



Legal Marijuana Industry

Four Players in a Large and Rapidly Growing Market

LEGAL MARIJUANA INDUSTRY:

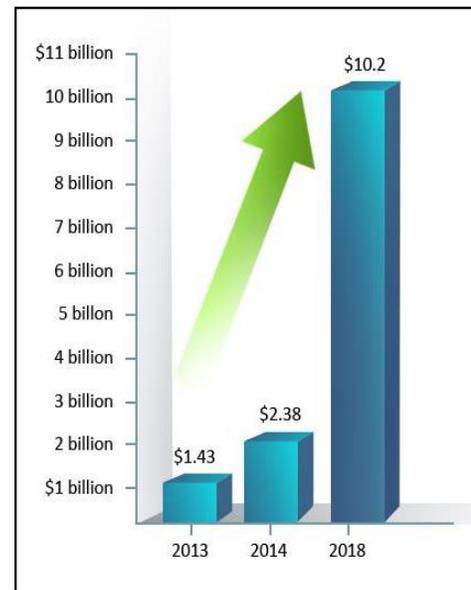
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INDUSTRY OVERVIEW:

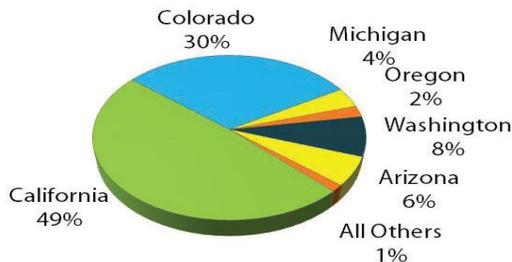
- **Legal cannabis sales in the United States reached \$2.7 billion in 2014, concentrated in only six states.**
- **Worldwide market for marijuana expected to reach \$10.2 billion by 2018.**
- **Legal marijuana was the fastest growing industry in the United States in 2014.**

In 2014, the market for legal cannabis, or marijuana, increased by 74% to reach \$2.7 billion in retail and wholesale sales, and was the fastest growing industry in the United States.¹ This growth is expected to continue, with the market reaching \$10.2 billion by 2018.² Between 2009 and 2014, the cannabis industry grew 16.2% annually, and growth is expected to increase to 23.3% annually between 2014 and 2019.³ In five states, the market for legal marijuana products exceeds \$100 million annually, with sales in a sixth state exceeding \$50 million.⁴ If marijuana is legalized at the federal level,

The US National Legal Marijuana Growth Rate



Source: ArcView Market Research (\$bil., consumer and wholesale sales).



Source: ArcView Market Research (consumer and wholesale sales)

revenues for the legal cannabis industry could reach \$35 billion by 2020 according to Greenwave Advisors.⁵ The black market for marijuana is estimated to be anywhere from \$10 to \$120 billion.

The market for legal cannabis sales in 2014 was \$2.7 billion, largely concentrated in six states.⁶ Currently, 23 states have legalized medical marijuana, and two states, Washington and Colorado, have legalized marijuana for recreational use. Large active medical marijuana markets are expected to emerge in Illinois,

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Massachusetts and Nevada during 2015 – 2016, with medical marijuana markets expected to emerge in Minnesota and New Hampshire.

Hemp, a member of the cannabis plant species that lacks THC, is emerging as a potentially strong industry. Hemp is generally defined as varieties of cannabis that contain no more than 0.3% of THC, the marijuana cannabinoid that delivers a psychoactive effect⁷. The \$500 billion Farm Bill (Public Law 113-79), which passed in 2014, allows for limited hemp cultivation and permits universities and state agricultural agencies to grow hemp without interference from the federal government and the Drug Enforcement Agency.⁸ Production of hemp has been stagnant in the United States since 1937 when the passage of the Marihuana Tax Act, which levied a tax on anyone who dealt commercially in cannabis, hemp, or marijuana, began the prohibition of cannabis.⁹ Industrial hemp cultivation is now legal in 13 states, including: California; Colorado; Indiana; Kentucky; Maine; Montana; North Dakota; Oregon; South Carolina; Tennessee; Vermont; Virginia; and West Virginia. There are over 25,000 products based upon industrial hemp, including: construction timbers; foundation blocks; clothing; oil-based paints; as a moisturizing agent in

