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## **Analyst Ideas of the Week – Liquid Gold Price Differentials of Dried Cannabis and Oils**

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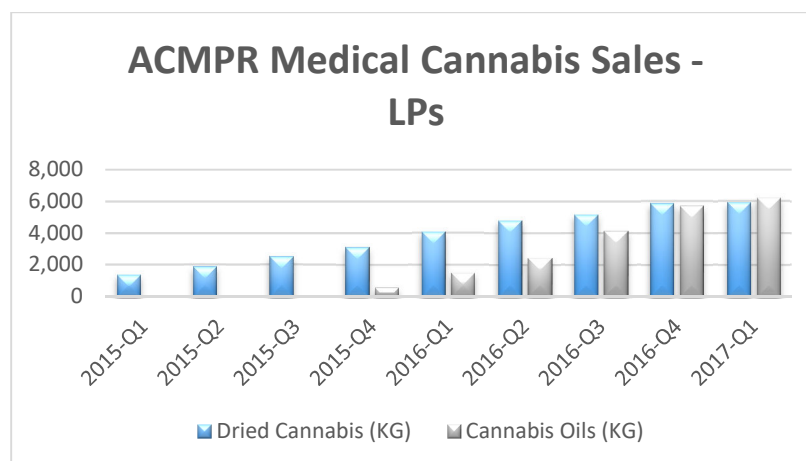
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**Analyst**

### **Liquid Gold- Pricing Differentials between Dried Cannabis and Cannabis Oils**

Cannabis extracts are becoming increasingly popular amongst users due to their higher psychoactive potency than dried flower and the variety of ingestion methods. Despite cannabis extract products only becoming legal for sale in July 2015, cannabis extracts overtook dried flower sales in the most recent quarter ended June 30, 2017. The chart on the next page outlines medical cannabis product sales by licensed producers under the ACMPR regime.



*Source: Health Canada*

The cannabis extracts segment of the wider market is seen as an attractive opportunity by many licensed producers due to the profit margins they can attain. According to a March 19, 2017 price scan conducted by Lift Cannabis Co. (a news outlet centered on the cannabis industry), the average price of cannabinoid oils offered by ACMPR licensed producers in Canada is \$1.23 per 10 mg of THC/ CBD, or \$123 per gram of THC/ CBD. The 2016 report by the Office of the Parliamentary Budget Officer estimated that the 2018 average price of legal dried cannabis, by comparison, would be \$7.50 per gram. Note however, that is the gross price, not the price per gram of cannabinoid. Assuming a 15% THC content average for dried cannabis, dried cannabis has an average price of \$50 per gram of cannabinoid, still significantly lower than cannabis oils.

Health Canada currently has a limit on THC content in cannabis oils of 30 mg/ ml (approximately 3% THC). On the surface, given that Health Canada sees an average THC content of 15% in today's dried cannabis flower, it might appear that dried flower is more potent. However, cannabis oils that are meant for oral ingestion commonly exhibit a longer onset and longer duration of perceived effects. This may be because orally ingested cannabis has been shown to produce significantly larger amounts of the metabolite 11-Hydroxy-THC than dried flower. According to a 1996 interview with Dr. Mahmoud ElSohly, a professor at the University of Mississippi and renowned cannabis researcher, 11-Hydroxy-THC is four to five times more psychoactive than regular THC.

Furthermore, production costs associated with extracting cannabis oils are high, due to the need for specialized equipment and knowledge. According to Precision Extraction Solutions, which provides extraction site planning services and equipment, most lab services companies face start-up costs in the range of \$400,000-\$800,000, including property leasing costs. By comparison, the following table outlines the estimated costs for home-grown dried product, according to Leafly, the world's largest cannabis website.

