ANNUAL REPORT

2017 2018

ONTARIO CANNABIS STORE

Letter to the Minister

The Honourable Victor Fedeli, Minister of Finance

Dear Minister,

I am pleased to present the Ontario Cannabis Retail Corporation (OCRC) Annual Report. The report covers the fiscal period from April 1, 2017, to March 31, 2018.

Susan Robinson
Acting Chair, Ontario Cannabis Retail Corporation

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Message from the Acting Chair

I am pleased to present the first Annual Report of the Ontario Cannabis Retail Corporation (OCRC), doing business as the Ontario Cannabis Store (OCS). Meeting the challenges of cannabis legalization is no small feat, and this report outlines the critical activities and accomplishments the OCS has achieved to meet this important milestone.

Established in January 2018, the Board of the Ontario Cannabis Retail Corporation was tasked with the overall governance of the OCS. Since then, our board has met numerous times, struck two subcommittees and welcomed two new members. I would like to thank my fellow board members for their dedicated service. We will continue to operate using best practices in public sector governance and hold ourselves to the highest standards of accountability and transparency.

The OCS was established as a subsidiary of the Liquor Control Board of Ontario (LCBO) in order to quickly set up our operations to meet the timeline for cannabis legalization. Initially, the OCRC Board reported to the LCBO Board. Several LCBO Board members, including myself, were appointed to the OCRC Board to lend our experience and help establish it. The experience was a testament to the high degree of collaboration between both organizations to achieve our shared objective of retailing in the public interest.

In September 2018, the provincial government announced changes to our relationship with the LCBO. The OCRC Board will report directly to the Minister of Finance. I am thankful to the LCBO Board and executive team for their support and guidance as we established the OCRC as an independent organization. I am committed to working with the LCBO Board to ensure a smooth transition in the coming year.

The Government of Ontario also announced changes to the cannabis retail model in Ontario, where the OCS would no longer operate retail stores; instead, it will deliver an online retail channel and supply a network of private stores. The board is committed to supporting and providing guidance to the OCS as we shift our approach to deliver on our revised mandate. I am confident we will succeed with this ambitious goal while advancing the government's objectives to protect public safety and help eliminate the illegal cannabis market.

In closing, I want to express how grateful I am to be working with such a leading class of executives and staff at the OCS, who take their responsibility as the province's online cannabis retailer very seriously. They are incredibly competent and motivated, and act with honesty and integrity in everything they do. The people make the place, and on behalf of the OCRC Board, thank you to the members of the OCS for their outstanding progress toward legalization.

Susan Robinson

Susan Robinson
Acting Chair,
Ontario Cannabis Retail Corporation

Message from the President

I welcome the opportunity to present the first ever Annual Report of the Ontario Cannabis Retail Corporation. Since the OCS was formed in December 2017, our team has been focused on providing safe and responsible access to recreational cannabis in time for federal legalization. I am truly grateful for the efforts of our staff, who have worked tirelessly to meet this important milestone.

Throughout everything we do is a focus on safety and meeting the needs of our future customers. From day one, the OCS has followed Privacy by Design principles to develop a safe, secure online shopping experience for adults 19 years of age and older. The OCS has implemented 24/7 security monitoring and ongoing security testing of its site, as well as a privacy program to sustain the OCS's mandate to protect personal information. Age verification at delivery is another fundamental component of the safe and secure OCS online retail experience.

Making the OCS work is about delivering the very large pieces, such as our IT solution and the distribution channel, while making sure we keep our eyes on every detail. To deliver on our commitments, we have built business partnerships with Shopify, supply chain and logistics providers, and many other technology providers. We have worked with our ministry partners, federally licensed producers and Health Canada to ensure a tested, diverse and high-quality supply of cannabis for Ontario consumers. Through ongoing competitive product calls, the OCS will continue to work closely with licensed producers and accessory suppliers to ensure that Ontario's legal cannabis marketplace has sufficient supply and a broad selection of cannabis products that meet the needs of Ontario consumers.

Over the coming year, we will be working with the Ministry of Finance, the Attorney General and the Alcohol and Gaming Commission of Ontario to establish a wholesale distribution network to supply cannabis to licensed private stores in Ontario once legislative requirements are put in place. We will work to ensure the OCS meets forecasted wholesale demand while continuing to offer a secure online retail experience. We will continue to build on our early work to articulate and implement our strategic direction, key corporate priorities and performance measures. This work will ensure we are continually striving to meet government objectives along with public and stakeholder expectations of the OCS as an online retailer and wholesaler.

This Annual Report details our formative actions, financial performance and significant accomplishments since the OCS was established in December 2017 until fiscal year-end on March 31, 2018.

As always, we will act in the public interest while ensuring a safe and secure retail experience.

Patrick Ford
President and Chief Operating Officer,
Ontario Cannabis Retail Corporation

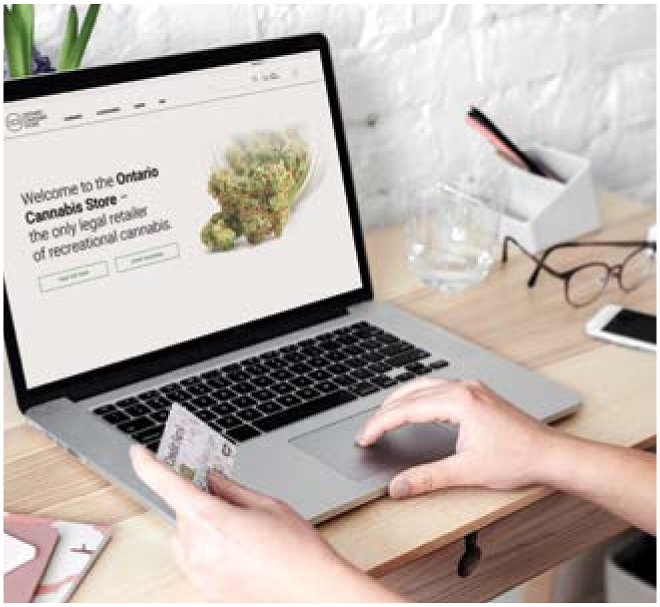
Overview

The Ontario Cannabis Retail Corporation, operating as the Ontario Cannabis Store, is the province's exclusive online retailer of recreational cannabis in Ontario. The OCS was established as a Crown agency through the *Ontario Cannabis Retail Corporation Act, 2017*. The Act authorizes the OCS to buy, possess and sell recreational cannabis and related products through its online retail channel once cannabis is legalized in Canada.

