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Cannabis Industry Update

By Vlad Mihaescu and Andrew J. Wilder

The Canadian Senate has announced that they will be holding a final vote on Bill C-45, which would enact the *Cannabis Act*, on June 7, 2018. If enacted on this date, Royal Assent is expected to follow almost immediately. However, notwithstanding that the law would be effective as of this date, it is anticipated that provincial and territorial governments will need eight to twelve weeks following Royal Assent for preparatory activities to occur, such as the lawful movement of product from licensed producers (“LPs”) to distribution and retail outlets. This delay would result in cannabis sales taking place no earlier than August or September 2018, as opposed to the proposed date of July 1, 2018. The delay is not anticipated to be a significant consequence, and in fact provides provincial and territorial governments with an extended window to prepare for the sale of recreational cannabis.

In addition to this announcement, four significant events have occurred in the Canadian cannabis sector over the past month.

Quebec Supply Agreements

Six Canadian LPs announced agreements and letters of intent with the Société des Alcools du Québec (“SAQ”) for initial supply commitments of recreational cannabis. In total, SAQ has made purchase commitments for approximately 62,000kg of cannabis during the first year of recreational sales in Quebec, with nearly one-third of its purchase being sourced from Hydropothecary Corp., a Quebec-based LP. Other LPs supplying Quebec include Canopy Growth, Aphria, MedReleaf, Aurora and Tilray.

Hydropothecary is well positioned for success due to the company’s relationship with the province of Quebec as a local cultivator. In addition, many of the larger LPs such as Canopy, Aphria and Aurora will likely benefit from a first mover advantage by having the scale and capacity to arrange large purchase orders in many Canadian provinces.

It is anticipated that Quebec could require over 100,000kg of cannabis per year to satisfy its recreational demand in the future. Pricing in that province has not yet been announced.

Ontario Supply Agreements

The media has reported that Ontario is expressing interest in widely sourcing its supply from LPs across the country. A Liquor Control Board of Ontario spokesperson stated that the Ontario process for procuring cannabis supply will be open to all Canadian LPs. The Ontario Cannabis Retail Corporation (“OCRC”) recently hosted a “supplier prep day” which was attended by approximately 60 Canadian LPs. It is our understanding that no supply agreements have been entered into at this time.

Ontario's approach differs from other provinces, such as Quebec, who, as described above, entered into supply agreements with a limited number of LPs. However, the Ontario plan will likely respond to the province's growing demand, rather than attempting to meet projected demand by pre-emptively purchasing large amounts of supply. Ontario is also expected to be the largest recreational cannabis market in Canada due to the province's population size and being home to more than half of Canada's LPs.

The final supply framework is in the process of being finalized, and we expect to learn more about it in the coming weeks.

Shopify

The Ontario Government has chosen Shopify's e-commerce platform to facilitate cannabis sales online and in stores for the OCRC. This agreement allows Shopify to be the province's sole online portal for recreational cannabis sales.

Shopify's platform will be used to manage inventory, accounting, and human resources operations. In addition to online sales, it is expected that Shopify's technology will also be used inside brick-and-mortar stores to process transactions on iPads and for digital screens displaying products and health information.

Sun Life Health Insurance

Sun Life Financial Inc. ("**Sun Life**") will become the first major Canadian insurance company to add medical cannabis as an option for its group benefits plans, recognizing the efficacy of cannabis for treatment and pain management programs.

As of March 1, 2018, plan sponsors can add medical cannabis coverage to extended health-care plans, with options ranging from \$1,500 to \$6,000 per covered person per year. The coverage will be available for specific conditions including cancer, rheumatoid arthritis, multiple sclerosis, HIV-AIDS, and palliative care. For any other conditions, Sun Life has agreed to update its criteria based on periodic reviews of clinical research for proposed applications of medical cannabis.

For more information on these developments and how they may impact you, please contact the Cannabis Law Group at Torkin Manes LLP at cannabis-law.ca.

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