

MNP



CANADIAN CANNABIS

**Abbotsford Chamber of Commerce Luncheon
April 25, 2018**

Presentation Overview

1. The Canadian Cannabis Landscape
 - Industry Statistics at a Glance
 - Key Players
 - Support and Auxiliary Services
 - Industry Consolidation
2. Current & Evolving Regulatory Framework
3. Product & Consumer Trends
4. Proposed Taxation
5. MNP's Experience in the Industry



THE CANADIAN CANNABIS LANDSCAPE



Industry Statistics at a Glance

102

Licensed
Producers *

269,502

ACMPR
Patients *

11,058

AHPs
Prescribing *

50 tons

Dried Product & Oil as
at December 31, 2017

4.9 million

Estimated Canadian Consumers
in 2017
(Medical and Consumer)

655 tons

Estimated Cannabis Demand
by 2021

** As of April 24, 2018*



Key Players

- Canopy (market cap: \$5.6 B)
- Aurora (\$4.6 B)
- Aphria (\$2.1 B)
- MedReleaf (\$2.0 B)
- Cronos (\$1.5 B)
- Ottawa
- Provincial alcohol regulators/distributors



Market Cap as of April 24, 2018

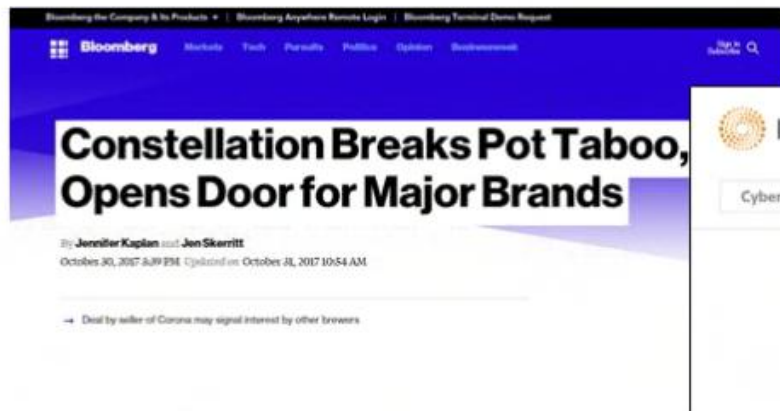


Support and Auxiliary Services

- R & D
- Lab testing
- Financing/Capital
- Agricultural Services
- Real Estate
- Professional Services (e.g., accounting, finance, legal, consulting, marketing/branding, technology, recruiting talent, education/training, architecture, engineering, construction, etc.)



In the alcohol, tobacco, and pharma sectors, businesses are already assessing changes



Constellation Breaks Pot Taboo, Opens Door for Major Brands

By Jennifer Kaplan and Jon Skeritt
October 30, 2017 8:59 PM Updated on October 31, 2017 10:54 AM

Deal by seller of Corona may signal interest by other brewers



REUTERS World Business Markets Politics

CyberRisk The Trump Effect North Korea Iran Technology

#MARKET NEWS JUNE 13, 2017 / 11:18 AM / 7 MONTHS AGO

Imperial Brands names cannabis expert to board



Personal Health News

HOME RESEARCH AND INNOVATIONS PREVENTION AND TREATMENT EDUCATION AND ADVOCACY PATIENT PERSPECTIVE ABOUT US

Personal Health News » Education and Advocacy »
Canada's First Medical Cannabis Trial Seeks New Options For Arthritis Patients

Canada's First Medical Cannabis Trial Seeks New Options For Arthritis Patients



REPLAY: NEWS AT NOON WHO-HD CHANNEL 13 TV SCHEDULE SEARCH

13 WHO HD MENU WEATHER 41°



Iowa Selects State's First Medical Marijuana Manufacturer

POSTED 5:36 PM, NOVEMBER 25, 2017, BY BEN OLDACH

The Telegraph



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GW Pharmaceuticals cannabis-based drug Sativex approved

A ground-breaking cannabis-based drug for treating symptoms of multiple sclerosis has been approved in Britain, in a landmark decision for its creator GW Pharmaceuticals.



