



# ONTARIO CANNABIS STORE ANNUAL REPORT

2022-2023

# LETTER TO THE MINISTER

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The Honourable Peter Bethlenfalvy, Minister of Finance

Dear Minister,

As Chair of the Ontario Cannabis Retail Corporation (OCRC) Board of Directors, I am pleased to present the agency's Annual Report.

The report covers the fiscal period from April 1, 2022, to March 31, 2023.

Sincerely,



Connie Dejak  
Chair – Board of Directors  
Ontario Cannabis Retail Corporation

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# MESSAGE FROM THE CHAIR

As Chair of the Ontario Cannabis Retail Corporation (OCRC) Board of Directors, I'm delighted to have worked with my colleagues over the past year to steer the organization through the beginning of a multi-year strategic transformation aimed at fostering a vibrant cannabis marketplace that benefits all Ontarians.

In July 2022, the Board completed a comprehensive national search and was pleased to appoint David Lobo as President and CEO of the OCRC. David's demonstrated leadership in cannabis, coupled with his ability to develop and balance strategic business priorities, has served the OCRC and its stakeholders well. Working with the Senior Leadership Team, he has positioned the OCRC as a national leader in the cannabis market.

With renewed governance principles and enhanced oversight, the OCRC Board has leveraged its expertise to create a strategic vision that will enhance public safety for all Ontarians, all while fostering a healthy and vibrant market for legal cannabis.

To date, the OCRC has helped enable a legal market that is on the verge of surpassing \$2 billion in annual sales in the

province, employs tens of thousands of Ontarians in all regions, and provides consumers with quality-tested, legal cannabis products through convenient retail store and e-commerce experiences.

I want to sincerely thank the Directors on the Board and acknowledge the important role they played in helping establish the Ontario Cannabis Store as a leader in the field of cannabis. I have a deep gratitude for their commitment to serving the province in this capacity. Our Directors bring a wealth of knowledge from across a broad range of disciplines as we provide the necessary oversight and strategic direction in the area of cannabis. I look forward to their contributions moving forward and thank them again for their commitment and ongoing support.



Connie Dejak  
Chair – Board of Directors  
Ontario Cannabis Retail Corporation

# MESSAGE FROM THE PRESIDENT AND CEO

The 2022–23 fiscal year marked a turning point for the OCS as our business embarked on a new transformative agenda to create a foundation that will enable Canada’s largest and most vibrant cannabis marketplace. I am delighted to share with you the OCS’s 2022–23 Annual Report, which highlights the organization’s accomplishments against the goals outlined in our 2022–25 Business Plan.

Through this past fiscal year, the OCS continued ongoing efforts to rapidly support new industry participants in getting up and running in Ontario’s legal marketplace. This included onboarding an additional 345 Authorized Cannabis Stores, thereby growing the total network to 1,661 stores across the province. The OCS also partnered with 90 additional Licensed Producers by the end of the fiscal year, the vast majority being smaller businesses, many with deep roots in legacy cultivation practices that have added to the richness of diversity in the industry. At the same time, the volume of sales in Ontario grew substantially as the province took steps to fully re-open following the COVID-19 pandemic and as Ontarians became increasingly aware of the benefits of the legal retail framework.

In 2022–23, the OCS helped facilitate the growth of Ontario’s legal marketplace to new heights by achieving \$1.43 billion in wholesale sales through the distribution of 86 million units or 315,000 kilograms of cannabis products across Ontario’s one million square kilometres. To achieve this, the organization made several strategic investments into its wholesale and distribution infrastructure. This included the full launch of our second fulfillment method: Flow-Through. Combined, the number of products held in-stock or sold through Flow-Through grew to 2,950 SKUs, a 46.5% increase over the previous fiscal year — providing retailers with more choice than ever. At the same time, end-to-end enhancements were made in the second half of the year to improve the flow of goods from producers to retailers. The organization also sought to increase the reliability of its wholesale delivery service to retailers after experiencing several growing pains alongside the rapid acceleration of the store network.

I am proud to share that the OCS has also taken meaningful steps in the past year to rebuild our relationship with our Authorized Cannabis Store customers. We have put more focus into building a Customer Experience culture that delivers on our “enabling” mission through: improved transparency of our operations and policies; increased engagement with the industry to provide greater clarity of operations; and

investments into research that will better support retailers in transitioning consumers from the illegal market. Notably, new functionality was added to our Business-to-Business (B2B) Portal to ensure our retail partners can see available product inventory in real time before making their wholesale purchases, ensuring they can more confidently purchase the product they need for their stores. By prioritizing fair and transparent operations, while remaining responsive to feedback from our industry partners, the OCS aims to build trust and ensure we can collectively work with the industry toward achieving the objectives for legalization.

Five years since legalization, combatting misinformation and presenting the facts about cannabis remains a top priority. In summer 2022, the OCS launched Cannabis Made Clear, an educational hub aimed at equipping Ontarians with the knowledge needed to make informed decisions about cannabis. To further deliver on our Social Responsibility Strategy, we introduced another Buy Legal campaign to promote Ontario’s Authorized Cannabis Stores, with the aims of combatting persistent stigma and promoting responsible purchasing and consumption within the regulated framework.

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On a personal note, I would like to extend my appreciation for the trust of the OCRC Board of Directors, and its leadership through the Chair, for appointing me in the role of permanent President and Chief Executive Officer. It continues to be a pleasure working with the Board, our talented Senior Leadership Team, all OCS staff and our dedicated industry partners toward a shared vision of enabling a vibrant cannabis marketplace in Ontario.

With our shift over the past fiscal year toward a clearer strategic focus, I’m confident the momentum achieved across all areas of our business will drive further progress in the immediate years ahead.



David Lobo  
President and CEO  
Ontario Cannabis Store

# PERFORMANCE HIGHLIGHTS

## A LOOK BACK: 2022-23

This past year marked the beginning of a transformation for the OCS. As the fourth year of legal cannabis sales in Ontario concluded and the fifth began, the OCS took steps to refocus its attention toward a clearer vision of enabling Canada's largest and most vibrant cannabis marketplace. As set out in its 2022-25 Business Plan, the agency began reorienting its operations toward three new multi-year strategic goals throughout fiscal year 2022-23.



**Building Best-in-Class Wholesale Capabilities**



**Enriching a Frictionless Customer Experience Through Digital Enablement**



**Championing the Legal Market and a Socially Responsible Industry**

### Building Best-in-Class Wholesale Capabilities

As Ontario's exclusive cannabis distributor, the OCS continued to invest in the wholesale and distribution infrastructure needed to facilitate future growth of legal sales. This was measured through:

**46.5% 10.2 310**

Growth in capacity to list SKUs

Completed inventory turns

Complaints per million units sold

### Enriching a Frictionless Customer Experience Through Digital Enablement

As wholesaler to 1,661 stores (as of March 31, 2023), the OCS began taking steps to enhance a seamless end-to-end customer journey and create simple self-service tools for Authorized Cannabis Stores. This contrasts with years past, where the OCS has focused its efforts on setting up initial platforms and processes to onboard new stores and grow Ontario's store network following the introduction of a private retail store model in spring 2019. Throughout 2022-23, the OCS established a foundation of wholesale policies rooted in the principles of fairness and transparency. This was measured through:

**97%**

Wholesale order fill rate

**4.9**

Retailer customer sentiment score

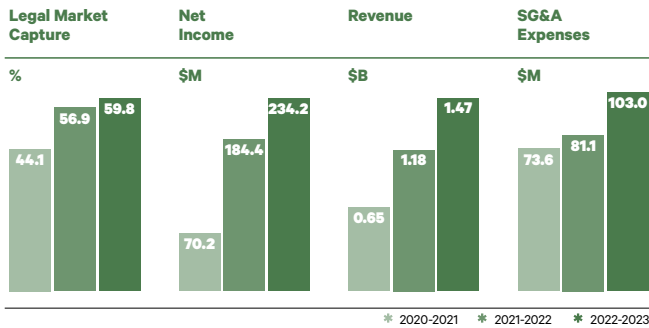
## Championing the Legal Market and a Socially Responsible Industry

In support of its social responsibility mandate, the OCS made greater efforts to educate Ontarians on the legal framework (an area of opportunity in the early years following legalization) and took initial steps toward building itself as a leader in promoting responsible consumption. This was measured through:

# 59% 155<sub>K</sub>

of frequent cannabis consumers agreed that purchasing cannabis legally is preferable to illegal purchasing

unique visitors to Cannabis Made Clear, the OCS's online educational platform



## Corporate Performance

To deliver on its mandate to ensure safe access to legal cannabis and eliminate the illegal market, and to achieve its financial commitments as an agency of the Government of Ontario, the OCS has seen consistent growth year-over-year in legal market capture, net income and revenue.

# 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 of recreational cannabis to private retail stores authorized by the Alcohol and Gaming Commission of Ontario (AGCO). The OCS also operates the provincial online store for recreational cannabis, which provides legal access to adults located across Ontario. The OCS was established as a government agency through the *Ontario Cannabis Retail Corporation Act, 2017* (the OCRC Act). As set out in the OCRC Act, the OCS is empowered to buy, possess and sell cannabis and related products, as well as promote social responsibility in connection with cannabis.

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

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

As a government business enterprise of the Government of Ontario, the OCS also generates net profits that, over time, may be remitted to the province to help fund priorities, such as public services and infrastructure.

In fulfilling its mandate, the OCS, through its Board of Directors, reports to the Minister of Finance and aims to operate efficiently and transparently. Through fiscal year 2022–23, the OCS focused on meeting priorities set out in its 2022–23 Annual Letter of Direction from the Minister of Finance while delivering on the objectives outlined in its 2022–25 Business Plan.

## Agency Accountability

As a Crown agency of the Government of Ontario, the OCS is subject to requirements set out in the Agencies and Appointments Directive. Under the oversight of its Board of Directors, the OCS has made substantial efforts to meet these accountability requirements. All documents are fully accessible on [OCS.ca](https://ocs.ca).

### The OCS's accountability publications include:

- Annual reports
- Business plans
- Financial statements
- Memorandum of Understanding between the Chair of the OCRC Board of Directors and the Minister of Finance
- Travel, meal and hospitality expense reporting for executives



# GET TO KNOW THE OCS

As a Board-governed Crown agency, strategic oversight of the corporation is managed by its Chair and Board of Directors. As outlined in the OCRC Act, the Board of Directors is appointed by the Lieutenant Governor in Council and is accountable to the Minister of Finance. Among its responsibilities, the OCRC Board of Directors appoints the agency's President and CEO, who is responsible

for leading all daily operations. The President and CEO appoints a Senior Leadership Team of executives to assist in their management of the agency's business areas. In support of its mandate and strategic objectives, the OCS is guided by a purpose, vision, mission and set of values that define who the OCS is and what the organization seeks to achieve.

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## OCS PURPOSE

**(Why We Exist)**

To foster a vibrant cannabis marketplace that connects all Ontarians to the benefits of legal cannabis.

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## OCS VISION

**(The World We Are Contributing To)**

Canada's largest and most vibrant cannabis marketplace.

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## OCS MISSION

**(Our Role)**

Enabling a vibrant marketplace through great customer experiences — rooted in selection, service and quality.

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## OCS VALUES

**(How We Achieve Our Role)**

### Customer Focus

We strive to provide outstanding service and support to all internal and external customers.

### Forward Thinking

We challenge the status quo and embrace continuous innovation.

### Pride in Service

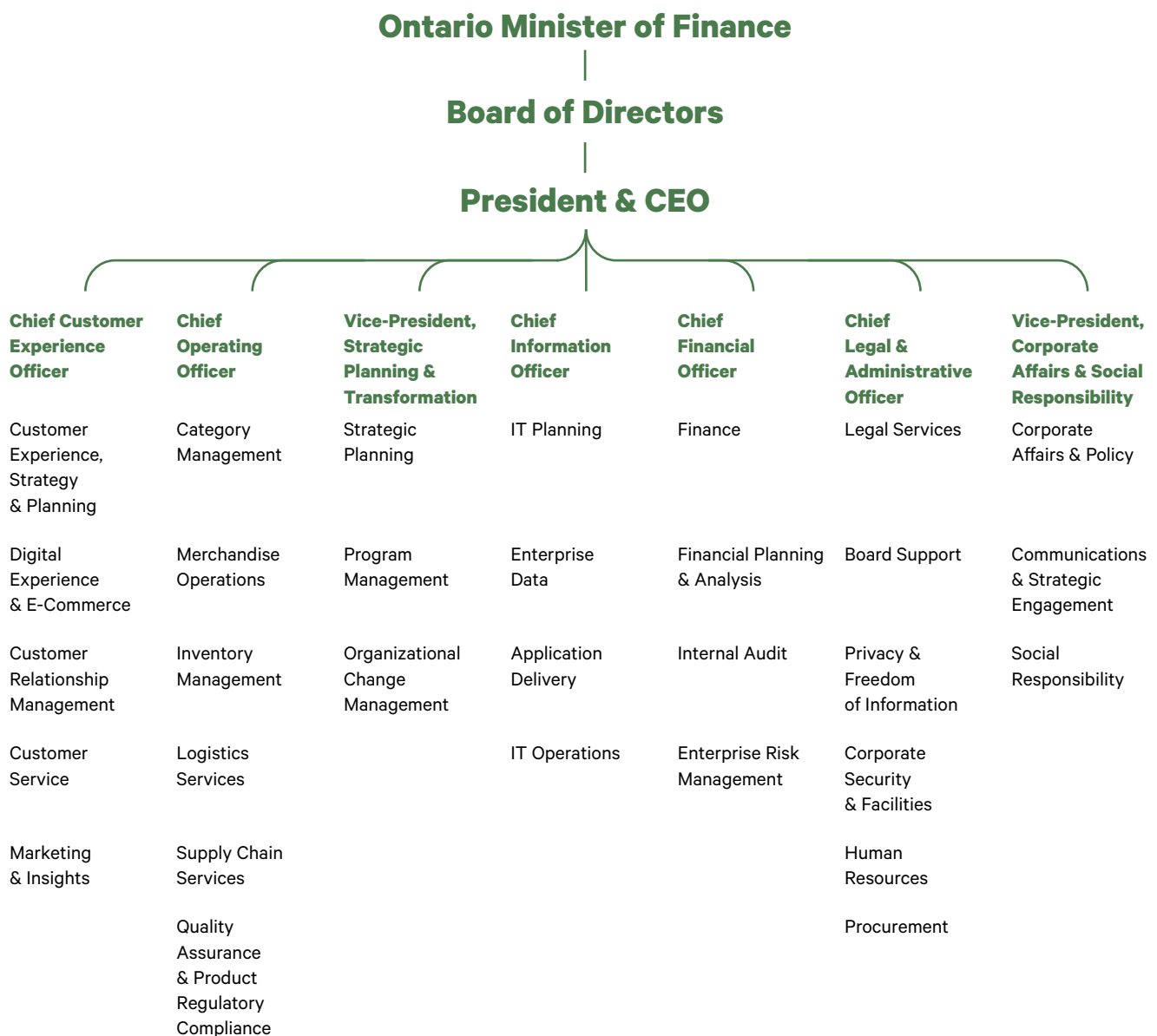
We act with the utmost integrity as proud public sector employees.

