ONTARIO CANNABIS STORE

A QUARTERLY REVIEW

JULY 1 – SEPTEMBER 30, 2020

Q2

Q2

ABOUT THIS PUBLICATION

The Ontario Cannabis Store (OCS) publishes *A Quarterly Review (July 1–September 30)* 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 July 1 and September 30, 2020.

This publication marks the second quarterly data report by the OCS following *A Quarterly Review (April 1 – June 30)* 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**.

This publication is intended for general guidance and information purposes only. Under no circumstances is this publication intended to be considered any form of financial reporting or a recommendation to buy, sell or consume any of the products listed. The data provided are unaudited and have not been reconciled with official OCS data, and the OCS shall have no liability to any person resulting from the use of this publication.

Growing Ontario's cannabis market by creating better access to legal cannabis

Letter from Thomas Haig PRESIDENT AND CEO

I am pleased to share with you the story of progress that this report represents in achieving the mandate of the Ontario Cannabis Store and the goals of legalization of cannabis. The data for this report covers up to the end of our fiscal second quarter, just 17 days short of the second anniversary of legalization. This quarter represents the single largest jump in market capture from the illegal market with Ontarians choosing to purchase 36.2% of their cannabis through legal channels, up over 10% from the previous quarter. While there is still a great distance to travel in moving consumers from the illegal market to the new channels, we are establishing forward momentum, driven by a number of factors such as access, quality and price.

Of the $204 million in legal sales this past quarter, more than 85% took place inside the walls of a brick and mortar retail store. The number of stores hit 183 by the end of the quarter and is over 280 at the time of publication of this report. This is a clear indicator that continued improvements in the number of consumers choosing legal will be driven by creating much broader access across Ontario.

Clustering of stores in urban areas has led to a decrease in the average volume sold through stores in the areas of greatest concentration. Retail store sales in Toronto (67 stores open) trailed the Western Region (44 stores open) and the Eastern Region (40 stores open). Across the retail store network, the average monthly order per store stayed steady at 15,900 units per month. The single priority of the OCS in the year ahead is to support the rapid expansion of the retail store network by collaborating with our Licensed Producer partners and the Alcohol and Gaming Commission of Ontario (AGCO) to enable stores to open in communities across Ontario that are under-serviced or completely unserved.

While Ontario has Canada's broadest catalogue of cannabis products, with 1,120 unique SKUs available this quarter, one of the keys to future progress will be to work with Licensed Producers to ensure that the most popular products are always in inventory. When we asked customers about issues that presented a barrier to purchase on OCS.ca, the number one issue (39%) was that the product was not in stock, followed by not being able to find the product (28%). Neither of these indicators improved over the previous quarter and there is clearly an opportunity to do better. As in any retail market segment, customers in the cannabis sector have favourites and it is important that we make the trip to the store or to OCS.ca worthwhile by having what they want, when they want it.

The average price of dried flower on OCS.ca continued to drop, sinking to $6.41 per gram, as compared to the illegal market, which increased to $8.17 per gram. Attention of the industry must now turn to other product categories, which still have some distance to go when compared to the illegal market. I am confident we can work together with our Licensed Producer partners to make product across all categories deliver value for consumers.

Sales through OCS.ca came back to earth after extraordinarily strong sales related to shopping restrictions made necessary by the fight against COVID-19 in Q1. Visitors, new visitors and total transactions all predictably sagged as restrictions eased and the total number of stores grew, creating more opportunities for consumers to shop easily in stores in their community. For consumers without stores, express delivery options for online shoppers improved with a further expansion of courier service, which now reaches 78% of the adult Ontario population with free three-day shipping. As well, a new same-day courier service was introduced that allowed some consumers a further option.

We remain committed to our mission of growing Canada's largest and most vibrant cannabis marketplace, enabling the success of the cannabis sector in Ontario in its journey to responsibly serving consumers with tested, regulated products.

Thomas Haig
PRESIDENT AND CEO, ONTARIO CANNABIS STORE

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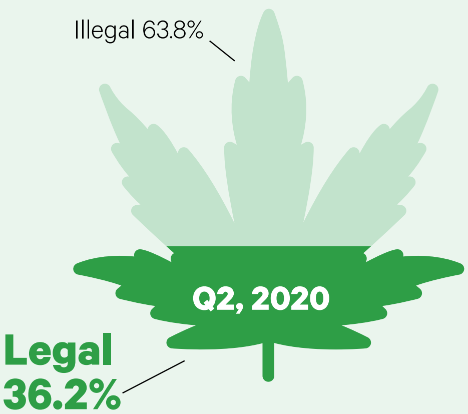
Q2 THE BIG PICTURE

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



Q4, 2018	Q1, 2019	Q2, 2019
4.6%	**14.1%**	**20.7%**
Q3, 2019	**Q4, 2019**	**Q1, 2020**
21.4%	**24.7%**	**25.1%**

Due to a large number of store openings, Ontario's legal share of the recreational market has increased significantly from 25.1% in Q1 to 36.2% share in Q2 2020 and is now closer to the national legal capture of recreational cannabis sales. The legal share is expected to decline in Q3 2020 due to lockdowns in Toronto and Peel areas causing retail stores to be open only for pickup and delivery.

Note: The calculation of the Ontario legal market share has been estimated from prior quarters updates from Statistics Canada. 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 July 1, 2020 – September 30, 2020

