, not facts. And that, is a trader's market.

If further proof is needed, look at Aurora Cannabis Inc. (TSX: ACB | OTCQX: ACBFF). It's one of our long-term favourites to survive the inevitable carnage in this sector. Its low over the past 12 months was \$1.90. One hundred and ninety pennies. Today, it's trading about \$11, after stretching to hit a high of \$15.20. With 470M shares out, the market perceives Aurora having created about \$4.7B of value over the past 12 months. Not even Aladdin with his magic lamp could do that.

The main reason for the irrational exuberance (thank you Alan Greenspan) is the federal government's campaign promise to decriminalize cannabis. Investors know the medical market is limited in size, and the real \$\$\$ will be in the recreational space, if it ever happens. Almost everyone takes it for granted that decrim will happen, on schedule, on July 1, 2018, despite the well-known fact a politician on a campaign trail makes more empty promises than does Harold Hill.

Also take into account the potential size of the market. Don't trust the numbers from people in the market who have a clear vested interest in a huge number. Instead, look to independent data sources, such as the survey of 1,500 Canadians conducted by Abacus Data on behalf of *Maclean's* as part of The Canada Project. It found that 84 per cent of respondents over 18 *never* smoke marijuana, and of the 16 per cent that do, daily users amount to only 5 per cent, and 3 per cent say they use a few times a week.

5 per cent of 32 million Canadians is 1.6M daily users. That sounds like a lot, but consider there are 89 licenced producers with many more applications in the pipeline. That's not a lot of users to spread around, and it gets worse when you consider that taxation and price controls have not yet been finalized. For many of the LP's, the only end game will be consolidation or bankruptcy.

Public consultation by the feds only closed three weeks ago on January 20, 2018. The infrastructure issues are so deep, so broad, so regulated by at least three other levels of government, that there is no way decrim can be implemented on the Liberals' schedule.

We've been warning about this since the Liberals started promising in 2014. This will be the fourth year that we've warned investors not to trust the government. Every time we've pointed this out, traders have objected: "The Liberals promised it and the govt needs the tax revenue. *Of course* cannabis will be decriminalized."

The Senate has already indicated it will not simply accept the Liberals' legislation, and there are still the persistent barriers created by international treaties like the Single Convention that need to be overcome. Even if those huge challenges are overcome, the implementation of the legislation requires a previously unheard-of level of co-operation at the municipal level, across Canada, across ten provinces and three

territories.

But the federal government just told the market, NO. The first paragraph from an article in last week's Globe and Mail summarizes the facts: "Canadians will have to wait until late in the summer before they will be able to legally consume cannabis under a new timeline laid out by the federal government – even if the Senate votes in favour of the legislation by May or June."

In a slippery bit of news that fell sideways into the media, Health Minister Ginette Petitpas Taylor told certain members of the Senate that the feds will wait 8 to 12 weeks after the legislation is passed (if it ever is passed) before actually decriminalizing cannabis, to give provinces and municipalities the time to create an implementation structure. If the legislation is passed for July 1/18, that means the earliest you can buy weed legally would be for your Thanksgiving party. This dovetails with our warnings that the government's timeline was impossible (see for example our detailed article from Sept/17).

That interim period is important. It matters because it negatively impacts cash flow. It negatively impacts balance sheets. It impacts business plans and human resources decisions. And those impacts will play out in the market. The market is always wrong in the short term and right in the long term.

If you're looking for comfort, the Liberals are not the place to look for it. How about this recent blumphus from Public Safety Minister Ralph Goodale: "Our goal is this summer in an orderly fashion with all the pieces sequenced in the right order so that they are effective." What does that even mean?

So what to do. One, be realistic. Recognize the reality of the real timetable for decrim. You will not be able to legally buy marijuana outside of the medical market on July 2, 2018.

Second, avoid business plans whose survival depends on decrim happening at all. Third, avoid business plans whose survival depends on decrim happening in 2018. Fourth, be a nimble trader, not an investor. Wait to be an investor after the cannabis market has its inevitable severe correction.

Or, you can believe the government's election promise.