### Teamwork

We work together and we win together — leveraging our diverse individual strengths.

# OCS ORGANIZATIONAL CHART

The organizational chart below outlines each department and their subject matter areas of accountability as of March 31, 2023.



# OCRC BOARD OF DIRECTORS REMUNERATION<sup>1</sup>

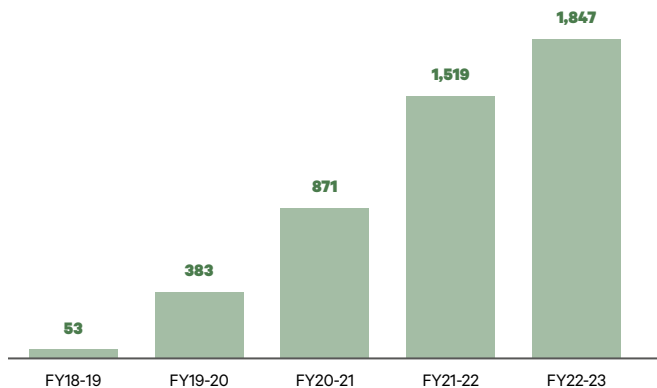
Board Member	Position	Term	Remuneration Paid in 2022-23
Connie Dejak	Chair	Dec. 2, 2020, to Dec. 1, 2025	\$19,950.00
Clare Copeland	Vice-Chair	Dec. 12, 2019, to Dec. 11, 2022	\$2,500.00
Hanoz Kapadia	Member	May 2, 2019, to March 31, 2021	\$14,385.80
Donna Duncan	Member	Nov. 13, 2019, to July 5, 2022	\$1,300.00
Kam Va Philip Leong	Vice-Chair	Aug. 27, 2020, to Aug. 26, 2023	\$6,500.00
Kelly Elwood	Member	Sept. 29, 2021, to Sept. 28, 2024	\$3,300.00
Michael Smoskowitz	Member	Nov. 25, 2021, to Nov. 24, 2024	\$2,800.00
Anthony Bavota	Member	Feb. 17, 2022, to Feb. 16, 2025	\$3,600.00
Rajesh Uttamchandani	Member	June 18, 2020, to June 17, 2025	\$4,200.00
Graham Coulson	Member	Jan. 19, 2023, to Jan. 18, 2026	\$200.00
Benson Lau	Member	Jan. 19, 2023 to Jan. 18, 2026	\$200.00
<b>TOTAL</b>			<b>\$58,935.80</b>

<sup>1</sup> Board remuneration for Hanoz Kapadia and Anthony Bavota for the 2021-22 fiscal year was paid out in fiscal year 2022-23.

# LEGAL RECREATIONAL CANNABIS IN ONTARIO: OPERATING ENVIRONMENT

Fiscal year 2022–23 marked the end of the fourth year of legal recreational cannabis sales in Canada and the start of the fifth. In Ontario, retail sales continued their trend of aggressive growth in the early years following legalization. The sections below detail drivers of this trend, including an evolving marketplace, the regulatory landscape and the economic environment.

## Legal Cannabis Sales in Ontario Since Legalization<sup>2</sup> (\$ Millions)



## Evolving Marketplace: Post-Pandemic Growth, Expanded Choice and New Participants

The Ontario marketplace continued to evolve substantially in 2022–23. During the first two fiscal quarters, activity across the province increased rapidly as Ontario took steps to recover following the global COVID-19 pandemic, which helped drive record growth of legal cannabis sales. By March 31, 2023, adults could make legal purchases through 1,661 Authorized Cannabis Stores in 351 Ontario communities. During this period, the rate of store closures also began to accelerate (with 144 closures in 2022–23). However, the rate of store openings continued to outpace overall closures, with a total of 201 additional stores operating as of March 31, 2023, compared to the previous year.

Although adult access to legal cannabis continued to increase, trends shifted from previous years. In smaller communities, new stores continued to emerge, providing more access to legal cannabis. By contrast, many densely populated communities experienced hyper-competition among existing and new retailers. Despite increased competition in some markets across Ontario, some stores were able to achieve sales growth, which may have been supported by an expanded OCS wholesale product catalogue. In particular, the selection of pre-rolls, infused pre-rolls, concentrates and beverages available to Authorized Cannabis Stores increased drastically over the course of several months. Additionally, an increasingly competitive production market drove innovations across product formulations (including the introduction of new minor and novel cannabinoids such as cannabigerol (CBG) and cannabichromene (CBC)), product packaging and branding, and product hardware.

Through 2022–23, the OCS continued to steadily onboard new Licensed Producers, which helped support the growth in product offerings. At the end of the fiscal year, the OCS partnered with 239 Licensed Producers (an increase of 90 compared to 2021–22) to offer 2,950 unique products. Many of these new partners include smaller producers, including those holding micro licences who often bring artisanal practices that have been cultivated through experience in the legacy cannabis marketplace (prior to legalization). Existing and new Licensed Producers combined have helped shape a more diverse cannabis marketplace in Ontario than in previous years.

## Evolving Regulatory Landscape

Recreational cannabis became legal in Canada following the enactment of the federal *Cannabis Act* on October 17, 2018. In the nearly five years since it was brought into force, the federal government continues to consult with industry and pursue regulatory changes that support its objectives for legalization.

In December 2022, Health Canada brought into force legal amendments to increase the public possession limits for cannabis beverages to a level that aligns with other forms of cannabis, such as solid edibles. Under the new rules, adults can now possess up to 17.1 L of cannabis beverages (48 units of 355 ml), up from approximately 2.1 L under previous rules (five units of 355 ml). The OCS worked with its industry partners to support this change, which increased the total number of beverages an adult can purchase from an Authorized Cannabis

<sup>2</sup> Statistics Canada. Table 20-10-0056-01 Monthly retail trade sales by province and territory (x 1,000)

Store during a single visit. Although the number of beverages that can be purchased has increased, existing public health and safety controls remain in place, including child-resistant packaging and limits on the amount of THC per container.

Under the *Cannabis Act*, the federal government was required to initiate a legislative review of the legal framework and its administration and operation within three years of legalization. A review was initiated in September 2022 with the appointment of an independent Expert Panel to evaluate whether the framework is achieving its intended objectives, including the public health, economic, social and environmental impacts of legalization. In support of the review, the OCS published a discussion paper — [Opportunities to Improve the Canadian Federal Cannabis Framework: Perspectives from the Ontario Cannabis Store](#) — outlining several challenges and opportunities Health Canada could consider as part of its evaluation. The OCS is committed to working alongside the Government of Ontario to provide advice to the Expert Panel as it works toward developing a report that will be tabled in the federal Parliament by March 2024.

In December 2022, the OCS became aware of public health concerns in the United States related to unregulated cannabis products containing delta-8 THC. Although unaware of any adverse reactions in the legal cannabis market in Canada, the OCS made the decision to temporarily pause the purchase and sale of these products until such time as clearer public health guidance is made available by Health Canada. Since then, several other provinces have taken similar steps, recognizing limited public guidance on the safety of intoxicating minor cannabinoids.

In Ontario, the provincial regulatory framework for retail stores is designed to support a well-regulated and competitive cannabis marketplace for the benefit of Ontarians. In support of these objectives, the [AGCO brought into force updates to its Registrar's Standards for Cannabis Retail Stores](#) in June 2022 to provide Authorized Cannabis Stores with greater clarity on rules that prohibit them from accepting or requesting material inducements from Licensed Producers. Notably for the OCS, the updates clarified that Licensed Producers and Authorized Cannabis Stores can enter into agreements to produce “store-branded” cannabis products. The updates were intended to support consumer choice and a level playing field in the legal cannabis industry.

## Evolving Economic Environment: Inflation vs. Price-Compression, Access to Capital

As a relatively new legal sector of Canada’s economy, the recreational cannabis marketplace has many opportunities to continue to improve and establish itself for decades to come. However, as in other sectors, broader economic conditions throughout 2022–23 had a notable impact on the cannabis industry. As Ontario and the global community emerged from the COVID-19 pandemic, the economic environment was characterized by geopolitical instability, rising interest rates, ongoing supply chain disruptions and higher levels of inflation. Specifically, the Consumer Price Index in Ontario rose 6.5% on an average basis in fiscal year 2022–23.<sup>3</sup>

In contrast with the rising costs of goods across most other sectors, prices of legal cannabis products remained flat, or declined due to further price compression, given the level of competition across the retail cannabis marketplace. Nonetheless, broader economic conditions impacted operating costs for participants across the sector, including the OCS, Licensed Producers and Authorized Cannabis Stores. In response, the OCS made a strategic decision to absorb its increased costs of service, including higher retail delivery and distribution costs. The OCS also looked for opportunities to improve the conditions for its partners, including through modifying its processing time for payments to Licensed Producers, and prioritizing the development and release of its new pricing strategy.

During the 2022–23 fiscal year, the OCS also observed an increase in restructurings, consolidation or market exits among Licensed Producers. This trend reflected the continued hyper-competitive nature of the cannabis industry, and macro-economic challenges, including a tightening of capital budgets, reduced tolerance among investors for loss-funded growth, and the burden of higher interest rates and input costs.

Despite these trends, the OCS continued to witness a growing marketplace with more than sufficient supply to meet consumer demand. Of note, market share among producers and retailers continues to shift and is expected to evolve further in the coming years.

<sup>3</sup> Statistics Canada. Table 18-10-0004-01 Consumer Price Index, monthly, not seasonally adjusted

# STRATEGIC DIRECTION: KEY ACTIVITIES AND OPERATIONAL PERFORMANCE

Each year, the OCS receives an Annual Letter of Direction from the Minister of Finance that outlines the Government of Ontario's priorities and expectations for the agency. In 2022-23, the OCS was directed to continue efforts to enable a vibrant legal marketplace that helps combat the illegal market, supports the introduction of a diverse and innovative

assortment of quality-tested products into the market, and advances social responsibility efforts in the industry. The agency's plans for delivering on these expectations were set out in its 2022-25 Business Plan. The following sections provide an overview of the agency's progress toward meeting these goals and objectives during the 2022-23 fiscal year.



## Corporate Priorities

### Objective 1: Building Best-in-Class Wholesale Capabilities

- Increase capacity to list SKUs by 50% (year-over-year)
- Complete 10 inventory turns annually at the OCS distribution centre
- Reduce complaints per million units sold by 3% (year-over-year)

### Objective 2: Enriching a Frictionless Customer Experience Through Digital Enablement

- Fulfill 94% of retailers' wholesale orders
- Target 6/10 retailer customer sentiment score

### Objective 3: Championing the Legal Market and a Socially Responsible Industry

- Achieve 60% agreement among frequent cannabis consumers that purchasing cannabis legally is preferable to purchasing illegally
- Target 10,000 views on the OCS Social Responsibility website

# CORPORATE PRIORITIES

## Objective 1: Building Best-in-Class Wholesale Capabilities

Each day, the OCS distributes over 1,100 kilograms of cannabis to Authorized Cannabis Stores and adult consumers across the province. Throughout the fiscal year, the OCS continued to make proactive investments to build robust wholesale infrastructure and systems to help grow its product offerings, make targeted improvements to its service delivery levels, enhance its quality-control processes and increase transparency around its policies.


### Enable Product Assortment Expansion

In an increasingly competitive legal marketplace, retailers have asked the OCS for greater product choice to help them diversify their offerings from competitors and better meet the demands of consumers. To address these requests, the OCS worked collaboratively with Licensed Producers over the past year to better forecast in-demand products and improve the flow of goods into Ontario, while also continuing to improve its

product category management practices, which are needed to list a large volume of SKUs in its wholesale catalogue. By expanding its product offerings, the OCS enables retailers to curate their inventories, extend a broader range of choices to consumers and provide a compelling alternative to illegal sources.

In support of these efforts, the OCS partnered with over 239 Licensed Producers (90 more than in 2021–22) to grow its product catalogue to 2,950<sup>4</sup> unique SKUs by the end of the fiscal year. As new SKUs are introduced, the OCS also works with its suppliers to retire products that no longer fit the catalogue’s assortment needs.

