ONTARIO CANNABIS STORE

A YEAR IN REVIEW 2019–2020

Ontario's first full year of legal cannabis operations

ABOUT THIS PUBLICATION

A Year in Review (2019-2020): Ontario's first full year of legal cannabis operations has been published by the Ontario Cannabis Store (OCS) as a resource for the Ontario cannabis industry. This document is intended to provide a historical look at key facts and figures for the period between April 1, 2019, and March 31, 2020.

This publication marks the first comprehensive data report published by the OCS and going forward will be updated quarterly to support the development of the legal cannabis industry. This publication will evolve over time and feedback is welcomed to help the OCS improve the value of this report. 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.

Legal Cannabis Taking Root in Ontario

Letter from Cal Bricker PRESIDENT AND CEO

I am happy to share with you our first cannabis data report. It reflects progress in growing the legal market, highlights consumer trends and tells a compelling story of the value consumers are finding in legal, regulated, tested cannabis purchased through OCS.ca and the 87 authorized retail stores operating across the province.

Making this data public and transparent, we believe, will drive greater effectiveness for the sector and increase trust from the public. We look forward to updating these numbers quarterly and sharing this report on an annual basis.

The numbers from our first full year of commercial operations show steady growth despite constrained supply that limited the ability of the Ontario marketplace to rapidly expand the number of access points as quickly as desired. For the first six months, it was necessary for OCS Wholesale operations to place caps on orders from our retail store partners in order to provide a fair and equitable distribution of available products.

Once product supply improved, the caps were removed and in December 2019, the provincial government announced it was moving from its temporary lottery system of awarding retail store licences to an open licensing process. In the fourth quarter of 2019–2020, the number of stores operating in Ontario began its rapid growth and Ontario's first provincially licensed First Nations store opened its doors in Nipissing.

The number of products available in the marketplace also grew rapidly in the fourth quarter, with the introduction of Cannabis 2.0 (edible, concentrate, vape and topical) offerings. As with the launch of dried flower, supply from Licensed Producers was initially constrained in the face of consumer enthusiasm for the products, but throughout the quarter new offerings were consistently added to the OCS catalogue.

COVID-19's impacts on the sector are still being felt, but the announcement that cannabis is considered an essential business was definitely a milestone; from prohibited to essential in less than two years. While growth forecasts for the 2020–2021 fiscal year are challenging given the current operating environment, I believe the legal cannabis marketplace will continue to demonstrate growth. Increased access points, a maturing product offering and an increasingly enthusiastic response from consumers bode well for Ontario.

Behind every number in this report are people who chose to purchase legal, regulated, tested cannabis. In our first full fiscal year of operations, Ontarians purchased more than 35 million grams of cannabis through the private retail network enabled through our wholesale business and OCS.ca. Increasing consumer choice and options is our goal and we believe sharing this data is an important step in building Canada's largest, most dynamic legal cannabis marketplace.

Our Data Program accounts for every cannabis product sale made through OCS.ca and through our authorized retail partners across Ontario. It is important to understand that when we talk about data, it is strictly limited to data regarding sales, not the personal data of individuals. We are focused on creating a Data Program to support the building of a modern industry that uses data to better serve the customer, enable more informed decision making and move customers away from the illegal market. The goal for OCS is to create a digital feedback loop, a data connection between consumers' purchase decisions and Canada's Licensed Producers, authorized retail stores and the public.

This data will inform investments, create opportunities and foster innovation. We are committed to supporting the cannabis industry by creating, consolidating and disseminating data-driven analytics and insights from Canada's largest, most diverse marketplace.

Strategically provisioning cannabis sales data and using predictive and prescriptive analytics to identify market opportunities for suppliers and retailers will allow us to coordinate efforts against the illegal market.

Building a better understanding of consumers and their choices will lead to a vibrant, successful and healthy cannabis marketplace that fulfills consumers' desires and the Government of Ontario's goal of successfully tackling the illegal market while keeping cannabis out of the hands of youth.

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THE BIG PICTURE

Total grams sold
April 1, 2019, to March 31, 2020

35,100,000 g

OCS.ca	Retail Stores
7,200,000 g	27,900,000 g

Total sales in Ontario April 1, 2019, to March 31, 2020

OCS.ca	Retail Stores
$71,400,000	$313,700,000

$385,100,000

Number of retail stores

53

Note: Rapid onboarding of new authorized retail stores through Ontario's open allocation began April 1, 2020, and will be captured in the next OCS data publication. On the date this report was issued, there were 87 stores operating.

