

# WeedMD's Kraft on how distribution agreements are critical to the cannabis business

"At WeedMD we are very proud of the foundation we have built from the production platform. We have got 1,200 kilograms coming out of our original indoor facility in Aylmer, Ontario. With our expansion of a hybrid greenhouse in Strathroy we have 20,000 kilograms coming onboard of quality quads coming out of flower and then an additional 30,000 kilograms of production for oil. We have to find a home for that product. Clearly these distribution agreements are critical to the business and hitting our revenue and sales milestones." States Michael Kraft, Chairman of WeedMD Inc. (TSXV: WMD), in an interview with InvestorIntel Corp. CEO Tracy Weslosky.

**Tracy Weslosky:** Michael you introduced me to the cannabis industry sector when it first started. What was that 2013/2014?

**Michael Kraft:** Beginning of 2014.

**Tracy Weslosky:** Michael I see that you just put out your third quarter results. I read you have increased revenue by 461% year-over-year prior to opening of Canada's adult use market. Can you just talk to us about a couple of your highlights from your third quarter results because there was quite a few results/updates?

**Michael Kraft:** Sure. I think the most significant is our topline of sales increased from approximately \$350,000 to an excess of \$2 million dollars. Behind that is our growth in patients, medical patients, which is paramount to our business. In addition we continued to generate revenue from

the sale of genetics domestically to other LPs, which is part of our MO to seed the industry. Notably is also our first export shipment to Australia. It is actually the first legal shipment of genetics into Australia that we are very proud about. We also see growth coming from the export of our genetic business.

**Tracy Weslosky:** Call me an old fashioned investor, but we like things like distribution for instance. I noticed you have a deal with Shoppers Drug Mart and several distribution channels including an announcement with Lifford Cannabis Solutions. Can you tell us more about your distribution infrastructure?

**Michael Kraft:** At this juncture distribution is critical. We meet as a company the focus whether be it for the board or management level as distribution, distribution and distribution. WeedMD has successfully secured relationships with a number of provincial agencies ranging from BC, Alberta through to Ontario through to Nova Scotia. We have also secured a notable distribution agreement supply agreement with Shoppers Drug Mart. In summary WeedMD has secured critical distribution platforms across Canada. That includes the retail channel with Shoppers Drug Mart for the drugstore chain.

**Tracy Weslosky:** My take on this is the reason why you are securing all of these critical distribution channels is because of your production. What I see, a half a million square feet of cultivation. Correct me. Tell me about your actual production Michael.

**Michael Kraft:** At WeedMD we are very proud of the foundation we have built from the production platform. We have got 1,200 kilograms coming out of our original indoor facility in Alymer, Ontario. With our expansion of a hybrid greenhouse in Strathroy we have 20,000 kilograms coming onboard of quality quads coming out of flower and then an additional 30,000 kilograms of production for oil. We have to find a home for that product. Clearly these distribution agreements are

critical to the business and hitting our revenue and sales milestones...to access the complete interview, [click here](#)

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## How to Lose Money in Cannabis.

“Some of the massive cannabis stocks will die and disappear. The global market simply is not large enough to justify the combined market caps of these stocks. Why? It’s a risk-return scenario and a lot of cannabis investors happily sit back chewing on a bag a Doritos instead of looking at the risks underlying the market and police involvement in Canada is a massive risk.” States Peter Clausi in an interview with InvestorIntel Corp. CEO Tracy Weslosky.

**Tracy Weslosky:** Today I have the pleasure of speaking with Peter Clausi about Canada’s legalization of marijuana. How are you today Peter?

**Peter Clausi:** Overall I am very pretty good but I am still confused about the process.

**Tracy Weslosky:** Are you confused about the legalization process or what exactly are we talking about here?

**Peter Clausi:** I have been calling for decriminalization for years. You knew it was coming. No reason why it shouldn’t have come but the Liberals have a done a terrible job in managing this process and as a result municipalities are unprepared, provinces are unprepared and most importantly police

departments are unprepared. There is going to be a terrible social cost to the Liberals mishandling of this process.

