ONTARIO CANNABIS STORE

2020-2021 Annual Report

Letter to the Minister

The Honourable Peter Bethlenfalvy, Minister of Finance

Dear Minister,

In my capacity as chair of the Board of Directors, I am pleased to present this Ontario Cannabis Retail Corporation (OCRC) Annual Report.

The report covers the fiscal period from April 1, 2020, to March 31, 2021.

Connie Dejak
Chair – Board of Directors
Ontario Cannabis Retail Corporation

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Message from the Chair

In the three years since legalization, the Ontario Cannabis Store (OCS) has undertaken a tremendous amount of work to support the success of Ontario's cannabis industry. I am pleased to share this annual report for the fiscal year 2020–21, which highlights not only the significant growth of the industry but also the contributions of the OCS in supporting the legal cannabis market in Ontario. To support this success, the board also made great progress this year in strengthening the governance of the organization. Stronger governance from the board will continue to guide the organization effectively as it continues to mature.

Over the past fiscal year, the OCS, with this support and strategic guidance from the Board of Directors, worked closely with its industry partners to expand access to legal cannabis for Ontario consumers. This was achieved by establishing a new distribution centre to improve wholesale and distribution operations, and by working closely with the Alcohol and Gaming Commission of Ontario (AGCO) to support the launch of 519 new Authorized Cannabis Stores, an increase from 53 in the previous fiscal year. In total, there were 572 cannabis stores in the market as of March 31, 2021.

With legal cannabis sales rising in the three years since legalization, the cannabis market has now surpassed other key industries to become a significant contributor to gross domestic product (GDP) in Canada. Last year, the legal cannabis industry contributed an estimated $116 billion to Canada's GDP, eclipsing several traditional industries, such as mining and manufacturing (*Statistics Canada GDP by Industry Detail, monthly*). The OCS is proud of the positive contribution Ontario's cannabis industry has made to the broader Canadian economy.

Despite the challenges of this past year, including the unprecedented nature of the COVID-19 pandemic, which strained operations for authorized retailers, alongside the considerable pace of authorized cannabis retail expansion, the OCS increased its revenues by $352.7 million to $651.7 million from last fiscal. Further, the OCS generated $70.2 million in net income, a 277% increase from $18.6 million the year prior. In 2020–21, Ontario also received $106 million from the federal government as its share of the cannabis excise duty, compared to $48 million in the previous fiscal year. The OCS is proud of its financial contributions that support important public services, particularly throughout the COVID-19 pandemic, at a time when front-line services have been essential to the economic and social health of our province.

On behalf of the Board of Directors, I want to thank the Senior Leadership Team and all the employees at the OCS who worked so hard over the past year to continue moving the legal cannabis market forward in Ontario despite the setbacks of the pandemic.

As Ontario transitions to a post-pandemic phase in the year ahead, the board and I look forward to furthering the OCS's contribution to the province's economic recovery.

Connie Dejak
Chair – Board of Directors
Ontario Cannabis Retail Corporation

Message from the President and CEO

After a year filled with challenges and uncertainty for people around the globe and here in Ontario, I am proud to issue the Ontario Cannabis Store's 2020–21 Annual Report. This report details our accomplishments during the fiscal year and assesses our progress toward the goals set out in our 2020–23 Business Plan.

Overall, the OCS contributed positively to Ontario's economy during a difficult year for the province. Despite the impacts of COVID-19, which created a number of challenges for the retail sector, almost 600 new cannabis stores opened their doors to consumers. With this substantial growth in the retailer network, more consumers were able to access legal cannabis, resulting in a notable boost to retail sales, which reached $651.7 million for the year. This translated into revenue growth for the OCS and generated $70.2 million in net profit.

In addition to achieving key financial goals in the fiscal year, the OCS pursued unique initiatives aimed at growing the diversity of the legal cannabis market. This included broader relationship building with our First Nations partners, resulting in the successful opening of six First Nations retailers authorized by the AGCO. Additionally, the OCS prepared for the launch of farmgate stores, which will generate direct economic opportunities for Licensed Producers and indirect benefits for Ontario's tourism and hospitality sectors.

A key priority at the OCS is our goal of converting consumers from the illegal market. To achieve this, we have been focused on increasing access to the legal retail store network and providing consumers with the products they want. Over the year, the OCS worked closely with Licensed Producers to add 920 new items to our product listing, ending the year with 1,386 unique products on OCS.ca. More product means more choice for Ontario's cannabis consumers, enabling the legal cannabis industry to compete more effectively with the illegal market.

I want to congratulate the OCS for the tremendous work that was accomplished in 2020–21. Without the collaboration and commitment from our dedicated and talented employees and stakeholder partners, the OCS would not have seen the successes of the past fiscal year. I also want to thank the OCRC Board of Directors and the Senior Leadership Team for their continued dedication to the growth and success of the organization. I look forward to working alongside the board and all OCS employees to continue our journey to grow Canada's largest and most vibrant legal cannabis industry.

David Lobo
Interim President and CEO
Ontario Cannabis Store

Performance Highlights

A Look Back at 2020-21

Despite a challenging year, the OCS saw success in meeting its goals for the fiscal year 2020–21. Guiding OCS operations throughout the year was its 2020–23 Business Plan. As part of the Business Plan, a series of metrics were established to help track the organization's performance.

These included:

- Converting customers from the illegal market
- Driving service excellence
- Building a modern, inclusive and engaged workforce

Converting Customers from the Illegal Market

A core component of the OCS's mandate from the provincial government is to capture sales from the illegal market, with the key results set out below.

44.1%

Legal market capture

29%

Market share of Canadian recreational cannabis

$518.6 MILLION

Wholesale revenue

$132.9 MILLION

OCS.ca revenue

$6.17

Average price per gram for dried flower on OCS.ca

572

Authorized Cannabis Stores

122

Communities

Performance Highlights: A Look Back at 2020-21

Driving Service Excellence

The OCS is committed to ensuring customers are receiving high-quality products and a positive customer experience, with the key results set out below.

78%

Of adults in Ontario covered by the OCS's three-day express delivery

102

Vendor product quality assurance audits performed by the OCS Quality Assurance team

10,844

Wholesale orders

920

New SKUs

1,386

Total SKUs

Building a Modern, Inclusive, and Engaged Workforce

A strong corporate culture that is inclusive and supports meaningful engagement is core to the OCS's overall success, with the key results set out below.

- Launched the OCS's first social responsibility strategy
- Hosted awareness sessions to educate staff on racism and its impacts
- Expanded recruitment outreach and partnerships in under-represented communities
- Supported employee mental health and well-being
- Held events and developed learning content in celebration of culturally significant days
- Began the development of the OCS diversity, equity and inclusion strategy

About the Ontario Cannabis Store

Provincial Mandate

The Ontario Cannabis Retail Corporation (OCRC), operating as the Ontario Cannabis Store (OCS), is the government's exclusive wholesaler and online retailer of recreational cannabis in Ontario. The OCS is established as a government agency through the *Ontario Cannabis Retail Corporation Act, 2017* (the Act). As articulated in the Act, the OCS is to buy, possess and sell cannabis and related products, as well as promote social responsibility in connection with cannabis.

The OCS is committed to supporting the Government of Ontario's objectives for the sale of recreational cannabis: to enable a retail system that will keep cannabis out of the hands of children and youth, protect communities and combat the illegal market. The OCS supports these provincial objectives by:

- Sourcing and distributing highly regulated cannabis to Authorized Cannabis Stores
- Providing safe and reliable access to legal cannabis through OCS.ca
- Providing consumers with information on safe and responsible consumption
- Promoting social responsibility to facilitate a responsible approach to cannabis retail

In fulfilling its mandate, the OCS reports to the Minister of Finance and aims to operate efficiently and with transparency. Through fiscal year 2020–21, the OCS was committed to fulfilling the expectations as set out in its 2020–21 mandate letter from the Minister of Finance while delivering on its legislated objectives.

Agency Accountability

As a Crown agency of the Ontario government, the Ontario Cannabis Store is subject to requirements set out in the Agencies and Appointments Directive. The OCS has made substantial efforts to meet and exceed these accountability requirements. All documents are fully accessible on OCS.ca.

OCS accountability publications include:

- Annual reports
- Business plans
- Financial statements
- Memorandum of understanding
- Travel, meal and hospitality expense reporting for executives

The OCS also publishes *A Quarterly Review* to provide a summary of findings across the industry and make market data available and accessible to the public. Providing open access to data helps producers, retailers and consumers make informed decisions and establishes an open marketplace of ideas that is integral to educating consumers and combatting the illegal market. Transparency will remain a key priority for the OCS over the coming years.

Get to Know the OCS

Day-to-day operations of the OCS are overseen by the agency's president and CEO, who reports to the OCRC's Board of Directors. The president and CEO appoints a Senior Leadership Team (SLT) of executives to assist in the management of all business areas. To guide OCS activities in the coming years, the organization developed a vision, mission and set of values that define who the OCS is and what the organization is seeking to achieve alongside its mandated objectives.

OCS Vision

To grow Canada's largest and most vibrant cannabis marketplace.

OCS Mission

Continually creating great customer experiences through quality, selection and service.