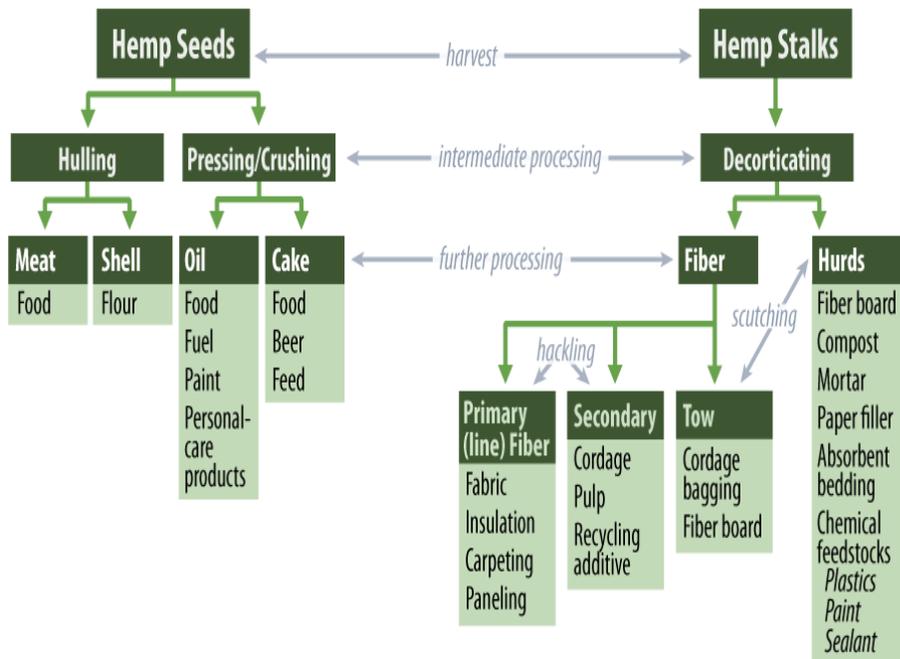
creams and other body products; cooking; plastics; health food and meal; hemp milk; paper; textiles; bio-fuel; and nutritional products.

The estimated size of the U.S. market in hemp-based products exceeds \$580 million annual sales.¹⁰

Demand for legal marijuana is driving significant growth in the number and size of systems used for marijuana cultivation. These products and systems range from

software to track product from seed through cultivation and harvest until the final product is sold at retail, as well as systems for heating and cooling marijuana grow houses, is increasing for both the number and the size of systems demanded by the industry. Cannabis-farming benefits from economies of scale, just as any other form of agriculture.¹¹ For example, in 2013, the majority of demand was for systems to cool cultivation facilities ranging from 5,000 square feet to 20,000 square feet. The following year, demand had shifted, with orders for systems to cool facilities ranging from 150,000 to 400,000 square feet.¹²

Industrial Hemp





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Cannabis is a commodity, and what will distinguish producers and sellers are quality, a lower cost of production, and the ability to grow hybrid varieties of product.

The size and rapid growth of the legal marijuana market has resulted in a highly competitive and fragmented market which has attracted numerous smaller players that offer everything from retail marijuana and hemp products, software and services for operating marijuana or hemp-related businesses, medical marijuana and hemp products, and devices for cultivating, growing, and harvesting marijuana and hemp plants. Many of these smaller players have significant risks, including: weak financial results, high cash burn rates, and an inability to gain traction and develop a significant market presence. This report focuses on publicly-traded companies in marijuana and hemp-related industries.