Items listed

Product catalogue grew by over **70%**

Q1	Q2	Q3	Q4
906	1,138	1,301	1,567

Ontario market share of illegal market

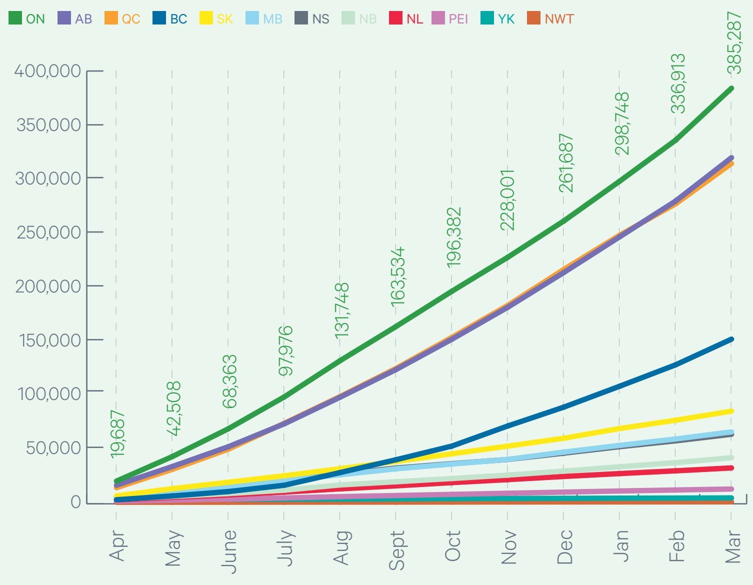
2018 Q4	5.4%
2019 Q1	4.1%
2019 Q2	12.5%
2019 Q3	18.3%

Sales captured from the illegal market substantially improved over the first year of stores operating, and is expected to dramatically increase in 2020-21 with the open allocation of licensing.

Note: Statistics Canada data is based on a calendar year. The OCS operates on a fiscal calendar year.

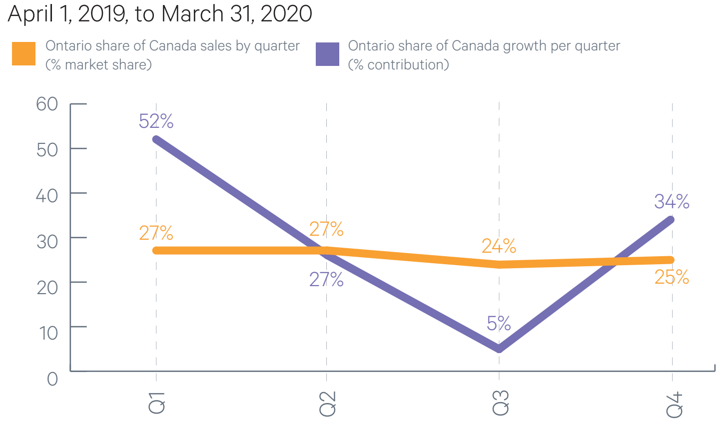
Source: Statistics Canada; calculations by OCS

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, 2019, to March 31, 2020



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

SALES DATA

In its first full fiscal year of commercial operations, the OCS sold a total of approximately 35,100,000 grams of cannabis. Though the market was distorted by a lack of supply in the first two quarters of the year, some clear preferences and trends emerged. Cannabis consumers in Ontario chose dried flower products over other forms, with flower making up 79% of sales by volume. (Note that dried flower is the product that was predominantly available.) Of those dried flower products sold, 52% were in the "high" range over 20% THC.

When larger-format mids with consistent quality at lower price points became available in the fourth quarter, they demonstrated high sales velocity, indicating that this segment is clearly one to watch. At the other end of the scale, products at higher price points also moved quickly, showing that there is an appetite for higher-quality products.

Cannabis 2.0 products that launched into the market in Q4 sold very well, but similar to the launch of legalization, the offering from Licensed Producers was initially fairly narrow. The data demonstrates consumer enthusiasm, but it will likely take some time for identifiable trends to emerge.