OCS Values

- **Integrity**: We stand by our word, upholding the highest standards in our thoughts and deeds.
- **Customer-Centricity**: We foster relationships that make a positive difference in our customers' lives.
- **Collaboration**: We communicate openly and challenge ideas constructively while ensuring everyone feels heard and valued.
- **Responsibility**: We support socially responsible consumption and focus on fiscal responsibility with taxpayers' money.
- **Adaptability**: We exhibit resiliency and the will-to-win through legal, safe and fair practices.
- **Inclusion**: We are better together through the inclusion of diverse people and perspectives that reflect the province we serve.

OCS Organizational Chart

The organizational chart below outlines each department and the functional teams within those departments as of March 31, 2021. These departments are responsible for delivering on the organization's mandated, legislated and business objectives.

Ontario Minister of Finance

Ontario Cannabis Retail Corporation – Board of Directors

President & CEO

Vice President, Merchandising
- Merchandising
- eCommerce & Digital Experience
- Marketing & Insights

Chief Operating Officer
- Supply Chain
- Supply Chain Services
- Procurement
- Quality Assurance & Regulatory Affairs

Chief Legal & Administrative Officer
- Legal Services
- Internal Audit
- Privacy & Freedom of Information
- Corporate Security

Vice President, Wholesale & Store Partnerships
- Omni-Channel Customer Support
- Wholesale

Chief Information Officer
- Application Delivery
- Operations

Chief Financial Officer
- Finance
- Financial Planning & Analysis

Senior Director, Human Resources
- Human Resources

Vice President, Education, Strategic Engagement & Community Outreach
- Education, Learning & Development
- Strategic Engagement

Vice President, Corporate Affairs & Social Responsibility
- Corporate Affairs, Policy & Business Support
- Communications & Social Responsibility

OCRC Board of Directors Remuneration[1]

Board Member	Position	Term	Remuneration
Connie Dejak	Chair	12/03/20 – 12/02/22	$6,975.00
Clare Copeland	Vice-Chair	12/12/19 – 12/11/22	$10,300.00
Hanoz Kapadia	Member	05/02/19 – 05/01/21	$4,750.00
Michael Smoskowitz	Member	11/21/18 – 11/20/21	$6,200.00
Rajesh Uttamchandani	Member	06/18/20 – 06/17/22	$6,600.00
Donna Duncan	Member	11/13/19 – 11/12/22	$4,200.00
Kam Va Philip Leong	Member	08/27/20 – 08/26/23	$1,100.00
Total			**$40,125.00**

[1] Board remuneration amounts include payments made during the 2020-21 year, including some costs that were incurred in 2019-20.

Legal Recreational Cannabis in Ontario

Operating Environment

Fiscal 2020–21 was a unique year for Ontario's cannabis industry in that it brought the challenges of an unprecedented global pandemic combined with a rapidly evolving and expanding legal marketplace. The sections below detail the actions the OCS took to respond to the changing landscape over the past year.

Impacts of the COVID-19 Pandemic

Years from now, when people reflect on the year 2020, it will inevitably be viewed through the lens of the COVID-19 pandemic. In support of public health safety measures to protect Ontarians, the cannabis sector did its part to comply with lockdowns and stay-at-home orders.

As a result of retail store closures, a significant portion of cannabis sales shifted to OCS.ca in April 2020. Before the pandemic began, OCS.ca saw between 13,000 and 15,000 orders per week. In the second week of April 2020, this number more than tripled to 51,000 orders per week. To meet the evolving needs of consumers, the OCS worked quickly to adjust business operations. This included:

- Enhancing OCS.ca delivery options to increase access to express delivery
- Expanding operations in the OCS distribution centre to meet surging demand for retail orders placed through OCS.ca
- Supporting retailers in navigating government announcements and evolving public health measures
- Working with government to support temporary retail store delivery and curbside pickup measures while in-store shopping was restricted
- Adjusting operations to support Licensed Producers whose production timing was impacted due to public health measures.

The OCS and authorized retailers worked together to foster a safe environment for staff and consumers during the pandemic by following public health measures and implementing best practices. This protected staff and consumers alike while also maintaining access to safe, legal cannabis across the province.

The Evolving Cannabis Industry

Over the past year, consumers demonstrated a desire for new and innovative products.

The 2020–21 fiscal year was the first full year of sales for Cannabis 2.0 products, including edibles, beverages, vapes, concentrates and topicals. These new product categories were met with great interest from consumers who were eager to explore new ways of consuming cannabis. Leveraging market data and insights, the OCS made efforts to match product offerings with consumer demand and expand product offerings to include a wide variety of Cannabis 2.0 products for consumers to try.

The results are clear. The emergence of these new product categories shifted purchasing behaviour and began to erode the traditional dominance of dried flower. While dried flower remained the top-selling category, accounting for 59% of total product sales, it dropped significantly from 79% in the previous fiscal year. Vape products accounted for 16% of total sales, Cannabis 2.0 categories accounted for roughly 15% of total sales and pre-rolls made up the remainder.

Growth of the Retail Network

In 2020–21 there were major changes in Ontario's cannabis retail landscape, with 572 Authorized Cannabis Stores open by March 31, 2021, up from 53 the year before. This rapid growth followed a shift in Ontario's approach to authorizing cannabis stores and resulted in more stores opening in more communities across the province.

To support current and future growth, the OCS invested in a new distribution centre, intended to drive cost efficiencies and improve service to retailers and OCS.ca consumers in the years ahead. The OCS also invested in technology that enabled retailers to place their orders on an integrated business-to-business platform, simplifying the ordering process and ensuring retailers had more time to spend with their customers.

While the rapid expansion of stores made recreational cannabis more widely available to consumers and supported the overall growth of the industry, this expansion did not come without its challenges. Retailers were forced to navigate many obstacles over the past year, including lockdowns, limited numbers of consumers permitted in stores, evolving public health measures, construction shortages and an anxious labour force — all while trying to keep ahead of rapidly evolving consumer behaviour. The OCS Store Partnerships team worked tirelessly to provide retailers with the tools and support they needed as they navigated these challenges.

Strategic Direction

Key Activities and Operational Performance

Each fiscal year, the OCS is provided with a mandate letter from the Minister of Finance that outlines key activities for the agency to deliver against. For 2020–21, the OCS was directed to fulfill its wholesale obligations, provide safe and reliable access to legal cannabis through OCS.ca, provide consumers with information on responsible consumption and implement a social responsibility framework. The plans for delivering on these initiatives were set out in the 2020–23 OCS Business Plan.

Corporate Priorities

Objective 1: Converting Customers from the Illegal Market

Support the Open Allocation of Retail Authorizations

Addition of New Product Formats

Objective 2: Driving Service Excellence

Enhanced Customer Experience

Click and Collect

Objective 3: Building a Modern, Inclusive and Engaged Workforce

Employee Engagement

Diversity and Inclusion

Objective 1: Converting Customers from the Illegal Market

Converting customers from the illegal market is a key priority for the Government of Ontario and the OCS. To achieve this objective, the OCS supported the AGCO in expanding access to Authorized Cannabis Stores and working with federally regulated Licensed Producers to continually refine and improve its product assortment.

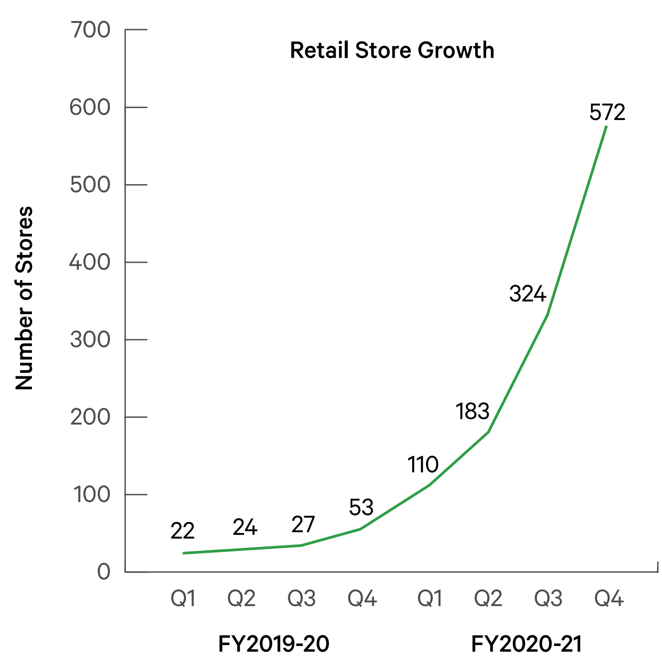
To successfully convert customers from the illegal market, the OCS pursued initiatives that would bring more consumers into the legal market. By the end of 2020–21, the OCS estimates the legal market share in Ontario reached 44.1%, a significant jump from the 25% market share held at the end of 2019–20.

Focus Area/ Outcome	Description and Supporting Initiatives	Key Performance Indicator	Progress
Support the Open Allocation of Retail Authorizations	Support the activities associated with an increase in Authorized Cannabis Stores across the province. This includes alignment between the OCS and AGCO processes and timelines, as well as scaling up OCS business operations to meet demand.	Significantly grow the number of wholesale retail partners that the OCS onboards.	The OCS onboarded 572 stores by the end of the fiscal year, compared to 53 in 2019–20.
Addition of New Product Formats	Support the addition of new cannabis products, including edibles, beverages, vapes, concentrates and topicals, in a socially responsible manner while addressing legal demand.	Increase the number of products the OCS sells through OCS.ca and to cannabis stores — particularly in the edibles, beverages, vapes, concentrates and topicals categories.	The OCS added a total of 920 new unique products to its product list during this fiscal year, 304 of which belonged to new product categories, for a total of 1,386 unique products by the end of the fiscal year.

