Ontario Cannabis Retail Corporation

Financial Statements and Notes to the Financial Statements

March 31, 2019

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 is being 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, comprised of OCRC Board members only, 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 responsibilities. An interim arrangement was implemented in early 2019 that all matters related to the Finance and Governance Committee be brought to the full OCRC Board for review and approval until new committee members could be appointed. 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 General'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 General's examination and opinion.

On behalf of management:

Patrick Ford,
President/Chief Executive Office

Sanjay Dhawan,
Chief Financial Officer & Vice President, Business Support

September 5, 2019

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

INDEPENDENT AUDITOR'S REPORT

To the Board of the Ontario Cannabis Retail Corporation

Opinion

I have audited the financial statements of the Ontario Cannabis Retail Corporation (the Corporation), which comprise the statement of financial position as at March 31, 2019, and the statements of loss and comprehensive loss, changes in deficit and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Corporation in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Corporation either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

20 Dundas Street West
Suite 1530
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-327-9862
tty 416-327-6123

20, rue Dundas ouest
suite 1530
Toronto (Ontario)
M5G 2C2
416-327-2381
télécopieur 416-327-9862
ats 416-327-6123

www.auditor.on.ca

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Toronto, Ontario
September 5, 2019

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

ONTARIO CANNABIS RETAIL CORPORATION
Statement of Financial Position

(Canadian dollars)

	Note	**March 31, 2019**	March 31, 2018
Assets			
Current assets			
Cash	*3*	**18,803,382**	24,953,119
Trade and other receivables	*4*	**5,045,954**	1,170,002
Prepaid expenses		**805,630**	1,275,645
Inventory	*5*	**46,476,584**	-
		71,131,550	27,398,766
Non-current assets			
Prepaid services		**221,747**	200,000
Property, plant and equipment and intangible assets	*6*	**803,357**	2,338,522
Right-of-use asset	*7*	**35,902**	-
		1,061,006	2,538,522
Total assets		**72,192,556**	29,937,288
Liabilities and deficit			
Current liabilities			
Trade and other payables	*8*	**53,636,257**	11,728,298
Provisions	*9*	**2,336,953**	-
		55,973,210	11,728,298
Non-current liabilities			
Borrowings	*11*	**65,048,857**	25,015,894
Total liabilities		**121,022,067**	36,744,192
Deficit			
Accumulated loss		**48,829,511**	6,806,904
Total liabilities and deficit		**72,192,556**	29,937,288

See accompanying notes to the financial statements.

Approved By:

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Acting 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 year ended March 31, 2019	For the period December 12, 2017 to March 31, 2018
Revenue	*12*	**63,866,540**	-
Cost of sales	*13*	**44,085,893**	-
Gross margin		**19,780,647**	-
Selling, general and administrative expenses	*14*	**61,243,379**	6,805,248
		(41,462,732)	(6,805,248)
Finance income	*15*	**496,075**	14,238
Finance costs	*15*	**(1,055,950)**	(15,894)
Total comprehensive loss		**(42,022,607)**	(6,806,904)

See accompanying notes to the financial statements.

ONTARIO CANNABIS RETAIL CORPORATION
Statement of Changes in Deficit

(Canadian dollars)

	For the year ended March 31, 2019	For the period December 12, 2017 to March 31, 2018
Deficit at beginning of year/ period	**6,806,904**	**-**
Total comprehensive loss for the year/ period	**42,022,607**	6,806,904
Accumulated loss at end of year/ period	**48,829,511**	6,806,904

See accompanying notes to the financial statements.