The OCS's main objectives in the sale of recreational cannabis are to:

- ensure recreational cannabis is sold safely and securely through its online retail site;
- protect the privacy of its customers;
- educate the public and consumers to promote informed and responsible use; and,
- facilitate a convenient online retail experience with a wide product offering to divert users to the legal channel.

The principles that guide the activities of the OCS are prescribed in provincial and federal legislation. The OCS's operations are also guided by regulations set out by Health Canada. In fulfilling its mandate, the OCS reports to the Minister of Finance, and endeavours to operate efficiently and with transparency. The OCS is also committed to supporting the Government of Ontario's objectives of building a cannabis retail system that will help eliminate the illegal market and is safe and reliable, with rules that keep cannabis out of the hands of youth, and keep our roads safe.



Operating Environment

In April 2017, the federal government introduced legislation to legalize and regulate non-medical cannabis in Canada. The federal *Cannabis Act* included rules for producing, possessing and selling non-medical cannabis across Canada. In June 2018, legislation to enact the federal *Cannabis Act* received royal assent. Shortly after, the federal government announced that the *Cannabis Act* would come into force on October 17, 2018.

Under the legislation, the federal government has the authority to set requirements for licensed producers along with industry-wide rules and standards, including those governing packaging, advertising and promotion. At the time of cannabis legalization, only cannabis flowers, seeds and oils are available for legal purchase. The federal government has indicated that cannabis edible products and concentrates will be legal for sale around October 2019.

The federal government's cannabis legislation delegates the responsibility for cannabis sales and distribution to the provinces and territories. The delay between the passage of the federal bill and the legalization date was to give provinces and territories sufficient time to establish their retail models. A variety of public, private and hybrid approaches arose across Canada.

While each jurisdiction in Canada has made distinct choices regarding the structure of its retail model, the common core elements that have emerged are to build social licence, divert users from the illegal market and promote responsible consumption.

Strategic Direction

As an agency of the provincial government, the OCS supports the Ontario government's key policy and fiscal objectives. Since its inception, the OCS has aimed to reinforce provincial government commitments around cannabis legalization, namely to protect public health and safety. Moving forward, the OCS will review its strategic direction and operations to ensure consistency with the provincial government's direction and service delivery standards.

Over the past year, the OCS has been guided by a series of core strategic objectives (see below) aimed at ensuring the agency takes a customer-focused, cautious and prudent approach to the opening of Ontario's recreational cannabis marketplace.

1 OPERATE A SECURE AND CONVENIENT ONLINE RETAIL CHANNEL

2 DIVERT CONSUMERS FROM THE ILLICIT MARKET

3 OPERATE FROM AN EDUCATION-FIRST PLATFORM

4 DELIVER VALUE FOR ONTARIO TAXPAYERS

5 OFFER A BROAD SELECTION OF HIGH-QUALITY CANNABIS PRODUCTS

In order to effectively deliver on its mandate and establish itself as a steady state organization, the OCS is embarking on a longer-term strategic planning process over the coming year. Establishing a long-term strategic direction will enable the OCS to become a leading online retailer while its operating environment becomes increasingly complex. The OCS will develop a strategic plan to help the agency navigate future challenges and opportunities in the sector, and it will create a corporate planning process to ensure it is delivering on its commitments and hitting its targets.

PERFORMANCE TARGETS

The OCS will integrate performance measurement into its overall strategic planning approach. Developing key metrics and targets will enable the OCS to improve its operating effectiveness by promoting a focus on accountability through continued targeting, monitoring and evaluation of results. Over the coming years, the OCS will engage in multi-year target setting and link performance measurement to resource planning in order to become a results-oriented organization.

Key Activities

In order to meet the federally imposed obligation for provinces and territories to be ready for retail sales by the date of cannabis legalization, the Government of Ontario tasked the OCS to launch an online retail channel that includes a verification system that would ensure safe at-home delivery for cannabis products.

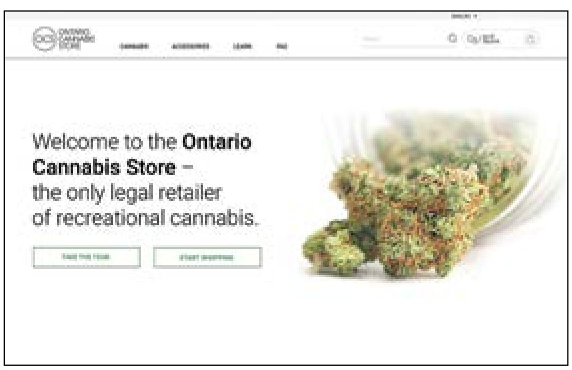
To prepare for the legalization of recreational cannabis on October 17, 2018, the OCS has accomplished the following core activities over the past year.

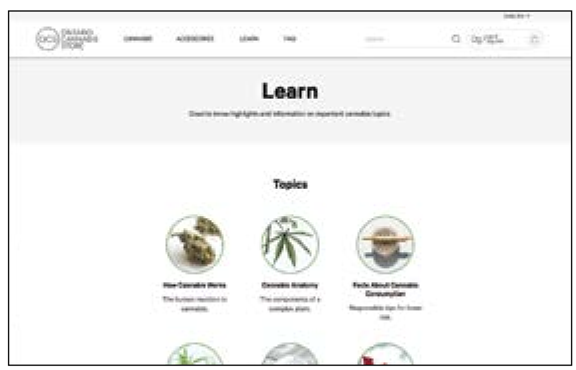
BUILDING A SECURE E-COMMERCE SITE

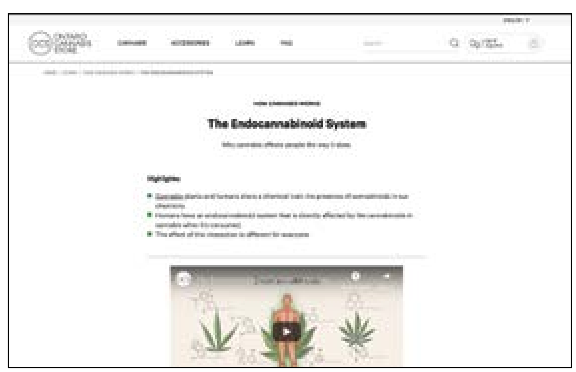
The OCS selected Ontario-based Shopify to design and build an online platform for its e-commerce sales.

