ONTARIO CANNABIS STORE

A QUARTERLY REVIEW

OCTOBER 1 – DECEMBER 31, 2020

Q3

Q3

ABOUT THIS PUBLICATION

The Ontario Cannabis Store (OCS) has published *A Quarterly Review (October 1 – December 31, 2020)* as a resource for Ontario's entire legal cannabis industry. This document is intended to provide historical key facts and figures for the period between October 1 and December 31, 2020.

This publication marks the third quarterly data report by the OCS following *A Quarterly Review (July 1 – September 30, 2020)*. 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.

OCS

Expanding access to legal cannabis

Letter from Thomas Haig PRESIDENT AND CEO

This past quarter marked the beginning of the third year of cannabis legalization and despite the challenges posed to the retail landscape by the necessary fight against COVID-19, legal cannabis sales continued to expand in step with the growth of the number of brick-and-mortar stores in Ontario. Through the private retail store network and OCS.ca, Ontario hit a high with $251 million in legal sales in the quarter, up 23% over the previous quarter. On a per gram basis, 30 million grams of cannabis across all product categories were sold, up 16% over Q2. With the main goal of legalization being to supplant the illegal market, we are beginning to show success with legal sales now representing 40% of all cannabis sold in Ontario, up from 36%.

Even with restrictions on in-person shopping, customers chose physical stores for 88% of recreational cannabis purchases. It is clear that expanding physical access in unserved or under-served communities is key to continued growth over the long term. OCS expanded its capability to support these stores with migration to a new privately-operated distribution center in Guelph. The new facility introduced new technology as well as a much larger footprint that will enable continued rapid growth of the store network. The distribution centre has sufficient capacity to support expansion of the store network for the foreseeable future.

At the close of the quarter, there were 324 authorized retail stores operating in 81 Ontario communities; though with 111 of those clustering in the Toronto area, there are still many parts of Ontario where shopping locally for legal cannabis is inconvenient or not possible. OCS will continue to work closely with Ontario's regulator, the Alcohol and Gaming Commission of Ontario (AGCO) to support the increasingly rapid addition of stores.

Across the retail store network, sales for the average store sagged to $670,000 for the quarter, influenced by a broad range of factors ranging from COVID-19 restrictions to individual store performance and growing competition in areas with higher levels of store concentration.

Ontario continued to have the broadest catalogue of cannabis products in Canada, with 1,362 unique SKUs available this quarter. With the continued licensing of new cannabis producers by Health Canada, and a growing saturation of cannabis supply across all product categories, the OCS intends to introduce more robust category management principles into its business. This will allow the OCS to work collaboratively with producers and retailers to maintain a broad assortment of products that are best focused on the specific interest of customer segments across the province.

When we asked consumers about issues that presented a barrier to purchase on OCS.ca, the number one issue (37%) was that the product was not in stock, followed by not being able to find the product (24%). Neither of these indicators improved greatly over the previous two quarters, but we expect to see improvement in the months ahead through changes to OCS processes and continued alignment of the sector with retailing best practices. The number of visitors to OCS.ca stayed relatively stable at 3 million over the quarter, with a conversion rate of 9.2% and an average basket size of 12.2 grams valued at $87.84.

Pricing on dried flower sank slightly to an average of $6.24 per gram through OCS.ca and $9.13 through retail stores, as compared to $7.76 per gram average available through illegal online sellers. An interesting emerging trend is a growing delineation between consumers who purchase through OCS.ca versus those who purchase in-person at retail stores. Value products on OCS.ca, those priced between $3 and $6.50 per gram sell at a velocity of 4.6 times faster than those at the top end of the scale at $20.50 – $24 per gram. In stores, the value products sell at the same speed as products at the high end. This indicates that consumers shopping through OCS.ca are much more price sensitive.

OCS is focused on serving the needs of cannabis consumers through growing access to tested, regulated, Health Canada approved products that are traceable, fairly priced and provide legal jobs in communities across Canada. By focusing on supporting retailers, collaborating with Licensed Producers and listening to consumers, I am confident we will continue to demonstrate success on our journey.

Thomas Haig
PRESIDENT AND CEO, ONTARIO CANNABIS STORE

Q3

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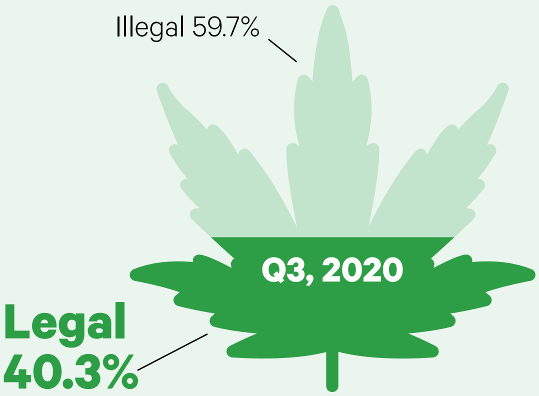
Q3 THE BIG PICTURE

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



Q4, 2018	Q1, 2019
4.6%	**14.1%**
Q2, 2019	Q3, 2019
20.7%	**21.4%**
Q4, 2019	Q1, 2020
24.7%	**25.1%**
Q2, 2020	
36.2%	

Due to continued growth of retail store openings, Ontario's legal share of the recreational market increased from 36.2% share in Q2 to 40.3% in Q3 and is much closer to the national legal capture of recreational cannabis sales. 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 October 1, 2020 – December 31, 2020

OCS.ca **$29,400,000**

Retail Stores **$221,700,000**

$251,100,000

Note: All figures are unaudited, and include both cannabis products and accessories. Sales exclude taxes (HST).

