

# CANNABIS

## RETAILER

Business Magazine for Canadian Retailers

### CANNABIS-INFUSED BEVERAGES

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Half Billion Dollar  
Market in Canada

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A Wide Range of Exciting  
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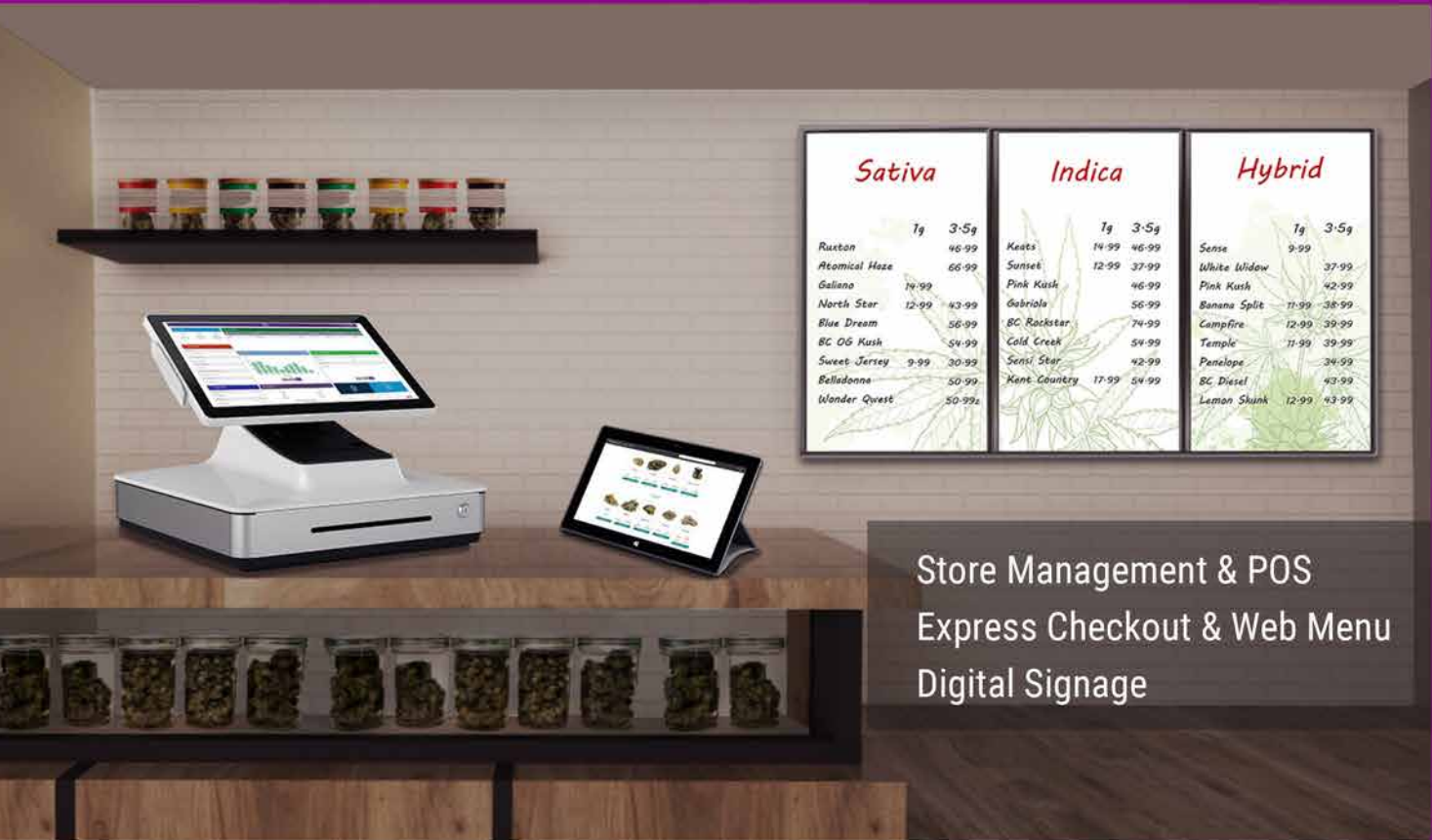
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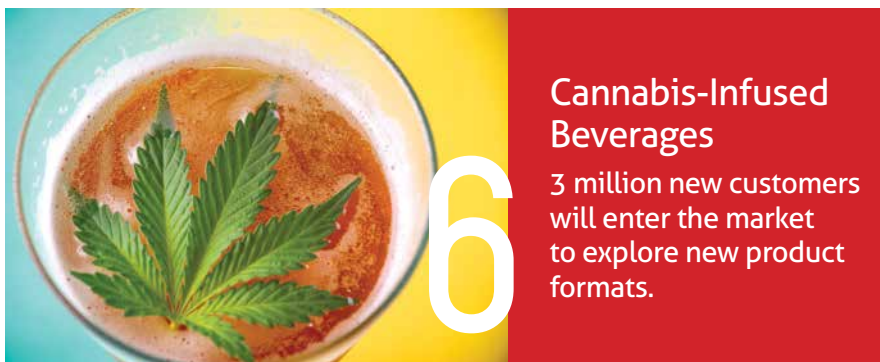
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# CANNABIS



Fall 2019



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# EDITOR'S NOTES

by Joyce Hayne

Cannabis Retailer is published quarterly by:



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info@emcmarketing.com  
www.emcmarketing.com

Publisher & Editor - Joyce Hayne  
Design & Layout - Krysta Furioso

PUBLICATIONS MAIL AGREEMENT NO. PM40026059  
RETURN UNDELIVERABLE CANADIAN ADDRESSES  
TO CIRCULATION DEPT EMC PUBLICATIONS  
19073 63 AVE. SURREY BC V3S 8G7  
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The industry is anxiously awaiting the introduction of new products later this year, but like everything in the cannabis industry, we'll be sitting around and waiting until everyone gets their ducks in order. In the meantime, there is a lot you can do to prepare your store and staff.

In this issue of *Cannabis Retailer*, we share ideas on how to get ready for these products, from developing your concentrates strategy to looking at some of the innovative products that will be produced as edibles or beverages.

A review of sales trends in Oregon will show you where the demand is for these new products in a more mature market. We also delve into statistics of consumption trends in Canada revealing what products are being consumed by which demographic.

Staff education and ongoing training will be critical when new products hit your shelves and customers start experimenting with new formats. The lag time

to feel an effect from ingested products can vary greatly, so it's important to convey this to people who may be used to feeling an immediate effect from inhaling.

Another aspect of consumer education is helping users understand how to assess the quality of the cannabis they're purchasing and dispelling some of the common myths around what constitutes high-quality bud.

We're all excited to usher in Cannabis 2.0 and introduce new consumers to everything cannabis has to offer.

If there is anything you would like to learn more about, please reach out to me, so we can explore that topic in the next issue or online at [www.CannabisRetailer.ca](http://www.CannabisRetailer.ca).

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# Cannabis-Infused Beverages

by Danielle Leroux

Cannabis edibles, topicals, and concentrates will be legalized later this month in Canada. Cannabis-infused beverages have emerged as a major trend within Legalization 2.0 with beverage manufacturers jumping at the chance to partner with licensed producers and tap into this new market.

For instance, HEXO Corp and Molson Coors formed joint venture Truss and will offer everything from cannabis-infused water to a 'beer-like' product and hot beverages. Alcoholic beverage behemoth Constellation Brands invested \$5 billion for a 38% stake in Canopy Growth and plan to launch a line of cannabis-infused drinks and other products. Tilray partnered with Budweiser producer Anheuser-Busch InBev to research THC and CBD drinks in Canada, each company investing \$50 million in the venture.

## New Products Hit Shelves in December


The amended regulations regarding the production and sale of Legalization

2.0 cannabis products come into force on October 17, 2019, but retailers and consumers won't see products online or in stores until December 16 and it will be a limited selection at best.

There are several reasons for the slow rollout. Federal licence holders must provide 60 days' notice to Health Canada informing them of new products coming to market. Provincial and territorial regulators (the sole distributors in every province except

## 3 Million New Consumers and \$2.7 Billion Market

Based on a 2019 survey, EY Canada and Lift & Co. predict Legalization 2.0 could bring in as many as 3 million new consumers. This new audience is not interested in or comfortable with traditional consumption methods and is drawn to more discreet and accessible ways to consume cannabis.



Legalization 2.0 could bring in as many as 3 million new consumers.

Saskatchewan and Manitoba) need time to issue product calls and source new products. Retailers also need time to purchase and obtain the products for sale.

Deloitte Canada estimates the Canadian market for edibles and alternative cannabis products will be worth \$2.7 billion annually. Extract-based products and edibles account for \$1.6 billion of that number and cannabis-infused beverages represent \$529 million.



## Cannabis Beverages Experience Slow Growth in the US

In the US, concentrates and edibles are seeing continual growth and market share gain. According to BDS Analytics, beverages make up a small, but growing, portion of sales: approximately 6% of sales to date with a growth rate of 15% year-over-year.

