ONTARIO CANNABIS STORE

A QUARTERLY REVIEW

APRIL 1 – JUNE 30, 2020

Ontario's first fiscal quarter of 2020–21 cannabis operations

Q1

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ABOUT THIS PUBLICATION

The Ontario Cannabis Store (OCS) publishes *A Quarterly Review (April 1 – June 30): Ontario's first fiscal quarter of 2020–21 cannabis operations* as a resource for the entire legal Ontario cannabis industry. This document is intended to provide historical key facts and figures for the period between April 1 and June 30, 2020.

This publication marks the first quarterly data report by the OCS following *A Year in Review (2019–20)* earlier this year. This publication will evolve over time, and feedback is welcome to help improve its value. Comments and feedback on this report can be submitted to **inquiries@OCS.ca**.

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OCS

Growth and Maturation in the Time of a Pandemic

Letter from Cheri Mara CHIEF COMMERICAL OFFICER

The first quarter of fiscal 2020–21 (April – June) was a time of unprecedented upheaval for our province, country and planet. The restrictions in mobility and personal sacrifices made necessary to effectively fight COVID-19 closed borders, brought many businesses to a standstill, forced children home from school and caused economic impacts not seen in generations.

Like so many others, Ontario's cannabis sector faced a great deal of uncertainty. After initially being deemed an essential service by the government of Ontario, authorized cannabis retail stores were later closed for in-store sales as more sectors were asked to do their part to flatten the curve.

When I examine the data in this report, I find many reasons to be optimistic about how the cannabis industry has handled these challenges and positioned itself to sustain growth in a future where there is tremendous uncertainty. Despite the challenges COVID-19 presented, our marketplace has consistently delivered strong sales through this first quarter. In fact, the launch of the open allocation of retail store licensing in this quarter has begun positioning us to live up to our potential as Canada's most robust cannabis marketplace.

The growth of the market in terms of the volume of product sold and percentage of the illegal market captured are both inching upwards as a direct result of the collaboration between the OCS and its commercial partners – Licensed Producers and authorized cannabis retail stores.

This quarter marks a milestone for the sector on the critical front of pricing. In a price comparison against the illegal market, the average price of dried flower per gram on OCS.ca ($7.05, including taxes) is now lower than the average price of cannabis on sale through illegal mail-order marijuana sites ($7.98). Combined with consistent quality improvements we are seeing from our passionate Licensed Producer partners, there is good reason for optimism. The fact that consumers now have the choice to purchase regulated, tested, traceable product from Health Canada–Licensed Producers for prices equal to or below what they are used to paying is a clear step forward.

The emergence of larger-format 28-gram value products at prices as low as $4.20 per gram (with taxes) is another major story of this quarter. This segment has grown to include 5 unique offerings from three different Licensed Producers and continues to be a growing category.

Despite the impact of COVID-19, which slowed construction and dampened enthusiasm for in-person shopping, the number of retail store locations operating in the province more than doubled, from 53 to 110. The bulk of new stores in this quarter opened in urban city centres during a period when retail foot traffic was down due to COVID-19. While these stores may not have had the grand openings they originally planned, their commitment to implementing physical distancing measures and sanitation practices has demonstrated to consumers the value of legal, regulated cannabis stores. OCS.ca has also responded well to the needs of consumers during COVID-19 with ongoing expansion of our Domain Express courier service, which leverages local carriers across the province. Coverage of this service expanded to 63.8% of the Ontario population by the end of the quarter.

With the OCS offering Canada's broadest catalogue of legal cannabis products, consumer choice is clearly being served through the 763 unique products available across all legal categories of cannabis. However, as the market begins to mature and consumers try the various products available to them, clear consumer favourites are beginning to emerge, as 55% of sales are represented by 15% of the products offered.

The introduction of Cannabis 2.0 products into the market in the final quarter of 2019 was characterized by the predictable challenges of new product launches, including unpredictable supply, misalignment in initial pricing and a narrow assortment. This quarter showed early stability in these new categories, with more Licensed Producers bringing their 2.0 products to market and existing suppliers ramping up their output to match demand. Further efforts to improve the breadth and depth of supply in the categories of edibles, beverages, concentrates and topicals are needed in future quarters as the retail store network continues to rapidly expand.

Where so many other consumer product goods industries struggled to respond to COVID-19, the Ontario legal cannabis marketplace should be applauded for how it responded – putting the safety of both its consumers and staff at the forefront. As data rolls in from the current quarter, we're confident that this industry will further demonstrate its resilience in serving consumers through a period of immense uncertainty.

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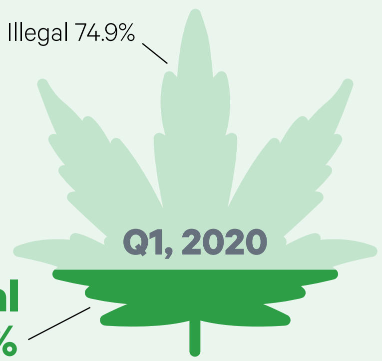
Q1 THE BIG PICTURE

Ontario recreational cannabis market share by source: illegal vs. legal



Q4, 2018	**4.6%**
Q1, 2019	**14.1%**
Q2, 2019	**20.7%**
Q3, 2019	**21.4%**
Q4, 2019	**24.7%**

Based on the current number of stores open, Ontario's share of the illegal market lags compared to the national capture-rate, however, rapid growth in market share is expected in coming months with further onboarding of new authorized retail stores.

Note: The calculation of the Ontario legal market share has been updated, resulting in changes to the values reported in the A Year in Review publication. The time period of reporting has been adjusted to reflect OCS fiscal periods compared to the calendar year used by Statistics Canada.

Source: Statistics Canada; calculated by OCS

Total sales in Ontario April 1, 2020 – June 30, 2020

OCS.ca **$43,500,000**

Retail Stores **$82,500,000**

$126,030,000

Note: All figures are unaudited. Sales exclude taxes (HST).