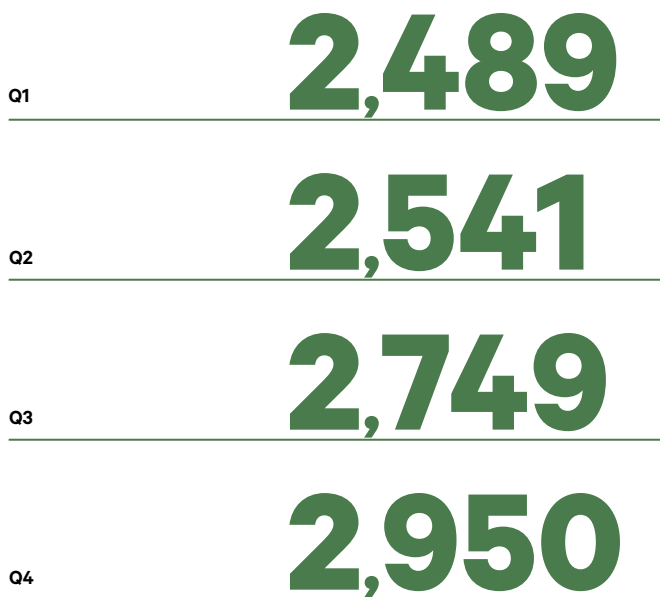
Building on progress made in fiscal year 2021–22 to enhance its end-to-end Product Call process, the OCS introduced 600 to 800 unique SKUs each quarter to facilitate the introduction of many new and innovative products to the market. To ensure the OCS maintains a balanced, innovative and fast-moving product offering, the agency also created a new Product Lifecycle

Objective	Key Performance Indicator	Description	Progress
 <p><b>Building Best-in-Class Wholesale Capabilities</b></p>	50% growth in capacity to list SKUs (year-over-year)	Measures growth in the OCS’s ability to expand its product assortment	The OCS made significant strides toward this goal, achieving a 46.5% growth in capacity to list SKUs (year-over-year)
	Complete 10 inventory turns annually at the OCS distribution centre	Measures how often inventory held in-stock is depleted and replenished, supporting product quality (e.g., newer, fresher products being added at each turn)	The OCS exceeded its target and completed 10.2 inventory turns
	Reduce complaints per million units sold by 3% (year-over-year)	Measures consumer satisfaction	The OCS received 310 complaints per million units, falling short of its target

<sup>4</sup> Represents total SKUs listed as of March 31, 2023, including new SKUs added and removed from the catalogue throughout fiscal year 2022–23.

Management program. This program will be implemented in 2023–24 and will focus on managing a product’s journey through the different fulfillment models (General Listing Stocked, Flow-Through and Farmgate), ensuring efficient inventory management and retailer satisfaction when placing wholesale orders.

**SKU Count**  
for Fiscal Year 2022–2023



**Improve Demand-Based Inventory, Fulfillment and Delivery Service Levels**

The OCS continued to make investments in its wholesale and distribution infrastructure to enhance supply chain efficiencies and improve retailer access to new and innovative products. In 2022–23, the OCS completed the implementation of a new Supply Chain Planning Tool, improved self-service reporting to Licensed Producers through its Advance Purchase Order Program and implemented changes to its distribution centre booking software based on supplier feedback.

To increase the consistency of fulfillment and delivery service to retailers, the OCS implemented a series of improvements in Q3 and Q4, including new fulfillment quality assurance processes, improved internal measurement of key delivery metrics and a reduction in its delivery window after a temporary increase in Q2 following capacity challenges.

In Q1, the OCS also completed the transition to a Hub-and-Spoke delivery model. Initially implemented in select regional

markets in Q4 of 2021–22, Hub-and-Spoke was expanded in 2022–23 to the entire distribution network. Under this model, store orders are routed from the distribution centre to regional hubs across Ontario, where they are sorted before being shipped directly to Authorized Cannabis Stores. As part of this initiative, the OCS transitioned from 26-foot delivery trucks to smaller trucks, which transport smaller boxes instead of pallets to retailers. The shift to smaller trucks offers several advantages, notably improved manoeuvrability, which makes it easier to navigate through metropolitan areas and access the loading areas at Authorized Cannabis Stores. As a result of this change, the OCS was able to reduce both delivery times and costs, creating a more efficient and seamless delivery process for its retail partners.

Recognizing the need for efficiency and scalability to support an increasingly competitive market, the OCS has been actively implementing automated processes and planning systems to streamline its wholesale operations. For example, in Q1 of 2022–23, the OCS introduced a pick tower and conveyor control system with “pick-and-pass” capabilities at its distribution centre to help serve its wholesale customers faster and more efficiently. These automated processes and planning systems have transformed order processing speeds, minimized order turnaround times and increased flexibility, resulting in an improved customer experience.

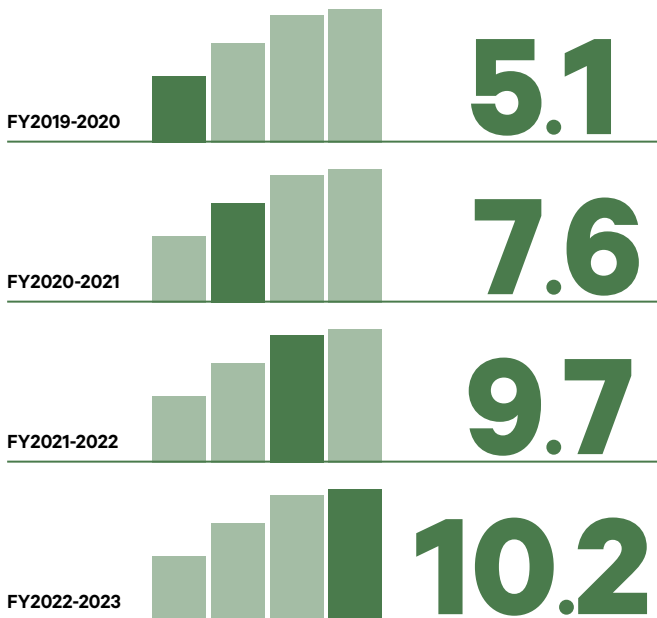
*Flow-Through “1.0”*

In 2022–23, the OCS rolled out a full-scale launch of its Flow-Through distribution model (following a limited pilot at the end of 2021–22). As a secondary distribution method, Flow-Through allows retailers to order from an expanded catalogue of wholesale exclusive items that are not stocked in the OCS’s distribution centre and not available for purchase on OCS.ca. This model enables retailers to stock unique and seasonal innovations based on real demand and gives Licensed Producers the ability to list more products with the OCS. Flow-Through provides a unique opportunity for both retailers and producers to differentiate themselves, further enabling a vibrant marketplace. In turn, this has allowed the OCS to stock in its warehouse higher-demand products and to refine its inventory management practices, including increasing inventory turns so that stocked products are continuously replenished to ensure freshness. By March 31, 2023, the OCS completed 10.2 inventory turns (compared to 9.7 the year prior). The OCS will continue to monitor this key inventory metric to support product quality and freshness targets while ensuring the increase and diversification of product offerings continues to be driven by consumer demand.

Over the past year, the OCS began to grow and transition products to its Flow-Through catalogue, onboarding 305 SKUs from 90 Licensed Producers. In practical terms, this meant that



### Inventory Turns Number of Inventory Turns per Year



the agency shipped 1.4 million units through the Flow-Through model to nearly 1,600 Authorized Cannabis Stores. Further investments are expected in 2023–24 to grow and improve Flow-Through as a secondary distribution method, including by increasing the value for both retailers and producers.

#### Reduce Product Quality Complaints

The OCS acknowledges the efforts Licensed Producers have made in advancing product development and execution, which have led to significant improvements in product quality since legalization. That said, consumer complaints — measured as complaints received per million units sold — has increased alongside broader catalogue and volume growth, highlighting the need for the OCS to take a stronger role in raising quality requirements for all products it lists.

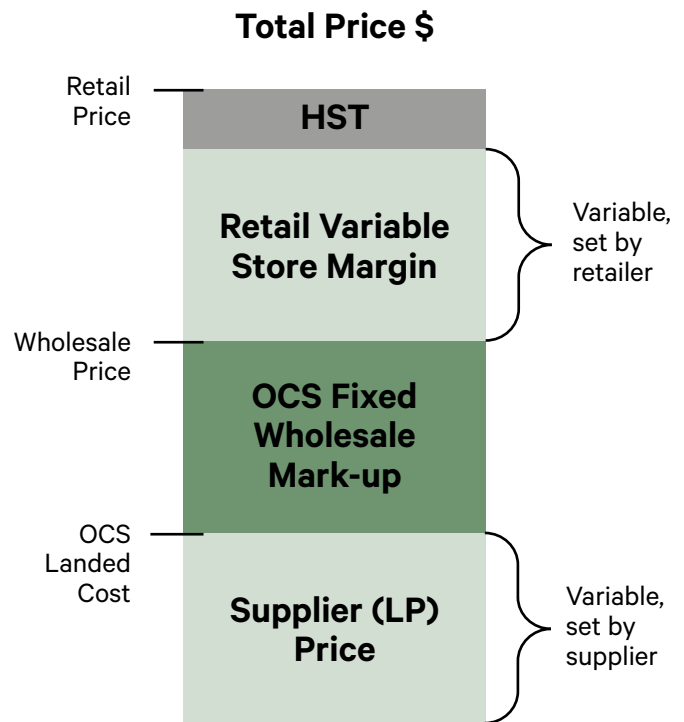
To reduce product quality complaints and ensure the sale of safe, reliable and high-quality cannabis products, the OCS has implemented several measures over the past year to complement its existing quality assurance processes. This included investments into improved quality case management processes to manage, track and resolve product quality complaints more effectively. The OCS expects to share improved data insights into product performance regarding customer complaints with Licensed Producers in early 2023–24, which will support continuous quality improvement across the OCS’s product catalogue. Furthermore, the OCS optimized

its internal product review process by requiring Licensed Producers to verify important product information to ensure products sold to the OCS meet Health Canada’s regulatory standards. Through these measures, the OCS aims to minimize consumer complaints and reinforce confidence in the legal, regulated supply chain.

#### Increase Transparency Around Pricing Policies

In Q4, the OCS announced it will transition away from a variable pricing approach toward a fixed mark-up pricing model to increase transparency into how wholesale pricing decisions are made and provide greater consistency for Licensed Producers. Mark-ups will be publicly posted, which will provide producers with greater certainty when planning. Under this model, a fixed mark-up will be set for each product category (e.g., dried flower, pre-rolls and beverages), and applied as a percentage above the landed cost (which includes producer margin and excise duty) to arrive at the wholesale price.

#### New Pricing Structure: Fixed Wholesale Mark-up



Alongside these structural changes, the OCS will be reducing its margins. Reduced margin levels are expected to support a vibrant marketplace that is better positioned to compete with illegal operators. Consistent with its commitment to social responsibility, mark-ups will be strategically lowered to encourage consumers to purchase products that do not require smoking or vaping, such as edibles and topicals. However, the margin on dried flower will be the lowest of any product category to compete effectively with the illegal market.

Once implemented in Q2 of 2023–24, it is estimated that these margin reductions will contribute approximately \$35 million into the marketplace in 2023–24, with a full fiscal year reduction in 2024–25 estimated at approximately \$60 million and compounding annually in years thereafter as the market grows.

### Fixed Wholesale Mark-up Rates by Subcategory

Dried Flower	23%	Capsules	25%	Infused Pre-Rolls	29%
Pre-Rolls	29%	Vapes	25%	Edibles	25%
Oils	25%	Concentrates	25%	Beverages	25%
Topicals	25%	Seeds	25%	Accessories	20%

## Objective 2: Enriching a Frictionless Customer Experience Through Digital Enablement

Over the past year, the OCS began optimizing its tools and processes for its retail partners. The aim is to minimize time retailers spend on the OCS’s digital platforms or interacting with the OCS to get a satisfactory wholesale experience, allowing them to focus on growing their business and engaging with consumers. To achieve this, the OCS increased the fairness and transparency of its product ordering processes and improved the data and digital tools available to Authorized Cannabis Stores.

### Fair and Transparent Policies

Over the course of the fiscal year, the OCS transformed its wholesale ordering process to reduce friction for its retail partners. In support of these efforts, the OCS consulted with retailers on opportunities to improve their ordering process and found that retailers need greater transparency into the availability of products that they intend to order. In December 2022, the OCS introduced a new “Spend Open-to-Buy” initiative with two major changes in functionality to its B2B ordering platform.


The first new feature provided visibility into on-hand OCS inventory, allowing retailers to know the quantities of individual SKUs available to them to purchase on their ordering day. The second new feature allowed retailers the ability to “Click-to-Buy,” providing them with a higher level of confidence that a product confirmed in their digital cart will be fulfilled.

Combined, these new features have given retailers greater confidence in the OCS wholesale ordering experience.

To ensure that retailers understand the new ordering processes and benefits of Spend Open-to-Buy, the OCS conducted focused training sessions that resulted in 67% of the entire retailer network being trained in five weeks. By improving the ordering process, the OCS aims to reduce the time retailers spend navigating wholesale platforms so that they can focus more on growing their business and engaging with their customers. The introduction of Spend Open-to-Buy highlights the OCS’s continued commitment to working collaboratively with its industry partners to deliver a frictionless customer experience and has set a new standard for the rollout of major initiatives to retailers.