In 2018, the YTD tracked edible sales in Arizona, California, Colorado, and Oregon combined was \$612 million. BDS Analytics predicts total US edibles sales will reach \$3.4 billion in 2022 and beverages will account for \$374 million.

Despite these promising trends, the US market has not been without its challenges. Companies are unable to distribute nationally or effectively scale because of federal regulations.

Lisa Campbell, CEO of Lifford Cannabis Solutions and Co-Chair of Cannabis Beverage Producers Alliance, highlights other lessons Canada can learn from the US: "California has faced massive problems with dosage variability in its beverages," she says. "Retailers have learned the hard way—with THC leaching into can linings—that packaging can impact dosage. There have been many product recalls." Campbell notes that lab testing for cannabis food and beverages is also in its infancy making it difficult to get consistent results.

## Challenges the Canadian Market will Face

Beyond the obstacles noted above, Canadian producers, manufacturers, and retailers will face a number of challenges. Under current regulations, you cannot consume a cannabis beverage in a bar or restaurant; instead the product must be purchased online or in-person from a licensed store and consumed at home. Yet this is clearly not what consumers want or what the market needs to thrive. According to Deloitte's 2019 report, "Both current (53%) and likely (47%) consumers see edibles as a product to be consumed socially among a small group of friends."

Campbell echoes those sentiments: "In all cultures around the world, adult beverages are used as social ritual and as a means to have fun and come together as a community," she says. "Legalization 2.0 brings a whole revolution of new products and new social rituals around them." Campbell is optimistic regulations may change in the future to allow the consumption of cannabis beverages on-premise.

When it comes to selling beverages, retailers will have to consider refrigeration, storage, and allocating space to maintain profitability. Establishing brand loyalty will also be difficult given marketing regulations. For example, Health Canada regulations



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prohibit a beverage alcohol company from displaying its logo or brand element on a cannabis beverage and labels cannot reference alcohol in any way.

Customer education and the role of the budtender will be very important to establish relationship with customers and to develop brand loyalty. Beverage companies will need to innovate, clearly articulate what is unique about their product, and continually gather consumer data.

Retailers must also consider how legalization 2.0 will impact their customer demographics. Millennial or younger consumers are generally more experienced cannabis consumers who already consume cannabis products. It is likely that novice or cannabis-curious consumers, often female and older, will be drawn to edibles and alternative products, especially baked goods, confectionery, and tea.

## Beverage Trends

What products can Canadians actually expect to see as the beverage market develops?

In the US, cannabis-infused carbonated and non-carbonated drinks are most popular; however, BDS Analytics reports substantial growth in shots (+127%) and powdered mixes (+61%) categories in 2019. Over the past year, low-dose THC product sales and CBD beverage sales have also increased in the US by close to 70% and 75% respectively. BDS predicts continued massive growth for hemp or CBD beverages (+134%) and products specifically labelled as CBD (+1000%).



Adult beverages are used as social ritual  
and as a means to have fun and come  
together as a community.

The types of cannabis beverages we may see in Canada include: drops, mixes, and elixirs, water, carbonated beverages, iced tea, lemonade, and fruit drinks, and tea is expected to be the most popular.

Deloitte's studies show 35% of likely cannabis consumers see cannabis-infused beverages as an alternative to alcohol. Campbell agrees that mocktails are on the rise. "We have already seen the rise of low ABV drinks or

mocktails in the hospitality sector," she says. "Cannabis drinks are an extension of that and cannabis cocktails are a future trend."

Consumers will also look for product quality, safety, and potency when choosing a cannabis beverage.

Will these predictions for a multi-billion dollar industry come true? Industry must watch, wait, and adapt as products roll out and regulations shake out. ▴



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FEATURED RETAILER

# Hello Cannabis

by Amy Watkins

Hello Cannabis's Dundas flagship store is a bright and breezy location, but the journey to gaining a private retailer licence in Ontario proved to be anything but this. When the Government of Ontario gave the AGCO the mandate to hold a lottery to determine who could apply for Retail Operator Licences in the province, it started a chain of events that would see 25 licences awarded.

"This is a very unique industry with a powerful black market that is sophisticated and well-entrenched in our society," explains Stephen Verbeek, CEO of Hello Cannabis. "This was a very long arduous process. Almost none of the lottery winners had any experience in retail, let alone cannabis. I was approached by an old high-school friend who was close with the lottery winner we partnered with. We struck a simple deal that was accepted by the AGCO for us to provide basic services and brand licensing. The journey was not easy, nor is working with a stranger with little to no experience in cannabis, but thankfully we were able to pull it off and maintain an amicable working environment."

Hello Cannabis had the added advantage of already having a well-established medical cannabis clinic in the area, so Verbeek was able to leverage this reputation and talk to previous investors. "We already had a strong following of local shareholders that

had previously invested in Hello Cannabis clinics to support us in alleviating the opioid epidemic in our city," says Verbeek. "When the retail opportunity presented itself, we gathered the team and started papering the deal immediately."

Hello Cannabis is the only entity in the country that has a medical clinic within a short distance (approximately 100 ft.) from a retail store. "We notice that one in three customers has a medical question about cannabis, but under our regulations we are not allowed to speak about any medical efficacy of cannabis at the retail store," says Verbeek. Although retail staff can't speak to the medical benefits of cannabis, the store's proximity to the medical clinic allows retail customers the chance to walk just 100 ft. to receive much deeper insight into how cannabis can be used to improve their health.

The team also utilized existing strong relationships with LPs from the medical clinic and had time to build in-house training systems and technology to create a more streamlined process for a better customer experience. "We're the number one peer reviewed store in the province and our number one compliment is about our staff," notes Verbeek. "We strongly believe our knowledge and hiring/





training processes are a testament to this. It takes great patience, vigilance, and scrutiny. This is one of our greatest skills, and while it's not rocket science, we strongly believe we have a system of recruitment that is superior to our competitors."

Staff welcome customers into the store through a lounge area where ID checks take place, before customers can head inside the flagship store. Currently, the Dundas store is 2800 sq. ft. and it's expandable to 4900 sq. ft. Design-wise, the team wanted to remain in keeping with the location. "We wanted to keep the store with a small town country corner shop feel but combined with modern flair and technology," describes Verbeek. "We wanted to represent this quaint valley town to the fullest. The store is a mix of a Canadiana vibe with the efficiency and flow of an Apple store."

Bright, happy, uplifting yellow accents give the store a cheerful and approachable tone and the Canadiana vibe includes a layout and design based on natural wood and soft earth tones. This allows for a natural feel that enables the bright yellow to stand out without overpowering the "Canadiana" characteristics of the environment.

Hello Cannabis' customers range from 5,000 -7,000 visitors a week, with a core clientele that has a slight majority of male customers

with an approximate age of 40 years. Currently offering dried flower, oils, and cannabis accessories, Verbeek says the team is looking forward to the changes coming October 17 that will allow them to diversify the product offering. With a head start in the medical space, it seems likely that the team will be saying Hello to many more customers when non-medical cannabis edibles, topicals, and extracts become available this winter. ▀

A man with a beard and short hair, wearing a dark button-down shirt, is shown from the chest up. He is holding a lit cannabis cigarette in his right hand, with smoke rising from it. The background is dark and out of focus.

# Consumption Trends in Canada

by Jennifer Blakney

As we approach the first anniversary of federal recreational cannabis legalisation, we can now reflect on how this cultural shift has affected Canadians' consumption of cannabis. While new regulations have provided enough legitimacy for some skeptics, seasoned users already have their trusted illegal sources in place with no intention of breaking loyalty. The latter believe that the pricing, convenience, and quality of products in the unregulated market cannot be rivaled by that of legal brands. Converting these experienced users has been one of the biggest challenges for the industry.


However, with each month passing, and regulated shops becoming more ubiquitous, we are starting to see a change in purchase behaviour.

The *National Cannabis Survey* by Statistics Canada covering the first quarter of 2019 stated that three-quarter of Canadians (76%) who consumed cannabis in the first half of 2019 cited quality and safety as an

important consideration when purchasing cannabis, while 42% mainly considered price. About one-third also reported accessibility (such as open evenings and weekends), location (proximity to home), and the availability of a preferred potency (or formulation) as important.

quality and safety are such important criteria when deciding to buy cannabis, and since regulated cannabis undergoes strict testing, this trend will likely continue.

