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A snapshot of licensed cannabis producers

Statistics Canada conducted a survey Canada's licensed cannabis producers in the fourth quarter of 2017 and early 2018. Businesses in this survey are cannabis producers that are licensed by Health Canada as of September 2017. The survey collected information on production, inventories, revenue, expenses, employment and capital expenditures for the years 2015 and 2016. Additional information was obtained from the Canada Revenue Agency's corporate income tax and payroll deduction records and from Health Canada's regulatory data.

History of licensed production in Canada

Health Canada established the *Marihuana Medical Access Regulations* in 2001, allowing physicians to prescribe cannabis for medical purposes. Qualified users of cannabis were permitted to grow their own product, designate someone else to grow it for them or purchase cannabis from a single Health Canada-authorized producer.

In 2014 Health Canada implemented the *Marihuana for Medical Purposes Regulations* permitting private businesses to apply for licences authorizing them to produce and sell cannabis to Canadians for medical purposes. Sales are made online or by phone to clients possessing a medical document from a physician. In 2016 the cannabis regulations were updated and replaced with the *to Access Cannabis for Medical Purposes Regulations*.

The Government of Canada has proceeded with legislation in the House of Commons with the intent to make cannabis use legal, later this year, for non-medical as well as medical purposes and this is causing rapid growth in the industry. Currently there are 102 licensed producers, although there were only 55 at the time the survey was conducted.

Definition

Statistics Canada considers a **business** to be an institutional unit that is capable of generating a profit for its owners and is set up for purposes of engaging in market production. A business may be incorporated or unincorporated. A single business may have multiple business locations. Health Canada licenses businesses that produce cannabis for medical purposes on a location-by-location basis. When a business wishes to start operating in a new location, or to move from one existing location to another, it must submit a new licensing application in its entirety for assessment. A single licensed producer can hold multiple licences.

Employment structure

The number of licensed producers was small when the survey was conducted, with the 55 licensed producers reporting total employment of 2,399 persons as of December 2017 (see Table 1).

Table 1
Employment by job category, 2017

	End of 2017 number of persons
Total	2,399
Cultivation and harvesting	749
Administration	330
Sales	280
Processing and manufacturing	251
Quality assurance	165
Packaging	126
Branding, consultation and other marketing	96
Shipping, delivery and transportation	75
Research and development	63

Table 1
Employment by job category, 2017

	End of 2017 number of persons
Security	61
Engineering	34
Other job categories	169

Source: Statistics Canada, Medical Cannabis Producers Survey 2016, survey no. 5252 and Canada Revenue Agency payroll deduction records.

The majority of the businesses had just one location, although a few had two or more locations. Of the reporting businesses, 16 producing locations were in Ontario and 10 in British Columbia. Most were in urban sites. Six of the businesses were established between 2001 and 2012 and all the others in the 2013 to 2016 period, reflecting the rapid growth in the industry happening more recently.

Business activities

Twenty of the responding businesses reported that although they had Health Canada licences to operate in 2016, they did not engage in cannabis growing, processing or researching in that year. Among those that did produce cannabis, some also reported consulting and public education among their activities.

Health Canada requires that all cannabis production, packaging, labelling and storage activities be conducted indoors. Producers reported that 8.7 hectares of greenhouse cultivation area were in use in 2016. About ten times that amount, 85.7 hectares, were available for production but not yet in active use. Fourteen of the active producers reported cultivation areas up to 1,000 square meters and 9 indicated areas larger than that.

Production of dried cannabis products was 80,535 kilograms in 2017, up from 35,912 in 2016 and 9,659 in 2015 (see Table 2). Production has been growing more rapidly than sales, with a corresponding increase in inventories. Again, this reflects the rapid growth in the number of licensed companies.

Table 2
Dried cannabis production, sales and inventories, 2015 to 2017

	2015	2016	2017
	kilograms		
Production	9,659	35,912	80,535
Sales	8,446	26,716	46,186
Inventories (end of year)	17,985	18,087	38,927

Note: The change in inventories from one year to the next is not exactly equal to production minus sales because of adjustments due to destroyed product and other factors.

Source: Health Canada.

In total, licensed producers reported 42,106 clients in 2015 and 135,870 in 2016. Sales revenue of cannabis used for medical purposes were \$239.4 million in 2016 (see Table 3). Sales in Ontario accounted for over half of sales revenue in that year (see Table 4).