Companies that have potential to do well in the rapidly emerging legal marijuana industry are those that have overcome the obstacles of developing proprietary technologies, strong management teams, and significant customer acceptance. Competitive factors in the industry include existing strategic relationships with customers and vendors, ability to meet customers' goals, ease-of-use, integration and customization, innovation, technology, quality and breadth of service, scalability, customer service, and price.

Hemp, Inc. – Evolving Business Plan

Summary

Hemp, Inc. (OtherOTC: HEMP), Hemp Inc. produces products made from industrial hemp. The company also offers products and services to the medical and recreational marijuana industries, and operates a website providing entertainment and news related to medical marijuana industry. The company was formerly known as Marijuana, Inc. and changed its name to Hemp, Inc. in June 2012. Hemp Inc. was founded in 2008 and is headquartered in Las Vegas, Nevada. The company's long-term goal is to be the leader in the industrial hemp industry in America, and to provide green solutions that help make the world a better place to live. The company supports products that are eco friendly, organic, healthy, and solutions that replace many petroleum-based products. The company's wholly-owned subsidiary, Industrial Hemp Manufacturing, LLC, purchased the largest decortication plant in North America, located in Spring Hope, North Carolina. The plant is housed in a 70,000,000 square foot warehouse on 9 acres and is scheduled for completion in the last quarter of 2015. The company will start producing fiber, loss circulation materials (LCM), and absorbents from kenaf (a plant similar to jute) and later from hemp. Initially, Hemp, Inc. will produce a product for drilling rigs called "lost circulation material" (LCM), which is used for maintaining the seals when drilling for water, oil, gas, and any other liquid or gas. Eventually, the company will produce fiber materials for the paper and fabric industries, and other industries that utilize materials from hemp to make products such as plastics, building materials, health and beauty related products and more. Hemp, Inc. plans to purchase, acquire and/or joint venture with complimentary companies across various sectors of the hemp industry in an effort to build a portfolio of



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synergistic businesses that will bring Hemp, Inc. cash flow, revenues, value, and position the company as a leader in the industrial hemp industry.

Recent News and Analysis

On Monday, August 31, 2015, Hemp, Inc. announced that sales for the second quarter, ending June 30, 2015 were up significantly over the 1st quarter. Bruce Perlowin, CEO of Hemp, Inc. stated, "Although sales were up significantly, this is now an insignificant part of our business model at this time. Pending completion of our multipurpose industrial hemp processing plant that vertically integrates growing, decortication, milling, and more, millions of dollars in revenue can potentially be generated per year. Thus, the direction of the company has now shifted."

While the direction of the company has shifted towards more advanced processing in the milling line, Perlowin says the company will still continue to market its hemp-based cosmeceutical and nutraceutical product line. "In terms of generating profit, our multipurpose industrial hemp processing facility in Spring Hope, North Carolina, by far, outweighs any sales revenue generated from our product line which is why we feel it best to shift focus," said Perlowin.

The decortication line separates the bast (exterior of the plant, or bark) from the plant's core for use in plastic, paper, fiberboard, etc. The core will then be further processed at the plant's advanced milling component, generating Lost Circulation Material (LCM) making oil drilling safer for the environment and also making spill absorption material for soil and water remediation. According to David Schmitt, COO of Hemp, Inc.'s subsidiary, Industrial Hemp Manufacturing LLC, once the company begins to manufacture DrillWall™ LCM, revenues can potentially range from \$392,000.00 to \$980,000.00 per month based on an output of just 1 ton per hour, 1 crew shift per day. With 3 crew shifts per day, revenues can potentially range from \$1,176,000 to \$2,940,000 per month. Potential buyers of LCMs typically seek 3 to 5 year contracts from suppliers which would create a substantial and steady revenue stream for Hemp, Inc.