OCS.ca **$30,500,000**

Retail Stores **$173,900,000**

$204,300,000

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

Total grams sold

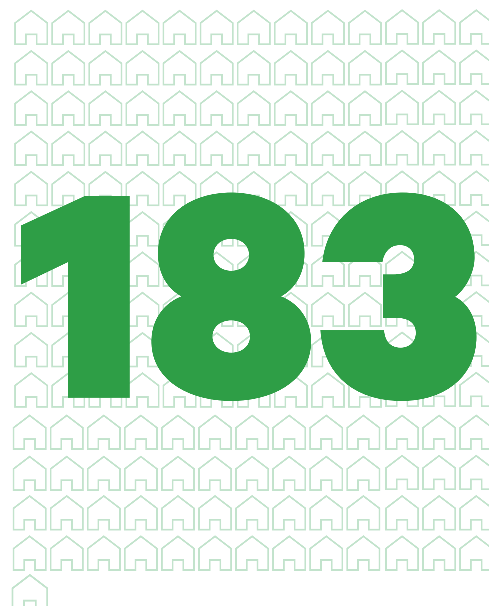
July 1, 2020 – September 30, 2020

25,800,000 g

OCS.ca **4,200,000 g**

Retail Stores **21,600,000 g**

Number of retail stores

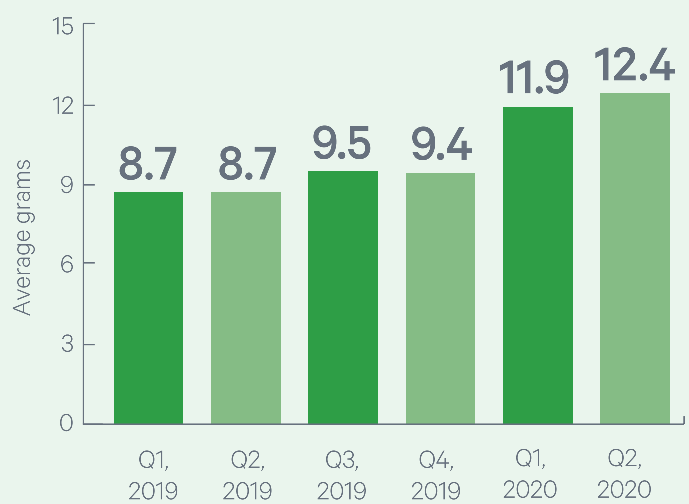


Unique items listed

Q1, 2019	Q2, 2019	Q3, 2019	Q4, 2019	Q1, 2020	Q2, 2020
517	519	641	795	907	1120

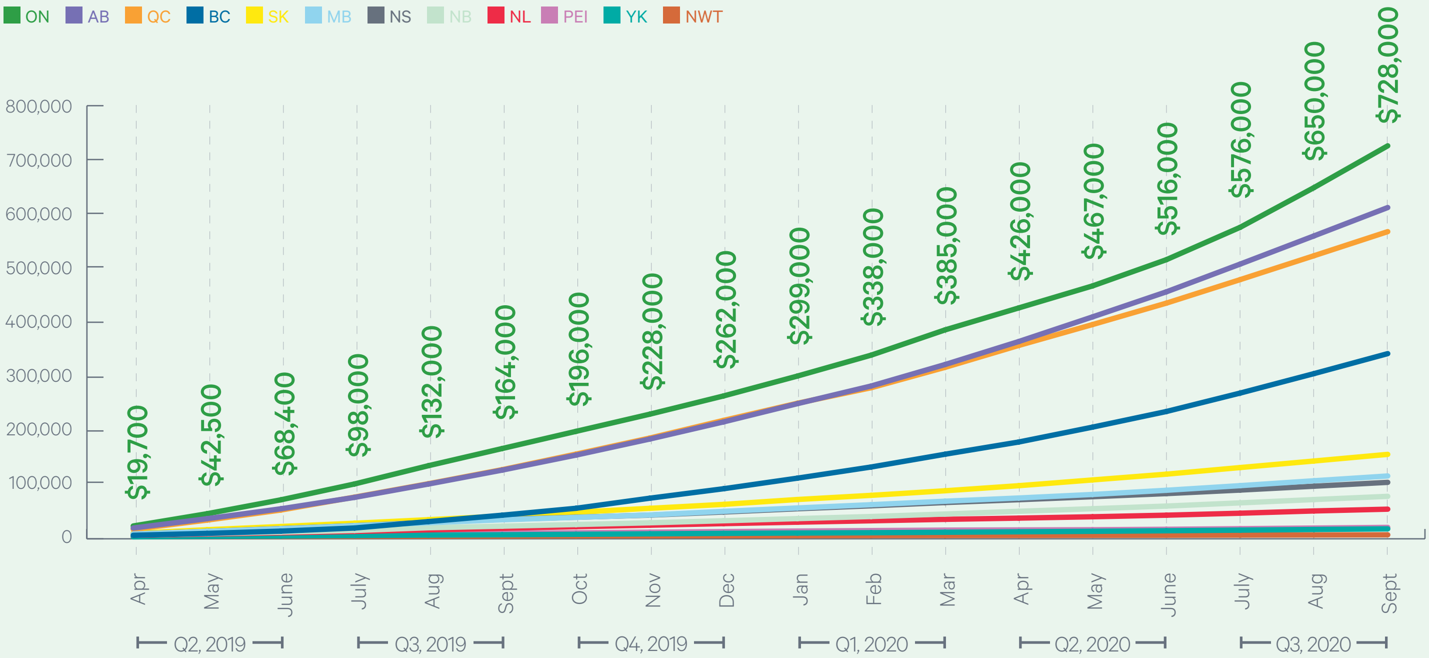
The number of unique items available for sale on OCS.ca is growing consistently and has increased by 23% (213 new items) compared to last quarter. Unique items listed include active SKUs that were in-stock and exclude accessories.

Average grams per OCS.ca order



THE BIG PICTURE

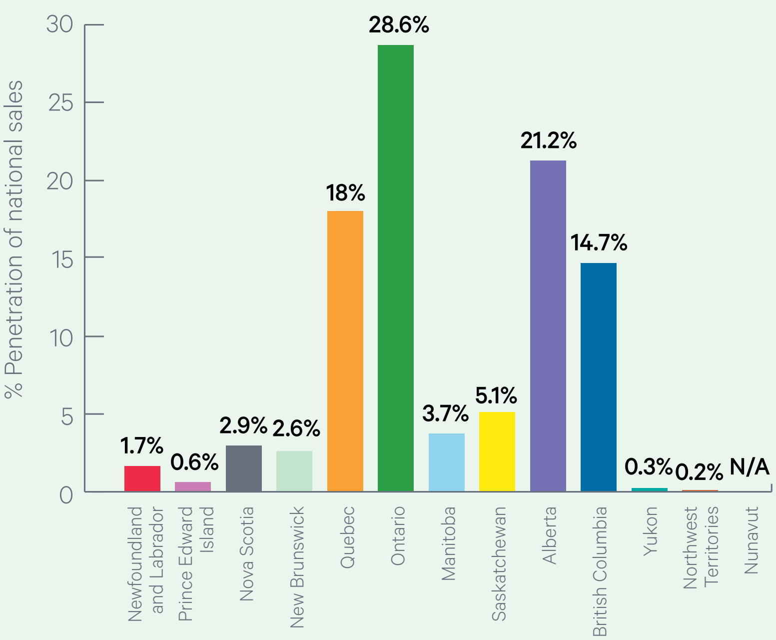
Cumulative monthly retail cannabis sales across all provinces and territories



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

Ontario share of national recreational sales

July 1, 2020 – September 30, 2020



Ontario's share increased by 5% compared to last quarter leading the national recreational sales among all provinces and territories.

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

5.8%
score increase compared to previous quarter

2%
POINT INCREASE
compared to previous quarter customers rated price as a category for improvement

Total number of price reductions on OCS.ca July 1, 2020 – September 30, 2020

322

SALES DATA

In the second quarter of this year, 25,800,000 grams of cannabis valued at $204,300,000 were sold in Ontario. Physical stores dominated sales, representing 21,600,000 grams versus the online channel's sales of 4,200,000 grams. Dried flower continued to lead, with almost 60% of sales, followed by Vapes and Pre-rolls, at 15% and 12% respectively.

There continued to be inconsistent availability of edibles, beverages, concentrates, topicals and seeds, which contributed to these categories representing less than 8% of sales. As Licensed Producers hone in on consumer preferences and are better able to make sure shelves are consistently stocked with the most desirable products, this segment should take up a larger proportion of the market. Throughout this quarter, this product category grew each month as supply took steps towards diversifying product offerings.

Consumer preference still tilts towards products with higher THC levels (above 20%), with the second fastest selling products found at the other end of the range with CBD dominant products.