Table 3
Revenue, 2016

	2016 thousands of dollars
Total	245,733
Cannabis revenue	239,363
Other cannabis-related revenue	3,088
Non-cannabis revenue	3,281

Source: Statistics Canada, Medical Cannabis Producers Survey 2016, survey no. 5252 and Canada Revenue Agency corporate income tax records.

Table 4
Sales revenue shares, 2016

	2016 percent
Canada	100.0
Newfoundland and Labrador	2.4
Prince Edward Island	0.5
New Brunswick	7.9
Nova Scotia	17.4
Quebec	3.2
Ontario	51.3
Manitoba	1.2
Saskatchewan	1.1
Alberta	11.9
British Columbia	2.9
Yukon	0.0
Northwest Territories	0.1
Nunavut	0.0

Source: Statistics Canada, Medical Cannabis Producers Survey 2016, survey no. 5252.

Cannabis producers had a variety of expenses in 2016 as recorded in Table 5. Total expenses were \$302.8 million compared to revenue of \$245.7 million, implying a loss for the year of \$57.1 million. Wages, salaries and employee benefits accounted for about one-third of total expenses. Other substantial expense categories included raw materials (11%), rent (11%) and professional and business fees (10%).

Table 5
Expenses, 2016

	2016 thousands of dollars
Total	302,820
Wages and salaries	94,211
Employee benefits	4,358
Sub-contracts	11,571
Research and development	6,198
Raw materials	34,246
Fertilizers	1,485
Seed and plants	2,566
Rent	33,140
Professional and business fees	31,498
Marketing fees	24,627
Internet expenses	17,006
Energy	13,251
Security	3,326
Other	25,337

Source: Statistics Canada, Medical Cannabis Producers Survey 2016, survey no. 5252 and Canada Revenue Agency corporate income tax records.

Looking forward

The industry has been growing rapidly in anticipation of higher demand after the legalization of cannabis for non-medical purposes sometime in 2018. Many of the existing companies currently producing cannabis for medical purposes intend to produce and sell cannabis for non-medical purposes as well, after legalization. New cannabis businesses are continuing to be licensed and some existing ones have merged.

Each licensed producer was asked about its investment plans for 2017. In aggregate, the responding companies said they intended to spend \$788.6 million on new capital goods and land (see Table 6). Businesses in the industry reported \$704.3 million in total assets at the end of 2016, so this planned investment would be roughly a doubling of productive capacity. Investment in new structures accounted for more than half of the capital spending.

Table 6
Intended investment expenditure, 2017

	2017
	millions of dollars
Total	788.6
Structures	427.7
Land	66.4
Locations with existing structures	75.1
Equipment	91.9
Inventory accumulation	39.7
Other	87.8

Source: Statistics Canada, Medical Cannabis Producers Survey 2016, survey no. 5252.

The businesses were also asked whether they were planning to increase inventory in preparation for the potential cannabis for non-medical purposes market in 2018. Seventy-five percent of responding businesses said they were very likely to do so and 18 percent said they were somewhat likely to, with only 8 percent responding they were unlikely to do so.

Finally, each business was asked whether it was likely to seek additional investment financing in order to sell cannabis for non-medical purposes. Most responding companies indicated they were indeed likely to seek investment financing, through a variety of vehicles as indicated in Table 7. Personal finance, American private venture capital and angel investors were the most frequently-mentioned sources of potential new capital.

Table 7
Likelihood of seeking investment financing

	Very likely	Somewhat likely	Somewhat unlikely	Very unlikely	Total
	percent				
Canadian private venture capital	26	13	29	32	100
American private venture capital	63	14	17	6	100
Other private venture capital	32	32	18	18	100
Financial institutions	50	6	32	12	100
Initial public offering	33	17	22	28	100
Personal finance	65	3	18	15	100
Partners from strategic alliance	32	15	26	26	100
Credit from suppliers	53	12	12	24	100
Angel investors	57	17	11	14	100
Government sources	50	21	21	9	100
Other ¹	60	7	7	27	100

1. Cash on hand, brokered, reverse takeover, public company financing.

Source: Statistics Canada, Medical Cannabis Producers Survey 2016, survey no. 5252.

Concluding remarks

The number of licensed cannabis producers in Canada is quite small, but growing rapidly. This survey, combined with administrative data, paints a portrait of what it looked like in the fall of 2017, when there were just 55 licensed producers. The number of producers has continued to grow since then and will undoubtedly increase further as the date approaches when the production of cannabis for non-medical purposes will also be legal. Statistics Canada plans to conduct another survey similar to this one later in 2018 in order to update the picture of this nascent industry.