Total sales and grams sold by product categories

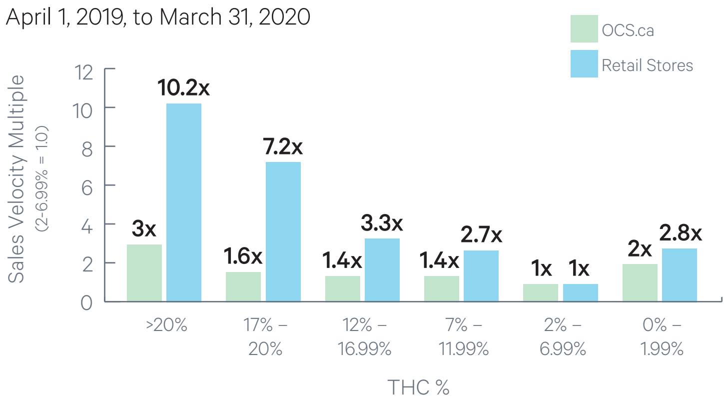
April 1, 2019, to March 31, 2020

	OCS.ca	Retail Stores
Beverages	**$110,000** 4,000 g	**$300,000** 50,000 g
Capsules	**$3,500,000** 210,000 g	**$7,800,000** 400,000 g
Concentrates	**$130,000** 20,000 g	**$170,000** 20,000 g
Dried Flower	**$47,300,000** 5,500,000 g	**$227,600,000** 22,300,000 g
Edibles	**$800,000** 130,000 g	**$3,000,000** 400,000 g
Oils	**$9,500,000** 890,000 g	**$16,800,000** 1,500,000 g
Pre-Rolls	**$3,300,000** 270,000 g	**$39,300,000** 2,900,000 g
Seeds	**$210,000** 20,000 g	**$120,000** 10,000 g
Topicals	**$20,000** 1,000 g	**$20,000** 1,000 g
Vapes	**$3,200,000** 120,000 g	**$11,600,000** 400,000 g

Note: Sub-category sales do not add to total sales due to rounding.

