



North Macedonia Cannabis Market Analysis

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WARSAW
Bearstone Global Sp. z o.o.
Chałubińskiego 8
00-613 Warsaw, Poland
T | +48 22 295 19 01

BERLIN
Bearstone Global GmbH
Schönhauser Allee 10-11
10119 Berlin, Germany
T | +49 30 209 1575 65

LONDON
Bearstone Global Ltd
45 Pall Mall, Ground Floor
SW1Y 5JG, London, UK
T | +44 20 7971 1367

www.bearstone.global
knowmore@bearstone.global

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2. INTRODUCTION

In March 2016, the Republic of North Macedonia (North Macedonia) amended the Law on Control of Narcotic Drugs and Psychotropic Substances and the Law on Medicinal Products and Medical Devices. These amendments allowed for the cultivation and production of cannabis for medical purposes, as well as the refinement, extraction and production of hemp seed and cannabis oil. This made North Macedonia one of the few countries in the world that allows for the cultivation and export of cannabis products – opening doors for entrepreneurs and investors. In the previous two years, the North Macedonian market has demonstrated serious growth potential which in turn attracted local and foreign investors, and competition for medical cannabis production in North Macedonia is rapidly increasing. The country has implemented a free market approach to cannabis cultivation, distribution and sale, mirroring Canada's approach, and the government is urging people to invest.

The North Macedonian drug company Replek Farm DOOEL, Skopje was the first in the country to begin marketing this product in 2016, quickly followed by the US-owned NYSK Holding, Skopje which started production in May 2017. The industry grew rapidly in 2017 with an additional five companies entering the medical cannabis sector: MAM (based in Sveti Nikole), Oaza Alkaloidi (Stip), Kaba Herbal (Skopje), 5 Letter (Resen), and Medical 420 (Bitola). In 2018, several other companies such as Farma Medica Cannabis (Valandovo), F&M (Vrapciste, Gostivar), Green Life (Valandovo), Cannabis Pro (Strumica), ACPV (Beloviste), and THC Quality Group and Farmarolli from Skopje were also granted permits for cannabis cultivation, while the Canadian company ICC

(International Cannabis Corp) entered the market via the acquisition of Balkan Cannabis Corp in December 2018, which has a subsidiary in North Macedonia.

North Macedonia is now utilizing the sale of the plant for economic purposes, to reduce unemployment and to boost the industry locally. Cannabis medicines that have a THC content of less than 0.2% are now available and can be acquired in North Macedonian pharmacies. At present, the drug is prescription-only, with doctors able to prescribe the drug for specific cancers, epilepsy, multiple sclerosis and HIV. Cannabis oil with a THC content of more than 0.2% is only available through prescription.

The sector is regulated by several governmental bodies, notably the Ministry of Health (MH), the Ministry of Agriculture, Forestry and Water Economy (MAFWE), and the Agency for Medicines and Medical Devices (AMMD). The MH does not publish precise figures illustrating the extent to which cannabis is planted according to the issued approvals, since the majority of the product is cultivated using the so-called 'indoor technology', and some is grown in greenhouses. –



3. LEGISLATIVE REQUIREMENTS

A potential licensee must have a registered legal entity in North Macedonia (usually an LLC), which will serve as the applicant throughout the process. In order to submit a request for a cultivation license, the applicant must meet legally prescribed conditions, such as:

- It must possess adequate space, surfaces or land for cultivation, drying, and storage of cannabis;
- The space should be atmospherically protected and enclosed with at least a four-metre-high fence;
- 24-hour video surveillance must cover the whole space;
- 24-hour physical security must be in place; and

The legal entity interested in cannabis cultivation must prepare an application and submit it to the MH. The MH then will then form a special commission comprised of representatives from the MH, the MAFWE, and the AMMD. Within seven to ten days of receipt of the application, the commission will conduct a field inspection and prepare an opinion report (positive or negative) which is then forwarded to the government of North Macedonia.

