Battle of the North: Canada Market Update

BRIGHTFIELD GROUP

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Canada Consumer Insights:
Survey fielded quarterly. Responses are collected online from a balanced sample of 3,000 unique cannabis users age 18+ in Canada.

Canada Distribution Trends:
Visualizes digital menu audits of thousands of dispensaries around the United States for a comprehensive view of products available on shelf, and social media data to uncover consumer reactions to product trends and launches.

Introduction & Overview

- Canadian cannabis sales are expected to hit ~$CAD 8.8 billion by 2027 with a CAGR of ~10%.
- After duking it out in the value-priced positionings, many large LPs are setting themselves for similar competition levels in the premium positioning.
- While branding remains a challenge due to regulatory constraints, a few companies have been able to separate themselves from the pack.
- Full-spectrum and high-terpene products drive innovation in Canadian cannabis.
- Distribution channel constraints limit opportunities in the CBD market, but opportunity exists for US foothold.
- Small-to-medium sized brands will continue to leverage their market agility in their quest to gain market share as larger LPs continue to streamline operations and build on strong distribution networks.

Market Sizing

In 2021, we saw Canadian cannabis sales grow 39% to $CAD 4.39 billion.

Leading growth categories pre-rolls (77.7%) vapes (47.3%), and flower (33%).

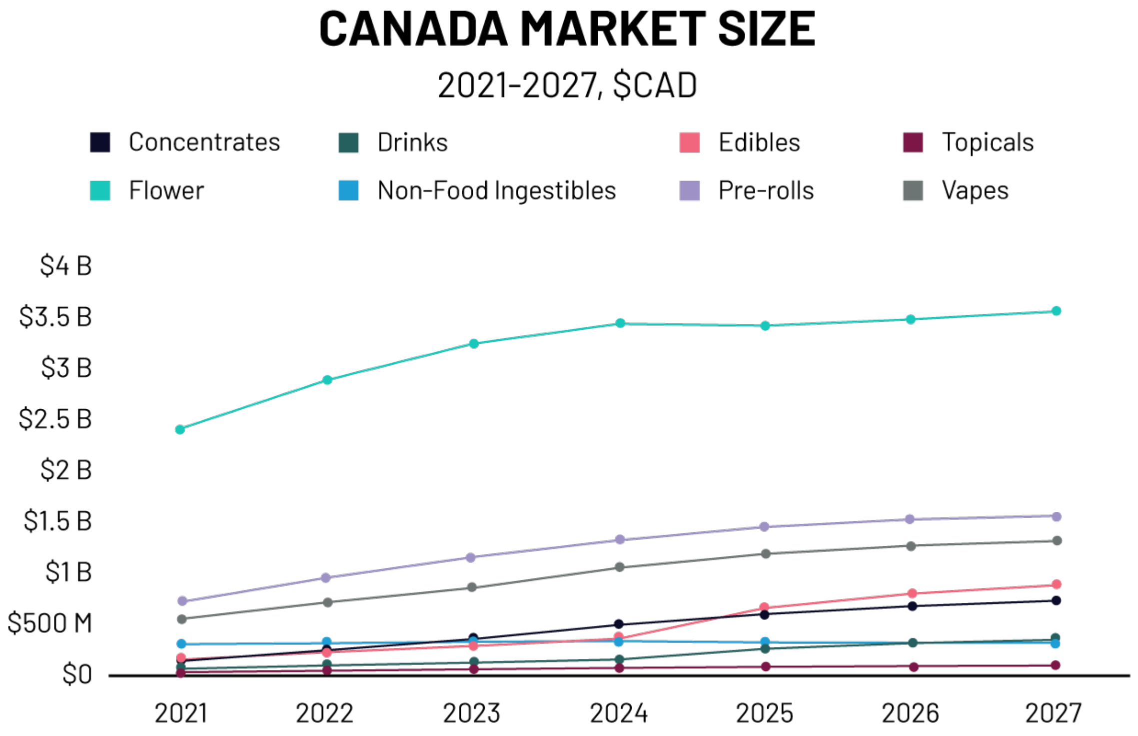
- In US, edibles saw lots of growth last wave and year. This is not repeated in Canada. **Consumers looking for more potent products are not well-served by the edibles market due to regulatory constraints on THC limits.**
- As a results**, vapes and other inhalable concentrates are expected to stay ahead of edibles sales until 2024**, when Brightfield projects several regulatory changes.