Total grams sold April 1, 2020 – June 30, 2020

14,000,000 g

OCS.ca **5,600,000 g**

Retail Stores **8,400,000 g**

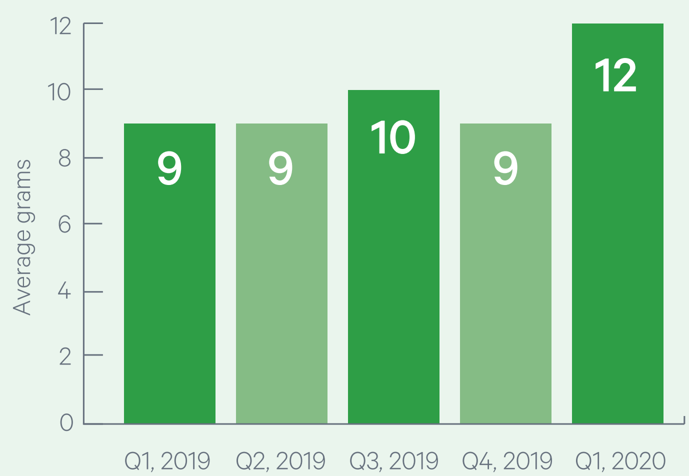
Number of retail stores

Unique items listed

Q1, 2019	Q2, 2019	Q3, 2019	Q4, 2019	Q1, 2020
517	519	641	795	907

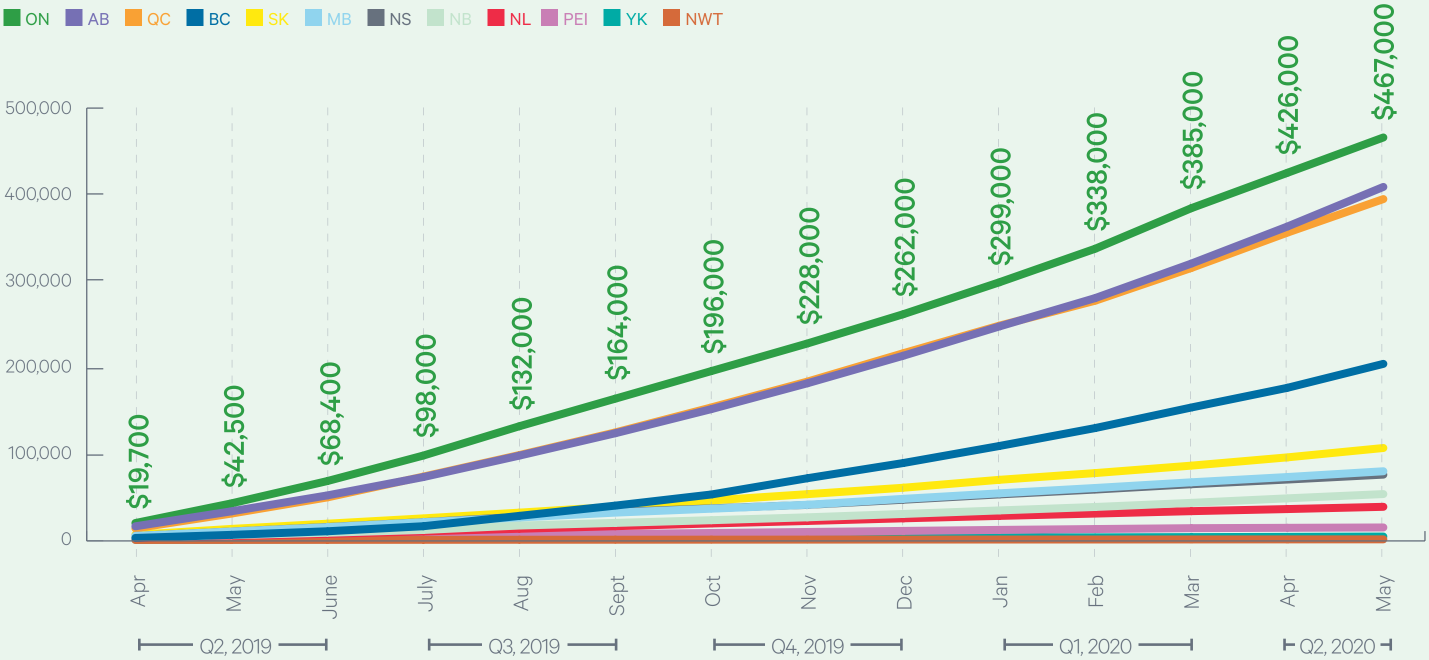
The number of unique items available for sale on OCS.ca is growing consistently and has increased by 14% (112 new items) compared to last quarter. Unique items listed include active SKUs that were in-stock and excludes accessories.

Average grams per OCS.ca order



Q1 THE BIG PICTURE

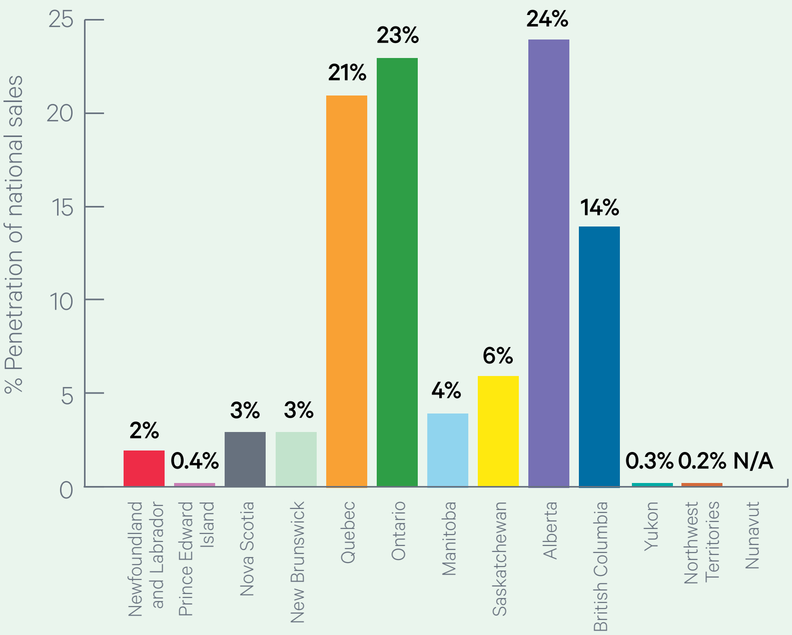
Cumulative monthly retail cannabis sales across all provinces and territories



Source: Statistics Canada. Table 20-10-0008-01 Retail trade sales by province and territory (x 1,000)

Ontario share of national recreational sales

April 1, 2020 – June 30, 2020



In Q1, for the first time since legalization, Ontario's share dropped to second among all provinces and territories, with stores in Ontario closed due to COVID-19 restrictions for a period of time.

Source: Statistics Canada. Table 20-10-0008-01 Retail trade sales by province and territory (x 1,000)

OCS.ca customer sentiment score on price

33%

score increase compared to previous quarter

11%

POINT INCREASE

compared to previous quarter customers rated price as a category of improvement

Total number of price reductions on OCS.ca April 1, 2020 – June 30, 2020

558

SALES DATA

In the first quarter of this year, 14,000,000 grams of cannabis, at a total value of $126 million, were sold through OCS.ca and authorized retail stores. Market share of the total cannabis market in Ontario increased marginally from 24.7% to 25.1% for legal sources. Consumer preference is still weighted heavily toward high-THC products, with continued growth in low-THC and CBD products.

The introduction of Cannabis 2.0 products into the market in the final quarter of 2019–20 was characterized by the predictable challenges of new product launches, including inconsistent supply, high prices and a narrow assortment. This quarter shows maturation in this segment, with more Licensed Producers bringing their 2.0 product lines to market, and existing suppliers ramping up their output to match demand. Further efforts to improve the breadth and depth of supply in the categories of edibles, beverages, concentrates and topicals are needed in future quarters as the retail store network continues to rapidly expand.

