Canada Cannabis Industry Update

December 2021

BRIGHTFIELD GROUP

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Methodology:
Brightfield Group uses a multi-source research methodology to provide a realistic top-down and bottom-up view of the dynamic, multifaceted Canadian cannabis market of today and tomorrow. Our methodology incorporates consumer survey data, information found in trade press, federal data sources, provincial data sources, interviews with cannabis businesses, and additional desk research.

Key Canada Cannabis Headlines

While **national regulations remain restrictive**, including limitations such as permitting a maximum of 10 milligrams of THC in drinks and edibles, **provinces across the country have licensed more retailers and loosened certain regulations**, opening regions such as Ontario for strong growth.

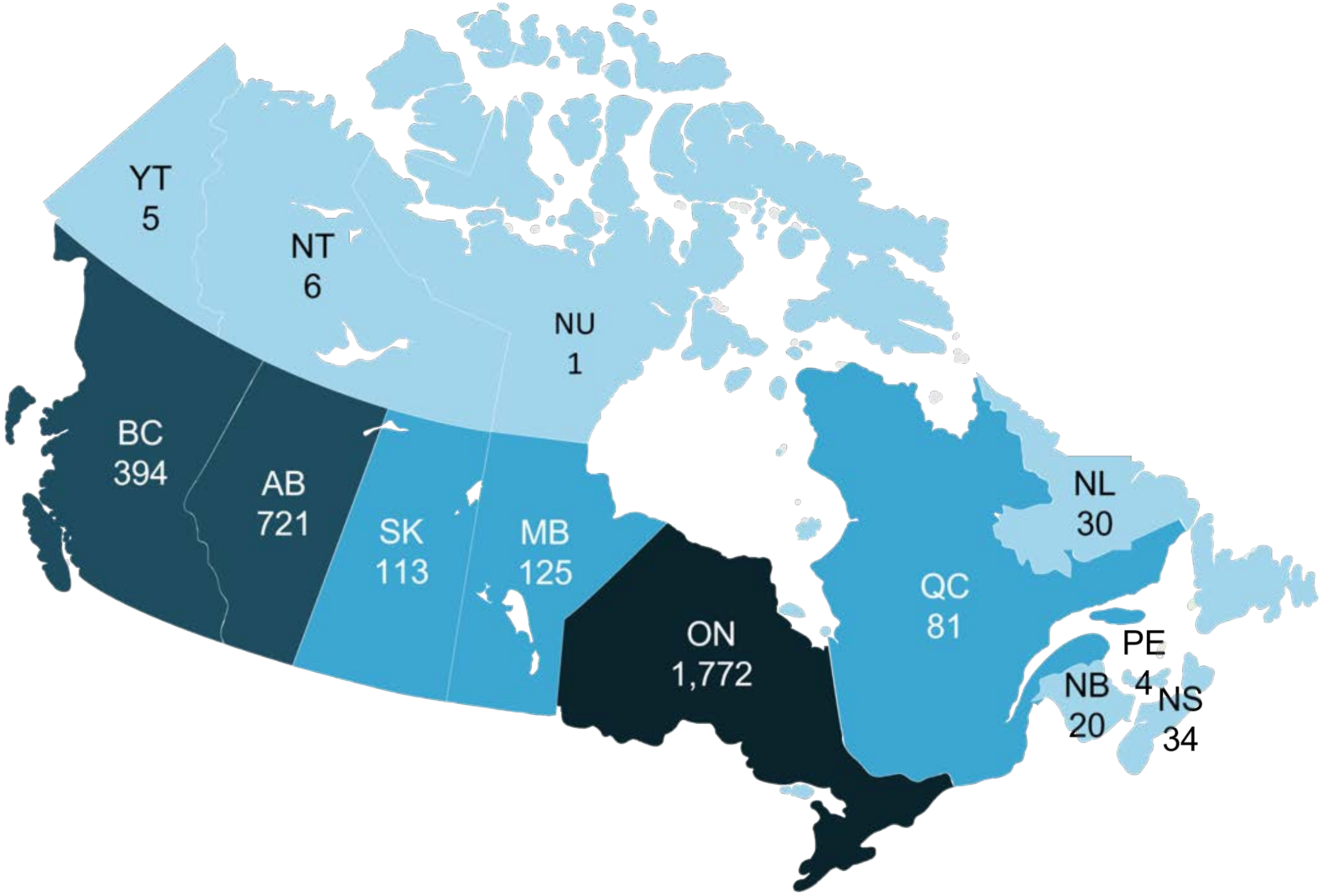
According to the governmental statistics agency StatsCan, **spending on regulated adult-use cannabis has outpaced that of the legacy market in every quarter since Q3 2020**, largely following a period where brands focused on bringing flower products to market that undercut legacy prices.

2021 saw significant product innovation, especially in previously neglected Cannabis 2.0 categories including concentrates and topicals, **as well as a proliferation of craft brands** competing with large LPs for the increasingly sought-after **premium flower segment**, which offers margins as much as 4x higher than value flower products.