Canadian market CAGR (2022-2027): ~10%

- Flower CAGR: ~4.25%
- Pre-roll CAGR: ~10.26%
- Vapes CAGR: ~12.89%
- Edibles CAGR: ~30.81%

New product category: Non-food ingestibles

- Capsules & Tablets; Tinctures; Sublinguals; Oral Sprays; Others



Source: Brightfield Group; Canada Market Insights; Q1 2022

Market Sizing (Cont.)

Alberta outperforming the market relative to its population size, and has the highest spend per capita on cannabis products.

- Due to hands-off approach to retail licensing and opening of market to free competition
- **2022 sales: $825,940,251; 2027 sales: $1,136,970,387; CAGR: 6.6%**
- Flower, pre-rolls, vapes are leading the market, but the Alberta vape market is becoming increasingly saturated

Quebec continues to underperform despite population size.

- Limited by product choice and potency, many Quebec consumers continue to purchase from illicit markets. However, **projected regulatory changes in 2024 should open the market to concentrate and vape products**
- **2022 sales: $687,831,633; 2027 sales: $1,212,388,867; CAGR: 12.0%**
- Several LPs have launched and/or are acquiring local producers to tap into the region's culture history and civic pride (e.g. Organigram's Laurentian acquisition)

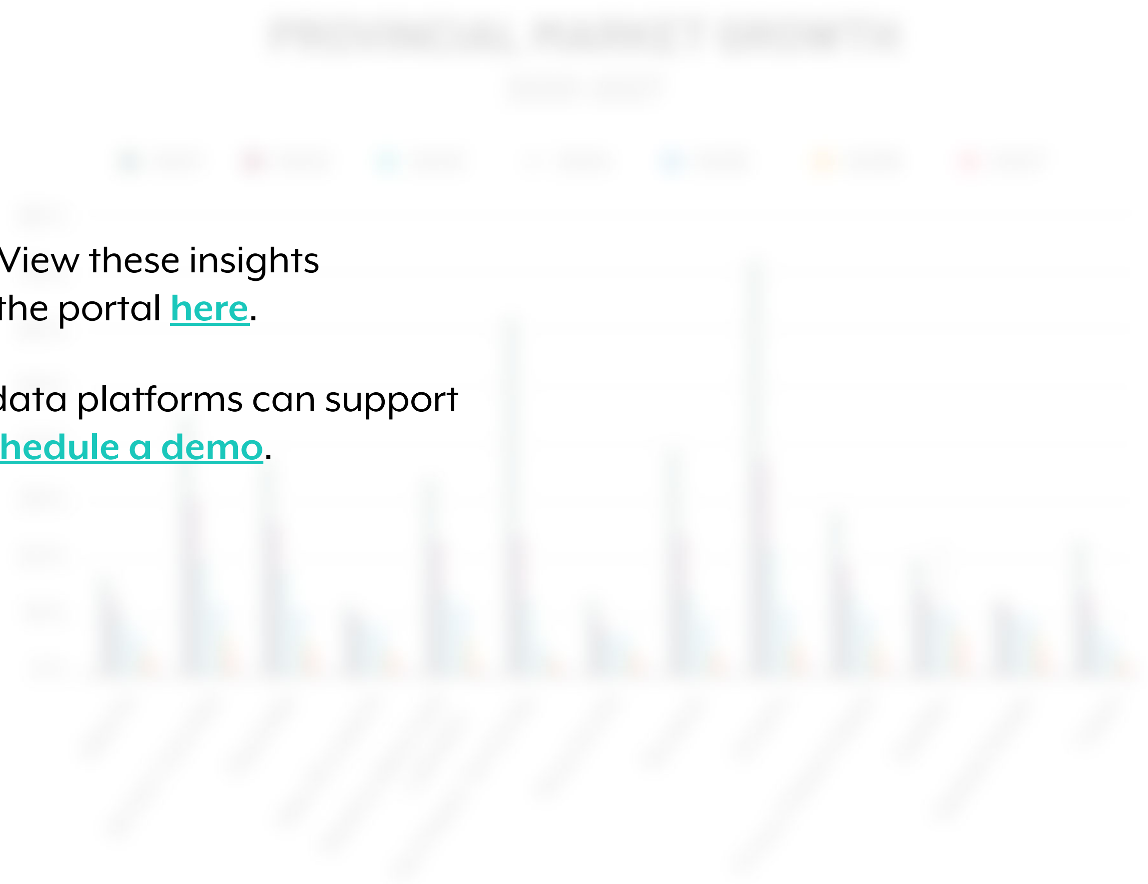
PROVINCIAL MARKET SIZE

2021-2027, $CAD

	2021	2022	2023	2024	2025	2026	2027
Alberta	$803.4 M	$904.4 M	$992.9 M	$1,058.1 M	$1,136.3 M	$1,182.2 M	$1,212.2 M
British Columbia	$576.8 M	$747.8 M	$897.1 M	$1,009.7 M	$1,130.0 M	$1,205.4 M	$1,256.4 M
Manitoba	$166.5 M	$209.3 M	$246.6 M	$273.6 M	$302.8 M	$320.8 M	$331.9 M
New Brunswick	$93.9 M	$103.6 B	$112.4 M	$119.3 M	$128.2 M	$133.5 M	$137.3 M
Newfoundland and Labrador	$69.2 M	$85.1 M	$97.1 M	$106.2 M	$118.4 M	$125.3 M	$127.8 M
Northwest Territories	$8.1 M	$10.0 M	$11.3 M	$12.2 M	$12.8 M	$13.1 M	$13.4 M
Nova Scotia	$116.3 M	$126.8 M	$136.1 M	$143.7 M	$154.0 M	$160.7 M	$164.9 M
Nunavut	$4.6 M	$5.7 M	$6.5 M	$7.1 M	$7.7 M	$8.0 M	$8.2 M
Ontario	$1,722.8 M	$2,352.0 M	$2,856.9 M	$3,235.4 M	$3,588.4 M	$3,810.7 M	$3,960.4 M
Prince Edward Island	$23.5 M	$28.0 M	$32.1 M	$35.1 M	$38.6 M	$40.8 M	$42.1 M
Quebec	$630.1 M	$716.8 M	$798.1 M	$980.3 M	$1,089.9 M	$1,178.2 M	$1,243.1 M
Saskatchewan	$166.9 M	$187.5 M	$206.6 M	$223.2 M	$245.9 M	$262.7 M	$273.1 M
