

THE GREENWAVE REPORT

SECOND EDITION

STATE OF THE EMERGING MARIJUANA INDUSTRY
CURRENT TRENDS AND PROJECTIONS



Comprehensive research and financial analysis for the emerging legalized marijuana industry.

Matthew A. Karnes, CPA

Founder and Managing Partner
GreenWave Advisors, LLC
New York, NY
mkarnes@greenwaveadvisors.com
www.greenwaveadvisors.com

November, 2015

EXECUTIVE SUMMARY

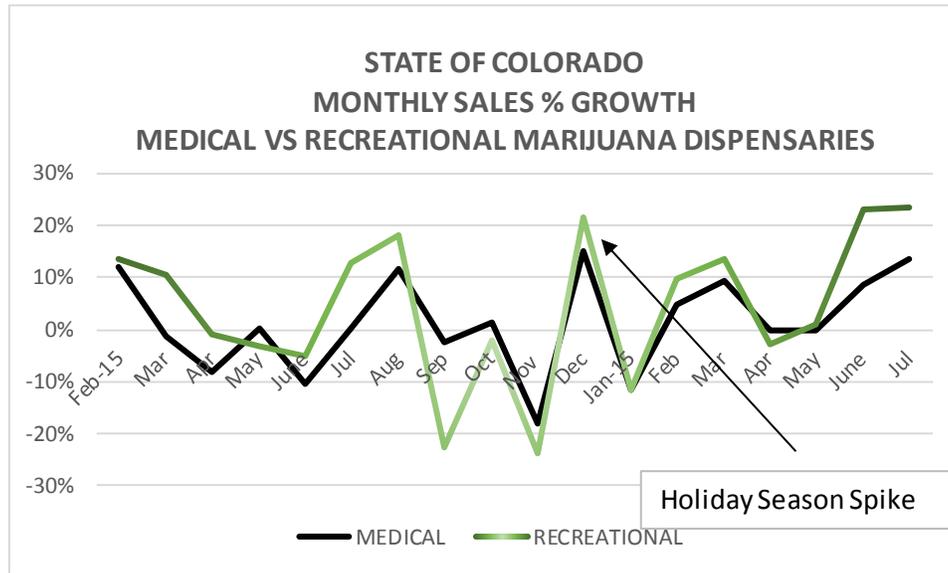
The legal marijuana industry has continued to grow and evolve in 2015 with expansion into newly legislated market places along with the addition of recreational availability in previously medical use only states. Industry wide revenues have continued to increase at a pace that substantially exceeds our initial projections first published in the GreenWave Report last October. This is most notably observed in the sales growth rates in Colorado and Washington.

Since our initial report, the political landscape has changed significantly. While the 2014 election results underscored mounting public support for marijuana legalization as the people of Oregon, Alaska and the District of Columbia voted to end prohibition, they also resulted in a Republican majority in both the House of Representatives and the Senate. Additionally the past year brought a new Attorney General with a more cautious view on marijuana legalization than her predecessor.

However, and perhaps contrary to expectations that a more Republican legislative branch and/ or a less liberally minded Justice Department would bring with it a more hostile federal environment for Cannabis proliferation, we have observed a continued and even more proactive dialogue concerning medical marijuana reform at the federal level.

The new paradigm, whereby local and state governance now serves as the leading indicator of legislative sentiment, (notwithstanding the convolutions of the Ohio ballot initiatives) should be expected to continue to serve as the central catalyst in the efforts to change existing federal law. And while acknowledging the persistent uncertainties as to the nature, extent, and timing of universal legalization, we observe that investor hesitancy is not only subsiding but also that capital flow into the cannabis industry is steadily increasing.

As the most prevalent diagnosis proffered by medical marijuana users is a loosely defined “chronic pain,” it is likely that a number of recreational users are already purchasing marijuana without great difficulty in states where medicinal use is legal (and where it is a qualifying condition). In Colorado, our analysis further demonstrates that monthly fluctuations in retail sales reported by both medical and recreational use dispensaries seemingly appear to move in tandem which further substantiates this view.



Source: State of Colorado; GWA estimates

We believe that the medicinal marijuana market will be redefined as the pipeline of new, more targeted medications with precise dosing and efficacy expands with some products requiring a prescription and others sold “over the counter.” Subsequently, we expect the medical profession will gain more comfort in “pushing” a marijuana treatment rather than a patient having to “pull” a recommendation from a doctor. Defining a precise timeframe for these developments is difficult, as legislation will lead to guidance which in turn will foster increased entrepreneurial and scientific efforts. With this maturity we expect the medicinal use market to surge.

The recreational market should likewise continue to flourish as the ability to conduct normalized commerce will enable larger cultivation enterprises to propagate into additional markets while established brands of infused products will likewise be able to expand un-tethered by regional boundaries.

