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CULTIVATION //////////////////////////////////////
STARTUP & EXPANSION
//////////////////////////////////// GUIDE



A guide for industry newcomers and veterans alike to navigate launching or expanding a cultivation business in new and emerging cannabis markets.



FEATURING:

- * U.S. State Legalization Update *
- * Evaluate New Markets *
- * Win Over Investors *
- * Key Hires for Cultivation *
- * Create Successful Grows *
- * Secure Your Plants *

CANNABIS
BUSINESS TIMES

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Temperature Control for botanical extraction and processing

Hydrocarbon Extraction

For hydrocarbon extraction, operators often utilize Huber CC and Unistat series to cool down solvent tanks, material columns, and various components. The target temperature range is generally -40°C to -80°C . Huber heating units, such as the KISS 202 and CC-315B are often used on the solvent evaporation side of these closed loop systems.

CO2 Extraction

In the CO2 extraction process temperature control plays a crucial role. Columns are heated and chilled, as are feed and solvent lines, all in order to ensure extraction temperatures as well as maintain solvent pressure and flow. The Unistat T305 heating unit and Cool Smart CS Chillers are routinely paired with these units.

Ethanol Extraction

In ethanol extraction, Unistats and Cool Smart CS Chillers are routinely used. Ethanol is generally brought down to temperature in a holding tank and then transferred to the process. Heat exchangers and flow through chillers can also allow for the cooling of ethanol. These applications generally call for large process volumes to be cooled quickly, requiring a high cooling capacity in the -20°C to -80°C range.



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New Year, New Opportunities

Use these tips to get your company or expansion project started right.

IN LAST YEAR'S "CULTIVATION STARTUP & EXPANSION GUIDE," *Cannabis Business*

Times editors noted how very different the cannabis landscape could be after the November 2020 Election. Five states (Mississippi, South Dakota, Arizona, Montana, and New Jersey) voted on cannabis ballot measures and all saw voters approve access to cannabis.

While there has been some pushback from state lawmakers in Mississippi, Montana and South Dakota, consumers in Arizona already have started purchasing legal cannabis products, and the other states are in the early stages of creating regulations. What this means for cannabis business startups and existing firms looking to expand in those jurisdictions is simple: Now is the time to prepare to launch or expand.

This guide exists to help both industry newcomers and veterans alike launch their businesses in these new markets, as well as those yet to advance cannabis legislation but may do so in the future. The 2021 "Cultivation Startup & Expansion Guide" covers the pressing challenges businesses face when entering a new industry or market. These include: Evaluating the potential of new markets, winning over investors, building your cultivation team, what goes into a successful grow operation and security.

By leveraging the tips in this guide, you can get your startup or expansion plans underway on the right foot.

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HOW TO CHOOSE THE RIGHT MYCORRHIZAL PRODUCT TO IMPROVE YOUR BUSINESS?

The cannabis industry is a highly competitive market, with everyone trying to get an edge on the competition in order to increase profitability. For most businesses or any cannabis enthusiast, the question basically comes down to: how can I produce more high-quality cannabis at a reasonable cost? Of course, it's easier said than done, but one thing for certain, active ingredients, like mycorrhizae, provide amazing benefits (*Table 1*) for your crop.

				
	HEALTHY, ENHANCED ROOT SYSTEM	FASTER GROWTH	INCREASED CROP YIELD	HIGHER QUALITY
BENEFITS	<ul style="list-style-type: none">• Better nutrients and water uptake• Increased stress resistance	<ul style="list-style-type: none">• Shorter vegetative time• Greater resistance to transplant shock	<ul style="list-style-type: none">• Increased yield• Healthier crop	<ul style="list-style-type: none">• Better terpene profile• Higher cannabinoid content
LOOK FOR	<ul style="list-style-type: none">• Root development and mass• Robust plant• Uniform canopy	<ul style="list-style-type: none">• Plant height and width• Size of the stem• Number of ramifications	<ul style="list-style-type: none">• Flower size• Flower density• Overall increase in biomass	<ul style="list-style-type: none">• Trichome density (frostier buds)• Stronger aroma (smell)• Resin level (stickiness)• Consistency

▲ TABLE 1

Unfortunately, as you probably guessed, not all mycorrhizal products are created equal. While some will consistently provide you with all the listed benefits above, allowing you to get the best out of your crop, most of them won't have any effect on your plants. And even if mycorrhizae are a relatively well known subject in the industry, there are still a lot of misconceptions in the community, making it difficult to make a decision when purchasing a mycorrhizal inoculant.

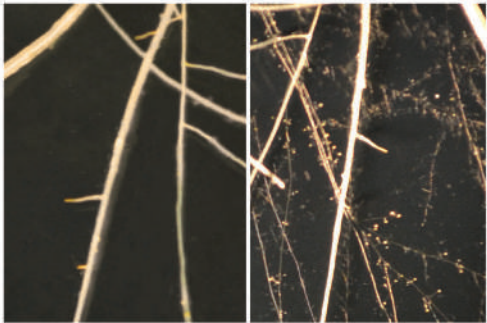
So, which elements should you consider when evaluating if a mycorrhizal product is worth the investment?

PROPAGULES VS VIABLE SPORES

Why the Viable Spore Count Is More Relevant Than the Propagule Count?

Most mycorrhizal products are listed as propagules, but it also implies that the product isn't totally made of viable spores. But why is that important?

Well, the spores are to the mycorrhizal fungi what the seeds are to a cannabis plant, it's the structure that allows the fungi to reproduce themselves. Therefore, the real value of a mycorrhizal inoculant lies in the number of viable spores it contains, since only viable spores can create a symbiosis efficiently.



▲ WITHOUT MYCORRHIZAE

▲ WITH MYCORRHIZAE

SPORES are reproductive structures of a mycorrhizal fungus that are round and contain lipids. Their lifespan is longer than other propagules, and they have superior resistance to stresses. However, not every spore has the same tolerance and vigor.

HYPHAE FRAGMENTS are vegetative structures that grow out of spores. They are not resistant to stresses and have short lifespans.

VIALE SPORES are active spores that can colonize roots and help resist stresses. Both spores (inside the product you buy) and vesicles (inside root fragments) can be viable spores if they have physical integrity.

NON-VIALE SPORES are spores with heterogeneous or no lipid content. They cannot germinate or colonize a plant.

PROPAGULES are any part of a mycorrhizal fungus (including all the above) that may connect with plant roots to form the symbiosis. As we have seen, not all propagules have the same ability and vigor to form the symbiosis, but the registration process allows companies to count propagules to indicate their quantity on the product label, instead of viable spores.

In Summary, you should always look for a mycorrhizal inoculant that display its concentration in viable spores or at least guarantee the viability of its propagules.