SpillSorbent™ is another product that Hemp, Inc.'s subsidiary will produce and sell. SpillSorbent™ is an absorbent made from the core fiber of Kenaf and Hemp plants. US Naval studies have shown that Kenaf and Hemp are the most absorbent natural materials on earth, and can absorb oil in minutes. Hemp, Inc. also has a green technology to make plant fibers fire retardant, water repellent, absorptive, and super soft. Natural fiber can be provided as cut fiber, treated fiber, thread, string, textiles, non-woven or needle punched products. The company has over four million pounds of Kenaf on-hand and also planted a Kenaf crop this year which should be harvested by the end of this year. The crop will be the first crop processed by Hemp, Inc.'s decortication facility.

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Verdict

Following the announcement of second quarter financial results, the stock of Hemp, Inc. continues to be under significant selling pressure. As shown¹³, the company's stock price found support in late April, and remained near the \$0.20 level until mid-May. Beginning in mid-May, the company's stock slid to approximately \$0.11 per share in early July. The company's stock rallied into mid-July, encountering resistance at the \$0.20 per share level. Following a "blow off" top, in late July and early August, the company's stock began a slide, taking the stock price to new lows.

The company's stock closed at \$0.06 per share on Friday, September 11, 2015. Until the company reports traction with its new decortication facility, the company's share price is likely to remain "range bound" at new, lower levels around the \$0.06 to \$0.08 level. The company lacks diversity at the executive level, with the same individual acting as CFO, CEO, and Chairman of the Board of Directors.

Medical Marijuana, Inc. – Addressing Multiple Markets

Summary

Medical Marijuana, Inc. (OtherOTC: MJNA), is a development stage investment holding company, operating in the medical marijuana and industrial hemp industries. The company was the first publicly held company in these markets, and has a diversified portfolio of products, services, technologies, and businesses focused on these industries. Its products range from patented and proprietary based cannabinoid products to seed and stalk or isolated high value extracts manufactured and formulated for the pharmaceutical, nutraceutical, and cosmeceutical industries. The company licenses its proprietary testing, genetics, labeling and packaging, tracking, production, and standardization methods for the medicinal cannabinoid industry. It engages in the research and development of cannabinoid-based pharmaceuticals; and marketing and distribution of cannabidiol hemp oil-based products.



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In addition, the company provides management support and services to cooperatives, collectives, health and wellness facilities, and medical clinics; and consulting and securities services to businesses and individuals in the legal cannabis industry. Services include development of cannabinoid based health and wellness products, and the development of medical grade compounds.

The company provides over 85 proprietary and patented cannabinoid delivery methods that are more socially and medically acceptable than typical industry methods. Further, it focuses on the treatment of pain and other medical disorders with the application of chewing gum-based cannabis/cannabinoid medical products. Medical Marijuana, Inc. was incorporated in 2003 and is headquartered in Poway, California.

Recent News

On Wednesday, September 9, 2015, HempMeds[®], a portfolio company of Medical Marijuana, Inc., and the company's master distributor, announced that it had signed a U.S. manufacturer for sourcing of its Gold Label cannabidiol (CBD) hemp oil brand Real Scientific Hemp Oil™. The sourcing agreement is for a minimum of \$2,500,000 for a 12-month period, and the first two months of the contract have already been sold, shipped and processed.

The new manufacturer has developed finished natural CBD hemp oil products for both people and pets - and represents an additional new revenue stream for the Company. Hemp is widely regarded as a "whole food" and "super food." The company's cannabidiol (CBD) hemp oil is derived from the mature stalk of the hemp plant and is considered a food nutrient delivering the benefits of cannabinoids without the psychotropic/euphoric effects of THC.

On Wednesday, August 12, 2015, HempMeds[®] announced that it was expanding sales through HempMeds[®] South Korea, an exclusive distributor, responsible for marketing and sales of the Company's cannabidiol (CBD) hemp oil products. The initial purchase order \$2,000,000, with an additional \$3,000,000 being required by the end of 2015. Further requirements, under the terms of the contract, require sales through 2016 totaling up to \$25,000,000, with benchmark increases through 2018.

