Cannabis 101: Industry landscape and the road to edibles

Presented by: Glenn Fraser
Date: May 10, 2018
CANADA & GLOBAL DOMINANCE
Global cannabis landscape
The U.S. roadmap

ANNUAL RETAIL SALES OF CANNABIS IN COLORADO

248% growth recreational market

Retail Sales (US. Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Medical</th>
<th>Recreational</th>
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<tbody>
<tr>
<td>2014</td>
<td>$313</td>
<td>$386</td>
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<td>2015</td>
<td>$588</td>
<td>$408</td>
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<td>2016</td>
<td>$875</td>
<td>$438</td>
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<td>2017</td>
<td>$1,090</td>
<td>$416</td>
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</tbody>
</table>

MNP.ca
Canadian cannabis landscape
Legalization = Globalization
Legalization = Globalization
# Canadian cannabis on global stage

<table>
<thead>
<tr>
<th>Canadian LP</th>
<th>Australia</th>
<th>Brazil</th>
<th>Cayman Islands</th>
<th>Chile</th>
<th>Croatia</th>
<th>Germany</th>
<th>Israel</th>
<th>Netherlands</th>
<th>New Zealand</th>
<th>Spain</th>
<th>Switzerland</th>
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- Supply agreement
- Purchases
- IP transfer
- Wholly owned subsidiary
- Product licensing
- Strategic partnership
- Distribution agreement
- Cannabis genetics
- Vaporizer, Ag solutions
- Supply agreement
- Alliance with seed developer
- JV with extraction technology
A ‘high’ demand

Current state of Canadian cannabis

Sources of legal cannabis:
- Produced/sold by licensed producer
- Grown by authorized individual
- Grown by authorized individual’s authorized designate

Licensed Producers (LPs) may: possess, produce, sell, provide, ship, deliver, transport and destroy cannabis or cannabis oil

Fast facts:

- $5.6 B Canadian spend in 2017
- 104 Licensed Producers
- 269,502 ACMPR Patients
- 2,786 AHPs Prescribing
- +700M Capital Injection in 2017

104 LPs and counting...
A ‘high’ demand

Future state of Canadian cannabis

<table>
<thead>
<tr>
<th>Projecting the Canadian Cannabis Market</th>
<th>Projecting the Canadian Cannabis Market Value</th>
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</thead>
<tbody>
<tr>
<td>Colorado Cannabis Sales, 2017 est. (CAD)</td>
<td>$1.8 B</td>
</tr>
<tr>
<td>CAN population vs CO population</td>
<td>6.6 x larger</td>
</tr>
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<td>Canadian cannabis sales 2026 est.</td>
<td>$1.8 B * 6.6 = $11.9 B</td>
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<tr>
<td>CO sales (kg of cannabis)</td>
<td>216,523</td>
</tr>
<tr>
<td>Population Multiple (CAD/CO x)</td>
<td>6.6x</td>
</tr>
<tr>
<td>CAN sales, 2024 est. (kg)</td>
<td>216,523 * 6.6 = 1.4 M</td>
</tr>
</tbody>
</table>

Fast facts:

- 4.9 Est. Canadian consumers
- 655,000 kg Est. cannabis demand (July 2018)
- 2000 kg Financed supply of cannabis
Canadian legal landscape

The Federal government’s aim is to...
**Canadian legal landscape**

**Cannabis Act (Bill C-45)** is currently with the Senate for review

Expected timing: Fall 2018

- Provinces and territories will regulate their:
  - Wholesale and retail distribution
  - Workplace safety
  - Discretion to set: higher age limits, possession limits

- Feds will continue to regulate medicinal sales & production
## Adult-use legislation