Regional Overview

- Ontario went from one of the most underserved provinces (17 retailers in late 2019) to having nearly 2,000 cannabis stores either licensed or in the process.
- Alberta voted to privatize online sales, divesting the government significantly from the cannabis supply chain (Saskatchewan has no government involvement beyond licensing).
- Quebec continues to be extremely restrictive – edibles and vapes are still prohibited.
- Quebec, Nova Scotia, New Brunswick, and Prince Edward Island continue to have entirely government-operated retail.

Licensed Retailers by Province/Territory:



Source: Brightfield Group 2021

Reclassification of Provincial Adult-Use Models

For existing clients: View these insights by logging into the portal here.

To see how our interactive data platforms can support your business, schedule a demo.

Flower/Pre-Roll Trends and Innovations

- In 2020, numerous companies launched budget brands to try to compete for the daily yet price-conscious cannabis consumer but, in the year since, more firms have pivoted towards vying for the canna-connoisseur who is willing to spend more on their flower for increased quality, largely due to better product margins.

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Red Market Brand Niichii

Small batch, premium, craft flower brand and product. First Nations owned with charitable aspect, produced by Royal City Cannabis Co. (Acquired by Emblem).

Vape Trends and Innovations

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- Vapes are increasingly seeing price differentiation, with more expensive products often being marketed as *"live resin"* or *"live terpene"* and created via extraction processes which maintain a greater essence of the flower.

BOXHOT Alien OG Cartridge

Contains a full 1,000 mg of THC in each cartridge – the first in the market to do so – in each 1.2 gram cartridge. Designed to create high levels of vapor with strain-specific terpenes.

Edible/Drink Trends and Innovations

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- Drink products were slow to roll out, but now have a significant number of varieties available in multiple formats, with cold beverages proving to be more popular among both LPs and consumers than hot ones.

Heartbeat Hot Sauce X Bogart's Kitchen Pineapple Habanero Hot Sauce

Created in conjunction with a hot sauce company, a first-of-its-kind product on the Canadian market. Brand is by Emblem.

Concentrate Trends and Innovations

- Concentrates were among the last product categories to receive significant attention from LPs but saw a proliferation of both products and brands in late 2020 into 2021.

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Top Leaf Caviar Cones

First to market combination of pre-rolled flower, hash, and liquid concentrate with a minimum of 30% THC, as high as 37%.

Topical Trends and Innovations

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- Topicals are still often used by individuals who experience physical pain, and more companies are seeking to address these consumers by launching functional lotions and salves, though this subset of topicals has seen comparatively less innovation and fewer product launches in 2021.

Prairie Grass PODS

First cannabis suppository available in Canada, available in both THC (Relief) and CBD (Eve) varieties. Small, craft brand.

Brand Trends

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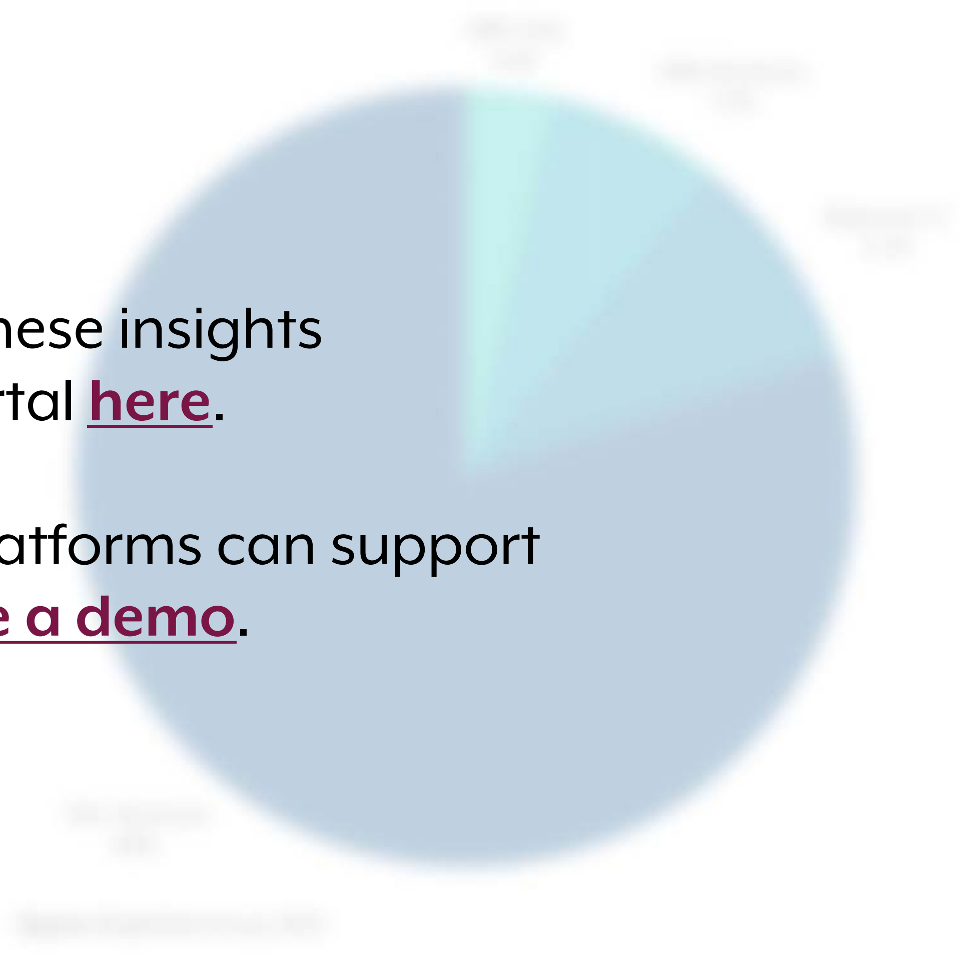
Ratio and CBD Trends