### Simplified Self-Serve Tools for Retailers

Complementing the introduction of Spend Open-to-Buy, the OCS made additional enhancements to its B2B Portal to further improve the wholesale experience for its retail partners. Since its launch in 2021–22, the B2B Portal has created significant efficiencies to the product ordering cycle and provides Authorized Cannabis Stores with an integrated wholesale ordering platform. However, the OCS recognizes the need to continuously improve this self-serve tool to better respond to evolving retailer needs. Recent improvements to the B2B Portal include a suite of navigation and user experience enhancements that reduce friction during the product ordering process and help retailers better plan their assortment needs. Additional data was gathered in 2022–23 that will inform further enhancements to the platform in the year ahead.

Goal	Key Performance Indicator	Description	Progress
 <p><b>Enriching a Frictionless Customer Experience Through Digital Enablement</b></p>	Target 94% wholesale order fill rate	Measures the percentage of wholesale orders the OCS successfully fills without short shipments	Achieved 97% wholesale order fill rate
	Target 6/10 retailer customer sentiment score	Measures the level of satisfaction Authorized Cannabis Stores have in OCS operations	4.9/10 retailer customer sentiment score. While this is short of the 6/10 target, the OCS observed progress from the start of the fiscal year

**Convenient Access to Data Analytics and Consumer Insights**

As Ontario’s cannabis market evolves, the OCS continues to evaluate emerging market trends and consumer preferences to better understand the desires, perceptions and beliefs that motivate a decision to purchase cannabis. Given its role as Ontario’s exclusive cannabis distributor, the OCS is well positioned to invest, aggregate and distribute reliable marketplace data analytics and consumer insights to retailers for use in helping to attract consumers away from the illegal market.

In 2022–23, the OCS made refinements to its existing retailer data platform, which provides retailers with access to product inventory, pricing and sales trends. These functional updates made the platform more intuitive and user-friendly, ensuring that retailers can easily navigate and extract meaningful insights from the available data. To support retailers in effectively using the platform, the OCS conducted training sessions on its updated features, functionalities and capabilities so that retailers have the knowledge and skills necessary to leverage the data effectively for their business needs. Equipping retailers with valuable data and providing them with the tools to make informed ordering decisions supports the OCS’s objective to enable a more vibrant retail market in the province.

In the past year, the OCS also continued to make notable investments into proprietary research and identifying practical consumer insights for use by the legal marketplace. Efforts include the launch of a new quarterly publication, The Spark, and distribution of updated consumer segmentation and journey pieces of research.

During the 2022–23 fiscal year, the AGCO and the OCS jointly developed and launched a new approach to cannabis reporting to reduce the regulatory burden on retailers when fulfilling their federal regulatory reporting requirements. This new streamlined Point-of-Sale (POS) Data Reporting Platform will integrate directly with retailers’ in-store POS systems to automatically extract, standardize and automate monthly reports directly, eliminating the need for manual preparation and submission of monthly reports by retailers. The POS Data Reporting Platform will continue to be rolled out with POS providers onboarding retailers throughout the 2023–24 fiscal year. You can find more information on the POS Data Reporting Platform on the [AGCO’s website](#).

**Revised Customer Experience Operating Model**

In response to feedback from retailers in past years, the OCS transitioned to a new Customer Experience (CX) operating model. This included efforts to bring together all customer facing roles at the OCS under clearer standards of

accountability and service levels for retailers to align them with the OCS mission of enabling a vibrant cannabis marketplace. While the transition for the OCS to become a truly CX organization is a multi-year process, feedback from retailers on these changes has been positive to date.

### Objective 3: Championing the Legal Market and a Socially Responsible Industry

Social responsibility is a core part of the OCS’s mandate and plays a fundamental role in supporting the OCS’s objective of enabling a vibrant marketplace. The OCS has made early strides toward delivering against its multi-year Social Responsibility Strategy to advance cannabis knowledge and promote responsible consumption, support a diverse and inclusive industry, and establish a foundation for sustainability.

At the same time, in these early years following legalization, the OCS has an opportunity to be an enabler of a vibrant cannabis marketplace by driving awareness and education on legal cannabis and the benefits of a regulated framework.

#### Educating Ontarians


In Q3 of 2022–23, the OCS launched its second Buy Legal public education campaign. The campaign aimed to educate Ontarians on the benefits of the regulated legal cannabis framework and to build awareness on where legal cannabis can be purchased. The results were positive. The campaign successfully increased consideration to purchase legal among frequent consumers by 8% to 76%. Additionally, it contributed toward a surge in traffic to the [Authorized Cannabis Store locator tool](#) on OCS.ca.

In April 2022, the National Research Council Canada and Ontario Provincial Police released a study that tested illegal cannabis seized from across the province. The study revealed that illegal products failed to disclose THC amounts, and in

cases where this information was listed, actual amounts were 20% to 50% below the THC content listed. Notably, the study also found that illegal products had dangerously high levels of harmful toxins and pesticides not authorized for use on cannabis. This study underscores the importance of directing consumers toward legal sources, where they can confidently purchase cannabis products that meet strict regulatory standards.

The efforts made by the OCS and its retail partners to educate consumers have begun to pay dividends. A recent study of Ontarians by the OCS and the Angus Reid Institute indicated a positive shift in the attitudes toward cannabis. According to this study, more than three-quarters (76%) of Ontarians perceive legalization of cannabis as being good or mostly good for Canada. For those with negative views toward cannabis, 27% still perceive legalization as a good thing. Nearly two-thirds (64%) say access to safe cannabis products is a significant benefit of cannabis legalization.

Toward the end of the fiscal year, the OCS began to prepare for the inaugural launch of its Social Impact Fund, which will invite incorporated not-for-profits, registered charities and research and academic institutions to submit applications to fund community and research-driven initiatives. Expected to launch in Q1 of 2023–24, funded programs, initiatives and research will benefit the broader Ontario community, clearly demonstrate social impact, and support the OCS’s broader corporate and social responsibility objectives.

Goal	Key Performance Indicator	Description	Progress
 <b>Championing the Legal Market and a Socially Responsible Industry</b>	60% agreement among frequent cannabis consumers that legal purchasing is preferable to illegal purchasing	Measures how well Ontarians are educated on the benefits of legal cannabis	59% agreement among frequent cannabis consumers that purchasing cannabis legally is better than illegal
	Target 10,000 views on OCS Social Responsibility website	Measures the number of unique visitors to OCS’s Social Responsibility platform on OCS.ca	Exceeded target by achieving 155,000 unique visits

### The OCS as a Trusted Brand

In the past year, the OCS placed a strong emphasis on establishing itself as a trusted authority on legal cannabis. In pursuit of this goal, the OCS expanded the range of product information and education resources available on OCS.ca, while targeting individuals who purchase cannabis from illegal sources. Providing more robust product information also empowers employees of Authorized Cannabis Stores to effectively educate consumers, making it easier for consumers to navigate and purchase legal cannabis.

The OCS continues to create “spotlights” that showcase local Licensed Producers and employees of Authorized Cannabis Stores on OCS.ca, including several content series, such as “Meet the Masters [Growers]” and “Ask a Bud[tender]”. Through these spotlights, the public gets a behind-the-scenes look into the industry, drawing attention to the flourishing legal cannabis marketplace in Ontario. This complements the OCS’s curated “[Ontario-Grown](#)” and “[Craft Cannabis](#)” product lists, available on OCS.ca. Together, these initiatives not only offer exposure for local and small businesses but also foster a sense of community and trust among consumers.

### Promoting Responsible Consumption

In summer 2022, the OCS launched [Cannabis Made Clear](#) — an online, non-age-gated educational platform providing clear, non-biased, evidence-based information about cannabis, responsible consumption and the differences between legal and illegal cannabis products. The platform’s purpose is to increase cannabis literacy for all Ontarians, with a focus on responsible consumption and harm reduction. Topics featured on Cannabis Made Clear include responsible use, legal use, health effects and cannabis and youth. The information found in Cannabis Made Clear is based on leading research and public health guidance and is bolstered by the expertise of the peer reviewers from across Canada who helped ensure its accuracy. The OCS will continue to update and improve the information available on Cannabis Made Clear to reflect the growing body of science around cannabis and to reflect what Ontarians want to learn.

As the legal industry continues to evolve and mature, the importance of collaboration, idea exchange and innovation is clear. With this in mind, the OCS actively supported and participated in various conferences and trade shows over the fiscal year, including Hall of Flowers, the Lift Expo and Business Conference and the KIND Winter Fair. The OCS also hosted a Black History Month event at Centennial College to honour and celebrate the contributions of Black entrepreneurs in Ontario’s cannabis industry. The OCS’s participation in conferences and trade shows underscores its commitment to fostering positive relationships within the industry and advancing its social responsibility strategy.

The OCS remains committed to supporting diversity, equity and inclusion across the industry by increasing participation by under-represented groups. The OCS believes that a more vibrant cannabis marketplace is one that is more reflective of our diverse population in Ontario. In support of this objective, the OCS launched a retail diversity survey, in partnership with Dr. Akwasi Owusu-Bempah from the University of Toronto, to provide a baseline understanding of leadership diversity in Ontario’s retail sector. Additionally, the OCS understands there may be financial barriers to participating in cannabis industry events for equity deserving groups, which can provide valuable networking opportunities with industry partners, government stakeholders and consumers. That is why the OCS sponsored 10 equity grants to support the participation of Ontario Authorized Retailers and small-scale Licensed Producers at the CannExpo event in March, with a focus on businesses owned by Black, Indigenous and other equity deserving groups.

The OCS is committed to building a foundation for more environmentally sustainable practices in Ontario’s cannabis sector. To this end, the OCS completed its first environmental assessment across the organization and four OCS employees completed their Climate Smart training, which focuses on how to understand, measure and reduce emissions. The OCS also initiated a Life Cycle Assessment Study, an internationally recognized systematic analysis of the potential environmental impacts of 3.5 grams of dried flower from seed-to-sale, to help the organization understand where it can have the most impact on reducing the environmental footprint of its operations.

# AGENCY RISKS AND MITIGATION PLAN

Throughout 2022–23, the OCS continued to make significant progress toward implementing and enhancing its enterprise risk management framework. Through its oversight role, the agency's enterprise risk management framework helps the Board of Directors identify, assess, monitor, mitigate and report on risks to the Minister of Finance, as required. Set out below are the key risks and mitigation strategies the OCS actively managed over the past year.

## **Enforcement Against the Illegal Market**

Sales made through illegal sources continued to pose health and safety risks to adult consumers and youth. Unregulated products may be of uncertain quality and could contain contaminants or other substances that could be harmful to consumers, and these products could be attractive to youth. Several recent studies have suggested, for instance, that THC claims on illegal products are often inaccurate, and that illegal products may contain dangerous amounts of pesticides, bacteria, fungi, lead and arsenic. Although the OCS is taking steps to support adult access to legal, regulated products, it does not have a mandate to engage in enforcement against the sale and distribution of illegal, unregulated cannabis products.

Where possible, and to support their independent roles, the OCS continues to educate the Government of Ontario, the Ontario Provincial Police, the AGCO and other enforcement agencies on the evolution of the legal cannabis marketplace in Ontario, and its latest consumer insight research. Through its Buy Legal campaign and educational hub, Cannabis Made Clear, the OCS has made increasing public awareness of the legal cannabis market and promoting responsible consumption a top priority.

## **Evolving Economic and Marketplace Conditions**

As the OCS and its industry partners continue to operate in a nascent legal marketplace, economic and marketplace risks may impact the OCS's ability to enable a vibrant cannabis marketplace and divert sales away from an entrenched illegal market. To mitigate this risk, the OCS continued to invest in improving its service levels to Authorized Cannabis Stores and creating a business-friendly environment for Licensed Producers supplying Ontario. This includes targeted proactive investments in core infrastructure and self-serve digital tools ahead of consumer demand and sales growth.

In Q4 of 2022–23, the OCS announced that it will move to a fixed mark-up pricing model that will create greater transparency and consistency for Licensed Producers. With this change, it is estimated that OCS margin reductions will contribute approximately \$35 million into the marketplace in 2023–24, with a full fiscal year reduction in 2024–25 estimated at approximately \$60 million and compounding annually in years thereafter as the market grows. Reduced margin levels are expected to help enable a vibrant marketplace so that it is better positioned to compete with illegal operators.

In addition, the OCS streamlined insurance requirements for Authorized Cannabis Stores and eliminated the Product Recall insurance requirements for Licensed Producers to create financial savings for regulated parties across the industry and expedited its processing time for payments to Licensed Producers.

## **Cyber Security and Distribution Challenges**

In August 2022, the parent company of the OCS's third-party operated distribution centre, Domain Logistics, was targeted in a cyber incident. Out of an abundance of caution to protect the OCS and its customers, the decision was made to shut down Domain Logistics' operations until a full forensic investigation could be completed. Following a thorough investigation, Domain Logistics concluded that none of the OCS's systems or customers' information was compromised during the incident and service levels returned to normal as quickly as possible.

Since then, the OCS has worked with Domain Logistics to prioritize more robust business continuity planning and mitigation preparations. Additionally, significant investments have been made to improve service reliability to retailers, with a Perfect Order Index (a metric by which reliability is measured) scoring 93.2% in Q4.

To safeguard itself, the OCS has also implemented several new internal controls and monitoring tools and began measuring its cyber defences against internal standards, including Center for Internet Security (CIS) and ISO frameworks. Through its dedicated information security team and regular employee training and awareness among OCS employees, the agency is taking steps to reduce the impact of any potential future cyber security incidents. The OCS also requires its vendors to have similar internal controls and monitoring tools in place to protect against cyber threats.