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Tables: The cheapest places to buy an Isa



LIVESCIENCE

NEWS TECH HEALTH PLANET

Live Science » Health

Do Pot Smokers Drink More or Less? Results Are Mixed

By Laura Gonsky, Sandra Walker | December 31, 2016 05:05pm ET



M&A Activity

- Canada has seen incredible valuations.
- Multiples have ranged from 10x – 60x forecasted earnings.
- Sky high valuations have kept foreign investment at bay until fundamentals are applied to industry value.
 - US federal uncertainty

Aphria buying Broken Coast Cannabis for \$230M in stock and cash

Broken Coast operates an expanding indoor cannabis production facility on Vancouver Island

The Canadian Press · Posted: Jan 15, 2018 11:13 AM ET | Last Updated: January 15



Marijuana plants are shown in this undated handout image provided by Aphria Inc. The company said it has a binding letter agreement to acquire Broken Coast Cannabis Inc. (Aphria/Canadian Press)



Industry Consolidation

- As the government prepares for legalization of the consumer recreational market this summer, Canada's cannabis producers and distributors are bracing themselves for a period of consolidation leading up to and following legalization.
 - **Aphria acquired Nuuvera** for \$826 million (January 30, 2018) and **Broken Coast** for \$230 million (January 15, 2018)
 - **Aurora acquired CanniMed Therapeutics** for \$1.1 billion (January 24, 2018)
 - **DOJA + Tokyo Smoke = Hiku Brands** with \$10 million investment from **Aphria** (December 21, 2017)
 - **Hiku + WeedMD** \$240 million merger (April 19, 2018)

Future as consumer branding takes hold...?



CURRENT & EVOLVING REGULATORY FRAMEWORK



Bill C-45

- Bill C-45 – *Cannabis Act, An Act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and other Acts* passed in the House of Commons on November 27, 2017
- Passed second reading in Senate on March 22, 2017 and now goes to committee.
- Expected that Bill C-45 will come into force in late summer/early fall of 2018.
- Will legalize production and sale of cannabis for recreational use in Canada.



Federal Legalization

Bill C-45 will provide legal access to cannabis:

- Federal government will control production, distribution, sale, and possession of cannabis across Canada.

Main Goals of Legalization:

- *Eliminate participation of illicit cannabis operations.*
- *Ensure sales occur through legal channels.*
- *Keep cannabis out of the hands of youth.*
- *Protect public health and safety.*





Supply



Production



Processing



Distribution



Sales

Federal Regulator

Provincial Regulator

Pending legalization of Bill C-45 *The Cannabis Act



Federal Government Responsibilities

- Set strict requirements for producers who grow and manufacture cannabis
- Set industry-wide rules and standards, including:
 - types of cannabis products that will be allowed for sale
 - packaging and labelling requirements for products
 - standardized serving sizes and potency
 - prohibiting use of certain ingredients
 - good production practices
 - tracking of cannabis from seed to sale to prevent diversion to illicit market
 - restrictions on promotional activities



Provincial Government Responsibilities

Provinces and territories to license and oversee distribution and sale of cannabis, subject to federal conditions. May also:

- increase minimum age in their province or territory (but not lower it)
- lower personal possession limit in their jurisdiction
- create additional rules for growing cannabis at home, such as lowering number of plants per residence
- restrict where adults can consume cannabis, such as in public or in vehicles



Prospective Licenses

Bill Schedule	Product Types	Timeline
Schedule 4 (related to Section 33, Subsection 151(3)) refers to Classes of Cannabis that an Authorized Person May Sell	<ul style="list-style-type: none"> 1 – Dried cannabis 2 – Cannabis oil 3 – Fresh cannabis 4 – Cannabis plants 5 – Cannabis plant seeds 	Summer / Fall 2018 <i>(Previously July 1st, 2018)</i>
Added in the most recent amendments to Schedule 4	<ul style="list-style-type: none"> 6 – Edibles containing cannabis 7 – Cannabis concentrates 	July 1, 2019

The only stated prohibitions at this point are combinations with nicotine, caffeine or alcohol.



Provincial Cannabis Frameworks



Province	Wholesale Distribution	Retail	Online Retail
British Columbia	Public	Hybrid	Public
Alberta	Public	Private	Public
Saskatchewan	Private	Private	Private
Manitoba	Public	Private	Private
Ontario	Public	Public	Public
Quebec	Public	Public	Public
Newfoundland and Labrador	Public	Private	Public
New Brunswick	Public	Public	Public
Nova Scotia	Public	Public	Public
Prince Edward Island	Public	Public	Public
Northwest Territories	Public	Public	Public
Yukon	Public	Public	Public



BC Cannabis Framework and Legislation

Minimum Age for Possession

+19

Wholesale Distribution Framework

Public

Retail Framework

Hybrid - LDB and private stores
Public on-line sales

Local Governments

Varies...
Municipalities will decide.

Possession Limits

Up to 30 grams

Places of Use

Public places, but banned from beaches, parks and playgrounds

Personal Cultivation

4 plants per household

Drug Impaired Driving

Drug impaired driving will continue to be illegal in B.C.