From the beginning, the OCS adopted a Privacy by Design approach, with high standards of privacy and security built into system requirements. OCS.ca is designed to adhere to the advertising and promotion restrictions put in place by Health Canada.

Protecting youth has also been top of mind for the OCS during the development of its e-commerce platform. OCS.ca features several age-gating measures to restrict access for youth.







ESTABLISHING RELATIONSHIPS WITH LICENSED PRODUCERS AND OTHER SUPPLIERS

Through supply agreements with cannabis producers licensed by Health Canada, the OCS ensured a diverse and high-quality supply was ready and available for legalization. Supply agreements for both cannabis and accessories were achieved through a competitive process. The OCS will continue to hold competitive cannabis product calls to expand its selection to be responsive to the preferences of Ontario consumers.

PROMOTING SOCIAL RESPONSIBILITY

The OCS is committed to protecting youth and to being a positive community partner. Preventing sales to anyone under the designated legal purchasing age of 19 will remain a priority.

The OCS online retail store is an education-first platform and includes strict age-verification measures. In accordance with federal and provincial laws, the OCS developed an age-verification process to restrict youth access to OCS.ca and prevent youth from viewing or receiving cannabis products or cannabis accessories.

Each and every time a customer visits OCS.ca, they will be required to provide their date of birth and confirm that they are 19 years of age or older before entering the site. When finalizing purchases at checkout, customers will have to click to confirm once again that they are 19 years of age or older. Finally, upon delivery, delivery agents will verify identification for anyone that appears to be under the age of 25 to ensure that packages are not delivered to anyone under 19 years of age.

Promoting safe and responsible use of recreational cannabis has been a key priority for the OCS. The OCS has developed comprehensive learning content that provides trusted information regarding products and safe consumption habits. The OCS will continue to educate its customers on the facts surrounding cannabis consumption.

Operational Performance

The Ontario Cannabis Retail Corporation was established under the *Ontario Cannabis Retail Corporation Act*, 2017, Chapter 26, Schedule 2. It is a corporation without share capital and is an agent of the Crown.

The OCS's current operations are supported by the resources of the Liquor Control Board of Ontario. Given the need to quickly deliver on legalization, the OCS was established using a shared services model that leverages people, contracts and processes in place at the LCBO.

During the period ending March 31, 2018, the OCS was fully engaged in set-up activities that were largely performed by a project team composed of LCBO employees, using LCBO resources. Services and resources provided by the LCBO were charged to the OCS on a shared service basis. In addition, the OCS hired certain employees directly, mainly to support the set-up of retail store operations.

OCRC Board of Directors

The OCS is governed by a board of directors, consisting of up to seven members, each appointed by the LCBO Board of Directors. The OCRC Board has struck two committees: the Finance and Governance Committee, and the Human Resources and Compensation Committee. The list below reflects the members of the OCRC Board who served during the fiscal year ending March 31, 2018, including their original appointment dates.

Virginia Cirocco (Member)
March 29, 2018 – March 28, 2021

David Graham (Member)
January 25, 2018 – August 16, 2020

Ira Kagan (Member)
January 25, 2018 – January 24, 2021

Susan Pigott (Chair)
January 25, 2018 – August 10, 2018

Susan Robinson (Vice-Chair)
January 25, 2018 – August 3, 2019

Lori Spadorcia (Member)
January 25, 2018 – February 14, 2020

Rajesh Uttamchandani (Member)
March 29, 2018 – March 28, 2021

REMUNERATION

Total Board Expenses to March 31, 2018 = $275.51

Total Board Per Diems to March 31, 2018 = $11,560.00

Corporate Structure

The organizational structure of the OCS is composed of seven functional divisions, each led by an executive, reporting to the president and chief operating officer. The OCS has established itself as a nimble organization to allow for organizational change as its role and the sector evolve over the coming years.

OCRC BOARD

PRESIDENT & CHIEF OPERATING OFFICER

STRATEGY + PARTNERSHIPS	INFORMATION TECHNOLOGY	LEGAL	OPERATIONS	FINANCE	HUMAN RESOURCES
INTERNAL + EXTERNAL COMMUNICATIONS	INTERNAL IT SERVICES	LEGAL + ADVISORY SERVICES	MARKETING	FINANCE + ADMINISTRATION	HUMAN RESOURCES SERVICES
CORPORATE AFFAIRS + STRATEGY	VENDOR RELATIONS	BOARD + CORPORATE GOVERNANCE	E-COMMERCE	PROCUREMENT	TALENT ACQUISITION
			SUPPLY CHAIN		DIVERSITY + INCLUSION
			MERCHANDISING		LEARNING + DEVELOPMENT
			RETAIL + CUSTOMER CARE		

Financial Performance

The audited financial statements of the Ontario Cannabis Retail Corporation are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. See appendix for audited financial statements.

The initial set-up of the OCS was substantially complete on October 17, 2018, when revenues commenced, but the OCS anticipates additional one-time costs to be incurred as a result of further channel development, systems enhancements, and other corporate projects. To support the set-up activities and initial operations, the OCS may draw funds from the Ontario Financing Authority to a maximum principal amount of $150 million until December 31, 2019.

Over the fiscal year ending March 31, 2018, the OCS was engaged in set-up activities to enable the sale of recreational cannabis. At that time, the OCS was also involved in the establishment of retail stores. The set-up activities were largely performed by a project team composed of LCBO employees, using LCBO resources. The services provided by LCBO employees and resources were charged back to the OCS on a shared service basis. In addition, the OCS hired certain employees directly, mainly to support the set-up of retail operations. Other expenses include insurance, depreciation and net interest expense. No revenues will be recognized until the next fiscal year, when the sale of recreational cannabis in Canada is legalized on October 17, 2018. See below for the breakdown of set-up expenses for the period ending March 31, 2018.