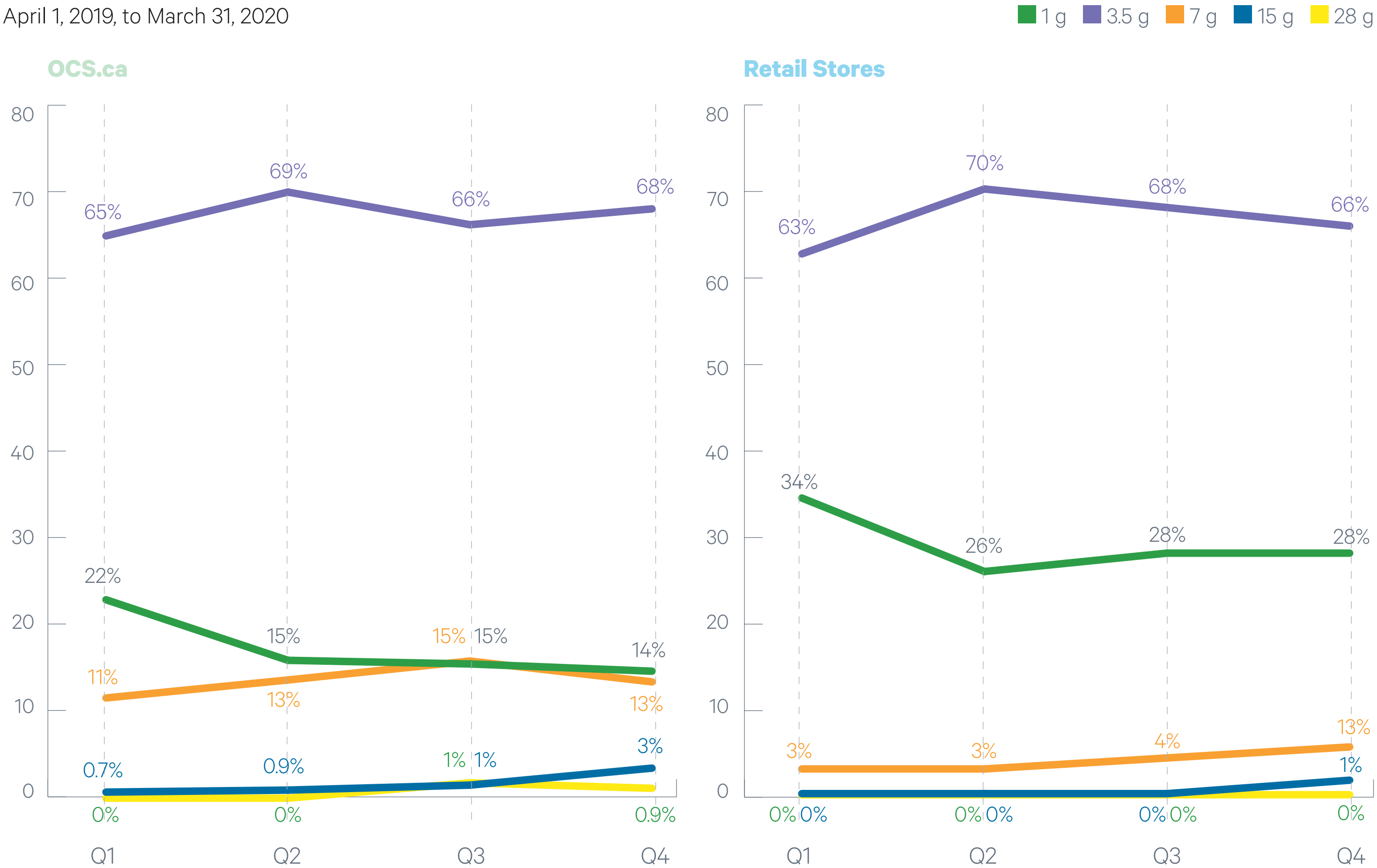
Sales velocity by THC %

April 1, 2019, to March 31, 2020

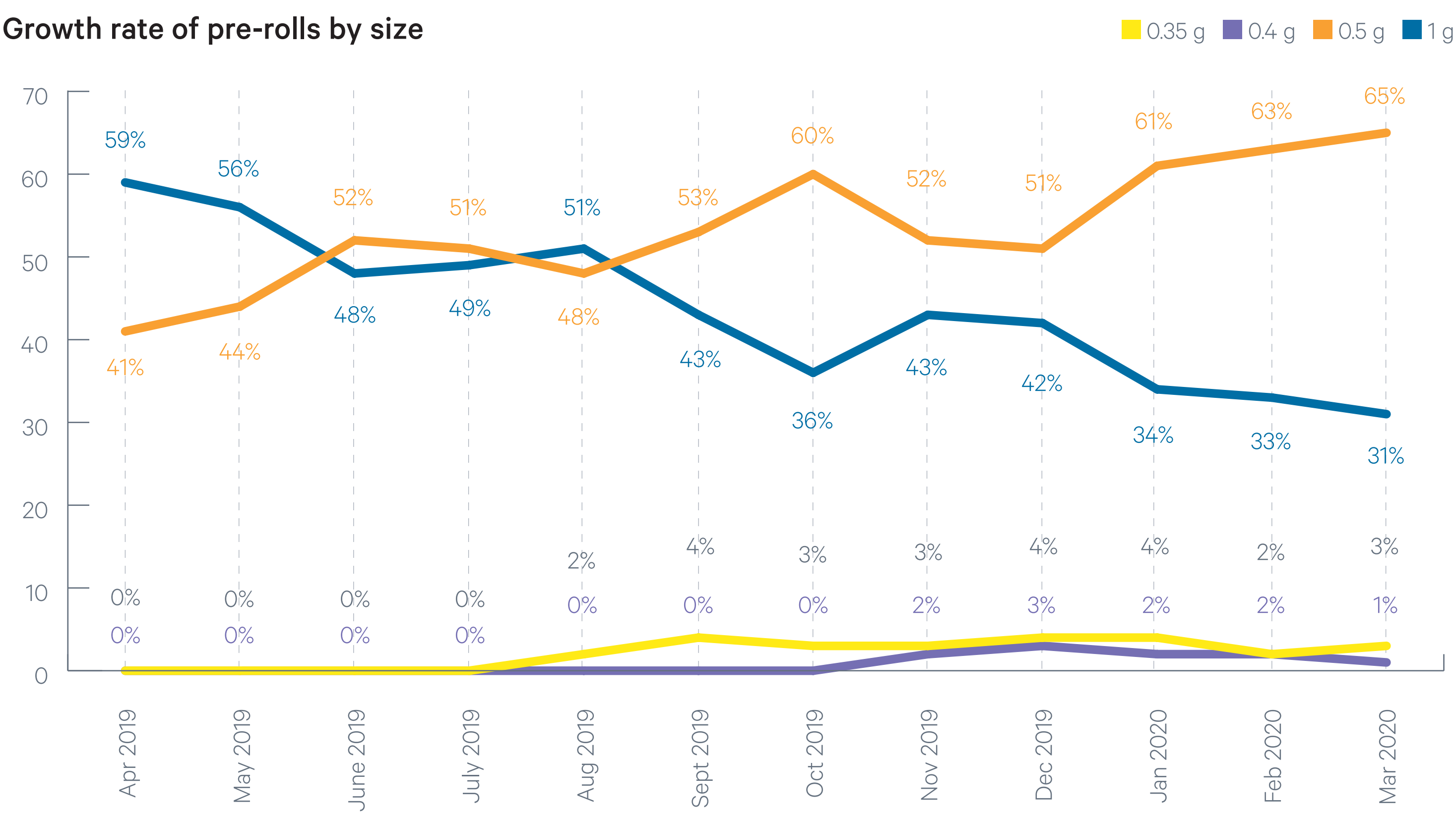


Sales proportion by quarter, size and channel for dried flower

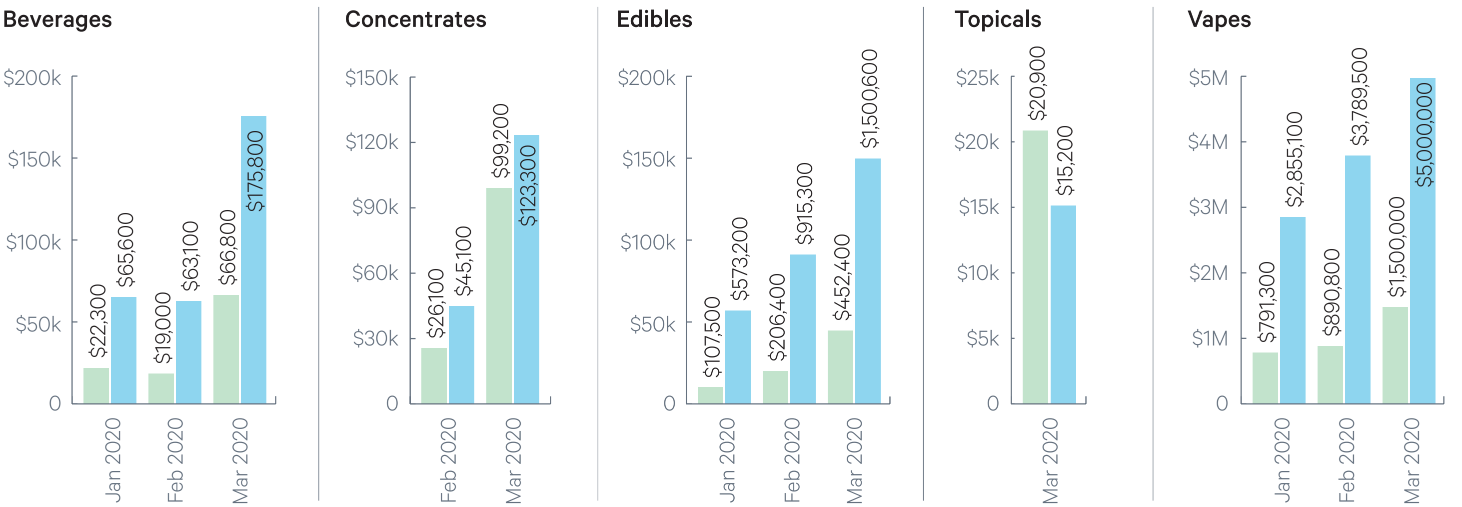
April 1, 2019, to March 31, 2020



Growth rate of pre-rolls by size



Sales for new product categories Q4 (Jan 5, 2020, to March 31, 2020)



Top five brands per category based on sales April 1, 2019, to March 31, 2020

OCS.ca

Beverages

Everie	56%
Haven St.	44%

Capsules

Tweed	50%
Aurora	28%
Redecan	5%
LBS	5%
San Rafael '71	3%

Concentrates

Canna Farms	59%
JWC	22%
Original Stash	19%

Dried Flower

San Rafael '71	8%
Aurora	8%
Redecan	7%
Pure Sunfarms	6%
Tweed	5%

Edibles

Aurora Drift	27%
Bhang	20%
Foray	18%
Chowie Wowie	8%
San Rafael '71	8%

Oils

Solei	24%
Redecan	17%
Edison	10%
Tweed	10%
Cove	9%

Pre-Rolls

Flowr	8%
Aurora	5%
Solei	5%
liiv	5%
Redecan	5%

Vapes

Redecan	14%
San Rafael '71	11%
dosist	9%