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Verdict

As illustrated¹⁴, Medical Marijuana, Inc.'s shares have been under pressure since mid-May, falling from approximately \$0.115 per share to recent new lows near approximately \$0.039 per share. The stock closed at \$0.039 per share on Friday, September 11, 2015. The stock is likely to remain at levels below resistance at approximately \$0.04 to \$0.045 per share until the company produces improved fundamental results, driven by the recently announced sourcing agreements.

Oxis International, Inc. – Medical Marijuana Treatments

Summary

Oxis International, Inc. (OtherOTC: OXIS), Oxis International, Inc., through its subsidiary, Oxis Biotech, Inc., discovers, develops, and commercializes therapeutics from its proprietary product platform in various disease areas in the United States. The company is developing drugs for the treatment of cancer and other unmet medical needs. Its lead drug candidates include OXS-2175, a small molecule therapeutic candidate for the treatment of triple-negative breast cancer; and OXS-4235, a small molecule therapeutic candidate to treat multiple myeloma and associated osteolytic lesions. The company was formerly known as DDI Pharmaceuticals, Inc. and changed its name to Oxis International, Inc. in 1994. Oxis International, Inc. was founded in 1965 and is based in Tampa, Florida.

Recent News and Analysis

On Tuesday, September 8, 2015, Oxis Biotech, Inc., a wholly owned subsidiary of Oxis International, Inc. announced the execution of an exclusive worldwide license agreement to further develop and commercialize DT2219ARL, a novel therapy for the treatment of various human B cell cancers, leukemias and lymphomas. DT2219ARL targets cancer cells expressing the CD19 receptor or CD22 receptor or both receptors.

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When DT2219ARL binds to cancer cells, the cancer cells internalize DT2219ARL and are killed due to the action of drug's cytotoxic payload. DT2219ARL has demonstrated success in early human clinical trials in patients with relapsed/refractory B-cell lymphoma or leukemia.

Twenty-five patients with advanced B-cell lymphoid malignancies expressing CD19 and/or CD22 were enrolled in a clinical study to evaluate DT2219ARL in a phase 1 FDA study. Patients were enrolled that had previous failed chemotherapy, immunotherapy, and/or hematopoietic (bone marrow or stem cell) transplantation. Patients received a single course of DT2219ARL according to study rules. Adverse events were successfully managed and included weight gain, low albumin, transaminitis, and fever were transient grade 1–2 and occurred in patients at the higher doses tested ($\geq 40\mu\text{g}/\text{kg}/\text{day}$). Durable objective responses occurred in 2 patients at these higher doses. A complete response occurred in the only patient given a second cycle of therapy that had a 70% cancer reduction after the first cycle of therapy... The patient has been in remission for a year now. Correlative studies showed a surprisingly low incidence of neutralizing antibody (30%) production that could be related to the drug's ability to suppress antibody responses.



Verdict

As shown¹⁵, shares of Oxis International, Inc. have been range bound between approximately \$0.015 and \$0.025 per share, following a drift lower from approximately \$0.05 per share in early April, 2015. The company's stock price closed at \$0.022 per share on Friday, September 11, 2015. The company's stock price is unlikely to break through overhead resistance, at approximately \$0.025 to \$0.03 per share, without additional fundamental operating improvements.



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Terra Tech Corporation – Cultivation Systems and End Products

Summary

Terra Tech Corporation (OtherOTC: TRTC), engages in the design, marketing, and sale of hydroponic equipment with proprietary technology to create sustainable solutions for the cultivation of indoor agriculture in Newport Beach and Irvine, California. It operates through two segments, Hydroponic Produce and Cannabis Products. The company, through its subsidiaries, offers environmental controllers and timers; tents and film; ducting and filtration; fans; ballasts; bulbs; reflectors; nutrients; and portable hydroponic trailers and The Big Bud and Little Bud, which are custom fabricated proprietary cultivation systems. It also operates as a retail seller of hydroponic produce, which is distributed in Florida, and the Midwest and the Northeast United States; and produces and sells a line of cannabis flowers and cigarettes, as well as a line of cannabis pure concentrates, including oils, waxes, shatters, and clears to dispensaries in California. The company serves companies, horticulture enthusiasts, local urban farmers, and greenhouse growers. Terra Tech Corp. is headquartered in Newport Beach, California.