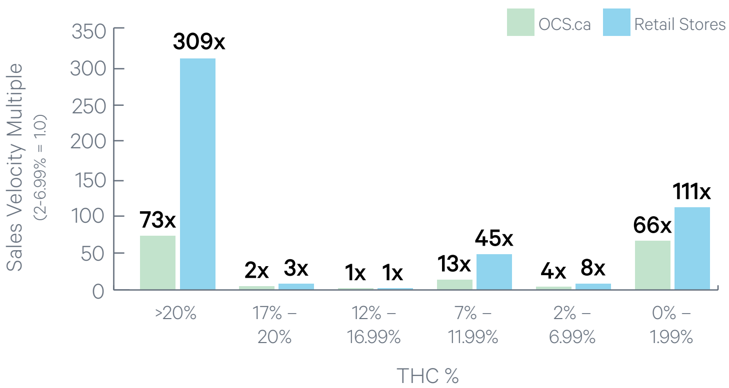
Total sales and grams sold by product categories

July 1, 2020 – September 30, 2020

	OCS.ca	Retail Stores	% of $ Sales
Dried Flower	**$16,700,000** 2,950,000 g	**$104,430,000** 13,500,000 g	**59.9%**
Vapes	**$5,100,000** 244,000 g	**$25,540,000** 1,000,000 g	**15.1%**
Pre-Rolls	**$1,580,000** 187,000 g	**$22,770,000** 2,090,000 g	**12.0%**
Edibles	**$1,400,000** 198,000 g	**$6,660,000** 703,000 g	**4.0%**
Oils	**$2,450,000** 177,000 g	**$5,250,000** 310,000 g	**3.8%**
Capsules	**$1,090,000** 55,000 g	**$2,080,000** 69,000 g	**1.6%**
Beverages	**$477,000** 290,000 g	**$2,690,000** 1,540,000 g	**1.6%**
Concentrates	**$577,000** 77,000 g	**$2,370,000** 260,000 g	**1.5%**
Topicals	**$260,000** 5,000 g	**$750,000** 13,000 g	**0.5%**
Seeds	**$75,000** 7,000 g	**$76,000** 7,000 g	**0.1%**

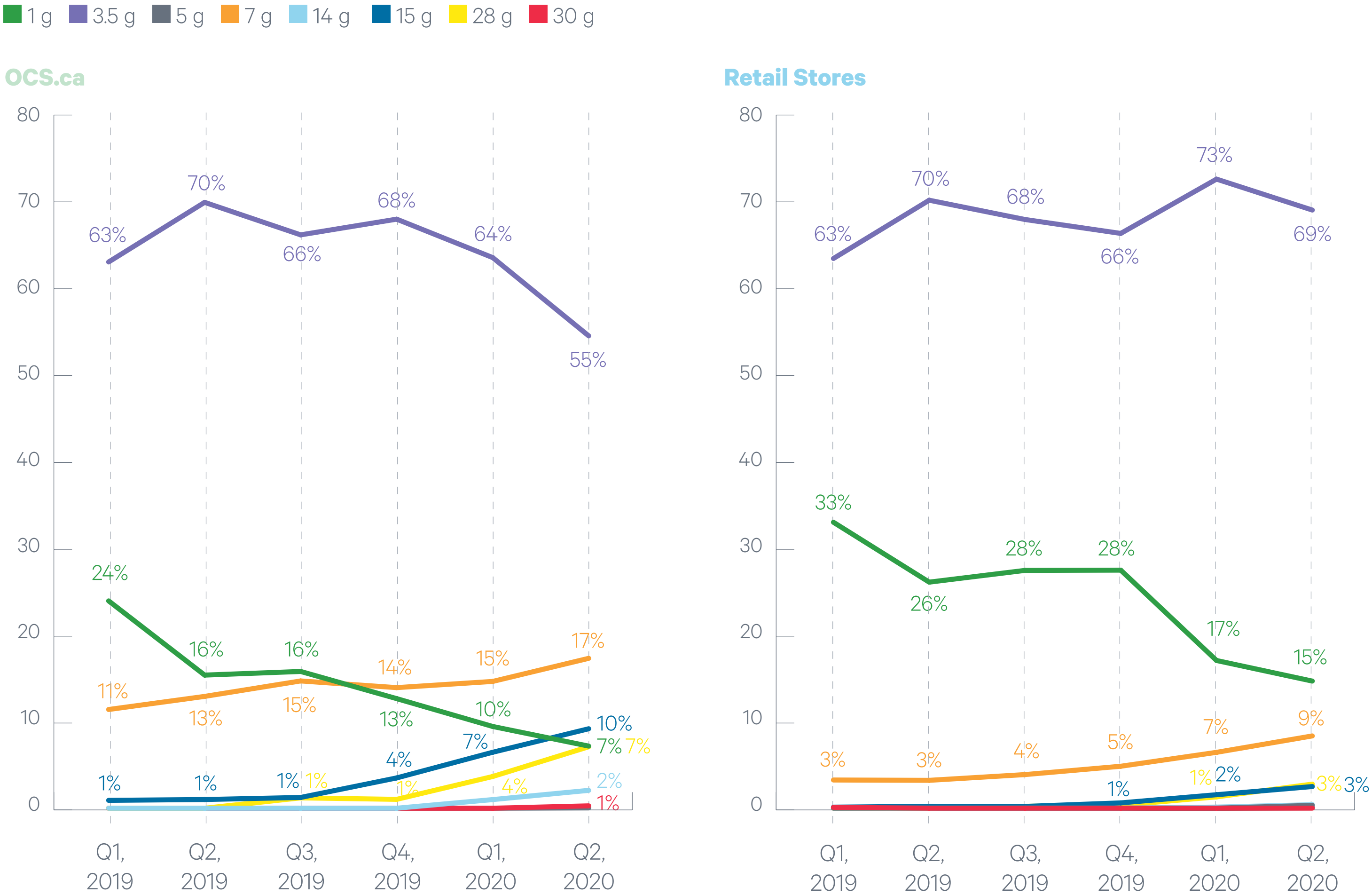
Note: Average prices are weighted by sales and include taxes. Sub-category sales do not add to total sales due to rounding. Dried flower equivalency (DFE) conversion can be found here.