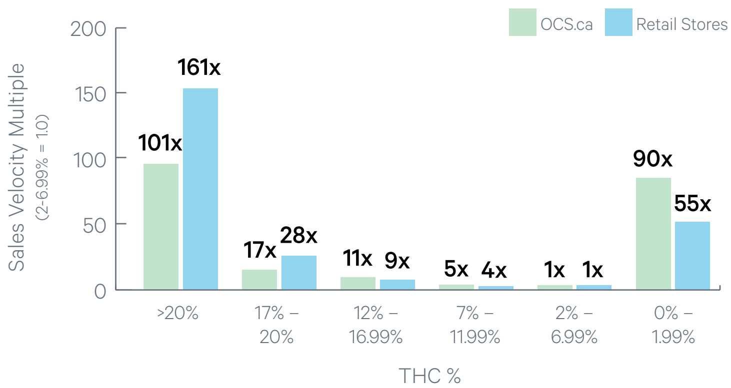
Total sales and grams sold by product categories

April 1, 2020 – June 30, 2020

	OCS.ca	Retail Stores	% of $ Sales
Dried Flower	**$24,100,000** 3,800,000 g	**$51,300,000** 6,000,000 g	**61.0%**
Vapes	**$6,240,000** 260,000 g	**$11,800,000** 420,000 g	**14.5%**
Pre-Rolls	**$2,320,000** 170,000 g	**$8,920,000** 740,000 g	**9.1%**
Oils	**$3,700,000** 370,000 g	**$3,200,000** 300,000 g	**5.6%**
Edibles	**$2,150,000** 330,000 g	**$3,160,000** 390,000 g	**4.3%**
Capsules	**$1,470,000** 74,900 g	**$1,470,000** 63,500 g	**2.4%**
Concentrates	**$873,000** 160,000 g	**$960,000** 150,000 g	**1.5%**
Beverages	**$698,000** 400,000 g	**$820,000** 340,000 g	**1.2%**
Seeds	**$175,000** 14,800 g	**$70,000** 5,500 g	**0.2%**
Topicals	**$120,000** 3,900 g	**$160,000** 4,800 g	**0.2%**

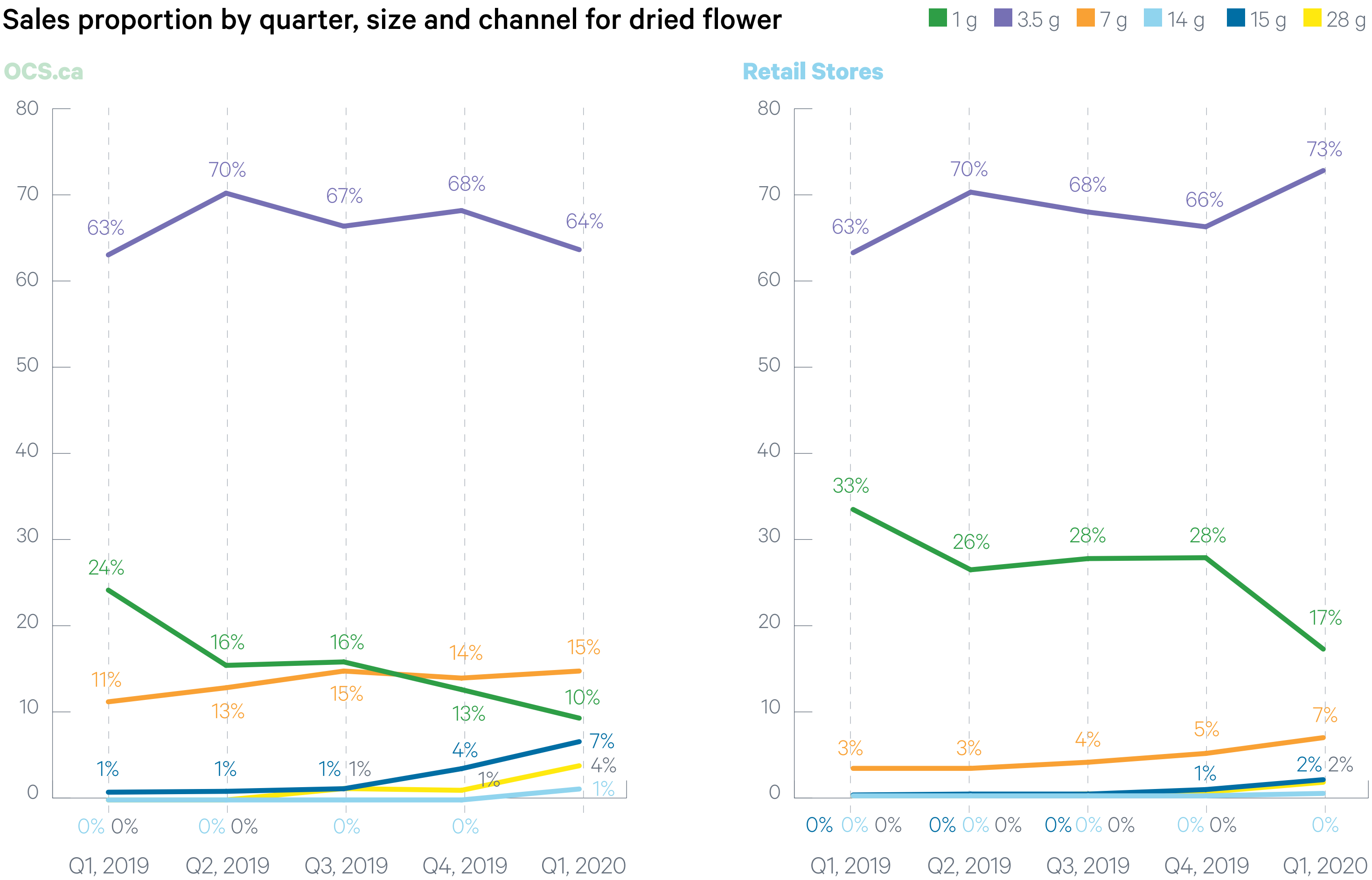
Note: Average prices are weighted by sales and include taxes. Sub-category sales do not add to total sales due to rounding. Dried flower equivalency (DFE) conversion can be found here.