ONTARIO CANNABIS RETAIL CORPORATION

Statement of Cash Flows

(Canadian dollars)

	Note	For the year ended March 31, 2019	For the period December 12, 2017 to March 31, 2018
Operating activities:			
Total comprehensive loss		**(42,022,607)**	(6,806,904)
Less:			
Depreciation	*6, 7*	**174,201**	2,719
Impairment	*14*	**8,989,770**	-
Termination of leases	*14*	**983,004**	-
Interest on borrowings and leases	*15*	**1,055,950**	15,894
Loss on disposal of assets		**90,696**	-
		(30,728,986)	(6,788,291)
Changes in non-cash balances related to operations:			
Trade and other receivables	*4*	**(3,875,952)**	(1,170,002)
Inventory	*5*	**(46,476,584)**	-
Prepaid expenses		**448,268**	(1,475,645)
Trade and other payables	*8*	**41,907,959**	11,728,298
Provisions	*9*	**2,336,953**	-
Net cash (used in) generated from operating activities		**(36,388,342)**	2,294,360
Investing activities:			
Purchase of property, plant and equipment and intangible assets	*6*	**(7,696,376)**	(2,341,241)
Right-of-use-asset	*7*	**(35,902)**	-
Proceeds from sale of assets		**23,710**	-
Net cash used in investing activities		**(7,708,568)**	(2,341,241)
Financing activities:			
Proceeds from borrowings	*11*	**39,000,000**	25,000,000
Tenant allowances	*10*	**28,900**	-
Lease payments	*10*	**(1,081,727)**	-
Net cash generated from financing activities		**37,947,173**	25,000,000
Net (decrease)/ increase in cash		**(6,149,737)**	24,953,119
Cash, beginning of year/ period		**24,953,119**	-
Cash, end of year/ period		**18,803,382**	24,953,119

See accompanying notes to the financial statements.

Index to Notes to Financial Statements

1. Corporate and general information 6
2. Basis of presentation and significant accounting judgments and policies 6
3. Cash 11
4. Trade and other receivables 11
5. Inventory 11
6. Property, plant and equipment and intangible assets 12
7. Right-of-use asset 13
8. Trade and other payables 13
9. Provisions 14
10. Lease liabilities 14
11. Borrowings 15
12. Revenue 16
13. Cost of sales 16
14. Selling, general and administrative expenses 17
15. Finance income and finance costs 18
16. Post-employment and other long-term employee benefits 18
17. Financial risk management 19
18. Capital management 20
19. Related parties 20
20. Commitments for expenditure 22
21. Contingent liabilities 22
22. Subsequent events 22

1. Corporate and general information

The Ontario Cannabis Retail Corporation ("OCRC") is a corporation without share capital incorporated under the *Ontario Cannabis Retail Corporation Act*, S.O. 2017, Chapter 26, Schedule 2 ("the Act"). OCRC was established on December 12, 2017 as an agent of the Crown.

The Act authorizes OCRC to buy, possess and sell non-medical cannabis and related products and gives OCRC the exclusive right in the province to sell non-medical cannabis to end-use e-commerce customers and to wholesale customers licensed by the Alcohol and Gaming Commission of Ontario ("AGCO") to sell cannabis in privately run stores.

On August 13, 2018, the Government of Ontario ("Government") announced a new approach to retailing cannabis, which required the OCRC to discontinue the establishment of government-owned retail stores, to operate as a stand-alone Crown agency reporting directly to the Minister of Finance, to continue its efforts to launch an online retail channel for cannabis on October 17, 2018 and to become the exclusive provincial wholesale distributor of cannabis to private retail stores authorized by the AGCO, beginning in April 2019.

As a result of this policy shift, the OCRC immediately discontinued the development of its retail stores. Its online sales channel OCS.ca was launched on October 17, 2018 and its wholesale business was launched by April 1, 2019.

As an Ontario Crown corporation, OCRC is exempt from income taxes. Under *the Act*, OCRC will transfer its net profits to the Province of Ontario ("Province") at such times and in such manner as may be directed.

OCRC's fiscal year begins on April 1 in each year and ends on March 31 in the following year.

OCRC's head office is located at 1 Yonge Street, 4th Floor, Toronto, Ontario, Canada, M5E 1E5.

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 September 5, 2019.

2.2 Basis of presentation

These financial statements have been prepared on the basis of historical cost. Cost is recorded based on the fair value of the consideration given in exchange for the assets.

The comparative figures have been reclassified from financial statements previously presented to conform to the presentation of the current year.

2.3 Functional and presentation currency

These financial statements are presented in Canadian dollars, OCRC's functional currency.

2.4 Accounting standards, amendments and interpretations issued, but not yet effective

There are no accounting standards, amendments or interpretations issued by IASB as at March 31, 2019 and becoming effective at future dates that are applicable to OCRC.