PRODUCT & CONSUMER TRENDS

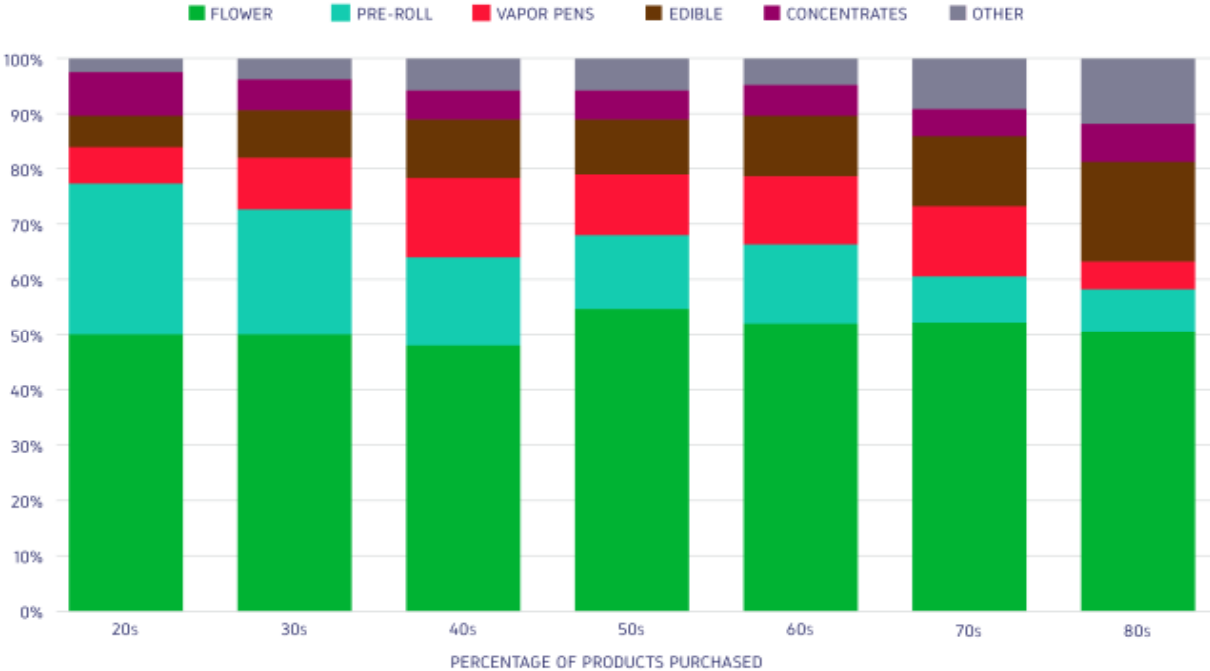


Why do people use cannabis?

- 68% Recreational & Social
 - 40% consume primarily for relaxation purposes
 - Relax
 - Manage Anxiety
 - Manage Stress
 - Feel Peaceful
- 32% Health & Medical

