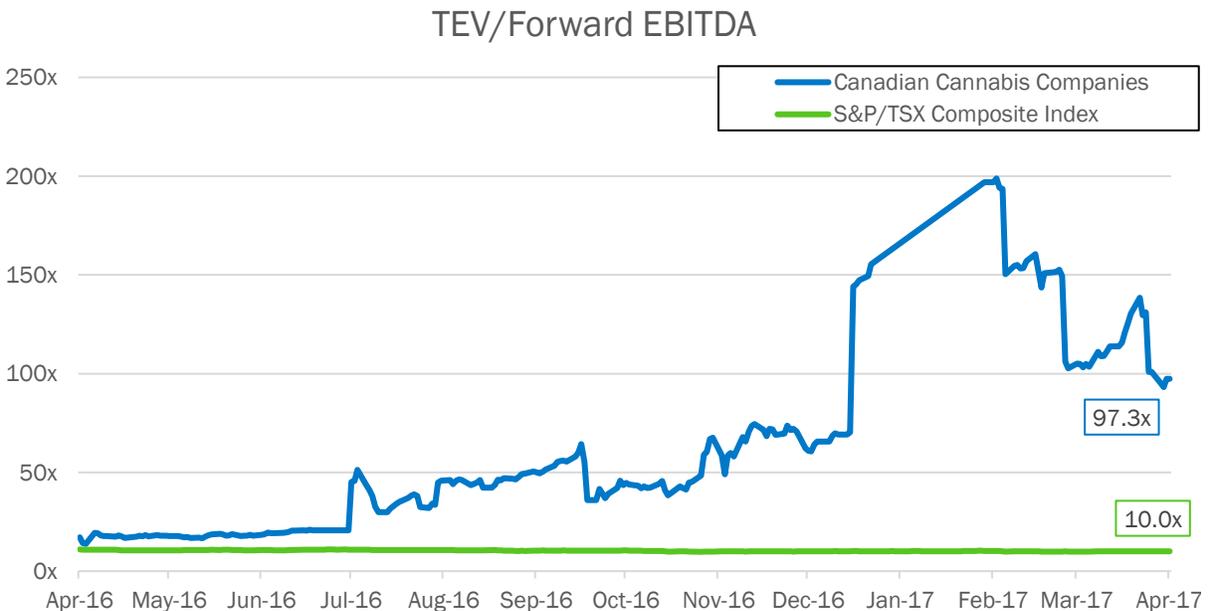


Recreational Cannabis on Bay Street: New Legislation, New Opportunities

I recently attended a seminar at Torys, one of Canada’s leading law firms. The room was packed with men and women in blue suits (actually, mostly men). Bankers from the big five were at nearby tables. And the focus of the seminar was...Recreational Cannabis.



With the release of the draft Cannabis Act on April 13, opportunities in the sector are scaling, and with them, support from top tier Canadian law firms like [Torys](#) and [Blakes](#) (who will be holding their own Cannabis Round Table on May 2). I want to share some of the insights that I gleaned from the Torys seminar – insights that are not apparent on a straightforward reading of the draft legislation.

The regulatory expert on the panel, Eileen McMahon, expressed full confidence that the federal government would meet the target rollout date of July 1, 2018. Once federal legislation is passed, producers currently licensed to grow medical cannabis will be permitted to sell cannabis for recreational purposes. They will be joined by newly licensed producers that have successfully navigated the application pipeline¹.



McMahon emphasized that government will heavily regulate the entire supply chain, so that companies with experience operating in a regulated environment will have an advantage. This is relevant when considering prospective industry consolidators. We see big tobacco, alcohol and pharma as likely contenders, and it is the pharmaceutical companies that lead in their experience with regulatory compliance and drug testing.

¹ Currently, 75% of applicants either withdraw or are rejected



Cheryl Reicin, group leader to Torys' life sciences practice, outlined trends and issues likely to emerge in the sector. She noted that Canada is positioned to lead in financings for Canadian and international producers². She also predicted that international players will look to Canada's burgeoning expertise, and will leverage Canada's legal infrastructure for research and operational purposes.

We've previously remarked on the number of cannabis sector deals featured in our weekly deal summaries, and Reicin expects to see heightened merger and acquisition activity driven by cost and product quality factors including:

1. Increased proximity to different markets to reduce transportation costs; and
2. Acquisition of intellectual property and technologies focused on improving product quality and operational efficiencies

The Torys panel included Dr. Catherine Zahn, the head of the Centre for Addiction and Mental Health, and a member of the Task Force on Cannabis Legalization. When asked directly whether she, as a clinician and task force member, endorsed the draft legislation, her answer was an unqualified yes. In her opinion as a leading addiction expert, the proposed legalization of recreational cannabis is well balanced by strict regulation targeted at protecting public health and restricting access to young people.

To quote Cheryl Reicin on the business of cannabis:

"We've come a long way baby, and I'm not talking about Virginia Slims."

² Excluding U.S. players. There is a money laundering issue pervasive amongst U.S. cannabis producers. Accordingly, no U.S. cannabis companies are listed on the Toronto Stock Exchange or the TSX Venture Exchange.