NOT ALL MYCORRHIZAE PRODUCTS ARE CREATED EQUAL

It basically means that to be truly efficient, a mycorrhizal inoculant needs to be at least three things:

VIALE

- It needs to be viable (alive) when it's finally time to use it and remember only a viable spore (fungi seed) can colonize a root efficiently.

CONCENTRATED

- It needs to be concentrated to get a stronger reaction and a better chance to connect efficiently.

CLOSE

- It needs to be applied close to the root system to allow the symbiosis to happen as quickly as possible.

PRO-MIX® Mycorrhizal Inoculant CONNECT™ has been designed for cannabis growers by keeping these three aspects in mind. With 6000 viable spores per gram, this inoculant is the most concentrated product of its kind on the market. By applying it as a slurry on your rooted cuttings when transplanting, you get approximately 30 000 viable spores in direct contact with the root system. The symbiosis will happen, and it will happen fast.

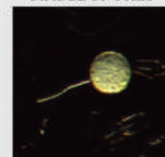
TESTING THE PRODUCT'S EFFICACY

Premier Tech has tested several mycorrhizal inoculants on the market in controlled conditions with scientific protocols, to test product viability and efficacy. The goal was to test if the products contained the numbers of spores it guaranteed, and most importantly if the products could colonize a plant at a respectable rate.

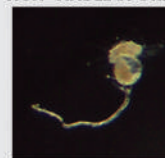
Not only PRO-MIX® CONNECT™ was by far the most concentrated product (with a verification of the spore count to prove it), but it was the only product that colonized 100% of plants at an average of more than 40% of root colonization. Four out of seven tested products did not colonize plants at all.

The root system is the key for improved terpene profile, greater yield and higher cannabinoids concentration. Investing in quality mycorrhizal with a high number of viable spores brings high-value benefits, including faster growth (shorter vegetative time), improved stress resistance, greater trichome density and increased potency (THC, CBD, etc.).

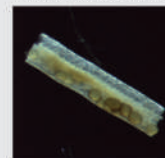
VIALE SPORES



NON-VIALE SPORES



ROOT FRAGMENT with vesicles inside



HYPHAE FRAGMENTS



PRO-MIX® CONNECT™ IS AVAILABLE IN THE US AND CANADA IN DIFFERENT FORMATS.

SCAN HERE TO GET MORE INFO.



New and Expanding Opportunities

A brief look at the latest states to approve cannabis legalization measures.

BY CBT STAFF

1. Alabama (medical)

Alabama unofficially became the 36th medical cannabis state when Gov. Kay Ivey signed medical-use cannabis legislation into law on May 17. Senate Bill 46 created a 14-member Medical Cannabis Commission responsible for overseeing patient registry, issuing medical cards and outlining regulations from seed to sale. S.B. 46 limits medical cannabis to forms such as pills, gelatin cubes, oils, creams and topical patches. Patients can possess up to 70 daily doses of cannabis.

- **License application deadline:** Application process for potential patients to be opened by Sept. 1, 2022. The Commission will present a report to the state's Legislature by Jan. 1, 2022, providing an update toward implementation.

- **Number of licenses to be awarded:** Five licenses for vertically integrated operators; up to 12 cultivation licenses; no more than four processor licenses; no more than four dispensary licenses. Dispensary licensees can operate up to three sites in different counties; vertically integrated operators can have up to five dispensing sites in different counties. At least one-fifth of all licenses are to be awarded to businesses with at least 51% ownership by

individuals of either African American, Native American, Asian or Hispanic ethnicity.

2. Arizona (adult-use)

Arizona voters approved Proposition 207 on Nov. 3, 2020, and sales subject to a 5.6% sales tax and 16% excise tax began Jan. 22.

- **License application deadline:** Closed March 9 for the 130 licensed medical operators in the state. The Arizona Department of Health Services (ADHS) will begin accepting applications for the 26 social equity licenses within six months of adopting the final rules for the Social Equity Ownership program.

- **License application cost:** \$500 for initial or renewal registry identification card for a dispensary agent; \$5,000 for initial dispensary registration certificate (if no license allocated, \$1,000 is refunded); \$1,000 for renewal of dispensary registration certificate; \$2,500 to change the location of a dispensary or cultivation facility; \$10 to amend, change or replace a registry ID card.

3. Connecticut (adult-use)

On June 22, Connecticut became the fourth state to end prohibition through the legislative process this year. The bill limits possession,

purchase amounts, and dosage; restricts packaging and advertising; and allows municipalities to set appropriate zoning.

- **Dispensaries open/sales begin:** Commercial sales could begin as early as May 2022.

4. Montana (adult-use)

Gov. Greg Gianforte signed House Bill 701 into law May 18, 2021, modifying the voter-approved Initiative 90 to legalize adult-use cannabis. Changes include pushing back adult-use sales from Oct. 1, 2021, to Jan. 1, 2022, limiting THC content in cannabis flower to 35% and edibles to 100 milligrams per package, and capping all other concentrated products at 800 milligrams. Eligible counties or cities can vote to opt out of allowing cannabis businesses. Retail sales will be subject to a 20% excise tax, and local communities can impose an additional 3% tax.

- **Cultivation licenses begin:** Only existing medical cannabis providers can opt into the market for the first 18 months.

- **Number of licenses to be awarded:** The Department of Revenue will issue separate licenses for cultivators, manufacturers, dispensaries, transporters and testing labs. The Department will also offer 13 different cultivation or canopy licenses for different-sized facilities.

- **Dispensaries open/sales begin:** Jan. 1, 2022

5. New Jersey (adult-use)

Gov. Phil Murphy signed three separate bills on Feb. 22, 2021, to legalize adult-use cannabis following voters' approval of a constitutional amendment in the November 2020 Election. The bills legalized and regulated cannabis use and possession for adults 21 and older, decriminalized cannabis and hashish possession, and clarified penalties for use and/or possession for individuals younger than 21 years old. Decriminalization measures became effective immediately. The new law caps the number of cultivators at 37 for the first two years, with existing state-licensed medical operators among those eligible to provide to the retail market.

6. New Mexico (adult-use)

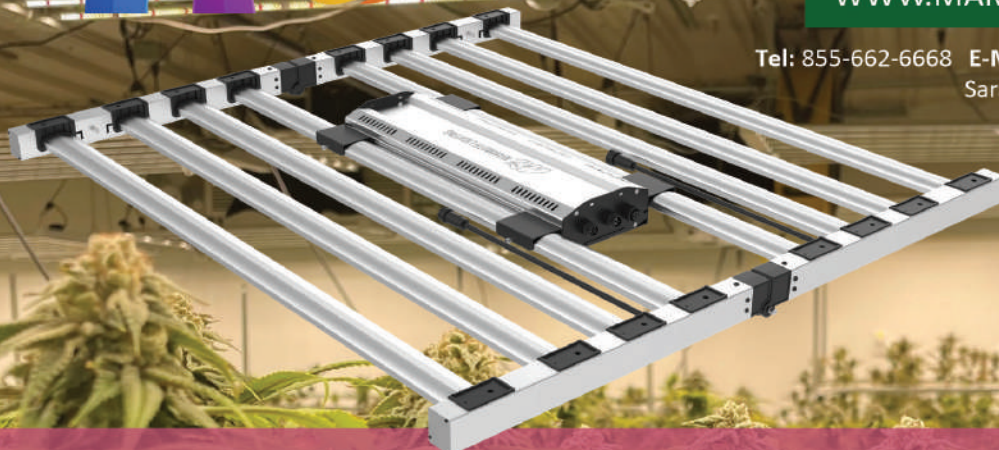
Gov. Michelle Lujan Grisham signed the Canna-



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Plants read photons. Light Intensity (ppf or ppfd) drives yield. Mammoth lighting delivers the highest ppf/ppfd at the lowest cost (ppf/\$). Mammoth drives yields higher and cost lower.

