Ontario Cannabis Retail Corporation

Financial Statements and Notes to the Financial Statements

March 31, 2020

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. 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:

Cal Bricker
President and Chief Executive Officer

Zeela Merchant
Chief Financial Officer

June 24, 2020

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, 2020, and the statements of income (loss) and comprehensive income (loss), changes in equity (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, 2020, 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 related 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.

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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	Bonnie Lysyk, MBA, FCPA, FCA, LPA
June 24, 2020	Auditor General

ONTARIO CANNABIS RETAIL CORPORATION
Statement of Financial Position

(Canadian dollars)

	Note	**March 31, 2020**	March 31, 2019
Assets			
Current Assets			
Cash	*3*	**82,597,338**	18,803,382
Trade and other receivables	*4*	**2,176,827**	5,045,954
Inventories	*5*	**37,651,903**	46,476,584
Prepaid expenses		**440,667**	805,630
		122,866,735	71,131,550
Non-current Assets			
Prepaid services		**133,546**	221,747
Property, plant and equipment and intangible assets	*6*	**2,691,755**	803,357
Right-of-use asset	*7*	**13,421,506**	35,902
		16,246,807	1,061,006
Total assets		**139,113,542**	72,192,556
Total Liabilities and Equity (Deficit)			
Current Liabilities			
Trade and other payables	*8*	**71,447,742**	53,976,268
Provisions	*9*	**2,009,877**	1,996,942
Leases	*7*	**1,460,753**	-
Borrowings	*10*	**9,386,099**	-
		84,304,471	55,973,210
Non-Current Liabilities			
Leases	*7*	**12,416,624**	-
Borrowings	*10*	**72,578,209**	65,048,857
		84,994,833	65,048,857
Total Liabilities		**169,299,304**	121,022,067
Equity (Deficit)			
Accumulated deficit		**(30,185,762)**	(48,829,511)
Total Liabilities and Equity (Deficit)		**139,113,542**	72,192,556

See accompanying notes to the financial statements.

Approved by:

CR Copeland

Clare Copeland, Acting Chair, Board of Directors

Hanoz Kapadia, Board Member, Chair of Finance and Governance Committee

ONTARIO CANNABIS RETAIL CORPORATION
Statement of Income(Loss) and Comprehensive Income(Loss)

(Canadian dollars)

	Note	**For the year ended March 31, 2020**	For the year ended March 31, 2019
Revenue	*11*	**299,026,852**	63,949,040
Cost of sales	*12*	**(225,778,099)**	(44,085,893)
Gross margin		**73,248,753**	19,863,147
Other income	*14*	**1,533,560**	-
Selling, general and administrative expenses	*13*	**(54,591,637)**	(61,325,879)
Income from operations		**20,190,676**	(41,462,732)
Finance income	*15*	**730,250**	496,075
Finance costs	*15*	**(2,277,177)**	(1,055,950)
Total comprehensive income(loss)		**18,643,749**	(42,022,607)

See accompanying notes to the financial statements.

ONTARIO CANNABIS RETAIL CORPORATION
Statement of Changes in Equity (Deficit)

(Canadian dollars)

	For the year ended March 31, 2020	For the year ended March 31, 2019
Accumulated deficit at beginning of year	**(48,829,511)**	(6,806,904)
Total comprehensive income(loss) for the year	**18,643,749**	(42,022,607)
Accumulated deficit at end of year	**(30,185,762)**	(48,829,511)

See accompanying notes to the financial statements.

ONTARIO CANNABIS RETAIL CORPORATION

Statement of Cash Flows

(Canadian dollars)