**Employee Retention**

Many organizations, including the OCS, are currently experiencing impacts on employee retention due to greater competition in the job market, particularly for information technology professionals. The OCS has completed a comprehensive analysis of its compensation package for competitiveness in the marketplace and implemented changes to the compensation package to align with market conditions and to comply with the *Protecting a Sustainable Public Sector for Future Generations Act, 2019*.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Results Overview

This financial information discussion, which presents the OCS's results for the fiscal year ended on March 31, 2023 (fiscal year 2022–23), should be read in conjunction with the 2022–23 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

Though performance in 2022–23 grew substantially compared to 2021–22, the marketplace, while still in a nascent stage, has begun a transition from its early years (where initial access drove significant early growth) to one of increasing maturity (where growth may be more incremental and tempered year-over-year).

In response, the OCS has shifted its focus to investing in the wholesale infrastructure that will be needed to facilitate future growth, reducing friction for retailers through a seamless customer experience, and increasing efforts in driving awareness of the benefits of the legal market and promoting social responsibility. Combined, early steps across these priorities have helped the OCS enable a more vibrant cannabis marketplace than in 2021–22 and allowed the agency to generate \$234.2 million in net income for 2022–23. This represents an increase of \$49.8 million, or 27.0% compared to \$184.4 million in 2021–22.

In 2022–23, the OCS continued to observe increases to wholesale revenues, alongside decreases to OCS.ca channel revenue. Decreases in OCS.ca revenues reflect a continued shift toward consumer purchases made through Authorized Cannabis Stores (where in-store education has proven helpful for consumers navigating a growing legal assortment). The OCS also made considerable efforts to improve its wholesale service levels to retailers in 2022–23, and deprioritized large or material enhancements to OCS.ca.

Throughout the fiscal year, consumer access to retail stores increased with net new store openings and greater access to store-exclusive products fulfilled through the Flow-Through distribution model. Selling, general and administrative (SG&A) expenses remain consistent year-over-year as a percentage of omni-channel revenues, reflecting appropriate management of agency initiatives and costs.

During the fiscal year, the OCS experienced a notable increase in finance income of \$14.7 million, primarily driven by favourable interest rate hikes influenced by Bank of Canada monetary policy adjustments. These rate increases positively impacted the OCS's interest-bearing cash balances, resulting in higher yields and increased income generation compared to previous periods. The OCS will continue to assess working capital requirements and appropriately manage cash balances to further investments that continue transforming the business and support dividends to the province over time.

As of March 31, 2023, the OCS held \$113.5 million in inventory (compared to \$74.9 million as of March 31, 2022). Inventory levels increased year-over-year due to overall increases in revenue primarily driven by increased SKU availability, fulfillment method additions and the nominal net increase of Authorized Cannabis Stores across Ontario. In addition, the OCS increased product offerings by 46.5% year-over-year to meet evolving consumer preferences and demand for a diversification of product offerings.

## Revenue

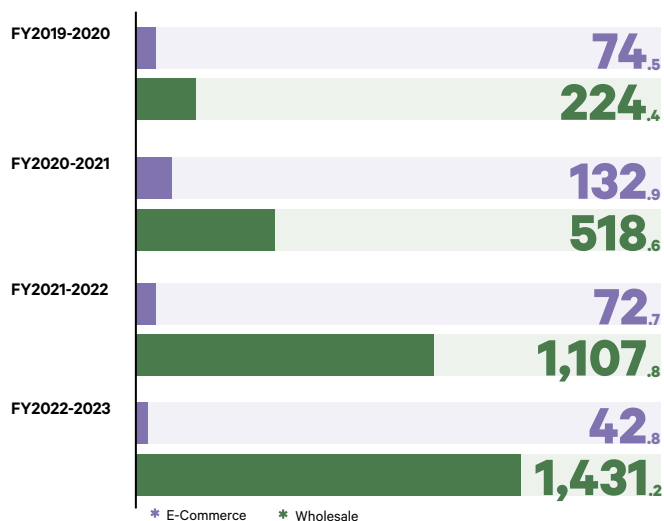
### Omni-Channel Revenue

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.”

The total revenue for the OCS omni-channel in 2022–23 reached \$1,474.5 million, marking a growth of \$293.7 million compared to \$1,180.8 million in 2021–22.

The omni-channel gross margin, calculated as the revenue from both channels (wholesale and OCS.ca) less product, delivery and transaction-fee costs, amounted to \$323.3 million, representing 21.9% of total revenue.

### Omni-Channel Revenue (\$ Millions)



### Wholesale Channel Revenue

By the end of 2022–23, the wholesale channel accounted for 97.1% of total revenue, compared to 93.8% at the end of 2021–22. Wholesale revenue was \$1,431.2 million in 2022–23, compared to \$1,107.8 million in 2021–22, an increase of 29.2%.

### Wholesale Channel Revenue

Category	FY2022-2023		FY2021-2022	
	Revenue (\$M)	Revenue Share (%)	Revenue (\$M)	Revenue Share (%)
Dried Flower	610.9	42.7	597.3	53.9
Pre-Rolls	277.6	19.4	176.6	15.9
Oils & Capsules	49.5	3.4	44.5	4.0
Vapes & Concentrates	380.1	26.6	207.9	18.8
Edibles	64.2	4.5	50.1	4.6
Beverages	38.9	2.7	20.1	1.8
Topicals	5.2	0.4	6.7	0.6
Accessories	4.8	0.3	4.6	0.4
<b>Total</b>	<b>1,431.2</b>	<b>100</b>	<b>1,107.8</b>	<b>100</b>

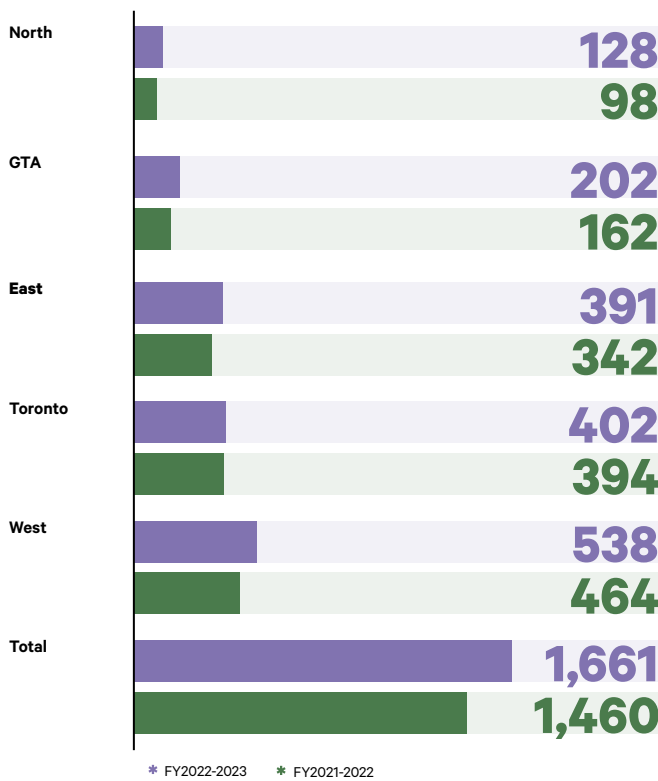
During the fiscal year 2022–23, the OCS observed a notable transformation in the product mix purchased through its wholesale channel, with customers increasingly favouring products other than dried flower. While dried flower continues to represent the largest sales category, accounting for 42.7% of revenues in 2022–23 (compared to 53.9% in 2021–22), the OCS observed significant growth in other product categories, notably vapes and concentrates, and pre-rolls. This shift can be attributed to the continued diversification of the OCS’s product catalogue throughout the fiscal year, which provided customers with greater choice and alternatives to dried flower.

The ongoing net growth of Ontario’s Authorized Cannabis Store network continued to support year-over-year increases in

the OCS’s wholesale revenues. As of March 31, 2023, the total number of stores reached 1,661, compared with 1,460 stores the year prior, a net increase of 201 stores (13.8%). The North and Greater Toronto Area (GTA) regions experienced the most growth, with rates of 30.6% and 24.7%, respectively.

The OCS made wholesale products available to Authorized Cannabis Stores through its Flow-Through distribution model throughout 2022–23 — the first full fiscal year with this model in place. As a result, the OCS was able to add an additional 305 SKUs from 90 Licensed Producers to its catalogue, which resulted in an additional \$29.4 million in wholesale revenues (compared to \$0.3 million in the prior year). The OCS will continue to monitor and invest in Flow-Through by enhancing end-to-end wholesale processes to improve product availability and reduce turnaround lead times for Authorized Cannabis Stores, while increasing its wholesale revenues.

### Stores by Region



### OCS.ca Channel Revenue

OCS.ca revenue for 2022–23 was \$42.8 million (\$72.7 million in 2021–22). The year-over-year revenue decrease of 41.1% reflects a 0.3 million decrease in the total number of orders to 0.5 million (compared to 0.8 million orders in 2021–22), with an

average order value of \$83.95 (compared to \$87.59 in 2021–22). This decrease was mainly driven by a shift in consumers purchasing through Authorized Cannabis Stores and a prioritization by the OCS of improvements to its wholesale platform over OCS.ca.

### OCS.ca Channel Revenue

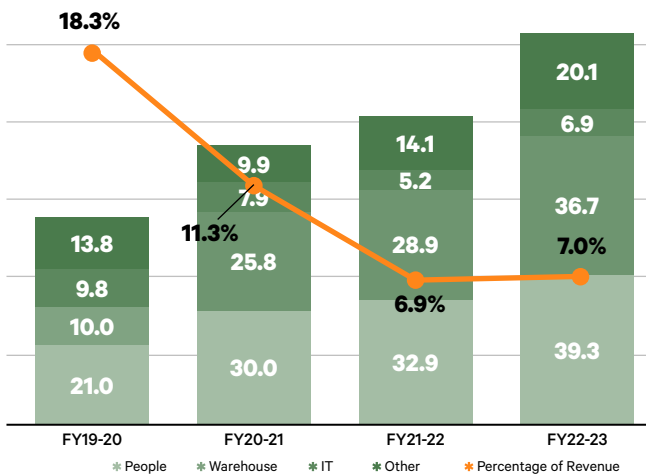
Category	FY2022-2023		FY2021-2022	
	Revenue (\$M)	Revenue Share (%)	Revenue (\$M)	Revenue Share (%)
Dried Flower	16.1	37.6	36.2	49.8
Pre-Rolls	4.3	10.1	4.8	6.6
Oils & Capsules	5.5	12.9	8.5	11.7
Vapes & Concentrates	10.4	24.3	14.7	20.3
Edibles	4.0	9.3	4.7	6.5
Beverages	1.3	3.0	1.5	2.0
Topicals	0.7	1.6	1.1	1.5
Accessories	0.5	1.2	1.2	1.6
<b>Total</b>	<b>42.8</b>	<b>100</b>	<b>72.7</b>	<b>100</b>

In 2022–23, OCS.ca revenues from the dried flower category totalled \$16.1 million or 37.6%, a notable decrease in sales from \$36.2 million (or 49.8% in revenue share) in comparison to 2021–22. Like in the wholesale channel, the OCS.ca channel’s dried flower share of revenue mix declined as the OCS continued to increase the diversity of product offerings in other categories. Similarly, vapes, pre-rolls and edibles continued to increase in popularity in 2022–23. These categories saw a notable increase in revenue mix share but an overall decline in revenues. Beverages, topicals, and oils and capsules are continuing to see increases or stability in revenue mix share. Cannabis accessories made up the remainder of sales on OCS.ca, although they saw a drop in overall sales mix as compared to 2021–22.

## Selling, General and Administrative Expenses

SG&A expenses consist of people, warehousing and logistics, IT systems and support, and other expenses. As a government business enterprise, the OCS aims to balance expenses that help to achieve its strategic priorities against the responsible deployment of funds that can otherwise be redeployed to priorities of the Government of Ontario.

### Selling, General and Administrative Expenses (\$ Millions)



The 2022–23 SG&A expenses were \$103.0 million (compared to \$81.1 million in 2021–22), an increase of \$21.9 million. This reflects a slight increase of SG&A expenses as a proportion of revenue to 7.0% (6.9% in 2021–22). The proportion of revenue of 7.0% is favourable against the budgeted 7.5% due to realized operational efficiencies and careful expense management practices.

In 2022–23, salaries and benefits totalled \$39.3 million, or 38.2% of total SG&A expenses. This represented a slight decrease compared to the previous year when salaries and benefits accounted for \$32.9 million, or 40.6% of SG&A expenses. The increase to salaries and benefits was primarily driven by the addition of personnel, with total headcount increasing from 277 to 322. Investments in personnel were aimed at supporting the business’s transformation, providing enhanced support and strengthening operational functions.

Warehouse and logistics expenses amounted to \$36.7 million, or 35.6% of expenses. This figure reflected a slight increase

compared to the previous year’s \$28.9 million, which also accounted for 35.6% of expenses. The rise in warehouse and logistics expenses was primarily driven by growing wholesale revenues, which resulted in higher warehouse variable costs.

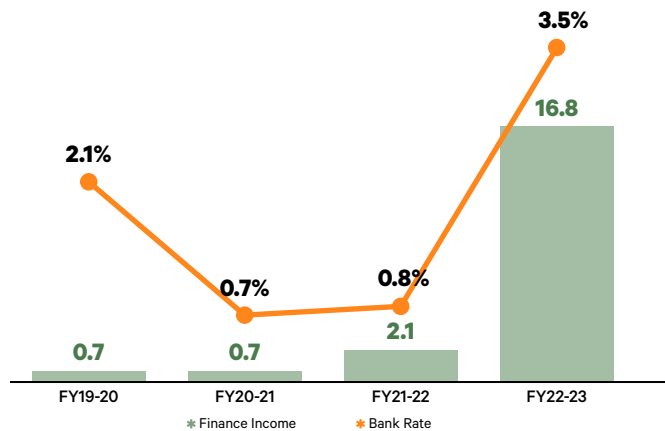
Information systems and technology support expenses amounted to \$6.9 million, or 6.7% of total expenses. This reflected a slight increase compared to the previous year’s \$5.2 million, which accounted for 6.4% of expenses. These expenses were incurred to support the ongoing development and maintenance of information systems and technology infrastructure, ensuring efficient operations and enabling effective support for business processes.