This conversion may be slower than desired, but sales are already seeing a positive impact. According to estimates

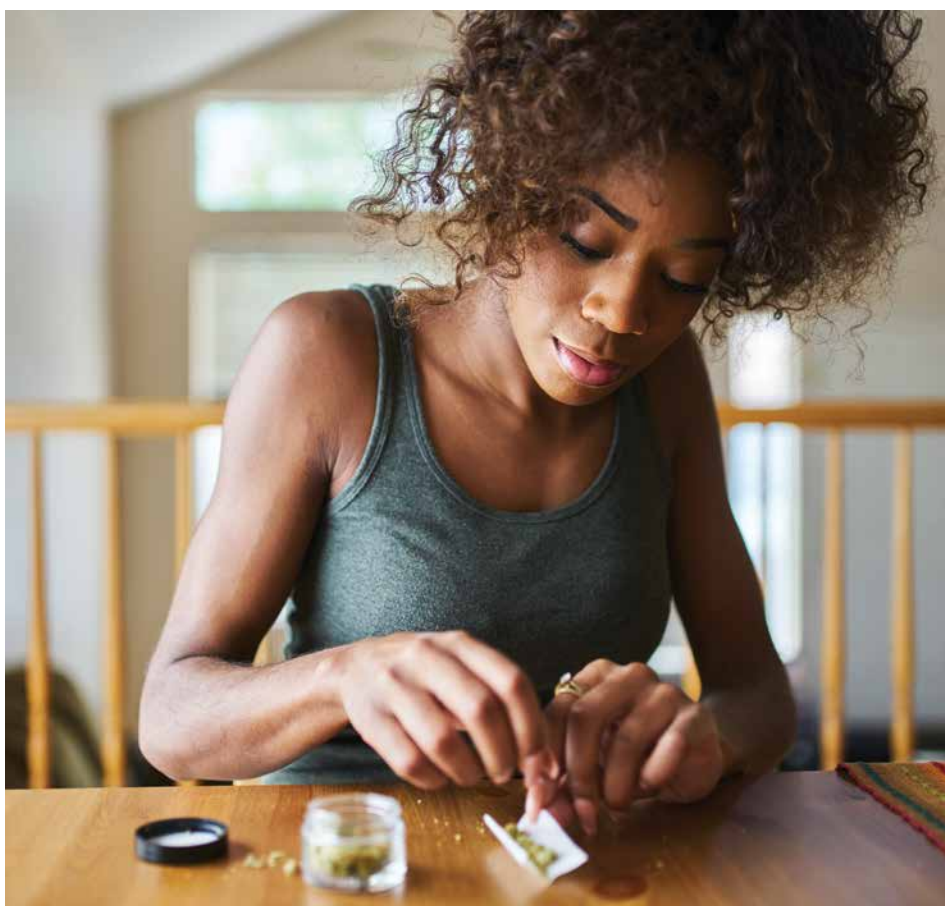
A solid red triangle pointing towards the top-left corner.

Private cannabis retail sales reached a new high  
in July at \$94,605,592.

The study notes that Canadians were beginning to change their cannabis source in the first three months of 2019. An estimated 47% (or 2.5 million) purchased cannabis from legal sources, including retailers and online licensed producers. This number did not shift much in the second quarter survey, with a reported 48% of consumers purchasing legally. Since

from Cova, a point-of-sale system designed for cannabis retail in North America, private cannabis retail sales reached a new high in July at \$94,605,592, which is up 20% from June. These sales estimates are based on 306 private Canadian cannabis stores operating in July, an increase from 256 stores in June.





## Potency and Cannabinoid Ratios Influence Purchase Decisions

In order to gain a better understanding of what customers gravitate towards, we need to look at all the factors that go into a cannabis sale. Do consumers prefer dry flower or ingestible oil? Are they looking for high THC or balanced product?

The range of cannabis products offered by regulated brands ensures that users of all experience levels can find something that suits their needs. A March article from Nielsen discussing Canadian legal cannabis consumption and category potential, noted that consumer knowledge of THC and CBD factor into consumption trends. They discovered that 78% of Canadian consumers are aware of CBD, but only 16% understand it. In terms of products consumed, 19% have legally tried THC varieties, 11% favoured CBD varieties, and 9% used more than one format.

Frequency of use is also a factor. In the *National Cannabis Survey's* second quarter results it was found that daily users were

2.5 times more likely to use three or more types of products compared to those who used less often. Daily users were also more likely to incorporate non-dried products, but less likely to exclusively use them.

New cannabis users favour balanced (1:1) and lower THC products, according to research conducted by Lift & Co. 60% purchase products with less than 19% THC. On the other hand, cannabis connoisseurs are purchasing high THC products. 58% of connoisseurs buy cannabis with more than 20% THC.

## Customers Show Strong Preference for Smoking Dried Cannabis

With a product portfolio consisting of dried flower and ingestible oil, it's no surprise that the former was the most popular. Dried cannabis was reported to be used by 84.2% of consumers in the first quarter of 2019. Dried cannabis sales in June 2019 increased 4.7% compared to May, whereas oil decreased 2.1%.

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For 45% of people, flower was the only product used, whereas 39% preferred a mixture of products. Only 15.8% consume products other than flower.

Looking closer at the demographics purchasing these categories, users aged 19-39 make up the flower market, with those over 65 favouring oil.

Unsurprisingly, smoking is still the preferred method of consumption for Canadians. In a December 2018 study conducted by Western Canadian research company Insights West, it was found that two-thirds (67%) of Canadian cannabis users regularly or occasionally smoked a joint, with 27% using oil (either in capsules or drops). In the first half of 2019 these numbers remained somewhat stable, with two-thirds of male (68%) and female (62%) consumers still choosing smoking. However, females (14%) were almost three times more likely than males (5%) to have consumed cannabis through "other methods," such as the application of products on the skin or under the tongue.



New cannabis users favour balanced (1:1) and lower THC products.

#### What's Next?

Oils are proving to be a difficult sell. Canopy Growth Corp reports a huge inventory of unsold Tweed-branded oils and gel capsules. According to Mark Goliger, chief executive of National Access Cannabis, most of their 35 retailers are having problems selling oil as well.

The launch of edibles, concentrates, and topicals by the end of this year is an exciting expansion both for retailers and consumers. There is already a demand, as stated in the study by Insights West, with 36% of past-year cannabis users saying they consume edibles on a regular/occasional basis. Vaping and oils are also on the rise, at 30% and 27%, respectively. And 10% say they consume cannabis in drinkables on a regular/occasional basis. The *National Cannabis Survey* from the first half of 2019 further corroborates this: 26% consumed edible, as well as other types of products, such as liquid concentrates (20%), cannabis oil cartridges or vape pens (19%), and hashish or kief (16%).

We can definitely expect an increase of new users who want something more discreet and manageable than what is already available. It will be interesting to see how these new formats influence consumption trends, especially in a dry flower-heavy market. ▴





## > NORTH AMERICAN MARKET WORTH US \$47.3 BILLION BY 2024

North America's legal cannabis market will be worth over US \$47.3 billion annually by 2024 with Canada representing US \$3.4 billion. However, the true value of the market is likely to be much larger when black market sales are taken into consideration.

Recreational sales will surpass medicinal sales and account for two-thirds of the sales, according to The North America Cannabis Report by Prohibition Partners.

Concentrates and vapes are the key growth categories in North America, while traditional flower is in decline as a share of total spending. Topical and transdermal cannabis formulations are another growth area and provide small niche players an opportunity to get into the market.

Continue reading: [www.cannabisretailer.ca/2019/north-american-market-worth-us-47-3-billion-by-2024/](http://www.cannabisretailer.ca/2019/north-american-market-worth-us-47-3-billion-by-2024/)



## > BUYING & CONSUMPTION TRENDS Q2 2019

Despite the legalization of cannabis, the number of Canadians using cannabis has not changed over the past year. 4.9 million or 16% of Canadians aged 15 and older have used cannabis in the past three months, which is unchanged from the same quarter in 2018. Nova Scotians and Albertans consume over the national average.

Males are almost twice as likely as females to have consumed cannabis according to the National Cannabis Survey for Q2 2019. Females also tend to get cannabis from family and friends rather than purchasing what they consume. 59% of females reported never having consumed cannabis vs. 51% of males, and females report less daily use of cannabis (4% vs. 8%). Only 12% of females reported consuming cannabis in the first half of 2019.

Continue reading: [www.cannabisretailer.ca/2019/buying-consumption-trends-q2-2019/](http://www.cannabisretailer.ca/2019/buying-consumption-trends-q2-2019/)



## > CONSUMER PURCHASING CRITERIA

Quality, potency, and intended effects are some of the most important criteria for consumers evaluating purchases, according to a recent survey from EY Canada and Lift & Co. For consumers classified as versatile connoisseurs, who make up 10% of the Canadian adult population and consume cannabis on a daily basis, 96% rated quality as most important, 85% noted potency, and 84% rated intended effects as important criteria.

With the very tight restrictions on advertising, it's no surprise that consumers are not familiar with brands. 70% of current consumers who purchase in cannabis retail stores don't know which brand they want, or even what product they are going to purchase, before they enter a store, according to the survey.