Sales velocity by THC % July 1, 2020 – September 30, 2020

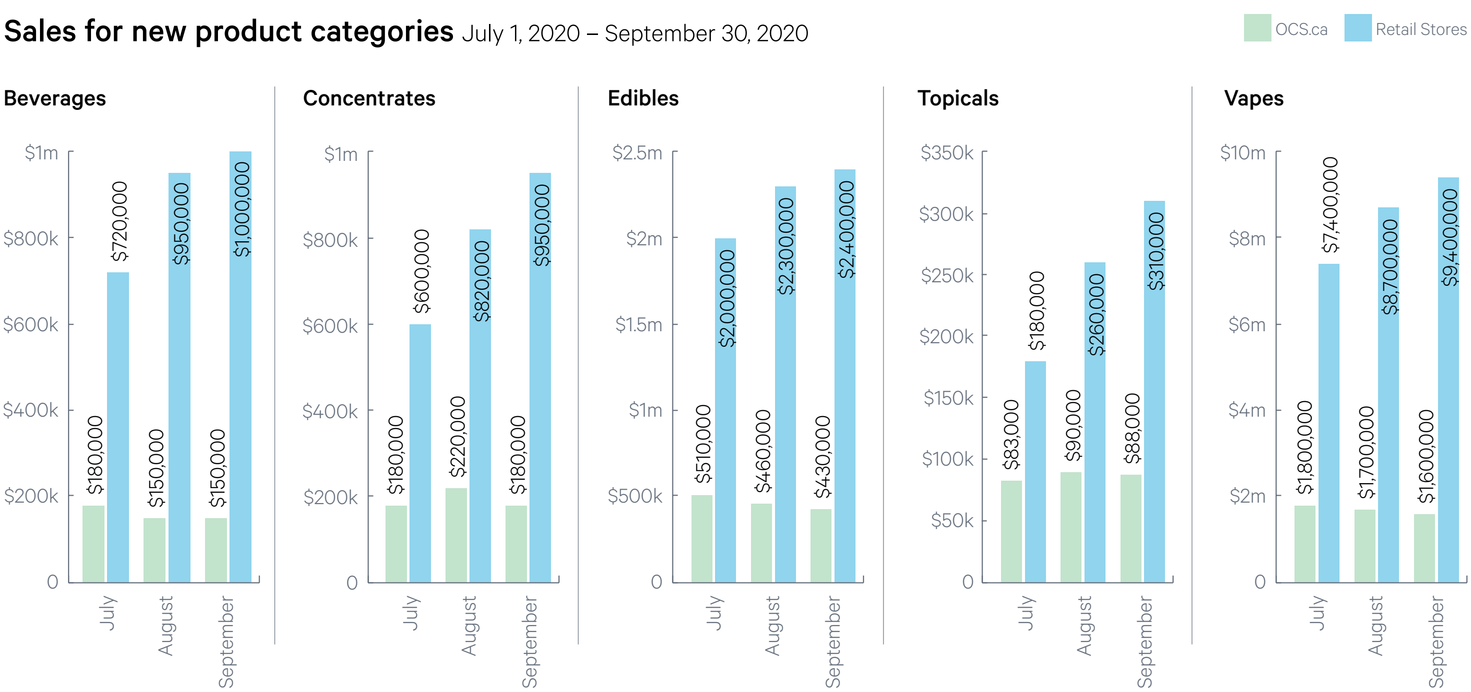


Sales velocity references units per day for OCS.ca and units per day per average store for retail.

Sales proportion by quarter, size and channel for dried flower



Sales for new product categories July 1, 2020 – September 30, 2020



Top five brands per category based on sales July 1, 2020 – September 30, 2020

OCS.ca

Beverages

Tweed	28%
Houseplant	21%
Everie	15%
Ripple	10%
Haven St.	8%

Capsules

Tweed	40%
Redecan	27%
Aurora	13%
Indiva	7%
Vertical	6%

Concentrates

48North	32%
Canna Farms	28%
JWC	18%
Original Stash	12%
Fireside X	7%

Dried Flower

Pure Sunfarms	13%
Redecan	10%
Daily Special	8%
Good Supply	7%
TWD.	6%

Edibles

Foray	26%
Bhang	22%
Aurora Drift	13%
Affirma	11%
Chowie Wowie	8%

Oils

Solei	29%
Redecan	23%
Symbl	12%
Tweed	4%
MediPharm Labs	3%

Pre-Rolls

Good Supply	16%
Redecan	12%
Edison	6%
Re-up	6%
Aurora	5%

Vapes

Redecan	18%
Foray	11%
FIGR	10%
Good Supply	8%
Kolab Project	8%

Topicals

Tidal	55%
LivRelief	26%
48North	19%

Seeds

34 Street Seed Co.	61%
Pure Sunfarms	21%
Tweed	11%
Pristine	6%

Retail Stores

Beverages

Tweed	24%
Houseplant	22%
Deep Space	16%
Everie	13%
Ripple	7%

Capsules

Redecan	65%
Tweed	20%
Aurora	6%
Solei	5%
Indiva	2%

Concentrates

48North	30%
Canna Farms	26%
Original Stash	17%
Fireside X	12%
JWC	9%

Dried Flower

Pure Sunfarms	12%
Redecan	9%
Good Supply	8%
Daily Special	6%
RIFF	5%

Edibles

Affirma	24%
Bhang	22%
Aurora Drift	16%
Foray	10%
San Rafael '71	9%

Oils

Redecan	33%
Solei	30%
Symbl	10%
Veryvell	4%
Pure Sunfarms	3%

Pre-Rolls

Good Supply	14%
RIFF	13%
Redecan	11%
Solei	8%
Edison	7%

Vapes

Good Supply	20%
Redecan	19%
CANACA	5%
Kolab Project	5%
Foray	5%

Topicals

48North	37%
Tidal	37%
LivRelief	26%

Seeds

34 Street Seed Co.	70%
Tweed	22%
Pure Sunfarms	6%
Pristine	2%

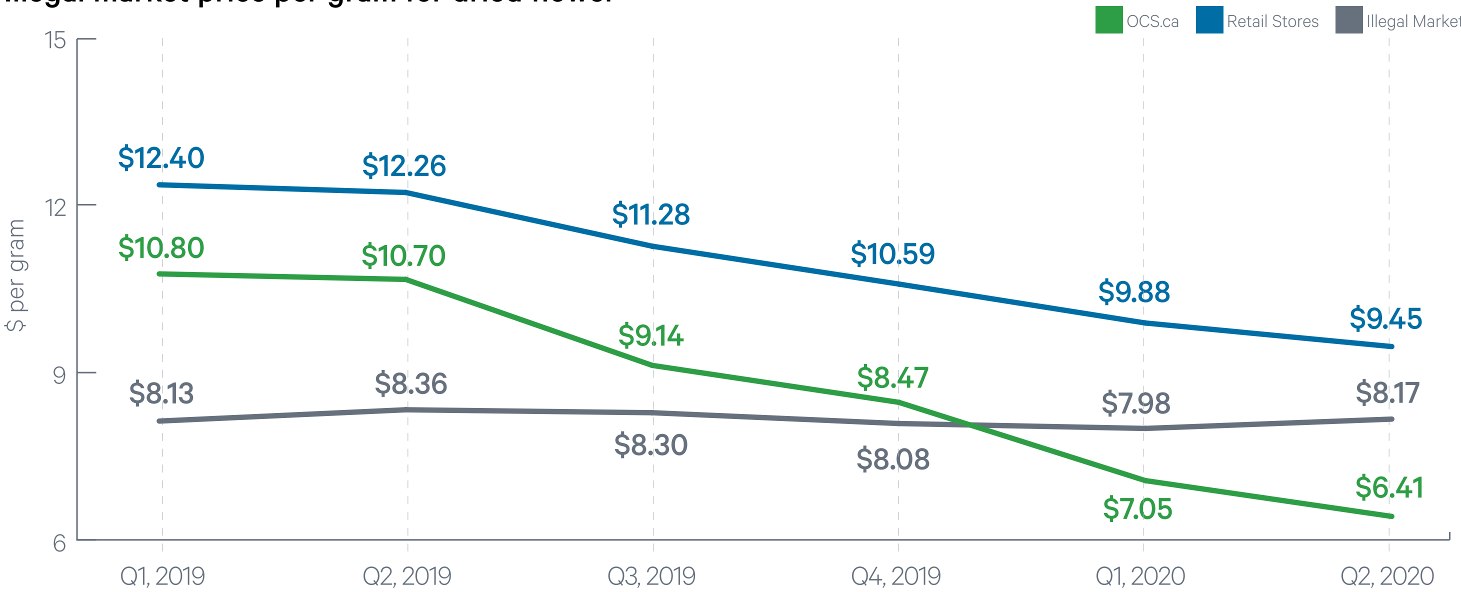
Sales market share by category indicated is for the entire quarter and may differ from point in time snapshots available to Licensed Producers through the OCS Data Program before the quarter has fully closed.