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Spectrum drives plant morphology, cannabinoid production and flower time. The new "Fold" has a proprietary blend of 3000k + 5000k + 660nm and 730nm diodes that have a broader spectrum to out yield the competition + speed up flower times....adding additional cycles per year.

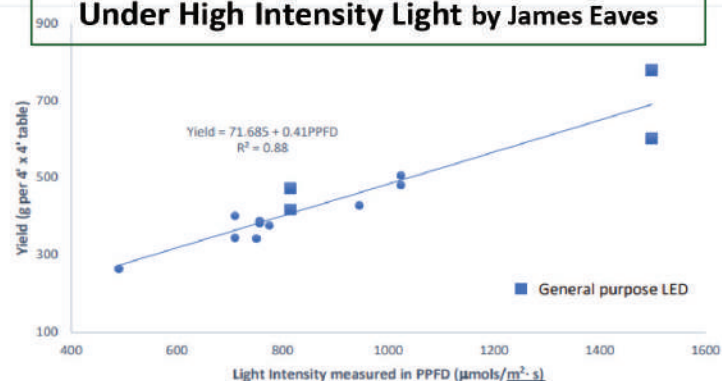
3. Higher Quality Parts and Future Proof Design:

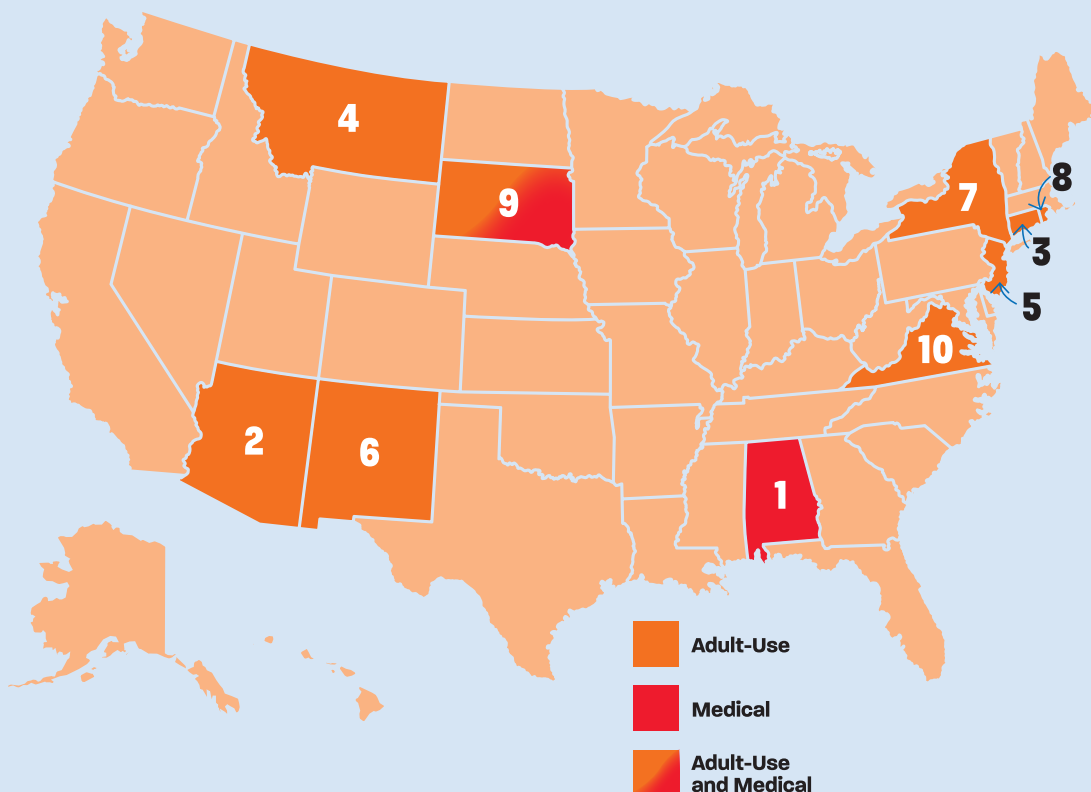
The new Fold uses Samsung LM301b diodes and Inventronics drivers. The industries leading brands. As led diode technologies improves - it's as simple as replacing existing bars and adding the new. Truly the last light you will ever buy.

Single Bar for Side Lighting or UV Exposure to reduce pest / mold and increase THC



The Profitability of Growing Cannabis Under High Intensity Light by James Eaves





bis Regulation Act (CRA) into law on April 12, 2021, and the legislation became effective June 29, 2021. A 12% excise tax on adult-use sales is levied until July 1, 2025, and then it increases by 1 percentage point per year up to a maximum of 18%. New Mexico will create the Cannabis Regulatory Advisory Committee no later than Sept. 1, 2021.

- **License application cost:** Cannabis consumption areas: up to \$2,500; producers, manufacturers, retailers, research/testing laboratories and couriers: \$2,500/year, \$1,000/year for each additional licensed premises; producer microbusinesses: up to \$1,000/year; integrated cannabis microbusinesses: up to \$2,500/year, \$500/year for each additional licensed premises; vertically integrated cannabis establishments: \$7,500/year, \$1,000/year for each licensed premises, not to exceed \$125,000; server: \$35 maximum for three-year permit.

- **Cultivation licenses begin:** The Cannabis Control Division (CCD) will start processing license applications for all license types on Jan. 1, 2022.

- **Dispensaries open/sales begin:** April 1, 2022

7. New York (adult-use)

Gov. Andrew Cuomo signed the Marijuana Regulation and Taxation Act (MRTA) into law on March 31, 2021, legalizing adult-use cannabis in New York. Although adult-use cannabis sales have yet to begin in New York, adults 21 and older can still legally possess up to 3 ounces of cannabis and 24 grams of concentrated cannabis.

- **Number of licenses to be awarded:** The state's Office of Cannabis Management (OCM) will actively promote social and economic equity applicants, establishing a goal of awarding 50% of licenses to social and economic equity applicants.