Continue reading: [www.cannabisretailer.ca/2019/consumer-purchasing-criteria/](http://www.cannabisretailer.ca/2019/consumer-purchasing-criteria/)



## > 42 NEW ONTARIO STORES SELECTED

42 lucky people were selected from the 4,864 eligible expressions of interest in Ontario's second lottery for cannabis licences held on August 20. The Alcohol and Gaming Commission of Ontario (AGCO)

has notified those 42 selected applicants that they may now apply for a cannabis Retail Operator Licence and a Retail Store Authorization. Applicants have until August 28, 2019 to do so, at which point the AGCO will undertake its full eligibility and licensing review. The AGCO will only licence applicants and authorize stores that meet all legal and regulatory requirements.

60% of the entries were from sole proprietors and 39% were from corporations.

Continue reading: [www.cannabisretailer.ca/2019/42-new-ontario-stores-selected/](http://www.cannabisretailer.ca/2019/42-new-ontario-stores-selected/)



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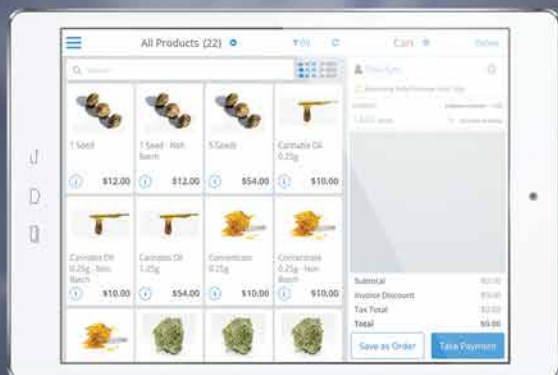
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## Spiritleaf Takes Place as Canada's 2nd Largest Retailer

by Lisa Tachan



If you've been following Spiritleaf since the beginning, you have witnessed how they describe cannabis legalization – that is, you witnessed the start of something incredible. To date, Spiritleaf is the first and only Canadian cannabis company to be granted Canadian Franchise Association Membership. They have secured 27 retail cannabis licenses in Alberta, making them the number one cannabis retailer in the province. And now, with 33 stores operating or preparing to open across Canada, they are set to become the second largest cannabis retailer in the country.

Spiritleaf is quickly gaining momentum to lead the pack in the world of cannabis retail. One of the keys to their success seems to lie in their branding. They go beyond touting quality products and a positive consumer experience. Spiritleaf is using their platform to tap into what's at the heart and soul of cannabis and those who embrace it.

Spiritleaf is peace.

Spiritleaf is happiness.

Spiritleaf is community.

"Our brand is definitely one of our strengths," admits Spiritleaf Founder, President and CEO Darren Bondar. "But we owe so much of our success to our franchise model. Local owners operate Spiritleaf. They live where they work. They are passionate about the company, their stores, their products, and their success."

Being a cannabis retailer is not for the faint of heart. As we know, navigating several levels of government and obtaining multiple permits in a business landscape that is constantly shifting can frustrate the most experienced business professional.

"Cannabis retail is not an easy business to get into," Bondar concedes. "We're still trying to get clarity around government rules and regulations. While it's great that we're seeing more supply available, the lottery system continues to be ineffective and challenging."



Still, Spiritleaf persists. They are dedicated to the details. Each Spiritleaf location is carefully selected, their staff is well trained, and every element of the store is on-brand.

“It takes a lot of patience, perseverance, and elbow grease to get those doors open,” Bondar adds. “So [for] every store we see open across the country, we make sure we’re there to celebrate with store owners and honour every victory.”

For Spiritleaf, there has been quite a bit to celebrate. They were the first recreational cannabis retail chain to form, they received the first successful IPO, and they were one of the first cannabis retail stores to open in Ontario.

However, Bondar feels that the Spirit Fund, Spiritleaf’s community engagement program, is the true validation of the company’s success. “Success goes beyond the business side,” Bondar elaborates. “My hope is that we can make a difference in the communities where we operate with the Spirit Fund.” The Spirit Fund is presently locked into a five-year commitment with their first beneficiary, the Downie Wenjack Fund.

“The root of the cannabis plant is what we’ve all been doing this for,” Bondar says. “That root represents tranquility, peace, love and harmony. If we can just put a little bit of that back into the world...” ▲





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# TRENDS

## Sales in Oregon

by Jennifer Blakney

With only a few more months until cannabis concentrates become legal in the Canadian recreational market, retailers will want to forecast how these new products could impact sales. Will flower remain a firm staple, or will it be eclipsed by extractions?

Reviewing Oregon's robust industry can help us glean some insight into what we may expect. The state legalized cannabis for medical use in 1998, and recreationally for adults in 2012. BDS Analytics' 7th edition report on the *State of Legal Cannabis Markets*, released in June, cited a total of 561 medical and adult-use dispensaries in operation.

### High Supply & Low Prices

Unlike many cannabis markets, Oregon is experiencing a period of over-abundance—to a fault. At the start of 2019, BDS Analytics reported that there were more than 1000 licensed cultivators and 1200 additional cultivation licences pending application. Due to this high volume of producers, it was estimated by the Oregon Liquor Control Commission (OLCC), the regulatory body for adult-use cannabis, that there is enough inventoried product to supply current demand for the next 6.5 years. Production is not slowing either, further increasing this gap.

This imbalance has led to historically low retail prices since 2015. The initial

drop was a dramatic 50%—from \$14 to \$7 per gram. A rise to \$9.27 occurred at the beginning of 2016, but dropped to \$4.27 at the end of 2018. So far 2019 has seen a record low of \$3.84 per gram, and on average was 30% lower in price than June 2018.

Flower sales accounted for 41% (\$27.8 million) of revenue year-to-date through June, making for an 11% increase from the previous year. This report also noted that pre-rolls made up 8% (\$5.2 million) of those sales. This category shows a steady increase of 20% since June 2018, and 13% increase since 2017 as people show a preference for the convenience of pre-rolled joints.

### Concentrates on the Rise

A divergence in sales was seen in 2018, as concentrates rose in popularity from 21% to 27% of the market. As of June they contributed 30% (\$20.4 million) of total revenue, a 24% increase from 2018.

The concentrates market is segmented into two product categories—vape and dabbable (shatter, live resin, etc). Sales for vapes increased by 24%, and 25% for concentrates. Vapes in particular have become the favourite of the two subcategories, making up 69% of the concentrate market in the first quarter of 2018.

Interestingly, live resin saw a 128% sales increase between 2017 and 2018.

### Edibles Still Finding Their Way

Currently Oregon's ingestibles market consists of edible and sublingual products, and with no restriction on formats (gummy bears and chocolate often come to mind), businesses can respond to the market more creatively. For example, in 2018 cannabis "shots" were a very popular item, almost on par with other infused beverages.

Tinctures and capsules experienced low demand between 2016-2017 and made

up an average of 9% of sales. 2018 saw an upswing of almost double, increasing the overall sales contribution to 16% (\$11.1 million). Demand is continuing to increase—in June alone ingestibles contributed 76% of revenue, and over the year have increased by 21% for edibles, and 43% for sublinguals.

### Hemp is the Next Big Trend

Due to Oregon's unique supply glut, a number of growers are pivoting to hemp for CBD products. With the passing of the Farm Bill in 2018 more companies are producing products without the psychoactive effects of THC. Demand for these products is high and since growers can potentially earn over \$100k for an acre of hemp, we could start to see current licence holders put more effort into their hemp grows, which cost less to permit and produce than cannabis.

The over-supply of flower is still unmet by demand, and although Canada does not share the same supply issues, we should be aware of that potential problem in the future. As new technologies and product varieties emerge Canadians can expect consumption preferences to become closer to those in Oregon.

## Dollar Sales by Category as of June 2019

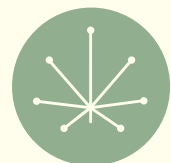
- Flower 41%
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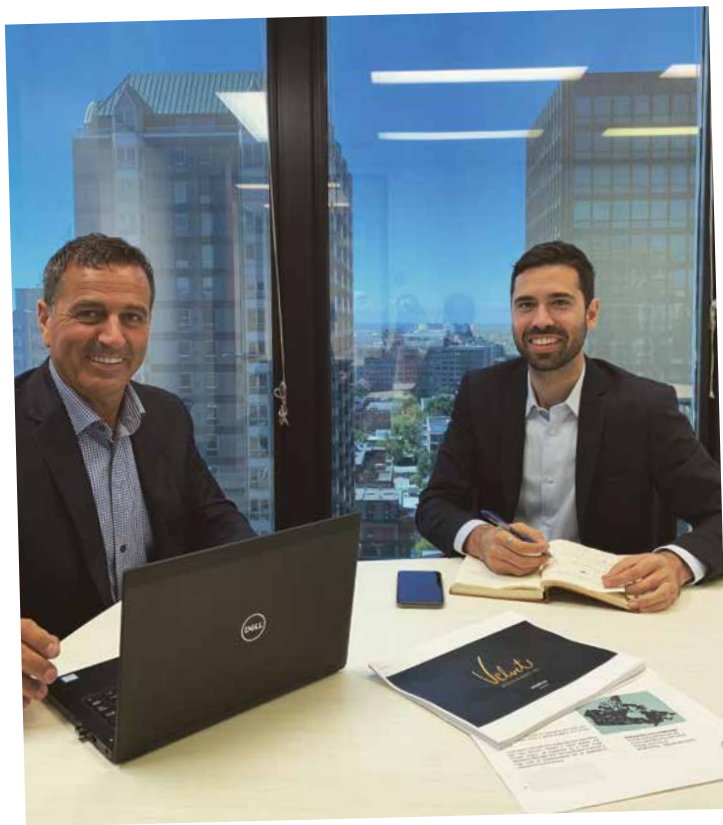
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# VELVET MANAGEMENT

## Helping LPs Bring Products to Market

Considering how popular cannabis is, it would be easy to think that all one needs to do is grow and sell for the sector to function. Anyone within the industry itself, however, will say that nothing can be further from the truth. In actuality, the processes that lie in between planting the seed and putting the final product into the hands of the consumer are an intricate dance of government bureaucracy, careful marketing, and a long list of other logistics.



