



# **Fair Value Measurement and Valuation Considerations in the Cannabis Industry**

**Mark Weston, CPA, CA, CBV**

Valuation and Advisory Partner, Davidson & Company LLP

[mweston@davidson-co.com](mailto:mweston@davidson-co.com)

**&** Davidson  
Company

# Topics

- **Financial reporting**
  - Biological assets
  - Purchase price allocation and impairment
- **Valuation considerations**
  - Value drivers
  - Risk

# Biological Assets (IAS 41)

## Recognition:

- Seeds and plants
- Recognized when:
  - Entity **controls** the assets
  - Future **economic benefits** probable
  - Fair value or cost of asset can be **measured reliably**

# Biological Assets (IAS 41)

## Measurement:

- Measured on *initial recognition* and at the *end of each reporting period* at its *fair value less costs to sell*

# Biological Assets (IAS 41)

## Fair Value

- Definition and guidance contained in IFRS 13
- *The price that would be **received to sell** an asset or paid to transfer a liability in an orderly transaction between **market participants** at the measurement date*

# Biological Assets (IAS 41)

## Fair Value

- Key components
  - Exit price
  - Market participant perspective
  - Highest and best use
  - Principal market
- Guidance on measuring Fair Value concerned with *inputs* not methodologies

# Biological Assets (IAS 41)

## Selected Assumptions and Disclosures

- Assumptions
  - Average growth cycle
  - Wastage at each stage
  - Costs incurred
  - Yield by plant / total harvest yield

# Biological Assets (IAS 41)

## Disclosures

- Seeds and live plants
- Treatment of bearer plants (under IAS 16 PPE)

## Once harvested IAS 2 (Inventory) applies

- Lower of cost or net realizable value



# Other Areas

## The Future

- Acquisitions / industry consolidates
- Value ascribed to intangible assets
- Goodwill
- Impairment

# Business Combinations – IFRS 3

## Business Combinations

- Used when a ‘business’ is acquired
- Allocates the *purchase price* to the fair value of the acquired tangible and *intangible assets*
- Excess is allocated to goodwill (*location*, workforce, synergies, know how)

# Business Combinations – IFRS 3

## Identifiable intangible assets include:

- Revenue drivers
  - **Brand**
  - License



# Intangible Assets

## Brand

- ***Currently uncommon*** in purchase price equations given early stage of market
- Expected to become more common as ***industry matures*** and products become ***differentiated***
- Typically valued using relief from royalty method

# Intangible Assets

## Licenses

- Issued by Health Canada
- Valued using discounted cash flow
- ACMPR issued for a 1-year term, renewed annually
- License may be considered *indefinite life*
- License may also be considered *finite lived*

# Impairment – IAS 36

## Impairment Testing

- ***Goodwill and indefinite life*** intangible assets
  - Annual basis and /or whenever there is an indication that the asset may be impaired
- Intangible assets ***subject to amortization***
  - Whenever there is an indication of impairment

# Impairment – IAS 36

## Impairment Testing

- Compare ***Carrying Amount*** to ***Recoverable Amount***
  - Recoverable Amount being the greater of Fair Value less costs of disposal and Value in Use

# Valuation Considerations

- **Value Drivers**
- **Risk**



# Valuation Considerations

## Value Drivers

- ***Branding***
- ***Quality***
- Production cost
- Ability to meet licensing standards
- Location

# Valuation Considerations

## Risks

- Regulatory oversight and licensing
- Perception / access to capital
- Social acceptance (recreational vs. medicinal)
- New market
- Human capital
- Dependence on future scientific research

*Required rate of return*



Thank you