	Note	**For the year ended March 31, 2020**	For the year ended March 31, 2019
Operating activities:			
Total comprehensive income(loss)		**18,643,749**	(42,022,607)
Less:			
Depreciation	*6, 7*	**1,968,648**	174,201
Impairment	*13*	**-**	8,989,770
Termination of leases	*13*	**-**	983,004
Interest on borrowings	*15*	**1,915,452**	1,055,950
Interest expenses on leases	*15*	**361,725**	-
Interest paid on leases		**(283,648)**	-
(Gain)loss on disposal of assets		**(50,457)**	90,696
		22,555,469	(30,728,986)
Changes in non-cash balances related to operations:			
Trade and other receivables	*4*	**2,869,127**	(3,875,952)
Inventories	*5*	**8,824,681**	(46,476,584)
Prepaid expenses		**453,164**	448,268
Trade and other payables	*8*	**17,471,474**	42,247,970
Provisions	*9*	**12,935**	1,996,942
Net cash generated (used in) from operating activities		**52,186,850**	(36,388,342)
Investing activities:			
Purchase of property, plant and equipment and intangible assets	*6*	**(2,558,045)**	(7,696,376)
Right-of-use-asset	*7*	**-**	(35,902)
Proceeds from sale of assets		**267,808**	23,710
Net cash used in investing activities		**(2,290,237)**	(7,708,568)
Financing activities:			
Proceeds from borrowings	*10*	**15,000,000**	39,000,000
Tenant allowances	*7*	**-**	28,900
Lease payments	*7*	**(1,102,657)**	(1,081,727)
Net cash generated from financing activities		**13,897,343**	37,947,173
Net increase(decrease) in cash		**63,793,956**	(6,149,737)
Cash, beginning of year		**18,803,382**	24,953,119
Cash, end of year		**82,597,338**	18,803,382

See accompanying notes to the financial statements.

Index to Notes to Financial Statements

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.

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 4100 Yonge Street, 2nd Floor, Toronto, Ontario, Canada, M2P 2B5.

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 24, 2020.

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.

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 IFRS standards that are not yet effective that would be expected to have a material impact on OCRC.

2.5 Revenue

Revenue from sale of wholesale and eCommerce goods is measured at the fair value of consideration received from the sale of goods in the ordinary course of OCRC's activities less any applicable taxes, actual and expected returns. Revenue from wholesale and eCommerce is recognized when the customer receives the product or upon estimated receipt by the customer.

Revenue from the data subscription program is measured at the fair value of consideration received from participants in the program, less any applicable taxes. Revenue from the data subscription program is recognized at the time the annual fee is charged.

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 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 Other income

Other income comprises income from trade day which is recognized when the event is held, and the income can be measured reliably.

2.9 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost. The carrying amount of trade and other receivables is reduced through the use of an allowance for lifetime expected credit losses.

Trade receivables related to customers are not currently applicable to OCRC, as payment is received from customers prior to shipment of goods. Other receivables are made up of chargeback receivables from vendors, sundry receivables, HST receivable and interest receivable on cash balances.

The carrying amount of chargeback receivables is reduced through the use of an allowance where there is objective evidence that OCRC will not be able to collect amounts due from a vendor chargeback. OCRC establishes an allowance on vendor receivables taking into consideration, current economic trends, past experience and forecasts of future economic conditions. When receivables are deemed uncollectible it is written off against the allowance. The loss is recognized as selling, general, and administrative expenses in the Statement of Income(Loss) and Comprehensive Income(Loss).

2.10 Inventories

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. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable.

2.11 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 Income(Loss) and Comprehensive Income(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 commence 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 it is disposed, or if there are no future economic benefits expected. 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:

Computer hardware	4 years
Furniture and fixtures	10 years
Leasehold improvements	Initial building lease term + 1 renewal term
Motor Vehicles	4 to 10 years

2.12 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.

2.13 Impairment of property, plant and equipment and intangible assets

After recognition of an asset, an item of property, plant, equipment and intangible asset shall be carried at its cost less any accumulated depreciation and accumulated impairment losses. An asset is impaired when its carrying amount exceeds its recoverable amount. To determine whether an item of property, plant, equipment and intangible assets is impaired, OCRC considers whether:

- The asset value has declined significantly;
- significant changes with adverse effects on OCRC have taken place, impacting the use of the assets;
- the carrying value of a net asset is significantly higher than its market value;
- evidence is available of obsolescence or physical damage, having a significant impact on OCRC's financial position.

If any such indications exist, the recoverable amount of the asset or cash-generating unit (CGU) which is the higher of its fair value less cost of disposal and its value in use, must be determined. A CGU is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets. If the recoverable amount of an asset of CGU is estimated to be less than its carrying amount, the amount of the asset or CGU is reduced to its recoverable amount.

Any impairment loss is recognized as an expense in the period in which it occurs.