Kolab Project	8%
Canaca	7%

Topicals

Apothecanna	100%

Seeds

Tweed	100%

Retail Stores

Beverages

Haven St.	52%
Everie	36%
Tweed	6%
Basecamp	5%

Capsules

Tweed	39%
Aurora	22%
Redecan	17%
San Rafael '71	6%
LBS	6%

Concentrates

Canna Farms	68%
Original Stash	27%
JWC	5%

Dried Flower

Aurora	8%
San Rafael '71	8%
Redecan	7%
Edison	7%
Pure Sunfarms	6%

Edibles

Aurora Drift	25%
Foray	21%
Bhang	19%
San Rafael '71	11%
Tokyo Smoke	9%

Oils

Solei	23%
Redecan	21%
Edison	18%
Cove	7%
Tweed	6%

Pre-Rolls

Aurora	12%
Tweed	8%
RIFF	7%
Trailblazer	6%
Edison	5%

Vapes

Redecan	24%
San Rafael '71	12%
Trailblazer	8%
Kolab Project	7%
Foray	6%

Topicals

Apothecanna	100%

Seeds

Tweed	100%

PRICING

In response to market feedback that pricing was limiting success against an organized and persistent illegal market, the OCS refocused its commercial approach at the end of the fiscal year that, in part, aggressively addressed pricing by reducing the median dried flower price by 25%.