Opening Stores

This year, the OCS worked alongside the AGCO as they enabled the industry's open allocation model of retail licensing, resulting in the dramatic growth of Ontario's cannabis retail network.

The open allocation licensing system was designed to increase the number of retail stores rapidly and responsibly across the province by increasing the number of applications the AGCO's Licensing Registrar processed. Over the past fiscal year, the OCS ramped up operations to support an increased licensing pace. At the start of the year, the AGCO was approving five licences per week. By the end of the fourth quarter of 2020–21, the AGCO was approving 30 licences per week, growing Ontario's retail network from 53 to 572 stores. The OCS also worked with interested First Nations partners and the AGCO to establish retail operations in First Nations communities, resulting in six First Nations Authorized Cannabis Stores on-reserve opening in 2020–21, compared to one the previous year.



Strategic Direction: Key Activities and Operational Performance

Total Number of Stores by Region	East	GTA	North	Toronto	West
2019-20	12	9	6	12	14
2020-21	123	51	31	179	188

The drastic increase in the number of stores made cannabis significantly more accessible for consumers, with the average distance to stores dropping from 22 kilometres in 2019–20 to 6.5 kilometres in 2020–21.

In 2020–21, the OCS also worked to prepare for the launch of farmgate stores, which allow Licensed Producers to sell cannabis directly from their production facilities. Over the course of the year, the OCS developed an operating framework to support sales to farmgate stores and helped producers who were interested in opening these stores to navigate this process. At the time of preparing this report (fall 2021), three farmgate stores were open in Ontario.

New Product Formats and Innovation

This fiscal was the first full year of sales of Cannabis 2.0 products (edibles, beverages, vapes, concentrates and topicals). This increased product variety pushed Ontario's legal market forward in its ability to compete with illegal market offerings and shifted consumer purchases to these new products.

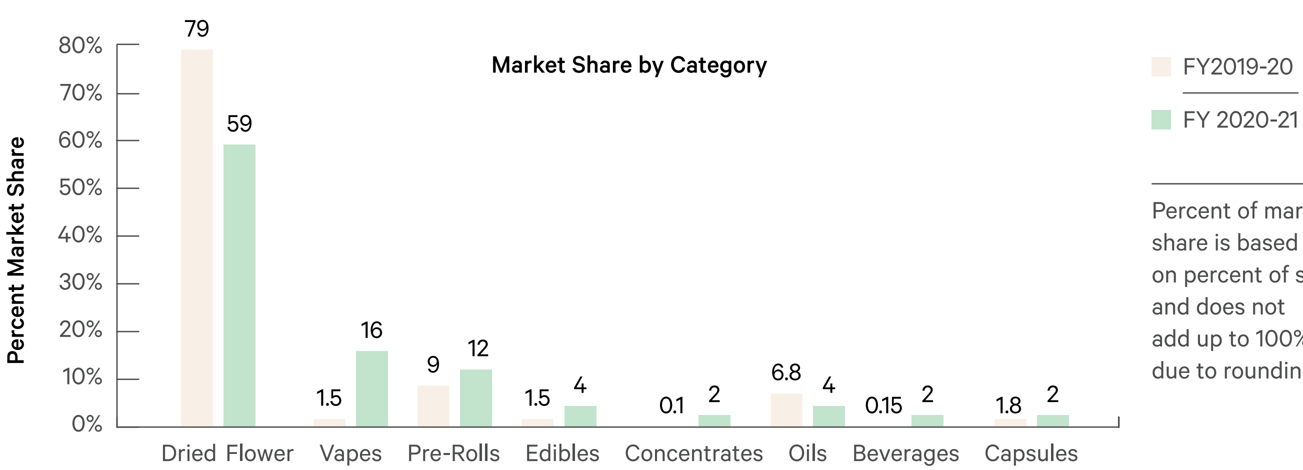
This increase in innovation and product formats was reflected in the number of unique products found on OCS.ca. At the end of the year, the OCS had 1,386 unique items available for sale on OCS.ca. The OCS leveraged its knowledge of consumer preferences to add a total of 920 new unique products while also rationalizing existing product offerings to be more tailored to consumer demand. The chart below depicts a notable shift in consumer purchasing behaviour following the first full year of sales of Cannabis 2.0 products.

Working Together in Support of Shared Objectives

In 2020–21, the OCS led several engagement and educational opportunities to help connect industry partners. This included the launch of Budtender Sessions, a weekly education initiative led by Licensed Producers and open to all budtenders (retail store staff) in Ontario. These sessions enable budtenders to gain insights and knowledge about new product offerings to pass along to consumers, while also providing a meaningful platform for producers to communicate information about their products.

The OCS also delivered a Trade Day event, which brought together Ontario's legal cannabis industry to celebrate accomplishments, share knowledge and prepare for the year ahead. Despite the challenges brought on by the pandemic, the OCS delivered a successful fully virtual event with over 500 attendees and plans to continue hosting this collaborative event in the future.

Sharing knowledge and working collaboratively with our industry partners is key to sustainably combatting the illegal market in Ontario.



Percent of market share is based on percent of sales and does not add up to 100% due to rounding

Objective 2: Driving Service Excellence

For the OCS, driving service excellence means delivering value for OCS.ca consumers as well as Licensed Producer and retail partners. In the past year, the OCS focused on delivering value by providing more timely and convenient access to cannabis products.

Further, the OCS established a new Store Partnerships team to provide an additional touchpoint for retailers, guiding them through the onboarding process, providing education on OCS wholesale policies and providing relevant data and insights on their operations.

Focus Area/ Outcome	Description and Supporting Initiatives	Key Performance Indicator	Progress
Enhanced Customer Experience	Optimize OCS.ca functions to further enhance consumer experience. Expand the delivery of cannabis throughout the province. This includes the expansion of same-day and/or next-day express shipping options to more communities across the province.	Increase the number of communities that have access to same-day and/or next-day express shipping, and increase the number of same-day and/or next-day transactions.	Due to the impacts of the pandemic, the OCS augmented its delivery options throughout the year by increasing access to express shipping. At the end of the fiscal year, 78% of the adult population had access to express shipping, compared to 48% at the beginning of 2020–21. Due to the changes in service levels throughout the year, the performance metric shifted to measuring the percentage of population with access to only the express shipping options.
Click and Collect	Develop click-and-collect functionality on OCS.ca to enhance the OCS's omni-channel retail experience, and further partner with Authorized Cannabis Stores.	Launch OCS.ca Click and Collect.	The launch was paused due to COVID-19. Retailer delivery and curbside pickup permitted by government.

Enhanced Customer Experience

As the pandemic impacted operations, the OCS augmented its OCS.ca delivery options to continue to grow consumer access to express shipping options. The OCS also reduced shipping costs for consumers, as outlined below.

At the beginning of the fiscal year, 48% of the Ontario adult population had access to express shipping options. By the end of 2020–21, access had grown significantly to 78% of the adult population. In addition to expanded OCS.ca express

Shipping Option	Same-Day	Next-Day	Three-Day	Canada Post
April 1, 2020	$13.75	$12.00	No Service	$5.00
March 31, 2021	$8.00	Service paused and capacity shifted to same-day delivery	Free	Free

delivery, the government permitted retailers to provide temporary curbside pickup and home delivery to consumers throughout the COVID-19 pandemic while their stores were closed for in-store shopping.

Click and Collect

To further support the maturation of Ontario's legal cannabis marketplace, the OCS had planned for the launch of a new click-and-collect program in partnership with retailers across the province. The program concept would allow customers to access retailer websites through OCS.ca to view and reserve product. However, in response to COVID-19 lockdowns and the closure of in-store shopping, the government permitted Authorized Cannabis Stores to offer temporary curbside pickup and home delivery. Due to the high uptake of these services by retailers, the OCS made the decision to pause the development of an OCS.ca-run click-and-collect program.

Objective 3: Building a Modern, Inclusive and Engaged Workforce

The OCS recognizes that recruiting and retaining an energized, diverse and inclusive workforce is key to the organization's success. As a result, in 2020–21, the OCS focused intently on providing education and resources to staff to support them through a turbulent year.

Focus Area/ Outcome	Description and Supporting Initiatives	Key Performance Indicator	Progress
Employee Engagement	Develop and launch an employee engagement survey to create a baseline of data.	Launch an employee engagement survey.	Due to COVID-19, the engagement survey was delayed until the first quarter of 2021–22.
Diversity and Inclusion	Enhance opportunities for diversity and inclusion (for example, the expansion of internship opportunities).	Increase the number of diversity and inclusion initiatives launched.	Throughout 2020–21, the OCS held seven employee engagement and/or learning events relating to diversity and inclusion, and seven events relating to well-being. The OCS also hired five interns in 2020–21, compared to four in the previous fiscal year.

Supporting an Engaged Workforce

The OCS understands the importance of having an engaged workforce to support the overall success of the organization. In 2019–20, the OCS committed to developing and launching an employee engagement survey to establish a baseline of data that could inform engagement initiatives in future years. Due to COVID-19 and the prolonged duration of remote work, the survey was delayed until 2021–22.