Other expenses totalled \$20.1 million, or 19.5% of SG&A expenses. This represented an increase compared to the previous year’s \$14.1 million, which accounted for 17.4% of expenses. The increase in other expenses was a result of strategic investments aimed at strengthening the OCS’s wholesaling operations, Buy Legal campaigns, Cannabis Made Clear campaigns, enhancing customer support operations, and driving efficiencies and capabilities in key areas.

## Finance Income

The total finance income for the OCS in 2022–23 reached \$16.8 million, marking a growth of \$14.7 million compared to \$2.1 million in 2021–22. The OCS experienced a significant increase in finance income, primarily driven by favourable interest rate hikes set by the Bank of Canada over the period, resulting in higher favourable yields on interest-bearing balances. The annualized average bank rates for 2022–23 were 3.5% compared to 0.8% in 2021–22.

### Finance Income (\$ Millions)

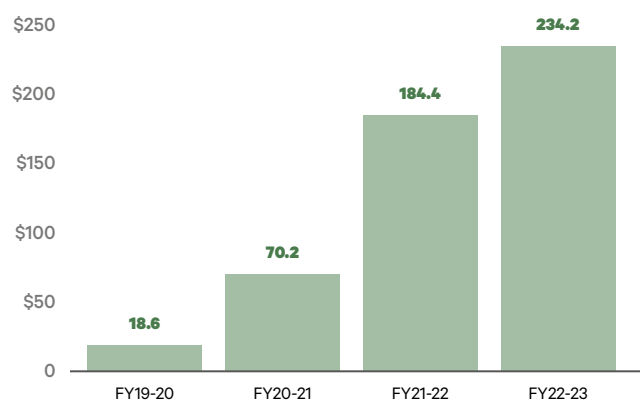


## Net Income

2022–23 was a profitable year for the OCS, with reported total comprehensive income of \$234.2 million, compared to \$184.4 million in 2021–22. It was the most profitable year to date for the OCS, resulting in an accumulated equity position of \$458.7 million as of March 31, 2023, compared to the \$224.5 million accumulated equity position in 2021–22.

Furthermore, this fiscal year represented the fourth consecutive year of profitability for the OCS. The recorded favourable net income was due to increases in total volume sold and gross margin, increased flexibility in fulfillment methods, prudent SG&A expenses (as a percentage of revenue), and increased finance income as a result of a higher interest rate on cash balances.

### Net Income (\$ Millions)



## Cash

The following table presents cash as of March 31, 2023, and March 31, 2022, and cash flows from operating, investing and financing activities for the fiscal year ended 2022–23.

Net cash flows provided by (used in):	March 31, 2023 (\$ Millions)	March 31, 2022 (\$ Millions)	Variance (\$)	Variance (%)
Operating activities	163.9	233.6	(69.7)	(29.8)
Investing activities	(0.5)	(0.8)	0.3	30.8
Financing activities	(13.6)	(13.3)	(0.3)	(2.5)
<b>Net increase in cash</b>	<b>149.8</b>	<b>219.5</b>	<b>(69.7)</b>	<b>(31.8)</b>

Cash flows from operating activities for the fiscal year ended March 31, 2023, were \$163.9 million, compared to \$233.5 million for the fiscal year ended March 31, 2022. The decrease in cash flows from operating activities was driven by a significant increase in net income offset by an increase in inventories and trade and other payables, which were necessary to meet sales demand.

Cash flows used in investing activities for the fiscal year ended March 31, 2023, were (\$0.6) million, compared to (\$0.8) million for the fiscal year ended March 31, 2022. The decrease in cash flows used in investing activities was mainly driven by fewer capital purchases of tangible assets in the current fiscal year compared to prior year.

Cash flows used in financing activities for the fiscal year ended March 31, 2023, were (\$13.6) million, compared to (\$13.2) million for the fiscal year ended March 31, 2022. The increase in cash flows used in financing activities was driven by an increase in lease payments primarily from realizing the first full year of new right-of-use assets entered into during the last fiscal year.

## Inventory

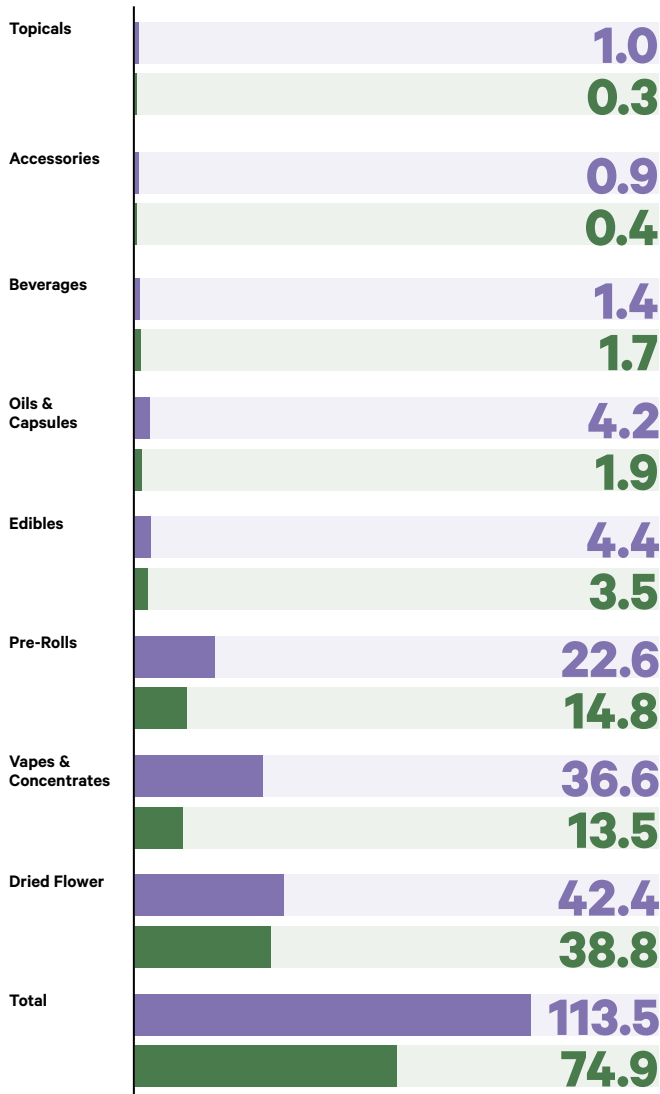
Inventory is defined as products or goods that are provided by a supplier (either a producer authorized by Health Canada or a vendor that supplies cannabis-related products, such as accessories) to a purchaser (the OCS) under validated purchase orders. Inventory includes product stored at a privately 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 a steady quality supply of fresh product.

As of March 31, 2023, inventory on hand was \$113.5 million (compared to \$74.9 million as of March 31, 2022). The increased inventory investment of \$38.6 million was made to support the slight increase in average store order volumes and increased demand as a result of the additional 201 Authorized Cannabis Stores operating as of March 31, 2023 (compared to the previous year) and product availability.

In fiscal year 2022–23, the OCS continued to make investments in its wholesale and distribution infrastructure to enhance supply chain efficiencies and improve retailer access to new and innovative product offerings. To support this, improvements to channel purchasing portals, further roll-out of the Flow-Through distribution model and enhanced automations at the distribution centre were performed over the year.

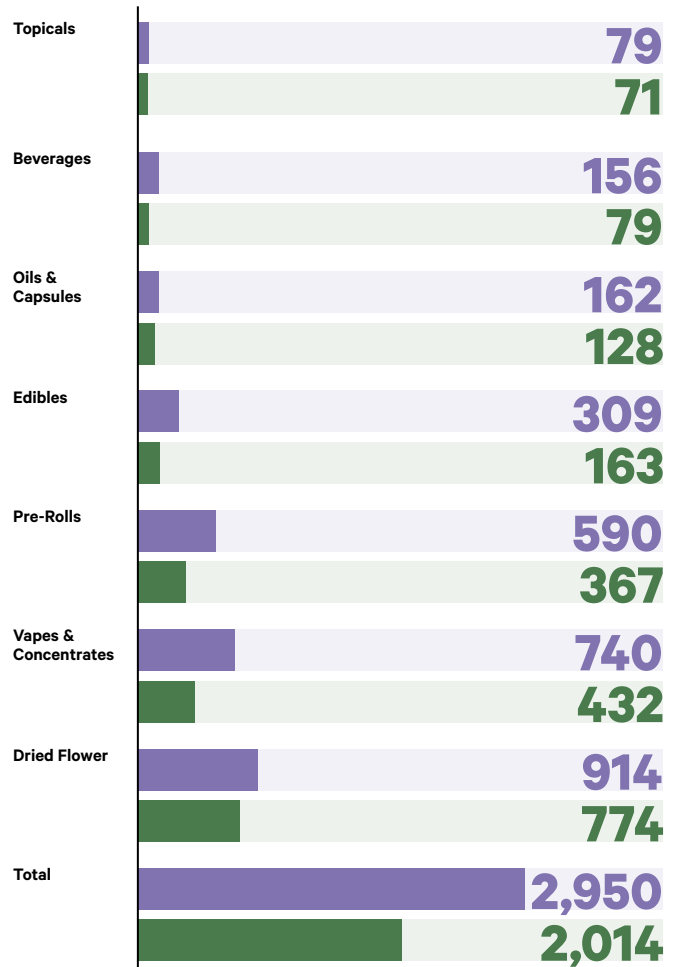
These practices resulted in efficiency, scalability and capabilities in inventory movement and monitoring practices. By the end of fiscal year 2022–23, the OCS achieved an

### Inventory by Product (\$ Millions)



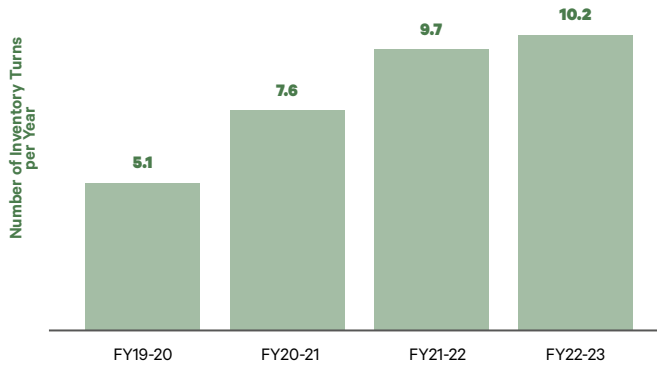
\* FY2022-2023 \* FY2021-2022

### SKU Count by Category



\* FY2022-2023 \* FY2021-2022

## Inventory Turns



inventory turn rate of 10.2, compared to 9.7 at the end of fiscal year 2021–22. The OCS was able to increase inventory turns through more rigorous weeks of supply inventory lifecycle monitoring and having overall less inventory on hand or turned over quickly due to the Flow-Through distribution model.

The OCS offered more product types and diverse options for customers by increasing innovative product offerings available for purchase to 2,950 by the end of fiscal year 2022–23 (compared to 2,014 by the end of fiscal year 2021–22), for an increase of 46.5% year-over-year.

Since the OCS expanded its SKU assortment, forecasting demand for such a diversified product offering required more refined SKU forecasting capabilities. To facilitate this need, technological investments are being made to allow for timely and agile forecasting methods. These investments are also expected to result in more efficient management of inventory investments, aged inventory and turnover.

The OCS will continue to monitor these inventory management metrics and fulfilment methods to support product quality, product offerings and improve capabilities to continue refining inventory management practices and diversification of product offerings to align with consumer demands.

## Payments to Governments

### Ontario Financing Authority Loan

The OCS continued to repay its loan facility provided by the Ontario Financing Authority. In 2022–23, \$7.6 million in loan principal was repaid, as well as \$1.8 million in interest, for a total payment of \$9.4 million. The balance of the loan as of March 31, 2023, was \$59.7 million. The OCS plans to make the established scheduled payments on time while ensuring liquidity and capital requirements are being maintained.

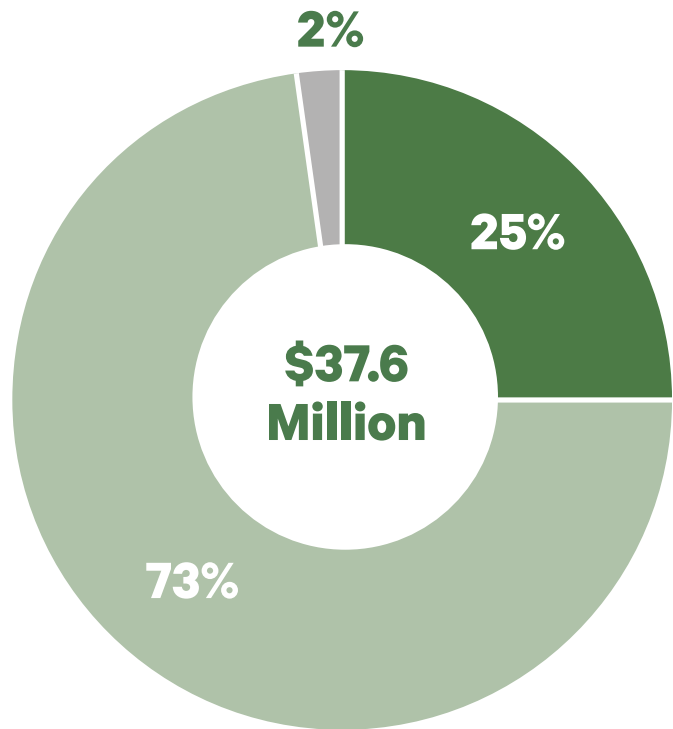
### Realty Taxes

The OCS paid \$0.6 million in 2022–23 (compared to \$0.7 million in 2021–22) in realty taxes for its leased premises residing in the Toronto and Guelph municipality regions.