Total grams sold

October 1, 2020 – December 31, 2020

30,000,000 g

OCS.ca **4,100,000 g**

Retail Stores **25,900,000 g**

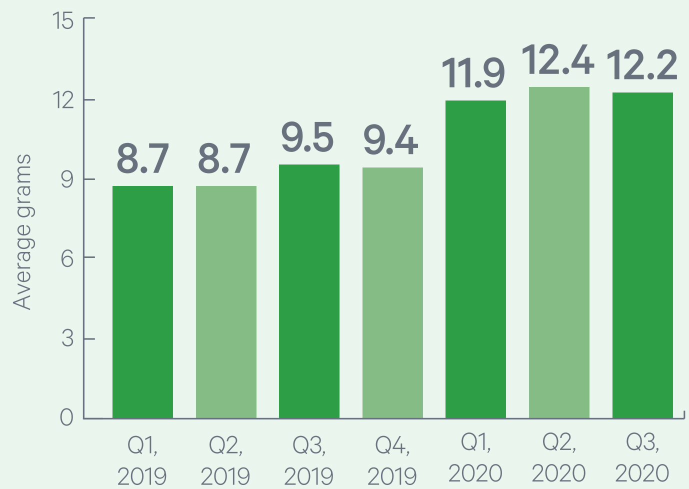
Number of retail stores

Unique items listed

Q1, 2019	Q2, 2019	Q3, 2019	Q4, 2019	Q1, 2020	Q2, 2020	Q3, 2020
517	519	641	795	907	1115	1362

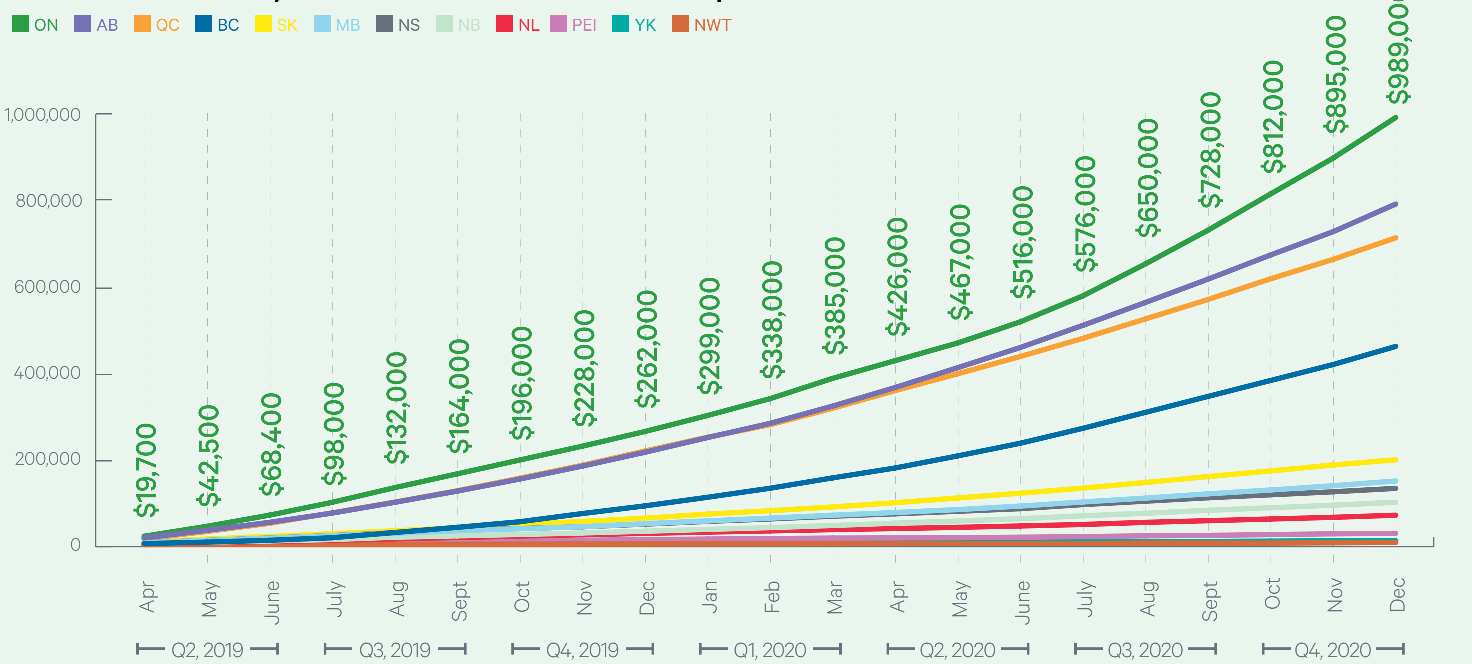
The number of unique items available for sale on OCS.ca and retail channels has increased by 22% (247 new items) compared to last quarter. Unique items listed include active SKUs that were in-stock and excludes accessories.

Average grams per OCS.ca order



Q3 THE BIG PICTURE

Cumulative monthly retail cannabis sales across all provinces and territories

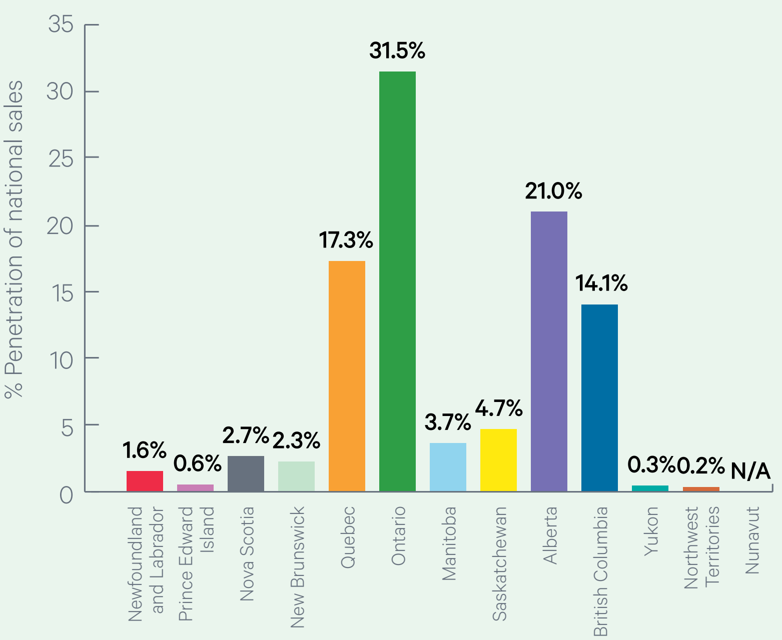


Note: The time period of reporting used by Statistics Canada is based on a calendar year.

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

Ontario share of national recreational sales

October 1, 2020 – December 31, 2020



Ontario's share increased by 2.86% points compared to last quarter leading the national recreational sales among all provinces and territories, reaching the highest market share since legalization. Apart from Ontario and Northwest Territories all other provinces showed a decrease in their national market share.

Source: Statistics Canada. Table 20-10-0008-01 Retail trade sales by province and territory

OCS.ca customer sentiment score on price

-5.3%

score decrease compared to previous quarter

-1.3%

POINT DECREASE

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

Total number of price reductions on OCS.ca October 1, 2020 – December 31, 2020

248

ONTARIO CANNABIS STORE

SALES DATA

In the third quarter of this year, 30,000,000 grams of legal recreational cannabis valued at approximately $251,100,000 were sold in Ontario, an increase in volume of 16% over the previous quarter. Physical stores represented 88% of sales in the province with 25,900,000 grams versus the online channel's sales of 4,100,000 grams. Dried flower continued to lead, with just over 57% of sales, followed by vapes and pre-rolls, at 15.7% and 12.5% respectively, with edibles making up 4.5% of all cannabis sales.

This quarter, despite the challenges presented by COVID-19 to the retail sector at large, cannabis sales grew aligned with the number of brick-and-mortar stores in Ontario. Progress was made in taking market share away from the illegal market with legal sales now representing 40% of all cannabis sold in Ontario, up from 36%.

Edibles, concentrates, beverages, topicals and seeds represented just over 9% of sales, a slight increase compared to last quarter with less than 8%. While consumer preferences are a constant focus, these evolving categories are beginning to show consistent growth on both OCS.ca and in retail stores. Consumer preference still tilts towards products with higher THC levels (above 20%) with customers in stores buying high-THC products at a sales velocity of 337 times faster than low-THC products. CBD-dominant products were the second-fastest-selling category, with a sales velocity of 139 times faster than the slowest-selling products. The high-THC trend was far less pronounced on OCS.ca with a velocity roughly 60% slower than in store.