If the opinion report is received positively, the government issues its consent to the MH. The MH then grants a permit for cannabis cultivation to the applicant. Before commencement of cannabis cultivation, the legal entity must submit a request for cannabis sowing and / or planting to the MAFWE. The permit is issued by the MAFWE within 15 days from the day of receipt of the

complete request. The legal entity, after receiving its permit from the MAFWE, is obliged to notify the MH, the MAFWE, the AMMD, and the special commission before beginning the sowing and / or planting of hemp seed. The law stipulates that during the period between sowing / planting and harvest, the special commission will conduct at least two inspections of the cannabis cultivation.

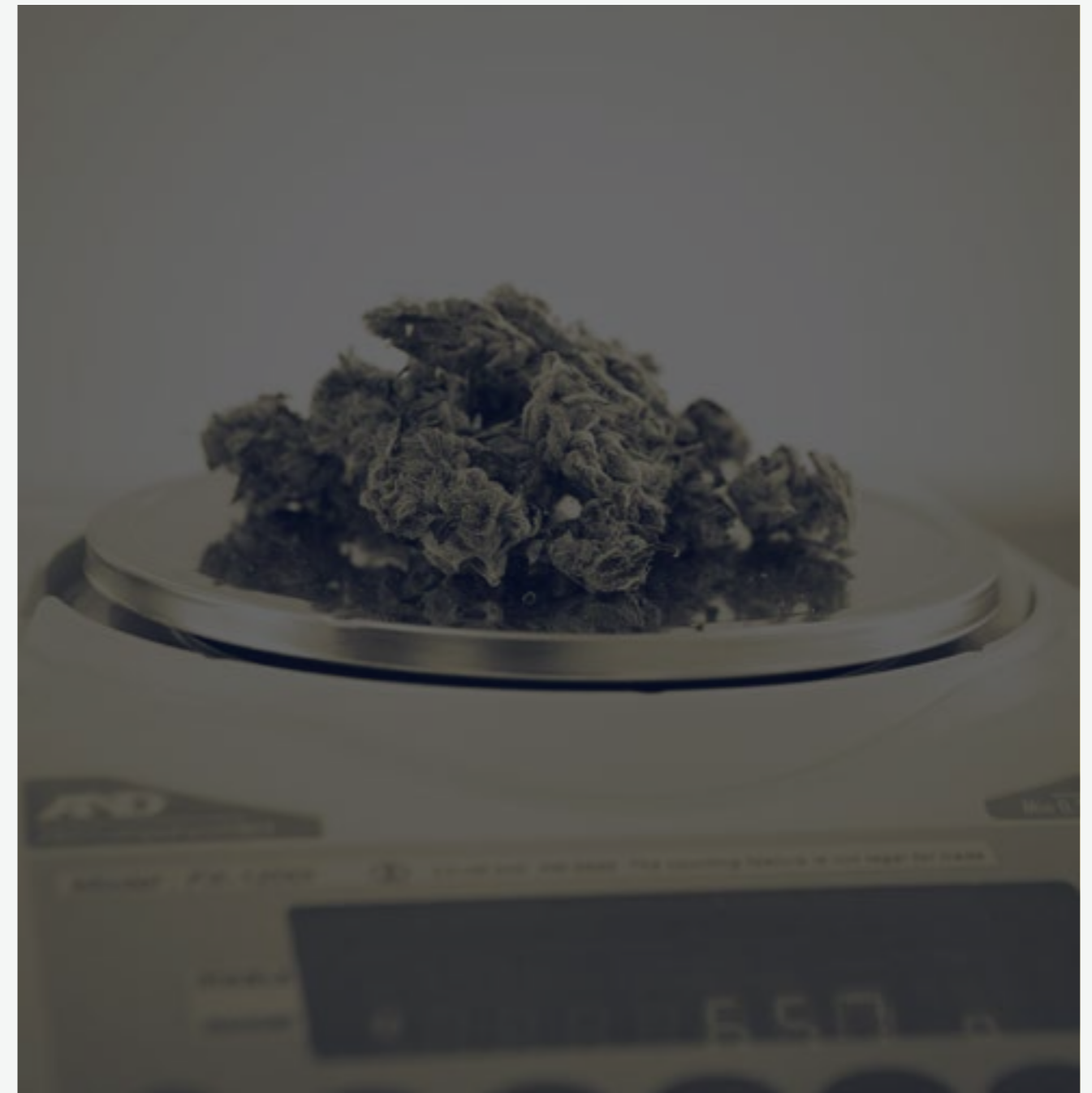
The cannabis cultivator is obliged to keep a record of the cultivated cannabis (sowing, seedling production, transplanting, and number of stems). The cannabis cultivator is obliged to register and report all changes and deviations from the cultivation procedures that were originally stated in the application, to the MH and the MAFWE.