Vianney Aubrecht President and Marc-Olivier Lavoie Director of Marketing

Many licensed producers (LPs) hire a team of people to handle the ins and outs of the cannabis sales and retail supply chain, but there are also companies that offer these services helping to reduce the LP's expenses and increase efficiencies.

"We are basically a one-stop cannabis sales and marketing agency," says Marc-Olivier Lavoie, Marketing Director for Velvet Management. "We support licensed producers, processors and brand owners, and help them to build their route to market. After securing buyer agreements, we ensure the distribution and sale of our partners' products. These initiatives are propped up by the trade marketing team who executes them in the field with guidance from our in-house marketing team."

Velvet comes from a background which lends itself to the distribution of a controlled substance. "Our company was created by Dandurand, which is the largest importer of wine in Canada and Velvet has the same brokerage model," explains Lavoie.

There are many similarities between the way alcohol and cannabis are distributed in Canada. However, since cannabis is a new industry, there are a number of factors Velvet needs to take into account.

"With the phase two products that will be legal in October, there's a lot more product assortment, forcing Velvet to be very creative about how we get our brands to resonate with consumers," says Lavoie. "The



regulations for branding are stricter than the alcohol industry, so we spend much time consulting with retailers to stay within the rules, yet get the brand message out in their stores.” Lavoie adds that he believes the rules around branding and marketing will loosen as time goes on.

The rockier marketing landscape that exists for cannabis means that companies like Velvet need to focus on unique ways that the consumer can differentiate brands, and that starts with the budtenders. “In the cannabis industry, sales education is very important,” explains Lavoie.

“Most of the sales are driven by the budtenders, who are giving information to potential consumers, so Velvet partnered with CBD Strategy Group (a brand marketing and communications firm designed to serve the Canadian Cannabis industry) in creating a sales education program called the Cannabis Education Guild, which provides us with a high level of certification. We want to have a highly trained team in market that understands our partners’ DNA and speaks professionally about it.”

Currently Velvet works with four LPs and more are on the way. The companies are The Green Organic Dutchman, Greentone, Pure Global Cannabis, and Highland Growers.

Find out how Velvet Management can support your company in this unique and challenging landscape.

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# Developing your Strategy for Concentrates

by Harrison Jordan

## 6 Key Considerations

We don't know just how large the market will be, but concentrates, edibles, and concentrates products like topicals are expected to be big sellers when these products become legal to purchase later this year alongside dried cannabis and oils.

It's prudent for store operators and front-line employees to know the new product lines and how the products will look and feel for consumers.

Many people are referring to this moment as Legalization 2.0, and Health Canada has created a framework that will enable a broad variety of products that will finally allow retailers to take on the black market in all the product segments that they currently cannot compete with.

Following are six things that cannabis retailers should consider when making the transition to Legalization 2.0.

### 1. Provide Adequate Training to your Employees

Employees should be trained on the new

product forms that will be coming out so they can assist consumers. Product calls in Ontario indicate that the provincial wholesaler intends to stock vape cartridges and starter kits, disposable pens, live resins, wax, shatter, budder, rosin – and that's just the vaporizable extracts. They will also be

Edibles and concentrates will be a whole different experience than smoking or vaping cannabis.

selling confectionery, baked goods, and dried powder mixes as well as cannabis beverages. Educated front-line employees equals educated consumers. Use the opportunity to educate patrons. Edibles and concentrates will be a whole different experience than smoking or vaping cannabis. It helps to educate customers that these effects may have a longer effect than current products.

Andy Palalas, chief revenue officer of High Tide Inc., operator of cannabis retailer Canna Cabana, says educating consumers will be key, and keeping a good line of communication with producers of cannabis often gets rewarded.

Palalas says his companies work closely with licensed producers. "We'll often get a heads up about products in their pipeline."

### 2. Optimal Storage Space is Required

There will be hundreds of new SKUs to choose from when ordering concentrates and edibles: I predict we will see edibles and cannabis liquids in all shapes, sizes, and viscosities, and packaging will vary just



as broadly. That's why it's important to maintain a large storage area that will be able to accommodate the incoming surge of products. The good news: Under the proposed Cannabis Regulations, products cannot require refrigeration, so you're probably not going to have to invest in much new machinery, however, you may want to consider investing in refrigeration so you can offer customers cold beverages. The Nova Scotia Liquor Corporation recently reported it will need to renovate their stores to welcome the new product lines.

Palalas notes that their stores all feature lockable shelf-space on the retail floor, allowing them to adapt to the new product classes.



### 3. Security will be Paramount – Review your Protocols and Security Mechanisms

Barry Davidson, director of strategic engagement of 3Sixty Secure, states that the high value of these new products will test

a store's security protocols. He says, "The overall challenge in the cannabis retail space is that there are multiple attractive targets to thieves: From cash to the product, all of which is easily disposed of quickly." Have a security consultant reviews your plans and processes to determine if more needs to be done.

### 4. Look at Stocking Cosmetics and CBD-heavy Products

Although cosmetics in of themselves won't be a significant chunk of your revenue, you can differentiate your store by putting an emphasis on those products and CBD-heavy cannabis products when they come into the market.



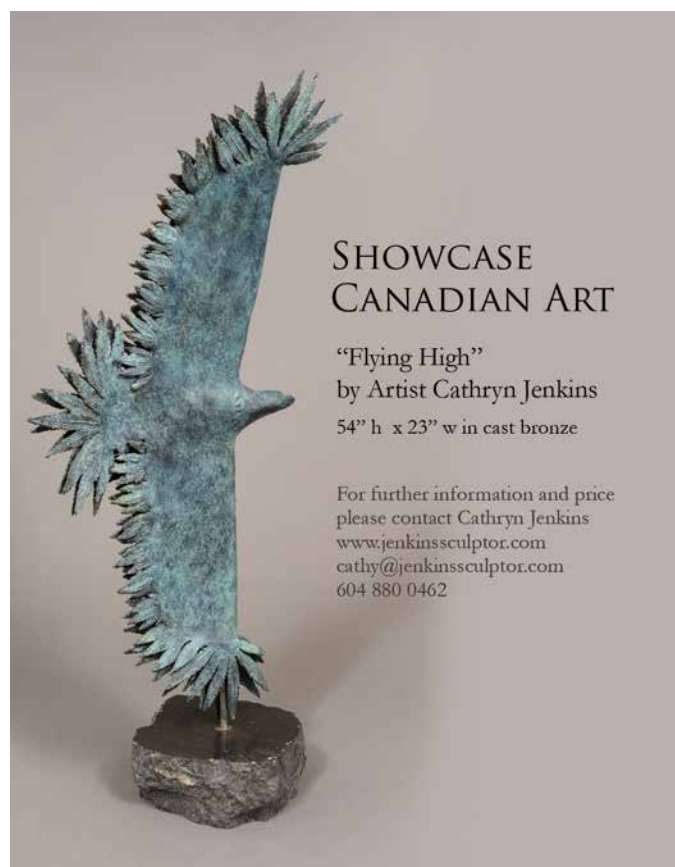
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And although you can't sell products for a medical purpose, your store can welcome adults who consider their use of cannabis closer to a 'wellness' centric purpose.

## 5. Integrate the New Product Classes into your Marketing Efforts

Your existing marketing efforts should be updated to include your new product lines. If you deploy regular email or SMS campaigns, including alerts about different items you're stocking, make sure to incorporate the new product SKUs. Examine the sales data to see where demand is and take action to revise your marketing efforts as needed. If you notice patterns in purchasing, you can tailor discounts (where permitted) to boost sales on days that typically have low numbers.