2.5 Revenue

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

2.6 Cost of sales

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

2.7 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.

2.8 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.

The carrying amount of account receivables is reduced through the use of an allowance where there is objective evidence that OCRC will not be able to collect all amounts due according to the original terms of the receivables. OCRC establishes an allowance taking into consideration customer credit worthiness, current economic trends, past experience and forecasts of future economic conditions. When receivables are deemed uncollectible after reconciling an allowance, they are written off against the allowance. The loss is recognized as selling, general, and administrative expenses in the Statement of Loss and Comprehensive Loss.

2.9 Inventory

Inventories are measured at the lower of cost and net realizable value. Cost is determined by the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Cost includes all direct expenditures to bring the inventory to its present location and condition net of vendor allowances and includes transportation costs.

2.10 Property, plant and equipment

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 Statement of Loss and Comprehensive Loss 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.

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

Machinery and equipment	4 to 10 years
Computer hardware	4 years

2.11 Intangible assets

Intangible assets with finite lives are measured at cost less accumulated amortization and any accumulated impairment losses. These intangible assets are amortized on a straight-line basis over their estimated useful lives.

Intangible assets include externally acquired software, which has an estimated useful life of four years.

2.12 Impairment of property, plant and equipment and intangible assets

Annually OCRC reviews the carrying amounts of its property, plant and equipment and intangible assets 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. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs of disposal and its value in use. A cash-generating unit ("CGU") is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Where the asset does not generate cash flows that are independent from other assets, OCRC estimates the recoverable amount of the CGU to which the asset belongs. 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.

2.13 Right-of-use assets

Right-of-use assets are measured at cost, comprised of the initial amount of the lease liability; lease payments made at or before the lease commencement date, less any incentives received; initial direct costs; and an estimate of dismantling or restoration costs to be incurred.

At the lease commencement date, OCRC will measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments will be discounted using the interest rate implicit in the lease or if not readily determinable, OCRC's incremental borrowing rate.

2.14 Trade and other payables

Trade and other payables are classified as other financial liabilities and are generally short-term in nature and due within one year of the Statement of Financial Position date. Trade payables are non-interest bearing and are initially measured at fair value and subsequently remeasured at amortized cost. Vendor receivables are offset against liabilities when OCRC has a legally enforceable right to offset the receivable amount and intends to settle on a net basis.

2.15 Provisions

Provisions are recognized when there is a present legal or constructive obligation because of a past event, for which it is probable that an outflow of economic benefit will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation.

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. Provisions for long-term employee benefits are measured at the present value of the estimated future cash flows.

2.16 Lease liabilities

Except for short-term leases and leases of low-value assets, OCRC recognizes a lease liability on the lease commencement date. 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 OCRC'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.

2.17 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 to prepare for their intended use.

2.18 Post-employment and other long-term employee benefits

Employee pension benefits

OCRC contributes to the Public Service Pension Fund ("PSPF"), a defined benefit pension plan. The contributions are accounted for on a defined contribution basis because the PSPF is a plan which shares risks between entities under common control. OCRC's contributions are 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.

2.19 Financial instruments

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.

OCRC has classified its financial instruments as follows:

Financial Asset/Liability	Category	Measurement
Trade and other receivables	Loans and receivables	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost

Financial instruments measured at fair value must be 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).

OCRC's financial assets and liabilities are generally classified and measured as follows:

(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. Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' ("FVTPL"), 'fair value through other comprehensive income' ("FVOCI") and amortized cost.

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 using the effective interest method.

Impairment of financial assets
OCRC applies the forward-looking 'expected credit loss' ("ECL") model in accordance with IFRS 9.

(Canadian dollars)

The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. This impairment model is applied, at each balance sheet date.

(ii) Financial liabilities
All financial liabilities are subsequently measured at amortized cost except for financial liabilities 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.

All of the financial liabilities held by OCRC are measured subsequently at amortized cost using the effective interest method.

2.20 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. Cash

Cash as at March 31, 2019 includes interest-bearing bank accounts. OCRC did not hold any cash equivalents as at March 31, 2019 (2018 – nil).

