

VERTICAL INTEGRATION IS DRIVING EXPONENTIAL GROWTH AT DELTA 9 CANNABIS

CANNABIS'S MODULAR, SCALABLE FUTURE

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When Delta 9 Cannabis talks about vertical integration, it takes on a new meaning. As one of Canada's oldest licensed producers, the company is building strong revenue as a cannabis retailer and driving additional B2B sales with its stackable, scalable Grow Pod system in Canada and the USA.

For the period ending June 30, 2021, Delta 9 reports Q2 net revenues of \$16.75 million, up 27 per cent against \$13.2 million in Q1 and 29 per cent over the same quarter last year. The six-month revenue results were \$30 million, up 21 per cent against \$25 million for the same period last year, and EBITDA was \$1.2 million, Delta 9's 7th consecutive positive quarter.

What's driving Delta 9's success? It begins with an 80,000-square foot grow facility in Winnipeg. The company became Canada's fourth licensed producer in 2013 and now grows 75 commercial strains.

Delta 9 operates sixteen retail stores — Eleven in the company's home province of Manitoba, four in Alberta, and

one in Saskatchewan — with an additional four locations set for launch by years end.

"Having a foot in both production and distribution is a de-risking strategy," says John Arbutnot, chief executive officer and co-founder of Delta 9. "These locations provide a sales channel for our cannabis production and also provide valuable market intelligence on consumer purchasing patterns."

Delta 9 is the brainchild of a father-and-son team, Bill and John Arbutnot, who founded the company together in 2012, becoming one of the first licensed cultivators of medical cannabis in 2014.

"The early years of the company were modest. We were cultivating medical cannabis products, distributing >>



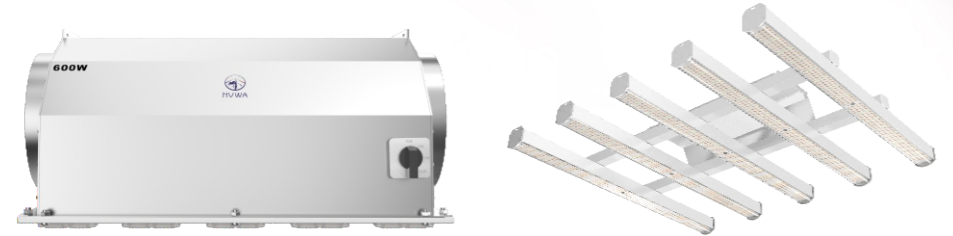
Delta 9 Cannabis places 7th out of 448 participants on The Globe and Mail's Ranking of Canada's Top Growing Canadian Companies with revenues up 5,413% over three years.

John Arbutnot,
CEO, Delta 9.