Sales velocity by THC % April 1, 2020 – June 30, 2020

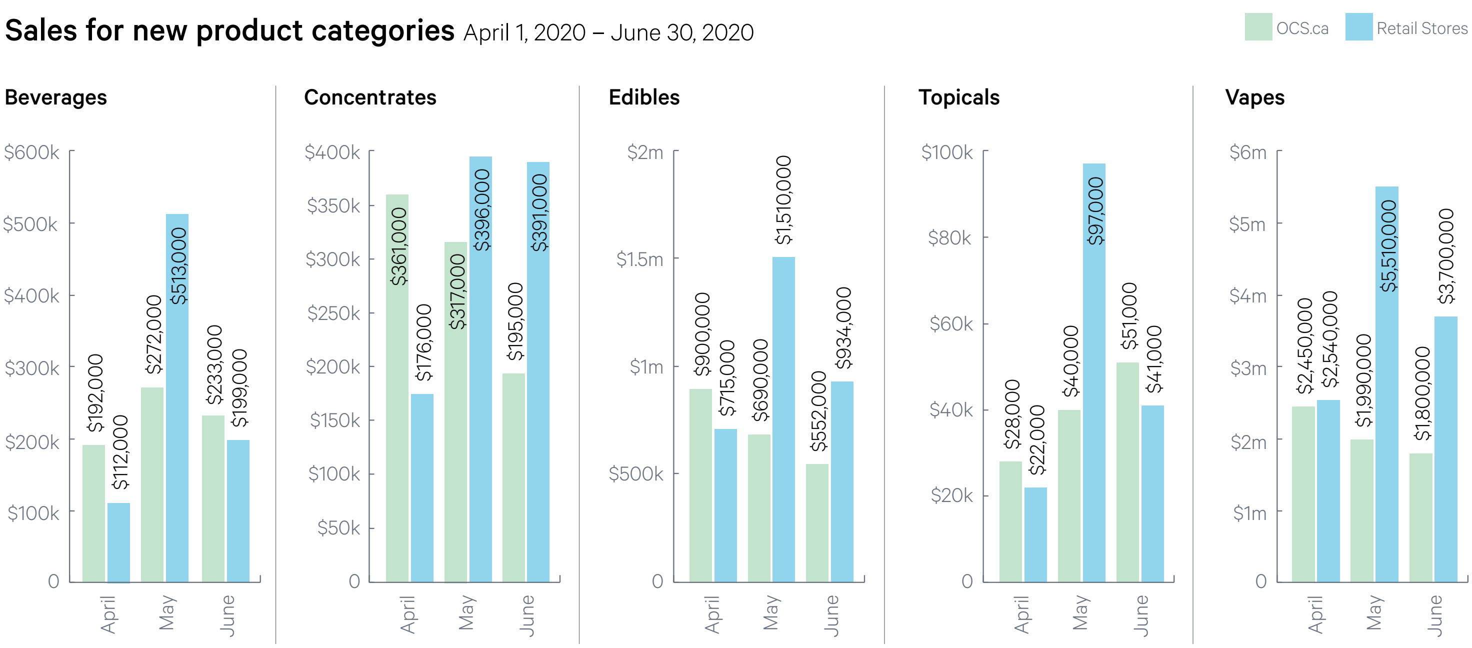


Sales velocity references units per day for OCS.ca and units per day per average store for retail.

Sales proportion by quarter, size and channel for dried flower



Sales for new product categories April 1, 2020 – June 30, 2020



Top five brands per category based on sales April 1, 2020 – June 30, 2020

OCS.ca

Beverages

Tweed	40%
Everie	14%
The Green Organic Dutchman	11%
Haven St.	9%
Houseplant	8%

Capsules

Tweed	39%
Redecan	19%
Aurora	18%
Solei	10%
Vertical	7%

Concentrates

Original Stash	46%
Canna Farms	28%
JWC	26%

Dried Flower

Redecan	13%
Daily Special	12%
Pure Sunfarms	10%
Good Supply	10%
Edison	5%

Edibles

Bhang	30%
Foray	19%
Aurora Drift	17%
Chowie Wowie	10%
San Rafael '71	9%

Oils

Solei	35%
Redecan	21%
Edison	9%
Dosecann	5%
Northern Harvest	4%

Pre-Rolls

Good Supply	16%
Solei	13%
Tantalus Labs	8%
Re-Up	6%
Redecan	5%

Vapes

Redecan	23%
Good Supply	11%
Canaca	8%
Solei	7%
Foray	6%

Topicals

48North	91%
LivRelief	15%

Seeds

34 Street Seed Co.	65%
Tweed	35%

Retail Stores

Beverages

Tweed	21%
Everie	16%
Deep Space	15%
Houseplant	14%
Haven St.	11%

Capsules

Redecan	53%
Tweed	20%
Aurora	12%
Solei	11%
Indiva	1%

Concentrates

Canna Farms	43%
Original Stash	30%
JWC	27%

Dried Flower

Redecan	13%
Pure Sunfarms	9%
Good Supply	8%
Daily Special	7%
Riff	5%

Edibles

Bhang	30%
Aurora Drift	19%
Foray	13%
Chowie Wowie	9%
Affirma	8%

Oils

Solei	33%
Redecan	30%
Edison	10%
Dosecann	4%
Riff	3%

Pre-Rolls

Good Supply	14%
Riff	13%
Solei	12%
Edison	9%
Redecan	6%

Vapes

Redecan	22%
Good Supply	14%
Trailblazer	6%
Kolab Project	6%
Canaca	6%

Topicals

48North / Apothecanna	93%
LivRelief	7%

Seeds

34 Street Seed Co.	56%
Tweed	44%

PRICING

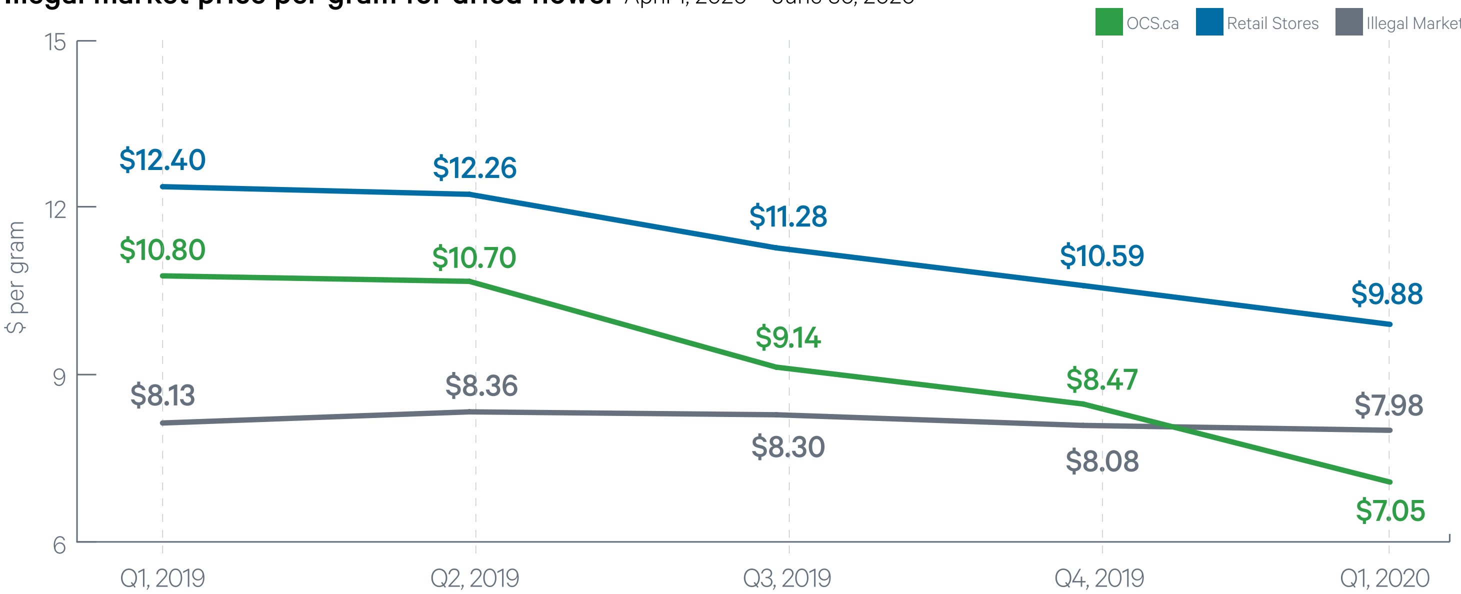
Since legalization, one of the strongest criticisms of legal cannabis products was that prices were not competitive when compared to unregulated products found in the illegal cannabis market. This quarter marks the first time that the average price of dried flower per gram on OCS.ca ($7.05, including taxes) is now lower than the average price of cannabis on sale through illegal mail-order marijuana sites ($7.98).