8. Rhode Island (adult-use)

Rhode Island's Senate approved Senate Bill 568 to legalize adult-use cannabis on June 22, 2021, but it didn't pass the House before the Legislature adjourned for the year. The measure would also expedite expungements for those with misdemeanor cannabis records. The legislation aims to create a five-member Cannabis Control Commission to oversee

licensing to prevent monopolization by limiting business entities to one license. The bill imposes a 7% sales tax, a 10% cannabis excise tax and a 3% local sales tax.

- **License application cost:** 11-tier licensing system, ranging from \$100 for up to 1,000 square feet of outdoor grows, to \$5,000 for manufacturing and testing entities, and up to \$20,000 for the largest cultivators and retailers.

- **Number of licenses to be awarded:** Municipalities would be eligible for at least three retail licenses, but can opt out. One-third of licenses would be reserved for individuals from communities impacted by prohibition.

9. South Dakota (adult-use and medical)

South Dakota voters approved both adult-use (Amendment A) and medical-use cannabis (Initiated Measure 26) during the November 2020 election, but adult-use legalization remains uncertain in the state due to a lawsuit.

- **License application deadline:** Pending the results of the lawsuit, adult-use cannabis stores will be licensed by the Department of Revenue, which has until April 1, 2022, to craft rules and regulations for the state's adult-use program and medical cannabis program. South Dakota's medical program was required to begin accepting patients no later than July 1, 2021.

10. Virginia (adult-use)

Virginia's General Assembly approved a cannabis legalization amendment package in April 2021, allowing adults 21 and older to possess up to 1 ounce of cannabis and grow up to four plants per household starting July 1, 2021. The state's Cannabis Control Authority—which began work on July 1, 2021—will complete regulations, issue business licenses and implement a social equity program, with the advisement of a Cannabis Public Health Advisory Council.

- **License application deadline:** Virginia's Cannabis Control Authority will not finalize cannabis regulations or start accepting business applications before 2023.

- **Dispensaries open/sales begin:** Jan. 1, 2024 ●



BREAKTHROUGH TECHNOLOGY



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"OVER 36% THC & 40% TOTAL CANNABINOIDS ON JENNY KUSH"

Kevin Kuethe began working in the cannabis industry during Arizona's medicinal legalization in 2010. When Kevin started at Lume Cannabis Company, its first cultivation facility had over 600 HID lights and began seeing mass fixture failure over time.

"Building an infrastructure to handle the inefficiencies and heat of HID is just a total misstep, and a major flaw."

When first introduced to Fohse, the team had already been testing lights from several different LED providers. **After just two cycles with the Fohse A3i, the team was astonished at the results.**

After many cycles of dialing in under the A3i, the Lume team saw their most successful dry yield yet at over 134.5 grams per sqft. "We had growers that couldn't believe what they were seeing because it was THAT amazing."

So what is the A3i's secret to growing more? An abundance of diodes so no diode is 'overclocked', as well as Fohse's patent-pending thermal management. More photons mean more growth. Its spectral distribution output is tailored to suit the unique demands of the plant. Easily switch between spring, summer, and autumn modes as your crops mature through their life cycle. This allows you to grow bigger, better, and bolder buds.

WATCH THE VIDEO

"OUR MOST SUCCESSFUL YIELD OUT OF OUR LED ROOM WAS 134.5G/SQFT OF USABLE MATERIAL. THAT WAS A JAW DROPPER."

—KEVIN KUETHE, CHIEF CULTIVATION OFFICER AT LUME



How to Evaluate New Markets

A model to help you gauge emerging opportunities, minimize risk, and increase your chances of success. **BY RINO FERRARESE & TOM SCHULTZ**

What's your model?" is a question that acknowledges different conclusions most often depend on different assumptions. For example, an investment in a commercial cannabis cultivation, processing and/or dispensary facility might be a reasonable or an unreasonable decision, depending on the predictions that we insert in our model. Needless to say, evaluating the viability of launching or expanding into a new market can be challenging.

The model that we use to evaluate a potential investment into any jurisdiction includes many variables, such as population base or regulatory support, to which we assign values.

Let's use this scenario as a jumping-off point: Say we are prepared to invest:

- \$250,000 in a competitive application to get a cultivation license (an investment we will lose if the application is unsuccessful),
- another \$10 million in a build-out of that facility (if the application is successful),
- an additional \$250,000 if a separate application is required for a dispensary,
- and another \$500,000 for a dispensary build-out.

Can all this be done for less? Yes. For more? Of course. The estimates all depend on our assumptions, and the actual costs will depend on an often unpredictable reality.

We all want to evaluate any investment using good information, which, in this scenario, would be accurate estimates and quotes. The

history of our industry, however, has shown that good information is hard to come by.

ESTIMATE COSTS. For example, consider the search for a location. Choosing a logical location for where you would ideally like your business to be—for various business reasons—would be a reasonable place to start. Nevertheless, many jurisdictions and many locations even within legal jurisdictions are off limits. Generally speaking, we focus on sites most likely to get license approval without considering the logical aspects of that location, such as how much it will cost both to get through construction and to create a positive cash flow at that location.

Assuming we have found a location where a local jurisdiction will accept our enterprise and where all state requirements are met, cost estimates begin with land, building(s) and equipment (all local building, fire and other codes still apply). Our budgets also include estimates for the cost of conforming to all relevant state regulations, including required security and other concerns. The possible location(s) will have a lot to do with what our business will look like and how it will operate.

Once we settle on a location, we will want to control our "burn rate"—the rate at which we burn through cash before our business creates a positive cash flow (usually in the tens of thousands per month). We will not want our operation to be too small for its market, but we especially will not want it to be too large.

Some people have gotten through this pro-

cess for far less than \$10 million, but others have spent far more. The money spent on the application will be true risk capital; again, if the application is unsuccessful, that investment will be gone. The money for the build-out will be different in that we will not have spent it without a license in hand. Additional considerations will define whether we might reasonably expect to get a return on our investment in the foreseeable future.

ASK YOURSELF THE TOUGH QUESTIONS.

Assuming 2% of a state's population will eventually participate in the state's medical marijuana program and 10% in a state's adult-use program, how many consumers can we expect to serve with a cultivation facility and/or a dispensary facility? The answer, of course, will depend on how many of those businesses might be awarded licenses by the state. States with large populations might seem attractive, but if a state awards too many cultivation licenses, recent history suggests that the following will occur:

1. The state will have an oversupply of product;
2. wholesale and retail prices will collapse;
3. financial pressures will bring about substantial diversion of supply into the illicit market; and
4. the pressures that push product into the illicit market will work against desirable cultivation and testing practices, forcing cultivators and dispensaries that bear the expense of safe and compliant production and distribution into competition with a large supply of potentially contaminated, but cheaper, illicit-market product.