### Harmonized Sales Tax Remittance

The federal government received \$27.6 million in harmonized sales tax (HST) remittances in 2022–23, compared to \$27.0 million in 2021–22. The Ontario provincial sales tax component of the HST was \$17.0 million in 2022–23, compared to \$16.6 million in 2021–22.

## 2022–23 Payments to Governments



- \* Government of Ontario - Loan Repayment
- \* Government of Canada - HST
- \* Ontario Municipalities - Realty Taxes

Financial Statements of the

**Ontario Cannabis Retail Corporation**

For the year ended March 31, 2023



# 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:



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David Lobo  
President and Chief Executive Officer



---

Zeek Merchant  
Chief Financial Officer

June 30, 2023



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, 2023, and the statements of income and comprehensive income, changes in equity 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, 2023, 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  
June 30, 2023

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

# ONTARIO CANNABIS RETAIL CORPORATION

## Statement of Financial Position

(Thousands of Canadian dollars)

	Note	March 31, 2023	March 31, 2022
<b>Assets</b>			
<b>Current Assets</b>			
Cash	3	535,696	385,930
Trade and other receivables	4	3,091	969
Inventories	5	113,450	74,943
Prepaid services		939	962
		<b>653,176</b>	462,804
<b>Non-current Assets</b>			
Prepaid services		441	284
Property, equipment, and intangible assets	6	3,549	3,595
Right-of-use assets	7	45,351	49,930
		<b>49,341</b>	53,809
<b>Total Assets</b>		<b>702,517</b>	516,613
<b>Liabilities and Equity</b>			
<b>Current Liabilities</b>			
Trade and other payables	8	135,263	172,125
Provisions	9	1,362	1,261
Leases	7	4,143	3,954
Borrowings	10	9,386	9,386
		<b>150,154</b>	186,726
<b>Non-current Liabilities</b>			
Provisions	9	473	480
Leases	7	42,860	46,997
Borrowings	10	50,329	57,955
		<b>93,662</b>	105,432
<b>Total Liabilities</b>		<b>243,816</b>	292,158
<b>Equity</b>			
Accumulated equity		458,701	224,455
<b>Total Liabilities and Equity</b>		<b>702,517</b>	516,613

See accompanying notes to the financial statements.

Approved by:



Connie Dejak, Chair, Board of Directors



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

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**ONTARIO CANNABIS RETAIL CORPORATION****Statement of Income and Comprehensive Income**

*(Thousands of Canadian dollars)*

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	<i>Note</i>	<b>For the year ended March 31, 2023</b>	For the year ended March 31, 2022
Revenue	11	<b>1,474,484</b>	1,180,849
Cost of sales	12	<b>(1,151,144)</b>	(914,519)
<b>Gross margin</b>		<b>323,340</b>	266,330
Other income	13	<b>67</b>	22
Selling, general and administrative expenses	14	<b>(103,043)</b>	(81,052)
<b>Income from operations</b>		<b>220,364</b>	185,300
Finance income	15	<b>16,769</b>	2,118
Finance costs	15	<b>(2,887)</b>	(2,987)
<b>Total comprehensive income</b>		<b>234,246</b>	184,431

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See accompanying notes to the financial statements.

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**ONTARIO CANNABIS RETAIL CORPORATION****Statement of Changes in Equity**

*(Thousands of Canadian dollars)*

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	<b>For the year ended March 31, 2023</b>	For the year ended March 31, 2022
Accumulated equity at beginning of year	<b>224,455</b>	40,024
Total comprehensive income for the year	<b>234,246</b>	184,431
<b>Accumulated equity at end of year</b>	<b>458,701</b>	224,455

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See accompanying notes to the financial statements.

# ONTARIO CANNABIS RETAIL CORPORATION

## Statement of Cash Flows

(Thousands of Canadian dollars)

	Note	For the year ended March 31, 2023	For the year ended March 31, 2022
<b>Operating activities:</b>			
Total comprehensive income		234,246	184,431
Less:			
Depreciation of property, equipment, and intangible assets	6	596	568
Depreciation of right-of-use assets	7	4,827	4,063
Interest on borrowings	15	1,760	1,974
Interest expenses on leases	15	1,127	1,013
Interest paid on leases		(1,140)	(1,013)
Write-off of right-of-use assets	7	-	44
Loss on disposal of assets	14	5	8
		241,421	191,088
Changes in non-cash balances related to operations:			
Trade and other receivables	4	(2,122)	(147)
Inventories	5	(38,507)	(2,182)
Prepaid expenses		(134)	(95)
Trade and other payables	8	(36,862)	44,969
Provisions	9	94	(54)
<b>Net cash from operating activities</b>		<b>163,890</b>	<b>233,579</b>
<b>Investing activities:</b>			
Purchase of property, equipment, and intangible assets	6	(555)	(464)
Purchase of right-of-use assets	7	-	(338)
<b>Net cash used in investing activities</b>		<b>(555)</b>	<b>(802)</b>
<b>Financing activities:</b>			
Repayments of lease liabilities	7	(3,961)	(3,441)
Prepayments of right-of-use assets under construction	7	(222)	(414)
Repayments of borrowings	10	(9,386)	(9,386)
<b>Net cash used in financing activities</b>		<b>(13,569)</b>	<b>(13,241)</b>
<b>Net increase in cash</b>		<b>149,766</b>	<b>219,536</b>
<b>Cash, beginning of year</b>		<b>385,930</b>	<b>166,394</b>
<b>Cash, end of year</b>		<b>535,696</b>	<b>385,930</b>

See accompanying notes to the financial statements.

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# ONTARIO CANNABIS RETAIL CORPORATION

## Notes to the Financial Statements

*(Thousands of Canadian dollars)*

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# ONTARIO CANNABIS RETAIL CORPORATION

## Notes to the Financial Statements

(Thousands of Canadian dollars)

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### 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 the OCRC to buy, possess and sell non-medical cannabis and related products, establishes it as Ontario’s online non-medical cannabis retailer, and provides it with the exclusive right to wholesale non-medical cannabis to privately-run cannabis retail stores licensed by the Alcohol and Gaming Commission of Ontario (“AGCO”).

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, 2<sup>nd</sup> Floor, Toronto, Ontario, Canada, M2P 2B5.

### 2. Basis of presentation and significant accounting judgments and policies

#### 2.1 Statement of compliance

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

The audited financial statements were approved by the Board of Directors and authorized for issue on June 29, 2023.

#### 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 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.

Chargeback receivables are made up of vendor chargeback receivables and trade receivables are made up of customer receivables, less allowances for expected credit losses. Other receivables are made up of recoverable input tax credits, sundry receivables, and interest receivable on cash balances.

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# ONTARIO CANNABIS RETAIL CORPORATION

## Notes to the Financial Statements

*(Thousands of Canadian dollars)*

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The carrying amount of chargeback and trade 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 or customer receivable. 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 and trade receivables on an individual basis as they possess separate credit risk characteristics. OCRC establishes an allowance on vendor chargebacks and trade 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.

### 2.6 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.

### 2.7 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
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.

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# ONTARIO CANNABIS RETAIL CORPORATION

## Notes to the Financial Statements

*(Thousands of Canadian dollars)*

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### 2.8 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.

### 2.9 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 asset.
- 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 or 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.

### 2.10 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

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# ONTARIO CANNABIS RETAIL CORPORATION

## Notes to the Financial Statements

*(Thousands of Canadian dollars)*

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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.

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. Depreciation of right-of-use-assets is recognized in the Statement of Income and Comprehensive Income over the lease term, using the straight-line method.

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.

At the end of each distribution centre equipment lease term, the OCRC may purchase the underlying asset from the lessor at a third-party determined fair market value. Purchased right-of-use assets continue to be classified as such as the OCRC continues to direct its use over its economical useful life. The purchase costs can be measured reliably, and the future economic benefits are probable. After purchasing a right-of-use asset, its cost is either recorded or continues to be recorded as a right-of-use asset, and the purchase costs are included in the total carrying amount of right-of-use assets. The right-of-use asset is then depreciated on a straight-line basis over its remaining economic useful life. Purchased distribution centre equipment assets have estimated useful lives ranging between eight to twenty years.

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

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

### **2.11 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.

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# ONTARIO CANNABIS RETAIL CORPORATION

## Notes to the Financial Statements

*(Thousands of Canadian dollars)*

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### 2.12 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.

### 2.13 Borrowings

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

### 2.14 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 be 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.

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# ONTARIO CANNABIS RETAIL CORPORATION

## Notes to the Financial Statements

*(Thousands of Canadian dollars)*

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### 2.15 Revenue

Revenue from sale of wholesale and e-commerce 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 e-commerce 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.

### 2.16 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.

### 2.17 Other income

Other income comprises income from pre-authorized debit reprocessing fees charged to customers. The income from these fees charged can be measured reliably.

### 2.18 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.

### 2.19 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:

<u>Financial Asset/Liability</u>	<u>Measurement</u>
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.

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# ONTARIO CANNABIS RETAIL CORPORATION

## Notes to the Financial Statements

*(Thousands of Canadian dollars)*

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### 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 prices, the impact of vendor chargebacks on cost, seasonality, and costs necessary to sell the inventory.

### 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 may 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, and contract terminations. These provisions are estimates, 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, 2023, includes interest-bearing bank accounts. OCRC did not hold any cash equivalents as at March 31, 2023 (2022 - \$nil).

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# ONTARIO CANNABIS RETAIL CORPORATION

## Notes to the Financial Statements

*(Thousands of Canadian dollars)*

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### 4. Trade and other receivables

Trade and other receivables include the following:

	March 31, 2023	March 31, 2022
Chargeback receivables	910	252
Trade receivables	460	34
Loss allowance for expected credit losses	(916)	(31)
Recoverable input tax credits	30	-
Sundry receivables	316	379
Interest receivable	2,291	335
	<b>3,091</b>	969

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. Trade receivables is made up of wholesale customer balances. The carrying amount of chargeback and trade 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 and trade receivables, is \$916 (2022 - \$31). 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.

### 5. Inventories

The cost of inventories sold and recognized as cost of sales during the year ended March 31, 2023, was \$1,151,144 (2022 - \$890,246). This includes inventory write-downs recognized during the year of \$10,481 (2022 - \$4,015). The write downs and reversals are included in inventory cost of sales. No inventory is pledged as security.

Write-downs from the prior period are reversed in the year as a result of selling through or charging back the cost of the inventory to the vendor upon return or destruction.



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**ONTARIO CANNABIS RETAIL CORPORATION****Notes to the Financial Statements**

*(Thousands of Canadian dollars)*

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**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, 2023:

	<b>Computer hardware</b>	<b>Furniture and fixtures</b>	<b>Computer software</b>	<b>Leasehold improvements</b>	<b>Leasehold improvements in progress</b>	<b>Total</b>
<b>Cost</b>						
Balance at March 31, 2022	1,029	1,389	15	2,557	40	5,030
Additions	450	-	-	9	96	555
Disposals	(49)	(5)	(4)	-	-	(58)
Transfers	-	-	-	76	(76)	-
<b>Balance at March 31, 2023</b>	<b>1,430</b>	<b>1,384</b>	<b>11</b>	<b>2,642</b>	<b>60</b>	<b>5,527</b>
<b>Accumulated depreciation</b>						
Balance at March 31, 2022	674	385	11	365	-	1,435
Depreciation	241	138	2	215	-	596
Disposals	(48)	(2)	(3)	-	-	(53)
<b>Balance at March 31, 2023</b>	<b>867</b>	<b>521</b>	<b>10</b>	<b>580</b>	<b>-</b>	<b>1,978</b>
<b>Carrying amount</b>						
As at March 31, 2022	355	1,004	4	2,192	40	3,595
<b>As at March 31, 2023</b>	<b>563</b>	<b>863</b>	<b>1</b>	<b>2,062</b>	<b>60</b>	<b>3,549</b>

# ONTARIO CANNABIS RETAIL CORPORATION

## Notes to the Financial Statements

(Thousands of Canadian dollars)

Property, equipment, and intangible assets continuity for the year ended March 31, 2022:

	Computer hardware	Furniture and fixtures	Computer software	Leasehold improvements	Leasehold improvements in progress	Total
<b>Cost</b>						
Balance at March 31, 2021	895	1,343	15	1,165	1,174	4,592
Additions	158	48	-	62	196	464
Transfer	-	-	-	1,330	(1,330)	-
Disposals	(24)	(2)	-	-	-	(26)
<b>Balance at March 31, 2022</b>	<b>1,029</b>	<b>1,389</b>	<b>15</b>	<b>2,557</b>	<b>40</b>	<b>5,030</b>
<b>Accumulated depreciation</b>						
Balance at March 31, 2021	458	253	7	169	-	887
Depreciation	235	133	4	196	-	568
Disposals	(19)	(1)	-	-	-	(20)
<b>Balance at March 31, 2022</b>	<b>674</b>	<b>385</b>	<b>11</b>	<b>365</b>	<b>-</b>	<b>1,435</b>
<b>Carrying amount</b>						
As at March 31, 2021	437	1,090	8	996	1,174	3,705
<b>As at March 31, 2022</b>	<b>355</b>	<b>1,004</b>	<b>4</b>	<b>2,192</b>	<b>40</b>	<b>3,595</b>

### 7. Leases

#### a) Lease liabilities

The following table presents the changes in the lease liability for the year ended March 31, 2023:

	Office premises	Distribution centre premises	Distribution centre equipment	Total
<b>Balance, as at March 31, 2022</b>	<b>10,050</b>	<b>32,251</b>	<b>8,650</b>	<b>50,951</b>
Additions	26	-	-	26
Modifications	(1)	-	(12)	(13)
Principal payments	(695)	(1,170)	(2,096)	(3,961)
<b>Balance, as at March 31, 2023</b>	<b>9,380</b>	<b>31,081</b>	<b>6,542</b>	<b>47,003</b>
			<b>March 31, 2023</b>	March 31, 2022
Current portion			<b>4,143</b>	3,954
Long-term portion			<b>42,860</b>	46,997
			<b>47,003</b>	<b>50,951</b>

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# ONTARIO CANNABIS RETAIL CORPORATION

## Notes to the Financial Statements

*(Thousands of Canadian dollars)*

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Interest expense on these lease obligations for the year ended March 31, 2023, was \$1,127 (2022 - \$1,013). Total cash outflow for the year ended March 31, 2023, was \$5,088 (2022 - \$4,454) 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:

	<b>March 31, 2023</b>
Less than one year	<b>5,108</b>
One to five years	<b>16,533</b>
Thereafter	<b>33,805</b>
<b>Total undiscounted lease payments</b>	<b>55,446</b>
Less: Imputed interest on lease	<b>(8,443)</b>
<b>Total discounted lease payments</b>	<b>47,003</b>

### 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 \$209 for the year ended March 31, 2023 (2022 - \$362). As at March 31, 2023, commitments for low-value leases are \$211 (2022 - \$420).