## 6. It's a Marathon, Not a Sprint

Consumers and employees alike might be disappointed to find out that there won't be any of the 'Legalization 2.0' products on their store's shelves on October 17, 2019. That's because of a rule in the federal regulations that require producers of finished products to give a 60-day notice to the government before public sales start. And since the regulations for the new product classes won't be official until October 17, 2019, it will be mid-December



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A close-up photograph of a hand wearing a white nitrile glove, gently holding a cannabis plant. The plant has several green, serrated leaves. The background is dark and blurred.

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before we see any products on shelves. Even then, expect it to be a limited selection of products until 2020 rolls along. Make sure your front-line representatives convey this to customers, who might not fully appreciate the initial selection of offerings.

Palalas believes that eventually these new products segments will be "very disruptive" to dried cannabis sales, so it's wise for retailers to make these new products part of their core offerings. He says, "We're going to be pretty aggressive in terms of stocking these products, keeping in mind it might take some time for producers to get those products in regular circulation."

There are many considerations that retailers will have to make to adapt to the new product classes. We didn't cover other areas such as point-of-sale and menu signage systems, but those and other areas of your retail experience will need updates to accommodate the new product lines. Make sure you only partner with trusted service providers that can remain agile and adapt to the incoming sale of these concentrates. ▴





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## Q: What are Cannabis Health Products?

### Can I sell them in my store?

Cannabis Health Products (CHPs) are a proposed new class of cannabis products that would—subject to amendments to federal and provincial legislation—be available for sale through recreational cannabis retail channels.

On June 19, Health Canada released a consultation document for this proposed class of cannabis drug that would not require practitioner oversight. Currently, cannabis products cannot make any health claims unless they are produced by a prescription drug manufacturer holding a Cannabis Drug Licence and a Drug Establishment Licence. Such cannabis drugs are sold principally through pharmacies with a doctor's prescription.

The proposed new class of CHPs would be permitted to make health claims regarding “minor ailments” (sore muscle relief, sleeplessness, etc.), but general health claims (related to general health maintenance or promotion) would not be permitted. Specific claims would need to be backed by scientific evidence.

If the consultation paper proposals become law, CHPs would be available to consumers through the same retail channels as recreational cannabis products (provincially-authorized retailers) and also from holders of a federal licence for medical sale, but without the requirement for a medical document.

The creation of this class of products would be a boon to cannabis retailers, but will be underwhelming to the many Canadians who believe that cannabis health products—if they contain only non-psychoactive cannabinoids like CBD—should be regulated as Natural Health Products rather than under the *Cannabis Act*.

## Q: When will edibles, topicals and extracts be available for sale?

Although the *Cannabis Regulation* amendments authorizing the three new product classes will come into effect on October 17, 2019, products from such classes will not be hitting store shelves until mid-December at the earliest and likely not until 2020 in certain regions. This is because the regulations have a 60-day notice requirement before new products can be distributed. While some licensed producers were hoping they could submit such notice 60 days prior to October 17th, Health Canada has confirmed that they will need to wait until October 17th to do so.

Given the supply chain challenges for flower and oil faced by certain regions, it can be expected that deliveries of edibles, extracts (which include oil), and topicals to provincial cannabis crown corporations (and licensed private retailers in applicable provinces) will also face a halting roll-out. This is likely notwithstanding that federal licensed producers

appear (from the most recent Health Canada Supply and Demand report) to be stockpiling unfinished inventories with the goal of making a big splash in the (likely to be) much larger and more lucrative edibles, extracts, and topicals market.

## Q: What's happening with cannabis retailing in Ontario?

Ontario's second round cannabis retail lottery was held on August 20th. The 42 winners won the opportunity to apply for a licence to operate a cannabis retail store in Ontario.

While the first lottery for 25 licenses held in January was characterized by a gold rush mentality with 17,300 participants, the second round lottery participants faced prequalification requirements that created challenges of their own. For example, more than a week before the lottery window opened on August 7, the few banks that had been willing to provide the required comfort letters (essentially confirming that applicants had \$300,000 available) stopped doing so. The banks, including go-to Ontario cannabis credit union, Alterna, started turning customers away after being inundated with requests. This prevented some otherwise qualified individuals and organizations from being able to participate in the lottery. Some participants also faced gouging by landlords exploiting the requirement that applicants secure a store premises prior to entering the lottery.

This was followed by the discovery that certain retail brands had coordinated dozens or more lottery participants to submit applications for the same store premises - though multiple lottery participants using the same location was not, by itself, a breach of the lottery rules.

Now, at the time of writing, 18 of the 42 second round lottery winners have been disqualified from the application process by the AGCO and one winner has withdrawn. Of the 18, 12 were disqualified for failing to submit all required application documents within the prescribed period after the lottery. In a surely fatal blow to the already much-maligned Ontario cannabis lottery process, 11 of the 12 have now initiated legal action against the AGCO, claiming that the AGCO failed to follow its own rules by delivering late notice of the lottery win. Until the matter can be determined, the Ontario court has ordered a stay, preventing the AGCO from issuing any licences for two weeks. (Although it's unlikely any licences would have been issued in such a short time anyhow.)

The other six of 18 disqualified applicants were eliminated for breach of the lottery rule that dictated the pre-qualification requirements for entering the lottery in the first place. Though we don't know the specific causes, the fact that these winners are being disqualified only after the lottery for reasons relating to pre-qualification requirements is telling.

At this point, it's unlikely the Ontario government will have the stomach for a third lottery, but let's hope the Ontario Cannabis Retail Corporation and federal cannabis producers get their cannabis supply chain act together soon, so Ontario consumers and would-be cannabis retail participants can avoid any risk of having to suffer through another lottery.

Presuming there is no further lottery, and absent a further amendment to the regulations under Cannabis Licence Act (Ontario), the Ontario cannabis retail market will open to all on July 3, 2020.

*Jeremy Burke is a corporate-commercial partner, and member of the Cannabis Group, at the law firm Aird & Berlis LLP. Jeremy advises stakeholders from all corners of the cannabis industry on commercial and regulatory matters.*



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## NORTH AMERICAN MARKET WORTH US \$47.3 BILLION BY 2024

North America's legal cannabis market will be worth over US \$47.3 billion annually by 2024 with Canada representing US \$3.4 billion. However, the true value of the market is likely to be much larger when black market sales are taken into consideration. [Read more...](#)

## SPIRITLEAF – CANADA'S 2ND LARGEST RETAILER

If you've been following Spiritleaf since the beginning, you have witnessed how they describe cannabis legalization – that is, you witnessed *the start of something incredible*.

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## 13 NEW APPLICANTS SELECTED IN ONTARIO

Of the 42 applicants who won Ontario's second lottery, only 29 submitted the required documents on August 28th and are now being reviewed for eligibility. [Read more...](#)

## 19 CANNA CABANA LOCATIONS IN ALBERTA

High Tide Inc. opened Canna Cabana retail stores in Calgary and Vegreville last week. The company currently has 23 branded Canna Cabana locations across Canada and expects to open another Canna Cabana later this month. [Read more...](#)





# Innovation in Edibles

by Harrison Jordan

## From chocolates to powder mixes, cannabis retailers will be showcasing a ton of innovation in edibles.

There are a few things you should know before edibles arrive on retail shelves.

First, edibles are just another cannabis product that will become legal under the *Cannabis Act*. That means you should be prepared for the products coming with a child-proof locking mechanism and the familiar standardized THC logo.

Second, be aware that the rollout will take time. The earliest that edibles can arrive on shelves is mid-December 2019, and even then we will see only a limited selection until 2020 when the selection will start ramping up.

Third, know that we will see a variety of product forms far surpassing what is currently allowed. Right now, the only ingestible products that retailers can sell are gel capsules and diluted cannabis oil, neither of which contains the breadth of ingredients that cannabis edibles will have.

## What can we Expect?

Exactly what sort of SKUs will retailers be selling? In Ontario, the product call for edible products includes confectionary, baked goods, and dried powder mixes, however, it is likely that the agency is looking into all qualified edible submissions even if they don't fit neatly into those categories.

The product call for edible products includes confectionary, baked goods, and dried powder mixes.

## Restricting Ingredients and Claims

At its core, there are certain restrictions on any edible cannabis products. Vitamins and minerals cannot be added, nicotine and alcohol cannot be added, and there will be limits on caffeine to take into account the reality that chocolate can contain a small amount of caffeine. In addition, the products cannot be appealing to youth, cannot make health claims,

and cannot make associations with alcohol, tobacco, or vaping products. Lastly, companies will not be able to make dietary or cosmetic claims about their cannabis edibles.

Curiously, there are no restrictions on what the edibles themselves may actually look or taste like, as adding sugars, sweeteners, or colours is only prohibited for ingested cannabis extracts.

This prompted Quebec to recently call for its own rules as to which cannabis edibles and concentrates can be sold in the province's publicly-run cannabis retailer.