In short, when a state licenses too many producers, the state creates extremely undesirable competitive pressures. Awarding too many licenses, especially producer licenses, ensures that very few of the licensed businesses will succeed. In addition, the state's program may well feed the state's existing illicit market and work against compliance with respect to tax collections and product safety.

BACK TO THE TOUGHEST QUESTIONS.

You should also ask the following:

- What will the state's program roll-out look like?
- Will there be a reasonable list of products that may be produced and sold?
- Will there be a reasonable set of conditions approved for treatment within a medical program?
- Will there be a reasonable number of dispensaries to distribute product to registered program participants?
- Will political forces delay all or large portions of the program?
- How long will it take for the program to register a sufficient number of patients and/or consumers to make the program viable?

Finally, how will the state regulator administer the program? Some states and their regulators support their programs by encouraging in-state banks to work with registered cultivators and dispensaries. Some states and their regulators respond quickly to unanticipated problems in their programs, offering reasonable solutions, while others do not.

OTHER CONSIDERATIONS. Of course, in evaluating a state for a potential investment, we consider many other factors, including:

- whether outdoor or greenhouse cultivation is allowed,
- cost of electricity,
- types of grow lights,
- optimal approaches to canopy,
- HVAC and carbon dioxide enrichment,
- cultivar and test lab selection,
- banking,

and other matters. The Occupational Safety and Health Administration (OSHA), the Environmental Protection Agency (EPA), the IRS (remember that the IRS administers Form 8300 compliance) and their state counterparts also will be very interested in your operation. These considerations are relevant in most states. We do not, however, consider them as seriously as we consider

the toughest questions mentioned earlier.

The toughest questions help us define the character of a license, the local jurisdictions, the regulator and the state's politics. Answers to the toughest questions give us some sense of our probable cost of getting a facility into operation and of the probable rate of return on the investment. These factors extend beyond the considerations involved in evaluating an investment in a conventional business and are subject to far greater variability. The local jurisdictions, the regulators and the politics are generally frightening, and there are no rules as to how they will play out.

Last but not least, there's always the illicit market already operating in any given state. We accept the estimates that the national illicit cannabis market is \$50 billion. This makes the illicit market every registered producer's and dispensary's largest competitor. To get a sense of the illicit market in any state, we take the proportion of the national population living in that state and multiply it by \$50 billion. We then acknowledge that we have a large competitor with an established distribution network, established customers and lower (nonexistent) costs of compliance and taxation.

As Mark Twain said, "There are two times in a man's life when he should not speculate: when he can't afford it, and when he can." Speculating on market potential, state and local regulatory outlook and attitudes, as well as the other topics outlined here, is not wise in any market, but especially so in cannabis. ●

Rino Ferrarese is the president, COO and co-founder of CTPharma, a biotech company with clinical stage and discovery assets derived from cannabis. Tom Schultz, cofounder and former president of CTPharma, coauthored this article before his death in 2020.

Editor's note: This article was originally published in the June 2018 issue of Cannabis Business Times.



How to Win Over Investors

When approaching investors for capital, understanding the basics can help increase your chances of success. **BY EMILY PAXHIA**

As with most aspects of the cannabis market, the guidelines for raising capital are not black and white, and some may even fall into a bit of a gray zone, especially with variations in state regulations. However, following the lessons detailed here can help you attract investors who are aligned with you on your project vision and desired outcome. After all, finding the right investor isn't just about finding the one with the deepest pockets.

It's also important to be aware that investing in facilities that deal directly with cannabis involves different considerations than investing in ancillary companies (those that don't "touch" cannabis directly). Added risks and more legal nuances exist, so investors who are interested in this area will be looking closely to be sure they are working with the right teams.

But before even considering the following dos and don'ts, it is essential to work with qualified legal professionals to ensure that everything about your business or proposed business is in good standing. So many regulations dictate the ins and outs of raising capital in this industry that having the right legal minds lending a hand is an absolute necessity.

DO: BE THE SMARTEST PERSON IN THE ROOM. Know the political and legal landscape of your state, county, and municipality. Take the time to understand

the nuances that exist and work with local groups to get a sense of the industry's next phases. For example, make sure you learn the legal guidelines around indoor vs. outdoor cultivation, vertical integration, etc. How will the product be distributed to dispensaries or patients? What is legal there?

Know the tax regulations and how this can impact margins. Investors feel more secure investing when they know that their founders are taking the steps to understand these guidelines.

DO: CONSIDER THE ZONING GUIDELINES CAREFULLY. It can be difficult to find locations/properties that are zoned appropriately to support cultivation facilities. Some investors may not know this, but others will, and they will want to know that you have taken the steps to select the right location. Zoning experts can help with this, depending on the location.

DO: CONSIDER MARGIN AND PRICE COMPRESSION. Investors want to be sure a business will remain healthy as the industry grows. They often review margins with heavy scrutiny and consider price compression, as this can quickly take a business from profitable to unprofitable. Taking steps to protect and preserve healthy margins, and making those steps part of the plan you present, is appealing to investors.

DO: CONSIDER ENERGY EFFICIENCY. Essential to the bottom line and sustainability, energy efficiency is becoming increasingly





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important to investors. The early days of adult-use legalization showed a rush to market, and many producers/cultivators did not properly outfit their facilities to handle future price compressions. High energy costs make expenditures all the more difficult to manage when trying to maintain profit margins. Exploring energy credits and the benefits of having more efficient equipment and facilities also will show a strategic team.

DO: SHOWCASE THE TEAM ON THE PROJECT.

Who are the key team members lined up to make this cultivation project a success? Investors care about these credentials and will want to know in whom they are investing. When companies face difficulties, any issues or weaknesses with the team will be revealed. They say a rising tide lifts all ships, but as the tides begin to change, only the best teams will survive and may even thrive.

Consultants can be helpful to your business and enticing to investors, but only if they have a proven track record in the ability to get licenses and to build out successful cultivation sites. Also, investors would want to know that the expense for a consultant makes sense for the project's scope. They do not want to see a site start off with an unnecessary financial burden. Showcasing your team is a good way to gauge alignment and how well the investors will work together with other investors and with the core company team.

DO: KNOW THE GUIDELINES AROUND RAISING CAPITAL FOR YOUR STATE.

Can this be an equity or a debt investment? These answers will dictate which investors are more likely to be interested. (An equity investment gives an investor an ownership stake in the company and, at times, a share of profits. A debt investment is essentially a loan with a high return on the investment.)

Some investors are not interested in debt. However, debt may be the only potential investment structure for cultivators in some

states where an investor must be a resident to make an equity investment. Other states force cultivators to be non-profit collectives, which cannot take equity investments; this situation may therefore require a debt investment.

However, there are ways to work with different capital-raise structures. It might be worthwhile to ask investors what types of investments they've done in the past to gain some additional ideas. Most importantly, as with any business endeavor, seek legal guidance in this area.