### Office premises lease

OCRC entered into an office lease during the year ended March 31, 2020. 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 premises lease

OCRC entered into a distribution centre lease during the year ended March 31, 2021. The lease term is for 10 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 equipment - leased

During the year ended March 31, 2022, OCRC entered into additional 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.

### Distribution centre equipment - purchased

During the year end March 31, 2022, the OCRC elected to purchase the underlying assets of distribution centre equipment leases that expired at an arm's length fair market value determined at the end of each lease term. The measurable purchase costs were added to the right-of-use asset's carrying amount at the end of the lease term. The purchased right-of-use assets' remaining carrying values are depreciated over their remaining economic useful lives.

### Variable lease payments

Total variable lease expenses that are not included in the measurement of lease liabilities are \$584 (2022 - \$671).

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**ONTARIO CANNABIS RETAIL CORPORATION****Notes to the Financial Statements**

*(Thousands of Canadian dollars)*

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**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, 2023:

	Office premises	Distribution centre premises	Distribution centre equipment	Distribution center equipment under construction	Total
<b>Cost</b>					
Balance at March 31, 2022	11,577	33,539	12,270	-	57,386
Additions	26	-	-	222	248
Modifications	-	-	(124)	-	(124)
<b>Balance at March 31, 2023</b>	<b>11,603</b>	<b>33,539</b>	<b>12,146</b>	<b>222</b>	<b>57,510</b>
<b>Accumulated depreciation</b>					
Balance at March 31, 2022	2,277	2,750	2,429	-	7,456
Depreciation	771	1,649	2,407	-	4,827
Modifications	-	-	(124)	-	(124)
<b>Balance at March 31, 2023</b>	<b>3,048</b>	<b>4,399</b>	<b>4,712</b>	<b>-</b>	<b>12,159</b>
<b>Carrying amount</b>					
As at March 31, 2022	9,300	30,789	9,841	-	49,930
<b>Balance at March 31, 2023</b>	<b>8,555</b>	<b>29,140</b>	<b>7,434</b>	<b>222</b>	<b>45,351</b>

The distribution centre equipment consists of leased and purchased right-of-use assets.

# ONTARIO CANNABIS RETAIL CORPORATION

## Notes to the Financial Statements

(Thousands of Canadian dollars)

The following table presents the changes in the cost of right-of-use assets for the year ended March 31, 2022:

	Office premises	Distribution centre premises	Distribution centre equipment	Distribution centre equipment under construction	Total
<b>Cost</b>					
Balance at March 31, 2021	11,577	34,582	5,345	252	51,756
Additions	-	-	6,014	708	6,722
Modifications	-	-	(5)	-	(5)
Transfers	-	-	916	(916)	-
Disposals	-	(1,043)	-	-	(1,043)
Write off	-	-	-	(44)	(44)
<b>Balance at March 31, 2022</b>	<b>11,577</b>	<b>33,539</b>	<b>12,270</b>	<b>-</b>	<b>57,386</b>
<b>Accumulated depreciation</b>					
Balance at March 31, 2021	1,518	2,096	822	-	4,436
Depreciation	759	1,697	1,607	-	4,063
Transfers	-	-	-	-	-
Disposals	-	(1,043)	-	-	(1,043)
<b>Balance at March 31, 2022</b>	<b>2,277</b>	<b>2,750</b>	<b>2,429</b>	<b>-</b>	<b>7,456</b>
<b>Carrying amount</b>					
As at March 31, 2021	10,059	32,486	4,523	252	47,320
<b>Balance at March 31, 2022</b>	<b>9,300</b>	<b>30,789</b>	<b>9,841</b>	<b>-</b>	<b>49,930</b>

The distribution centre equipment consists of leased and purchased right-of-use assets.

### 8. Trade and other payables

Trade and other payables include the following:

	March 31, 2023	March 31, 2022
Inventory payables and accruals	128,682	164,683
Chargebacks offset against inventory payables	(9,999)	(4,317)
Other trade payables and accrued expenses	11,971	8,968
Refundable input tax credits payable	4,339	2,476
Deferred revenue	85	58
Customer deposits	185	257
	<b>135,263</b>	<b>172,125</b>

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

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**ONTARIO CANNABIS RETAIL CORPORATION****Notes to the Financial Statements**

*(Thousands of Canadian dollars)*

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**9. Provisions**

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

Provisions continuity for the year ended March 31, 2023

	<b>Contract terminations</b>	<b>Short term employee benefits</b>	<b>Other</b>	<b>Total</b>
Balance at March 31, 2022	-	1,169	572	1,741
Additional provisions recognised during the year	90	1,216	56	1,362
Utilization of provision	-	(1,047)	(92)	(1,139)
Reversal of unused provisions	-	(122)	(7)	(129)
<b>Balance at March 31, 2023</b>	<b>90</b>	<b>1,216</b>	<b>529</b>	<b>1,835</b>

Provisions continuity for the year ended March 31, 2022

	<b>Short term employee benefits</b>	<b>Other</b>	<b>Total</b>
Balance at March 31, 2021	1,254	541	1,795
Additional provisions recognised during the year	1,169	251	1,420
Utilization of provision	(1,254)	(220)	(1,474)
<b>Balance at March 31, 2022</b>	<b>1,169</b>	<b>572</b>	<b>1,741</b>

	<b>March 31, 2023</b>	<b>March 31, 2022</b>
Current portion	<b>1,362</b>	1,261
Long-term portion	<b>473</b>	480
	<b>1,835</b>	1,741

The employee benefits provision includes short-term employee benefits expected to be paid in the following year. Other provisions include a sales returns allowance and long-term employee benefits (refer to Note 2.14). The sales returns allowance ("Other") is estimated based on historical sales return trends.

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# ONTARIO CANNABIS RETAIL CORPORATION

## Notes to the Financial Statements

*(Thousands of Canadian dollars)*

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### 10. Borrowings

During the year ended March 31, 2020, OCRC entered into a non-revolving 10-year term loan (“OFA Loan”) with the Ontario Financing Authority (OFA) for \$81,405 that bears interest at 2.79 per cent per annum, compounded semi-annually, and is repayable in equal semi-annual instalments of \$4,693. The loan is unsecured and is due January 1, 2030.

At March 31, 2023, changes in borrowings are as follows:

	<b>OFA Loan</b>
<b>Balance, as at March 31, 2022</b>	67,341
Principal payments	(9,386)
Interest accretion	1,760
<b>Balance, as at March 31, 2023</b>	<b>59,715</b>

	<b>March 31, 2023</b>	March 31, 2022
OFA Loan	<b>59,715</b>	67,341
Less: current portion of borrowings	<b>(9,386)</b>	(9,386)
Non-current borrowings	<b>50,329</b>	57,955

The fair value of borrowings at March 31, 2023 approximates their carrying amount.

### 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.

	<b>For the year ended March 31, 2023</b>	For the year ended March 31, 2022
Wholesale revenue	<b>1,431,212</b>	1,107,774
E-commerce revenue	<b>42,789</b>	72,693
Data subscription program	<b>483</b>	382
	<b>1,474,484</b>	1,180,849

Credit losses incurred on e-commerce transactions were \$34 for the year ended March 31, 2023 (2022 - \$35). Refer to Note 17.

# ONTARIO CANNABIS RETAIL CORPORATION

## Notes to the Financial Statements

(Thousands of 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, 2023	For the year ended March 31, 2022
Cost of goods sold	1,117,114	890,246
Delivery fees	33,789	23,945
Transaction fees	241	328
	<b>1,151,144</b>	<b>914,519</b>

### 13. Other income

Other income includes the following:

	For the year ended March 31, 2023	For the year ended March 31, 2022
Fees	67	19
Gain on disposal of fixed assets	-	3
	<b>67</b>	<b>22</b>

### 14. Selling, general and administrative expenses

Selling, general and administrative expenses include the following:

	For the year ended March 31, 2023	For the year ended March 31, 2022
Salaries and benefits	39,335	32,924
Warehouse and logistics	36,663	28,884
Information systems and technology support	6,862	5,189
Depreciation of right-of-use assets	4,827	4,063
Depreciation of property, equipment, and intangible assets	596	568
Media expenses	3,539	954
Contract services	3,126	2,704
Professional services	2,855	1,825
Insurance	1,429	1,246
E-commerce transaction processing	1,067	1,405
Occupancy	945	844
Provision (recovery) of bad debts	930	(97)
Recruitment services	135	140
Loss on disposal of fixed assets	5	8
Other expenses	729	395
	<b>103,043</b>	<b>81,052</b>



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# ONTARIO CANNABIS RETAIL CORPORATION

## Notes to the Financial Statements

*(Thousands of Canadian dollars)*

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### 15. Finance income and costs

Finance income and costs include the following:

	For the year ended March 31, 2023	For the year ended March 31, 2022
Interest income on bank balances	16,769	2,118
Lease liabilities interest expense (Note 7)	(1,127)	(1,013)
OFA loan interest expense (Note 10)	(1,760)	(1,974)
	<b>13,882</b>	<b>(869)</b>

### 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 \$2,625 (2022 - \$2,350). 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, 2023, the liability for long-term income protection benefits recognized amounted to \$473 (2022 - \$480), 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 I 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 e-commerce 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.

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## ONTARIO CANNABIS RETAIL CORPORATION

### Notes to the Financial Statements

*(Thousands of Canadian dollars)*

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OCRC is exposed to credit risk under circumstances where chargebacks are issued from OCRC to vendors, resulting in balances due to OCRC, and receivables from customers. 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 vendor and customer 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 and receivables from customers. 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 and trade receivables are derecognized when there is no reasonable expectation of recovery.

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

OCRC estimates lifetime expected credit losses, specifically on chargeback and trade receivables, as at March 31, 2023, to be \$916 (2022 - \$31). The changes in the vendor chargeback and trade receivables loss allowances were as follows:

	March 31, 2023	March 31, 2022
Beginning balance	31	217
Loss allowance recognized during the year	952	9
Loss allowance utilized during the year	(67)	-
Loss allowance unused and reversed during the year	-	(195)
Ending balance	916	31

The details of OCRC's aging of vendor chargeback and trade receivables are as follows:

	March 31, 2023	March 31, 2022
Less than 60 days past due	991	46
61-180 days past due	280	-
Greater than 180 days past due	99	206
<b>Total</b>	<b>1,370</b>	<b>252</b>
Less: Loss allowance	(916)	(31)
<b>Chargeback &amp; trade receivables (net)</b>	<b>454</b>	<b>221</b>

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

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# ONTARIO CANNABIS RETAIL CORPORATION

## Notes to the Financial Statements

*(Thousands of Canadian dollars)*

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### **(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 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. Total managed capital as at March 31, 2023, is \$518,416 (2022 - \$291,796).

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.

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# ONTARIO CANNABIS RETAIL CORPORATION

## Notes to the Financial Statements

*(Thousands of Canadian dollars)*

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### 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

The carrying value of the 10-year term loan with OFA (refer to note 10) as at March 31, 2023, is \$59,715 (March 31, 2022 - \$67,341) including accrued interest of \$408 (March 31, 2022 - \$463).

#### (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.

#### (c) Key management personnel

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

Key management personnel compensation for the year ended March 31, 2023, was \$3,114 (2022 - \$3,503), comprised of salaries and benefits, directors per diem fees, and other short-term employee benefits.

### 20. Contingencies

#### Standby letter of credit

In order to meet the contribution payment demand requirements as set out in the Ontario Public Service Employees Union (OPSEU) agreement, the OCRC entered into an irrevocable standby letter of credit with one of its financial institutions in the amount of \$350. The beneficiary of this letter of credit is the OPSEU. The purpose of this letter of credit is to have funds available to be drawn and payable to the OPSEU in the event a contribution payment is missed at any point in time during OCRC's participation in the OPSEU OP Trust pension plan. This standby letter of credit is irrevocable, bears commission at a daily rate of 0.50% paid up front and is renewed annually provided that OCRC remains a participant.

No amounts have been drawn against the standby letter of credit during the period and as at March 31, 2023 (March 31, 2022 - \$nil).

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*(Thousands of Canadian dollars)*

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### Other 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.