In 2020–21, the OCS took steps to support employee mental health and well-being by hosting a series of educational webinars for staff, including:

- Mental health workplace leadership during COVID-19
- Mental health and isolation
- Balance and burnout
- Mental health and the Black experience
- Working remotely with children

Building a Modern, Inclusive Organization

To advance diversity and inclusion activities, the OCS developed a social responsibility strategy, which launched in late 2020–21. The strategy has three foundational pillars:

1. **Sustainability**: Establishing a foundation for sustainability
2. **Inclusion**: Creating a diverse and inclusive industry
3. **Knowledge**: Advancing cannabis knowledge and promoting responsible consumption

In addition, the Human Resources department developed a diversity, equity and inclusion (DE&I) strategic framework that will form the basis of the 2021–24 DE&I strategy. The strategic framework includes three key pillars:

1. **Workforce**: People — Growing representation within our workforce to reflect the province we serve while educating employees on leading with conscious inclusion.

2. **Workplace**: Culture — Nurturing a culture of inclusion and accessibility in our workplace where employees' voices are heard and needs are supported by policies and programs that energize and enable everyone to thrive.

3. **Marketplace**: Community — Cultivating an inclusive, accessible and equitable candidate and customer experience by expanding our reach with under-represented communities and removing barriers to entry.

Throughout the year, the OCS shared resource materials from the Anti-Racism Directorate of Ontario and hosted multiple small-group discussions to learn about employees' experiences with racism and to identify what topics they would like to explore. The OCS also invited subject matter experts to speak about the fundamentals of racism, as well as racism in the context of the cannabis industry.

Agency Risks and Mitigation Plan

Throughout 2020–21, the OCS made significant progress toward developing and implementing its enterprise risk management framework. The framework enables the OCS to successfully identify, assess, monitor, mitigate and report on risks to the board and the government. The OCS focuses its efforts on mitigating risks that could prevent it from achieving its objectives and fulfilling its mandate to the Government of Ontario.

Set out below are the key risks and mitigation strategies the OCS actively managed over the past year.

COVID-19

The COVID-19 pandemic had a tremendous impact on all Ontarians and many Ontario businesses, including cannabis retailers. With province-wide lockdowns and overall retail store restrictions that were necessary to support public health measures, it was important for Authorized Cannabis Stores to maintain market presence. In response, the OCS worked closely with cannabis retailers to support the government's allowance of temporary curbside pickup and home delivery, allowing these businesses to continue operating. Despite the service adjustments provided to retailers to support them during rotating lockdowns, the COVID-19 restrictions, including those in effect when in-person shopping resumed, had a notable negative impact on both retailer and OCS sales. The OCS is continuing to work with stakeholders to support long-term market growth and navigate the economic recovery from COVID-19.

Market Immaturity and Evolving Market Factors

The relative newness of the legal cannabis industry means concerted efforts are required to convert consumers from the illegal market to trusted legal cannabis sources. As the Ontario legal cannabis market continues to mature, the OCS has identified strategies to capture illegal market sales, meet evolving customer preferences and tackle enduring stigma surrounding cannabis.

Due to the rapidly evolving industry, the OCS faced the risk of making investments that would not help grow its share of illegal market sales. To mitigate this risk, the OCS focused on conducting customer and market analysis to better understand consumer preferences and purchasing behaviour. These market insights are used by both the OCS and retailers to address evolving consumer demand and continue to pull sales away from the illegal market.

Agency Accountability and Governance

As an agency of the Government of Ontario, the OCS is responsible and accountable for operating effectively and efficiently. Many operational initiatives, internal controls and governance processes were implemented to enhance decision-making while ensuring value for money.

With growing revenues and greater stability, the OCS began implementing governance processes and measures to adequately track project spending and return on investments. As the agency continues to evolve, the OCS will implement a more robust key performance indicator framework to assess its progress toward achieving its overall business objectives.

Management Discussion and Analysis

Financial Results Overview

This financial information discussion, which presents OCS results for the fiscal year ended on March 31, 2021 (2020–21), should be read in conjunction with the OCRC Financial Statements and the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Performance Summary

The industry saw considerable growth in 2020–21, with 572 Authorized Cannabis Stores open by March 31, 2021. The OCS invested in key initiatives to expand its wholesale function and support the growing network of Authorized Cannabis Stores across the province. By the end of the fiscal year, the OCS had partnered with more than 100 Licensed Producers and 572 stores.

Significant investments to the OCS's distribution centre were made to support increased wholesale sales and enable more efficient warehouse, transportation and logistics management practices. With further investments, the OCS expects to see an increase in warehousing efficiencies, such as automation, which will lower costs and improve service.

The investment in the automated business-to-business retailer portal allowed for efficiencies in the product ordering cycle and a more efficient and streamlined pay-to-procure cycle. In addition, the OCS shifted from a pay-at-order to a pay-at-ship model as a measure to assist retailers with cash flow while continuing to adhere to our provincial mandate.

Omni-channel revenues and net income showed healthy increases year-over-year, despite challenging business conditions due to COVID-19, especially during the provincial lockdowns in Q1 and Q4.

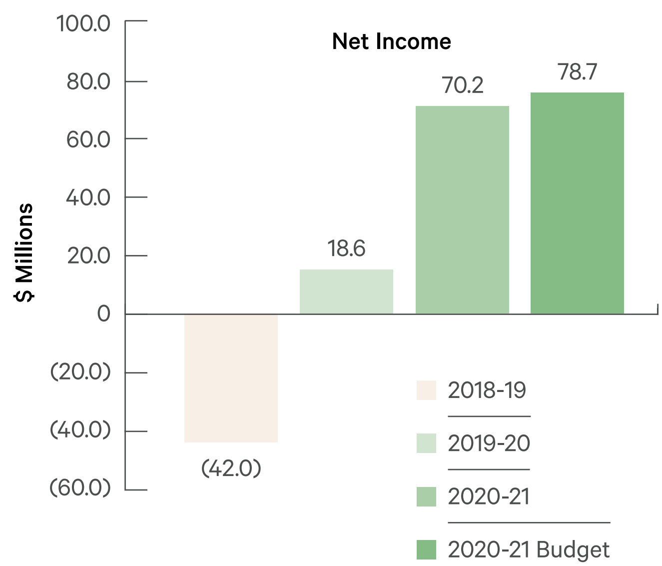
As of March 31, 2021, the OCS held $72.8 million in inventory (compared to $37.7 million as of March 31, 2020).

Net Income

Fiscal 2020–21 was another profitable year for the OCS, with reported total comprehensive income of $70.2 million, compared to $18.6 million in 2019–20. It was the most profitable year to date for the OCS, resulting in an accumulated equity position of $40 million as of March 31, 2021, which means the OCS fully recovered from the losses in 2017–18 and 2018–19.

This fiscal year represented the second consecutive year of profitability at the OCS, even though the $70.2 million result was $8.5 million lower than the agency's budget of $78.7 million. This was due to slower than expected revenue growth resulting from the COVID-19 emergency public health measures, which impacted operations for retailers and slowed retailer growth. Overall, this decline in growth would have had a greater impact on OCS revenues, but it was partially offset by the agency's careful management of its expenses.

The OCS expects total comprehensive income will continue to increase in the next fiscal year as revenues continue to grow and the retail store network increases.



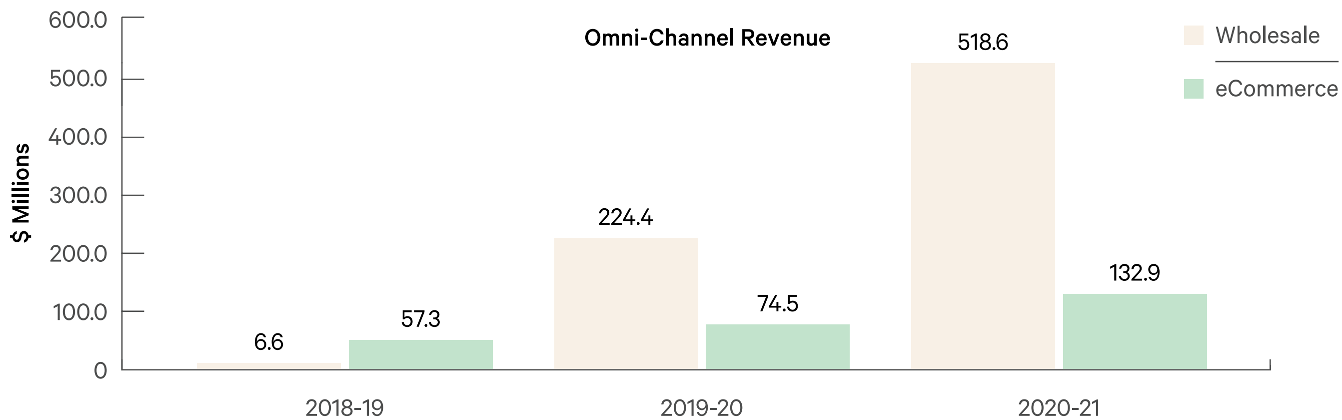
Revenue

Omni-Channel Revenue

The OCS has two distinct customer channels: its wholesale distribution business (through which Authorized Cannabis Stores purchase product from the OCS to resell to consumers) and its e-commerce business on OCS.ca (through which consumers purchase products directly from the OCS). The two channels are referred to collectively as “omni-channel.”