LCBO shared services	$6,666,054
Employee salaries and benefits	$86,379
Other expenses, net	$54,471
Total	**$6,806,904**

The OCRC will continue to engage in set-up activities during the first half of fiscal 2018–2019 to ensure personnel, systems and infrastructure are in place to support retail operations, with sales across the province commencing on October 17, 2018. Further set-up activities will continue after October 17, 2018, for development of sales channels and systems enhancements.

Financial Position

NOTES

- Trade and other receivables includes recoverable Harmonized Sales Tax and interest receivable.
- Prepaid expenses represents amounts paid by the LCBO on the OCRC's behalf for services to be provided in future, including software licences and software support, rent, and insurance.
- Property, plant and equipment includes vehicles, computer hardware and store fixtures under development.
- Trade and other payables and provisions includes mainly amounts invoiced and accrued for LCBO shared services but also includes amounts accrued for services received from other vendors, as well as accrued employee salaries and benefits.
- Borrowings includes an advance on March 19, 2018, from a loan facility provided by the Ontario Financing Authority and accrued interest.
- Financial position is unaudited.

ASSETS

Cash	$24,953,119
Trade and other receivables	$1,170,002
Prepaid services	$200,000
Prepaid expenses	$1,275,645
Property, plant and equipment	$2,338,522
Total assets	**$29,937,288**

LIABILITIES AND DEFICIT

Trade and other payables and provisions	$11,728,298
Borrowings	$25,015,894
Deficit – Accumulated loss	($6,806,904)
Total liabilities and deficit	**$29,937,288**

NOTES

- Net cash provided by operating activities was mainly provided by working capital.
- Net cash used in investing activities was for the purchase of vehicles and computer equipment, and the development of stores and store fixtures.
- Net cash provided by financing activities was provided by a loan advance from the Ontario Financing Authority.

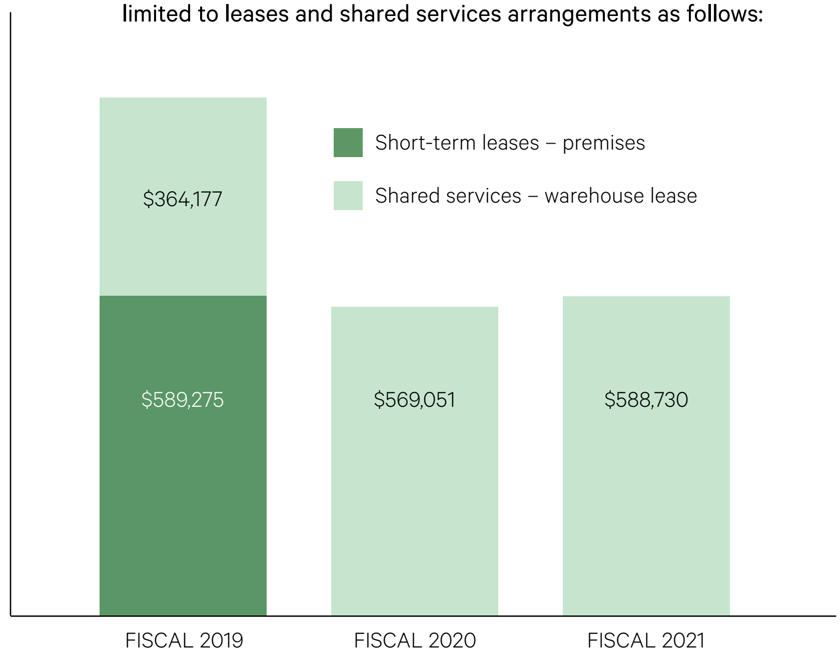
LIQUIDITY AND CAPITAL RESOURCES

The OCRC's sources and uses of cash for the period ending March 31, 2018, were as follows:

Net cash provided by operating activities	$2,294,360
Net cash used in investing activities	($2,341,241)
Net cash provided by financing activities	$25,000,000
Net increase in cash	$24,953,119

COMMITMENTS

The OCRC's contractual commitments at March 31, 2018, are limited to leases and shared services arrangements as follows:



The OCRC's short-term lease is related to short-term office accommodation.

The warehouse lease commitment is related to third-party warehousing services obtained by the LCBO on behalf of the OCRC.

RELATED PARTY TRANSACTIONS – SHARED SERVICES

Amounts invoiced by the LCBO for shared services and payments made on behalf of the OCRC for the period ended March 31, 2018, were as follows.

	INVOICED
Shared administrative services	$5,945,588
Property, plant and equipment	$1,536,156
Prepaid items	$1,469,796
Insurance	$43,165
	$8,994,705
HST	$1,155,763
Total	**$10,150,468**

Ontario Cannabis Retail Corporation Financial Statements and Notes

MARCH 31, 2018

Responsibility for Financial Reporting

The preparation, presentation and integrity of the financial statements are the responsibility of management. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the estimates, judgments and assumptions necessary to prepare the financial statements in accordance with International Financial Reporting Standards. The accompanying financial statements of the Ontario Cannabis Retail Corporation (OCRC) have been prepared in accordance with International Financial Reporting Standards and include amounts that are based on management's best estimates and judgement.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded, and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function has been established and will independently evaluate the effectiveness of internal controls on an ongoing basis and will report its findings to management and the Finance & Governance Committee of the Board.

The Board of Directors, through the Finance & Governance Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Finance & Governance Committee, composed of four Members who are not employees/officers of the OCRC, generally meets periodically with management, the internal auditors and the Office of the Auditor General of Ontario to satisfy itself that each group has properly discharged its respective responsibility. Also, the Office of the Auditor General of Ontario meets with the Finance & Governance Committee without management present.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with International Financial Reporting Standards. The Independent Auditor's Report outlines the scope of the Auditor's examination and opinion.