Internal controls for tracking and monitoring product movements by licensed entities is becoming normative which has facilitated not only an increase in data but also better transparency of the reported sales results by each jurisdiction. Accordingly we have continued our research efforts in the collection and analysis of all available pertinent information. This has enabled us to provide another thorough analysis, state by state, of what we believe are the essential criteria requisite for a comprehensive understanding of the market potential for the retail marijuana industry.

Additionally, based upon our research and analysis we conclude or reiterate, among other findings, the following:

We are raising our industry forecast to \$25B by 2020 from \$21B assuming our anticipated trajectory for additional state legalization. Taking into consideration the outperformance of recreational use product sales noted in Colorado and Washington and our analysis of other regulated markets, we are increasing our revenues forecast through 2020. We maintain our expectation of \$35B in the event full legalization occurs in all 50 states and the District of Columbia by 2020.

For 2015, our estimates are revised upward to \$4.8 billion (vs. our original expectation of \$3.6 billion) which represents ~50% growth from ~\$3.2 billion in 2014. We also note that legislative measures to legalize medical marijuana in Pennsylvania and recreational use in Rhode Island, respectively, could pass before year end.

As public support for legalization continues to mount (notwithstanding the convolutions of the Ohio ballot initiatives) we believe that 2016 is poised as a significantly augmentative year for change, as several states including Arizona, California, Florida, Maine, Massachusetts and Nevada will likely expand or enact marijuana use permissions. Accordingly, we expect a surge in revenue growth during 2017/2018 as these new markets commence operations.

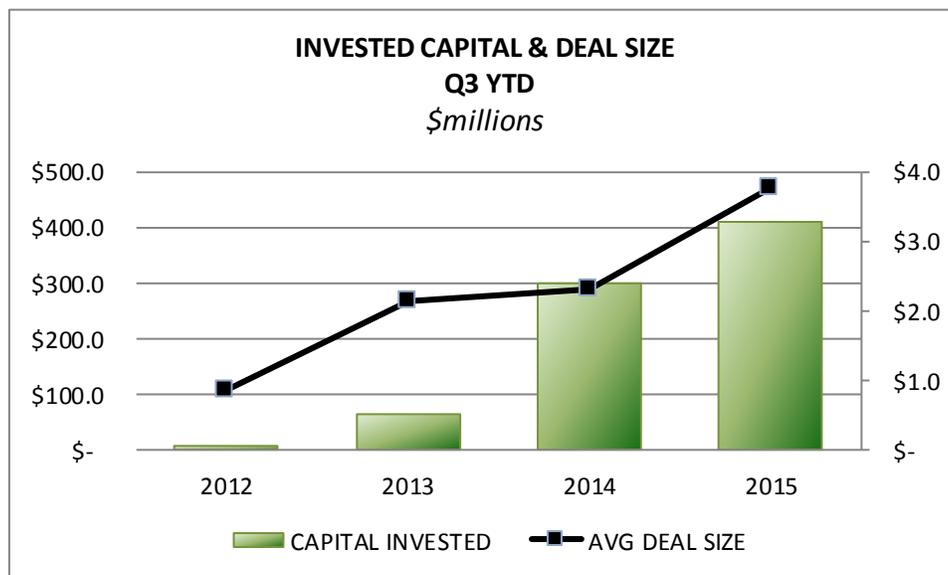


Source: GWA estimates

An increase in Republican co-sponsored legislation favoring marijuana reform could lead to rescheduling sooner than many had expected. Our analysis demonstrates that the percentage of Republicans that have co-sponsored pro-marijuana legislation has increased from the prior congressional session. Perhaps the key driver here is that the positive economic impact of

legalization is becoming more visible. Additionally, public support in favor of legalization continues to grow, as the medical benefits of marijuana are becoming better understood. We are closely following the progress of the proposed “Charlotte’s Web Medical Access Act.” Passage of this legislation would likely necessitate the rescheduling of marijuana under the Controlled Substances Act. At this time, however, it remains unclear how, or if at all, future legislative acts will discriminate between medical and recreational use marijuana strains as they pertain to scheduled classifications.

Capital flow into the marijuana industry is steadily increasing as the risk/reward profile becomes more favorable. Capital investment into the industry increased to approximately \$410 million as of Sept 30th up from \$300 million YTD Q3 2014. The average deal size has also increased from \$2.3 million to \$3.75 million during the same periods.



Source: Pitchbook Data, Inc.

The infused product market and lab testing sectors appear well positioned for explosive growth. Our analysis suggests that the infused product market is gaining significant market share, consistently accounting for approximately 30-50% of revenues in several regions. In addition, based upon our new industry forecasts, we have revised our Lab Testing revenues estimates accordingly. We continue to believe that uniform national testing and operational standardization protocols will eventually be implemented, thus making this one of the most attractive subsectors within the marijuana eco system.