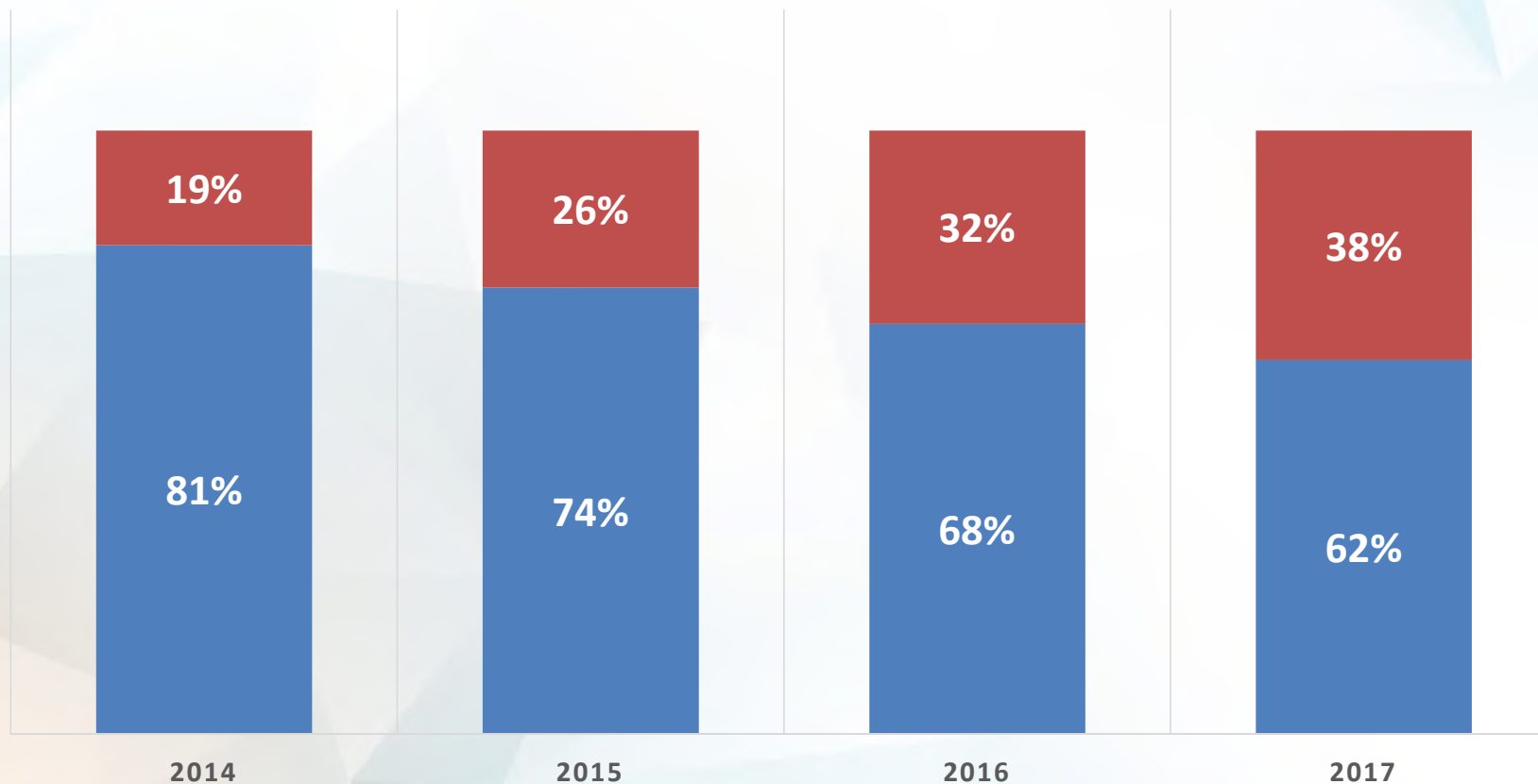


Consumption Methods



BRANDED VS GENERIC PRODUCTS

■ Generic ■ Branded



Delivery Systems

- Specialized delivery systems evolving and accelerating
- Absorption science language (transdermal, sublingual) becoming everyday consumer vocabulary

Pharma-inspired



Health/Beauty



Mix-Ins



Consumer Product Development – Rapid and Growing

Wine conglomerate Constellation Brands buying 10% stake in pot company Canopy Growth

\$245M deal gives the alcohol company the right to buy even more of the marijuana company later

CBC News | Posted: Oct 30, 2017 9:41 AM ET | Last Updated: Oct 31, 2017 9:38 AM ET



November 03, 2017 07:00 ET

Hydropharmacy releases versatile Decarb Micro THC and Decarb Micro CBD medical marijuana powders at \$3 per gram



Retail

- Canadian retail set to become the next battleground in provinces with private licenses
 - AB, BC, SK, NL, MB, NB



Craft Cultivation

- The federal government plans to release regulations for small scale “micro” or “craft” cultivation facilities in 2019 (est.)
- Lower capital costs may lead to increased IRR for projects