On behalf of management:

Nancy Kennedy
President & Chief Operating Officer

Carol Lyons
Controller and Treasurer
June 28, 2018

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Independent Auditor's Report

To the Ontario Cannabis Retail Corporation

I have audited the accompanying financial statements of the Ontario Cannabis Retail Corporation, which comprise the statement of financial position as at March 31, 2018, and the statement of loss and comprehensive loss, statement of deficit and statement of cash flows for the period from December 12, 2017 to March 31, 2018, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Cannabis Retail Corporation as at March 31, 2018, and its financial performance and its cash flows for the period from December 12, 2017 to March 31, 2018 in accordance with International Financial Reporting Standards.

Toronto, Ontario
June 28, 2018

Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General

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ONTARIO CANNABIS RETAIL CORPORATION
Statement of Financial Position

(Canadian dollars)

	Note	March 31, 2018
Assets		
Current assets		
Cash	*6*	24,953,119
Trade and other receivables	*7*	1,170,002
Prepaid expenses	*8*	1,275,645
		27,398,766
Non-current assets		
Prepaid services	*8*	200,000
Property, plant and equipment	*9*	2,338,522
		2,538,522
Total assets		29,937,288
Liabilities and deficit		
Current liabilities		
Trade and other payables and provisions	*10*	11,728,298
Non-current liabilities		
Borrowings	*12*	25,015,894
Total liabilities		36,744,192
Deficit		
Accumulated loss		6,806,904
Total deficit		6,806,904
Total liabilities and deficit		29,937,288

See accompanying notes to the financial statements.

Approved By:

Chair, Board of Directors

Board Member, Chair, Finance and Governance Committee

ONTARIO CANNABIS RETAIL CORPORATION

Statement of Loss and Comprehensive Loss

(Canadian dollars)

	Note	**For the period December 12, 2017 to March 31, 2018** ***(Note 1)***
Revenue	*3*	-
Administrative expenses	*4*	6,805,248
Finance income	*5*	(14,238)
Finance costs	*5*	15,894
Net loss and comprehensive loss		6,806,904

See accompanying notes to the financial statements.

ONTARIO CANNABIS RETAIL CORPORATION

Statement of Changes in Deficit

(Canadian dollars)

	Accumulated loss	Total Deficit
Balance at beginning of period	-	-
Net loss	6,806,904	6,806,904
Balance at March 31, 2018	6,806,904	6,806,904

See accompanying notes to the financial statements.

ONTARIO CANNABIS RETAIL CORPORATION

Statement of Cash Flows

(Canadian dollars)

	For the period December 12, 2017 to March 31, 2018 *(Note 1)*
Operating activities:	
Net loss	(6,806,904)
Adjustments for:	
Depreciation	2,719
Interest on borrowings	15,894
Change in non-cash balances related to operations:	
Trade and other receivables	(1,170,002)
Prepaid expenses	(1,475,645)
Trade and other payables and provisions	11,728,298
Net cash provided by operating activities	2,294,360
Investing activities:	
Purchase of property, plant and equipment	(2,341,241)
Net cash used in investing activities	(2,341,241)
Financing activities:	
Proceeds from borrowings	25,000,000
Net cash provided by financing activities	25,000,000
Net increase in cash	24,953,119
Cash, end of year	24,953,119

See accompanying notes to the financial statements.

Index to Notes to Financial Statements

1. Corporate and General Information

1.1 The Corporation and its operations

The Ontario Cannabis Retail Corporation (“OCRC”, “the Corporation”) is a corporation without share capital incorporated under the *Ontario Cannabis Retail Corporation Act*, S.O. 2017, Chapter 26, Schedule 2 (“the Act”).

OCRC is a government business enterprise with the exclusive right to sell non-medical cannabis in the Province of Ontario (“Province”) when it is legalized in Canada. As an Ontario Crown corporation, OCRC is exempt from income taxes. Per the legislation under *the Act*, OCRC will transfer most of its earnings to the Province in the form of a dividend.

OCRC’s head office is located at 1 Yonge Street, 18th Floor, Toronto, Ontario, Canada, M5E 1E5.

1.2 Legalization of cannabis

In April 2017, the federal government introduced legislation to legalize and regulate non-medical cannabis in Canada. The proposed federal Cannabis Act will create rules for producing, possessing and selling non-medical cannabis across Canada. On June 21, 2018, legislation to enact the Cannabis Act received Royal Assent. The provisions of the Cannabis Act come into force on a day or days to be fixed by order of the Governor in Council. On June 20, 2018, the Federal Government announced that the Cannabis Act would come into force on October 17, 2018.

OCRC was established on December 12, 2017 as an agent of the Crown. In Ontario, the Act authorizes OCRC to buy, possess and sell non-medical cannabis and related products. The Corporation’s fiscal year begins on April 1 in each year and ends on March 31 in the following year; consequently, these financial statements are for the period commencing December 12, 2017 and ending March 31, 2018.

During the period ending March 31, 2018, OCRC was engaged in set-up activities. Retail operations are expected to commence in the fall of 2018 with the opening of retail stores and commencement of online sales across the Province. OCRC will open additional retail stores by 2020.

2. Basis of Presentation and Significant Accounting Judgments and Policies

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The audited financial statements were approved by the Board of Directors and authorized for issue on June 28, 2018.

2.2 Basis of presentation

These financial statements have been prepared on the historical cost basis.

2.3 Functional and presentation currency

The financial statements are presented in Canadian dollars (“C$”), OCRC’s functional currency.

2.4 Accounting standards and amendments not yet effective

The IASB has issued the following standards and amendments that are not applicable to OCRC and that become effective for OCRC subsequent to March 31, 2018:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards:* amendments delete short-term exemptions.
- IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures:* amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. In addition, amendments clarify that long-term interests in an associate or joint venture, to which the equity method is not applied, are accounted for using IFRS 9.
- IFRS 2 *Classification and Measurement of Share-based Payment Transactions:* amendments clarify how to account for certain types of share-based payment transactions.
- IFRS 4 *Insurance Contracts:* amendments, regarding the interaction of IFRS 4 Insurance Contracts and IFRS 9 Financial Instruments, provide two options for entities that issue insurance contracts within the scope of IFRS 4.
- IAS 40 *Transfers of Investment Property:* amendments clarify that transfers of investment property require a reassessment of whether the property continues to meet the definition of investment property.
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*: amendments clarify the exchange rate to be used in transactions that involve consideration paid or received in advance in foreign currency.
- IFRS 17 *Insurance Contracts:* requires entities to account for all insurance contracts in a consistent manner. Insurance obligations will be accounted for using current values, instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements.
- IFRIC 23 *Uncertainty over Income Tax Treatments:* amendments specify how to reflect uncertainty in accounting for income taxes.