Not only are Licensed Producers delivering quality products at competitive price points, but they are doing so within Health Canada's–regulated framework that gives consumers confidence in production practices, product testing and traceability. Consumers are also taking pride in purchasing products from Canadian businesses that are driving local investment and job creation in communities across our province. While prices at authorized retail stores are always expected to reflect the value-add of in-store consumer education, average prices in this channel are expected to drop as more stores are authorized and competition increases.

Strong, positive consumer reaction to large-format 28-gram value offerings from Licensed Producers has led to an increase in the number of products being offered in this category, growing from 1.1% of all dried flower sales on OCS.ca in Q4 of last year to 3.9% in Q1 of this year. Some of these volume products are offered to consumers at a price of around $4.20 per gram, including taxes.

When combined, these various pricing factors are demonstrating a clear turning point for this new legal industry.

Illegal market price per gram for dried flower April 1, 2020 – June 30, 2020



OCS.ca and retail stores are weighted by sales and include taxes. Illegal market prices are unweighted and sourced through Weedmaps.com and mail-order-marijuana sites.

Average price per gram across cannabis subcategories on OCS.ca

April 1, 2020 – June 30, 2020

Beverages	**$1.96/g** (DFE)
Capsules	**$20.91/g** (DFE)
Cartridges	**$26.43/g** (DFE)
Chocolates	**$7.17/g** (DFE)
Confectionary	**$7.84/g** (DFE)
Creams and Lotions	**$35.03/g** (DFE)
Dried Flower	**$7.05/g** (DFE)
Hash	**$6.43/g** (DFE)
Kief and Sift	**$4.40/g** (DFE)
Oils	**$11.27/g** (DFE)
Pre-Rolls	**$9.73/g** (DFE)
Resin and Rosin	**$24.88/g** (DFE)
Seeds	**$13.36/seed**

Note: Average prices are weighted by sales and include taxes. Dried flower equivalency (DFE) conversion can be found here.

Sales velocity by price bucket for dried flower

April 1, 2020 – June 30, 2020

	$4 - 7	$7 - 10	$10 - 13	$13 - 16	$16 - 19.25
OCS.ca	7.2x	1.8x	1.0x	1.6x	2.3x
Retail Stores	1.8x	1.3x	1.2x	1.0x	1.3x

Sales velocity references units per day for OCS.ca and units per day per average store for retail.

GROWING ACCESS POINTS

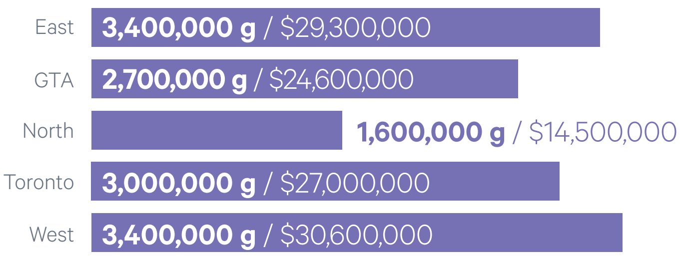
Access to legal cannabis products improved for Ontario consumers in this quarter, despite the impact of COVID-19, which slowed construction and temporarily dampened opportunities and enthusiasm for in-person shopping. The number of retail store locations operating in the province more than doubled from 53 to 110 at the close of the quarter. The bulk of new stores in this quarter opened in urban city centres, which means that they are located in areas near other stores. This had the impact of the number of stores doubling but the average distance to stores for most Ontarians not declining markedly, only moving from 22 to 19 kilometres. Stores opening in Q2 are expected to be located in less urban locations, and this should demonstrate a more notable impact on the average distance to stores.

Regionally, the Toronto area, despite being served by 41 stores, was outperformed by both the East (19 stores) and the West (25 stores). The average number of grams sold by an individual store declined, a continued function of both an increase in the number of stores and the impact of necessary COVID-19 public health restrictions on in-store retailing for a period of time during this quarter.

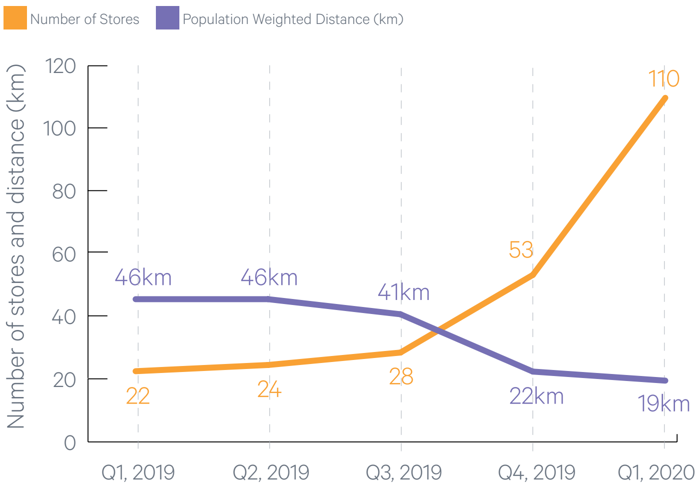
OCS.ca has also responded well to the needs of consumers during COVID-19, with the number of transactions more than doubling from 240,000 in Q4 of last year to 490,000 in Q1 of this year. The OCS responded to increased online consumer demand by expanding our free Domain Express courier service, which leverages a range of local carriers across the province to provide rapid delivery. Our service provider, Domain Logistics expanded same-day service in parts of the GTA. Consumer preference for this service has driven growth of the service now reaching 63.8% of the adult Ontario population by the end of the quarter.