4. Trade and other receivables

Trade and other receivables include the following:

	March 31, 2019	March 31, 2018
Recoverable input tax credits	**5,012,411**	1,155,764
Interest receivable	**33,543**	14,238
	5,045,954	1,170,002

The carrying amount of trade and other receivables approximates its fair value due to its short-term nature. The carrying amount is reduced through the use of an allowance at levels considered adequate to absorb credit losses. Subsequent recoveries of receivables previously provisioned are credited to the Statement of Loss and Comprehensive Loss.

The amount of lifetime expected credit losses on trade and other receivables is nil (2018 – nil).

5. Inventory

The cost of inventories sold and recognized as cost of sales during the year ended March 31, 2019 was $36,623,012. There were no significant write-downs or reversals of previous write-downs to net realizable value during the year ended March 31, 2019 and period ended March 31, 2018. No inventory is pledged as security. Refer to Note 22 (c).

(Canadian dollars)

6. Property, plant and equipment and intangible assets

The following table presents the net book value and changes in the cost and accumulated depreciation of property, plant and equipment and intangible assets for the year ended March 31, 2019:

	Machinery and equipment	Computer hardware	Store fixtures in progress [1]	Computer software	Total
Cost					
Balance at March 31, 2018	44,986	105,399	2,190,856	-	2,341,241
Additions	283,516	902,998	6,503,433	6,429	7,696,376
Disposals	(15,920)	(104,199)	-	-	(120,119)
Impairment[1]	(47,678)	(260,569)	(8,694,289)	-	(9,002,536)
Balance at March 31, 2019	**264,904**	**643,629**	**-**	**6,429**	**914,962**
Accumulated depreciation					
Balance at March 31, 2018	692	2,027	-	-	2,719
Depreciation	44,356	81,988	-	1,021	127,365
Disposals	(1,225)	(4,488)	-	-	(5,713)
Impairment[1]	(2,642)	(10,124)	-	-	(12,766)
Balance at March 31, 2019	**41,181**	**69,403**	**-**	**1,021**	**111,605**
Carrying amount					
As at March 31, 2018	44,294	103,372	2,190,856	-	2,338,522
As at March 31, 2019	**223,723**	**574,226**	**-**	**5,408**	**803,357**

1 Refer to Note 14.

(Canadian dollars)

7. Right-of-use asset

The following table presents the changes in the cost of right-of-use assets for the year ended March 31, 2019:

	Store Premises[1]	Office Premises[2]	**Total**
Additions	1,588,408	35,902	**1,624,310**
Depreciation	46,836	-	**46,836**
Impairment[1]	1,541,572	-	**1,541,572**
Carrying amount at March 31, 2019	-	35,902	**35,902**

[1] Right-of-use assets for store premises were abandoned due to discontinuation of the establishment of retail stores. Refer to Note 14.

[2] The right-of use asset for office premises represents direct costs incurred to obtain a lease, which commences on April 1, 2019. Refer to Note 22 (b).

8. Trade and other payables

Trade and other payables include the following:

	As at March 31, 2019	As at March 31, 2018[1]
Inventory payables and accruals	**44,127,137**	-
Other trade payables and accrued expenses	**5,904,015**	1,577,830
Payable to LCBO (Note 19 (b))	**3,447,503**	10,150,468
Customer deposits	**157,602**	-
	53,636,257	11,728,298

[1] Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

The fair values of trade and other payables approximate their carrying amounts due to their short-term nature.

(Canadian dollars)

9. Provisions

Provisions include the following:

	As at March 31, 2019	As at March 31, 2018
Contract terminations	**1,213,009**	-
Employee vacation and other short-term benefits	**655,035**	-
Deferred revenue	**340,011**	-
Long-term employee benefit plans (Note 16)	**85,500**	-
Sales returns and credit losses	**43,398**	-
	2,336,953	-

Contract terminations

The provision for contract terminations includes amounts expected to be paid to terminate certain contractual arrangements, which are no longer required as a result of the discontinuation of establishment of retail stores. The final amounts and timing of payments are under negotiation but are expected to be resolved before March 31, 2020. Pending finalization of negotiations, the amounts of the provisions reflect management's assumptions about the progress in negotiations, the cost of third party losses, and legal precedents. No reimbursements are expected.