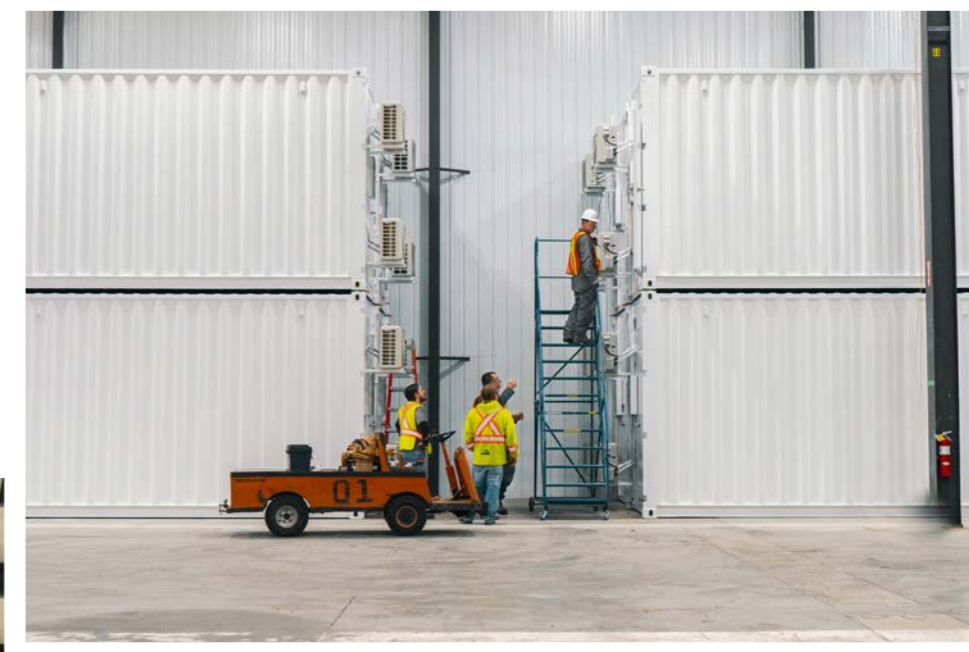
NVWA GROW LIGHT

YFA Trading Company Inc. Winnipeg, MB, Canada
High-tech company named after a trading company
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them to medical customers across Canada,” recalls John Arbuthnot, CEO of the company. “2017 was a real growth year for us. We listed our shares on the TSX Venture Exchange in November 2017 and currently are listed on the Toronto Stock Exchange. Since then, we’ve raised \$80 million through debt and equity, becoming one of the few vertically integrated cannabis providers named in the Canadian space.”



Delta 9 continues to hone its cultivation edge with its modular Grow Pod technology. Housed in rigid steel shipping containers, the plug-and-play design expands production by stacking pods vertically.

As one of Canada’s oldest licensed producers, Delta 9 is building strong revenue as a cannabis retailer and driving additional B2B sales with its stackable, scalable Grow Pod system.

“The Grow Pods allowed us to do something very different from our competitors, who were acquiring greenhouses essentially expanding square footage horizontally,” says Arbuthnot. “Grow Pods contain everything you need to cultivate cannabis and can provide space for harvesting, trimming, drying and storage. With every pod virtually identical, it also makes it easier for Health Canada to assess applications for expansion.”

Grow Pod sales proved so successful that they now support the third leg of Delta 9’s growth strategy. The company has sold almost 300 units across North America since 2018. In 2020 alone, >>



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Grow Pod sales added upwards of \$12 million to the company's top line over the last 18 months.

To expand into the US market Delta 9 has shepherded the establishment of Grow Pod operations in Michigan, Maine, and Montana, sharpening its expertise and appetite for the growing cannabis market in the US.

"Following federal legalization in the US, we'd be looking to vertically integrate into U.S. growth markets that allow it," says Arbuthnot. "That model has paid huge dividends for us in Canada and we believe it will continue to do so south of the border."

Indeed, Delta 9 is currently looking back on a year of record-breaking revenue growth across its three key market segments. Its retail sector has been growing 100% year-over-year, in turn driving the distribution of Delta 9's consumer branded products.

"We've also had growth across wholesale and business-to-business sales of 20-30%," Arbuthnot says. "We're seeing growth across our varying businesses as well as broader exposure to consumers."

DELTA 9 GROWTH STRATEGY

Delta 9 has utilised a number of strategies to ensure it stays competitive.

"For us, the focus is on the wholesale side of the business as we position ourselves as a low-cost producer. We have been automating key processes over the last few years to drive down the cost per gram of production down to \$0.65 / gram," Arbuthnot says.

Meanwhile, on the retail side of the business Delta 9 is already a price leader and that has allowed the company to drive huge volumes of product to the consumer. Across the retail chain, Delta 9 has been seeing revenue of \$10 million-plus per quarter.

Meanwhile, on the business-to-business side Delta 9 has been diversifying its offering into the "picks and shovels" side of the industry, through selling growing equipment for cultivation.

"We've been successful based on that broader diversified strategy," Arbuthnot said.

Another key differentiator for Delta 9 is its people, and the rapidly growing industry has seen a huge influx of talent.

"The cannabis industry in North America has been able to attract talent. It is exciting, it's a growth industry, and that growth trajectory is attractive," Arbuthnot says. "We've been able to pull staff from retail, finance, any applicable sector. It's not uncommon to list a job and get many hundreds of applications. Being a public entity also lets us look at stock options to round off the opportunity for our employees. We've grown from 25 full-time employees to 375 now."

Looking forward, even now Arbuthnot believes there are opportunities to continue growing the market in Canada, while legalisation elsewhere will open up even more markets.

"There's a good opportunity to continue to grow in the Canadian marketplace expanding distribution through retail, drawing out dozens of stores in the next four years," Arbuthnot says. "We're seeing markets like the Americas, Europe, the UK, liberalising and reforming laws around medical and recreational use crisis. We see Canada as the model for what other companies have been looking for. We have a business platform that can be put into any jurisdiction around the world and be successful, to position for international growth and exposure as laws are reformed." ☺



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