The cannabis cultivator is obliged, before starting to harvest the product, to inform the MH about the day of commencement. After the completion of the hemp harvest, an inspection of the harvested items is performed by the special commission for the purpose of determining the number of collected stems and wet mass. The form, content, and manner of record- keeping for all stages of cultivation will be prescribed by the MH.

Conversely, the procedure for obtaining a permit for production of hemp extracts is much simpler: the legal entity submits a permit request with supporting documents to the AMMD, which makes a decision upon reviewing the request. The cost associated with the procedure for obtaining a permit for production of

upon reviewing the request. The cost associated with the procedure for obtaining a permit for production of hemp extracts is EUR 1,000.

The grant of permits for production of hemp extract products must be complete within 90 days.



4. PRODUCTION, PROCESSING AND EXPORT

After harvest, the raw product is dried in a special purpose-built space. The cannabis cultivator must package the dried product in cardboard boxes, sealed with a safety seal. The box must be marked with the following data:

- name and head office of the legal entity;
- year of production;
- name of raw material;
- net and gross dry mass;
- form (leaf, flower, plant, whole, chopped); and
- packaging date.

The cannabis cultivator must submit a report to the MAFWE and the AMMD for the completed process of cultivation and the total dry mass which was obtained.

A permit from the AMMD must be obtained prior to the import of seeds and seedlings. According to the latest amendments of the respective legislation, the legal entity is obliged to provide only a proof of origin of the seeds / seedlings that are to be imported; a quality certificate of the seeds / seedlings is not mandatory. North Macedonian companies in the cannabis industry use both seeds and seedlings in their cultivation processes. Replek Farm imports dried cannabis flowers, from which it produces extracts. According to existing legislation, only export of final products (extracts, granules, oil and similar) is currently permitted. However, it was recently

reported that the government is working on a new bill which would allow for the export of dry mass of cannabis. So far in North Macedonia, cannabis is grown on areas totaling approximately 30 hectares, equivalent to around 45 football fields. Two harvests of cannabis flowers annually, on the 30-hectare areas for which the state has issued approvals so far, are expected to yield approximately 300 tons of flowers which in turn approximately equates to 30 tons of oil. Current estimates indicate that the export of this quantity of oil can bring the country capital inflows of EUR 1.5 billion annually – an amount which would double based on four harvests per year, which, according to experts, is achievable.

5. CURRENT MARKET ANALYSIS

5.1. NORTH MACEDONIAN COMPANIES

The local companies currently operating in the sector are:

1) Replek Farm DOOEL, Skopje (as of May 2016)

This company was the first to gain approval as a producer of cannabis oil, with a EUR 400,000 investment.

2) NYSK Holdings, Skopje (December 2016)

NYSK Holdings obtained a license for its brownfield investment on 23 February 2017, while production of cannabis products started in May 2017. The CEO of NYSK Holdings is Zlatko Keskovski, former deputy director of the Administration for Security and Counterintelligence of Macedonia, and former chief security officer of President Boris Trajkovski. Zlatko's son, Vladimir Keskovski, is registered as the company's owner. The company is affiliated with a company of the same name, registered in the US.

The cultivation sites of NYSK Holdings are located at the old Ohis chemical plant in Skopje, on an area of 1,000 sqm., as well as the 2,000 sqm. Ohis plant in Ohrid. The company uses indoor technology for cannabis cultivation, has a facility for cannabis oil extraction, and is already producing bulk amounts of cannabis oil. Its output is intended for both local patients and especially for export to the German market, as German law prohibits domestic oil production. Its state-of-the-art facility is predicted

to be used to not only cultivate the plant, but also to conduct research into its medicinal properties as the industry looks to expand the number of diseases that can be treated with medical cannabis. The company has said that a portion of the proceeds gained from selling their products will be invested into such research. The initial investment, as estimated by Keskovski, was reported to be approximately USD 5.5 million.