Yield	Cost (Including Labor)	Price Per Gram
Indoor - 500 grams	\$3,908	\$7.82
Indoor - 1,000 grams	\$3,908	\$3.91
Indoor 2'x2' - 200 grams	\$1,920	\$9.60
Outdoor - 2,000 grams	\$5,185	\$2.59
Outdoor - 4,000 grams	\$5,185	\$1.30

*Source: Leafly*

Due to the substantial differences in start-up costs, it is more difficult for retail or non-licensed producers to enter the cannabis extracts market. This in turn implies a lower price elasticity of demand for cannabis extracts, since there are likely to be fewer substitutes available in the market. The result has been that many of the most prominent cannabis producers are also incorporating cannabis extracts into their business model. Aphria Inc. (TSE: APH) reported that in the most recent quarter, they had maintained cannabis oil sales at 31.9% of total sales. Aurora Cannabis Inc. (TSE: ACB) increased sales of cannabis oils by 95% in Q3-2017, according to their most recent filings. Similarly, Canopy Growth Corp.'s (TSE: WEED) most recent filings indicated that cannabis oils accounted for 18% of revenues in Q3-2017, up from 14% in Q3-2016.

**When assessing potential investments in the cannabis sector, we suggest that investors screen for companies that include exposure to cannabis oils/ extracts.** This is especially true for Licensed Producers; whose business model is reliant on the direct sale of cannabis. For investors who are looking for opportunities, I recommend consulting our recent report on Alliance Growers Corp. (CSE: ACG), who intend to produce CBD oils alongside cannabis plantlets (clones). Investors should also keep an eye out for our upcoming reports on Isodiol International Inc. (CSE: ISOL), Abattis Bioceuticals Corp. (CSE: ATT), and Sunniva Medical Inc. (In the process of going public, planned to commence trading on November 29, 2017), as these companies all have significant exposure to the cannabis extracts market.



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### **Mexican Gold's Shares up 58%**

Mexican Gold Corp.'s (TSXV: MEX) share price is up 58%, from \$0.24 to \$0.38 per share, since we initiated coverage on October 13, 2017.



Source: S&P Capital IQ

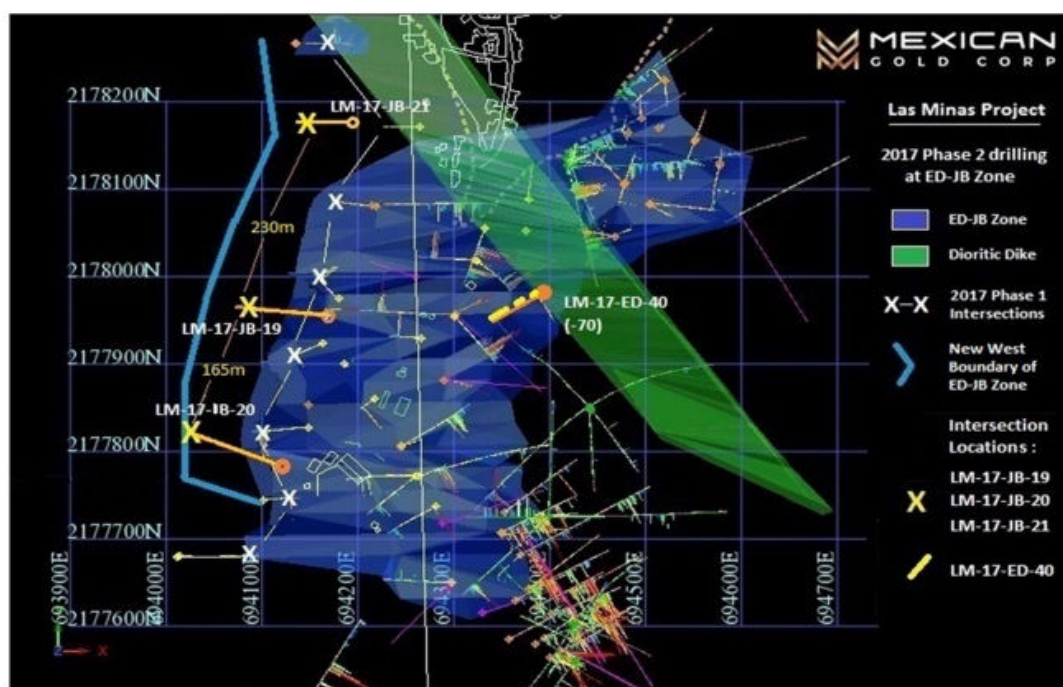
The surge in share price was primarily a result of some excellent drill results from the company in the past few weeks. On November 14, 2017, the company announced results of the first four holes.

