Growing a Cannabis Market

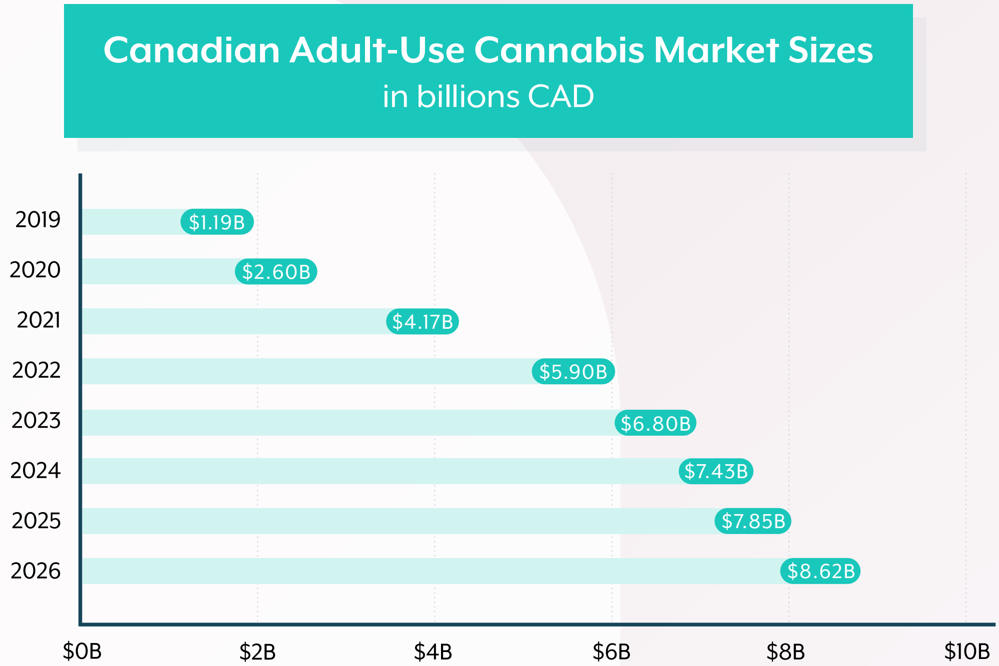
Canadian Market Update: March 2021

BRIGHTFIELD GROUP

The Canadian adult-use cannabis market grew 118% in 2020!

The cannabis industry grew enormously despite the ongoing COVID-19 pandemic.

Growth is being driven by increased retail openings, the return of partnerships and M&A activity, and the accessibility of affordable cannabis.



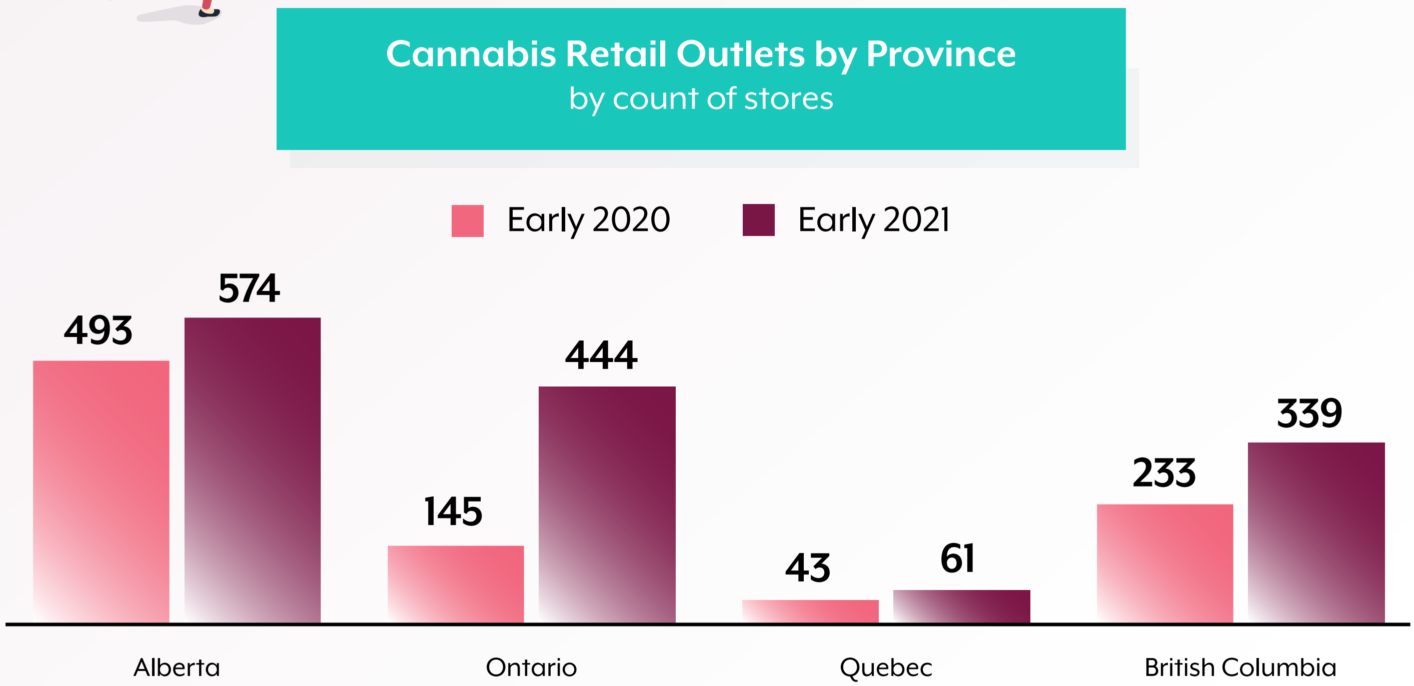
Methodology:

Consumer data is collected on a quarterly basis (n = 3,000) and is balanced on age, gender, and geography according to public Canadian population data. Product and attribute-level data updated monthly leveraging digital menu audits on thousands of dispensaries across Canada including product type, flavor, ratio, dosage, brand, strain, and positioning.

Retail Openings

The opening of retail outlets drove growth in 2020. Ontario led the charge. There's still massive potential for more retail outlets before the province hits saturation with its large population.

Alberta grew significantly as well. Their sales quickly boomed without a cap on licensing. We expect other large provinces to follow suit as retail continues to expand.



Return of Partnerships and M&A

Partnerships between Canadian and American cannabis brands are budding in Canada. Licensed producers (LPs) are bringing American products to the Canadian market. This emphasizes the Canadian market's push for consistent, quality products with proven value as opposed to just name recognition.

Deals that have been formed between American and Canadian cannabis companies include:

- **Indiva** teaming up with **Bhang, Wana, Kin Slips**, and **Ruby Sugar** to produce edibles
- **48North** producing Apothecanna topicals
- **Dosecann** creating dosist vape products
- **Pax** is partnering with multiple LPs to provide its pod technology and create co-marketing opportunities.

Some large Canadian companies have shifted noticeable attention to the US market as well. Canopy Growth is at the forefront of this trend with their First & Free brand and their partnership with Martha Stewart. In early 2021, Truss Beverages - a joint venture between Molson Coors and HEXO—launched its first CBD beverage in the US. Tilray is also in the American CBD market with their Manitoba Harvest brand. CBD launches in the US give these Canadian players an additional source of revenue in a large and expanding market.

The competitive playing field for Canada is starting to see significant consolidation.

2020 wasn't slow, it blew up—the market was more saturated, companies had to streamline and cut inefficiencies to keep competitive. Mergers and acquisitions picked up significantly toward the end of 2020 and in early 2021.

This includes:

- **Tilray** and **Aphria** announced a merger-creating the world's largest cannabis company by combined revenue
- **HEXO** announced an acquisition of **Zenabis**
- **Fire & Flower** acquired the Friendly Stranger chain of retail stores
- **Flowr** acquired Terrace Global