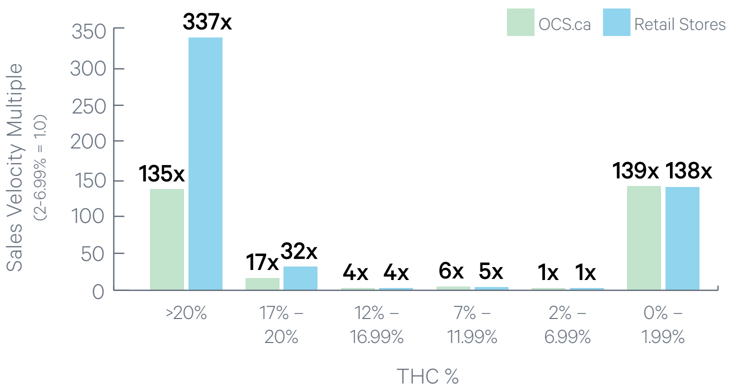
Total sales and grams sold by product categories

October 1, 2020 – December 31, 2020

	OCS.ca	Retail Stores	% of $ Sales
Dried Flower	**$15,027,000** 2,727,000 g	**$128,020,000** 17,549,000 g	**57.4%**
Vapes	**$5,415,000** 299,000 g	**$33,806,000** 1,558,000 g	**15.7%**
Pre-Rolls	**$1,626,000** 204,000 g	**$29,590,000** 2,858,000 g	**12.5%**
Edibles	**$1,609,000** 235,000 g	**$9,516,000** 1,052,000 g	**4.5%**
Oils	**$2,433,000** 134,000 g	**$6,692,000** 251,000 g	**3.7%**
Concentrates	**$717,000** 97,000 g	**$5,219,000** 578,000 g	**2.4%**
Beverages	**$555,000** 325,000 g	**$3,624,000** 1,962,000 g	**1.7%**
Capsules	**$1,048,000** 34,000 g	**$2,700,000** 69,000 g	**1.5%**
Topicals	**$317,000** 12,000 g	**$1,211,000** 54,000 g	**0.6%**
Seeds	**$82,000** 8,000 g	**$84,000** 7,000 g	**0.1%**

Note: Average prices are weighted by sales and exclude taxes. % of sales do not total 100% due to rounding. Dried flower equivalency (DFE) conversion can be found here.

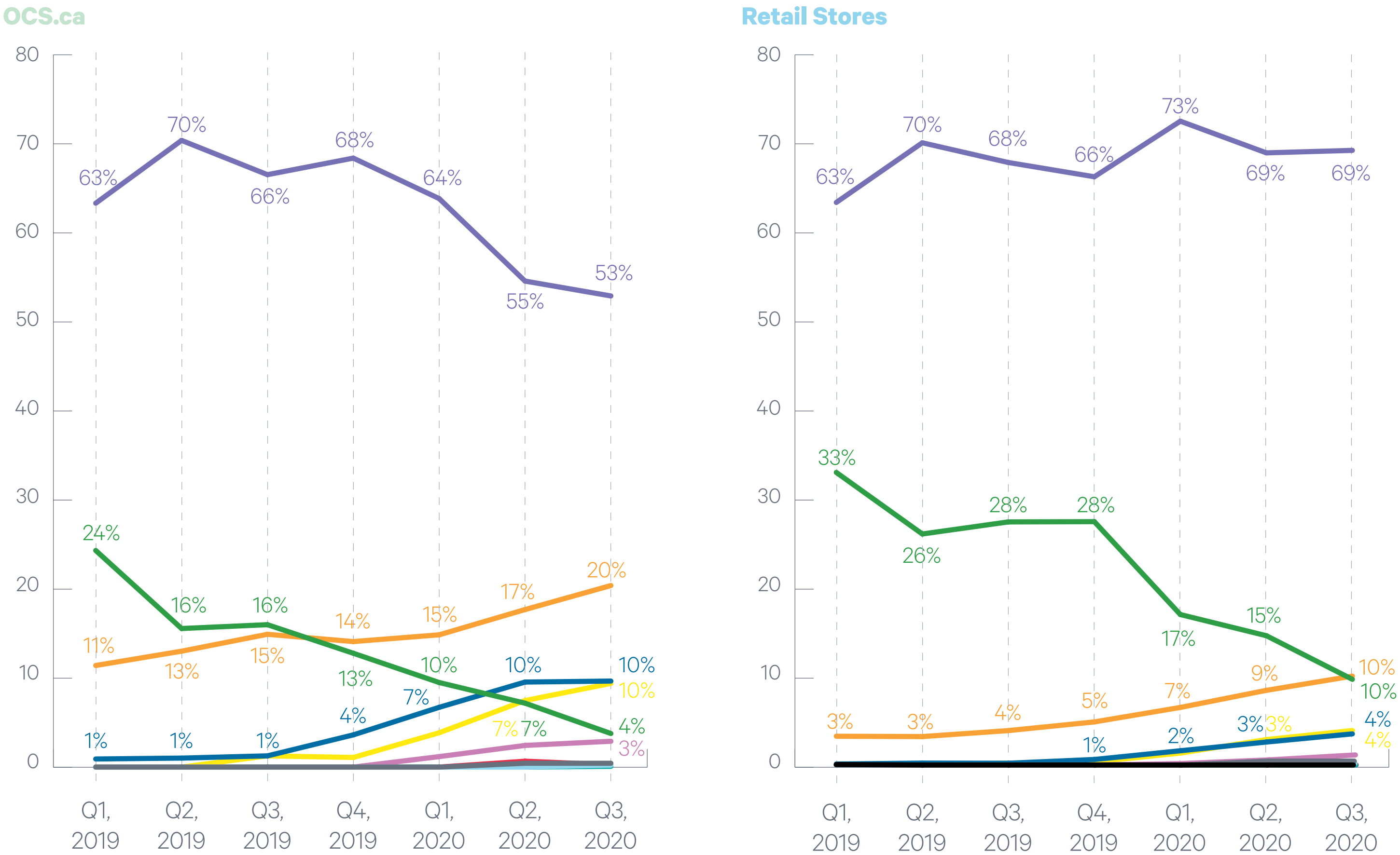
Sales velocity by THC % October 1, 2020 – December 31, 2020



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

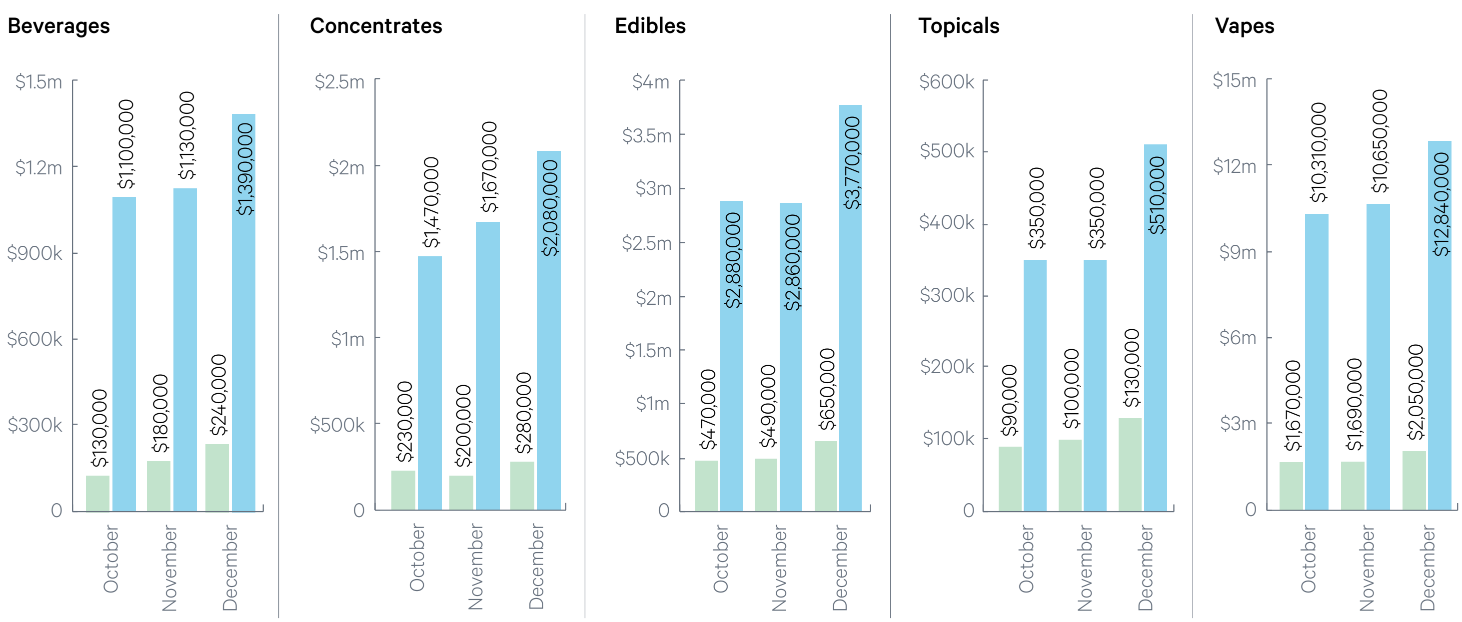
1 g | 3.5 g | 4 g | 5 g | 7 g | 10 g | 14 g | 15 g | 21 g | 28 g | 30 g