PRICING

Traction continued on pricing with the average price per gram of dried flower on OCS.ca hitting $6.41 per gram. The growth of value-priced, bulk offerings at 28 and 30 grams gave consumers access to quality cannabis at prices that were below the price paid for product on the illegal market. While growth in access was undoubtedly a prime driver for the strong rise in market share against an organized and persistent illegal market, the introduction of OCS's commercial strategy at the end of the last fiscal year and the continued efforts in this area should not be understated. These reductions are passed on directly to retail store operators as a fixed margin against online retail prices, and ensure a transparent and level playing field.

With dried flower pricing falling more in line with consumer expectations, it is expected that other product categories will follow suit as Licensed Producers continue their evolution. The value of the confidence customers can have in Licensed Producers, who offer accountability through the Certificate of Analysis and operate within a regulated framework, will continue to win over consumers concerned about knowing what is in the products that they are buying.

Illegal market price per gram for dried flower



OCS.ca and authorized cannabis 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

July 1, 2020 – September 30, 2020

Baked Goods	**$5.26/g** (DFE)
Beverages	**$1.83/g** (DFE)
Capsules	**$22.18/g** (DFE)
Cartridges	**$23.68/g** (DFE)
Chocolates	**$6.47/g** (DFE)
Confectionary	**$10.63/g** (DFE)
Creams and Lotions	**$61.76/g** (DFE)
Dried Flower	**$6.41/g** (DFE)
Hash	**$7.37/g** (DFE)
Kief and Sift	**$5.87/g** (DFE)
Oils	**$15.59/g** (DFE)
Pre-Rolls	**$9.53/g** (DFE)
Resin and Rosin	**$22.36/g** (DFE)
Seeds	**$12.09/seed**
Shatter	**$22.49/g** (DFE)

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

July 1, 2020 – September 30, 2020

	$4 - 8	$8 - 12	$12 - 16	$16 - 20	$20 - 24
OCS.ca	2.2x	1.0x	1.0x	1.1x	1.2x
Retail Stores	1.4x	1.4x	1.2x	1.0x	1.3x

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

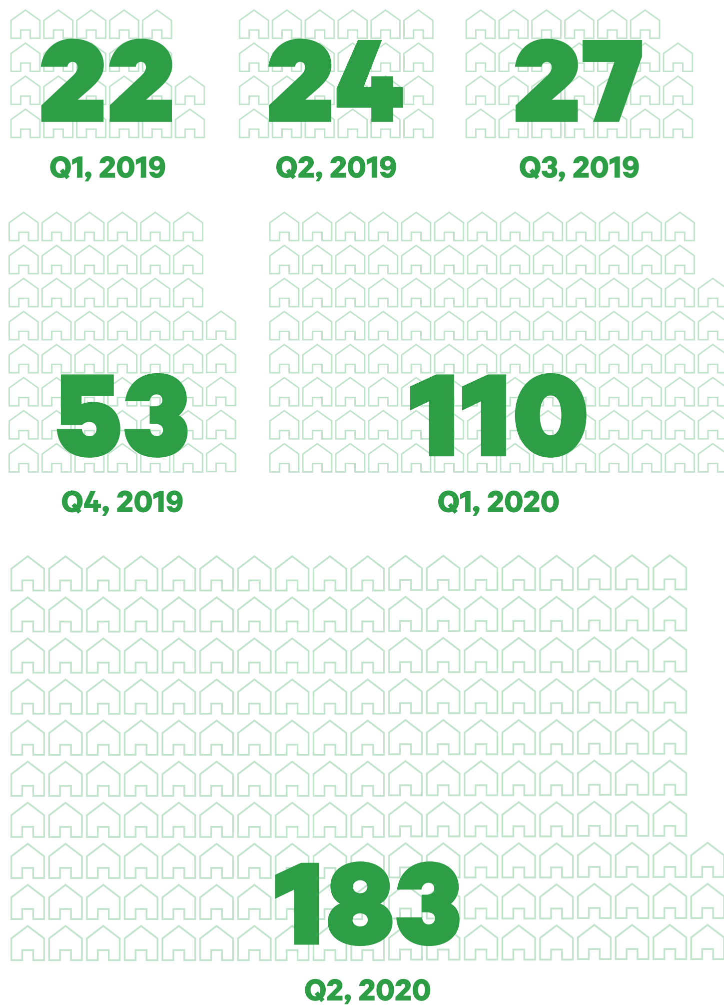
GROWING ACCESS POINTS

Despite challenges in Q2 presented to the entire economy by efforts to fight COVID-19, Ontario gained 73 new retail cannabis locations, growing from 110 to 183. This represents the single largest jump in access since legalization and this effort was rewarded with more than 10% gain in market share. With the announcement in the beginning of September that the Government of Ontario had directed the AGCO to double its licensing pace from 5 Cannabis Retail Store Authorizations per week to 10 per week, the growth in this quarter will surely be eclipsed by the next. At the time of this publication, authorizations were being issued at a pace of 20 per week.

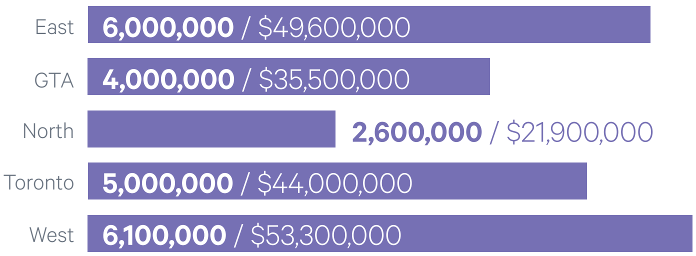
Much of Ontario remains under-served, with the average distance for consumers shifting very little from 19 to 18.5 kilometres, despite the large increase in store numbers. This is a reflection of stores continuing to cluster. This speaks to there still being tremendous opportunity in areas where stores are still absent from the landscape.

The reach of OCS.ca also expanded with the introduction of courier delivery last year. Initially this service was only available in the Toronto area, but by the end of this quarter the service reached 74% of OCS's customer base and could manage more than 5,000 deliveries per day.