3) MAM, Sveti Nikole (April 2017)

MAM has planted cannabis on 20,000 sqm. in greenhouses in rural areas near the town of Sveti Nikole. It was established by Zoran Dodevski, former TV Sitel executive producer, and his Slovenian partner Tilen Reihard. The total investment is expected to exceed EUR 10 million. In 2018, AD Elenica, which is managed by the current prime minister Zoran Zaev's cousin Trajce Zaev, brother Vice Zaev, and other relatives, became a majority shareholder of MAM. Among the remaining shareholders are two construction companies from Tetovo and Skopje, a TV distribution systems company from Ohrid, and the Slovenian company Freyherr, whose owner is Tomaz Freljih. Freljih and Trajce Zaev are the current managing directors of MAM. Trajce Zaev stated that the company has ongoing negotiations with foreign investors concerning the creation of an oil extraction facility.

4) Oaza Alkaloidi, Stip (August 2017)



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The majority shareholder of Oaza Alkaloidi is Slave Ivanovski, a well-known businessman from Stip, who has made a direct EUR 161,000 investment, and also has a majority stake in Frama Medica Cannabis (Valandovo). Among the shareholders of Oaza are the Bulgarian company KAN-A Consult with EUR 26,000 investment, Ivana Steriova with EUR 21,000, and several other individuals including the Bulgarian citizen Aleksandar Atanasov-Pamukov, each with a EUR 10,400 stake.

5) Kaba Herbal, Skopje (August 2017)

6) 5 Letters, Resen (September 2017)

5 Letters has 5,200 sqm. of facilities for indoor cannabis cultivation.

7) Medical 420, Bitola (December 2017)

8) Farma Medica Cannabis, Valandovo (May 2018)

Farma Medica has planted cannabis for medical purposes on a six-acre area in Valandovo. The company is managed by Mitko Zanov, who is also affiliated with a subsidiary of AD Elenica. The shareholders of Farma Medica Cannabis are once again relatives of prime minister Zoran Zaev,

including the afore-mentioned Trajce Zaev, Katerina Bojovik Zaeva and Boban Zaev, each with a EUR 1,000 investment. The largest shareholder Slave Ivanovski, who is also the owner of Oaza Alkaloidi, has a stake of EUR 2,500. Boban Zaev reportedly planned an investment which would create 500 new employment positions.

9) F&M, Vrapciste, Gostivar (July 2018)

10) Green Life, Valandovo (2018)

11) Cannabis - Pro, Strumica (2018)

The company, co-founded by former SDSM MP Dragan Gjorgjiev and Atanas Janushev, has planted cannabis on a three-acre area in the countryside of Strumica.

12) ACPV, Beloviste (2018)

13) Farmarolli, Skopje (2018)

14) THC Quality Group, Skopje (2018)

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5.2. FOREIGN INVESTORS

The Canadian company ICC is currently working on a multi-jurisdictional project for the cultivation, extraction, formulation and distribution of cannabis on a global scale. It operates in a number of countries including North Macedonia, where it will be focusing on license for medical cannabis cultivation as well as license for extraction, formulation and export.

ICC announced in December 2018 that it had entered into a final agreement to acquire 100% of Balkan Cannabis Corp (BCC), which has a North Macedonian medical cannabis cultivation and extraction license, in addition to a Bulgarian medical cannabis and hemp cultivation

license. Through a subsidiary in North Macedonia in which it has a 67% stake, BCC has been granted an exclusive agreement with an existing licensed facility which permits the cultivation, manufacturing and export of medical cannabis. The licensed facility is reportedly located on a 30-hectare land parcel in Valandovo, North Macedonia. BCC is said to be in the process of building the country's first dedicated industrial extraction facility. Once operational, the extraction facility would essentially control the domestic North Macedonian extraction market, and BCC's aim is to become the dominant player in the region.