**Tracy Weslosky:** I am going to ask you to dumb that down for some of us that are involved more specifically in investing in the cannabis sector. How is this going to impact cannabis stocks?

**Peter Clausi:** You remember WorldCom? Too big to fail? It failed. How about Global Crossing? Too big to fail? It failed. Enron, the list goes on and on. Some of the massive cannabis stocks will die and disappear. The global market simply is not large enough to justify the combined market caps of these stocks. Why? It's a risk-return scenario and a lot of cannabis investors happily sit back chewing on a bag a Doritos instead of looking at the risks underlying the market and police involvement in Canada is a massive risk...to access the complete interview, [click here](#)

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## **Will Canada become the new powerhouse for cannabis investment after October 17?**

In a few days Canadians will be able to purchase recreational cannabis from a government approved or owned and operated dispensary or store. This takes the so called illicit drug from back alley deals and busts to a Government collecting taxes on every cannabis product sold. You could argue this is the biggest policy change in generations. The cannabis recreational use legalization will bring significant cultural, social, and workplace changes and it will create economic opportunities for all those associated with the sector. Until

now Cannabis was only legal for medicinal use in Canada since 2001, but despite all this it is still the most commonly used illegal drug both in the world and the United States.

## **Canada will legalize recreational cannabis use from October 17, 2018**

Canada will become the second country in the world behind Uruguay to allow adults to legally purchase marijuana for recreational use. Canada will be able to use its cannabis head start to become a global powerhouse in the sector, with investors looking to Canadian marijuana stocks to boost their portfolios.

Canopy Growth Corp. CEO Bruce Linton said: "The last time we had this much of a lead on anything it involved a guy named Bell making a phone call."

Cannabis stocks have been among Canada's best performing stocks in 2017-18, as many US companies have rushed to list in Canada. Two major publicly traded marijuana companies, Canopy Growth and Aurora Cannabis, are now valued at C\$15 b and C\$13 b respectively. Taken together, they're worth more than Canadian Tire. Canadian marijuana companies are already exporting their marijuana, technology, and expertise all around the world. This puts them ahead of the competition including the US cannabis industry.

## **The Canadian Marijuana Index**

1D 5D 1M 3M 6M 1Y 10Y 20Y



## The Canadian Marijuana Index

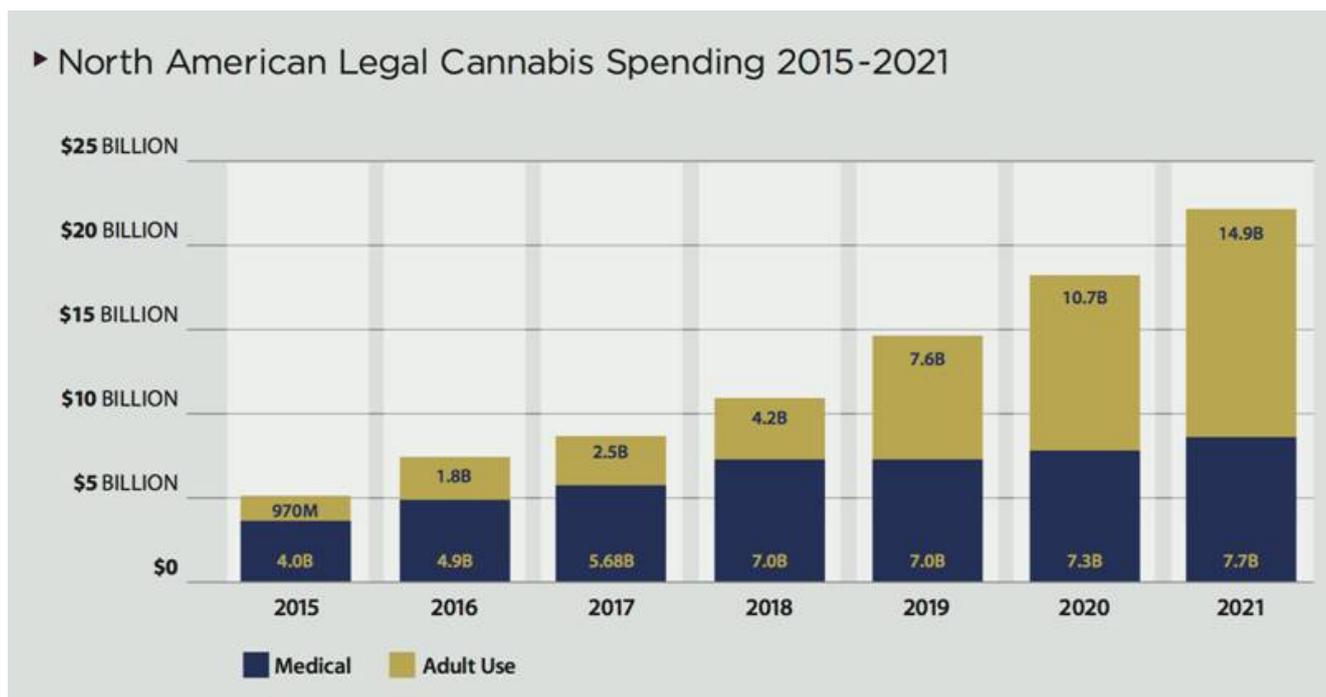
### **What happened in Uruguay after recreational use cannabis was legalized?**

