

**MNP**



**CANADIAN CANNABIS**

# **First Nations Cannabis Forum**

March 27<sup>th</sup>, 2019

## About MNP

- MNP LLP is Canada's 5<sup>th</sup> largest national accounting and business consulting firm, with more than 70 locations and 4,000 team members across the country.
- MNP is the national leader of professional service firms in both the Indigenous Services and Canadian Cannabis industry. Our Indigenous Services team in BC works with over 125 First Nations in various capacities. We started Cannabis in 2014 and are now the trusted advisor for over 250 legal cannabis organizations.



# Some of MNP's Cannabis Clients



## MNP's Sample Engagements

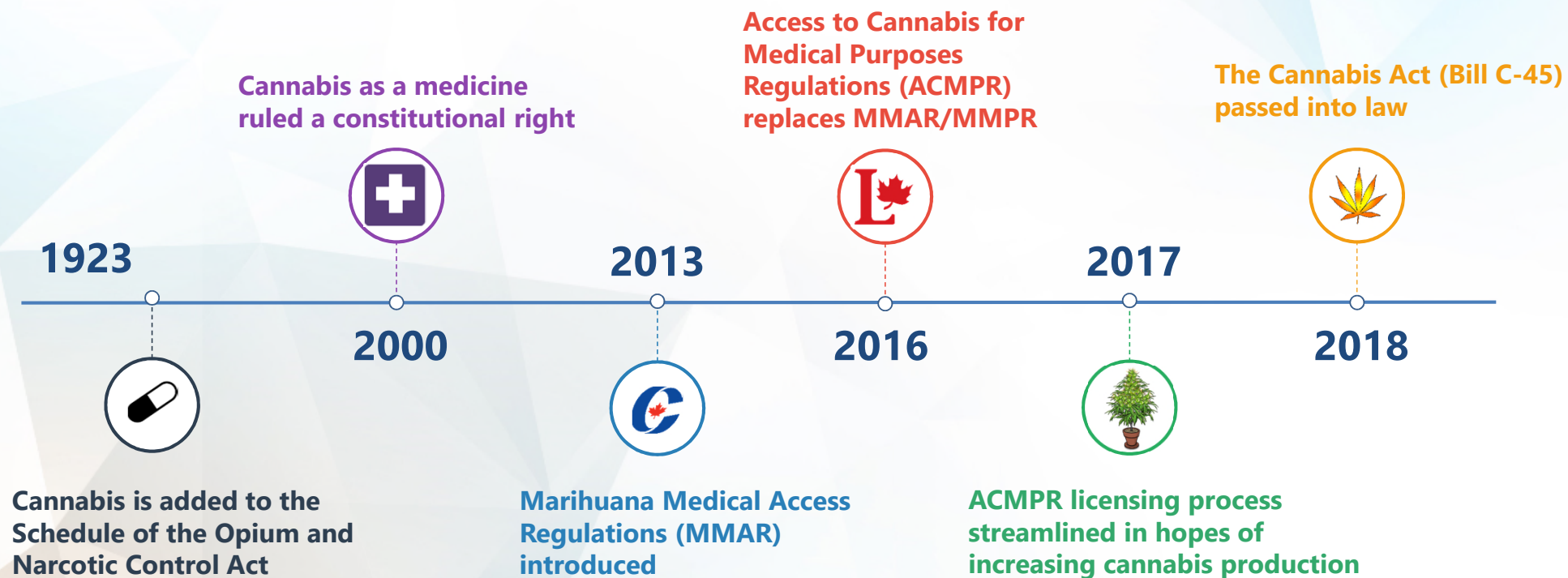
- Trusted advisor to cannabis industry and public sector
- Supported numerous LPs with their IPOs
- Domestic, international, indirect and SR&ED tax advice
- Strategic advisor to First Nation communities on deal flow
- Completed feasibility studies and business plans for cannabis cultivation facilities, distribution centers and retail stores (including e-Commerce)
- Due diligence and transaction advisory
- Internal control and business process implementation
- Technology selection



# THE CANADIAN CANNABIS LANDSCAPE







# 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	Private	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 of  
Procersion**