Note: In an effort to drive consistency for consumers, OCS continues to encourage Licensed Producers to transition towards standardized size variants of 1 g, 3.5 g, 7 g, 14 g, and 28 g.

Sales for new product categories October 1, 2020 – December 31, 2020

OCS.ca | Retail Stores



Top five brands per category based on sales October 1, 2020 – December 31, 2020

OCS.ca

Beverages

Tweed	14%
Houseplant	13%
Haven St.	12%
Everie	10%
Little Victory	10%

Capsules

Redecan	37%
Tweed	28%
Daily Special	12%
Indiva	9%
Aurora	6%

Concentrates

48North	23%
Hiway	15%
Original Stash	12%
San Rafael '71	10%
Canna Farms	9%

Dried Flower

Pure Sunfarms	13%
Good Supply	7%
SHRED	5%
Hexo	4%
Redecan	4%

Edibles

Foray	21%
Bhang	17%
Chowie Wowie	13%
Wana	11%
Aurora Drift	11%

Oils

Redecan	32%
Solei	27%
Symbl	6%
Pure Sunfarms	4%
Tweed	4%

Pre-Rolls

Redecan	19%
Good Supply	14%
RIFF	5%
Hiway	4%
Solei	4%

Vapes

Hexo	11%
Daily Special	9%
Solei	9%
Redecan	8%
Good Supply	6%

Topicals

Tidal	42%
LivRelief	27%
48North	16%
Eve & Co.	8%
Latitude by 48North	3%

Seeds

34 Street Seed Co.	62%
Pure Sunfarms	21%
Pristine	9%
Tweed	8%

Retail Stores

Beverages

Houseplant	13%
Tweed	12%
Deep Space	11%
Little Victory	11%
Everie	9%

Capsules

Redecan	69%
Tweed	15%
Daily Special	7%
Indiva	3%
Solei	2%

Concentrates

48North	23%
Original Stash	16%
San Rafael '71	16%
Canna Farms	10%
Hiway	10%

Dried Flower

Pure Sunfarms	13%
Good Supply	8%
Redecan	6%
Daily Special	4%
TWD.	4%

Edibles

Wana	22%
Bhang	16%
Aurora Drift	14%
Affirma	9%
San Rafael '71	9%

Oils

Redecan	50%
Solei	17%
Pure Sunfarms	8%
MediPharm Labs	5%
Symbl	4%

Pre-Rolls

Redecan	15%
Good Supply	13%
RIFF	10%
Trailblazer	5%
Solei	3%

Vapes

Redecan	17%
Good Supply	14%
Daily Special	8%
Back Forty	5%
Pure Sunfarms	5%

Topicals

Tidal	33%
48North	27%
LivRelief	22%
Eve & Co.	13%
Latitude by 48North	3%

Seeds

34 Street Seed Co.	62%
Pure Sunfarms	20%
Tweed	13%
Pristine	5%

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

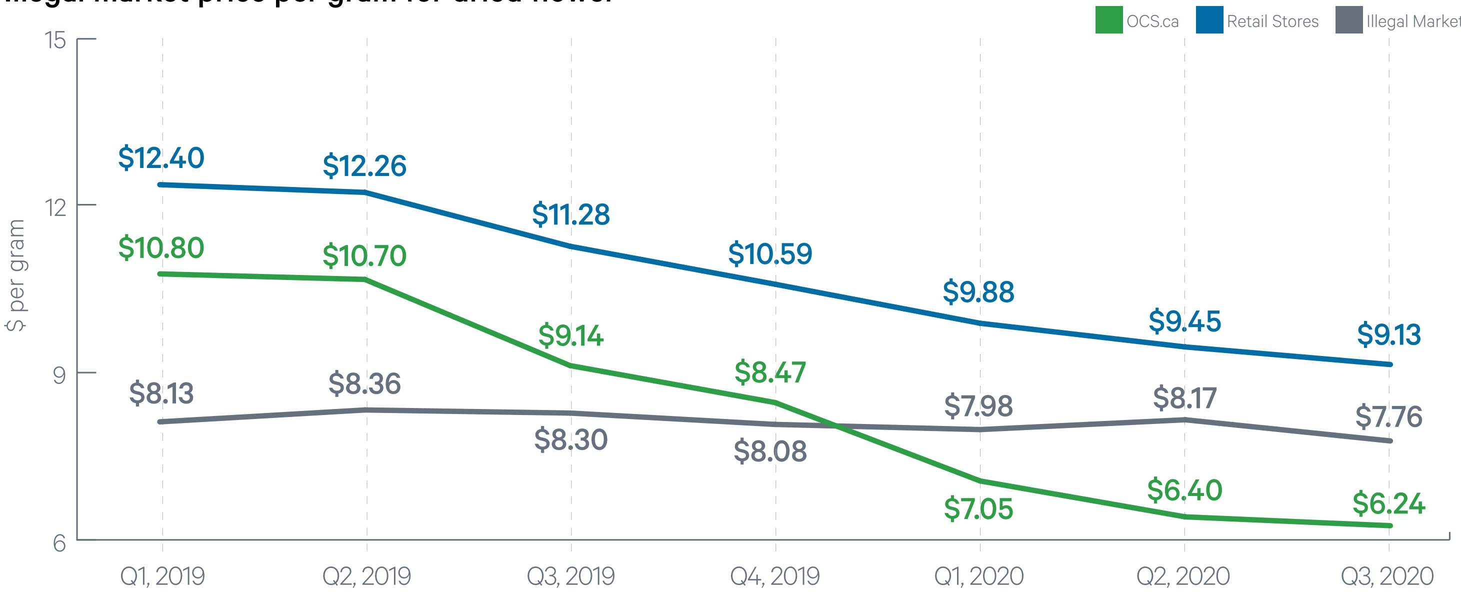
Progress continues to be made on pricing with the average price per gram of dried flower on OCS.ca hitting $6.24 per gram, down slightly from the previous quarter. Retail stores had a decrease to an average of $9.13 per gram, while prices found on the illegal market through analysis of online sellers also decreased, to $7.76. The growth of value-priced, bulk offerings at 28 and 30 grams gave consumers access to quality cannabis at prices that were competitive or below the price paid on the illegal market.