<table>
<thead>
<tr>
<th>Adult-use legislation</th>
<th>British Columbia</th>
<th>Alberta</th>
<th>Saskatchewan</th>
<th>Manitoba</th>
<th>Ontario</th>
<th>Quebec</th>
<th>Nfld</th>
<th>New Brunswick</th>
<th>Nova Scotia</th>
<th>PEI</th>
<th>Yukon</th>
<th>Northwest Territories</th>
<th>Nunavut</th>
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<tbody>
<tr>
<td>Min. Age</td>
<td>19</td>
<td>18</td>
<td>19</td>
<td>19</td>
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<td>18</td>
<td>19</td>
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<tr>
<td><strong>Retail location restrictions</strong></td>
<td>No co-location w/ alcohol or tobacco, Cannabis &amp; accessories in urban areas ONLY</td>
<td>Co-location with ONLY cannabis accessories</td>
<td>Co-location w/ ancillary items – communities can opt out</td>
<td>Municipalities can prohibit retail sales – no co-location w/ alcohol</td>
<td>Unclear whether municipalities can delay / prohibit retail</td>
<td>Restrictions may be imposed by retail</td>
<td>No co-location w/ pharmacy or lounge where alcohol is sold</td>
<td>&gt;300m away from schools</td>
<td>Co-location w/ alcohol, but must be in separate area</td>
<td>Standalone govt-owned locations, no ads</td>
<td>No co-location w/ alcohol sales</td>
<td>Municipalities can prohibit retail sales</td>
<td>Proposed that “dry” communities will not be permitted</td>
</tr>
<tr>
<td><strong>Online sales</strong></td>
<td>Yes, by gov’t</td>
<td>Yes, by private retailers</td>
<td>Yes, by private retailers</td>
<td>Yes, by private retailers</td>
<td>Yes, by gov’t</td>
<td>Yes, by gov’t</td>
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<tr>
<td><strong>Home grow restrictions</strong></td>
<td>No visible plants, no growing in daycares, landlords and strata councils may restrict</td>
<td>Permitted in regulations</td>
<td>Landlords to establish reasonable rules re: cultivation</td>
<td>No home growing</td>
<td>Permitted as per Cannabis Act</td>
<td>No home growing</td>
<td>TBD</td>
<td>Must be in a locked space</td>
<td>Permitted as per Cannabis Act</td>
<td>TBD</td>
<td>Permitted as per Cannabis Act</td>
<td>Permitted as per Cannabis Act</td>
<td>landlords and strata councils may restrict</td>
</tr>
</tbody>
</table>
How is cannabis used?

Spiritual

Social

Medicinal
## Inhale or ingest?

<table>
<thead>
<tr>
<th></th>
<th>Edibles</th>
<th>Inhalation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Absorption</strong></td>
<td>• THC metabolized by the liver</td>
<td>• THC travels directly to brain</td>
</tr>
<tr>
<td></td>
<td>• Effective in crossing the blood-brain barrier = intense high</td>
<td>• Effects felt quickly, diminish quickly</td>
</tr>
<tr>
<td></td>
<td>• 10-20% of THC and other cannabinoids to the blood plasma</td>
<td>• 25-27% of THC and other cannabinoids to the blood plasma</td>
</tr>
<tr>
<td><strong>Duration</strong></td>
<td>• 30 minutes to 2 hours to kick in</td>
<td>• Peak at 10 minutes</td>
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<td>• Can last hours</td>
<td>• Dissipate within 30-60 minutes</td>
</tr>
<tr>
<td><strong>Dosing</strong></td>
<td>• Difficult to dose due to delay between ingestion and onset</td>
<td>• Instantaneous effect</td>
</tr>
<tr>
<td></td>
<td>• Potential to over consume</td>
<td>• Gradually dose as needed</td>
</tr>
<tr>
<td><strong>Methods</strong></td>
<td>• No exposure to carbon monoxide, polycyclic aromatic hydrocarbons, tar</td>
<td>• Vaping: No exposure to carbon monoxide, polycyclic aromatic hydrocarbons, tar</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Smoking: Exposure to carbon monoxide, polycyclic aromatic hydrocarbons, tar</td>
</tr>
</tbody>
</table>
Edibles Regulations in the US

Because marijuana is still illegal at the federal level; FDA, USDA, and FSIS are not actively regulating producers of edibles

“Should edibles be allowed for legal sale in Canada, they should, at a minimum, conform to the strictest packaging and labelling requirements for edibles currently in force in U.S. states”

– Health Canada, A Framework for the Legalization and Regulation of Cannabis in Canada
Edibles Regulations in the US

Top 10 brands accounted for almost 60% of branded cannabis sales.

Chart: Branded or generic?

- 2014:
  - Branded: 19%
  - Generic: 81%

- 2017:
  - Branded: 38%
  - Generic: 62%
Spotlight on Colorado

- 2014: Colorado legalizes marijuana
- 2015: Colorado tightens restrictions on cannabis edibles
- 2016: Colorado sets out new requirements
- 2017: Colorado sets out additional requirements
Snacking on cannabis

Many consumers prefer ingesting, rather than smoking, cannabis...