Drill hole LM-17-ED-40 intersected three mineralized zones.

- The main zone graded 9.24 g/t Au Eq over 38.0 metres, within 54.0 metres grading 6.91 g/t Au Eq.
- The upper zone graded 5.33 g/t Au Eq over 5.0 metres, within 19.0 metres grading 2.45 g/t Au Eq.
- The middle zone graded 3.99 g/t Au Eq over 11.35 metres, within 21.35 metres grading 2.45 g/t Au Eq.

The reasons why these results were highly encouraging were that the main zone intersection extended the known mineralization by an additional 23 m below the initial resource estimate (announced in August 2017), and the upper 19 m zone and the middle 21 m zone are both outside of the initial resource estimate.

The other three holes, LM -17-JB-19, 20 and 21, were step out holes on the west of the El Dorado/Juan Bran zone. All three holes returned strong results. Drill hole locations and their results are shown below.

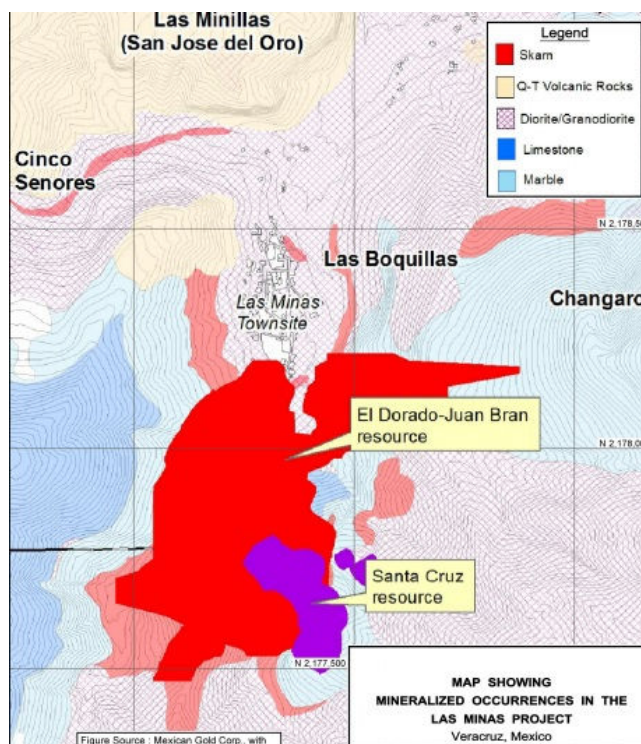


<b>Eldorado - Juan Bran Zone Expansion Drill Results</b>								
<b>Hole ID (Az./Dip) (degrees)</b>	<b>From (m)</b>	<b>To (m)</b>	<b>Intercept (m)</b>	<b>Au (g/t)</b>	<b>Ag (g/t)</b>	<b>Cu %</b>	<b>Au Eq (g/t)</b>	<b>Comments</b>
<b>LM-17-ED- 40 (235°/-70°)</b>								
Main Zone	123.6	161.6	<b>38.0</b>	5.39	17.10	2.20	<b>9.24</b>	
Within	121.6	175.6	<b>54.0</b>	3.91	12.64	1.72	<b>6.91</b>	
Upper Zone	41.0	46.0	<b>5.0</b>	4.60	2.40	0.43	<b>5.33</b>	
within	27.0	46.0	<b>19.0</b>	2.14	0.87	0.18	<b>2.45</b>	
Middle Zone	89.3	100.65	<b>11.35</b>	2.21	3.55	1.05	<b>3.99</b>	
within	79.3	100.65	<b>21.35</b>	1.28	2.30	0.69	<b>2.45</b>	
<b>LM-17-JB- 19 (275°/- 50°)</b>	88.2	93.2	<b>5.0</b>	1.91	11.18	1.19	<b>4.01</b>	
and	98.8	107.8	<b>9.0</b>	0.94	11.54	1.43	<b>3.45</b>	
