

**Written Submission for the Pre-Budget Consultations in
Advance of the 2019 Budget**

By: Tilray Inc.

Recommendations

Recommendation 1: That the federal government fully embrace medical cannabis products & research as a life science and implement a progressive export strategy in relation to it.

Recommendation 2: That the government delay their cost-recovery proposal for medical and adult-use recreational cannabis for a minimum of 2 years until such time as the legal industry has had time to push back against the black market.

Recommendation 3: That the government zero-rate, and remove the Excise Tax, from medical cannabis



Tilray Inc. is pleased to offer its recommendations to the House of Commons Standing Committee on Finance's 2019 federal Pre-Budget Consultations.

Tilray Inc. is a vertically-integrated and federally-licensed cannabis cultivator, processor and distributor of medical and recreational cannabis. Through a combination of acquisitions, investments and incubation, we are building a portfolio of global brands that will lead, legitimize and define the future of cannabis. We are building a multinational supply chain and distribution network to capitalize on the global medical cannabis market and the anticipated adult-use market in Canada.

We have offices in Seattle, Nanaimo, Toronto, Berlin and Sydney, licensed cultivation facilities in British Columbia, Ontario and Portugal and a new manufacturing facility in development in Ontario, Canada. Once we complete the initial development of additional production facilities and have obtained the required amendments to our licenses to produce cannabis and cannabis oil at those facilities, we believe that our total production space across all facilities worldwide will total approximately 912,000 square feet by the end of 2018. We believe that the maximum potential development of the parcels we currently own would be 3.8 million square feet.

Our Medical Brand. The Tilray brand, headquartered in Nanaimo, is designed to target the global medical market by offering a wide range of high-quality medical cannabis and cannabinoid-based products. We offer our products to patients, physicians, pharmacies, governments, hospitals and researchers for commercial purposes, compassionate access and clinical research. We believe patients choose Tilray because we are a scientifically rigorous brand known for producing pure, precise and predictable medical-grade products.

Our Adult-Use Brands. In anticipation of adult-use legalization in Canada, Tilray Inc. secured the exclusive rights from a wholly owned subsidiary of Privateer Holdings to produce and distribute a broad-based portfolio of certain adult-use brands and products in Canada. We have not been granted exclusive rights by the Canadian government to produce or distribute any category of cannabis products. The brand licensing agreement includes the rights to recognized brands and proprietary product formulations for a wide range of products. In addition to licensing certain adult-use brands from a wholly owned subsidiary of Privateer Holdings, we are also developing new brands for the adult-use market in Canada that will be wholly owned by Tilray, Inc. When legalization comes into effect in October, we intend to produce and distribute these brands and products to Canadian consumers through High Park Holdings Ltd., or High Park, based in Enniskillen Township, Ontario, our wholly owned subsidiary formed to serve the pending adult-use market in Canada.

Recommendation 1: That the federal government fully embrace medical cannabis products & research as a life science and implement a progressive export strategy in relation to it.

Since the introduction of Canada's medical marijuana regulatory regime in 2001, the world has been mounting evidence that supports the efficacy of cannabis and cannabis-derived products for the treatment of a multitude of health conditions. According to the United Nations, over 180 million people consume cannabis around the globe each year. The report also indicates that consumers have used cannabis-based medicines for years while under the supervision of a physician.

Data suggests that cannabis consumption, even in the black market, is more often about getting well than it is about getting high. Consumers are becoming increasingly educated about cannabis and placing more value on the health benefits afforded by the non-psychoactive cannabinoids found within the cannabis plant (90+ cannabinoids).

A recent consumer study done by market research firm Brightfield Group found that 80% of consumers reported cannabis products to be an effective treatment for their specified ailment, and 42% of cannabis product users have stopped using traditional medications for treatment of their specified ailment. There are currently approximately 85 active clinical and pre-clinical trials involving cannabis-derived compounds

globally. We believe that number will continue to grow exponentially as global legalization of medical cannabis continues to gain steam.

Although cannabis is still heavily regulated, medical use is now authorized at the national or federal level in 28 countries. The pace of regulatory change globally has been rapid, with more than 24 countries having introduced significant reforms to their cannabis use laws to broaden the scope of permitted use since the beginning of 2015. Given many countries have only recently legalized medical cannabis and, in many cases, only within narrowly defined parameters, we expect significant growth of cannabis products within these countries as these parameters are broadened and adoption increases.

With a population of more than 500 million and the largest regional economy in the world, we expect the European Union to eventually become the largest medical cannabis market. This is expected to be driven by the availability of medical cannabis through government-subsidized health care systems. Currently, 10 of the 28 countries in the European Union have authorized medical cannabis use with an additional two countries, Denmark and Luxembourg, having authorized multi-year pilot programs in advance of permanent authorization. Some of these countries allow the import of only small quantities of cannabis for patient use, while others, such as the Czech Republic, Italy and the Netherlands, have developed regulations governing limited domestic cultivation for medical use. We expect the European market to grow as established medical programs are expanded, as adoption by physicians and patients increases and as more countries introduce medical programs. Prohibition Partners projects a €36 billion annual medical cannabis market in Europe based on a fully legal and regulated market.