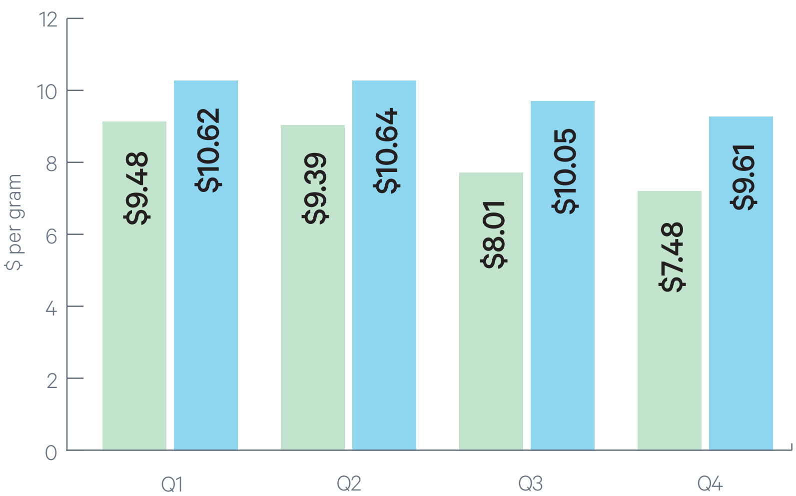
Combined with the real value of regulated and tested products, the new pricing structure will support increased adoption of legal cannabis. As forms such as vapes, edibles, concentrates and topicals become more widely available in the marketplace, the legal market offerings will be competing on price and innovation, with Licensed Producers offering accountability and safety to consumers, with every cannabis product traceable to its Certificate of Analysis. Health Canada's oversight of the legal marketplace should prove a significant advantage over the illegal marketplace, as new products introduce a higher degree of complexity as compared to dried flower.

OCS Wholesale pricing to authorized retail stores is set at a fixed 25% markdown from OCS.ca prices before taxes to ensure a transparent and level playing field. Retailers are permitted to set their prices as they wish (and may reflect the in-store experience they offer consumers). The OCS fixed wholesale markdown was established to provide retail stores with reasonable margin levels to manage their operations consistent with other retail industries (including grocery, beverage alcohol, etc.). It also takes into account different retail environments across the province with varying commercial rents and labour costs.

In 2020-21, the average price difference between retail stores and OCS.ca is expected to come into further alignment with more competition among retail stores (with the open allocation of licensing) and new value-driven retailers that enter the marketplace.

Average price per gram for dried flower

April 1, 2019, to March 31, 2020



Average price per gram across cannabis subcategories

April 1, 2019, to March 31, 2020

	Dried Flower	Pre-Rolls	Capsules	Oils
OCS.ca	$8.56/g	$12.17/g	$17.21/g	$10.73/g
Retail Stores	$10.84/g	$14.76/g	$24.18/g	$13.81/g

Dried flower sales and sales velocity by price range

April 1, 2019, to March 31, 2020

1.0x	1.5x	2.5x	3.5x	4.9x
$19 - 23	$15 - 19	$12 - 15	$8 - 12	$5 - 8

While consumers are drawn to lower priced products, there are opportunities at all price points as long as producers meet the expectations of consumers in that price range.

Illegal market price for dried flower

April 1, 2019, to March 31, 2020

Illegal Market	$8.23*
OCS.ca	$8.56**
Retail Stores	$10.84**

*Source: Weedmaps.com, unweighted
**weighted by volume sold

GROWING ACCESS POINTS

From the nine stores that opened their doors on the first day of the fiscal year to the 53 authorized retail stores operating at the end of it, growing Ontario's retail store network is the top priority in the fight against the illegal market. Supply issues in the first half of the fiscal year constrained the volume of cannabis available and required the OCS to cap the amount and assortment to ensure fair allocation of popular products. In Q3, supply concerns abated and limits were removed for all but the most in-demand products. The province announced the open allocation of licensing in late Q3, and the first stores with licences granted in this new system came online in the first week of April 2020 (and will be reflected in the next publication). At publication of this report, there are 87 stores operating in Ontario.

The reach of OCS.ca also expanded with the introduction of courier delivery last year. Initially this express service was only available in the Toronto area, but by the end of the fiscal year, the service reached 37% of OCS.ca's customer base.

Average grams and sales per order on OCS.ca

April 1, 2019, to March 31, 2020

9 g Average grams per order

$90.12 Average $ per order (before tax)