Growing Access Points

Grams sold by region

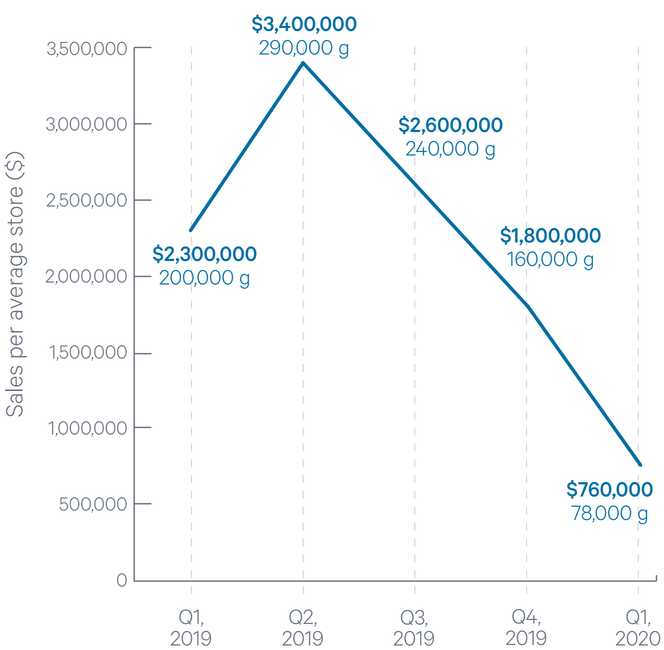


Average distance for consumers to a retail store



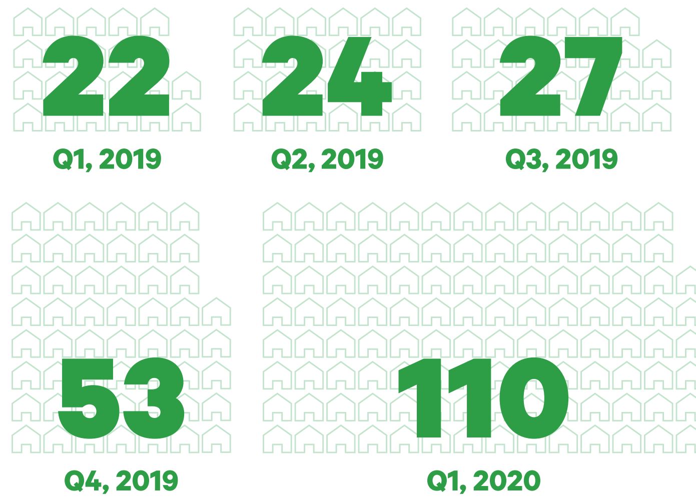
The average distance to a store decreased by three kilometres, while the number of stores more than doubled. This is due to stores opening within the same area of existing stores in central locations.

Average sales and grams sold by a store

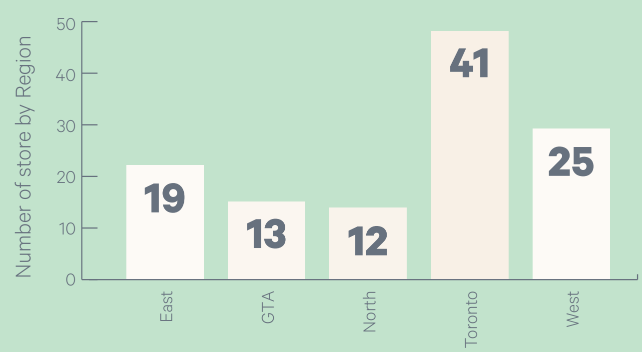


Note: Sales exclude taxes (HST).

Growing number of retail stores



Number of stores by municipality



Number of Stores by Municipality

Ajax	1	Niagara Falls	2
Ancaster	1	North Bay	4
Barrie	2	Orleans	1
Brampton	1	Oshawa	1
Brantford	1	Ottawa	6
Burlington	7	Peterborough	1
Cambridge	1	Sault Ste. Marie Central	1
Collingwood	1	St. Catharines	2
Cornwall	1	St. Thomas North	1
Don Mills	1	Stouffville	1
Greater Sudbury	2	Stratford	1
Guelph	1	Thunder Bay	4
Hamilton	4	Timmins	1
Kingston	6	Toronto	41
Kitchener	1	Waterloo	1
London	5	Weston	1
Milton	1	Windsor	2
Nepean	2		

Unique visitors to OCS.ca

Q1, 2020

5,300,000

Q1, 2019	Q2, 2019	Q3, 2019	Q4, 2019
2,600,000	2,200,000	2,300,000	3,400,000

Conversion rate on OCS.ca

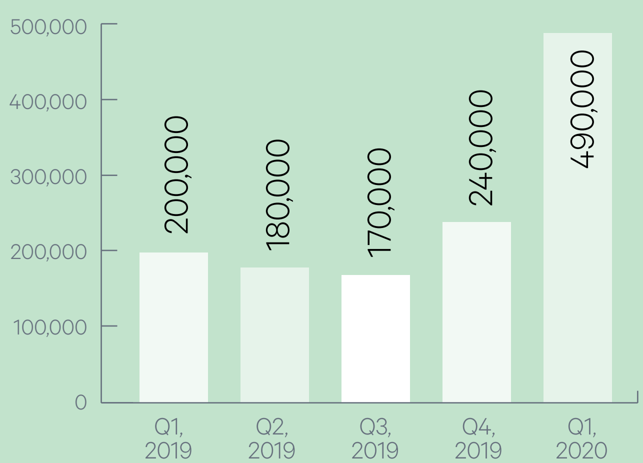
April 1, 2020 – June 30, 2020

Q1, 2020 9.2%

Q1, 2019	Q2, 2019	Q3, 2019	Q4, 2019
7.6%	8.1%	7.3%	7.2%

Conversion rate is an important metric by which e-commerce businesses measure consumer demand on their platforms. For every 100 customers on OCS.ca, 9.2 made a transaction.