Recent News and Analysis

On Wednesday, August 12, 2015, the company announced financial results for the quarter ending June 30, 2015. Total revenues were \$5,024,290, as compared to \$3,711,801 for the quarter ended June 30, 2014, an increase of \$1,312,489. This increase was primarily due to revenue generated by Edible Garden of sales of its herbs and floral products, and IVXX from the sales of its cannabis products. Total revenues generated from the sales of Edible Garden and IVXX for the quarter ended June 30, 2015 totaled \$5,024,290, an increase of 35% from the quarter ended June 30, 2014. Gross profit for the quarter amounted to \$262,614. Gross profit increased \$362,251 for the quarter ended June 30, 2015 compared to a negative gross margin of (\$99,637) for the quarter ended June 30, 2014. Selling, general and administrative expenses for the quarter ending June 30, 2015 were \$3,361,846, compared to \$3,892,077 for the second quarter 2014 or a decrease of \$530,231. After selling, general and administrative expenses of \$3,361,846, an operating loss of \$3,099,232 was realized for the quarter. Operating losses decreased \$892,482 or 22.3% compared to the second quarter of 2014 operating loss of \$3,991,714. The net result for the quarter ended June 30, 2015 was a loss of \$2,756,576 or \$0.01 per share compared to a loss of \$4,555,077 or \$0.03 per share for the second quarter of 2014. The net loss for the second quarter of 2015 decreased by \$1,798,501 or 39.4% as compared to the second quarter of 2014.

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Verdict

As shown¹⁶, the company has been unable to translate better fundamental performance into an improving share price. Following the second quarter earnings announcement on August 12th, the company's stock was range bound between approximately \$0.115 and \$0.15 per share. The company's stock broke through support at approximately \$0.115 per share on September 10th, and closed at \$0.10 per share on Friday, September 11, 2015.

CONCLUSION:

The legal cannabis or marijuana continues to enjoy significant growth, capturing an increasing share of consumer's spending. Analysts are predicting continued strong growth over the foreseeable future as more states legalize marijuana consumption and production. Further industry significant industry growth would be driven by legalization of marijuana usage and hemp production at the federal government level. Emerging industry trends that have been identified by analysts include:¹⁷

- Innovative delivery systems where the marijuana flower is no longer the dominant market force for innovation. Easier and healthier alternative delivery formats gain market share.
- Multistate licensing as national cannabis brands emerge in a state-segmented market
- Product testing, as states require potency and contaminant testing to ensure consumer safety.
- Changing cultivation as licensed cultivation facilities become larger, creating challenges and opportunities to meet the needs of these larger customers.
- The potential for the federal government to legalize marijuana usage and hemp production.

Legal cannabis markets are expected to grow 32% in 2015, with continued strong growth driven by legalization efforts in eight states, including California, Florida, Nevada, and Rhode Island. Markets in several states, including Illinois, Massachusetts, New Hampshire, and Nevada, are expected to begin operation.¹⁸



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States including Maryland, Minnesota, and New York are expected to finalize regulations necessary to open these markets in 2016. The time required for new markets to progress from legislative action to an active market is generally longer than anticipated, and 2015 is expected to be a year where efforts are dedicated to building the infrastructure that leads to larger sales of legal marijuana and hemp products in 2016.¹⁹