Average sales and grams sold by a store April 1, 2019, to March 31, 2020

3,100 g Average grams per day per store

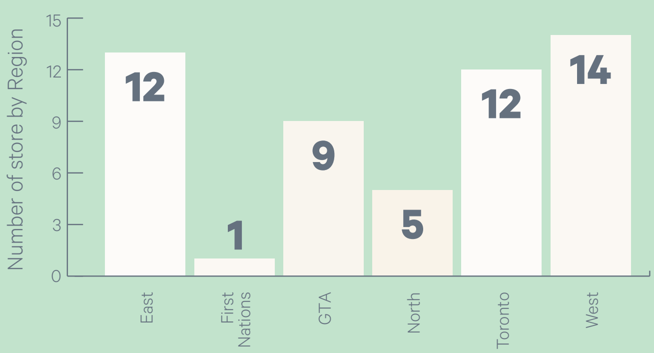
$25K Average $ per day per store

Growing number retail stores

April 1, 2019, to March 31, 2020

Q1	Q2	Q3	Q4
22	24	27	53

Number of stores by municipality



Number of Stores by Municipality

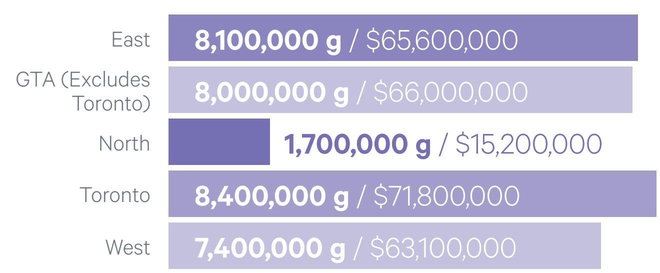
Toronto	12	Dundas	1
Burlington	5	Hamilton	1
Ottawa	5	Kitchener	1
London	4	Niagara Falls	1
Kingston	2	Oshawa	1
Nepean	2	Peterborough	1
North Bay	2	Sault Ste. Marie	1
Sudbury	2	St. Catharines	1
Ajax	1	Stoney Creek	1
Ancaster	1	Stouffville	1
Barrie	1	Thunder Bay	1
Brampton	1	Waterloo	1
Cambridge	1	Windsor	1
Collingwood	1		

