



# A ‘Green Rush’ to the Great White North

U.S. investors are looking to Canada as they anticipate legal regulation of recreational marijuana.

By Randi Druzin Contributor Oct. 24, 2016, at 1:42 p.m.

TORONTO — FINANCIER Michael Gorenstein doesn’t remember much about the two-hour drive from Toronto to Stayner, Ontario, last winter. He can recall only that the fields on the side of the highway were covered in snow and that the air was so cold he could see his breath when he stepped out of the car. He was a long way from his computer terminal in lower Manhattan.

But when he walked into the grow-op, he knew the trip had been worthwhile. He looked at the rows of cannabis trees, with their lush green leaves reaching up and out across the room, and knew where his future lay. As impressed with the facility as he was with the financial outlook for the licensed producer, Peace Naturals, he started on a path that would lead him to make a major investment, financial and otherwise, in Canada’s medical marijuana industry.

"I’m really passionate about this industry. I’m willing to dive in, to live on a plane and spend weeks in the middle of nowhere. This is what I want to do," says Gorenstein. "You can make money in a hedge fund but, at the end of the day, you’re just trading paper. With this, you’re helping people."

He’s not alone.

The industry in [Canada](#) is attracting investors eager to capitalize on the flourishing "green rush." Among them are Americans who see more opportunity north of the border than at home. The Canadian medical marijuana industry is valued at roughly \$150 million – a figure worth about 200 million Canadian dollars – and may grow twentyfold in the next five years.

"I really do believe the eyes of the world are on Canada and (it) will be fascinating to see how this plays out," says Brendan Kennedy, CEO of Seattle-based Privateer Holdings. "It’s entirely possible that some of the leading companies and brands in the industry 10 years down the road will be Canadian."

A growing body of evidence indicates that ancient Chinese doctors had it right – marijuana has substantial medicinal value. In scientific and medical circles, many experts now believe medical marijuana, which can be ingested in a number of ways, is beneficial in the treatment of various conditions, ranging from epilepsy and rheumatoid arthritis to chronic pain and PTSD.

But that shift in thinking is not reflected in [U.S.](#) government policy. Twenty-five states and the District of Columbia allow the use of marijuana in some form. Four states and D.C. have legalized marijuana for recreational use. But the DEA still classifies it as a Schedule 1 substance, a drug that, like LSD and heroin, has no accepted medical use and a high potential for abuse, so it’s illegal federally. This complicated landscape makes commerce in this industry challenging at best. Discouraged by restrictions on banking and interstate commerce, some U.S. investors have set their sights on the Great White North.

In 2000, the Ontario Court of Appeal invalidated the prohibition of cannabis in a case concerning a person with epilepsy who said marijuana helped ease suffering. Ottawa soon set guidelines for individuals to grow marijuana or purchase it through Health Canada. In 2013, the federal government decided to allow some large-scale producers to grow medical marijuana and it banned patients from growing their own. Ottawa lifted that ban in a new set of regulations, which were introduced two months ago in response to another court decision. To date, the government has granted licenses to 35 large-scale producers. They act as distributors too, sending marijuana by mail to those who have prescriptions for it.

The Canadian medical cannabis industry is growing at a rapid rate. In March, 53,649 patients were registered to use medical marijuana in Canada, a 190 percent increase from the year before. By the end of July, that number had jumped to 82,217.

Three years ago, Privateer became the first U.S.-owned company to establish a commercial medical marijuana production facility in Canada. That facility, Tilray, is based in Nanaimo, British Columbia. Last year, Privateer, which has other interests in the industry, secured its first major institutional investor.

Founders Fund, a venture capital firm co-founded by American billionaire Peter Thiel, participated in a \$75-million round of funding, investing undisclosed millions in Privateer. In explaining the fund’s interest in medical marijuana, partner Geoff Lewis told an industry publication that the experience of a friend battling cancer had convinced him that "cannabis has real benefits."

Alphabet Ventures, a New York-based investment management firm, turned its attention to PharmaCan Capital, a Toronto-based company focused on investing in Canada’s marijuana industry. Gorenstein, an Alphabet partner, saw great potential for growth and decided he was "all in."

He joined PharmaCan’s board of directors last November. Six months later, Gorensetin took over as CEO. The company, which recently rebranded as Cronos Group, owns interests in five licensed producers — it wholly owns Peace Naturals in Ontario and ITZ in British Columbia – and in three companies seeking licenses in Canada.

Gorenstein says that stock value has quadrupled in the past five months. "This kind of success will lead to more and more institutional investors coming up," he says.

## Marijuana has 'golden' future in Canada

Justin Trudeau’s Liberal Party swept to power last October promising to legalize the recreational use of marijuana. Six months later, Health Minister Jane Philpott told the United Nations General Assembly that Canada would introduce legislation in 2017 to legalize and regulate recreational marijuana. That would open the door for it to be sold at pharmacies and province-run liquor stores – and likely reduce the number of recreational users who buy it on the black market, at illegal dispensaries and elsewhere.

With a population of 36 million people, Canada represents a big potential market for producers. Financial analysts agree that legalizing marijuana for recreational use would create a multi-billion dollar industry in the country. PI Financial analyst Jason Zandberg predicts that in the first year after recreational use becomes legal, the medical marijuana market will be worth \$3.6 billion. He predicts that number will climb to within \$5.6 billion within the first five years. He foresees an even split between medicinal and recreational use. Other analysts put the number even higher.

The introduction of the promised legislation is expected to draw more U.S. investors – and those that are already licensed medical marijuana producers are expected to have an advantage when it comes time to tap the recreational market.

"There is a built-in demand for recreational marijuana and has been for years," says Gorenstein. "There will be even more demand for it once the stigma of it being illegal is gone. It will be like the end of Prohibition. There is a very, very high ceiling for [financial] gains in this space. I don’t know if we’ll see another opportunity like this in our lifetime."

Added Aaron Salz, an investment analyst: "Canada is a first mover and poised to be a world leader in the production of marijuana, just the way Switzerland is a world leader in the production of chocolate. The Canadian brand will be golden."