Rise of Value Brands

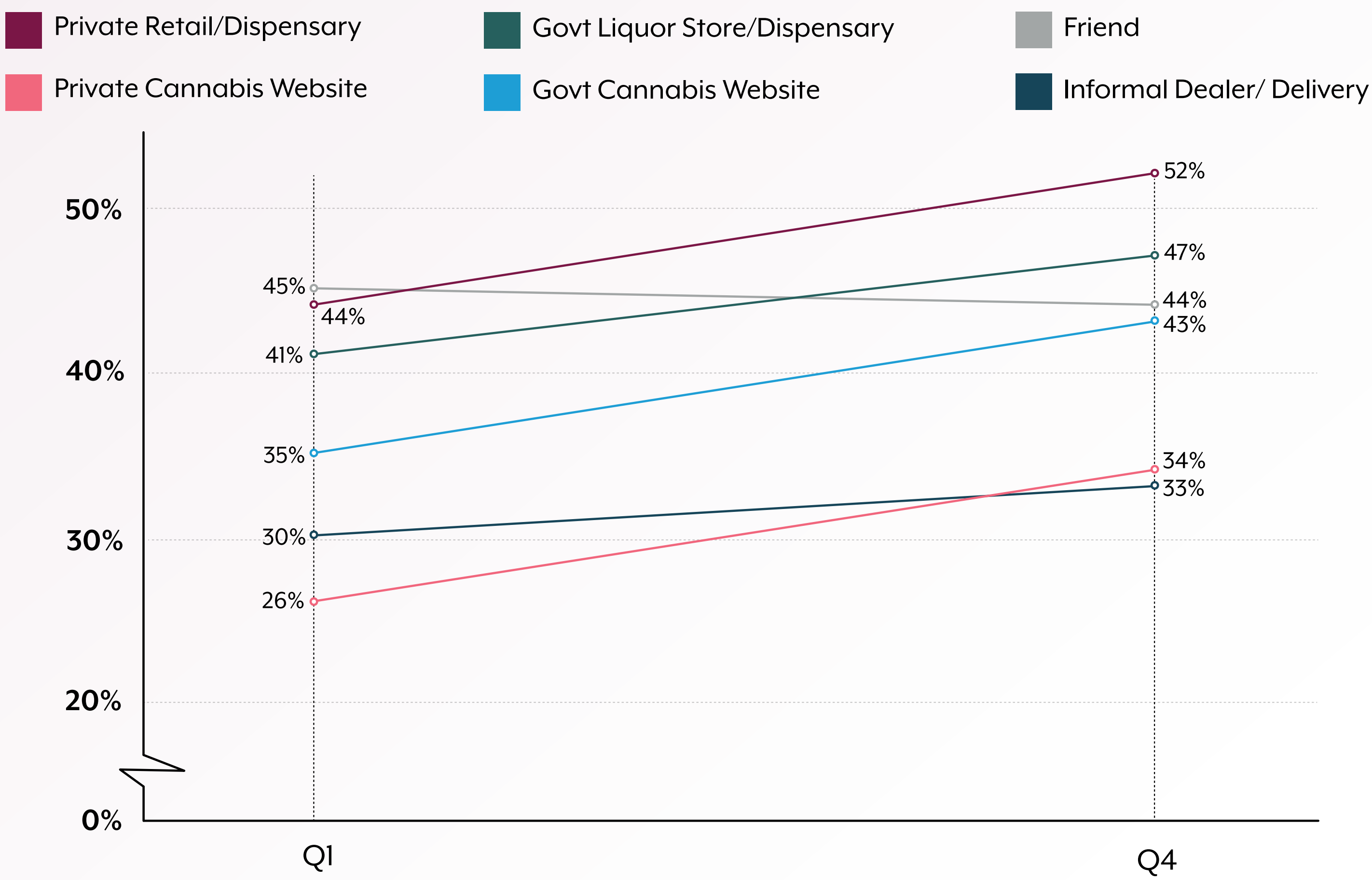
The price of adult-use cannabis dropped 10% from Q3 2019 to Q3 2020 according to Canada's price index for cannabis.

As a result, the adult-use markets and value brands in particular are better-positioned to compete with the illicit market. In a major shift from the market's early days, bargain hunters and heavy users can now find flower for bulk in 2020, as Canadian cannabis companies successfully marketed economy brands to consumers. Many budget brands experienced boosts across the entire purchase funnel in 2020. Heavy users on a budget can find flower for $3.50 CAD per gram.