Average distance for consumers to a retail store

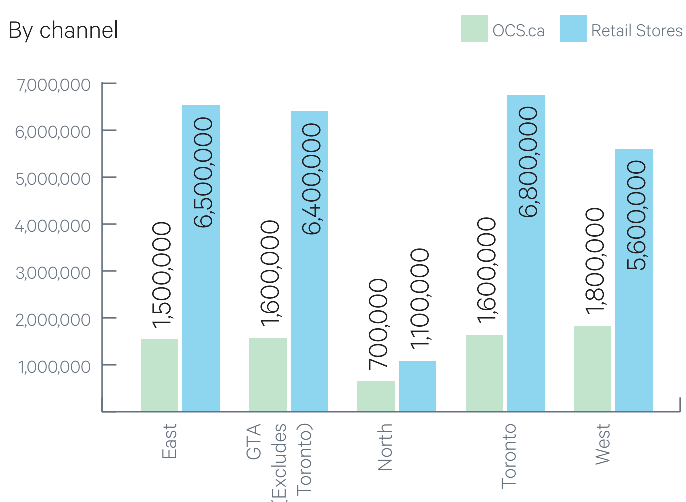
April 1, 2019, to March 31, 2020

Grams sold by region April 1, 2019, to March 31, 2020

Region totals



By channel

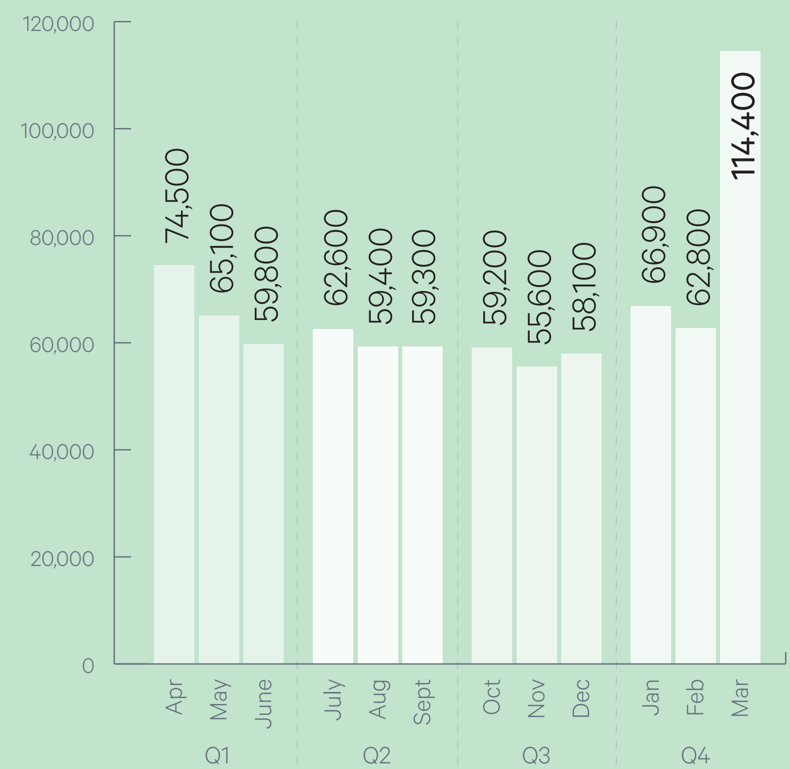


Unique visitors to OCS.ca April 1, 2019, to March 31, 2020

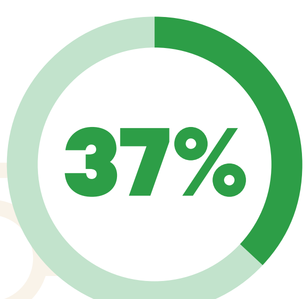
4,400,000

Total number of transactions on OCS.ca

April 1, 2019, to March 31, 2020



Population served by express shipping



Note: In early 2020-21, the OCS rapidly expanded express delivery to additional communities in Ontario to provide consumers with Direct-to-Door delivery during Covid-19. Updated numbers on coverage will be included in our next publication, but at the time of this report, 62% of OCS consumers were reached by this service.

Conversion rate on OCS.ca

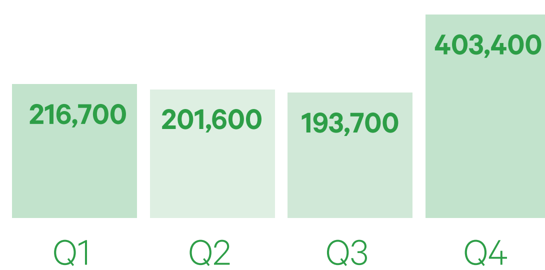
April 1, 2019, to March 31, 2020

7.52%

Conversion rate is an important metric by which e-commerce businesses measure consumer demand on their platform. For every 100 customers on OCS.ca, 7.52 made a transaction.

Number of OCS.ca visitors to OCS Learn content

Core to the mandate of the OCS is the promotion of social responsibility in conjunction with the sales of cannabis. OCS Learn content represents an important first step in social responsibility activities by the OCS that will be built upon in 2020-21.



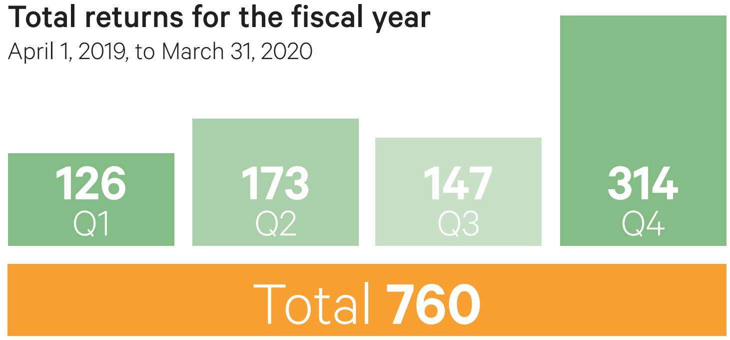
QUALITY ASSURANCE

The OCS Quality Assurance team ensures products introduced to the market follow Health Canada's guidelines for packaging and labelling, and conducts investigations based on returns and consumer complaints. The top product complaints the OCS received were related to dryness, underweight products and potency range. Through the course of the fiscal year, the volume of complaints decreased notably per units sold. The OCS has worked with Licensed Producers to decrease the allowable THC potency range from a difference of 10% to 6% (although it will take several months for Licensed Producers to work through existing stock levels) and introduce a packaging date limit of three months for products delivered to the distribution centre.

The introduction of Cannabis 2.0 products with electronics and batteries, such as vapes, brought new orders of complexity. There was, in the first three months on the market, a normal rate of return and complaints for these products.

Total returns for the fiscal year

April 1, 2019, to March 31, 2020



Introduction of Cannabis 2.0 products increased the number of items listed in Q4.

Open and closed quality assurance investigations

April 1, 2019, to March 31, 2020

For cannabis products

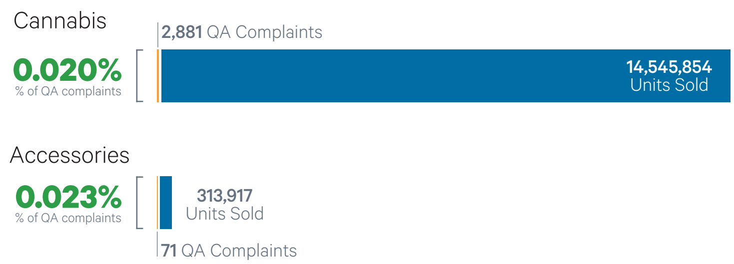
Currently Open **191**

Closed investigations **2,690**

TOTAL **2,881**

Number of product returns and quality assurance complaints

April 1, 2019, to March 31, 2020



Product recalls in Ontario

April 1, 2019, to March 31, 2020

ZERO Product quality recalls

TWO Recalls based on labelling

Note: Both recalls were voluntary.

OCS

ocs.ca