**+19**

**Wholesale  
Distribution  
Framework**

**Public**

**Retail  
Framework**

**Hybrid - LDB and  
private stores**

**Online Retail  
Framework**

**Public  
online sales**

**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.**





# Industry Statistics at a Glance

**MNP**

**169**

Licensed  
Producers \*

*\* As of March 23, 2019*

**342,103**

ACMPR  
Patients \*

*\* As of Sept 30, 2018*

**18,086**

AHPs  
Prescribing \*

*\* As of Sept 30, 2018*

**\$5.9 billion**

Est. Total  
Cannabis Sales  
2018

**\$4.9 billion**

Est. Purchased  
Illegally in 2018

**926 tons**

Est. Canadian  
Cannabis Demand  
in 2019





Supply



Production



Processing



Distribution



Sales

Federal Regulator

Provincial Regulator



# First Nations say land title gives rights to cannabis use and sales

**MNP**

*BC Assembly of First Nations working group on cannabis is looking at issues such as jurisdiction but also taxation.*

- Current federal & provincial regulations do not consider a third level of governance from rights Indigenous Nations have over traditional lands
- Traditional land rights achieved through court cases, treaty processes, and land codes
- Some Nations are forging ahead with development of their own laws and regulations
- 2-3 years until BC has mature cannabis system in place that has dealt with all of the issues surrounding cannabis use



# FEDERAL LICENSING



# Application Process

- Intake & Initial Screening
  - ❖ Only stage where local governments (Indigenous Nations) have input
- Detailed Review
- Security Clearance Process
- Issuance of License to Produce
- Inspections (Introductory, Pre-Sales)
- Issuance of License to Sell



# BRITISH COLUMBIA RETAIL





# General Retail Restrictions

- Maximum of 8 store licenses per licensee (up for review 2021)
- This includes franchisees
- No vertical integration; licensed producers are ineligible for retail licenses



# Indigenous Nation's Role

## Retail Licensing



- Applications reviewed by Liquor Control Retail Board for completeness
- Completed applications forwarded to Indigenous Nation
- Nation determines whether to provide a positive recommendation or not; must gather the views of area residents and provide comments
- If Nation does not provide a recommendation, LCRB terminates the application
- LCRB uses information + recommendation to determine if license issued; final say
- ❖ Nations can apply for retail licenses in their own name without being incorporated as a business, and aspects of the Cannabis Control and Licensing Act can vary (case-by-case basis)



# Indigenous Nation's Regulatory Powers

**MNP**

## Retail Licensing

- Impose restrictions on store locations
- Charge applicants fees for assessing applications
- Limit hours of operations or impose other conditions (ie: signage)
- Impose local limit on number of stores and/or distance criteria