While Canada and the European Union represent the largest near-term opportunities with regard to medical sales, many other countries around the world are also legalizing medical cannabis at a rapid pace. Australia, Argentina, Brazil, Colombia, Chile, New Zealand and South Africa are among countries that have legalized medical cannabis for certain accepted uses

Canada was the first G7 nation to have authorized medical cannabis use at the federal level. We believe that there are significant market opportunities to export cannabis to the European Union, Australia, New Zealand, Latin America, and Africa, as many countries in these regions have regulated compassionate access programs, or are legalizing medical cannabis but have yet to implement domestic production at a scale that will support the large populations of these countries. **As such, we believe that Licensed Producers in Canada will be well-positioned to become leaders in the global medical cannabis markets where the importation of medical use cannabis is also authorized under applicable federal, state or provincial laws due to the experience in cultivation, processing, R&D and operations that these Licensed Producers have accumulated.**

Understanding the scope of global demand and Canadian export potential for medical cannabis requires an in-depth and ongoing analysis of developments pertaining to the Key Considerations in Assessing International Market Opportunities in each individual emerging market. We view the global opportunity on a stabilized basis – once regulatory and distribution frameworks are fully rolled out in each respective country. We conservatively peg global medical cannabis as a USD \$22 billion opportunity to serve approximately 18 million patients.

Recommendation 2: That the government delay their cost-recovery proposal for medical and adult-use recreational cannabis for a minimum of 2 years until the legal industry has had time to push back against the black market.

Tilray believes that the proposed application of a new 2.3% tax on gross revenues at the outset of legalization will prove detrimental to the ability of licensed producers to combat the illicit market.

Additionally, the government is proposing this cost-recovery tax after provincial/territorial supply agreements have been signed: Retroactively applying a tax now fundamentally changes the economics of the market before it even comes into being. Simply put it is unfair and creates a toxic environment for investment.

This regressive tax will apply to all revenue, including companies that have not yet achieved profitability, resulting in added pressure on producers when they can least afford it. Indeed, this has the potential to severely impact small producers looking to enter the market. **We believe a delay of 2 years, minimum, is warranted in order to empower licensed producers to more easily compete with the black market. After the 2-year time frame, the government should then re-examine the cost-recovery proposal with verifiable, versus speculative, market data.** The regulation of cannabis is not about creating a new market. It's about migrating an illicit one to a legal one. This new tax, which must ultimately be passed on to consumers at some point, will be a boon to the black market.

Industry is not adverse to paying its fair share. However, this goes beyond that and could very well result in the failure of the legal cannabis system in its infancy.

Recommendation 3: That the government zero-rate, and remove the Excise Tax from, medical cannabis

Tilray's experience has shown that cost represents a barrier to many medical cannabis patients; patients are disincentivized from entering or fully participating in the legal market when a lower-cost black market option exists. Specifically, our patient data shows that in 2015 a total of 42% respondents in a survey of Tilray patients accessed unregulated cannabis from an illicit supply. In addition, according to an Environics poll conducted in January 2018, six in ten Canadians preferred to see medical cannabis treated like all other prescriptions, and not be subject to tax (62% somewhat or strongly support), while only two in ten supported the federal government's proposed taxation model for medical cannabis.

As we stated last year, we strongly oppose a policy that unduly burdens medical cannabis patients and inadvertently incentivizes patients to choose to seek out the black market for cheaper, and far less safe, product. Governments must take steps to encourage patients to register with Health Canada, as required under ACMPR.

Accordingly, **Tilray recommends that the federal government remove the federal portion of the HST, or GST where applicable, on medicinal cannabis sold by federally-licensed providers, and give medicinal cannabis the same tax status as prescription medications.** We believe that this would allow authorized patients greater access to much-needed treatment, while demonstrating the federal government's leadership in the medical cannabis field. We further recommend that the government rescind the \$1/gram Excise Tax on medical cannabis as it unduly penalizes patients. Further, we believe that the application of an excise tax adds more stigmatization to this treatment option by applying what is, in essence, a sin tax.

At the outset of 2018, there were 296,702 Canadian patients authorized to purchase medical cannabis. Based on this national patient number and assuming an annual growth rate in patients of 40% in 2019 and 2020, and a growth rate of 20% in 2021, Tilray believes that the cost to Canada of removing HST/PST from medical cannabis would be approximately \$42,755,869 in 2019, \$59,857,398 in 2020 and \$71,828,877 in 2021. We based our estimates on an average dose of 30g, with an average unit price of \$10.20. These estimates mean patients pay, on average, approximately \$1458.60 annually for medical cannabis before tax or \$1561.53 when HST/GST and excise tax are included.

Patient Numbers				
	2018	2019	2020	2021
Estimated number of medical cannabis patients in Canada	296,702	415,382	581,535	697,842
Dose purchases				
		Average dose	Average unit price	Average total annual amount (pre-tax)
Average individual dose purchased by patient		30g	\$10.20	\$1458.60
HST/GST (5%)				
		Average tax paid per year		
Estimated excise tax		\$30		
Total annual average federal HST/GST amount, based on the above, paid by medical cannabis patients		\$72.93		
Estimated cost to to remove federal HST/GST and excise tax from medical cannabis		\$42,755,269	\$59,857,398	\$71,828,877