There is a growing split between consumers who purchase through OCS.ca versus those who purchase in person at retail stores. Value products on OCS.ca, those priced between $3 and $6.50 per gram, sold 4.6 times faster than those at the top end of the scale between $20.50 and $24 per gram. In retail stores, value products sold at the same speed as products at the high end. A number of factors could influence this trend, including consumer education offered by budtenders in stores and different characteristics of online shoppers.

Further analysis of this trend over time will offer more information. This preliminarily indicates that consumers shopping through OCS.ca are much more price sensitive. Consumers are beginning to shift away from demanding just the lowest prices possible, and are looking for improved value and product quality for price across several categories, particularly dried flower, pre-rolls, and concentrates.

OCS continues to work with Licensed Producers on pricing across all product categories, making 248 price reductions in this quarter alone. These reductions are passed on directly to retail store operators as the wholesale pricing system uses a fixed margin against online retail prices to ensure a transparent and level playing field for retail store owners.

Illegal market price per gram for dried flower



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

Average price per gram across cannabis subcategories on OCS.ca

October 1, 2020 – December 31, 2020

Baked Goods	**$5.26/g** (DFE)
Beverages	**$1.93/g** (DFE)
Capsules	**$35.13/g** (DFE)
Cartridges	**$20.51/g** (DFE)
Chocolates	**$5.66/g** (DFE)
Confectionery	**$10.83/g** (DFE)
Creams and Lotions	**$60.08/g** (DFE)
Dried Flower	**$6.24/g** (DFE)
Hash	**$6.15/g** (DFE)
Kief and Sift	**$6.14/g** (DFE)
Oils	**$20.49/g** (DFE)
Pre-Rolls	**$9.02/g** (DFE)
Resin and Rosin	**$16.18/g** (DFE)
Shatter	**$22.42/g** (DFE)
Seeds	**$11.94/seed**
Wax	**$15.69/g** (DFE)

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

October 1, 2020 – December 31, 2020

	$3 – 6.50	$6.50 – 10	$10 – 13.50	$13.50 – 17	$17 – 20.50	$20.50 – 24
OCS.ca	4.6x	2.0x	1.4x	1.4x	2.1x	1.0x
Retail Stores	1.2x	1.4x	1.2x	1.1x	1.0x	1.2x

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

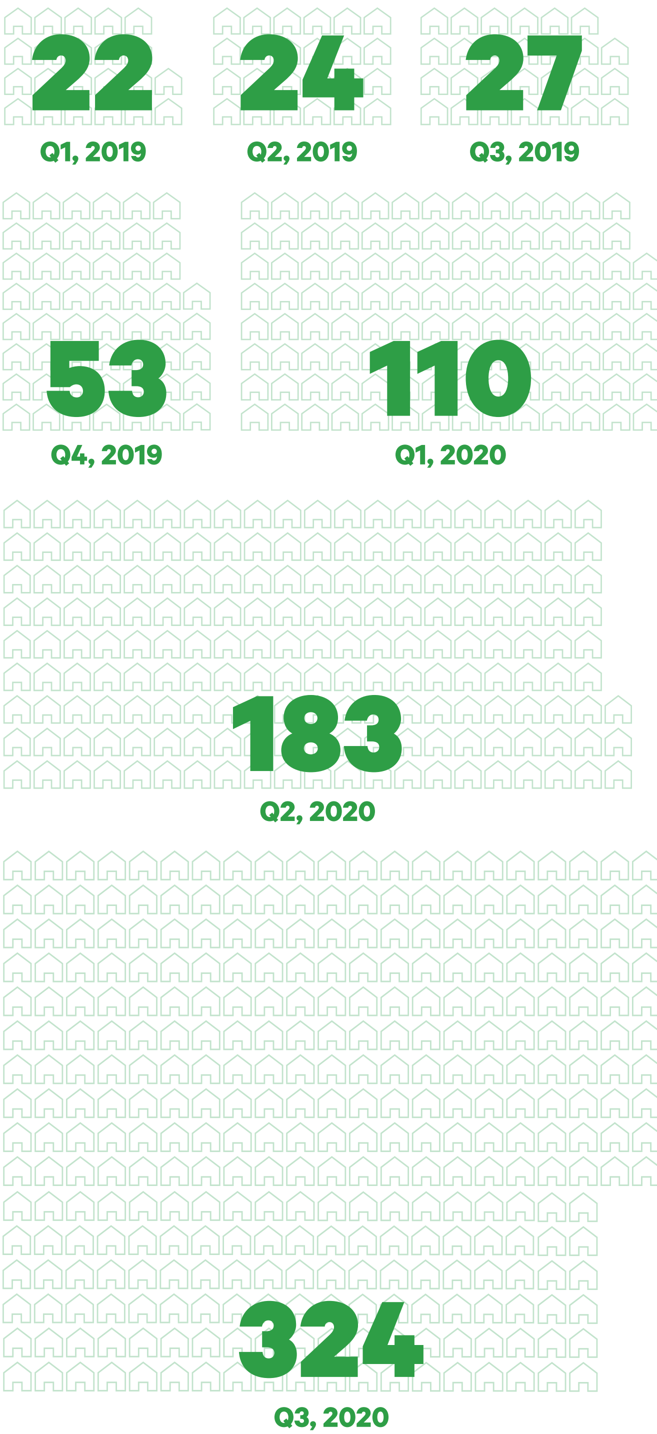
GROWING ACCESS POINTS

In the third quarter, we continued to grapple COVID-19 with restrictions on construction and retail store openings affecting all parts of the economy. Cannabis was not immune to these challenges, but in this past quarter Ontario gained 141 new retail cannabis locations, doubling the number of retail openings in the previous quarter (73). At the end of the calendar year, Ontario had 324 retail stores operating in communities across the province.

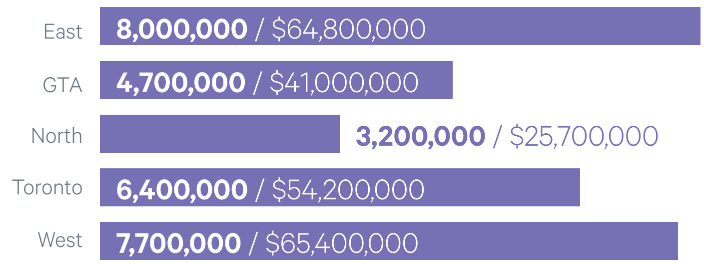
While there is still a great deal of concentration of stores in Toronto with more than a third of open stores inside the city, there was excellent progress made in decreasing the average distance to a store for Ontarians. This number dropped to 9.5 from 18.5 kilometres, demonstrating that stores are beginning to open their doors in smaller and unserved communities.

OCS expanded its express delivery service with orders now arriving within 3 days in areas outside of Toronto. Initially this service was only available in the Toronto area, but by the end of this quarter the service reached 78% of OCS's customer base.