OCS omni-channel revenue totalled $651.7 million for 2020–21 ($299 million in 2019–20), representing revenue growth of $352.7 million. This growth in revenues was largely due to the increase of wholesale channel sales as the number of stores increased, while OCS.ca saw a significant increase in revenue during the April 2020 lockdown when in-store shopping was unavailable.

The omni-channel gross margin (revenue from both channels, less the product, delivery and transaction-fee costs) was $146 million (22.4%).



Wholesale Channel Revenue

During 2020–21, the wholesale channel accounted for 79.6% of total revenue, compared to 75% in 2019–20. Wholesale revenues were $518.6 million in 2020–21, compared to $224.4 million in 2019–20, an increase of 131.1%.

	FY2020-21		FY2019-20	
Category	Revenue ($ in Millions)	Revenue Share (%)	Revenue ($ in Millions)	Revenue Share (%)
Dried Flower	307.4	59.3	161.1	71.8
Pre-Rolls	66.2	12.8	30.5	13.6
Oils & Capsules	22.4	4.3	18.9	8.4
Vapes & Concentrates	88.5	17.1	10.3	4.6
Edibles	20.1	3.9	2.2	1.0
Beverages	8.4	1.6	0.5	0.2
Topicals	3.3	0.6	0.0	0.0
Accessories	2.3	0.4	0.9	0.4
Total	518.6	100.0	224.4	100.0

In 2021, the wholesale business saw dried flower revenues increase to $307.4 million (from $161.1 million in 2019–20). Dried flower made up 59.3% of revenues in 2020–21 (compared to 71.8% in 2019–20) due to shifts in consumer spending toward newer product categories.

Pre-rolls were popular in the wholesale channel, as they were conducive to individual consumption during COVID-19. Overall, pre-rolls were the third highest category of products sold in the wholesale business.

Fiscal 2020–21 was the first full year of sales for edibles, beverages, vapes, concentrates and topicals, which led to higher year-over-year growth and a higher share of the revenue mix for the channel.

OCS.ca Channel Revenue

OCS.ca revenues for 2020–21 were $132.9 million ($74.5 million in 2019–20). The year-over-year revenue increase of 78.4% reflects an increase in the number of total orders to nearly 1.5 million in 2020–21. This increase was driven by a higher number of unique visitors to OCS.ca during the initial stages of COVID-19.

	FY2020-21		FY2019-20	
Category	Revenue ($ in Millions)	Revenue Share (%)	Revenue ($ in Millions)	Revenue Share (%)
Dried Flower	71.8	54.0	49.7	66.8
Pre-Rolls	7.2	5.4	3.6	4.9
Oils & Capsules	15.8	11.9	15.0	20.1
Vapes & Concentrates	25.0	18.8	3.4	4.5
Edibles	6.7	5.1	0.7	1.0
Beverages	2.4	1.8	0.2	0.2
Topicals	1.1	0.8	0.0	0.0
Accessories	2.9	2.2	1.9	2.5
Total	132.9	100.0	74.5	100.0

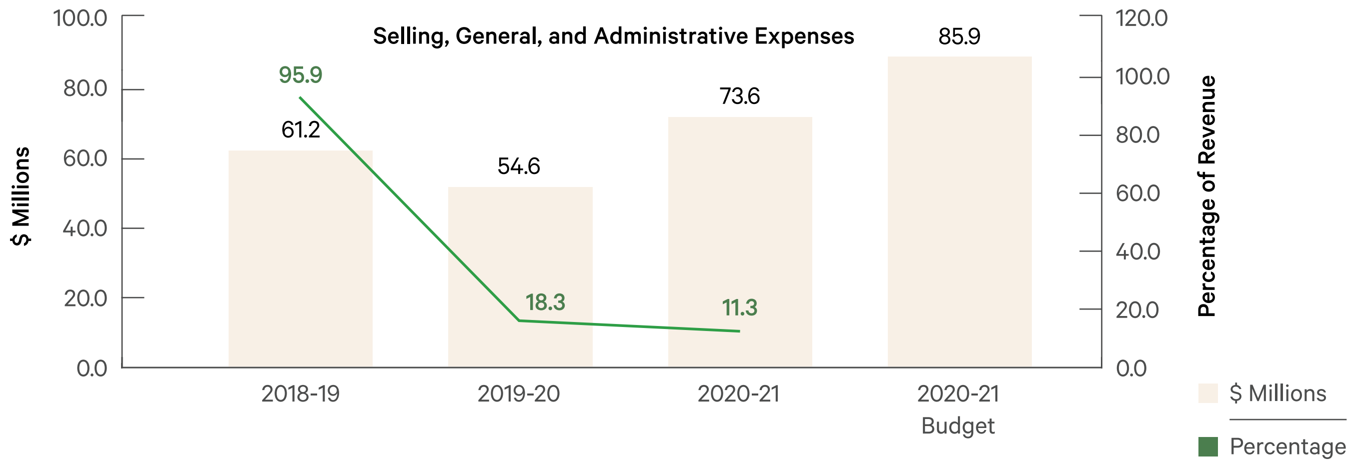
Every region experienced growth in the number of orders placed through OCS.ca, but the majority of the growth was seen in the GTA and Toronto. The average order value in 2020–21 ($89) was consistent with 2019–20 ($90).

In 2020–21, OCS.ca revenues from the dried flower category totalled $71.8 million or 54%, a notable increase in sales of $22.1 million in comparison to 2019–20. Like the wholesale channel, the OCS.ca channel's dried flower sales increased, and its share of revenue mix declined as the OCS diversified its product offerings.

Similarly, pre-rolls and vapes also proved to be popular products in 2020–21, with both categories seeing notable sales increases. Beverages, edibles and topicals also saw notable increases in sales and market share. Accessories, oils and capsules made up the remainder of OCS.ca's sales, although they saw a drop in overall sales mix as compared to 2019–20.

Selling, General, and Administrative Expenses

Selling, general and administrative (SG&A) expenses consist of warehousing and logistics, IT systems and support, salaries and benefits, and other expenses. The 2020–21 SG&A expenses were $73.6 million (compared to $54.6 million in 2019–20), an increase of $19 million but a reduction as a proportion of revenue to 11.3% (18.3% in 2019–20).



Rising wholesale sales also increased order-fulfillment costs in areas such as warehousing, logistics and transaction processing. Warehousing and logistics costs were $25.8 million in 2020–21, an increase of $14.5 million (or 128.3%) compared to 2019–20.

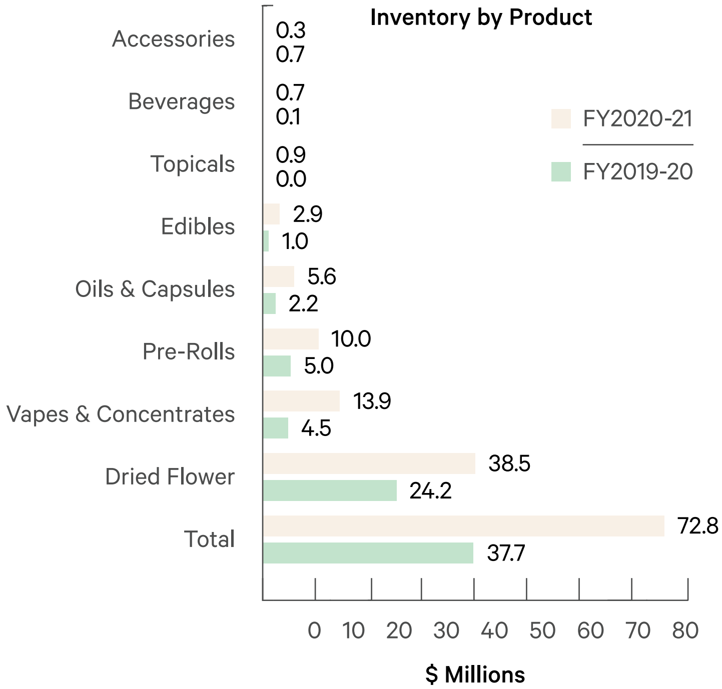
The OCS continued to make investments and add resources to support ongoing operations and future growth in a fiscally prudent manner. In 2020–21, OCS salaries and benefits were $27.7 million, compared to $19.5 million in 2019–20, as head count was added to support OCS partners and operations, most notably to support the rapid increase in the retailer network. Year-end head count was 235 as of March 31, 2021, compared to 167 as of March 31, 2020.

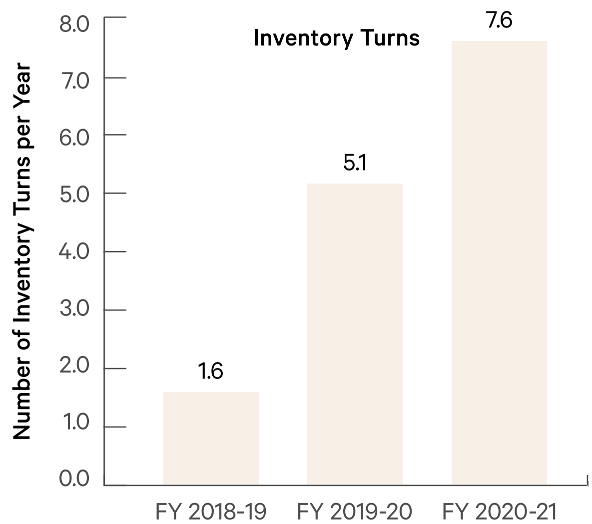
To properly support our commercial partners and Ontario's growing legal cannabis market, the OCS signed a new lease agreement for a larger distribution centre. This was the primary driver for the $2.1 million increase in depreciation costs in 2020–21 compared to 2019–20. The distribution centre and additional inventory requirements necessitated increased insurance coverage. Insurance costs increased to $1.2 million in 2020–21 (from $400,000 in 2019–20).