<b>LM-17-JB-20 (300°/-57°)</b>	144.3	146.3	<b>4.0</b>	2.15	1.40	0.58	<b>3.12</b>	
within	140.3	146.3	<b>6.00</b>	1.66	0.98	0.42	<b>2.36</b>	
within	140.3	144.3	<b>8.00</b>	1.28	1.06	0.37	<b>1.90</b>	
<b>LM-17-JB- 21 (270° /-58°)</b>	67.9	80.7	<b>12.80</b>	0.79	8.38	1.21	<b>2.89</b>	

*Source: Company*

The initial resource included estimates for two zones - the El Dorado/Juan Bran zone and the Santa Cruz zones. See locations below.





Source: Company

The total measured and indicated resource estimate is 0.30 Moz gold equiv. oz at 1.90 gpt gold equiv. grade. The total inferred resource estimate is 0.72 Moz gold equiv. oz at 2.17 gpt gold equiv. grade. Approximately 87% of the resource is open pitable. The average grade of the open pit resource is 2 gpt gold equiv, making it one of the highest grade open pit minable deposits in Mexico

The company is now conducting additional infill and resource expansion drilling to extend the three high grade zones intersected in LM -17-ED-40.

On another note, Palisade Global (largest shareholder) exercised 3.33 million warrants at \$0.25 per share for total proceeds of \$0.83 million. We estimate that Palisade now holds 27% of the total outstanding shares.

**Our fair value estimate on Mexican's shares is \$0.85 per share.**

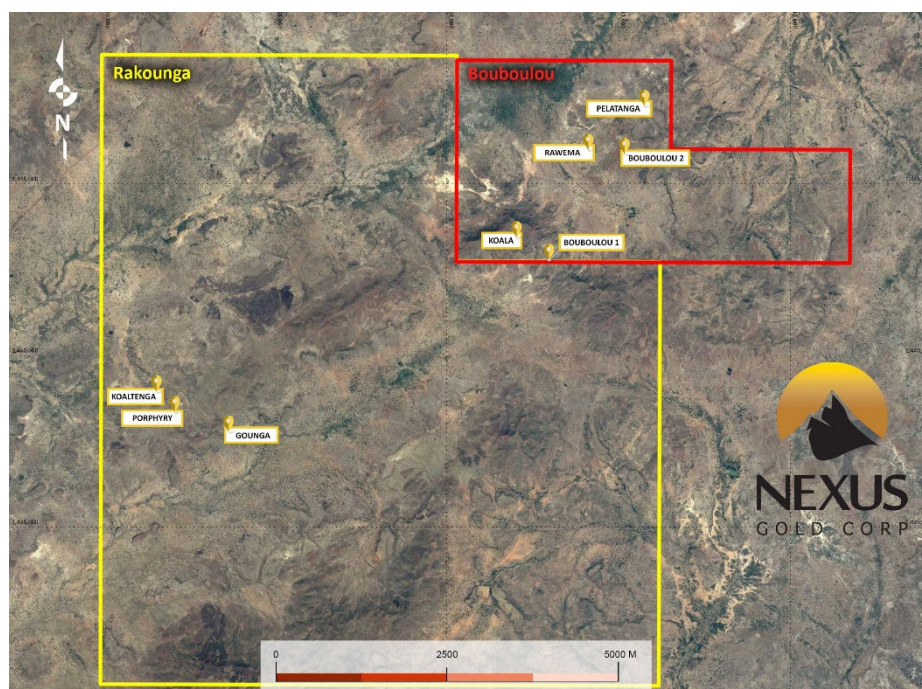
## Positive Initial Drilling at Rakounga

On November 16, 2017, Nexus Gold Corp. (TSXV: NXS) announced results from the first five holes completed at the Rakounga gold concession. Four of the five holes intersected gold mineralization. The best results were - 26 metres grading 0.82 gpt gold, including 2 metres of 4.11 gpt Au, and 32 metres of 1.01 gpt Au, including 2 metres of 5.65 gpt Au.