The biggest drawback for the industry is that cannabis remains illegal under federal law. The Drug Enforcement Agency still categorizes marijuana as a Schedule 1 controlled substance, which means the federal government considers it to be as dangerous as heroin, with no medical use and high potential for abuse. Based on the existing markets, AMR projects that full legalization of marijuana nationwide would result in \$36.8 billion in retail sales, larger than the \$33.1 billion U.S. organic foods market.²⁰

In 2013, a memorandum from Deputy Attorney General James Cole formally set a pro-cannabis tone for the U.S. Department of Justice's involvement in states' jurisprudence over their own cannabis laws. Under the memo, prosecutors were guided not to base prosecutions on the size of commercial cannabis operations alone. Raids on dispensaries and grow operations dropped dramatically in 2014, suggesting that most in the federal government took the Cole Memo to heart. Then, in February 2014, guidance from the U.S. Treasury Department and the DOJ indicated that banks that offer financial services to cannabis based businesses in legalized states would not be punished if both the bank and its clients follow the basic business tenets set forth by the Cole Memo, as well as specific reporting requirements and due diligence expectations.²¹

In the biggest federal win for the cannabis legalization movement in history, a rider in a December 2014 Congressional "cromnibus" spending bill passed and effectively eliminated the federal government's fiscal capacity to interfere with states in their implementation and oversight of medical cannabis laws. The same spending bill, however, may impede the District of Columbia's ability to enact Adult Use cannabis laws through much of 2015.²²

The public markets have seen a massive influx of companies that seek to capitalize on investor interest in this emerging industry sector. The number of public cannabis companies skyrocketed at the beginning of 2014 and then plummeted later in the year because of SEC actions and a market that became wise to penny stock "pump-and-dump" schemes.²³ The shares of these companies trade primarily on the OTC market and are subject to limited listing requirements. The Securities and Exchange Commission put temporary trading halts on the shares of five publicly-traded companies in 2014, due to concerns over the accuracy of financial statements, potentially illegal sales of securities, and market manipulation.²⁴



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Potential investors should also be aware that several of the individuals affiliated with two of the companies mentioned in this report have “checkered” backgrounds. Medical Marijuana was founded by Mr. Bruce Perlowin, now CEO, CFO, and Chairman of the Board of Hemp, Inc. Mr. Perlowin was arrested for smuggling marijuana from Columbia to San Francisco, and spent nine years (1983 to 1991) in prison. A member of Hemp, Inc.’s Board of Directors was arrested for marijuana possession in Alabama in 2013. Mr. Michael Llamas, former president of Medical Marijuana, was indicted by a federal grand jury in 2013 for his involvement in a mortgage fraud that caused \$10 million in losses.²⁵

Risk adverse investors may want to wait until marijuana and hemp are legalized at the federal government level, which is likely to attract larger better managed, and better capitalized, publicly-traded companies to emerge.

As the industry matures, careful stock selection will become important for investment outperformance. Given the continued positive execution of Terra Tech Corporation, it is likely that this stock will outperform the three other comparable companies mentioned in this report.

As with any investment in smaller companies that are relatively thinly traded, an investment in the shares of TRTC is potentially a “high risk, high reward” situation. This company has not yet reached profitability, and continues to report losses. Despite some recent positive announcements, the stock continues to be thinly traded and is not widely followed by “sell side” analysts. The company’s share price is likely to remain highly volatile and will react strongly to both positive and negative news releases. Potential investors in the common stock of Terra Tech Corporation should conduct their own due diligence and carefully consider any investment in this company.



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Risk Factors

An investment in the common stock of the company is subject to a number of risks. The information below contains latest filings and risk factors that should be considered by all investors. Investors should carefully consider the risk factors set out below and consider all other information contained herein, and in the company's SEC filings, before making an investment decision. We assume no obligation to update or revise any such forward looking statements to reflect events or circumstances that occur after such statements are made. A complete list of filings including the risk factors for the company can be found here: <http://www.sec.gov/cgi-bin/browse-edgar?CIK=prgn&Find=Search&owner=exclude&action=getcompany>

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¹⁸ Ibid.



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