Financial Statements of the

Ontario Cannabis Retail Corporation

For the year ended March 31, 2024

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 Audit & Finance Committee of the Board.

The Board of Directors, through the Audit & Finance Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit & Finance 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 Audit & Finance Committee without management present.

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

On behalf of management:

David Lobo
President and Chief Executive Officer

Zeela Merchant
Chief Financial Officer

June 26, 2024

Office of the Auditor General of Ontario
Bureau du vérificateur général 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, 2024, 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 material accounting policy information.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2024, 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 IFRS, 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 Responsibilities 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 26, 2024

Shelley Spence, CPA, CA, LPA
Auditor General

ONTARIO CANNABIS RETAIL CORPORATION
Statement of Financial Position

(Thousands of Canadian dollars)

	Note	**March 31, 2024**	March 31, 2023
Assets			
Current Assets			
Cash	*3*	**515,452**	535,696
Trade and other receivables	*4*	**3,392**	3,091
Inventories	*5*	**99,324**	113,450
Prepaid services		**841**	939
		619,009	653,176
Non-current Assets			
Prepaid services		**530**	441
Property, equipment, and intangible assets	*6*	**3,877**	3,549
Right-of-use assets	*7*	**41,976**	45,351
		46,383	49,341
Total Assets		**665,392**	702,517
Liabilities and Equity			
Current Liabilities			
Trade and other payables	*8*	**153,525**	136,480
Provisions	*9*	**526**	145
Leases	*7*	**4,012**	4,143
Borrowings	*10*	**9,386**	9,386
Dividends payable	*18*	**78,000**	-
		245,449	150,154
Non-current Liabilities			
Provisions	*9*	**509**	473
Leases	*7*	**38,924**	42,860
Borrowings	*10*	**42,495**	50,329
		81,928	93,662
Total Liabilities		**327,377**	243,816
Equity			
Accumulated equity		**338,015**	458,701
Total Liabilities and Equity		**665,392**	702,517

See accompanying notes to the financial statements.

Approved by:

Connie Dejak, Chair, Board of Directors

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

ONTARIO CANNABIS RETAIL CORPORATION
Statement of Income and Comprehensive Income

(Thousands of Canadian dollars)

	Note	**For the year ended March 31, 2024**	For the year ended March 31, 2023
Revenue	*11*	**1,639,104**	1,474,484
Cost of sales	*12*	**(1,300,846)**	(1,151,144)
Gross margin		**338,258**	323,340
Other income		**80**	67
Selling, general and administrative expenses	*13*	**(121,545)**	(103,043)
Income from operations		**216,793**	220,364
Finance income	*14*	**30,114**	16,769
Interest expense	*14*	**(2,593)**	(2,887)
Total comprehensive income		**244,314**	234,246

See accompanying notes to the financial statements.

ONTARIO CANNABIS RETAIL CORPORATION
Statement of Changes in Equity

(Thousands of Canadian dollars)

	Note	**For the year ended March 31, 2024**	For the year ended March 31, 2023
Accumulated equity at beginning of year		**458,701**	224,455
Total comprehensive income for the year		**244,314**	234,246
Dividends to the Province of Ontario	*18*	**(365,000)**	-
Accumulated equity at end of year		**338,015**	458,701

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, 2024**	For the year ended March 31, 2023
Operating activities:			
Total comprehensive income		**244,314**	234,246
Less:			
Depreciation of property, equipment, and intangible assets	*6*	**649**	596
Depreciation of right-of-use assets	*7*	**4,828**	4,827
Interest on borrowings	*14*	**1,552**	1,760
Interest expenses on leases	*7*	**1,041**	1,127
Interest paid on leases	*7*	**(1,041)**	(1,140)
Loss on disposal of assets	*13*	**66**	5
		251,409	241,421
Changes in non-cash balances related to operations:			
Trade and other receivables	*4*	**(301)**	(2,122)
Inventories	*5*	**14,126**	(38,507)
Prepaid expenses		**9**	(134)
Trade and other payables	*8*	**17,045**	(35,645)
Provisions	*9*	**417**	(1,123)
Net cash from operating activities		**282,705**	163,890
Investing activities:			
Purchase of property, equipment, and intangible assets	*6*	**(1,043)**	(555)
Purchase of right-of-use assets	*7*	**(1,453)**	-
Net cash used in investing activities		**(2,496)**	(555)
Financing activities:			
Dividends paid to the Province of Ontario	*18*	**(287,000)**	-
Repayments of lease liabilities	*7*	**(4,067)**	(3,961)
Prepayments of right-of-use assets under construction	*7*	**-**	(222)
Repayments of borrowings	*10*	**(9,386)**	(9,386)
Net cash used in financing activities		**(300,453)**	(13,569)
Net increase in cash		**(20,244)**	149,766
Cash, beginning of year		**535,696**	385,930
Cash, end of year		**515,452**	535,696