DRILL HOLE	DIP	FROM (metres)	TO (metres)	LENGTH (metres)	Au gram/tonne
RKG-17-RC-001	-50	<b>102</b>	<b>128</b>	<b>26</b>	<b>0.82</b>
includes		108	110	2	<b>4.11</b>
includes		110	112	2	<b>2.44</b>
includes		112	114	2	<b>2.36</b>
RKG-17-RC-002	-50	<b>108</b>	<b>140</b>	<b>32</b>	<b>1.01</b>
includes		112	114	2	<b>2.36</b>
includes		114	116	2	<b>2.99</b>
includes		116	118	2	<b>3.1</b>
includes		120	122	2	<b>5.65</b>
RKG-17-RC-003	-50	108	114	<b>6</b>	<b>1.06</b>
RKG-17-RC-004	-50				NSR
RKG-17-RC-005	-50	130	132	<b>4</b>	<b>1.38</b>

Management intends to continue to test along strike. The Rakounga gold concession, covering 250 sq. km., borders the company's flagship Bouboulou property on the west and south. Bouboulou's B2 and PR trends extend southwest on to Rakounga. Rakounga hosts the Bouboulou 1 gold showing. Combined, the two projects cover approximately 300 sq. km.





*Source: Company*

Nexus had completed a 2,596 m diamond drill program on Boubaoulou in June / July. Nine of the 10 holes intersected significant gold mineralization.

The company has identified a total of eight gold bearing zones at the Boubaoulou and Rakounga concessions. Management is testing structural relationships between the three identified areas at Rakounga, and with the known trends on Boubaoulou. Drilling is ongoing at Rakounga, and additional results are expected.

We still do not have a rating or fair value on Nexus' shares. However, we believe Burkina Faso's attractive features and promising results from the Boubaoulou, and Rakounga, make the company a highly interesting speculative prospect.

### **GrowMax Strengthens Balance Sheet**

On November 14, 2017, GrowMax Resources Corp. (TSXV: GRO) announced that conditions have been met triggering an additional US\$3.0 million payment to the company from the purchaser of GrowMax's oil and gas assets in late 2016. The payment will be made in three equal tranches over the next 13 months. The company currently has a market capitalization of \$19 million and the working capital was approximately \$41 million, as of June 30, 2017. The recent announcement further enhances the company's already strong balance sheet.

The company is advancing its Bayovar phosphate project to production. The region is host to several phosphate projects, including the 3.9 mmtpy Miski Mayo Mine brought into production in 2010 by Vale (LSE: VALE). A Preliminary Economic Assessment (“PEA”) on the Bayovar project, completed in 2016, showed an after-tax Net Present Value (“NPV”) at 10% of US\$71 million with an after-tax IRR of 13.3%. The NPV estimate increases to US\$93 million, and the IRR increases to 16.5%, assuming 50% debt financing.

	Pre-Tax	Post Tax
NPV (US\$,M) - 10%	\$127.4	\$71.0
IRR (%)	15.3	13.3
Payback (years)	6.4	6
Operating Margin (%)	52	52
OPEX (US\$/t)	\$71.5	\$71.5
Project Capital (US\$, M)	\$278.7	\$278.7

*Source: PEA*

We had initiated coverage on GrowMax in July 2017, with a BUY rating and a fair value estimate of \$0.46 per share. GrowMax’s shares are currently at \$0.09 per share.

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