# INDUSTRY BOTTLENECKS

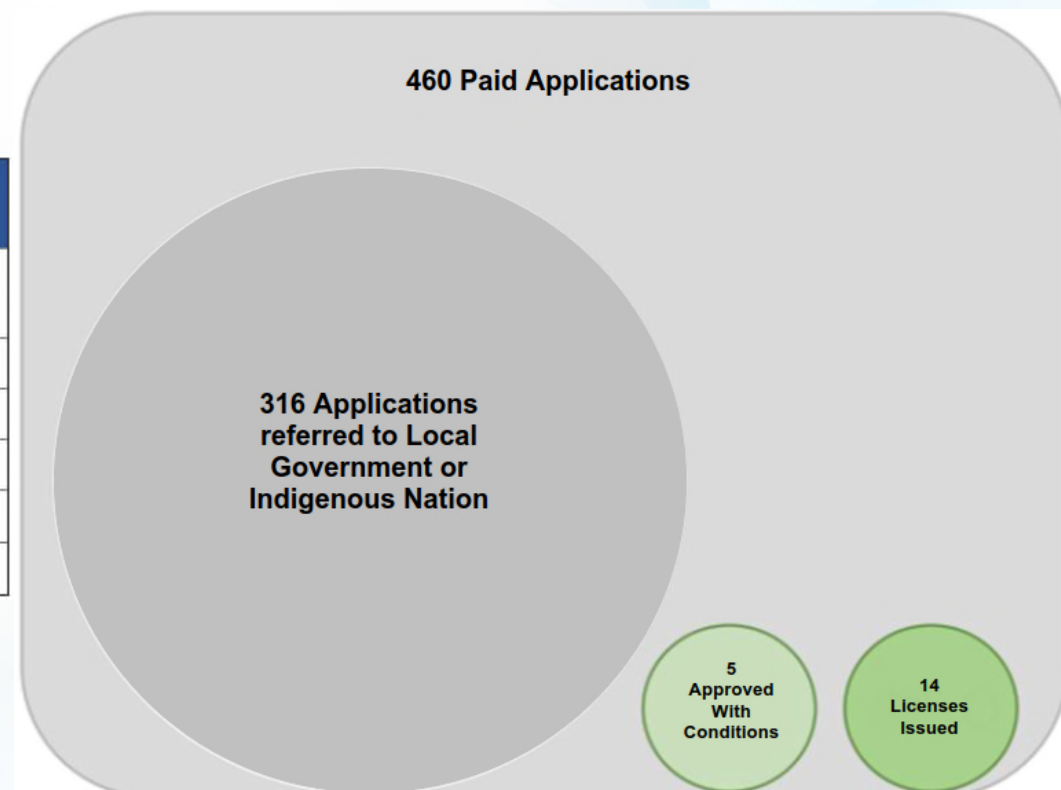


# Retail licensing



Region	Applications Approved with Conditions <sup>2</sup>	Licences Issued <sup>3</sup>
Vancouver Island/Powell River/Gulf Islands	1	1
Greater Vancouver/Sunshine Coast	2	3
Surrey/Fraser Valley	0	0
Interior and the North	2	10
Location Not Yet Specified	0	0
<b>Total</b>	<b>5</b>	<b>14</b>

\* As of March 23, 2019



# Federal licensing



- ~ 500 licenses in queue
- 18 month minimum wait time for cultivation licensing
- Startup costs in hundreds of thousands to millions
  - Retaining people / location during long application process
  - Site design and security design costs
  - Application writing





## Pot shops caught between Victoria heritage bylaws, province's cannabis rules

Bill Cleverley / Times Colonist  
NOVEMBER 25, 2018 06:00 AM



Victoria city councillors are considering a rezoning application from Farm, a cannabis retailer that wants to increase the floor space of its storefront at 1402 Douglas St. to meet anticipated growing demand.  
Photograph By DARREN STONE, TIMES COLONIST

- Provincial cannabis retail regulations require windows in cannabis storefronts to be opaque
- “Victoria bylaws stipulate downtown street-level windows should be transparent to enhance the pedestrian experience, promote safety, and help create a vibrant downtown experience”



## Canada's pot shortage could last 5 years amid edibles demand: Expert

By David George-Cosh



- Bulk exports to Germany, Australia, New Zealand, Prague, Czech Republic, Israel, Cyprus, Croatia
- Concentrate yields are between 5-10% raw flower to end product



# INDUSTRY OPPORTUNITIES



# Production Methods and Outputs

## Indoor Facility

Category	Measurement
<b>Yield</b> (gram per sq ft annually)	250-400
Crops per Year	4-5
COGs (\$/g)	\$1.60-\$2.00
Percent of top grade flower	95%

*High yield,  
high cost,  
95% top grade flower*

## Unimproved Greenhouse

Category	Measurement
<b>Yield</b> (gram per sq ft annually)	40-80
Crops per Year	1-2
COGs (\$/g)	\$0.95
Percent of top grade flower	50%

*Low yield,  
moderate cost,  
50% of top grade flower*

## Outdoor

Category	Measurement
<b>Yield</b> (gram per sq ft annually)	25-50
Crops per Year	1
COGs (\$/g)	\$0.10
Percent of top grade flower	25%

*Low yield,  
low cost,  
25% of top grade flower*

## High-tech Greenhouse

Category	Measurement
<b>Yield</b> (gram per sq ft annually)	200-300
Crops per Year	5-6
COGs (\$/g)	\$0.75
Percent of top grade flower	95%

*High yield,  
moderate cost,  
95% top grade flower*





# Product Categories

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	1 – Dried cannabis 2 – Cannabis oil 3 – Fresh cannabis 4 – Cannabis plants 5 – Cannabis plant seeds	Legislation came into effect Oct. 17, 2018
Added in the most recent amendments to Schedule 4	<b>6 – Edibles containing cannabis</b> <b>7 – Cannabis concentrates</b>	Fall 2019
<i>The only stated prohibitions at this point are combinations with nicotine, caffeine or alcohol.</i>		

Green Text Indicates High Market Growth Predicted



# Cannabis Sub-Sectors



Agriculture technology



Ancillary products & services



Biotechnology



Consulting services



Consumption devices



Products and extracts



Industrial hemp



Retail





# Miners & Merchants; who profited the most from the California Gold Rush?

- Tools & technology
- Materials
- Service providers
- Bankers
- Real estate



# Examples of Support and Auxiliary Products and Services



## Cultivation

- Cultivation equipment and technology (e.g., climate control, lightning systems, fertilizer systems)
- Utility services (e.g., water, electricity)
- Compliance services
- Professional services (e.g., (e.g. legal, accounting, consulting, marketing, architecture, engineering))
- Financing /capital
- R&D services
- Lab testing services
- Security services
- Software