DO: OUTLINE FOR THE INVESTOR HOW THEY WILL GET THEIR MONEY BACK, PLUS RETURNS.

How and when will the investor see a return on investment (ROI)? This will vary depending on the investment structure (debt or equity) and the stage of the operation (early or capital expansion, etc.). Be sure to show the investor what the end goal is and when it is expected. Setting expectations and communicating frequently is key to having a good relationship with investors.

Sharing any experiences you have had of successfully exiting projects and returning capital plus returns is a great approach as well. Having references readily available will help investors feel more comfortable with you and your business as a prospective investment.

DON'T: ASSUME ANYTHING WITH POLITICS OR LEGAL GUIDELINES.

Assumptions are difficult to make in this industry—and just because something worked in one state, does not mean it will work in another. Regulations often change, and investors like to know that founders have taken the time to research and understand the legalities/politics in their key areas. Otherwise, their confidence in the project will quickly erode.

DON'T: SKIP STEPS OR TAKE SHORTCUTS WITH PROPERTY SELECTION.

As investors do their due diligence, they will likely discover if a location is inappropriate or not ideal for cultivation. They will likely want

to see some support for the work that has been done to determine why the site you have chosen is an ideal site for cultivation. Being unprepared to show the efforts around site selection may prevent investors from considering future opportunities with your team if they have lost trust.

DON'T: LOSE SIGHT OF EXISTING/ POTENTIAL COMPETITION.

What competitors do you have? Who will be coming into the game once it is federally legal? What other markets may enter or impact the playing field? What does this mean for your cultivation business? Consider and share with investors what the competitive landscape might look like in the future. Investors are likely considering this as a part of their evaluation process, and they will be concerned if the founders or team are not paying careful attention to market competition.

DON'T: FORGET TO INCLUDE DETAILS ABOUT USE OF PROCEEDS.

Some founders fail to include how the money will be used when putting together a capital raise. Take the time to outline financials and the use of proceeds, so that the investors can see that the "ask" (amount of money requested) makes sense.

DON'T: FORGET TO DO BACKGROUND CHECKS ON YOUR OWN TEAM.

Investors will likely do credit and criminal background checks on everyone involved in a project. Many people in the cannabis industry may have arrests on their records. This is very common among some of the most well-known leaders in the space. However, it is better to share this candidly with investors when they get closer to finalizing the deal, as opposed to letting the investors discover this on their own and question if this information was being hidden from them. ●

Emily Paxhia is the founding partner and director of relations for Poseidon Asset Management.
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Key Hires for Your Cultivation Team

These positions are essential to your cannabis operation's success. **BY RYAN DOUGLAS**

Hiring can be a daunting task for any start-up or expanding business, especially in the cannabis industry. In most early start-ups, a few individuals wear many hats, because there is not enough work to justify multiple new hires. But once the company starts growing, a number of critical positions must be filled to guarantee success. Consider the following positions when it's time to begin sourcing your cultivation dream team.

DIRECTOR OF OPERATIONS: The director of operations coordinates all of the moving parts of a commercial cultivation facility. This goes beyond just growing to include extraction, purchasing, shipping, security, retail and human resources. This leader also makes sure these departments function in unison and move the entire company toward the same end goal. Due to its regular contact and influence in each department, this position helps create and promulgate the company culture across all functions of the production facility.

When searching for candidates for this role, don't restrict yourself to the cannabis industry. Be open to considering someone with at least 10 years of experience managing operations for a manufacturing facility. Grow-ops and manufacturing plants have a lot in common, and these kinds of individuals can infuse valuable work experiences and lessons learned from other industries.

MASTER GROWER: Also referred to as the head grower or cultivation manager, this position is the single most important asset for any commercial cultivation facility and is 100% responsible for your cultivation program. This individual draws on support staff and previous growing experience to turn a company's cultivation goals into reality. They do this through crop scheduling, staff training, and regular interaction with the crop. Master growers have an innate ability to "read" plant needs, which is a critical component in forecasting potential crop problems and resolving current plant issues. They also tend to be level-headed, rational thinkers who avoid any sudden changes in production that could risk affecting the entire crop.

While the ideal master grower should have experience cultivating cannabis, this is not a requirement. The most critical skill that they should bring to the table is commercial growing experience of any crop (preferably at least 10 years). In large, dynamic and actively expanding grow-ops, cultivating cannabis is only half the job. (For a deeper dive into this critical position, see "How to Find and Hire the Right Master Grower," in *Cannabis Business Times*' May 2018 issue: bit.ly/master-grower.)

SECTION GROWER: A section grower manages cultivation activities for a specific area of the grow facility. In greenhouses, this is usually defined by greenhouse bays, while indoor operations typically define sections

by grow room. Section growers keep the company's cultivation plan on schedule by coordinating tasks like transplanting, pruning, spraying and harvesting. They forecast labor needs, coordinate additional help when necessary, and alert the master grower to any anomalies in plant performance that could affect the outcome of the crop. Section growers are responsible for operating and maintaining the grow equipment within their respective sections, and they schedule repairs if they identify problems with lights, irrigation or climate control equipment.

Job candidates should have former cannabis growing experience, but if previous greenhouse work appears on their resume, that's just as good. For cultivation companies with future expansion plans, section growers are usually first in line for promotion to master grower at the new site.

PLANT TECHNICIANS: Plant technicians support the master grower and section growers by handling day-to-day plant maintenance and grow-facility cleaning. These individuals are the true labor force behind any commercial grow, and they have a hand in every part of the cultivation process. As such, it is critical that plant technicians are properly trained on company protocols and the importance of compliance. A company may have impeccable cultivation standard operating procedures (SOPs), but if the individuals performing these tasks do not follow

company protocols, it can result in unsalable cannabis or product recalls.

Ironically, a lack of cannabis growing experience can be a plus in this role. New hires with no prior experience but who are interested in joining a growing industry can make the best plant technician candidates as they generally have a great work ethic and learn quickly. They are blank slates who can be quickly trained and put to work.

POST-HARVEST MANAGER: The post-harvest manager is responsible for the finished crop once it is removed from the cultivation area while also ensuring that finished cannabis flower is trimmed, dried and cured to company specifications prior to being released for sale or sent to extraction for further processing. They work closely with section growers to coordinate harvest dates and guarantee the availability of space and people to process the raw plant material. Post-harvest managers oversee the operation and maintenance of trim machines, as well as bulk packaging and labeling to ensure that dry flower is stored in a manner that won't negatively affect quality.

When recruiting for this position, look for someone who is detail-oriented and computer-savvy. Computer skills are critical to managing the inventory tracking system that accounts for every leaf, seed and plant stalk that enters the trim room.