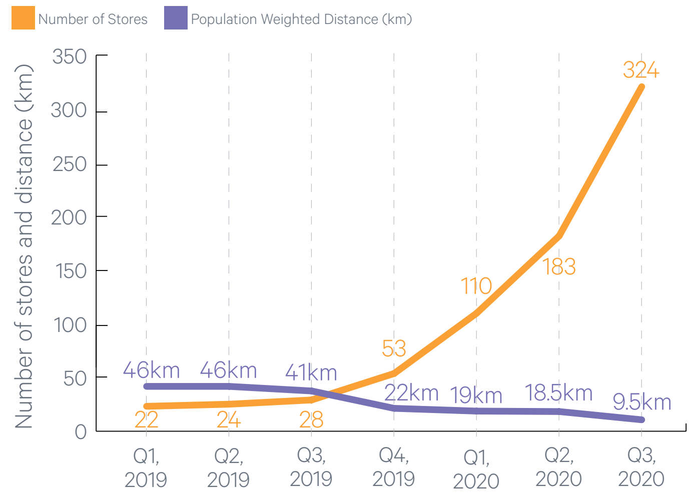
Growing number of retail stores



Grams sold by region

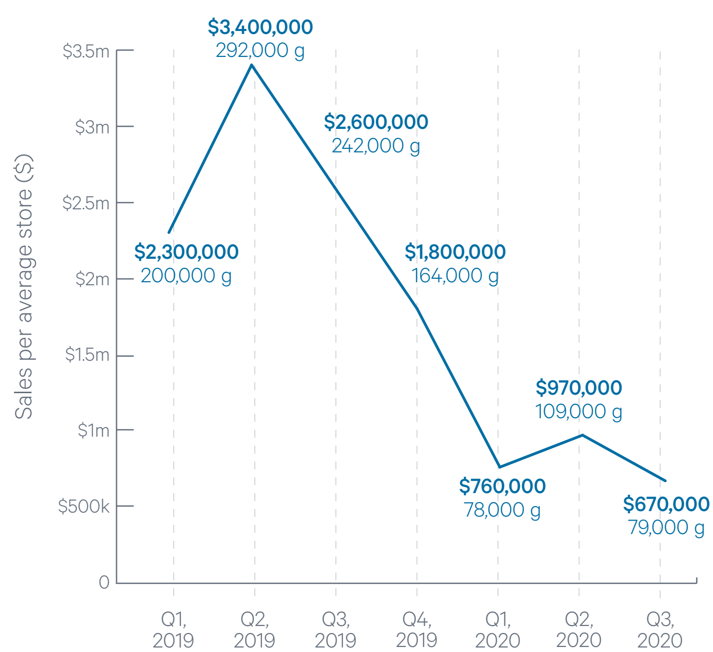


Average distance for consumers to a retail store



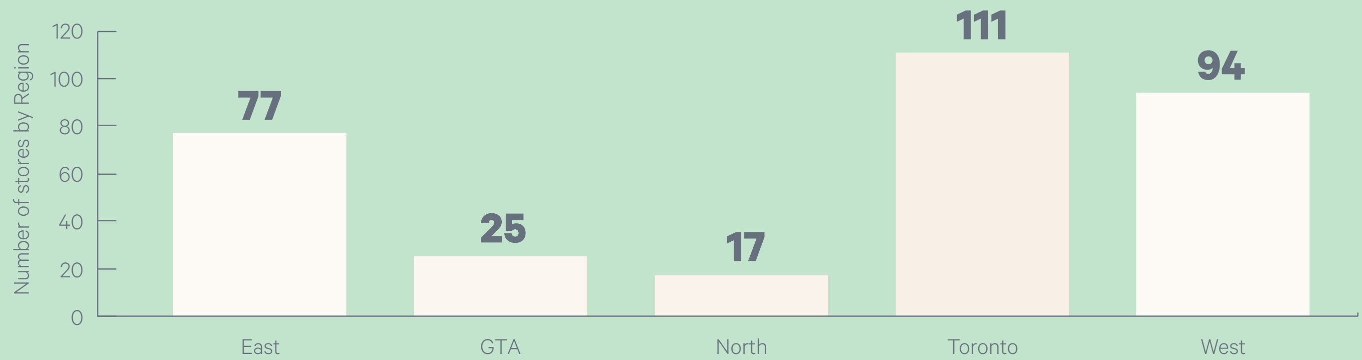
The average distance to a store decreased by 9 kilometres, with the number of stores increasing by 77% compared to last quarter, demonstrates smaller and unserved communities opening more authorized retail stores.

Average sales and grams sold by a store



Note: Sales figures include cannabis products and accessories. Taxes (HST) are excluded.

Number of stores by region and municipality



Number of Stores by Municipality

Ajax	1	Collingwood	2	Leamington	1	Rockland	1
Alliston	1	Cornwall	1	Lindsay	1	Sault Ste. Marie	2
Amherstburg	2	Deep River	1	Listowel	1	Smiths Falls	1
Ancaster	1	Dryden	1	London	11	St Catharines	4
Aurora	1	Dundas	2	Midland	2	St Thomas	2
Bancroft	1	Dunnville	1	Milton	1	Stittsville	1
Barrie	7	Essex	1	Nepean	5	Stoney Creek	4
Barry's Bay	1	Fort Erie	1	Newcastle	1	Stouffville	1
Beamsville	1	Gananoque	1	Niagara Falls	6	Stratford	2
Blenheim	1	Gloucester	1	North Bay	5	Sudbury	2
Blind River	1	Grand Bend	1	Northbrook	1	Thunder Bay	4
Bowmanville	1	Guelph	6	Orangeville	1	Timmins	1
Bracebridge	1	Haliburton	1	Orillia	3	Toronto	111
Bradford	2	Hamilton	14	Orleans	4	Trenton	1
Brampton	3	Hawkesbury	1	Oshawa	5	Waterdown	2
Brantford	3	Huntsville	1	Ottawa	15	Waterloo	2
Burlington	10	Innisfil	1	Owen Sound	2	Whitchurch-Stouffville	1
Caledonia	1	Kanata	1	Pembroke	5	Windsor	9
Cambridge	5	Kenora	1	Peterborough	4		
Carleton Place	1	Kingston	6	Picton	2		
Chatham	3	Kitchener	3	Port Elgin	1		