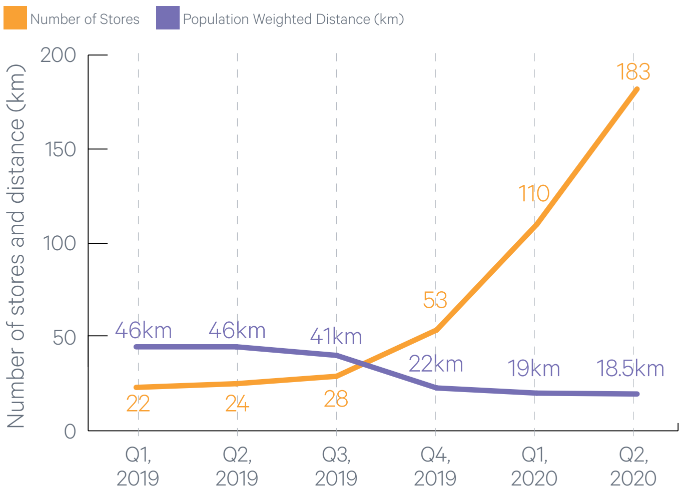
Growing number of retail stores



Grams sold by region

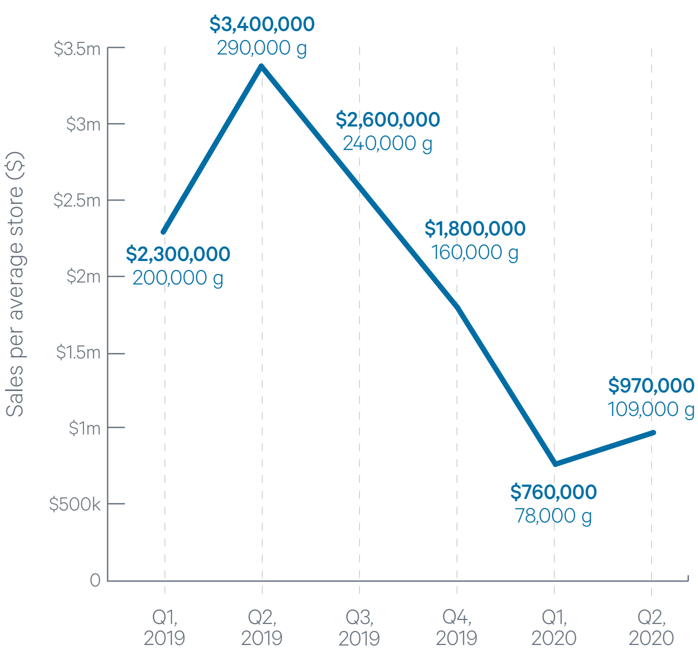


Average distance for consumers to a retail store



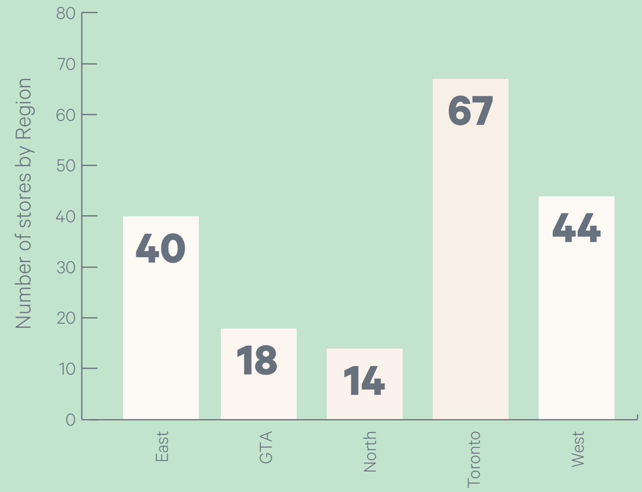
The average distance to a store decreased by 0.5 kilometres, while the number of stores more than doubled. This is due to stores opening within the same area of existing stores in central locations.

Average sales and grams sold by a store



Note: Sales exclude taxes (HST).

Number of stores by region and municipality



Number of Stores by Municipality

Addington County	1	Listowel	1
Ajax	2	London	7
Algoma	1	Milton	1
Ancaster	1	Nepean	4
Aurora	1	Niagara Falls	3
Barrie	4	North Bay	4
Bowmanville	1	Orillia	1
Bracebridge	1	Orleans	1
Bradford	2	Oshawa	2
Brampton	2	Ottawa	7
Brantford	1	Owen Sound	2
Burlington	8	Pembroke	1
Cambridge	3	Peterborough	3
Chatham	1	Renfrew County	1
Collingwood	1	Sault Ste. Marie Central	2
Cornwall	1	St. Catharines	2
East Haldimand County	1	St. Thomas	2
Fort Erie	1	Stittsville	1
Gloucester	1	Stouffville	1
Greater Sudbury	2	Stratford	1
Guelph	3	Thunder Bay	4
Haliburton County	1	Timmins	1
Hamilton	9	Toronto	67
Hawkesbury	1	Trenton	1
Kingston	7	Waterloo	1
Kitchener	2	Windsor	3

Unique visitors to OCS.ca

Q2, 2020

3,100,000

Q1, 2019	Q2, 2019	Q3, 2019	Q4, 2019	Q1, 2020
2,600,000	2,200,000	2,300,000	3,400,000	5,300,000

Conversion rate on OCS.ca

July 1, 2020 – September 30, 2020

Q2, 2020 9.1%

Q1, 2019	Q2, 2019	Q3, 2019	Q4, 2019	Q1, 2020
7.6%	8.1%	7.3%	7.2%	9.2%

Conversion rate is an important metric by which e-commerce businesses measure consumer demand on their platforms. For every 100 customers on OCS.ca, 9.1 made a transaction.

Average grams and sales per order on OCS.ca

July 1, 2020 – September 30, 2020

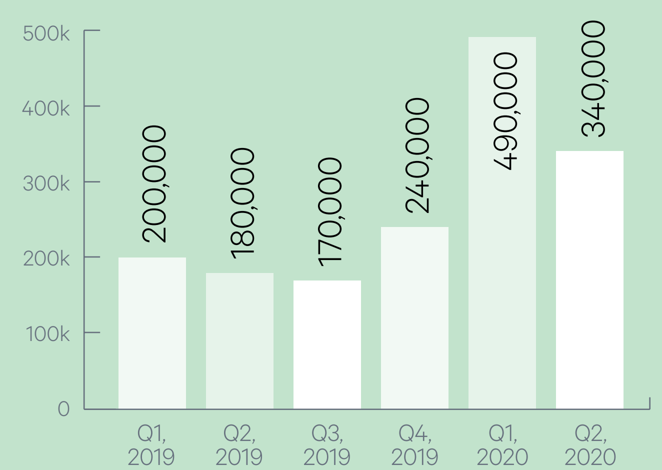
12.4 g

Average grams per order

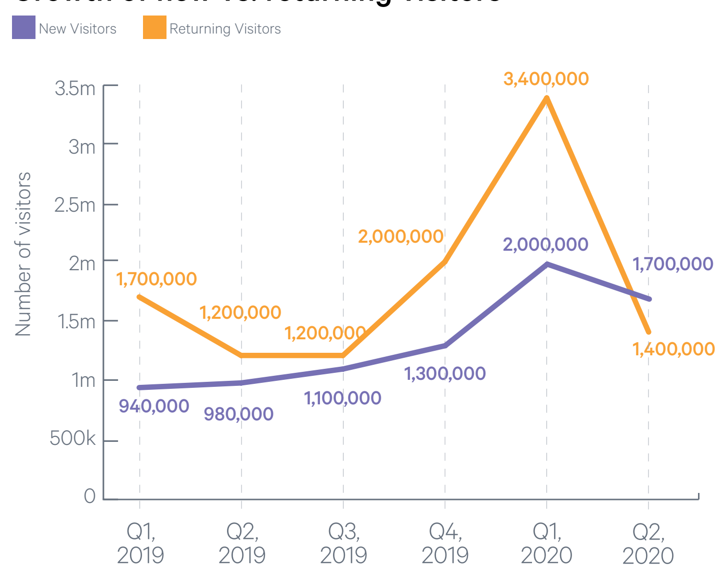
$89.42

Average $ per order (before tax)