Edibles the real king of Cannabis in Colorado

<table>
<thead>
<tr>
<th>IN 2014</th>
<th>BY 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>18%</strong></td>
<td><strong>38%</strong></td>
</tr>
<tr>
<td>CANNABIS SALES WERE EDIBLES AND NON-FLOWER PRODUCTS</td>
<td>CANNABIS SALES WERE EDIBLES AND NON-FLOWER PRODUCTS</td>
</tr>
</tbody>
</table>

INCREASE Post-legalization

Combust or ingest?

NO TOBACCO OR MARIJUANA SMOKING AT ANY TIME
The edibles pantry

Popular infused beverages in the US in 2017...

- Dixie Elixirs
- CBD Infused beer
- Left Coast Hemp Vodka
- Green Tiki Cannabis Quenchers
Edibles pantry

Confectionary edibles:

- Cheeba Chews
- Kiva chocolates
- The 4.20 chocolate bar
- LOL edibles cannabis chips
Edibles pantry

Edible additives:

- Slactavis syrup
- Infused cocoa
- Infused butter
Edibles pantry

More edibles:

- Frozen dinners
- Croissants
Edibles in Canada

TODAY
• Persons with medical recommendations for cannabis can produce edibles at home for personal consumption ONLY

TOMORROW
• Commercialization of edibles
• Expected timing: Fall 2019

Proposed regulation of cannabis edibles in Canada:
"The sale of edibles and other cannabis-based products, would be permitted within the following year [2019] to allow time for the development of specific regulations to address the unique risks posed by these product classes.”
– Health Canada
Edibles in Canada

- 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
Canadian companies positioning for dominance
### Canadian outlook on cannabis

The landscape of current consumption in Canada in 2017

<table>
<thead>
<tr>
<th>Consumption Type</th>
<th>Users</th>
<th>Non-Users</th>
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</thead>
<tbody>
<tr>
<td>Smoke marijuana for recreational purposes</td>
<td>38%</td>
<td>62%</td>
</tr>
<tr>
<td>Consume marijuana edibles for recreational purposes</td>
<td>26%</td>
<td>74%</td>
</tr>
<tr>
<td>Smoke marijuana for medicinal purposes</td>
<td>25%</td>
<td>75%</td>
</tr>
<tr>
<td>Consume marijuana edibles for medicinal purposes</td>
<td>18%</td>
<td>81%</td>
</tr>
<tr>
<td>Smoke cigarettes or cigars</td>
<td>39%</td>
<td>60%</td>
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<tr>
<td>Drink alcoholic beverages</td>
<td>83%</td>
<td>17%</td>
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</tbody>
</table>

32% of cannabis users in Canada have consumed edibles

Younger Canadians most likely to try edibles

Source: Ipsos' poll, September 2017

Source: Ipsos' poll, September 2017
Advantages for Canadian entrepreneurs

- Canadian legislation and approach is much more advanced than US
  - Canada’s national landscape vs. the US state-by-state landscape
- Opportunities for innovation and R&D in the Canadian cannabis industry because it’s a national program
- Early days for developing new product and brands
  - Consumer preferences are evolving and changing rapidly
Launching an edibles business

Under today’s regulations, food & beverage processors CANNOT handle, possess, or process cannabis products without a license.
Launching an edibles business

Edibles = new market full of new opportunities

Challenges for business entering edibles market...

Strict laws and regulations!
Launching an edibles business

Here are some considerations before launching an edibles business

1. Thorough market research
2. Solid business model
3. Consider the impact on your current brand
4. Stay informed about the changing cannabis landscape and legislation
5. Collaborate
6. Get knowledgeable advice
MNP’S CANNABIS CONNECTION
MNP’s cannabis connection

• MNP is the national leader in the cannabis industry
  – Started in 2014
  – Now the trusted advisor for over 125 legal cannabis organizations

• MNP’s approach focuses on:
  – Agricultural roots, entrepreneurial spirit, strategic partnerships and sponsorships, value through expertise, providing services to legal entities

• MNP's Cannabis Advisory Team
  – Always ready to focus on the client’s toughest challenges and best opportunities
MNP helps your budding business

- Financing & Capital Requirements
- Operations & Procedures
- Planning & Strategy
- Marketing & Positioning
- Supply Chain Management
- Technology
- Organization & People
Start strong.
Grow strong.
Finish strong.