Given price shifts and expanding availability, formal retailers began to overtake illicit channels across Canada in 2020. This is reflected in Brightfield's consumer insights. *"Friend"* was the top reported cannabis purchase location in Q1 2020; now the top purchase channel is *"private retail/dispensary."*

Where Consumers Purchase Cannabis

% of Canadian consumers that report purchasing from location



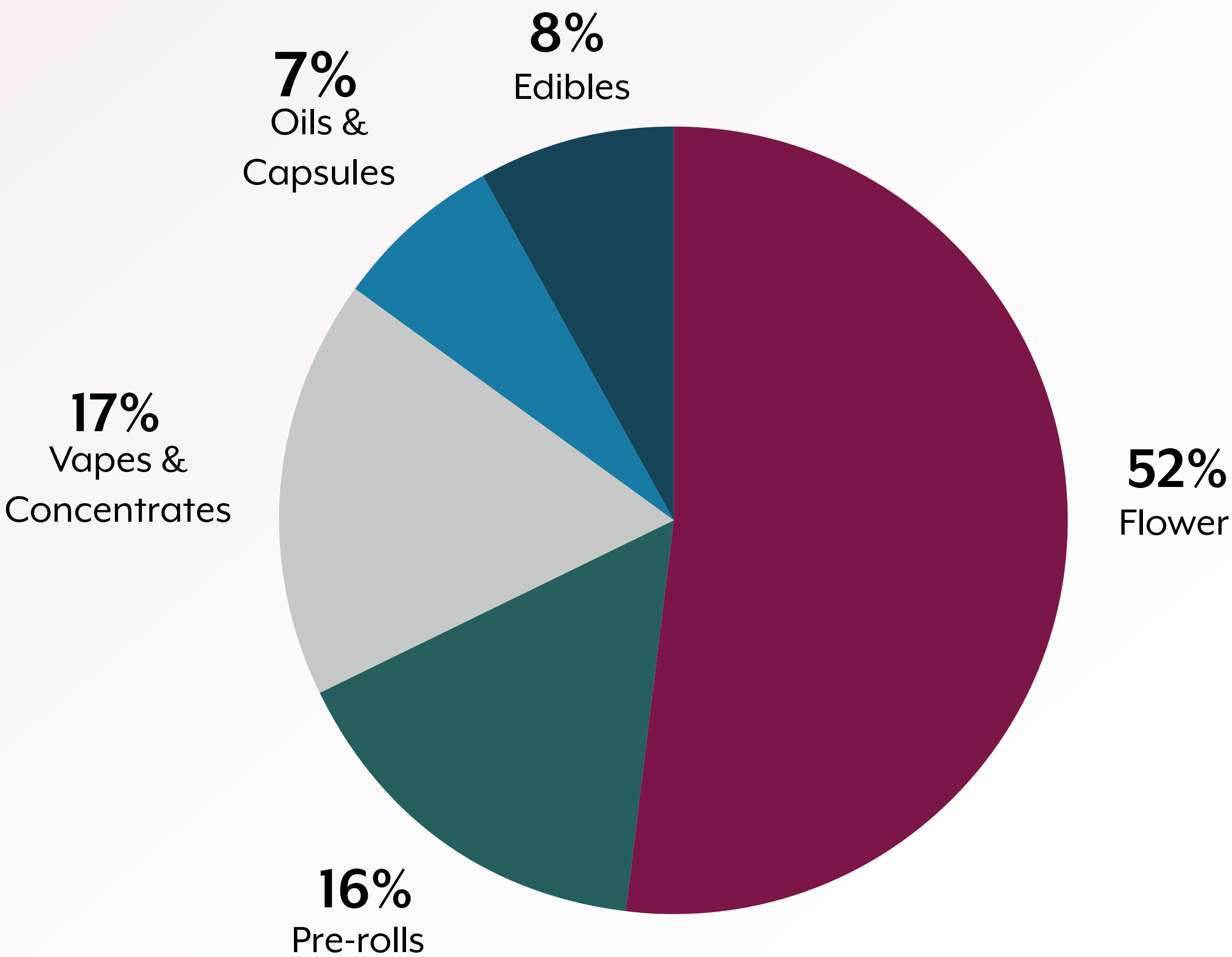
BRIGHTFIELD GROUP

Flower Dominates Over 2.0 Products

Value brands providing affordable bud helped keep cannabis flower growing. We forecast cannabis flower will still capture over half of the market in 2021, with pre-rolls capturing an additional 16%. Pre-rolls were particularly popular last year in Canada and the US, seeing their heyday under COVID. Pre-rolls are convenient and affordable for smoking consumers who have been less prone to sharing amid pandemic fears.