PROPOSED TAXATION

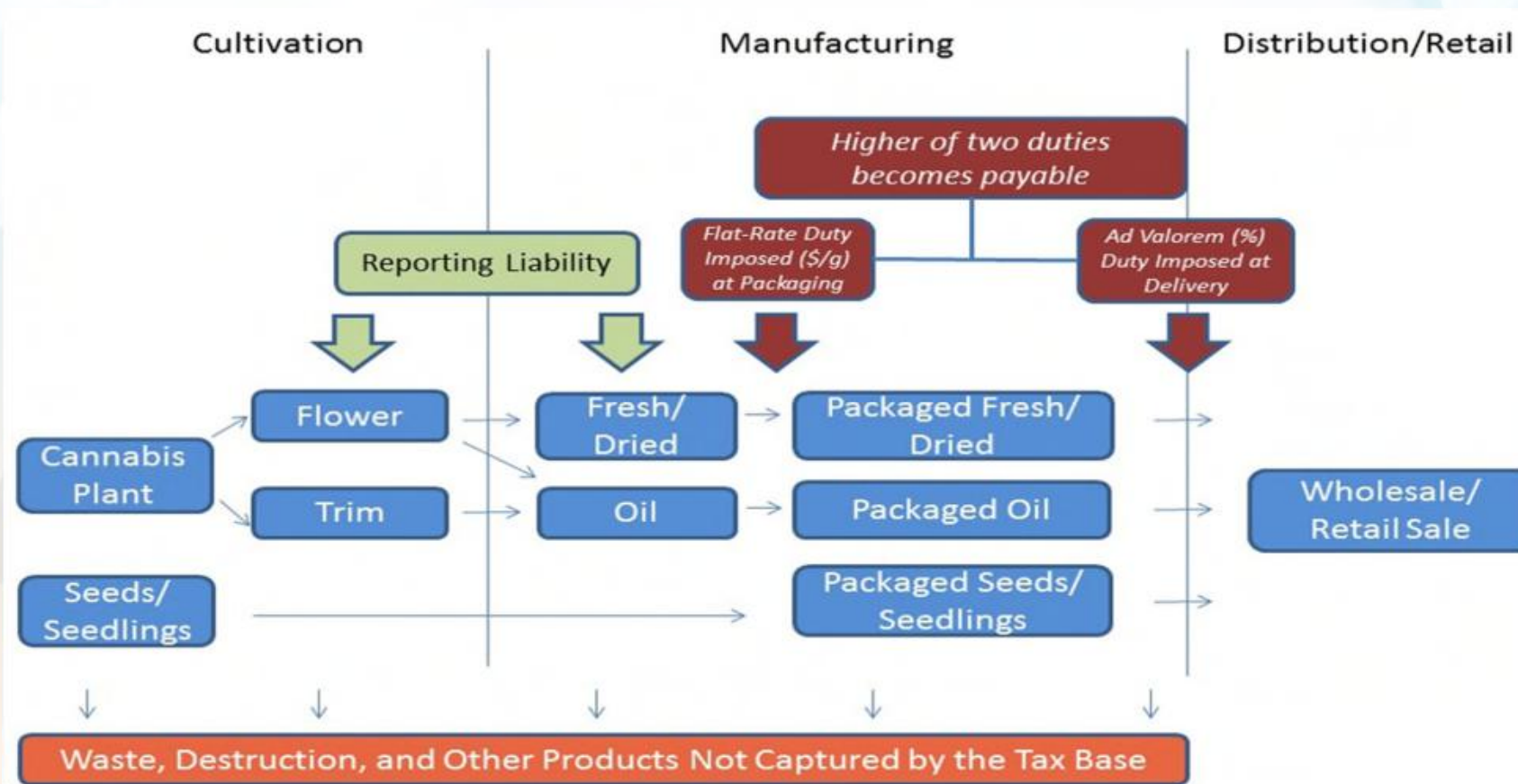


Draft Legislation - Nov 10, 2017

- CRA will be responsible for administering the tax and enforcing various provisions
- Cannabis license will need to be obtained from **CRA** (even if already have a Health Canada License)
- All LP's will need to submit a monthly duty and info return
- Excise Duty will be imposed when delivered to provincially authorised distributor



Taxation and reporting on different stages of Cannabis Flow



Example of Excise Tax

- The Combined Excise Duty will be the greater of
 - A) \$1.00 per gram of cannabis contained in the final product; or
 - B) 10% of the sale price charged to authorised distributor



Application of GST/HST and/or Provincial Sales Tax

- As the product will be moving into the system a GST/HST and/or PST/QST will be applied to the final selling price depending on the province



MNP'S EXPERIENCE IN THE INDUSTRY



MNP's Involvement in the Industry

- MNP is a national leader in the cannabis industry. We have a team of dedicated professionals that have a successful track record of assisting clients in the cannabis industry.
- Since 2013, we have delivered services and expertise to:
 - **115+** legal cannabis organizations from LPs to ancillary businesses
 - **Over 30%** of the Licensed Producers (LPs)
- National breadth. Led by Board member. ON, AB & BC teams.



Some of MNP's Cannabis Clients



MNP's Sample Engagements

- Trusted advisor to cannabis industry and public sector
- Supported 6+ LPs with their IPOs
- Canadian, international, indirect and SR&ED tax advice
- Strategic advisor to First Nations
- Completed feasibility studies and business plans for cannabis cultivation facilities, distribution centres and retail stores (including e-Commerce)
- Due diligence and transaction advisory
- Internal control and business process implementation
- Technology selection



About MNP

- MNP LLP is Canada's 5th largest chartered accountancy and business consulting firm, with more than 70 locations and 4,000 team members across the country.
- In British Columbia, MNP is well-recognized across the province, with more than 700 team members located in 19 communities. We are the 2nd largest firm in the province.



Thank you



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