Yukon	$9.4 M	$10.7 M	$11.7 M	$12.2 M	$13.0 M	$13.3 M	$13.6 M

Source: Brightfield Group; Canada Market Insights; Q1 2022

Market Sizing (Cont.)



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

Product Category Spotlight: Premium

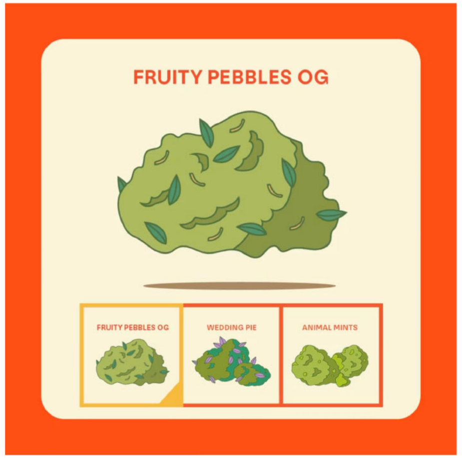
After slogging through the value-priced market in 2020, many LPs saw little return on their investments in that highly competitive space. As such, many of them are turning their focus to **premium-priced products*.***

- **Premium and craft cannabis is increasingly coming into the spotlight,** with big LPs now shifting their focus away from the value segment and local producers seeing significant revenues in their home markets.
- As competition stiffens in the premium market, we will need to pay attention to how LPs decide to market their products: **Will they be able to highlight their products' competitive advantages, or will they be competing on price as they were in the value-priced market?**
- With current potency caps in place, vapes and concentrates still are expected to be where consumers turn to once the novelty (and strength) of flower wears off in the near-term.
- **Strong craft brands are emerging in the premium cannabis space.** Given their stronger reputations amongst budtenders and heavy cannabis consumers in the category, craft vs. LP competition will become increasingly fierce throughout 2022 and beyond.

Source: Brightfield Group; Canada Market Insights; Q1 2022

Canadian Branding Trends

Back Forty	Pure Sunfarms



Branding in the Canadian market is extremely limited due to regulatory oversight, but **a handful of brands are breaking out from the pack thanks to innovative approaches to visuals.**

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Product Innovations: Tasty, Tasty Terps

There is a focus on **full-spectrum products** and **products with high-terpene contents** when it comes to innovation.

Fritz's Cannabis Company using hash rosin to make soft chews.

- Launched: January '22
- Retail: ~$CAD12 (2-pack, 5mg each)
- **Note: Already sold out in multiple retailers**

Cookies' sauce concentrate (50%-65% THC, but has ~3%-5% terpene content).

- Launch: March '22
- Retail: ~$CAD50 (1 gram)

Broken Coast's Full Spectrum Liquid Wax cartridge (73%-80% THC, >1% CBD).