2.5 Revenue and cost of sales

OCRC has early applied IFRS 15 *Revenue from Contracts with Customers* in these financial statements.

Revenue is recognized when the Corporation satisfies a performance obligation by transferring control of a promised good or service to a customer. Revenue is measured as the amount of consideration that the Corporation expects to be entitled to in exchange for transferring the good or service to the customer, excluding taxes.

Cost of sales includes the cost of inventories expensed during the period and other costs incurred to fulfill performance obligations to customers.

2.6 Finance income and finance costs

Finance income comprises interest income on cash balances. Finance costs consist of interest expense on borrowings and lease liabilities.

Interest income and expense are calculated using the effective interest method.

2.7 Cash and cash equivalents

Cash and cash equivalents are recognized initially at fair value plus transaction costs and subsequently measured at amortized cost.

Cash equivalents are highly liquid investments with original maturity dates of 90 days or less from the date of acquisition.

2.8 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost less an allowance for impairment, if any.

At the end of each reporting period, OCRC estimates the amount of lifetime expected credit losses on its trade and other receivables and reduces the carrying amount of account receivables. Lifetime expected credit losses are the losses that may result from all possible default events. OCRC estimates the amount of expected credit losses based on individual accounts, taking into consideration customer credit worthiness, current economic trends, past experience and forecasts of future economic conditions. The recognized impairment loss (or gain) is the amount of the expected credit losses (or reversals) that is required to adjust the loss allowance to the amount of lifetime expected credit losses at the reporting date.

2.9 Prepaid expenses

Cash outlays for goods and services that are to be received in future periods are recognized as prepaid expenses. Expenses are recognized in net income or loss when the goods and services are received.

2.10 Property, plant and equipment

Major capital expenditures with a future useful life beyond the current year are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition, construction or development of the asset.

Depreciation is recognized in the income statement over the expected useful lives of each major component of property, plant and equipment, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Property, plant and equipment under construction and not available for use are carried at cost, less any recognized impairment loss. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets commences when the assets are ready for their intended use.

The cost of subsequently replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits related to the part will flow to OCRC, and its cost can be measured reliably. The carrying amount of the replaced item of property, plant and equipment is derecognized, if any. The costs of the day-to-day servicing of property, plant and equipment are recognized as expense as incurred.

Annually OCRC reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication of an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine any impairment loss. Where the asset does not generate cash flows that are independent from other assets, OCRC estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. The CGU is deemed to be each retail store. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. Any impairment loss is recognized as expense in the period in which it occurs.

The estimated useful lives of property, plant and equipment are as follows:

Leasehold improvements	5 to 10 years, or lease term, if shorter
Machinery and equipment	4 to 10 years
Computer hardware	4 years

2.11 Trade and other payables and provisions

Trade and other payables are initially measured at fair value less transaction costs and are subsequently measured at amortized cost.

Short-term employee benefits are benefits that are expected to be wholly settled within twelve months of the annual reporting period in which they are earned by employees. Short-term employee benefits are expensed and a provision is recognized when employees render service.

2.12 Lease liabilities

OCRC has early applied IFRS 16 *Leases* in these financial statements.

Except for short-term leases and leases of low-value assets, OCRC recognizes a lease liability on the lease commencement date, unless the lease term is twelve months or less or the underlying asset has a low value. The initial amount of the lease liability comprises the present value of the lease payments during the lease term. The lease term is the non-cancellable period for which OCRC has the right to use the asset, including extension or termination option periods that OCRC is reasonably certain to exercise.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lease payments are discounted using the Corporation's incremental borrowing rate. Subsequently, the lease liability is measured by increasing the liability to reflect interest and decreasing the liability to reflect payments. The lease liability is remeasured to reflect reassessment or modification or to reflect in-substance fixed lease payments.

Short-term leases and leases of low-value assets are accounted for by recognizing the lease payments on a straight-line basis over the lease term.

2.13 Borrowings

Borrowings are financial liabilities with original maturity dates greater than one year. They are initially measured at fair value less transaction costs and subsequently measured at amortized cost, using the effective interest method.

Borrowing costs directly attributable to the acquisition or construction of a qualifying asset are recognized in the cost of the qualifying asset. Qualifying assets are those that require a substantial period of time to prepare for their intended use.

2.14 Post-employment and other long-term employee benefits

Employee pension benefits
OCRC's contributions to defined benefit pension plans are accounted for on a defined contribution basis with OCRC's contribution recognized as expense in the period the contributions become payable.

Other long-term employee benefits
Other long-term employee benefits are employee benefits that are not expected to be wholly settled within twelve months of the annual reporting period in which they are earned by employees.

Other long-term employee benefit liabilities are actuarially determined using the Projected Unit Credit Method and management's best estimate. The annual benefit cost is the sum of the service cost and one year's interest cost plus remeasurements of the defined benefit obligation. Actuarial gains and losses due to remeasurements of the defined benefit liabilities are recognized in administrative expenses in the period in which they occur.

2.15 Financial instruments

OCRC has early applied IFRS 9 *Financial Instruments* in these financial statements.

Financial assets and financial liabilities are recognized when OCRC becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, plus or minus transaction costs that are directly attributable to their acquisition. The measurement of financial instruments in subsequent periods and the recognition of changes in fair value depend on the category in which they are classified.

(i) Financial assets
Classification of financial assets depends on the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial asset is subsequently measured at amortized cost if both of the following conditions are met:

(a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows:
(b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All of the financial assets held by OCRC meet the conditions for subsequent measurement at amortized cost.