10. Lease liabilities

Low-value leases

Expenses relating to leases of low-value assets (printers and postage equipment) accounted for on a straight-line basis over the lease term were $13,296 for the year ended March 31, 2019 (2018 - $3,657).

Short-term leases

Expenses relating to short-term leases (short-term office accommodation and storage facilities) accounted for on a straight-line basis over the lease term were $1,121,445 for the year ended March 31, 2019 (2018 - $196,329). As at March 31, 2019, commitments for short-term leases are $156,304.

Store leases

During the year ended March 31, 2019, OCRC entered into four leases for store premises. The lease payments were discounted at rates of 2.59% to 2.65%, reflecting OCRC's incremental borrowing rate, which is the applicable rate of the Ontario Financing Authority ("OFA") at the lease commencement date. As a result of the Government announcement on August 13, 2018 to discontinue the establishment of retail stores, all of the store leases were terminated or settled. Refer to Note 14.

(Canadian dollars)

Cash flows from the store leases were as follows:

	Year ended March 31, 2019
Cash changes	
Tenant allowances	**28,900**
Lease payments	**(1,081,727)**
Total cash changes	**(1,052,827)**
Non-cash changes	
Additions to right-of-use assets (Note 7)	**1,588,408**
Interest expense	**22,987**
Termination gain (Note 14)	**(558,568)**
Total non-cash changes	**1,052,827**
Total changes in lease liabilities	**-**

11. Borrowings

On February 14, 2018, OCRC entered into a loan agreement with the OFA and the Minister of Finance. Refer to Note 20. Under the agreement, for the purpose of financing OCRC's set-up and initial operations, OCRC may draw funds from the OFA 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 OFA. 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 lenders. Interest is accrued, compounded and reset monthly on the first business day of the month. The interest rate at March 31, 2019 is 2.275% (2018 - 1.785%).

At March 31, 2019, changes in borrowings are as follows:

	Year ended March 31, 2019	December 12, 2017 to March 31, 2018	Total Loan since inception
Cash inflows - Draws	39,000,000	25,000,000	64,000,000
Non-cash changes - Interest expense	1,032,963	15,894	1,048,857
Total changes in borrowings	40,032,963	25,015,894	65,048,857

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, 2019 approximates their carrying amount as the OFA loan is at market terms.

(Canadian dollars)

12. Revenue

Revenue is comprised of sales of cannabis products and accessories, net of returns, and delivery fees and is recognized at the time the customer receives the product.

E-commerce sales commenced on October 17, 2018. Wholesale sales commenced on March 26, 2019. Revenue for the period from October 17, 2018 to March 31, 2019 is as follows:

Revenue	
E-commerce revenue	**57,285,429**
Wholesale revenue	**6,581,111**
	63,866,540

Credit losses incurred on e-commerce transactions were $87,585 for the year ended March 31, 2019. Refer to Note 17.

13. Cost of sales

Cost of sales includes the cost of inventories sold, determined by the weighted average cost method, as well as other costs incurred by OCRC to fulfill its contractual obligations to customers.

E-commerce cost of sales commenced on October 17, 2018. Wholesale cost of sales commenced on March 26, 2019. Cost of sales for the period from October 17, 2018 to March 31, 2019 is as follows:

Cost of sales	
Inventory expensed	**36,786,046**
Other costs of sales	**7,299,847**
	44,085,893

(Canadian dollars)

14. Selling, general and administrative expenses

Selling, general and administrative expenses include the following:

	Year ended March 31, 2019	December 12, 2017 to March 31, 2018
Shared services (Note 19)	**24,876,323**	6,666,054
Salaries and benefits	**9,274,672**	86,379
Impairment	**8,989,770**	-
Information systems and technology support	**5,246,275**	-
E-commerce transaction processing	**2,998,985**	-
Professional services	**2,408,062**	-
Contract terminations	**1,408,934**	-
Occupancy	**1,177,401**	-
Termination of leases (Notes 7 and 10)	**983,004**	-
Consulting services	**905,757**	-
Contract services	**640,058**	-
Insurance	**581,496**	-
Recruitment services	**570,212**	-
Depreciation and amortization	**174,201**	2,719
Other expenses	**1,008,229**	50,096
	61,243,379	6,805,248