6. MAJOR MARKET PLAYERS

6.1. KEY DOMESTIC INDUSTRY INDIVIDUALS AND ENTITIES

The current major domestic players on the North Macedonian cannabis market are NYSK Holdings, MAM and Farma Medica Cannabis. These three companies are believed to have the greatest influence on the market as they are operated by former state officials, such as Zlatko Keskovski of NYSK Holdings, along with close relatives of Prime Minister Zoran Zaev, the owners of MAM and Farma Medica Cannabis. These individuals are understood to have strong political connections and form a powerful lobby to the state regulators who control the cannabis market. Zoran Zaev, for his part, has repeatedly claimed

that “there is nothing unethical in some of his relatives owning a business”.

NYSK Holdings also continuously invests in its capacities for cannabis cultivation and oil extraction. In November 2018, Keskovski stated that according to estimates, oil processing capacity can reach up to 45 tons of oil per year. He also announced that by the end of the year, a new USD 6 million investment in capacity for new cannabis products was planned, including capsules and creams.

6.2. KEY INTERNATIONAL INDUSTRY INDIVIDUALS AND ENTITIES

As previously noted, ICC acquired BCC in December 2018. BCC was founded in Toronto, Canada by two Montenegrins. Its portfolio includes a wholly-owned Serbian company, a Greek cannabis cultivation company, a 50% interest in a Bulgarian subsidiary which controls licenses for the production, manufacturing and export of both hemp and medical cannabis, and a 67% interest in its North Macedonian subsidiary.

According to BCC, the newly-created North Macedonian subsidiary was set to enter the market no later than

March 2019. Cannabis production is expected to begin in the second quarter of 2019, and in 2020 - 2021 expansion is envisaged in the western Balkans, followed by Germany and the Czech Republic.

The two founders of BCC are Stevan Tafra, who is also chief executive, and Milorad Bozovic, chairman of the board. Stevan Tafra is a Montenegrin, born in 1989, who graduated in international business from London's Regent's College in 2013 and then returned to work in the family company, Tazex. In 2016, he founded the

Milorad Bozovic obtained a law degree in Novi Sad in 1983. Between 1985 - 1989 he ran the Zagreb-based company Jugomontaža Monting, and then worked as a lawyer in Budva, Montenegro. From 2015 - 2017, he was appointed president of the board of the Institute of Economics in Belgrade - one of the most prestigious schools in Serbia, founded in 1947. Tafra and Bozovic lead the Greek and Macedonian units of BCC respectively.

ICC's reported plans are to optimise and further expand BCC to become the leading European cannabis exporter for medicinal purposes and hemp products, and to establish itself as a continental manufacturer for the growing domestic demand. The potential markets are considered to be North Macedonia, Bulgaria, Serbia, Montenegro, Poland, Portugal, Greece and Denmark.

7. MARKET AND INDUSTRY RISKS

7.1. POLITICAL FACTORS

Milorad Bozovic obtained a law degree in Novi Sad in 1983. Between 1985 - 1989 he ran the Zagreb-based company Jugomontaža Monting, and then worked as a lawyer in Budva, Montenegro. From 2015 - 2017, he was appointed president of the board of the Institute of Economics in Belgrade - one of the most prestigious schools in Serbia, founded in 1947. Tafra and Bozovic lead the Greek and Macedonian units of BCC respectively.

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7.2. POLITICAL OPPOSITION

So far, the public debate on medical cannabis has generated only strong supporters. The first amendments to the Law on Narcotic Drugs and Psychotropic Substances were made by the former Government VMRO-DPMNE, and its implementation and further development is now being continued by the incumbent ruling party, SDSM. Prime Minister Zaev is actively encouraging investment in the emerging medical cannabis market in North Macedonia. He noted that the country anticipates a boost to local employment, and influx of EUR 100 million of foreign currency. In February 2019, a public

debate on the topic „The Economic and Health Benefits of the Legalization of Cannabis” took place within the parliamentary Commission for Economic Affairs in the assembly, which was attended by MPs, lawyers, professors, experts and representatives from the civil sector. Attendees highlighted the anticipated positive outcomes of legalisation, citing benefits including economic growth, medical benefits for those in need, benefits of the ecological properties of hemp cultivation,