(ii) Financial liabilities
All financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as subsequently measured at fair value through profit or loss. Such liabilities include derivatives (other than derivatives that are financial guarantee contracts or are designated and effective hedging instruments), other liabilities held for trading, and liabilities that are designated to be measured at fair value through profit or loss. For financial liabilities subsequently measured at fair value through profit or loss, changes in fair value related to changes in own credit risk are presented separately in other comprehensive income.

All of the financial liabilities held by OCRC are measured subsequently at amortized cost.

(iii) Effective interest method
The amortized cost of a financial asset or liability and interest income or interest expense is calculated using the effective interest method.

2.16 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities that are measured at fair value on a recurring or non-recurring basis are classified according to a three-level hierarchy based on the type of inputs used to make the measurements. This hierarchy is as follows:

Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than the Level 1 quoted prices that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market inputs (unobservable inputs).

2.17 Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the carrying amount of assets and liabilities, disclosures of contingent assets and liabilities as at the date of the financial statements, and the carrying amount of revenues and expenses for the reporting period. These estimates are changed periodically and, as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

The judgments and key sources of estimation uncertainty that have a significant effect on the amounts recognized in these financial statements are disclosed in the relevant notes to which the estimates and judgments relate.

3. Revenue and Cost of Sales

OCRC's revenue will comprise sales of cannabis products and accessories.

No revenues or costs of sales may occur until the sale of non-medical cannabis is legalized and OCRC's retail operations commence.

(Canadian dollars)

4. Administrative Expenses

Administration expenses include the following costs incurred during the period ended March 31, 2018 to set up OCRC:

LCBO shared services (Note 16b)	6,666,054
Employee expenses	86,379
Depreciation	2,719
Other expenses	50,096
	6,805,248

5. Finance Income and Finance Costs

Finance income and costs for the period ended March 31, 2018 include the following:

Interest income on cash	(14,238)
Interest on borrowings (Note 12)	15,894
	1,656

6. Cash

Cash as at March 31, 2018 includes interest-bearing bank accounts. OCRC did not hold any cash equivalents as at March 31, 2018.

7. Trade and Other Receivables

At March 31, 2018, trade and other receivables include the following:

Recoverable input tax credits	1,155,764
Interest receivable	14,238
	1,170,002

Expected credit losses on trade and other receivables are nil.

The fair value of trade and other receivables approximates its carrying amounts due to its short-term nature.

(Canadian dollars)

8. Prepaid Expenses

Prepaid expenses for the period ended March 31, 2018 include the following:

Short-term prepaid expenses	
Prepaid services	1,053,724
Prepaid warehouse lease (Note 11)	160,868
Prepaid insurance	61,053
	1,275,645
Long-term prepaid services	200,000
	1,475,645

9. Property, Plant and Equipment

The following table presents the net book value and changes in the cost and accumulated depreciation of property, plant and equipment for the period ended March 31, 2018:

	Machinery and equipment	Computer hardware	Work-in-progress	Total
Cost - additions	44,986	105,399	2,190,856	2,341,241
Accumulated depreciation	692	2,027	-	2,719
Net book value	44,294	103,372	2,190,856	2,338,522

10. Trade and Other Payables and Provisions

Trade and other payables and provisions consist of amounts payable to LCBO for shared service costs and amounts payable to other suppliers, as well as payroll accruals and withholdings.

At March 31, 2018, trade and other payables and provisions include the following:

Payable to LCBO	10,150,468
Accrued expenses	1,573,779
Provisions	4,051
	11,728,298

The fair value of trade and other payables and provisions approximates their carrying amounts due to their short-term nature.

(Canadian dollars)

11. Lease Liabilities

Expenses relating to leases of low-value assets (printers) accounted for on a straight-line basis over the lease term were $3,657 for period ending March 31, 2018.

Expenses relating to short-term leases (short-term office accommodation) accounted for on a straight-line basis over the lease term were $196,329 for the period ending March 31, 2018. Commitments for short-term leases in fiscal 2019 are $589,275.

LCBO has entered into an arrangement with a warehousing services provider on behalf of OCRC. The warehousing services provider leases a warehouse facility from a third party. LCBO and OCRC are not parties to this lease. The warehousing services provider, the third party and LCBO have agreed to assignment of the lease to LCBO in the event that a written request is made by the warehousing services provider and LCBO. As at March 31, 2018, the lease has not been assigned to LCBO.

OCRC is committed to reimburse LCBO for lease expenses related to OCRC's use of the warehouse. The commitment for these lease expenses is included in the shared services commitments disclosed in Note 16b.

12. Borrowings

On February 14, 2018, OCRC entered into a loan agreement with the Ontario Financing Authority and the Minister of Finance. Refer to Note 16. Under the agreement, for the purpose of financing OCRC's set-up and initial operations, OCRC may draw funds from the Ontario Financing Authority to a maximum principal amount of $150 million until December 31, 2019. No payments of interest or principal are required until July 1, 2020. The loan may be secured by a general security agreement, if required by the Ontario Financing Authority. The loan is at market terms.

Until December 31, 2019, the loan bears interest at a floating rate that is equal to the Province's all-in cost of funds for a one-month treasury bill, including fees and commissions, plus 52.5 basis points. This rate represents a market rate as it is available to OCRC from other market participants. Interest is accrued, compounded and reset monthly on the first business day of the month. The interest rate at March 31, 2018 is 1.785%.

At March 31, 2018, OCRC has drawn $25 million and accrued interest of $15,894. Changes in borrowings for the period ended March 31, 2018 are as follows:

Cash inflows - Draws	25,000,000
Non-cash changes - Interest expense	15,894
Total changes in borrowings	25,015,894

The loan is repayable in equal semi-annual payments over a ten-year term commencing July 1, 2020. The interest rate will be the Province's all-in cost of funds as at January 1, 2020 for a ten-year amortizing loan, including fees and commissions, plus 52.5 basis points. Interest will compound semi-annually.

The fair value of borrowings at March 31, 2018 approximates their carrying amount due to their recent issuance.