Unique visitors to OCS.ca

Q3, 2020

3,000,000

Q1, 2019	Q2, 2019	Q3, 2019	Q4, 2019	Q1, 2020	Q2, 2020
2,600,000	2,200,000	2,300,000	3,400,000	5,300,000	3,100,000

Conversion rate on OCS.ca

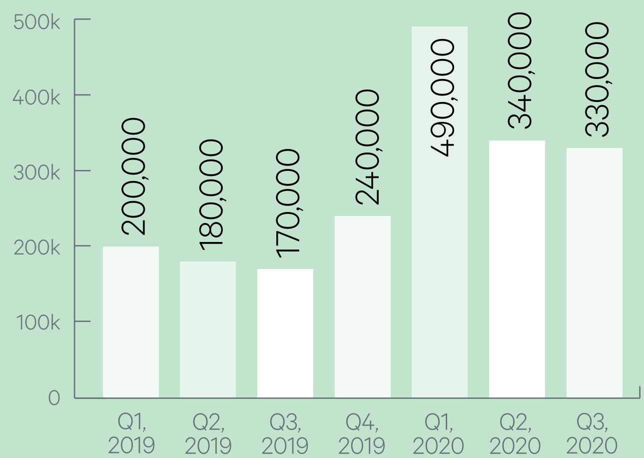
October 1, 2020 – December 31, 2020

Q3, 2020 9.2%

Q1, 2019	Q2, 2019	Q3, 2019	Q4, 2019	Q1, 2020	Q2, 2020
7.6%	8.1%	7.3%	7.2%	9.2%	9.1%

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

October 1, 2020 – December 31, 2020

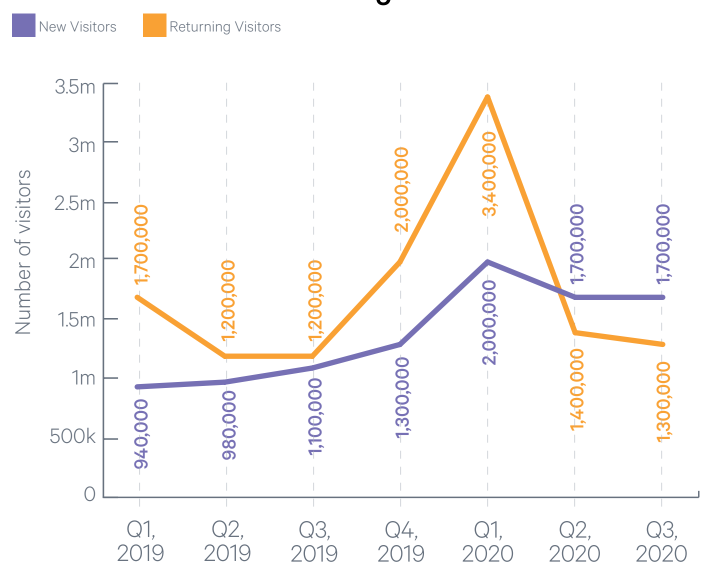
12.2g

Average grams per order

$87.84

Average $ per order (before tax)

Growth of new vs. returning visitors



Population served by express shipping

Q3, 2020 78%

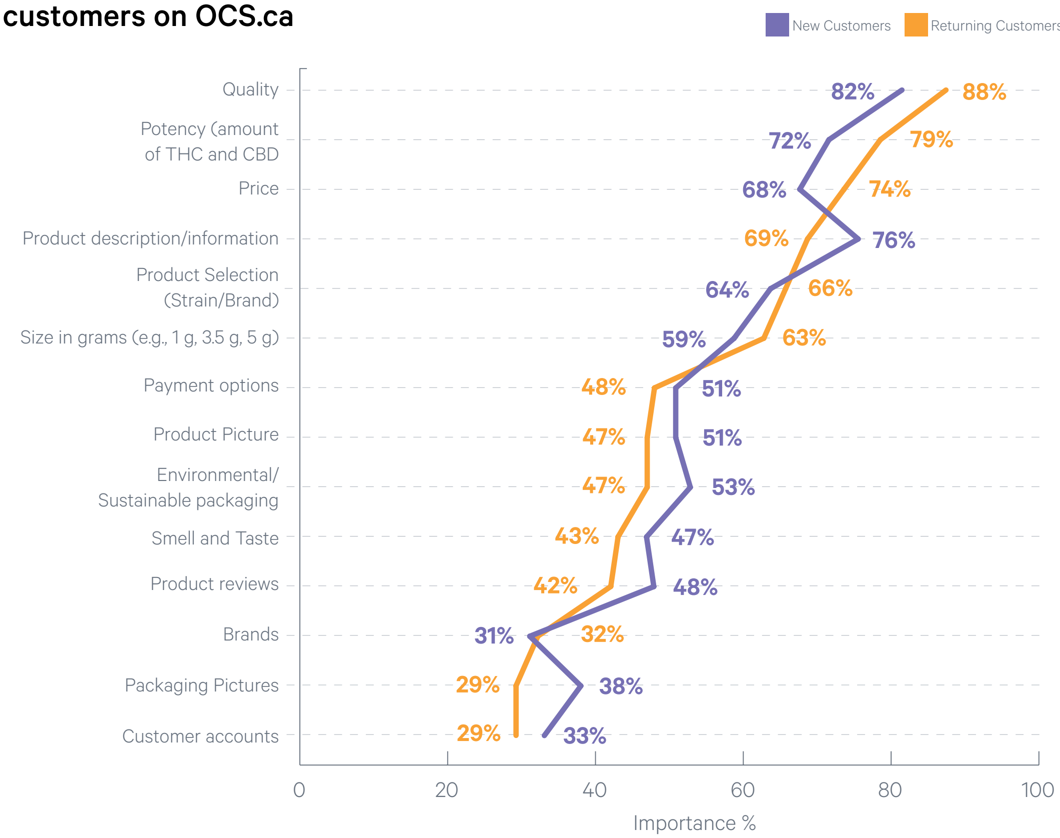
Q4, 2019	48%*
Q1, 2020	64%
Q2, 2020	74%

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.

*Revised data

Attributes most important to customers on OCS.ca

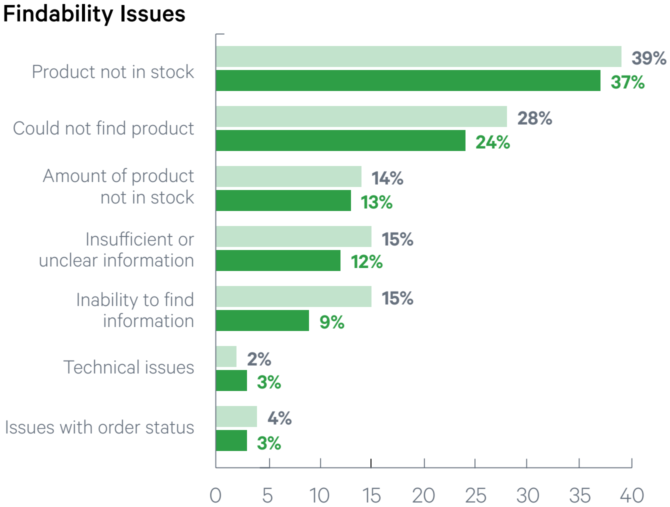
- While quality continues to be the number one attribute customers look for when shopping for cannabis, 15% reported experiencing issues related to the quality of their cannabis - a significant increase of 6% points compared to last quarter. The main issues were with flower, including dryness, pieces and stems and underweight product.
- Similar to Q2 2020, new customers are more inclined to value product descriptions and detailed information in order to make an informed purchase decision.



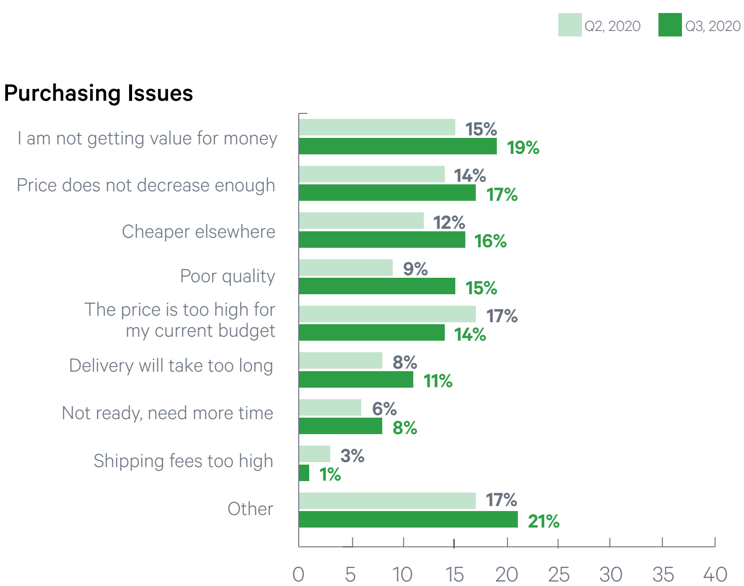
Source: OCS.ca survey by Astute Solutions

Barriers to purchasing on OCS.ca

Findability Issues



Purchasing Issues



- Stock issues continue to improve with Dried Flower seeing the biggest improvement in availability, while extracts continue to see an inconsistency of stock.
- Visitors reported a decrease in information related issues. More specifically, the ability to find information on OCS.ca improved significantly in Q3 2020.
- In Q3 2020, the top three barriers to purchasing on OCS.ca included not getting value for money, the price does not decrease enough with higher quantities (bulk pricing), and they can find what they're looking for cheaper elsewhere.
- Value for money and bulk pricing was driven by those shopping for dried flower, while finding product cheaper elsewhere was driven by the extracts category.