Inventory

Inventory is defined as products or goods that are provided by a supplier (either a producer licensed by Health Canada or a vendor that supplies cannabis-related accessories) to a purchaser (the OCS) under validated purchase orders. Inventory includes product stored at a privately operated distribution centre under contract to the OCS, as well as inventory that is in transit from the OCS to Authorized Cannabis Stores and end consumers. Inventory levels are managed to ensure the steady supply of product is balanced with maintaining fresh supply.

As of March 31, 2021, inventory on hand was $72.8 million (compared to $37.7 million as of March 31, 2020). This increase of $35.1 million was due to growing demand and the increased store count.





One of the OCS's focuses in 2020–21 was on improving product freshness. To support this, the OCS developed more rigorous inventory management practices, including increasing inventory turns. These practices resulted in a decrease in aged inventory (older than 180 days) to $1 million at the end of 2020–21 (compared to $4.4 million on March 31, 2020). While inventory older than 180 days decreased, there was an increase in inventory on hand older than 120 days to $9.2 million at the end of 2020–21 (compared to $5.8 million on March 31, 2020). In 2021–22, the OCS will be monitoring these two key inventory metrics to support product freshness targets.

Leases

The recording of the Right of Use (ROU) asset recognizes that the OCS receives the economic benefits from the use of the distribution centre and the equipment within, and exercises control over the use of the assets. During the year ended March 31, 2021, the OCS entered into a new lease for a distribution centre in Guelph, Ont., and equipment leases to support the growth of the wholesale channel. A ROU asset and the corresponding lease liability, both initially valued at $38.7 million, were recorded on the balance sheet. The ROU asset will be amortized over the lease term.

As of March 31, 2021, the total ROU assets were $47.3 million with a corresponding lease liability of $48.4 million, including future interest charges. This was an increase from March 31, 2020, when the total ROU assets were $13.4 million with a corresponding lease liability of $13.9 million, including future interest charges. This increase in lease liability demonstrates the future value the OCS will obtain for assets, as well as the payments the OCS has committed to making in future years.

Payments to Governments

Harmonized Sales Tax

The federal government received $7.3 million in harmonized sales tax (HST) remittances in 2020–21, compared to $5.5 million in 2019–20. The Ontario provincial sales tax (PST) component of the HST was $4.5 million in 2020–21, compared to $3.4 million in 2019–20.

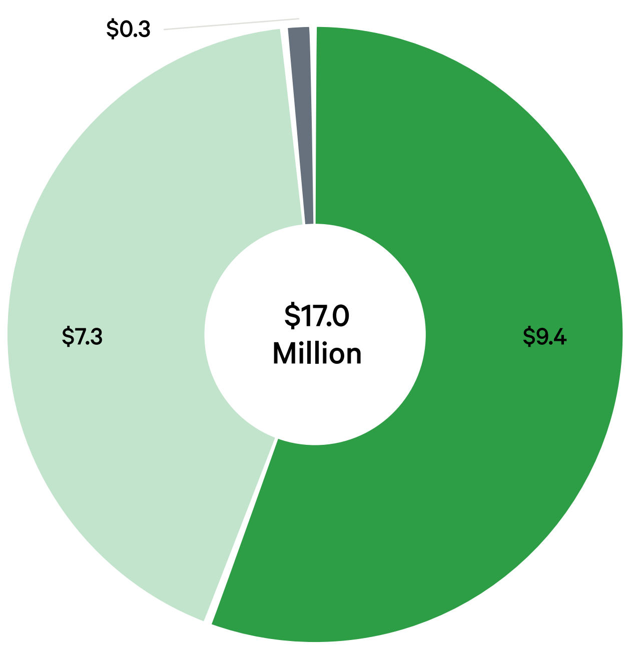
Ontario Financing Authority Loan

The OCS continued to repay its loan facility provided by the Ontario Financing Authority. In 2020–21, $7.2 million in loan principal was repaid, as well as $2.2 million in interest, for a total payment of $9.4 million.

Cannabis Excise Duty

The Government of Ontario received $106 million from the Government of Canada as its share of the cannabis excise duty, compared to $48 million in 2019–20.

2020-21 Payments to Governments



Financial Statements of the Ontario Retail Cannabis Corporation for the Year Ended March 31, 2021

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 independently evaluates the effectiveness of these internal controls on an ongoing basis reports 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:

David Lobo
Interim President and CEO
Ontario Cannabis Store

Zeela Merchant
Chief Financial Officer

September 1, 2021

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, 2021, and the statements of income and comprehensive income, 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, 2021, 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
September 1, 2021

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

ONTARIO CANNABIS RETAIL CORPORATION
Statement of Financial Position

(Canadian dollars)

	Note	**March 31, 2021**	March 31, 2020
Assets			
Current Assets			
Cash	*3*	**166,393,918**	82,597,338
Trade and other receivables	*4*	**822,005**	2,176,827
Inventories	*5*	**72,761,569**	37,651,903
Prepaid Services		**1,047,275**	440,667
		241,024,767	122,866,735
Non-current Assets			
Prepaid Services		**102,874**	133,546
Property, equipment and intangible assets	*6*	**3,707,196**	2,691,755
Right-of-use assets	*7*	**47,320,067**	13,421,506
		51,130,137	16,246,807
Total Assets		**292,154,904**	139,113,542
Liabilities and Equity (Deficit)			
Current Liabilities			
Trade and other payables	*8*	**126,358,200**	71,447,742
Provisions	*9*	**2,592,872**	2,009,877
Leases	*7*	**2,993,508**	1,460,753
Borrowings	*10*	**9,386,099**	9,386,099
		141,330,679	84,304,471
Non-current Liabilities			
Leases	*7*	**45,432,498**	12,416,624
Borrowings	*10*	**65,367,518**	72,578,209
		110,800,016	84,994,833
Total Liabilities		**252,130,695**	169,299,304
Equity (Deficit)			
Accumulated equity (deficit)		**40,024,209**	(30,185,762)
Total Liabilities and Equity (Deficit)		**292,154,904**	139,113,542

See accompanying notes to the financial statements.

Approved by:

Connie Dejak, Chair, Board of Directors

Philip Leong, Board Member, Chair, Finance and Governance Committee

ONTARIO CANNABIS RETAIL CORPORATION

Statement of Income and Comprehensive Income

(Canadian dollars)

	Note	**For the year ended March 31, 2021**	For the year ended March 31, 2020
Revenue	*11*	**651,705,806**	299,026,852
Cost of sales	*12*	**(505,750,968)**	(225,778,099)
Gross margin		**145,954,838**	73,248,753
Other income	*13*	**144,217**	1,533,560
Selling, general and administrative expenses	*14*	**(73,622,749)**	(54,591,637)
Income from operations		**72,476,306**	20,190,676
Finance income	*15*	**736,612**	730,250
Finance costs	*15*	**(3,002,947)**	(2,277,177)
Total comprehensive income		**70,209,971**	18,643,749

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, 2021	For the year ended March 31, 2020
Accumulated deficit at beginning of year	**(30,185,762)**	(48,829,511)
Total comprehensive income for the year	**70,209,971**	18,643,749
Accumulated equity (deficit) at end of year	**40,024,209**	(30,185,762)

See accompanying notes to the financial statements.

ONTARIO CANNABIS RETAIL CORPORATION
Statement of Cash Flows

(Canadian dollars)

	Note	**For the year ended March 31, 2021**	For the year ended March 31, 2020
Operating activities:			
Total comprehensive income		**70,209,971**	18,643,749
Less:			
Depreciation of right-of-use assets	*7*	**3,602,200**	1,515,887
Depreciation of property, equipment and intangible assets	*6*	**439,116**	452,761
Interest on borrowings	*15*	**2,175,408**	1,915,452
Interest expenses on leases	*15*	**827,539**	361,725
Interest paid on leases		**(615,990)**	(283,648)
Loss (gain) on disposal of assets		**7,586**	(50,457)
		76,645,830	22,555,469
Changes in non-cash balances related to operations:			
Trade and other receivables	*4*	**1,354,822**	2,869,127
Inventories	*5*	**(35,109,666)**	8,824,681
Prepaid expenses		**(575,936)**	453,164
Trade and other payables	*8*	**54,910,458**	17,471,474
Provisions	*9*	**582,995**	12,935
Net cash from operating activities		**97,808,503**	52,186,850
Investing activities:			
Purchase of property, equipment and intangible assets	*6*	**(1,462,143)**	(2,558,045)
Proceeds from sale of assets		**-**	267,808
Net cash used in investing activities		**(1,462,143)**	(2,290,237)
Financing activities:			
(Repayments) proceeds from borrowings	*10*	**(9,386,099)**	15,000,000
Lease payments	*7*	**(2,731,216)**	(1,102,657)
Prepayments of right-of-use assets under construction	*7*	**(432,465)**	-
Net cash (used in) from financing activities		**(12,549,780)**	13,897,343
Net increase in cash		**83,796,580**	63,793,956
Cash, beginning of year		**82,597,338**	18,803,382
Cash, end of year		**166,393,918**	82,597,338

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 September 1, 2021.