TRIMMERS: Trimmers are like soldiers on the frontline of quality control. Most commercial cultivators harvest on a weekly or bi-weekly basis, and trimmers are critical to the success of this final step in the cultivation process. Trimmers remove excess leaf from the harvested cannabis flower and help guarantee the end product is visually appealing and smooth tasting. Leaving too much dry leaf on a cannabis flower can result in harsh taste, as well as poor product presentation, unsatisfied retail customers, and the potential added expense of re-trimming a product. Trimmers are the company's last defense



The master grower is the single most important asset for any commercial cultivation facility.

against imperfections like seeds, mold or insects from entering the finished lot.

This job is the true entry-level position for anyone interested in entering the cannabis industry without prior cannabis growing experience. Trim work can be sporadic when there is no harvest, and monotonous when there is a large harvest. As a result, there is high turnover, and commercial operators are always hiring trimmers. When looking to fill your trim team, search for candidates who have a work history of performing repetitive tasks.

SYSTEM CONTROL SPECIALIST: This is the techie on your grow team. This individual should have a special flair for understanding technology and the complexities of getting independent pieces of equipment to work together. This position supports both the head grower and section growers by allowing them to focus on growing, not technical

troubleshooting. From climate control equipment to inventory tracking systems, almost everything in a commercial grow facility is online, in the cloud or on your computer. This is where the system control specialist comes to the rescue. They can usually solve any systems issues or know who to contact to fix the problem, meaning minimum downtime for the grow team.

Look for candidates familiar with managing interdependent systems. Previous experience setting up HVAC systems, computer networks, or sound and audio equipment is ideal. Search for individuals experienced in scheduling regular maintenance of manufacturing equipment, or IT geniuses who are good with hardware installations, updates and repairs. ●

Ryan Douglas provides cannabis consulting services through his company, Ryan Douglas Cultivation, LLC.

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The Elements of a Successful Grow

From cultivator skill level to facility infrastructure and market potential, a variety of factors will determine the fate of your new business. Robert C. Clarke and Mojave Richmond offer tips and considerations for cultivators just getting started in their cannabis venture.

BY ROBERT C. CLARKE & MOJAVE RICHMOND

Cannabis products' selling prices at both the retail and wholesale levels are directly related to their quality. Differing production scenarios and levels of success will dictate what products can be made and which consumers will want to buy them.

Most growers set out to produce the highest-quality flowers possible and hope to be rewarded for their efforts with the highest prices. However, many things can go wrong, and even growers with the best intentions can fail. There are no substitutes for careful planning and wizened experience.

When planning your growing operation, be sure to assess your skill levels, identify what your potential markets will be, and compare the production parameters of available and affordable infrastructure. The following are important considerations you should ask yourself before you set out to grow a sinsemilla cannabis crop.

1. Do I have the expertise to grow high-quality cannabis flowers?
2. Do I have the proper infrastructure/facility to produce high-quality flowers? What are the strengths and weaknesses of my growing location?
3. Which cannabis products should I focus on producing?
4. Is there a legal retail outlet(s) nearby to

which I can sell directly?

5. Will I be obliged to sell to a wholesale supplier (distributor) at a lower price?

PRODUCTION BASES AND STRATEGIES

Regulated cannabis markets set standards for crop quality and dictate how and where it can be sold. Once a grower has assessed his or her skill levels, it is important to decide where and how to cultivate.

Highlighted below are the pros and cons of producing cannabis flower crops from transplanted cuttings—indoors under lights, in a greenhouse, outdoors inside poly tunnels, and in the field.

These comparisons assume that all will go well, and each of the four methods will achieve its maximum productivity, with no pests, no pathogens and no chemical residues. Each production strategy presents trade-offs between product quality and price, production costs and difficulty level.

INDOORS

Indoor growing in a controlled environment under artificial light yields pristine, top-quality flowers, resin powders and extracts, but at the highest cost and difficulty. Indoor grows promise full control of the crop, but they are unforgiving of any but the tiniest mistakes. Indoor grows present a huge

responsibility best suited to growers with strong aptitudes for applied technology.

GREENHOUSES

Greenhouses can produce high-quality flowers and resin powders, as well as medium- to high-quality extracts, but without supplemental lighting, quality and yield can vary widely depending on the season and geographic location. Professional horticultural environments providing nearly complete climate control combined with supplemental lighting can be relatively expensive to build and operate, but offer the added advantages of year-round production, along with ample fresh air exchange and free sunlight, both of which lower operating costs during favorable weather. Greenhouses are also more forgiving of small mistakes than completely artificial grows.

POLY TUNNELS/HOOP HOUSES

Polyethylene plastic tunnels (hoop houses) typically produce medium-quality flowers, medium- to high-quality dry-sieved resin powder and medium-quality extracts at a moderate cost, but offer only marginal environmental control. Poly tunnels have few automated controls, can be difficult to reliably darken during flowering cycles, often have high moisture problems, and can quickly result in severe mold and mildew problems if mismanaged.

OUTDOORS

Broad-acre outdoor farming is totally reliant on the whims of the weather, and the vagaries of climate change are making weather patterns increasingly difficult to reliably predict. Some years can be very productive with medium- to high-quality flowers and resultant products, and other years will end in tears. In general, field-grown crops produce a single harvest each year, and outdoor growing offers, by far, the least expensive and easiest opportunity to produce flowers for whole plant and isolate extraction. Broad-acre crops usually have few pest and disease problems as long as



Outdoor cannabis grown solely for oil extraction purposes.

irrigation is adequate and the sun shines.

CULTIVAR SELECTION

No sinsemilla varieties perform best under all growing conditions. No matter whether crops are grown indoors under lights, in a protected greenhouse or poly tunnel, or even outdoors in the natural elements, growers must select varieties matched to their growing conditions and their intended markets. Indoor varieties are often susceptible to pests and pathogens, but the high level of climatic control achieved indoors can ameliorate varietal susceptibilities with cooler temperature and drier air.

Susceptible varieties that may be successfully grown indoors and in high-tech greenhouses are often affected by pests and pathogens when they are grown in poly tunnels with fewer environmental controls and may fail to produce high-quality flowers.

Sometimes varieties that suffer problems indoors may grow better outdoors in natural sunlight and with ample airflow, conditions under which pests and pathogens find it more difficult to survive and reproduce. Out-

door cultivation relies on natural reductions in day-length, and varieties must be photoperiod sensitive in order to mature flowers before autumn weather becomes too cold, slowing plant growth and maturity, or too wet, encouraging mold and mildew growth. Good growers pay great attention to variety selection and try to find out which varieties work best for growers with similar environmental conditions.

When growers source suitable high-yielding varieties and can afford a state-of-the-art greenhouse or indoor grow, then they will have the best chance of producing high-quality flowers that will command the best prices. While poly tunnels and open fields allow lower-cost production, both strategies are accompanied by quality compromises.