See accompanying notes to the financial statements.

Index to Notes to Financial Statements

1. Corporate and general information

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

The Act authorizes the OCRC to buy, possess and sell recreational cannabis and related products, as well as promote social responsibility in connection with cannabis. The OCRC is the exclusive wholesaler of recreational cannabis to private retail stores authorized by the Alcohol and Gaming Commission of Ontario (“AGCO”). The OCRC also operates the provincial online store for recreational cannabis, which provides legal access to adults located across Ontario.

As an Ontario Crown corporation, OCRC is exempt from income taxes. Under *the Act*, OCRC transfers most of its net profits to the Province of Ontario (“Province”) Consolidated Revenue Fund in the form of a dividend.

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

OCRC’s head office is located at 4100 Yonge Street, 2nd Floor, Toronto, Ontario, Canada, M2P 2B5.

2. Basis of presentation and material 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 26, 2024.

2.2 Functional and presentation currency

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

2.3 Adoption of new and amended standards and interpretation

Accounting standards and amendments adopted in the current year

The OCRC has adopted the following IFRS amendments that were effective for annual periods beginning on or after January 1, 2023.

- Amendments to IAS 1, *Presentation of Financial Statements – Disclosure of Accounting Policies*, requiring entities to disclose material, rather than significant, accounting policy information.

The adoption of this amendment did not have a material impact on our financial statements.

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.

2.4 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.

Vendor chargeback receivables and trade receivables are presented net of allowances for expected credit losses. Other receivables are made up sundry receivables, and interest receivable on cash balances.

The carrying amount of vendor 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. 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 receivable. OCRC assesses impairment of vendor 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, they are written off against the allowance. The loss is recognized as selling, general, and administrative expenses in the Statement of Income and Comprehensive Income.

2.5 Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using 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 higher.

2.6 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, where the effect of any changes in estimated useful lives and depreciation method is 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 the assets become available for use.

2.7 Impairment of property and equipment

After recognition of an asset, an item of property and equipment 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 and equipment 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.

2.8 Leases

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. The OCRC assesses whether a contract is or contains a lease, at inception of the contract. At contract inception, each identified lease component and any associated non-lease component are accounted for as a separate lease component. Non-lease components, also referred to as variable lease payments, such as property taxes, management fees and utilities are to be expensed as incurred throughout the lease term.

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

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 they become available for use. Right-of-use assets under construction are 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 fair market value. These purchased distribution centre equipment are considered right-of-use assets and continue to be classified as such as the OCRC continues to direct its use over its economical useful life. Purchased right-of-use assets are measured at the purchase cost. 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 the right-of-use assets. The right-of-use asset is then depreciated on a straight-line basis over its remaining economic useful life. Right-of-use 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.

2.9 Trade and other payables

Trade and other payables are classified and measured at amortized cost as they are generally short-term in nature and due within one year of the Statement of Financial Position date. Trade payables are non-interest bearing and are initially measured at fair value and subsequently remeasured at amortized cost.

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

2.10 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.

2.11 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.

2.12 Employee benefits

<u>Pension benefits costs</u>

OCRC provides defined pension benefits for all its permanent employees (and to non-permanent employees who elect) through the Public Service Pension Plan ("PSPP") and the Ontario Public Service Employees Union ("OPSEU") Pension Plan. The Province, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU Pension Plan, 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.

<u>Short-term employee benefits</u>

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.

<u>Long-term employee benefits</u>

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.

Long-term employee benefits 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.

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.

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

2.13 Revenue

Revenue from sale of 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, as this is when OCRC has discharged their performance obligations.