## Chocolate Edibles – The Next Frontier

Prepare for your shelves to have at least some chocolate. Some licensed producers of cannabis are betting big on chocolate



edibles, specifically on the branding being used. Indiva, based in London, Ontario, struck a deal to be the exclusive manufacturer of cannabis edible products from Bhang™, a US-based brand that has developed goodwill from American markets. We don't know exactly what products they will be producing in Canada, but in the American markets they have developed chocolates, tinctures, beet shots (yes, drinks with beet juice), as well as gum, gummies, and sprays.

### Environmentally Conscious Packaging

Edibles purchased in Canada will have a federally mandated limit of 10mg per package. That means that more experienced users may need to buy multiple SKUs and quantities to obtain a desired effect.

Due to Health Canada's packaging restrictions, recycling has become an issue as consumers are concerned about the excessive amount of packaging materials



used. As waste concerns grow, you will find producers creating innovative packaging that is both discreet and environmentally friendly. We are already starting to see that with existing products. Producer 48North recently released a pack of pre-rolls that are in a 100% biodegradable box.

### Dosing Guidelines

There is a lot of debate about whether the limit of 10mg. THC per package is high enough to accommodate more experienced users, who have a higher tolerance to THC compared to relative newbies. However, Bhang's™ dosing guide states that 10mg

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Producers are also working on reducing the  
time for the THC to take effect.

"is for... edible pros only." They suggest that new users consume approximately 5mg of THC and check how they are feeling 60 to 90 minutes later.

### New Technology

Producers are also working on reducing the time for the THC to take effect and some claim that the effects can be felt starting in as few as five minutes. These are typically water-soluble and meant for cannabis beverages, although we will also likely see innovation on the edibles side too.

In the coming months, you may read about nano-encapsulation and nano-emulsion. While we'll leave the science to the scientists, just know that some companies will try to

push the limits in terms of the effects that are felt after consumption of their products.

### No Fridge? No Problem.

One last thing you should know is that the federal government's regulations on cannabis products prohibit the sale of edibles and liquids that require refrigeration. This means that products will have to be shelf-stable, which may limit product selection, but will lessen the resources and burden that is placed on cannabis retailers.

With great power comes great responsibility, and it will be important that cannabis retailers and budtenders educate customers who walk through the door about the variety and effects of these new product classes. ▀





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A close-up photograph of a woman with vibrant pink hair, her eyes closed in a state of sensory evaluation. She is holding a small, dried cannabis bud between her fingers, bringing it close to her nose. The background is softly blurred, focusing attention on her expression and the bud.

# High Quality Cannabis: Separating Fact from Fiction

by Lisa Tachan

We've all been there. A customer walks into your store to scope out your cannabis supply. You walk them through your store menu, making a point to emphasize each flower's lineage and the fantastic, caring environment in which the product was grown. You offer them sensory jars, allowing your customer to smell and look at different strains. You discuss the terpenes and get the customer to note the aromatic appeal of each bud.


And then, they ask *that* question.

"Cool. But which one has the highest THC potency?"

In the deep, dark recesses of your mind, you facepalm.

"One of the many challenges facing budtenders is combating the misconceptions about what makes cannabis high quality," notes Keenan Hall, Assistant Manager at Kiara. "People often miss out on the opportunity to try some really fantastic cannabis strains because they are so focused on THC levels."

Another unique challenge budtenders face is the fact that many cannabis customers have designated themselves to be "veteran" consumers. They've been smoking cannabis long before your doors even opened. Who are you to tell them what high quality cannabis is?



A sensory evaluation is the true test of  
cannabis quality.

"People are proud of their cannabis knowledge and personal experience, which is a good thing," Hall says. "There's always been folklore around cannabis quality. Budtenders need to know how to navigate being knowledgeable while also being compassionate and eloquent in the way they lead people towards what the research says."

## Debunking the Top Four Tales of Cannabis Folklore

The misconceptions about high quality cannabis that exist online and are shared among friends have been around for a very long time. We've outlined some of the most

popular myths and spoke to the experts to get to the root of the true nature of cannabis.

### **Myth #1: The higher the THC potency, the better the bud**

"The most popular misconception seems to be that THC potency equates to high quality," explains Pete Shearer, Director of Product





*Courtesy of Tantalus Labs*

Development and Planning at The Supreme Cannabis Company. “But just because a strain has high THC doesn’t mean we can assume it will be aromatically pleasing, have a nice flavour, or even look appealing.”

While THC is an indicator that a plant has been grown with care, a sensory evaluation is the true test of cannabis quality.

### **Myth #2: The plant strain will determine the effect on the body**

“Budtenders should not make assumptions or generalize the affects of strains,” cautions Julie Domingo, CEO and Lead Instructor at CannaReps. “The most experienced consumer may believe that Indica will make them go down while Sativa will make them go up. It’s important to remind people that everyone is different and they will have their own unique reaction to every strain.”

Strain types or good genetics offer a solid base when determining quality, but that alone isn’t a perfect indicator. It’s comparing how you were born to how you were raised.

### **Myth #3: A cool bud colour must mean it’s awesome**

“When people see different hues of cannabis like purple, they assume it’s due to high potency or quality,” says Hall. “In reality,

the colour has more to do with genetics, PH balance and the temperature of the plant than its actual quality or THC levels.”

### **Myth #4: White ash indicates high quality**

“If you burn any kind of carbon- based material long enough, it’s going to produce white ash,” explains Hall. “White or black ash isn’t the best indicator of high quality cannabis. There could be some other things going on in the plant to produce either.”

### **The Importance of Sensory Evaluation**

Shearer is known across the industry for developing the Shearer Scale to help cannabis connoisseurs determine the quality of their cannabis. Customers may need to be guided to understand that it is not the THC potency, strain, hue or colour of ash produced that indicates quality. Determining the quality of cannabis (and if we’re going to like it) is much like a wine-tasting. We must look at:

- 1) visual appeal;
- 2) smell; and
- 3) flavour.

Understanding what makes a favourable production environment will also help you



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explain the elements needed to produce high quality product. “Cannabis needs very specific environmental parameters in order to thrive,” Shearer describes. “You can grow amazing cannabis and ruin it if you don’t dry and trim it properly. A fast dry or wet trim can lead to undesirable aromas and flavours in the end product.”

Part of Shearer’s role involves ensuring plant production at the 7ACRES growing facility adheres to a tightly controlled environment from start to finish. They practice a 14-day, whole plant, hang dry. Doing so allows for optimal terpene retention, which ultimately increases the aromatic appeal and pungency of the dried flower.

### The Power of Budtender Education

While we are living in a legalized world where cannabis is being used recreationally, there are customers visiting retailers to use cannabis for their medical needs. That is one of many reasons why it is so important for staff to be trained properly.

“Dispensary owners or managers should focus on building a holistic brand and optimizing their organization’s structure and internal operations,” Domingo says. “Cannabis is transformational. There’s a history, art, and culture behind the science of every plant. Dispensary entrepreneurs can create a powerful experience by ensuring their staff has the training to be confident in their product knowledge and compliant in their communication.”

Hall could not agree more when it comes to empowering staff. “We have a really amazing work environment at the Kiaro store on Kingsway, Vancouver. We’ve put together a team that is driven and passionate about cannabis,” he says. “Together, we make sure our customers get the best experience possible while also having a role in each other’s professional development and growth.”

High quality cannabis is like a legend clouded in both fact and fiction. As retailers and budtenders, it is our job to help customers separate the two. With knowledgeable staff, educational resources, and a little bit of compassion for every consumer, we can educate and improve the cannabis community.▲



It is not the THC potency, strain, hue or colour of ash produced that indicates quality.

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## Cannabis Herbal Extract Reduces Seizure Frequency in Children with Drug-Resistant Epilepsy

Preliminary findings from an University of Saskatchewan led clinical trial demonstrate reductions in seizure frequency in children with drug-resistant epilepsy with daily use of a 1:20 tetrahydrocannabinol (THC):cannabidiol (CBD) cannabis extract product. This open label dose-escalation trial led by two pediatric neurologists, Dr. Richard Huntsman and Dr. Richard Tang-wai, was published in *Frontiers in Neurology*. In this dose-escalation trial, children with drug-resistant epilepsy aged 1 – 10 years were given twice daily oral doses of the 1:20 THC:CBD cannabis herbal extract beginning at CBD equivalents of 2 mg/kg body weight/per day, and increasing the dose each month to 5 - 6 mg/kg/day, then 8 - 9 mg/kg/day and finally 10 - 12 mg/kg/day followed by a one month tapering off of the cannabis herbal extract. Preliminary results from 7 participating children indicate that all 7 children responded to the 1:20 cannabis product. All children showed a reduction in average daily seizure frequency at a CBD equivalent dose of 5 -6 mg/kg/day. By the 10 - 12 mg/kg/day dose, an average 74% reduction in seizure frequency was observed, while 3 children became seizure free. At the end of the trial with a one-month weaning off period, children still continued to show reductions in seizure frequency. Interestingly, the dose required for improvements in seizure frequency with the 1:20 THC:CBD Cannabis oil product were lower than doses reported for pure CBD products.