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 Other income

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

2.8 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.

2.9 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, sundry receivables, recoverable input tax credits 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 makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. OCRC assess impairment of chargeback receivables on an individual basis as they possess separate credit risk characteristics. OCRC establishes an allowance on vendor chargeback receivables taking into consideration, external indicators, current economic trends, historical 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 and Comprehensive Income.

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 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 of the asset.

Depreciation is recognized in the Statement of Income and Comprehensive Income over the expected useful lives of each major component of property 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.

The cost of subsequently replacing part of an item of property 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 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 and equipment are recognized as expense as incurred.

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

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

Property and equipment that is work-in-progress is measured at historical cost. Depreciation commences when they are available for use.

2.12 Intangible assets

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

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

2.13 Impairment of property, equipment and intangible assets

After recognition of an asset, an item of property, 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, 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

The OCRC assesses whether a contract is or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all of the economic benefits of an identified asset for a period of time in exchange for consideration.

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. The revised lease payments are discounted using the OCRC's incremental borrowing rate at the date of reassessment when the rate implicit in the lease cannot be readily determined. The amount of the remeasurement of the lease liability is reflected as an adjustment to the carrying amount of the right-of-use asset. The exception being when the carrying amount of the right-of-use asset has been reduced to zero then any excess is recognized in Statement of Income and Comprehensive Income.

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.

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. Right-of-use assets under construction are capitalized when lease payments are made prior to the commencement date. Right-of-use assets under construction are not depreciated until such time they are available for use. Right-of-use assets under construction is subsequently transferred to its applicable category and depreciation would commence 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, also referred to as variable lease payments, such as property taxes, management fees and utilities have been expensed as incurred throughout the year.

2.15 Trade and other payables

Trade and other payables are classified and measured at amortized cost as they 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.

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") and the Ontario Public Service Employees Union (OPSEU) Pension Fund. The Province, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU Pension Fund, determines OCRC's annual contribution to the funds. 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.

The OCRC does not have a net obligation in respect of the defined benefit pension plans as the plan are established by the Province of Ontario. The Province of Ontario controls all entities included in the pension plans. The OCRC has classified these plans as state plans as there is no contractual agreement or stated policy for charging the net defined benefit cost of the plans to the OCRC. As such, the OCRC records these post-employment benefits as a defined contribution plan and is 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
Employee benefits other than those provided by the Province include Workplace Safety and Insurance Board ("WSIB") and Long-Term Disability ("LTD"). These plans provide long-term income protection benefits to employees when they are no longer providing active service.

As a Schedule 2 employer, the OCRC is a self-insured employer and therefore must pay for the full cost of claims as the payments are due and cover all WSIB related administrative expenses. The WSIB maintains full authority over the Schedule 2 claims entitlement process.

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 financial 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.

Fair value measurements
The OCRC does not have financial instruments measured at fair value.

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.

Inventories
Inventories are carried at the lower of cost and net realizable value which required the OCRC 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.

(Canadian dollars)

Leases
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 and Comprehensive Income.

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.

Provisions
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, 2021 includes interest-bearing bank accounts. OCRC did not hold any cash equivalents as at March 31, 2021 (2020 – $nil).

4. Trade and other receivables

Trade and other receivables include the following:

	March 31, 2021	March 31, 2020
Chargeback receivables	**344,916**	1,516,050
Loss allowance for expected credit losses	**(217,468)**	(751,811)
Recoverable input tax credits	**326,560**	987,386
Sundry receivables	**283,735**	342,719
Interest receivable	**84,262**	82,483
	822,005	2,176,827

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 $217,468 (2020 – $751,811). Information about the OCRC's exposure to credit risks and analysis relating to the loss allowance for expected credit losses is included in note 17.

(Canadian dollars)

5. Inventories

As at Mach 31, 2021, the carrying amount of inventory was written down by an allowance of $870,624 (2020 – $2,111,961) to net realizable value. No inventory is pledged as security.

The cost of inventories sold and recognized as cost of sales during the year ended March 31, 2021 was $483,829,965 (2020 – $215,430,943). This includes inventory write-downs recognized during the year of $870,624 (2020 – $2,111,961).

Inventory write-downs recognized in prior periods and reversed in the year were $2,111,961 (2020 – $nil). The reversal of write-downs was the result of selling through or charging back the cost of the inventory to the vendor upon return or destruction.

The write-downs and reversals are included in inventory cost of sales.

6. Property, equipment and intangible assets

The following table presents the net book value and changes in the cost and accumulated depreciation of property, equipment and intangible assets

Property, equipment and intangible assets continuity for the year ended March 31, 2021:

	Computer hardware	Furniture and fixtures	Computer software	Leasehold improvements	Leasehold improvements in progress	Total
Cost						
Balance at March 31, 2020	783,000	1,349,944	10,816	995,824	-	3,139,584
Additions	114,205	-	4,186	170,000	1,173,752	1,462,143
Disposals	(2,299)	(6,609)	-	-	-	(8,908)
Balance at March 31, 2021	**894,906**	**1,343,335**	**15,002**	**1,165,824**	**1,173,752**	**4,592,819**
Accumulated depreciation						
Balance at March 31, 2020	254,473	119,334	3,764	70,258	-	447,829
Depreciation	204,649	132,816	4,035	97,616	-	439,116
Disposals	(1,322)	-	-	-	-	(1,322)
Balance at March 31, 2021	**457,800**	**252,150**	**7,799**	**167,874**	**-**	**885,623**
Carrying amount						
As at March 31, 2020	528,527	1,230,610	7,052	925,566	-	2,691,755
As at March 31, 2021	**437,106**	**1,091,185**	**7,203**	**997,950**	**1,173,752**	**3,707,196**

(Canadian dollars)

Property, equipment and intangible assets continuity 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

a) Lease liabilities

The following table presents the changes in the lease liability for the year ended March 31, 2021:

	Office premises	Distribution centre premises	Distribution centre equipment	Total
Balance, as at March 31, 2020	**11,237,912**	**2,639,465**	**-**	**13,877,377**
Additions	-	33,538,675	5,184,360	38,723,035
Modifications to lease terms	-	(1,665,293)	-	(1,665,293)
Finance charges on rent free period	-	222,103	-	222,103
Principal payments	(576,784)	(1,328,368)	(826,064)	(2,731,216)
Balance, as at March 31, 2021	**10,661,128**	**33,406,582**	**4,358,296**	**48,426,006**

	March 31, 2021	March 31, 2020
Current portion	**2,993,508**	1,460,753
Long-term portion	**45,432,498**	12,416,624
	48,426,006	13,877,377

Interest expense on these lease obligations for the year ended March 31, 2021 was $827,538 (2020 - $361,725). Total cash outflow for the year ended March 31, 2021 was $3,347,205 (2020 - $1,386,305) including interest.

Maturity analysis of lease liabilities
The maturity analysis of lease liabilities reflecting the future contractual lease payments that are expected to be made over the next five years and thereafter are as follows:

(Canadian dollars)

	2022	2023	2024	2025	2026	Thereafter	Total
Lease payments	4,035,996	3,910,040	3,820,129	3,733,227	3,317,153	39,874,619	58,691,164
Less: Imputed Interest	(1,042,488)	(991,184)	(938,004)	(884,803)	(830,547)	(5,578,132)	(10,265,158)
	2,993,508	**2,918,856**	**2,882,125**	**2,848,424**	**2,486,606**	**34,296,487**	**48,426,006**

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 $13,189 for the year ended March 31, 2021 (2020 - $563,061). As at March 31, 2021, commitments for short-term leases are $nil (2020 - $13,189).

Low-value leases
Expenses relating to low-value leases (low-value distribution centre office furniture, fixtures and information technology equipment) accounted for on a straight-line basis over lease terms ranging between 36 months to 60 months were $287,708 for the year ended March 31, 2021 (2020 - $170,773). As at March 31, 2021, commitments for low-value leases are $318,364.

Office leases
The lease term is for 5 years with two optional extension terms of 5 years each. The lease payments were discounted using 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, 2021, OCRC entered into a new lease for a distribution centre in Guelph. A second lease for the existing distribution centre was no renewed, expired in December 2020.. The lease terms range from 18 months to 10 years with optional extension terms ranging from one 3 year extension to two 5 year extensions. The lease payments were discounted using OCRC's incremental borrowing rate, which is the applicable rate of the Ontario Financing Authority ("OFA") at the lease commencement date.

Distribution centre equipment leases
During the year ended March 31, 2021, OCRC entered into equipment leases for use at the distribution centre. The lease terms range from 36 months to 60 months with optional one year extension terms. The lease payments were discounted using 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 $509,383 (2020 - $258,851).

Committed leases
As at March 31, 2021, the OCRC had committed to leases which had not yet commenced. The total future cash outflows for leases that had not yet commenced are expected to be $4,660,538.