## Processing

- Extraction technology
- Packaging
- Marketing services
- Lab testing services
- Utility services (e.g., water, electricity)
- Professional services (e.g., (e.g. legal, accounting, consulting, marketing, architecture, engineering))



## Distribution

- Transportation services
- Consulting services
- Security services



## Retail

- Inventory control
- Consumption devices
- Apparel manufacturing
- Retail design services
- Graphic design services
- Professional services (e.g., (e.g. legal, accounting, consulting, marketing, architecture, engineering))
- Security services



## Craft Cultivation

- Micro-grow (up to 200m<sup>2</sup>) licenses available a year early to meet demand
- Lower capital costs may lead to increased IRR for projects
- Time to license – 18 months





# Craft Cultivation

## In Canada, a macro wait for micro licenses in cannabis

Published January 14, 2019 | By Robin Roberts



Small-scale cannabis growers in Canada are facing such burdensome licensing regulations that fewer than 30 such applications have been made to Health Canada since legalization in October.

One of the main problems regarding such licensing comes from restrictions imposed by municipalities, industry experts say.

"Few municipalities have the zoning required to accommodate a micro-cultivation permit," said Tom Doran, founder and CEO of Pattern Micro Cultivation, a British Columbia-based company that looks to partner with micro-cultivators to build facilities that are compliant with good manufacturing practices (GMP).



# The Edibles Pantry



Dixie Elixirs



Kiva chocolates



Infused olive oil



Vegan protein bars



# Launching an Edibles Business

**MNP**

Edibles = new market full of new opportunities



Challenges for business entering edibles market...  
Strict laws and regulations!





# Edibles in Canada



**EXPECT  
DELAYS**

- Canada has a very sophisticated and complex food regulatory system
- This is why edibles are a second-stage process in legalization – Canada wants to have diversity in using existing lawful products
- The only stated prohibitions at this point are combinations with nicotine, caffeine or alcohol
- Apply the learning from US recreational markets to the Canadian market



# INDIGENOUS FOCUS



# Current Deal Flow



- Numerous retail locations in the works
- Cultivation with First Nations craft branding
- Traditional plants and medicine
- Micro grow discussion in many communities
- Ensure Nations perform due diligence on potential partners



# Licensing vs. Sovereignty

**MNP**



**CBC Indigenous** ✓

March 1 at 1:00 PM · 🌐

A First Nation operating a cannabis dispensary without a provincial permit has laid the groundwork for taking the federal and Saskatchewan governments to court.



CBC.CA

**Saskatchewan First Nation files claim in court over cannabis dispensary**



## Provincial Licensing – Pros

- Application process ensures applicants have all approvals necessary and best practices included prior to operations
- Licensing would indicate that the following items meet a certain standard, which could increase business:
  - pricing
  - product quality
  - customer service
  - employee training
  - standard operating procedures

## Provincial Licensing – Cons

- Significant wait times currently on applications in the queue
- Potential for application to be rejected (although unlikely)
- Less potential profit as all product is purchased through the BC Liquor Distribution Board

## Sovereignty Model (No license) – Pros

- Cost savings on not going through the application process
- No wait time for licensing; can begin operations/construction as soon as required
- Full control of value chain (i.e. BC Liquor Distribution Board is not involved), which results in higher profits
- Ability to customize laws and operations to fit the communities wants and needs

## Sovereignty Model (No license) – Cons

- Potential extra costs to draft community laws to cover various aspects of Provincial jurisdiction that would be covered through licensing
- Potential to end up in court fighting a sovereignty battle which would result in extra costs and lost revenue
- More difficulty sourcing product as growers would have to be willing to sell direct to Nations through “illegal” sales channels
- Potential difficulties accessing financing and/or working with service providers



# Thank you!

Jameel Sayani, CPA, CA, CAFM

Regional Managing Partner – Northern B.C.

Vancouver Island & Northern BC Indigenous Services Leader

(250) 753-8251

Jameel.Sayani@MNP.ca

Luke Biles, CPA, CA

Vancouver Island Cannabis Niche Leader

(250) 388-6554

Luke.Biles@MNP.ca