Total number of transactions on OCS.ca



Growth of new vs. returning visitors



Population served by express shipping

Q2, 2020 74%

Q4, 2019 **37%**

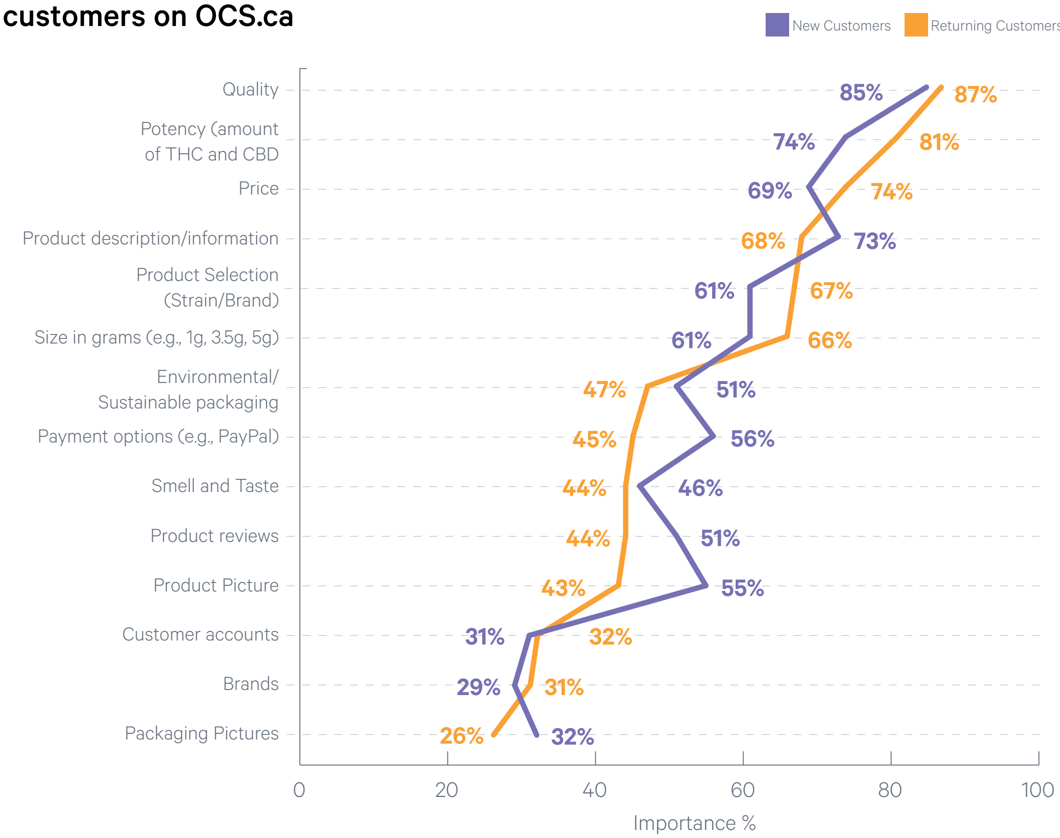
Q1, 2020 **64%**

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.

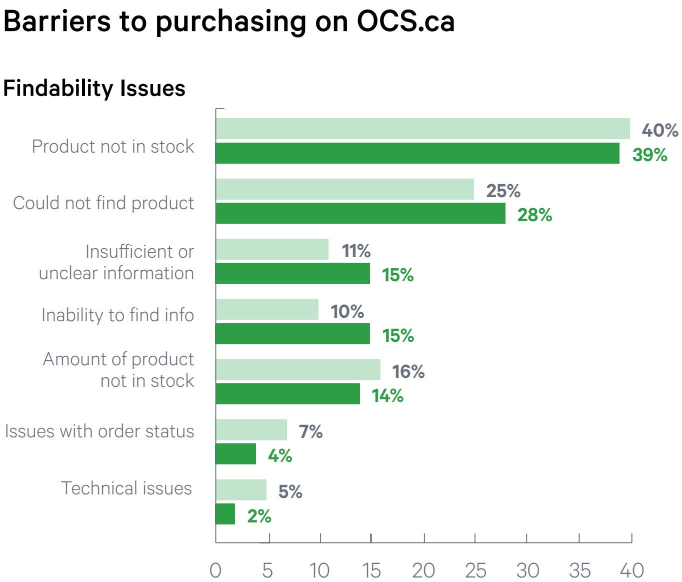
Attributes most important to customers on OCS.ca

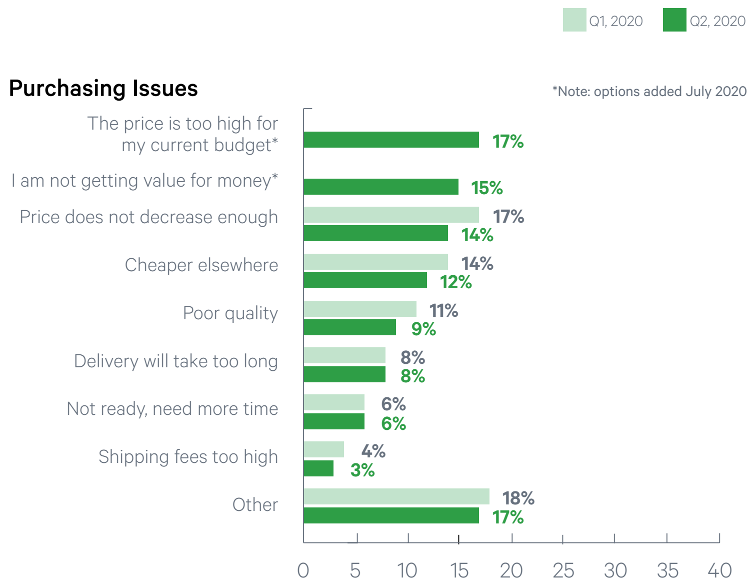
- In Q2 2020, quality continues to be the most important attribute for customers when shopping for cannabis. Dryness, stems and underweight product were the main factors influencing quality issues.
- While high potency (higher milligrams of THC or CBD) products are important for all shoppers, returning customers were significantly more likely to report potency as a very important attribute when shopping for cannabis
- Additionally, new customers attribute product descriptions and information as very important to inform their purchase decision.

Source: OCS.ca survey by Astute Solutions



Barriers to purchasing on OCS.ca





- While stock issues continue to improve overall, there is opportunity to offer a greater selection on specific products that customers are looking for but cannot find on OCS.ca (e.g., extracts and edibles).
- Visitors coming to OCS.ca for information are looking for more product details (e.g., terpene profile, strain information), more specifically, within extract and dried flower categories.
- Visitors saw an improvement on price decreases on larger formats, more affordable products and improved quality on OCS.ca.
- In Q2 2020, additional options were added around budget and value for money, both of which were main purchase barriers for visitors. Dried flower and extracts were the top categories related to these barriers.