Total number of transactions on OCS.ca



Average grams and sales per order on OCS.ca

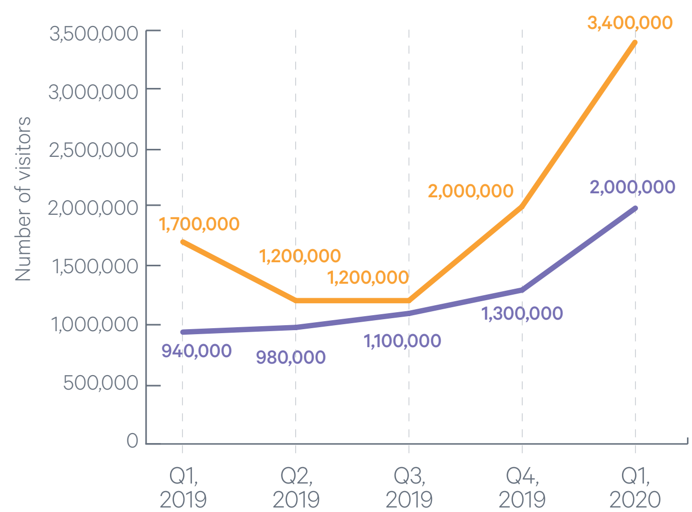
April 1, 2020 – June 30, 2020

12g

Average grams per order

$89.13 Average $ per order (before tax)

Growth of new vs. returning visitors



Population served by express shipping

Q1, 2020 64%

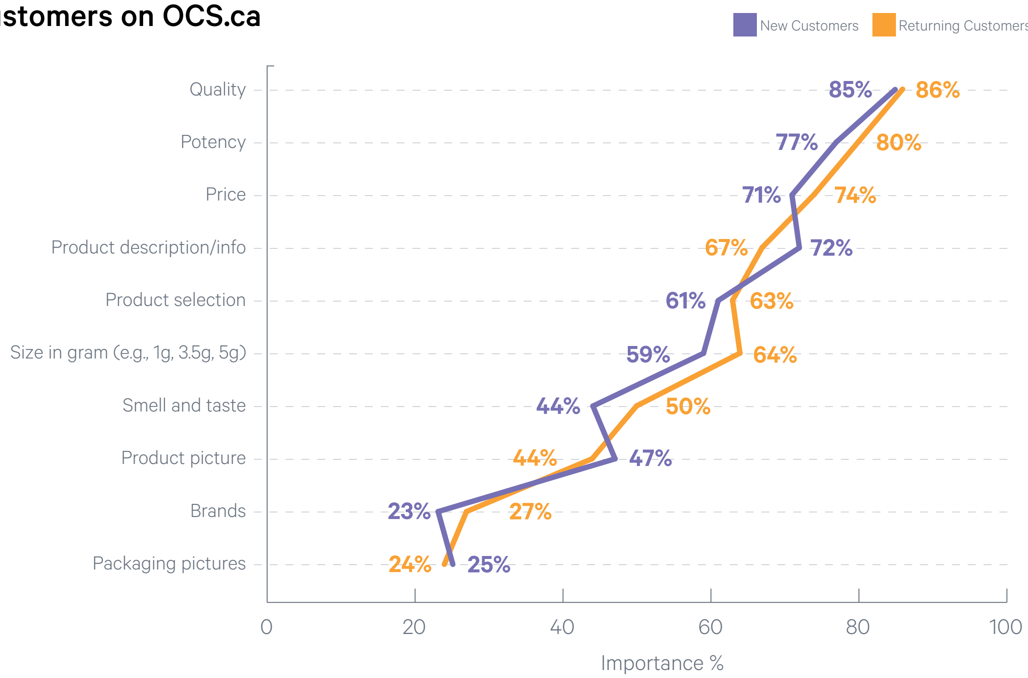
Q4, 2019 **37%**

The OCS continues to expand express delivery to additional communities across Ontario to provide consumers direct-to-door delivery within one to three business days during COVID-19.

Attributes most important to customers on OCS.ca

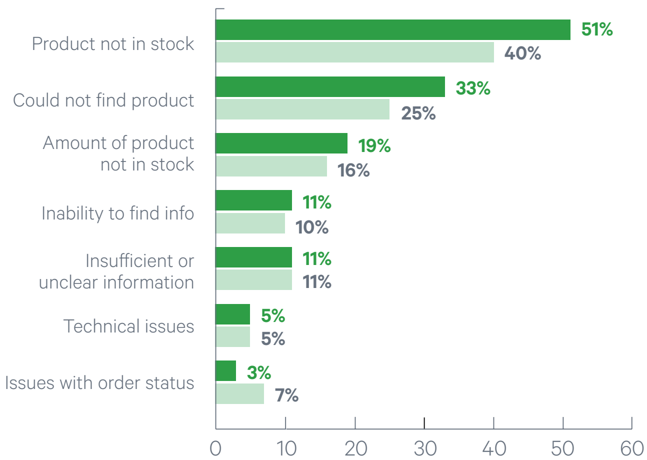
- For Q1 2020, quality was the most important attribute when shopping for cannabis. Dryness and too many stems and pieces were the main factors influencing quality.
- High potency (higher milligrams in edibles and high-THC dried flower) and lower price were the other main attributes for both returning and new customers.
- Returning customers have higher purchase experience scores, indicating that once people shop with the OCS, they are more likely to return, as experience improves through visiting OCS.ca.

Source: OCS.ca survey by Astute Solutions

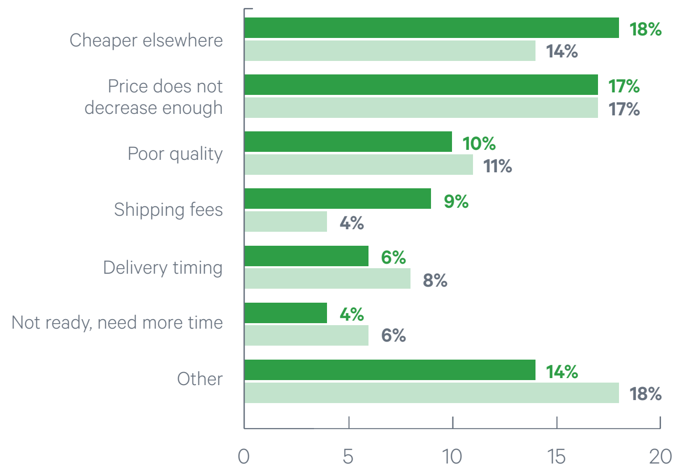


Barriers to purchasing on OCS.ca

Findability Issues



Purchasing Issues



- Significant improvement shown in product, not in stock (11% point improvement) compared to last quarter. Higher quantity variants, beverages, oils and seeds were the top products and categories not in stock.
- Many customers now know what they want and are looking for specific strains. Edibles (higher potency and more selection) and dried flower (CBD and larger formats) were the top two categories of products not found.
- While price decreases in larger formats was flat, there was improvement in price compared to other sources. Lower price per gram for larger formats and lower price per gram compared to other sources were the main issues with purchasing.
- Other represents a mix of product issues, quality or weight, and order status or delays (mainly due to Canada Post delays).

