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IS THE FUTURE OF COMMERCIAL CANNABIS PRODUCTION SUNGROWN?

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Many believe that obtaining a license from Health Canada to cultivate cannabis doubles as a license to print money. Indeed, the valuations being put forward by many cultivation applicants under the *Access to Cannabis for Medical Purposes Regulations* ("ACMPR"), who are seeking to raise capital are causing many in the industry to do a double take.

In the immediate, and possibly not so immediate future, demand may very well outstrip supply in a significant fashion. Some are predicting that every single gram produced in Canada for the considerable future will be sold. In fact, some industry experts such as Ranjeev Dhillon of Bennett Jones LLP believe the demand could go on for much longer. Mr. Dhillon recently expressed the view that based on current estimates of demand and subject to certain assumptions, it could be 8 – 10 years before supply catches up with demand in Canada.

At some point though, things will come crashing back to earth. We don't have to look much further than our neighbours to the South to see where we might be headed once supply catches, or surpasses, demand.

According to Forbes, wholesale cannabis prices in Colorado declined from \$2,500 to \$1,000 per pound in 2016. In Washington State, sale of dried flower plunged from \$25 per gram in the summer of 2015 to just under \$6 per gram by early 2017.

Producers who are looking to stay in the game long term will need a long term strategy. One strategy utilized in particular is to lower production costs so that survival will be possible when margins begin to shrink.

The ACMPR obligates licensed producers to produce, package, label and store cannabis indoors. Although outdoor growing is permitted for individuals growing cannabis for their own medical purposes, it is simply not an option for commercial growers.

Indoor operations require the use of artificial light, and elaborate heating and cooling systems, all of which ultimately increase the demand for electricity in a significant way. As a result, the interest in greenhouses, which offer a lower operating cost and smaller carbon footprint, is growing among industry stakeholders.

Recently, British Columbia based Tantalus Labs became the 45th licensed producer in Canada. Tantalus is known across the country for utilizing greenhouses for commercial cannabis production. Tantalus' greenhouse, cleverly nicknamed "SunLab", utilizes sunlight to fuel cannabis growth instead of exclusively artificial lighting.

The SunLab is not simply a greenhouse. In addition to having a translucent roof and walls that enable sunlight to fuel growth, the SunLab also utilizes two 54,000 cubic feet per minute HAF fans per bay to generate airflow that is 15 to 20 times that found in a traditional indoor grow environment. Tantalus describes this airflow as a cornerstone of its quality assurance system which prevents disease, strengthens plants and increases yields.

Dan Sutton, the Founder and Managing Director at Tantalus estimates that the SunLab uses 90% less energy than a traditional indoor environment. This enables Tantalus to achieve a costs of goods sold somewhere between 1/3 and 1/4 of what traditional indoor growers are spending.

Traditional indoor growers may insist that the lack of environmental control in greenhouse grows leads to less harvests, inferior product and more risky results. Sutton says those criticisms are largely unfounded but admits that until Tantalus' cannabis hits consumers' coffee tables he won't be able to disprove his critics, noting "the proof is in the product."

The logo for MINDEN GROSS LLP is positioned vertically on the right side of the page. It features the word "MINDEN" in a large, dark blue, serif font, and the word "GROSS" in a similar font below it, with "LLP" in a smaller, dark blue, sans-serif font to its right. The text is flanked by two orange curved lines that form a partial frame around it.

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In addition to the attractiveness of low cost production, Sutton says investors should be drawn to greenhouse growers for another reason altogether:

"the opportunity to touch a consumer base who are buying more than just a product; they are buying the sustainability of our production methodology to protect our natural environment for generations to come."

There is no doubt that the industry is anxiously awaiting to see what quality of product Tantalus' SunLab can churn out. If Sutton is right, and the SunLab is capable of producing cannabis of a quality level that rivals or surpasses that of other traditional indoor growers, many more might start marching to the beat of Sutton's mantra:

"Sungrown is the future. Adapt or perish."

To read more from the Cannabis Industry Practice Group at Minden Gross LLP, visit Canada Cannabis Legal ("CCL") at www.canadacannabislegal.com. CCL brings its readers timely content about legal developments that impact stakeholders in the Canadian cannabis industry. CCL covers any topic that touches the Canadian cannabis industry, whether the topic is municipal, provincial, federal or international in nature. Whether you are a novice with no prior knowledge of the laws that shape the Canadian cannabis industry, or an experienced industry participant looking to stay current with legal developments as they happen, CCL is your online destination to become and stay informed about the laws affecting the Canadian cannabis industry.



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