Edibles have yet to get their footing in the Canadian market. Edibles have not expanded or diversified to their full potential because of steep development costs. Labeling restrictions diminish edibles' allure, while tight THC caps limit the appeal to users looking for high THC content.

2021 Product Type Breakdown
Projected Share of Market



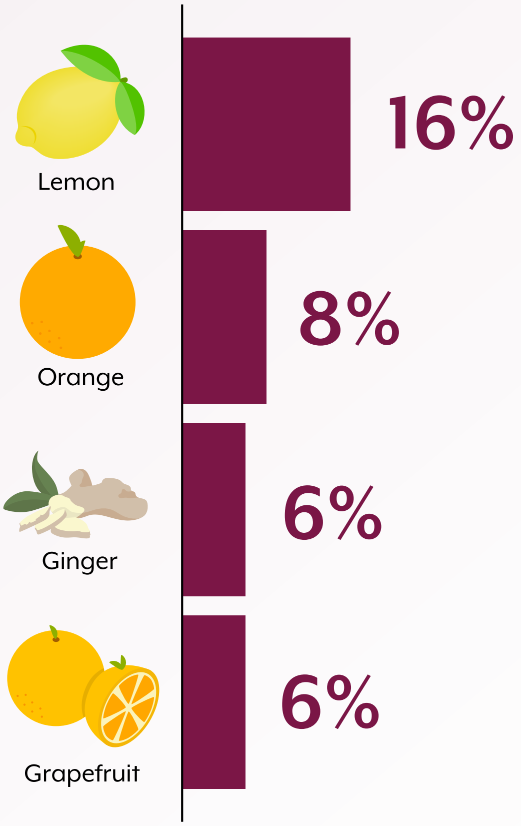
Distribution Trends: Cannabis Drinks

Cannabis drinks were a highly anticipated addition to the cannabis market. Beverages have a variety of use cases, and manufacturers are already creating an array of products—from coffee to sparkling waters to liquor alternatives—that can succeed among diverse types of consumers.

The versatile product format allows for unique positioning, and existing products in the space have a significant amount of brand differentiation versus other product formats. Cannabis beverages are one of the formats cannabis companies will be more innovative in product development and brand positioning going forward.

Drinks surged toward the end of the year taking 2% of the market in 2020. **We forecast cannabis drinks will make up 7% of Canada's adult-use market by 2026.**

Top THC Drink Flavors in 2020
% By share of shelf



Top Positioning:
Hydration

Top Ratio:
1:1 THC:CBD

Top Dosage:
10mg

THC Drinks on the Market

Quatreau Sparkling Water

Canopy Growth's Quatreau began hitting shelves November 2020. Canopy's other beverage lines have been THC-focused, but Quatreau is delivering products with a significant amount of CBD. Cucumber + Mint and Passion Fruit + Guava are CBD-only while Ginger + Lime and Blueberry + Acai feature a balanced 1:1 ratio.

Mollo 5

From Truss Beverage Co.—a joint venture between Molson Coors and HEXO—Mollo 5 is designed to resemble beer. It launched along with five other beverage lines in August 2020. This product is available in 5 mg and 2.5 mg varieties both with a 1:1 THC:CBD ratio.

Deep Space

Canopy Growth's Deep Space launched in June 2020 and contains the maximum 10 mg of THC. The company describes Deep Space as being *"deep, dark and mysteriously full-flavoured."* Each carbonated beverage is created via CO2 extraction. It's well-suited for those who are seeking the maximum (permissible) cannabis dosage in their infused products.

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**.

Brightfield Group is the leading research firm for emerging markets including CBD, Cannabis, and Wellness. By integrating multi-source data with AI and research expertise into our cross-comparable data lake, we uncover robust insights as new markets develop. We have helped Marketing, Innovation, and Insights leaders drive customer-centric strategies on their next big idea since 2015.

See what we can do for you at brightfieldgroup.com.

BRIGHTFIELD GROUP