

Marijuana Decrim Will Not Take Place on Feds' Timeline

International investors are convinced that the decriminalization of marijuana in Canada is imminent. The only assumption underpinning otherwise unjustifiable valuations is the assumption that decrim is almost here, bringing with it a massive new market, huge cash flows and profits for shareholders.

That assumption will be proven to be false. Come July 1, 2018, decrim followed by implementation by every province and territory will not have happened.

Position your portfolio accordingly.

For years we have been pointing out the insurmountable challenges facing the federal government in trying to effect decriminalization. Some of those challenges are beyond the feds' control. They can only tinker with statutes at the federal level – the Canadian Constitution puts provincial and municipal areas of competence out of their reach.

Canada's premiers met in Edmonton in late July this year. As a group they pushed the Federal Liberals for more guidance, and most importantly, for more time. The Premier of Manitoba, Brian Pallister, publicly requested a one-year delay in decrim to allow that province to prepare all the logistics necessary, from policing to health care to licencing to education.

Manitoba's neighbor to the east, Ontario, has 13 million people, or forty per cent of all Canadians, making that province the largest target market. Look at what Ontario The Good did this week (see here for *The Globe and Mail's* report.) The effect of Ontario's plan is to gut the country's largest target market.

Ontario says it will follow the LCBO mode, and anyone living in Ontario knows how grossly inefficient, patriarchal and bullying that Crown corp is. The goal is to open 40 cannabis-selling stores by July, 2018. That works out to 0.000003 stores for every Ontarian, assuming those stores open on time. You might want to get a place in line now!

But none of those locations have been selected yet, and this isn't simple retail like opening another *lululemon* store. Each location will require high security, specialty barriers, special inventory storage areas, and compliance with municipal codes. The task of finding 40 acceptable locations and then building them out by July/18 would be extremely difficult for a privately-owned highly motivated company to achieve. It will be impossible for a bloated slow-moving provincial regulator.

Adding to the grief is that each municipality controls its own zoning codes. As *The Globe* reported, "provincial officials are just beginning talks with municipalities about where they should be located." Just because the province likes a location does not mean the local municipality will allow the store to open. These same zoning codes are why you don't find liquor stores next to high schools or strip joints next to day cares.

Another local problem is that the feds have not yet given guidance on pricing or taxation. How can the province or municipalities make any informed budget decision when two of the largest variables have not been set?

What else did Ontario do? The legal age for consumption will be set to 19, making it illegal to sell to 18 year old adults. No public consumption. No smoking in cars.

Apparently Premier Wynne is doing everything she can to get the Opposition elected.

Then we zoom out from the local problems to the International treaties that limit the feds' options in other ways, and may themselves completely prohibit decrim from ever taking place.

Those thoughts have been examined in detail earlier this year. For a refresher on that, please revisit April's article here comparing what we can expect from marijuana to the inefficient morass that is Canada's alcohol distribution industry.

There also are the other infrastructure impediments like the TSX suddenly finding religion and taking a moral stand related to how the shares of companies with US-marijuana interests get traded in Canada. One can't help think that is a front, with the real purpose being a collateral attack on its competitor Canadian Securities Exchange which is becoming known as "The Weed Exchange".

But don't judge the industry by its words but rather by its deeds (for how theory impacts the junior mining industry in particular, see *Hookers and Blow*).

One leading company in this space is Aurora Cannabis Inc. (TSXV: ACB | OTCQX: ACBFF), long one of my favourites to withstand the long-term brutal market that will appear if decrim does not happen. A look at Aurora's history shows a management team that has been nimble and aggressive, while at the same time being risk-adverse.

Aurora has quietly made two interesting admissions. First, in July of 2017, Aurora cut a painful deal with a German company, and its shares were battered as a result. They have recovered about half the lost value since then. The other admission was in late July when Aurora announced it would buy up to 19.9% of Hempco Food and Fiber Inc. (TSXV: HEMP), and that under certain circumstances could increase its ownership position to 50.1%.

Notice that neither of these investments is with a Canadian producer. Aurora is putting its hard-earned dollars to work in the area it sees the least risk for the most return, which is NOT in the Canadian decriminalized field. It is derisking itself by moving far away from what will be a painful 2018 for

other producers.

I'm betting with my dollars that decrim will eventually happen, but not on the feds' current schedule.