(Canadian dollars)

b) Right-of-use assets

The following table presents the changes in the cost of right-of-use assets for the year ended March 31, 2021:

	Office premises	Distribution centre premises	Distribution centre equipment	Distribution centre equipment under construction	Total
Cost					
Balance at March 31,2020	11,576,564	3,360,829	-	-	14,937,393
Additions	-	33,538,675	5,164,807	432,465	39,135,947
Modifications to lease terms	-	(1,635,186)	-	-	(1,635,186)
Transfers	-	-	180,306	(180,306)	-
Disposals	-	(682,253)	-	-	(682,253)
Balance at March 31, 2021	**11,576,564**	**34,582,065**	**5,345,113**	**252,159**	**51,755,901**
Accumulated depreciation					
Balance at March 31, 2020	759,119	756,768	-	-	1,515,887
Depreciation	759,119	2,021,076	822,005	-	3,602,200
Disposals	-	(682,253)	-	-	(682,253)
Balance at March 31, 2021	**1,518,238**	**2,095,591**	**822,005**	**-**	**4,435,834**
Carrying amount					
As at March 31, 2020	10,817,445	2,604,061	-	-	13,421,506
Balance at March 31, 2021	**10,058,326**	**32,486,474**	**4,523,108**	**252,159**	**47,320,067**

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 March 31,2019	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 March 31, 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
Balance at March 31, 2020	**10,817,445**	**2,604,061**	**13,421,506**

(Canadian dollars)

8. Trade and other payables

Trade and other payables include the following:

	March 31, 2021	March 31, 2020
Inventory payables and accruals	**118,489,276**	77,183,495
Chargebacks offset against inventory payables	**(4,176,653)**	(14,446,262)
Other trade payables and accrued expenses	**11,781,466**	7,958,572
Deferred revenue	**125,741**	745,340
Customer deposits	**138,370**	6,597
	126,358,200	71,447,742

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

9. Provisions

The following tables represent the changes to OCRC's provisions:

Provisions continuity for the year ended March 31, 2021

	Contract terminations	**Short term employee benefits**	**Other**	**Total**
Balance at March 31, 2020	531,060	1,303,446	175,371	2,009,877
Additional provisions recognised during the year	-	2,052,111	450,761	2,502,872
Reversal of provision	(134,044)	-	-	(134,044)
Utilization of provision	(397,016)	(1,303,446)	(85,371)	(1,785,833)
Balance at March 31, 2021	**-**	**2,052,111**	**540,761**	**2,592,872**

Provisions continuity for the year ended March 31, 2020

	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.

(Canadian dollars)

10. Borrowings

At March 31, 2021, changes in borrowings are as follows:

	March 31, 2021	March 31, 2020
OFA Loan	**74,753,617**	81,964,308
Less: current portion of borrowings	**(9,386,099)**	(9,386,099)
Non-current borrowings	**65,367,518**	72,578,209

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, 2021 approximates their carrying amount as the OFA loan is at market terms.

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 end March 31, 2021	**For the year ended March 31, 2020**
E-commerce revenue	**132,936,140**	74,460,709
Wholesale revenue	**518,569,666**	224,443,643
Data subscription program	**200,000**	122,500
	651,705,806	299,026,852

Credit losses incurred on e-commerce transactions were $56,891 for the year ended March 31, 2021 (2020 - $46,634). Refer to Note 17.

(Canadian dollars)

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 March 31, 2021	For the year ended March 31, 2020
Cost of goods sold	**483,829,965**	215,430,943
Delivery fees	**21,122,683**	9,186,402
Transaction fees	**798,320**	1,160,754
	505,750,968	225,778,099

13. Other income

Other income includes the following:

	For the year ended March 31, 2021	For the year ended March 31, 2020
Trade day income	**25,202**	316,140
Reversal of provision for contract terminations	**113,760**	1,166,963
Fees	**5,255**	-
Gain on disposal of fixed assets	**-**	50,457
	144,217	1,533,560

(Canadian dollars)

14. Selling, general and administrative expenses

Selling, general and administrative expenses include the following:

	For the year ended March 31, 2021	For the year ended March 31, 2020
Warehouse and logistics (note 19(c))	**25,754,284**	11,272,331
Salaries and benefits	**27,674,869**	19,453,511
Information systems and technology support	**7,862,986**	9,765,910
Depreciation of right-of-use assets	**3,602,200**	1,515,887
Depreciation of property, equipment, and intangible assets	**439,116**	452,761
E-commerce transaction processing	**2,576,359**	1,645,040
Contract services	**2,223,263**	1,254,778
Professional services	**1,375,067**	751,157
Insurance	**1,163,930**	398,538
Occupancy	**907,631**	1,143,295
Other expenses	**422,428**	692,148
Recruitment services	**87,855**	37,973
Shared administrative services (note 19(c))	**65,162**	5,219,137
Consulting services	**-**	20,300
Contract terminations	**-**	213,760
Provision for bad debts	**(532,401)**	755,111
	73,622,749	54,591,637

15. Finance income and costs

Finance income and costs include the following:

	For the year ended March 31, 2021	For the year ended March 31, 2020
Interest income on bank balances	**736,612**	730,250
Lease liabilities interest expense	**(827,539)**	(361,725)
OFA loan interest expense (Note 10)	**(2,175,408)**	(1,915,452)
	(2,266,335)	(1,546,927)

16. Post-employment and other long-term employee benefits

(i) Employee pension benefits

During the year, OCRC made pension contributions to the plans that amounted to $1,753,005 (2020 - $1,216,229). These amounts are included in salaries and benefits expenses and reported in selling, general and administrative expenses in the Statement of Income and Comprehensive Income.

(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, 2021, the liability for long-term income protection benefits recognized amounted to $321,000 (2020 - $90,000), which is included in the Statement of Income and Comprehensive Income.

17. Financial risk management

OCRC's Treasury Policy and Customer Credit Risk Management 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. Payment for orders from Licensed Retailers is collected via pre-authorized debit upon shipment, or prepaid, making the likelihood of credit loss very low. Payment for orders from eCommerce customers is authorized at checkout, making the likelihood of credit loss very low. 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, 2021 (2020 – $nil).

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 expected credit losses is booked based on the outcome of the risk assessment. Chargeback receivables are derecognized when there is no reasonable expectation of recovery.

(Canadian dollars)

OCRC applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all chargeback receivables as these items do not have a significant financing component.

OCRC estimates lifetime expected credit losses, specifically on chargeback receivables, as at March 31, 2021 to be $217,468 (2020 - $751,811). The changes in the chargeback receivables loss allowance were as follows:

	March 31, 2021	March 31, 2020
Beginning balance	**751,811**	-
Loss allowance recognized during the year	**22,204**	751,811
Loss allowance unused and reversed during the year	**(556,547)**	-
Ending balance	**217,468**	751,811

The details of OCRC's aging of chargeback receivables is as follows:

	March 31, 2021	March 31, 2020
Less than 60 days past due	**19,571**	416,827
61-180 days past due	**46,674**	-
Greater than 180 days past due	**278,671**	1,099,222
Total	**344,916**	1,516,050
Less: Loss allowance	**(217,468)**	(751,811)
Chargeback receivables (net)	**127,448**	764,239

Incurred credit losses are due to fraudulent e-commerce customer transactions that occur subsequent to shipment of product. Refer to Notes 4 and 11.

(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.

Trade and other payables are all due within one year of the Statement of Financial Position date. Refer to note 7 for the maturity analysis of lease liabilities reflecting the remaining contractual lease payments and refer to note 10 for information relating to the remaining semi-annual payments on borrowings until its maturity in 2030.

(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 10). In OCRC's assessment, the impact of changes in interest rates would not have a significant impact on net income.

18. Capital management

OCRC is a corporation without share capital. Its capital structure consists of borrowings and accumulated equity (deficit). Total managed capital as at March 31, 2021 is $114,777,826 (2020 - $51,778,546).

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.

The OCRC is not subject to any externally imposed capital requirements.

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, 2021 is $74,753,617 (2020 - $81,946,308) including accrued interest of $511,113 (2020 – $558,895) under Facility two (refer to note 10).

(b) Ontario Pension Board, & Ontario Public Service Employees Union and Workplace Safety Insurance Board

Contributions to pension plans pertaining to employee future post-employment benefits and accrued benefit costs for other long-term employee benefit plans are disclosed in note 16.

(Canadian dollars)

(c) 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, 2021	For the year ended March 31, 2020
Shared services:		
Warehouse and logistics	**-**	1,237,094
Shared administrative services	**65,162**	5,289,064
Property and equipment	**-**	(185 912)
Reimbursement of OCRC own expenses	**-**	5,966
	65,162	6,346,212

For the year ended March 31, 2021, LCBO did not have a receivable or payable balance with OCRC (2020 - $4,263 receivable was 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.

(d) Stewardship Ontario

OCRC is responsible under the *Waste-Free Ontario Act*, *2016,* to pay municipalities through Stewardship Ontario, an industry funded waste diversion organization for costs associated with container waste and non-container waste recycled through municipal Blue Box systems. The OCRC started to contribute to Stewardship Ontario during the March 31, 2021 fiscal year.

For the year ended March 31, 2021, OCRC contributed $56,626 and these expenditures are included in selling, general and administrative expenses in the Statement of Income and Other Comprehensive Income.

(e) 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, 2021 was $3,925,246 (2020 - $2,010,083), comprised of salaries and benefits, directors' per diem fees, and other short-term employee benefits.

20. Contingencies

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. Comparative figures

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

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