2.14 Leases

With the exception of 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, which is the applicable rate of the Ontario Financing Authority at the lease commencement date. 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.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and to instead account for any lease and associated non-lease components as a single arrangement. OCRC has not used this practical expedient, as a result the OCRC accounts for each lease component and any associated non-lease component as a separate lease component. Non-lease components such as property taxes, management fees and utilities have been expensed as incurred throughout the year.

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.

2.15 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 chargebacks are offset against liabilities when OCRC has a legally enforceable right to offset the receivable amount and intends to settle on a net basis.

2.16 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.

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 Employee Benefits

Pension benefits costs

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

OCRC’s contributions to both plans are accounted for on a defined contribution basis with OCRC’s contribution charged to the Statement of income and other comprehensive income in the period the contributions become payable.

Short-term employee benefits
Short-term employee benefits are benefits that are expected to the wholly settled within twelve months of the annual reporting period in which they are earned by employees.

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

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 and measured its financial instruments as follows:

Financial Asset/Liability	Measurement
Cash	Amortized cost
Trade and other receivables	Amortized cost
Trade and other payables	Amortized cost
Borrowings	Amortized cost

Amortized cost

This measurement category applies to financial instruments in which assets are held for collection of contractual cash flows in which the cash flows represent solely payments of principal and interest. Cash, trade and other receivables, trade and other payables and borrowings are measured at 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).

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.

<u>Inventories</u>
Inventories are carried at the lower of cost and net realizable value which required the Corporation to utilize estimates related to fluctuations in shrink, future retail prices, the impact of vendor chargebacks on cost, seasonality and costs necessary to sell the inventory.

<u>Leases</u>
Management exercises judgement in determining the appropriate lease term on a lease by lease basis. Management considers all facts and circumstances that create an economic incentive to exercise a renewal option or to not exercise a termination option including investments in major leaseholds, past business practice and the length of time remaining before the option is exercisable. The periods covered by renewal options are only included in the lease term if management is reasonably certain to renew. Management considers reasonably certain to be a high threshold. Changes in the economic environment or changes in the cannabis industry my impact management's assessment of lease term, and any changes in management's estimate of lease terms may have a material impact on the OCRC Statement of Financial Position and Statement of Income(Loss) and Comprehensive Income(Loss).

In determining the carrying amount of right-of-use assets and lease liabilities, OCRC is required to estimate the incremental borrowing rate specific to each leased asset if the interest rate implicit in the lease is not readily determined. Management determines the incremental borrowing rate using the applicable rate of the Ontario Financing Authority ("OFA") at the lease commencement date.

<u>Provisions</u>
Provisions have been made for certain employee benefits, sales returns, contract terminations and deferred revenue. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period where such determination is made.

3. Cash

Cash as at March 31, 2020 includes interest-bearing bank accounts. OCRC did not hold any cash equivalents as at March 31, 2020 (2019 – nil).

(Canadian dollars)

4. Trade and other receivables

Trade and other receivables include the following:

	March 31, 2020	March 31, 2019
Chargeback receivables	**1,516,050**	-
Loss allowance for expected credit losses	**(751,811)**	-
Recoverable input tax credits	**987,386**	5,012,411
Sundry receivables	**342,719**	-
Interest receivable	**82,483**	33,543
	2,176,827	5,045,954

The carrying amount of trade and other receivables approximates its fair value due to its short-term nature. Chargeback receivables is made up of vendor chargeback balances from price protection or returned products. The carrying amount of chargeback receivables 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 Selling, General and Administrative Expenses.

The amount of lifetime expected credit losses on trade and other receivables, specifically chargeback receivables, is $751,811 (2019 – nil).

5. Inventories

The cost of inventories sold and recognized as cost of sales during the year ended March 31, 2020 was $215,430,943 (2019 - $36,623,012). During the year ended March 31, 2020 $2,111,961 (2019 – nil) was written down to net realizable value. No inventory is pledged as security.