Health care providers have been concerned about the THC content of cannabis products and the risk of intoxication. In this study, none of the children showed symptoms of intoxication. Furthermore, 1:20 cannabis product was well-tolerated and no serious adverse effects were observed. Side effects

were noted only when children were taking clobazam and reductions in the clobazam dose resolved the observed side effects.

In addition to reductions in seizure frequency, all participating children showed improvements in quality of life scores, in particular cognitive, social, and emotional functioning subscales. The study included measurements of the minimum steady state plasma concentrations of CBD, THC, and another cannabinoid, cannabichromene, which composed 4% of the 1:20 cannabis product used in the trial. As dose increased, the minimum steady state plasma concentrations of all measured cannabinoids increased proportionally with dose suggesting linear pharmacokinetics. Seizure control and quality of life scores also tended to increase with increasing dose. In children who were seizure free on the 1:20 THC:CBD cannabis herbal extract, the minimum steady state plasma concentrations of CBD ranged from 54.8 -78.9 ng/mL, concentrations much lower than CBD plasma concentrations required for seizure reduction with pure CBD products. THC plasma concentrations

remained less than 4.6 ng/mL even at the highest dose. Except for clobazam, the steady state plasma concentrations of other anticonvulsant medications were unchanged with increasing doses of the 1:20 cannabis product.

The preliminary findings are promising. A 1:20 THC:CBD cannabis herbal extract might be a possible treatment for children with epilepsy who fail traditional anticonvulsant medications. However, the study findings must be interpreted with caution. The data only represent 7 children of a total of 20 children recruited for the study, which was funded by the Jim Pattison Children's Hospital Foundation, the Saskatchewan Health Research Foundation, the Durwood Seafoot Estate, and the Savoy Foundation. More robust evidence to support the use of a 1:20 THC:CBD cannabis herbal extract in drug-resistant epilepsy must follow from a rigorously designed randomized, placebo-controlled clinical trial. The study team is completing the current trial and planning a larger international clinical trial in children with drug-resistant epilepsy.





# Cannabis Promotional Do's and Don'ts

by Harrison Jordan

Cannabis retailers may be curious to know exactly what they can and can't do in the realm of promotional activity. Since cannabis still has stigma, traditional digital ad platforms including Google and Facebook do not allow cannabis ads, and a myriad of laws and regulations put limits on to the types of promotions legal stores can run, both in-store and out in the real world.

Fear not, because you can still promote your store in other ways, but you will need to be careful to make sure you stay on-side.

## A Promotion Primer

First, let's start with a primer on promotion and how it is handled under Canadian law.

Promotion of cannabis is generally prohibited in the Cannabis Act. It's important to know that a promotion of cannabis is defined as a representation made for the purposes of selling cannabis, *about the cannabis*, whether directly or indirectly, that is "likely to influence and shape attitudes, beliefs and behaviours about it."

There is an exception for what is called "informational promotion" and "brand preference" promotion. The former includes factual information about the product, while the latter includes the use of brand elements and colours.

## What Promotions Are Allowed?

Informational and brand preference promotion can only happen in a few permitted scenarios:

- 1) Direct communications** – Communications that are addressed and sent to individuals who are 18 years of age and older and are identified by name. As a best practice, cannabis companies should only target people who are legally permitted to purchase cannabis in their province/territory. This means that retailers cannot send out flyers about their store or cannabis, unless it is addressed to the person by name and they have indicated they are an adult.
- 2) In a place where youth are not permitted by law** – There are only a few places where youth are not permitted by law. In most provinces, that includes R-rated cinema showings, tobacco shops, as well as certain bars and nightclubs that have such a condition on their liquor licence. The law prohibits youth from entering cannabis stores. Note that in Ontario, while many bars prohibit youth, they may not be *mandated by law* to do so by the conditions of their license.
- 3) Telecommunication-based promotion** – Internet, cell phone, email, and social media-based promotions fall under this category. This type of promotion appears to allow more flexibility, and only requires



that the person responsible for the promotion “has taken reasonable steps to ensure that the promotion cannot be accessed by a young person.” For websites themselves, Health Canada has indicated that a strong-age is required in which users must enter their exact birthdate. For promotional ads placed on other websites, or for ads on digital platforms such as Snapchat, advertisers should program ads so that they only show up for users that indicated they were of legal age.

## Promotional Items

Cannabis stores may put their brand element on promotional items, as long as the thing is not associated with young persons, there are no reasonable grounds to believe it could be appealing to youth, and there is no association “with a way of life such as one that includes glamour, recreation, excitement, vitality, risk or daring.”

While a bottle opener, water bottle, or hat may be acceptable to put your brand element on, items that are associated with youth, such as knapsacks and guitars, are off limits.

Promotional items should only be given out or sold within the parameters of provincial and federal laws. For example, in Ontario, the only items one can sell in a store are cannabis and cannabis accessories. For apparel and other items, they can only be sold outside of the store, such as on-line or in other non-cannabis retail outlets.

In addition, make sure that if you are promoting your store by giving out promotional items, that you only do so in the context of a legal method of cannabis promotion: if sent via mail, make sure you only send it to people that have indicated they are adults. Similarly, if in-person, make sure you are only giving it out in a place where youth are prohibited by law.

## Provincial Rules Vary

These are the rules stores must comply with *at a minimum*. Since each province regulates the adult-use stores within their boundaries, some of these rules may be even stricter where you are located, although most provinces follow the federal laws with respect to promotion.

In Ontario, for example, it is illegal for a person to “directly or indirectly offer or give a material inducement to the holder” of a cannabis retail



licence, or an employee. As an example producers can’t give out complimentary sporting tickets to retailers in a bid to gain favour and obtain preferential shelf space.

Still, it’s unclear if the province would ever use this law to curb legitimate strategic partnerships. Cannabis retailer Spirit Leaf has teamed up with Up Cannabis to launch Tragically Hip-themed lounges in their stores across Canada. While this strategic partnership hasn’t triggered enforcement with respect to this provision, it is always something to be mindful of.

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The federal law prohibits promotions that target minors, which is defined as anyone under 18 or 19, depending on the age of majority in your province.

If your province does not prohibit minors from entering the store *by law*, then at the store you are limited to promotions that communicate only the price and availability of your products.

## SMS and Email Marketing

Two pieces of information that retail stores often ask their customers for are their phone number and email address. Some customers will undoubtedly be weary or stay clear of providing such personal information, but that doesn't mean you shouldn't collect and leverage that information through a campaign of regular texts. Collecting phone numbers can serve as the basis for a strong SMS campaign, in which occasional text messages about products can be sent to customers. The same goes for collecting email addresses, which can lead to vibrant, image-based communications.

## Discounts – Tried and Tested

Everyone loves a discount!

One Canada-wide chain, Nova Cannabis, has a “Black Market Buster” where a specific strain (usually lower in THC count), is discounted to compete with black market prices.

Be sure to follow the inducement provisions in the Cannabis Act: for example, you can't provide cannabis or an accessory if it is provided without monetary consideration or in consideration of the purchase “of any thing or service.”

To stay on the safe side of this federal law, retailers should steer clear of “Buy-One Get-One-Free” promotions or providing items or contest entries as inducements to buy cannabis at your store.

Check with your province to see if discounts are allowed.

## Paid Digital Advertising and Search Engine Optimization

Digital advertising is becoming a big part of the marketing efforts of licensed cannabis producers, including programmatic advertising, ad-serving on cannabis-dedicated ad networks such as Mantis, and

search engine optimization. That's because the federal Cannabis Act gives more lee-way to “telecommunications” than it does to more traditional promotion methods.

Be aware that traditional mediums for digital advertising, such as Facebook and Google, technically do not allow the sale or promotion of cannabis, medical or otherwise.

Search Engine Optimization will also be key to obtaining new customers. However, due to the amount of resources illegal mail-order companies have put towards SEO, a comprehensive campaign will be required in order to target high-value keywords.

Ultimately, retail stores should have a comprehensive, digital strategy that targets all available modes and methods of promotion.

## Do's and Don'ts:

### Do

- Consult with a lawyer and review the provincial legislation, regulations, and rules that apply to your store
- Consult with the enforcement division / inspectorate of your provincial regulator, as their interpretations on matters may differ from Health Canada
- Put a strong age-gate on your website where users need to physically type in their exact birthdate
- Collect your customer's phone number and email addresses where appropriate and leverage these contact points

### Don't

- Place advertisements in any place where youth are permitted
- Send out flyers that are unaddressed or addressed to minors
- Put advertisements in physical places where youth are not permitted, unless that is a requirement by law
- Target youth with your promotions ▴

*NOTE: This article is for informational use only and is not intended as legal advice. Always obtain legal representation before conducting activities related to cannabis.*

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