The Canadian cannabis industry may become an international social and economical test case for legalized pot. But what has happened in Uruguay? Many people arrived there with huge expectations thinking they could easily buy high quality cannabis. But that was not the case at all as less than two dozen pharmacies signed up to sell marijuana and the quality was very poor. To purchase marijuana in Uruguay you also have to be a citizen and go into the government's system to buy cannabis. Uruguayans must provide personal information and even their fingerprints to buy cannabis. This has created a black market as many are not comfortable with this. In Canada tourists and visitors are allowed to purchase cannabis. For these reasons Uruguay's legal marijuana industry hasn't been the massive success that some people thought.

### **Cannabis industry growth forecasts**

Deloitte estimates that the Canadian marijuana market could become a \$4 billion to \$9 billion market once recreational use is legalized. The Canadian marijuana market is currently estimated to be worth around \$400 million. That means Canada's legal marijuana economy is set to grow at least tenfold in size. This alone is reason enough to invest in Canada's

marijuana economy.



### What's next with the cannabis sector after October 17?

Looking at the chart above the North America cannabis sector is set to almost double in the next 2 years. Of course Canada may see many multiples of this if Deloitte estimates prove correct. I suspect the Canadian cannabis stocks may fall back in the shorter term after a record run; however moving into 2019 and 2020 the fundamentals look very good.

Each year everyday people are getting more familiar with the cannabis industry, which leads to greater investor interest. On October 17 2018 history will be made in Canada and I expect some very large pot parties will be going on. It will be most interesting to look back and reassess in a year from now.

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# Cannabis Will Not Decriminalize in 2018

Cannabis will not be decriminalized in calendar 2018. No amount of wishing is going to make it happen.

The timing of decrim is extremely important for the impact on valuations, reputations, cash burn, equity raises, staffing decisions, compensation schemes and M&A activity. The longer it takes for decrim to actually take place, the more risk exists for investors, including new risks brought by the pending federal election.

“Decrim” means the first day a retail consumer can walk into a retail store and legally purchase a cannabis product. That means none of the following qualify as decrim:

- when the Senate sends Bill C-45 (the *Cannabis Act*) back to the House of Commons for Third Reading (expected to be on or about June 7/18)
- when the Liberal-majority House of Commons gives Bill C-45 that Third Reading and quickly sends it back to the Senate for its own Third Reading;
- when Royal Assent is given by the Governor-General to Bill C-45; or
- if Canada deals with the international treaties it signed policing the sale of narcotics, which by definition includes cannabis.

Those events will take time to play out, but are mere milestones on the path to decrim. There are other major impediments that will push the first retail date into 2019, and possibly into 2020.

On that list of impediments is that Parliament must deal with Bill C-46 (the *Drugged Driving Act*). Our prior analysis of that problem is here. That problem alone pushed back the

effective date of decrim to at least December of 2018.