(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, 2020:

	Motor Vehicles	Computer hardware	Furniture and fixtures	Computer software	Leasehold Improvements	Store Fixtures in Progress	Total
Cost							
Balance at March 31, 2019	261,585	643,629	3,319	6,429	-	8,694,289	9,609,251
Additions	-	211,209	1,346,625	4,387	995,824	-	2,558,045
Disposals	(261,585)	(71,838)	-	-	-	(8,694,289)	(9,027,712)
Balance at March 31, 2020	**-**	**783,000**	**1,349,944**	**10,816**	**995,824**	**-**	**3,139,584**
Accumulated depreciation and impairment							
Balance at March 31, 2019	41,181	69,403	-	1,021	-	8,694,289	8,805,894
Depreciation	34,543	225,883	119,334	2,743	70,258	-	452,761
Disposals	(75,724)	(40,813)	-	-	-	(8,694,289)	(8,810,826)
Balance at March 31, 2020	**-**	**254,473**	**119,334**	**3,764**	**70,258**	**-**	**447,829**
Carrying amount							
As at March 31, 2019	223,723	574,226	-	5,408	**-**	-	**803,357**
As at March 31, 2020	**-**	**528,527**	**1,230,610**	**7,052**	**925,566**	**-**	**2,691,755**

7. Leases

The following table presents the changes in the lease liability for the year ended March 31, 2020

	Office Premises	Distribution Centre Premises	Total
Balance, as at April 1, 2019	**-**	**-**	**-**
Additions	11,541,127	3,360,829	14,901,956
Finance charges on rent free period	78,078	-	78,078
Principal payments	(381,293)	(721,364)	**(1,102,657)**
Balance, as at March 31, 2020	**11,237,912**	**2,639,465**	**13,877,377**

	March 31, 2020	March 31, 2019
Current portion	**1,460,753**	-
Long-term portion	**12,416,624**	-
	13,877,377	-

Interest expense on these lease obligations for the year ended March 31, 2020 was $361,725. Total cash outflow for the year ended March 31, 2020 was $1,386,305 including interest.

The future undiscounted contractual lease payments are as follows:

(Canadian dollars)

2021	1,806,563
2022	1,480,242
2023	1,535,859
2024	1,554,398
2025	1,013,226
Thereafter	8,917,259
	16,307,547
Less: imputed interests	2,430,170
	13,877,377

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 $563,061 for the year ended March 31, 2020 (2019 - $1,121,445). As at March 31, 2020, commitments for short-term leases are $13,189.

Office leases
During the year ended March 31, 2020, OCRC entered into a lease for office premises. The lease payments were discounted at a rate of 2.7%, reflecting OCRC's incremental borrowing rate, which is the applicable rate of the Ontario Financing Authority ("OFA") at the lease commencement date.

Distribution centre leases
During the year ended March 31, 2020, OCRC entered into a lease and were assigned another lease for distribution centre premises. The lease payments were discounted at a rate of 2.435% and 2.215%, reflecting OCRC's incremental borrowing rate, which is the applicable rate of the Ontario Financing Authority ("OFA") at the lease commencement date.

Variable lease payments
Total variable lease expenses that are not included in the measurement of lease liabilities are $258,851.

(Canadian dollars)

The following table presents the changes in the cost of right-of-use assets for the year ended March 31, 2020:

	Office Premises	Distribution Centre Premises	Total
Cost			
Balance at April 1, 2019	35,902	-	35,902
Additions	11,540,662	3,360,829	14,901,491
Balance at March 31, 2020	**11,576,564**	**3,360,829**	**14,937,393**
Accumulated depreciation			
Balance at April 1, 2019	-	-	-
Depreciation	759,119	756,768	**1,515,887**
Balance at March 31, 2020	**759,119**	**756,768**	**1,515,887**
Carrying amount			
As at March 31, 2019	35,902	-	**35,902**
As at March 31, 2020	**10,817,445**	**2,604,061**	**13,421,506**

8. Trade and other payables

Trade and other payables include the following:

	March 31, 2020	March 31, 2019
Inventory payables and accruals	**77,183,495**	45,046,208
Chargebacks offset against inventory payables	**(14,446,262)**	(919,071)
Other trade payables and accrued expenses	**7,958,572**	5,904,015
Payable to LCBO	**-**	3,447,503
Deferred revenue	**745,340**	340,011
Customer deposits	**6,597**	157,602
	71,447,742	53,976,268

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

(Canadian dollars)

9. Provisions

The following table represents the changes to OCRC's provisions:

	Contract terminations	Short term employee benefits	Other	Total
Balance at April 1, 2019	1,213,009	655,035	128,898	1,996,942
Additional provisions recognised during the year	517,760	1,303,446	89,871	1,911,077
Reversal of provision	(1,158,624)	-	-	(1,158,624)
Utilization of provision	(41,085)	(655,035)	(43,398)	(739,518)
Balance at March 31, 2020	**531,060**	**1,303,446**	**175,371**	**2,009,877**

All provisions are classified as current. The contract terminations provision includes claims where it is probable that the OCRC will have to make a payment to settle the claim. The employee benefits provision includes vacation entitlements earned by employees and other short-term employee benefits expected to be paid in the following year. Other provisions include long term employee benefits (refer to Note 2.18) and a sales returns allowance. The sales returns allowance is estimated based on historical sales return trends.

10. Borrowings

At March 31, 2020, changes in borrowings are as follows:

	March 31, 2020	March 31, 2019
OFA Loan	81,964,308	65,048,857
Less: current portion of borrowings	(9,386,099)	-
Non-current borrowings	**72,578,209**	65,048,857

On February 14, 2018, OCRC entered into a loan agreement with the Ontario Financing Authority (OFA) and the Ministry of Finance, involving two facilities, for the purpose of financing OCRC's set-up and initial operations. Under facility one, OCRC is provided an advance, of which OCRC may draw funds from the OFA to a maximum principal amount of $150,000,000, with an end date of December 31, 2019. The facility one principal amount, plus interest accrued, is to be repaid using the advance from facility two on January 1, 2020.

During fiscal 2019-20, OCRC drew $15,000,000 (prior cumulative advances to March 31, 2018 - $64,000,000), on facility one bringing the total cumulative loan balance to $81,405,414 (March 31, 2019 - $65,048,857) inclusive of interest, as at December 31, 2019. Consistent with the terms of the loan agreement, the cumulative loan balance of facility one was fully repaid with funds advanced from facility two on January 1, 2020. Facility two is a non-revolving 10-year term loan and bears interest at 2.79 per cent per annum, compounded semi-annually, and is repayable in equal semi-annual instalments of $4,693,049 commencing on June 30, 2020. The loan is unsecured and is due January 1, 2030.

The fair value of borrowings at March 31, 2020 approximates their carrying amount as the OFA loan is at market terms.

(Canadian dollars)

11. 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.

	For the year ended 31 March 2020	For the year ended 31 March 2019
E-commerce revenue	**74,460,709**	57,285,429
Wholesale revenue	**224,443,643**	6,581,111
Data subscription program	**122,500**	82,500
	299,026,852	63,949,040

Credit losses incurred on e-commerce transactions were $46,634 for the year ended March 31, 2020 (2019 - $87,585). Refer to Note 17.

12. Cost of sales

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

	For the year ended 31 March 2020	For the year ended 31 March 2019
Cost of goods sold	**215,430,943**	36,786,046
Delivery fees	**9,186,402**	6,434,104
Transaction fees	**1,160,754**	865,743
	225,778,099	44,085,893

(Canadian dollars)

13. Selling, general and administrative expenses

Selling, general and administrative expenses include the following:

	For the year ended 31 March 2020	For the year ended 31 March 2019
Salaries and benefits	**19,453,511**	9,274,672
Warehouse and logistics (Note 19)	**10,035,237**	-
Information systems and technology support	**9,765,910**	5,246,275
Shared services (Note 19)	**6,456,231**	24,876,323
Depreciation	**1,968,648**	174,201
E-commerce transaction processing	**1,645,040**	2,998,985
Contract services	**1,254,778**	640,058
Occupancy	**1,143,295**	1,177,401
Provision for bad debts	**755,111**	-
Professional services	**751,157**	2,408,062
Insurance	**398,538**	581,496
Recruitment services	**37,973**	570,212
Consulting services	**20,300**	905,757
Impairment	**-**	8,989,770
Contract terminations	**213,760**	1,408,934
Termination of leases	**-**	983,004
Other expenses	**692,148**	1,090,729
	54,591,637	61,325,879

14. Other income

Other income includes the following:

	For the year ended 31 March 2020	For the year ended 31 March 2019
Trade day income	**316,140**	-
Reversal of provision for contract terminations	**1,166,963**	-
Gain on disposal of fixed assets	**50,457**	-
	1,533,560	-

15. Finance income and costs

Finance income and costs include the following:

	For the year ended 31 March 2020	For the year ended 31 March 2019
Interest income on bank balances	**730,250**	496,075
Lease liabilities interest expense	**(361,725)**	(22,987)
OFA loan interest expense (Note 11)	**(1,915,452)**	(1,032,963)
	(1,546,927)	(559,875)

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 Income(Loss) and Comprehensive Income(Loss) in the period the contribution becomes payable. During the year, OCRC made pension contributions to the plan that amounted to $1,216,229 (2019 - $515,711). These amounts are included in salaries and benefits expenses and reported in selling, general and administrative expenses in the Statement of Income(Loss) and Comprehensive Income(Loss).

(ii) Other long-term employee benefit plans

Other long-term employee benefits provided by OCRC include long-term income protection benefits.

As at March 31, 2020, the liability for long-term income protection benefits recognized amounted to $90,000 (2019 - $85,500), which is included in the Statement of Income(Loss) and Comprehensive Income(Loss).

17. Financial risk management

OCRC's Treasury Policy regarding financial risk management and internal controls 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 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 related to customers. There are no trade receivables from customers as at March 31, 2020.

OCRC is exposed to credit risk under circumstances where chargebacks are issued from OCRC to vendors, resulting in balances due to OCRC. OCRC mitigates such risk by reviewing the receivables position against future planned inventory purchases for eventual offset against the receivable, where applicable. OCRC also analyses the vendors financial health and assesses their ability to meet their obligations based on information available, as well as actively processing collections activities to assist in mitigating the risk of non-payment resulting from chargebacks to vendors. A risk assessment is completed on a periodic basis, and a provision for bad debts is booked based on the outcome of the risk assessment.

OCRC estimates lifetime expected credit losses, specifically on chargeback receivables, as at March 31, 2020 to be $751,811. 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.

(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 minimal interest rate risk on its cash deposited in bank accounts, minimal interest rate risk related to lease obligations as the rates are determined at commencement date, and minimal risk on its loan liability balance owed to the OFA, as a 10-year amortizing interest rates is applied (refer to note 11). In OCRC's assessment, the impact of changes in interest rates would not have a significant impact on net income.

(Canadian dollars)

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.

(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, 2020 is $81,946,308 (2019 - $65,048,857) including accrued interest of $558,894 under Facility two (refer to note 10).

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

In support of OCRC's establishment and 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, 2020	For the year ended March 31, 2019
Shared services:		
Shared administrative services	**6,526,158**	23,940,802
Property, plant and equipment	**(185,912)**	3,170,448
Prepaid software licenses and support	**-**	97,241
Reimbursement of OCRC own expenses	**5,966**	609,645
	6,346,212	27,818,136

For the year ended March 31, 2020, LCBO is in a receivable position with OCRC, in the amount of $4,263 (2019 - $3,447,503 payable) included in trade and other receivables for transactions with LCBO, due to a net credit for proceeds of disposal of vehicles.

LCBO 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. On July 1, 2019 the Warehousing services agreement with the service provider was assigned from LCBO to OCRC. Prior to that date, all warehousing and logistics expenses were paid by LCBO and included in the shared services expenses. All warehousing and services costs since the contract was assigned have been paid by OCRC.

(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, 2020 was $2,010,083 (2019 - $316,511), comprised of salaries and benefits, directors' per diem fees, and other short-term employee benefits.

20. Contingent liabilities

OCRC is involved in various legal actions arising out of the ordinary course and conduct of business. In view of the inherent difficulty of predicting the outcome on such matters, OCRC cannot state what the eventual outcome on such matters will be. However, based upon legal assessment and information presently available, OCRC does not believe that liabilities, if any, arising from pending litigation will have a material effect on the financial statements. Settlements, if any, concerning these contingent liabilities will be accounted for in the period in which the settlement occurs.

21. Subsequent events

Distribution Centre Lease

OCRC executed a lease for a new distribution center on June 9, 2020. The lease is for a 10-year term. During the lease term minimum rent commitments are $20,158,131.

22. Comparative figures

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