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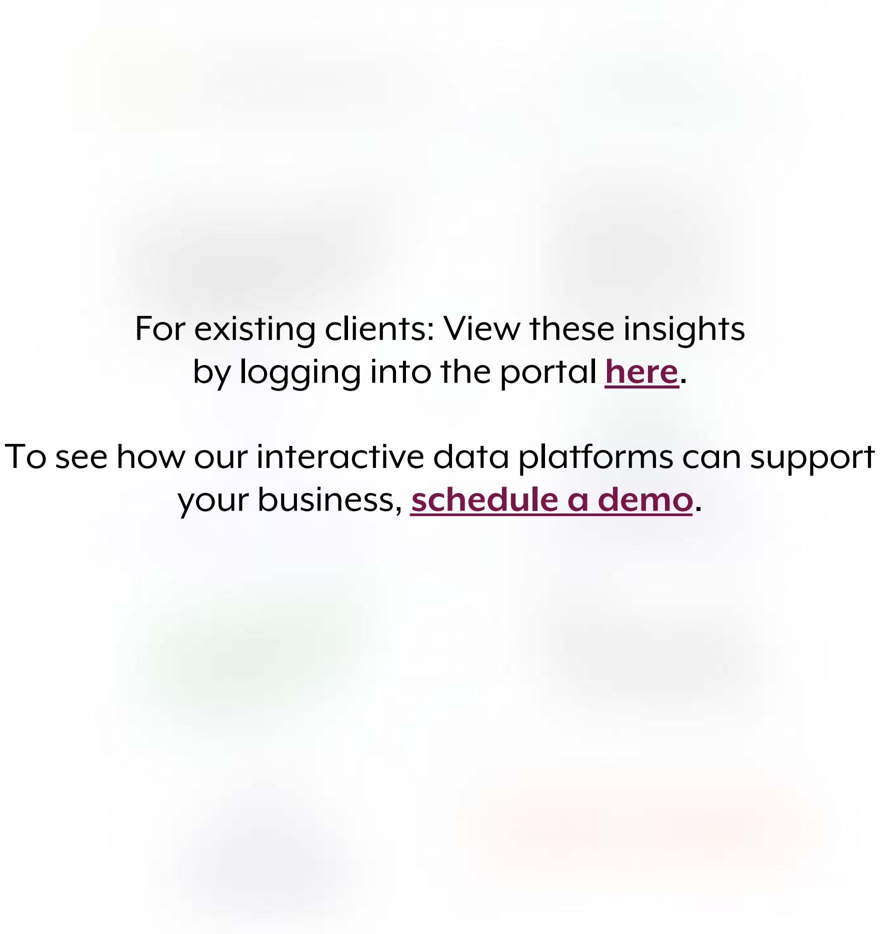
What's Changing in the Competitive Landscape?

2021 has seen:

- Companies of all sizes – from established players to smaller disruptors – launching new brands and innovative products in an effort to retain market share or make a name for themselves at an opportune moment.
- A focus on improving margins by shifting emphasis towards premium products which provide better margins than lower-cost, bulk products – though the latter still constitute a plurality of sales.

Top Brands by Share of Shelf, October 2021



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What's the Bottom Line?

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- 2021 was a year of innovation and adjusting brand/product portfolios to better meet consumer demand, following a 2020 that was largely just throwing new product formats at the market and seeing what stuck.
- Developments by provincial regulators are promising and, in cases such as Ontario, have transformed their regional markets, but there is currently little indication that some strict provincial (like Quebec) and national regulations are going to change in the near future, despite lobbying from LPs.

Canadian Adult-Use Cannabis Sales (CAD)

Source: Brightfield Group 2021

Diagnose brand roadblocks and delight your customers with forward-looking data on:

Brand Health	Consumer Insights	Market Landscape	Distribution Trends

To learn more about our insights solutions for Canadian cannabis, **request your demo here**.