Impairment

The Government announcement on August 13, 2018 to discontinue the establishment of retail stores resulted in certain assets being recognized as impaired. Impairment expense for the year ended March 31, 2019 is comprised of the following:

Store fixtures in progress (Note 6)	**8,694,289**
Computer hardware (Note 6)	**250,445**
Machinery and equipment (Note 6)	**45,036**
	8,989,770

The recoverable amount of store fixtures in progress is estimated at nil, based on its value in use. Negotiations are in progress to settle claims with respect to termination of the contracts to build the store fixtures. Settlement of the contract termination claims may result in future recoveries. Pending settlement of the contract terminations, there is no basis to reliably estimate the amount, if any, of the fair value less costs to sell the store fixtures.

The recoverable amount of computer hardware and machinery and equipment was estimated at nil, based on its value in use. Due to the rapid obsolescence of the equipment and the anticipated timing to sell the equipment, it is estimated that the fair value less costs to sell the equipment is not significant.

(Canadian dollars)

15. Finance income and finance costs

Finance income and costs include the following:

	Year ended March 31, 2019	December 12, 2017 to March 31, 2018
Interest income on bank balances	**496,075**	14,238
Lease liabilities interest expense	**(22,987)**	-
OFA loan interest expense (Note 11)	**(1,032,963)**	(15,894)
	(559,875)	(1,656)

16. 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.

OCRC's contributions to the plan are accounted for on a defined contribution basis with OCRC's contribution charged to the Statement of Loss and Comprehensive Loss in the period the contribution becomes payable. During the year, OCRC made pension contributions to the plan that amounted to $515,711 (2018 - $4,607). These amounts are included in salaries and benefits expenses and reported in selling, general and administrative expenses in the Statement of Loss and Comprehensive Loss.

(ii) Other long-term employee benefit plans

Other long-term employee benefits provided by OCRC include self-insured workers' compensation benefits and long-term income protection benefits.

No amount has been recognized for workers' compensation benefits as OCRC has not incurred any workers' compensation claims.

(iii)

As at March 31, 2019, the liability for long-term income protection benefits recognized amounted to $85,500 (2018 - nil), which is included in the Statement of Loss and Comprehensive Loss.

17. 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 are a fundamental part of OCRC's long-term strategy covering areas such as credit risk, liquidity risk and interest rate 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 is exposed to credit risk through its cash accounts and trade receivables. OCRC minimizes credit risk on its cash accounts by restricting its banking and cash management to arrangements with Schedule A banks. With respect to trade receivables, OCRC requires both e-commerce and wholesale customers to pay for purchases prior to shipment. In addition, OCRC employs various fraud detection tools to identify high-risk e-commerce transactions. These practices enable OCRC to minimize credit risk. There are no trade receivables from customers as at March 31, 2019. Consequently, OCRC estimates lifetime expected credit losses as at March 31, 2019 to be nil. Incurred credit losses are due to fraudulent e-commerce customer transactions that occur subsequent to shipment of product. Refer to Notes 4 and 12.

(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 developed policies and practices to maximize working capital. Until 2020, OCRC's liquidity risk is mitigated through financing arrangements with the OFA. During this period up to $150 million is available to OCRC for its set-up costs and initial operations. Refer to Note 11.

(c) Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with an instrument 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 OFA. The OFA Loan interest rate is variable, based on the one-month Province of Ontario treasury bill rate plus OFA service charges.

(Canadian dollars)

A sensitivity analysis of OCRC's exposure to interest rate risk for the year ended March 31, 2019 is as follows:

Interest rate risk exposure	**Increase/ (decrease) in net income**	
	0.5% increase in interest rates	**0.5% decrease in interest rates**
Cash in bank	117,486	(117,486)
Borrowings	(242,880)	242,880

18. Capital management

OCRC is a corporation without share capital. Its capital structure consists of 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 OFA. 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's management is responsible for overseeing its capital structure and mitigating financial risk in response to changing economic conditions.