13. Post-Employment and Other Long-term Employee Benefits

(i) Employee pension benefits

OCRC provides defined pension benefits to all permanent employees and to non-permanent employees who elect to participate through the Public Service Pension Fund ("PSPF"). The Province, which is the sole sponsor of the PSPF, determines OCRC's annual contributions to the fund. As the sponsor is responsible for ensuring that the funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of OCRC.

For the period ended March 31, 2018, OCRC's pension contributions of $4,607 are included in administrative expenses.

(ii) Other long-term employee benefit plans

Other long-term employee benefits provided by OCRC include self-insured workers' compensation benefits. No amount has been recognized for this liability as OCRC has not incurred any workers' compensation claims.

14. Financial Risk Management

OCRC's Treasury Risk Management Policies regarding financial risk management and internal controls are being developed to set out a prudential framework for the identification, measurement, management and control of financial risks. These policies will be a fundamental part of OCRC's long-term strategy covering areas such as liquidity risk and interest risk. OCRC's financial risk management approach is to minimize the potential adverse effects from these risks on its financial performance. OCRC is exposed to the following financial risks:

(a) Credit risk

Credit risk is the risk of financial loss due to a financial counterparty or another third party failing to meet its financial or contractual obligations to the OCRC.

OCRC's credit risk is limited to its cash accounts. OCRC minimizes credit risk by restricting its banking and cash management to arrangements with Schedule A banks.

(b) Liquidity Risk

Liquidity risk is the risk that OCRC may not have cash available to satisfy financial liabilities as they fall due.

OCRC seeks to limit its liquidity risk by actively monitoring and managing its available cash reserves to ensure that it has sufficient access to liquidity at all times to meet financial obligations when due as well as those relating to unforeseen events. In addition, OCRC has mitigated liquidity risk until 2020 through financing arrangements with the Ontario Financing Authority. During this period up to $150 million is available to OCRC for its set-up costs and initial operations. Refer to Note 12.

(c) Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instruments will fluctuate due to changes in market interest rates. OCRC is exposed to interest rate risk on its cash deposited in bank accounts and on its loan liability balance owed to the Ontario Financial Authority (OFA). The OFA Loan interest rate is variable, based on the one-month Province of Ontario treasury bill rate plus OFA services charges.

(Canadian dollars)

A sensitivity analysis for OCRC's exposure to interest rate risk for the period ending March 31, 2018 is as follows:

	Increase/(Decrease) in net income	
Interest rate risk exposure	**0.5% increase in interest rates**	**0.5% decrease in interest rates**
Cash	445	(445)
Borrowings	(4,452)	4,452

15. Capital Management

OCRC is a corporation without share capital. Its capital structure consists of cash and cash equivalents, borrowings and accumulated deficit.

OCRC's objectives in managing its capital are to preserve capital and to maintain sufficient liquidity to meet future financial commitments, including the repayment of borrowings from the Ontario Financing Authority. By achieving these objectives, OCRC is able to fund its future growth.

The Board of Directors is responsible for oversight of management including policies related to financial risk management. OCRC management is responsible for overseeing its capital structure and mitigating financial risk in response to changing economic conditions.

16. Related Parties

OCRC is related to the Province of Ontario and its agencies, ministries and crown corporations.

Related party transactions are measured at the amount of consideration agreed to by the related parties and include, during the period ended March 31, 2018:

- Ontario Financing Authority loan to OCRC (Refer to Note 12), and
- LCBO management and shared services to OCRC.

(a) Ontario Financing Authority

On February 14, 2018, OCRC entered into a loan agreement with the Ontario Financing Authority and the Minister of Finance to finance OCRC's set-up costs, including shared services provided by LCBO. The loan is at market terms. Refer to Note 12.

(b) LCBO

LCBO provided services, goods and other property to OCRC to support its establishment and oversee its initial operations. These services and goods are provided to OCRC on a cost basis. Transfers of property, plant and equipment are provided at LCBO's carrying amount.

(Canadian dollars)

For the period ended March 31, 2018, amounts charged to OCRC, net of harmonized sales tax, by LCBO were as follows:

Shared administrative services	5,945,588
Property, plant and equipment	1,536,156
Prepaid items	1,469,796
Insurance	43,165
	8,994,705

Including harmonized sales tax, the amount due to LCBO as at March 31, 2018 is $10,150,468. In addition, OCRC has accrued liabilities for goods and service received as at March 31, 2018 that will be charged by LCBO in future periods. The amounts accrued are as follows:

Shared administrative services	712,196
Property, plant and equipment	55,224
Prepaid items	777
	768,197

At March 31, 2018, commitments to LCBO related to a warehouse lease are as follows:
Fiscal 2019 - $364,177;
Fiscal 2020 - $569,051; and
Fiscal 2021 - $588,730.

(c) Key management personnel

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of OCRC. Key management personnel include members of the Board of Directors as well as the President and Chief Operating Officer and top senior officers of OCRC. Board members receive a per diem remuneration for attending regularly scheduled meetings and for serving on the Finance and Governance Committee and the Human Resources and Compensation Committee.

Key management personnel compensation, including directors' fees, for the period ending March 31, 2018 is comprised of per diem payments of $11,560 to members of the Board of Directors.

(d) Other

Other related party transactions include payments to the entities related to the Province of Ontario for certain employee benefits, such as workers compensation benefits amounts payable to WSIB, employer health tax payable to the Ministry of Finance and contributions to employee pensions payable to the Ontario Pension Board. The costs of these benefits are presented in administrative expenses. The amounts owing to these related parties are presented in trade and other payables and provisions.

17. Commitments for Expenditure

As at March 31, 2018, OCRC's commitments are limited to the lease arrangements disclosed in Note 11 and shared services arrangements disclosed in Note 16.

18. Contingent Liabilities

Based upon legal assessment and information presently available, OCRC has determined that it is not exposed to any contingent liabilities and no amount is recognized in these financial statements.

19. Subsequent Events

Subsequent to March 31, 2018, OCRC entered into arrangements to lease premises for four stores. The leases are for five-year terms with minimum lease payments as follows:

Fiscal 2019 - $207,405;
Fiscal 2020 - $355,552;
Fiscal 2021 - $355,552:
Fiscal 2022 - $355,552;
Fiscal 2023 - $355,552; and
Future years - $149,121.


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