Source: OCS.ca survey by Astute Solutions

SUPPLY CHAIN

The OCS' new privately-operated distribution centre kept pace with store openings, handling 3,260 wholesale orders while maintaining an average order-to-ship time of 2.58 days. Work continues within the facility to complete automation, providing support to the rapidly growing marketplace.

Retail store operators reduced the variety of SKUs they ordered from 92 on average in Q2 to 65 in Q3.

Order-to-ship lead time for wholesale customers

2.58 days

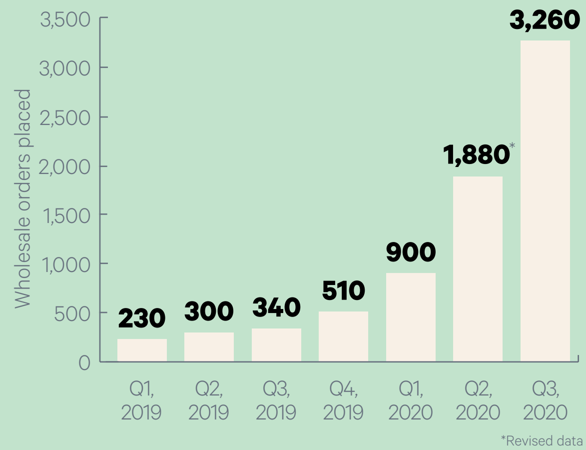
Note: Average since October 1 – December 31, 2020.

Average SKU count per wholesale order

67	72	76	92	72	92*	65
Q1, 2019	Q2, 2019	Q3, 2019	Q4, 2019	Q1, 2020	Q2, 2020	Q3, 2020

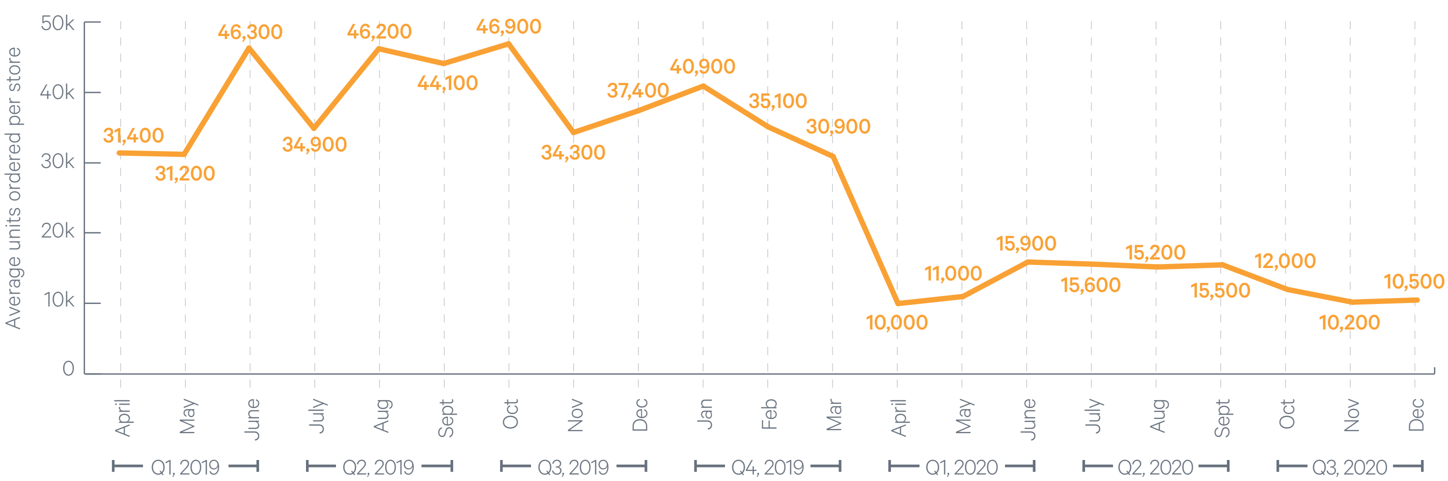
*Revised data

Number of wholesale orders



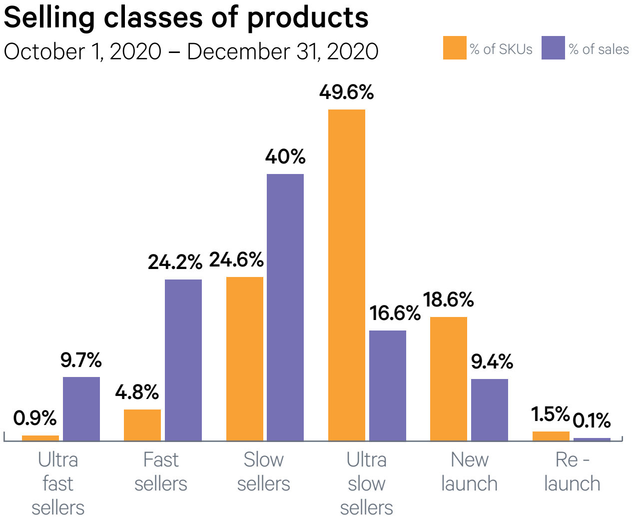
*Revised data

Average number of units ordered per store by month



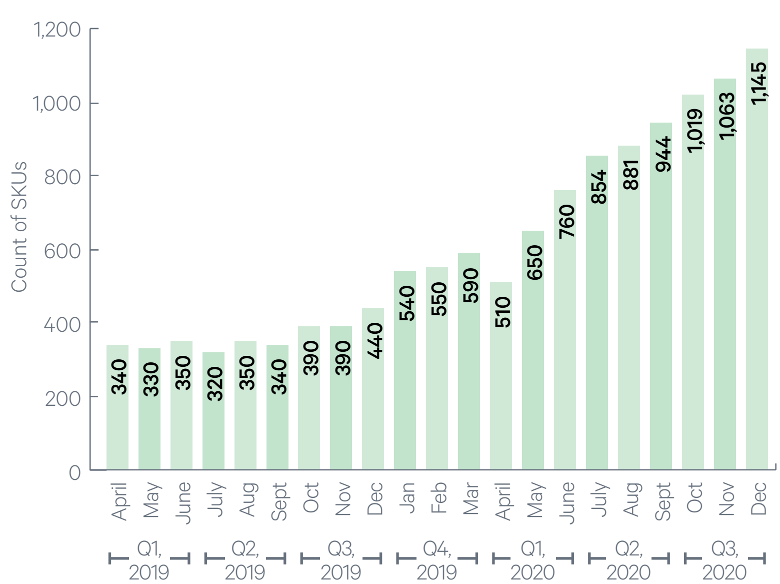
Selling classes of products

October 1, 2020 – December 31, 2020



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

Unique SKUs ordered by month



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