Source: OCS.ca survey by Astute Solutions

SUPPLY CHAIN

The largest supply chain news in this quarter was the transition to the new distribution centre in Guelph. The new location – leased and operated by the OCS's third-party logistics provider, Domain Logistics – represents a significant investment in enabling Canada's largest cannabis marketplace. The facility, once fully operational in the spring of 2021, will upgrade both capacity and capability with much more space and new automation. Guelph was selected for both its proximity to Highway 401 and strong community support for the facility.

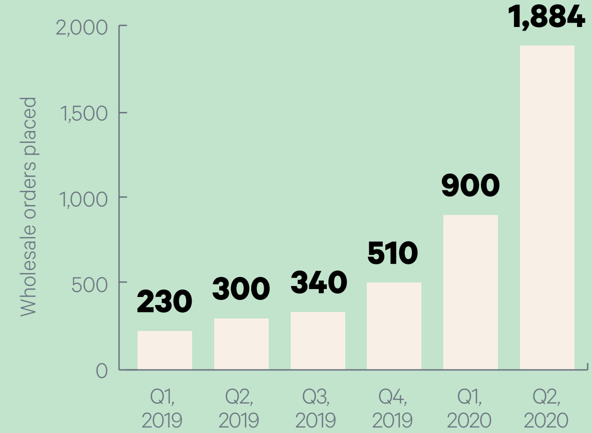
In this quarter, the number of wholesale orders processed by OCS more than doubled to 1,884, with stores ordering an average of 15,900 units per month. 9% of SKUs represented 37% of sales.

Order-to-ship lead time for wholesale customers

Note: Average since July 1– September 30, 2020.

2.43 days

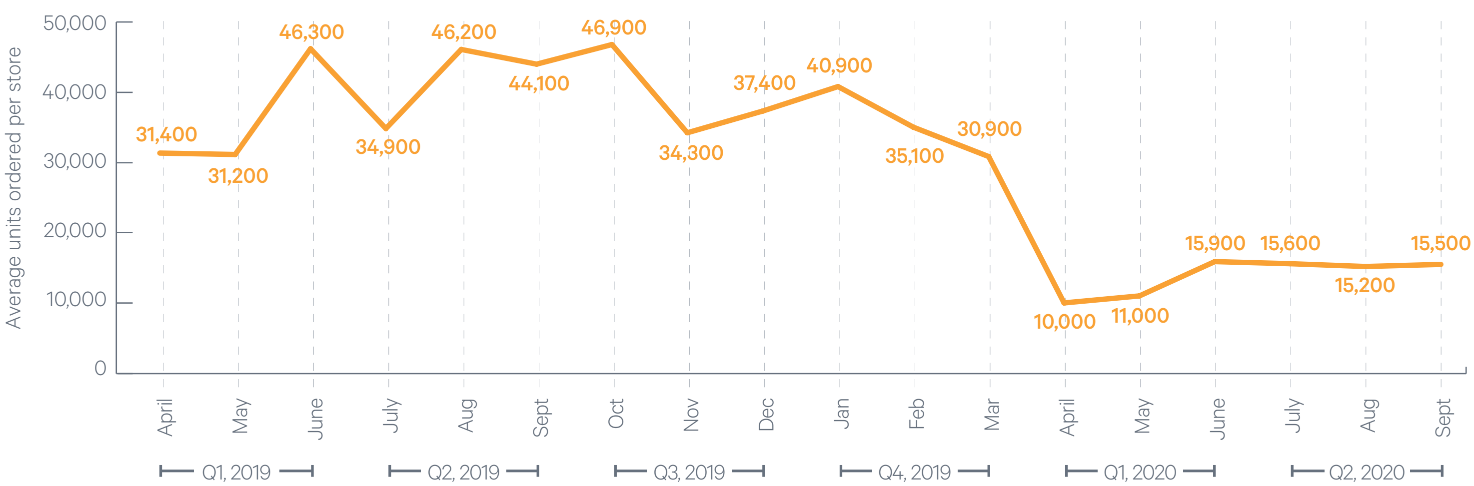
Number of wholesale orders



Average SKU count per wholesale order

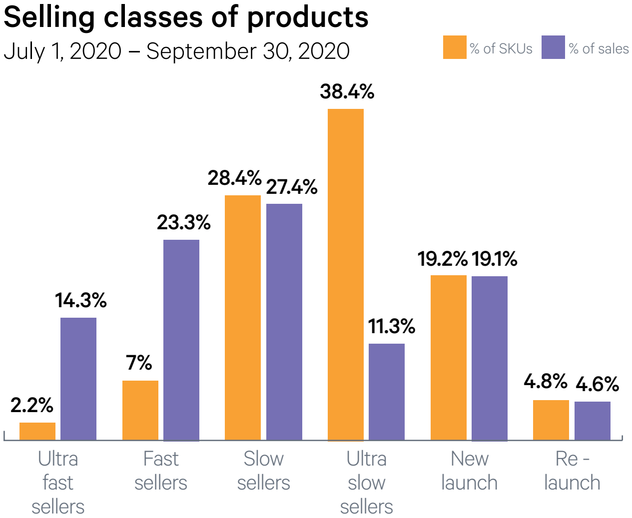
67	72	76	92	72	76
Q1, 2019	Q2, 2019	Q3, 2019	Q4, 2019	Q1, 2020	Q2, 2020

Average number of units ordered per store by month



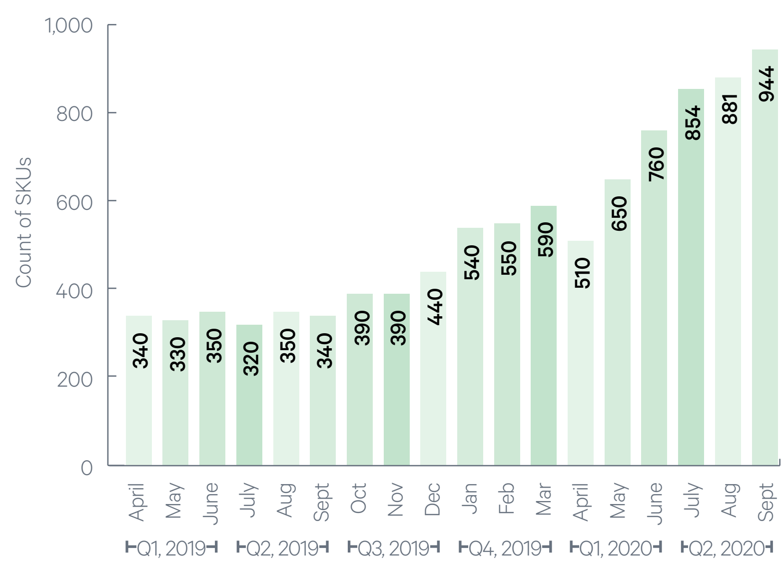
Selling classes of products

July 1, 2020 – September 30, 2020



SKU classes are based on the unit rate of sale for a SKU per store per week and on OCS.ca. Note: Sales include both Wholesale and OCS.ca and exclude accessories.

Unique SKUs ordered by month



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