THE BOTTOM LINE

The outcome of a cannabis growing operation is based primarily on the quality of the growing space and crop management by an experienced grower. It is nearly impossible to produce the highest grades of flowers without the correct infrastructure, but even

state-of-the-art grow rooms and greenhouses will produce inferior flowers if the grower lacks experience or loses focus. Securing contracts with viable purchasers can also present hurdles, and it often proves easier to grow good cannabis than to sell it. Flower quality will become even more important as competition between producers and between sellers continues to increase. Judging commitment, assessing skill levels, choosing a manageable growing facility, selecting a suitable variety, and identifying markets are all key elements for achieving success. ●

Robert C. Clarke heads BioAgronomics Group Consultants, an international cannabis consultancy specializing in smoothing the transition into a wholly legal and normalized cannabis market. He has devoted his career to the study of the cannabis plant and human-cannabis relationships.

Mojave Richmond is the developer of many award-winning varieties such as S.A.G.E., which served as a springboard for creating many notable cultivars. Richmond is a founding member of the international consulting company BioAgronomics Group.

Editor's note: This article was originally published in the June 2018 issue of Cannabis Business Times.

13 Security Tips For Cultivation

Protecting your business from theft goes beyond complying with state regulations—and the biggest risk you face might surprise you. **BY JAMES STURDIVANT**

Like banks and jewelry stores, cultivators deal in a high-value product and a cash-heavy business that can appeal to thieves. *Cannabis Business Times* interviewed security experts to provide tips for growers to ensure you are running a safe and secure operation.

1. A MONITORING SYSTEM HAS A DUAL ROLE: SECURITY AND COMPLIANCE.

Unlike in most industries, security systems for the cannabis industry must do more than protect against crime. A security system “needs to start out, at its core, as a compliance verification system for the state,” says Noah Stokes, founder and former CEO of CannaGuard Security in Oregon. “The design, equipment and placement of a security system needs to be tailored to this need to prove compliance. In a nutshell, you are buying cameras to look at yourself.”

If you run a convenience store and

your cameras go down for a time, the risk is private and limited to your own desire to capture illegal acts on camera. If you are a cannabis grower, however, the stakes are much higher: State regulations spell out compliance requirements for security systems, some even down to the camera resolution required, so, at a minimum, reading and meeting these requirements is a must.

2. FIND A SECURITY COMPANY THAT HAS EXPERIENCE WITH REGULATED SYSTEMS, AND MAKE SURE THEY UNDERSTAND LOCAL REQUIREMENTS.

You don’t want to pay a lot for an expensive system that’s not tailored to your state’s specific requirements. Inquire about the firm’s experience installing systems for heavily regulated industries and familiarity with state requirements.

To comply with security requirements, local rules are just as important as state rules.

In Colorado, for instance, the state requires growers to keep off-site storage of recorded security video for up to 40 days, while some cities require much more, according to Tim Cullen, CEO of Denver-based cultivator Colorado Harvest Company.

3. MAKE SURE VENDORS GIVE YOU OPTIONS. Don’t let a security firm tell you that, because you run a high-risk business and monitoring requirements are strict, there’s only one (probably very expensive) option available. Depending on the situation, “[It is possible] to get a set-up that is significantly less expensive, but very reliable,” Stokes says.

Essentially, it’s less about cost than value: Get the right stuff the first time, but don’t overpay.

4. LEAVE ROOM TO EXPAND. Choose a security system that is easy to build on, Stokes recommends, because “regulations change



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[and] your facility changes.” It is worthwhile to buy quality equipment that allows for expansion and sudden changes down the road.

5. GO ‘BEYOND COMPLIANCE.’ Doing the minimum to get a green light from state regulators is not a good idea, Stokes says. “Just because the state says you’re good to go does not mean you should stop there, because people can still steal from you.”

6. INSTALL CAMERAS FOR FULL ROOMS. If you are opening a grow operation and a security contractor doesn’t ask you where bulky items (e.g., big plants, equipment) and obstructions will eventually be located, that’s a red flag. Cameras that are blocked are not helpful (and not compliant). Smart placement to maximize viewing areas is way more important than the raw number of cameras, Stokes says.

7. EARLY DETECTION IS CRITICAL. Security systems should focus on early detection to prevent someone from breaking in, suggests Stokes. Exterior cameras should send real-time notifications to multiple people, including an off-site video-monitoring company.

8. REAL-TIME NOTICES SHOULD BE SENT AROUND THE CLOCK. It doesn’t matter if a vault is unexpectedly opened at 2 p.m., or the system is disarmed at 2 a.m.—owners and managers need to know. It takes just one unscrupulous employee with the right access to pull off a major heist.

9. PROTECT YOUR HIGHEST-VALUE ASSETS. Understand which parts of your operation offer the most “return” for criminals. Some may think the first priority is to protect the plants, but they should be primarily focused on their dry storage, says Tony Gallo, managing partner of Dallas-based Sapphire Risk Advisory Group, a security general contractor that works with cannabis businesses on loss-prevention programs.

“Make sure doors are secure ... badges are worn [and that] those badges have photo IDs. Do spot checks.

Basic, commonsense security protocols can help a great deal.”

—Trevor Richie, CEO, Gamma Security Group

“If you are going to rob a grow facility, would you steal 2,000 plants, or would you break into the dry storage facility and steal \$5 million worth of product?” he poses.

10. INSIDE JOBS ARE MORE LIKELY. Realize that external dangers are actually not the biggest threats to your grow operation—internal/employee theft is. Despite this, the lion’s share of security assets invested in are meant to prevent people from breaking in, Gallo says.

11. HAVE SET CASH HANDLING POLICIES. Regularly scheduled cash counts throughout the day let employees know that money is being closely monitored. Have specific people handle cash, and set policies for securing cash after a sale or delivery.

12. HAVE ‘WHISTLE-BLOWER’ SYSTEMS IN PLACE. Most people are honest and do not like to see people stealing. Gallo recommends having a drop box, confidential 1-800 number or some other way for employees who suspect theft is going on to notify management. Even if the system is never used, just the fact that it is in place can act as an effective deterrent.

13. HAVE STRICT VISITOR AND EMPLOYEE IDENTIFICATION PROTOCOLS. Put protocols in place going

above and beyond what the state requires, advises Trevor Richie, CEO at Gamma Security Group. “Make sure doors are secure ... badges are worn [and that] those badges have photo IDs. Do spot checks. Basic, commonsense security protocols can help a great deal.”

Richie cautions that it’s easy to become lax about maintaining protocols such as set times for people to be on site, check-ins, check-outs, and verification of visitor data. ●

James Sturdivant is a writer, journalist and marketer. He has written for and edited newspapers, trade magazines and research papers, and is currently a content marketer for a web design firm. *Editor’s note:* For more security tips, read the full-length article “32 Security Tips” in the March 2016 issue of Cannabis Business Times, or follow this link: bit.ly/32-security-tips-CBT



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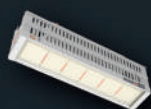
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