19. Related parties

The related parties of OCRC consist of the Province and its government departments, agencies, ministries, Crown Corporations, and key management personnel of OCRC, close family members of these individuals, or entities controlled or jointly controlled by these individuals.

The following transactions were carried out with related parties and recorded at the exchange amount.

(Canadian dollars)

(a) Ontario Financing Authority

On February 14, 2018, OCRC entered into a loan with the OFA and the Minister of Finance to finance OCRC's set-up costs, including the shared services provided by LCBO. The amount of the loan at March 31, 2019 is $65,048,857 (2018 - $25,015,894) including accrued interest of $1,048,857.

(b) Liquor Control Board of Ontario ("LCBO")

In support of OCRC's establishment and initial operations, LCBO provided shared services, goods and other property to OCRC that were recoverable by LCBO on a cost basis.

Costs invoiced to OCRC by LCBO were as follows:

	For the year ended March 31, 2019	December 12, 2017 to March 31, 2018[1]
Shared services:		
Shared administrative services	**23,940,802**	6,657,784
Property, plant and equipment	**3,170,448**	1,591,380
Prepaid software licences and support	**97,241**	1,108,928
Other prepaid items	**-**	361,645
Reimbursement of OCRC own expenses	**609,645**	43,165
	27,818,136	9,762,902

[1] Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

For the year ended March 31, 2019, $3,447,503 (2018 - $10,150,468) is included in trade and other payables for transactions with LCBO.

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. For the year ended March 31, 2019, OCRC reimbursed LCBO for lease expenses related to OCRC's use of the warehouse in the amount of $364,177. At March 31, 2019, OCRC's commitment to LCBO related to the warehouse lease is $1,157,781 (2018 - $1,521,958). Refer to Note 22 (d).

(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 Executive 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 for the year ended March 31, 2019 was $316,511 (2018 - $11,560), comprised of salaries and benefits, directors' per diem fees, and other short-term employee benefits.

(Canadian dollars)

20. Commitments for expenditure

As at March 31, 2019, OCRC's commitments include the lease arrangements disclosed in Notes 10 and 19. OCRC's commitments for lease arrangements executed subsequent to March 31, 2019 include the lease arrangements disclosed in Note 22 (b). In addition, commencing July 1, 2020, semi-annual loan repayments to the OFA are required. The amount of the commitments for loan repayments will be determined on January 1, 2020 reflecting the loan balance and the applicable interest rate at that time. Refer to Note 11.

21. Contingent liabilities

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

22. Subsequent events

(a) Funds draw-down from OFA

Additional borrowings of $15 million were drawn from the OFA subsequent to March 31, 2019 (April 1, 2019 - $10 million; June 2, 2019 - $5 million), reducing the remaining principal available for further drawdown to $71 million.

(b) Head office relocation and lease

Subsequent to March 31, 2019, OCRC relocated its head office to 4100 Yonge Street, Suite 200, Toronto, Ontario Canada, M2P 2B5.

OCRC executed a lease for the office on April 1, 2019. The lease is for a five-year term with two five-year renewal options. During the first five-year term, commitments under the lease for rent, taxes, operating costs and utilities, net of lease inducements, are as follows:

2020	1,392,279
2021	1,744,520
2022	1,744,520
2023	1,818,676
2024	1,818,676
	8,518,671

(c) Inventory chargebacks

On July 8, 2019, Health Canada issued a compliance report to one of OCRC's licensed producers ("LP") indicating that they were non-compliant with federal laws relating to the production of cannabis. In response, OCRC placed a hold on the distribution and sale of $3.2 million (excluding HST) of inventory on hand from this LP. On August 16, 2019, the OCRC informed this LP that it was exercising its right, pursuant to its supply agreement, to return the inventory to the LP, and the OCRC further intends to exercise any additional contractual rights it has in order to recover any additional costs associated with the above noted return.

LP inventory chargebacks are fully set-off against any amount payable to the LP, mitigating any financial exposure to OCRC.

(d) Assignment of contract

Effective July 1, 2019, OCRC executed agreements for the assignment and assumption of certain warehouse agreements from LCBO. Refer to Note 19 (b).