Source: OCS.ca survey by Astute Solutions

SUPPLY CHAIN

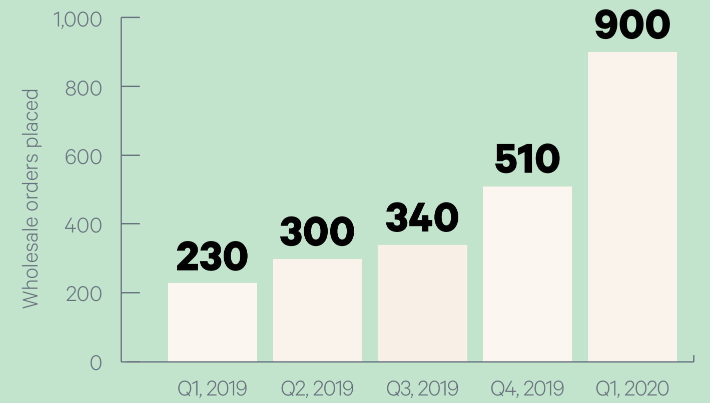
Through the course of the quarter, the number of stores served through the OCS's wholesale function grew rapidly as licences were issued by the Alcohol and Gaming Commission of Ontario (AGCO). Along with that growth came expansion in the catalogue of legal cannabis products, with stores ordering 760 unique SKUs in June 2020. The OCS delivered 900 wholesale orders in the quarter, almost doubling those in Q4. The average number of units ordered per store by month decreased markedly in this quarter, in line with decreased sales volume per store as store location numbers doubled. While some of this is attributable to COVID-19, this trend emerged prior to the pandemic as more stores opened. Order-to-ship lead time for wholesale customers remained steady at 2.5 days. As the market begins to mature and consumers try the various products available to them, clear consumer favourites are beginning to emerge, as 55% of sales are represented by 15% of products offered.

Order-to-ship lead time for wholesale customers

Note: Average since April 1, 2019 – June 30, 2020.

2.5 days

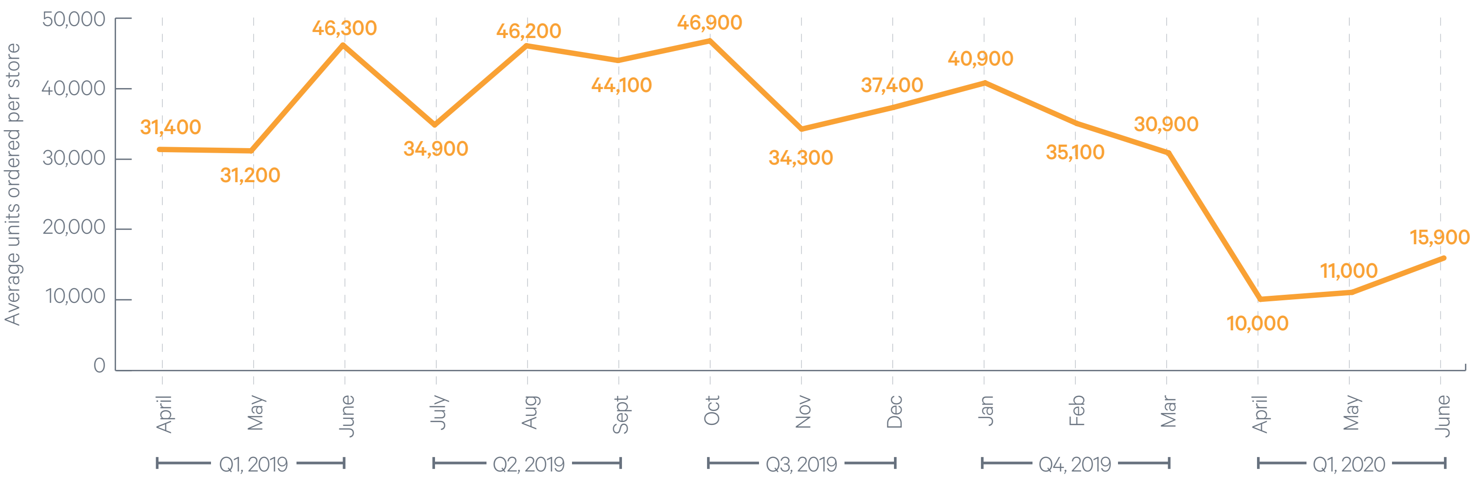
Number of wholesale orders



Average SKU count per wholesale order

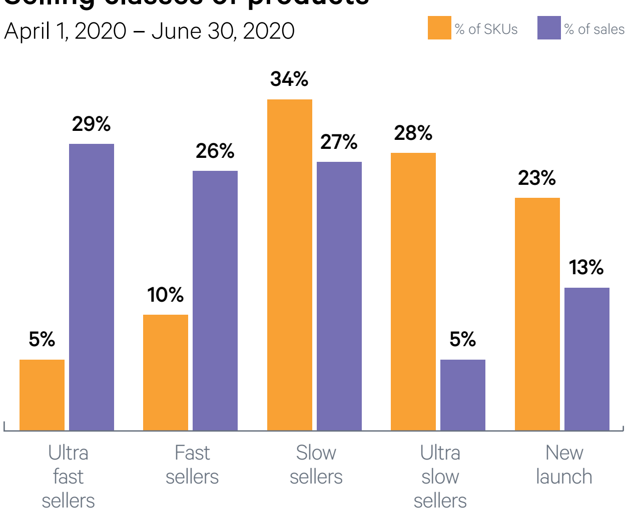
Q1, 2019	Q2, 2019	Q3, 2019	Q4, 2019	Q1, 2020
67	72	76	92	72

Average number of units ordered per store by month



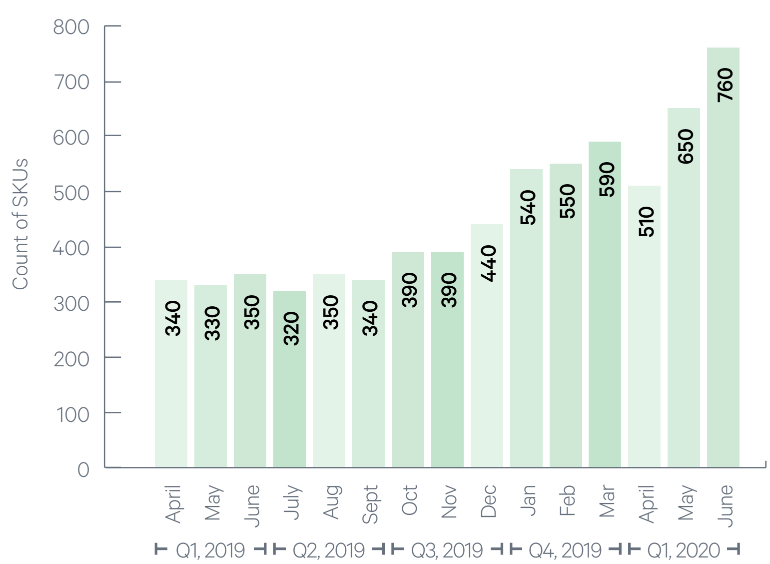
Selling classes of products

April 1, 2020 – June 30, 2020



SKU classes are based on the unit rate of sale for a SKU per store per week and excludes accessories.

Unique SKUs ordered by month



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