Law enforcement agencies across Canada are calling for further delays in decrim so they can obtain the necessary equipment and training to deal with drivers impaired by cannabis. It's not as simple as dealing with a driver impaired by alcohol. Habitual users or persons who've inhaled second-hand smoke can have THC in their systems for weeks, and there is as yet no science or consensus behind how much THC is too much for a driver.

If there are no reliable roadside devices that don't report false negatives or positives, then the *Drugged Driving Act* if passed risks being found unconstitutional as constituting an unreasonable search under the *Charter of Rights and Freedoms*. It is vital that Parliament get this right to avoid having the law struck down.

This isn't new news. Back in 2017, the Canadian Press reported on this issue and said, "Canada's police services say there is zero chance they will be ready to enforce new laws for legalized pot by [summer, 2018]."

The situation hasn't gotten better. As the National Post reported two weeks ago, "...officials with the justice and public safety departments say it's still unknown when roadside screening devices to test for drug impairment will be approved for use."

The *Post* article reports on other infrastructure delays related to roadside testing and police training. Police forces must wait for the Attorney General to sign an order before they can order roadside testing units, assuming any exist which are reliable. For the Attorney General to sign that order, Bills C-45 and 46 must be passed by the House and the Senate, and then a 30-day public consultation period must run. Public Safety then would require time to prepare training and certification for officers on approved devices, and then those

officers must be trained.

None of that can start until Bill C-45 and its associated regulations are brought into legal status. Those two processes cannot run in parallel.

Another major delay involves Canada's First Nations. Section 35(1) of Canada's *Constitution Act, 1982* states, "The existing aboriginal and treaty rights of the aboriginal peoples of Canada are hereby recognized and affirmed." That has been interpreted by the courts to impose an obligation on the Crown to meaningfully consult with First Nations when such aboriginal and treaty rights could be impacted by legislation.

On May 1 of this year, the Senate Committee on Aboriginal Peoples recommended in writing the Liberals delay legalizing cannabis for up to a year to address the legislation's potential for harmful effects in Indigenous communities. The committee said in its report on Bill C-45 that the government did not adequately consult with First Nations, Inuit and Métis communities before pushing ahead with its plan to legalize the drug. If the Liberals don't heed the Senate's report, this failure to consult could ultimately render the *Cannabis Act* invalid as a constitutional breach.

Imagine Bay Street's reaction if that were to happen. Billions of dollars of shareholder value would be erased seconds after the court decision were rendered.

Odds are that won't happen, but the Crown's obligation to consult with First Nations on decrim will bring a delay.

Then comes The Big Risk. The next federal election in Canada is set for October, 2019. Parliament will be dissolved sometime during the summer of 2019 to allow for the election campaign. If decriminalization is delayed a year, as requested by law enforcement and recommended by the Senate Committee, Bill C-45 and Bill C-46 may not make it into law before

Parliament is dissolved. They would then die on the House floor.

Then there would be a delay for the election itself, and then there would be a further delay as the new government takes power, and then further delays as new legislation and regulations would have to be written. Then there would be the same delays as laid out above related to First Nations and general public consultation. That would push the effective date of decriminalization to at least the summer of 2020.

Those delays bring the risk the federal Conservatives would win the 2019 election. That party has a much stronger anti-cannabis stance than does the Liberal Party. If Trudeau Mania 3.0 doesn't play out and the Liberals don't win a majority, expect the next version of decriminalization to be more severe, creating a smaller recreational market. That would negatively impact the cannabis companies.

Counter-balancing that federal election grief is provincial election hope in Ontario, Canada's most populous province. Roughly 36% of Canadians live there. Under the current provincial plan, assuming decrim happens, the current ruling party advocates for a single-source model, where the only source for recreational cannabis would be from government-operated stores. Basic supply chain issues would limit the size of the market, and therefore negatively impact valuations of the cannabis producers. But there is a provincial election underway, and it doesn't look good for the incumbent. The provincial Conservatives, currently polling in first place, have said they would implement a hybrid distribution model with both government and private stores. This would have the effect of eliminating some supply chain bottlenecks and increasing revenue for the cannabis companies.

Decrim will happen. When is an open question. Make your own decision and vote with your investment dollars.