- Launched: January '22
- Retail: ~$CAD43 (0.5 gram)

Fritz's Cannabis Company
It Takes Two to Mango Hash Rosin Soft Chews

Broken Coast
Up In The Sky Full Spectrum Liquid Wax Cartridge

C. GP20 Sauce

Source: Brightfield Group; Canadian Market Insights; Q1 2022

CBD Usage in Canada

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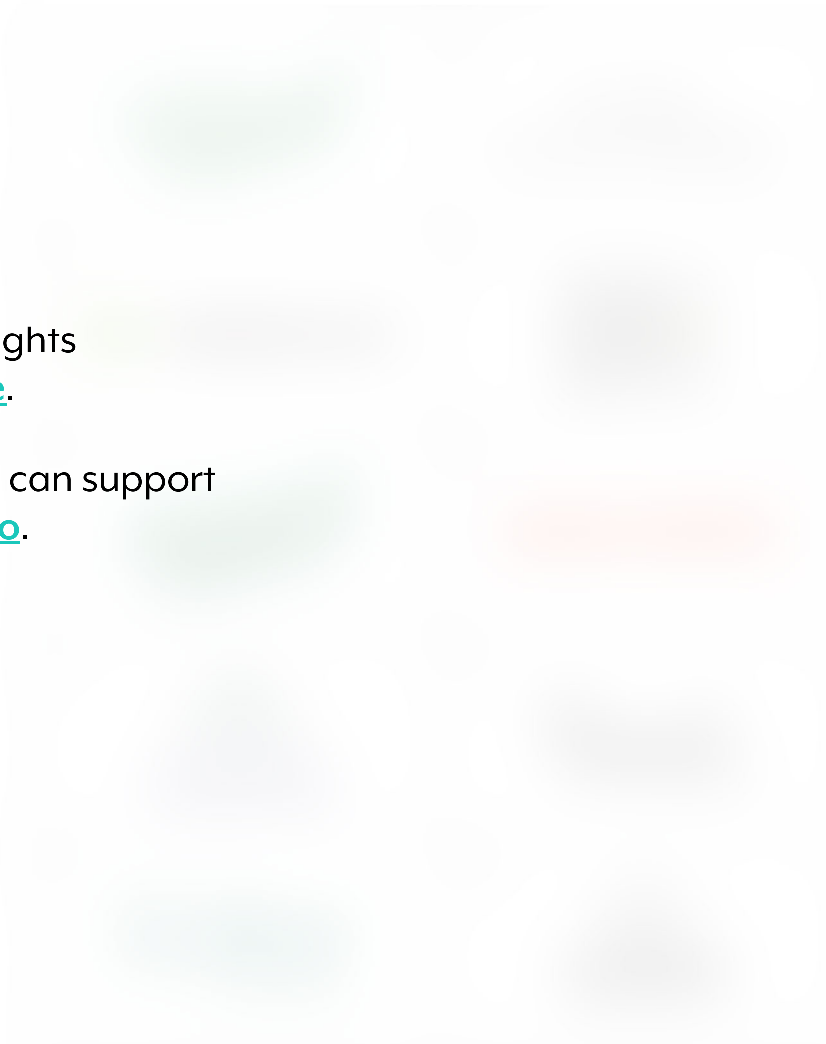
Competitive Landscape

TOP BRANDS BY SHARE OF SHELF
February 2022



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Source: Brightfield Group; Canada Distribution Trends; Q1 2022

Key Takeaways

- Despite long-standing regulatory hurdles, a handful of brands are starting to figure out interesting marketing strategies and voices. As competition amongst LPs and smaller craft growers continues, **brands able to stand out from the broader market through targeting specific occasions of use and effectively communicating brand values will see the highest return on their marketing investments.**
- **Brands looking to compete in the premium positioning will have to know and communicate their products' competitive advantage to consumers.** Failing to do so likely means a return to competing on price, which yields diminishing returns over time.
- **Craft brands' strong reputations amongst budtenders and heavy cannabis consumers** will only increase market competition—but **can also present interesting M&A opportunities for larger firms.**
- While many brands are focusing efforts on their premium positionings, **the top distributed brands in Canada are the ones with core-priced offerings, signifying the importance of having a presence at that price point.**
- **High-terpene and full-spectrum products offer** opportunities for brands to promote their extraction and manufacturing processes, in addition to providing **truer-to-flower experiences that highlight brands' genetic libraries** (and can entice consumers to try the raw flower form of the extracted strain).

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.

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Brightfield Group is the leading research firm for emerging categories 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.

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