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.

2.14 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.

2.15 Finance income and interest expense

Finance income consists of interest income on cash balances.

Interest expense consists of interest expense on borrowings and lease liabilities.

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

2.16 Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value, plus or minus transaction costs that are directly attributable to their acquisition.

The measurement of financial instruments in subsequent periods and the recognition of changes in fair value depend on the category in which they are classified.

OCRC has classified and measured its financial instruments as follows:

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

Fair value measurements

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

2.17 Use of Estimates and Judgments

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

The judgments and key sources of estimation uncertainty that have a material 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 requires 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.

Property and equipment

Management exercises judgement in determining the estimated useful lives of property and equipment. The estimates are based on analysis of pertinent factors including the expected use of the asset and asset category.

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 practices 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 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 OFA at the lease commencement date.

Provisions

Provisions have been made for certain employee benefits, contract terminations, and other claims. Since 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, 2024, includes interest-bearing bank accounts.

(Thousands of Canadian dollars)

4. Trade and other receivables

Trade and other receivables include the following:

	March 31, 2024	March 31, 2023
Vendor chargeback receivables	**1,693**	910
Trade receivables	**1,000**	460
Loss allowance for expected credit losses	**(2,003)**	(916)
Sundry receivables	**325**	346
Interest receivable	**2,377**	2,291
	3,392	3,091

Vendor chargeback receivables are credit memo from price protection or returned products. Trade receivables are made up of wholesale customer balances. The carrying amount of vendor chargeback and trade receivables are reduced through the use of an allowance at levels considered adequate to absorb credit losses. Subsequent recoveries of receivables previously allowed for are credited to Selling, General and Administrative Expenses.

The amount of lifetime expected credit losses on trade and other receivables is $2,003 (2023 - $916). Information about the OCRC's exposure to credit risks and analysis relating to the allowance for expected credit losses is included in note 16.

5. Inventories

The cost of inventories sold and recognized as cost of sales during the year ended March 31, 2024, was $1,265,864 (2023 - $1,151,144). This includes inventory write-downs recognized during the year of $6,478 (2023 - $10,481). The write downs 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.

(Thousands of Canadian dollars)

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 for the year ended March 31, 2024:

	Computer hardware	Furniture and fixtures	Computer software	Leasehold improvements	Leasehold improvements in progress	Total
Cost						
Balance at April 1, 2023	1,430	1,384	11	2,642	60	5,527
Additions	464	25	-	53	501	1,043
Disposals	(245)	(122)	-	-	-	(367)
Transfers	-	439	-	122	(561)	-
Balance at March 31, 2024	**1,649**	**1,726**	**11**	**2,817**	**-**	**6,203**
Accumulated depreciation						
Balance at April 1, 2023	867	521	10	580	-	1,978
Depreciation	255	153	1	240	-	649
Disposals	(244)	(57)	-	-	-	(301)
Balance at March 31, 2024	**878**	**617**	**11**	**820**	**-**	**2,326**
Carrying amount						
As at April 1, 2023	563	863	1	2,062	60	3,549
As at March 31, 2024	**771**	**1,109**	**-**	**1,997**	**-**	**3,877**

(Thousands of Canadian dollars)

Property, equipment, and intangible assets continuity for the year ended March 31, 2023:

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

7. Leases

a) Lease liabilities

The following table presents the changes in the lease liability for the year ended March 31, 2024:

	Office premises	Distribution centre premises	Distribution centre equipment	Total
Balance, as at April 1, 2023	**9,380**	**31,081**	**6,542**	**47,003**
Principal payments	(734)	(1,238)	(2,095)	(4,067)
Balance, as at March 31, 2024	**8,646**	**29,843**	**4,447**	**42,936**

	March 31, 2024	March 31, 2023
Current portion	**4,012**	4,143
Long-term portion	**38,924**	42,860
	42,936	47,003

Interest expense on these lease obligations for the year ended March 31, 2024, was $1,041 (2023 - $1,127). Total cash outflow for the year ended March 31, 2024, was $5,108 (2023 - $5,088) including interest.

(Thousands of Canadian dollars)

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:

	March 31, 2024
Less than one year	**4,894**
One to five years	**14,739**
Thereafter	**30,705**
Total undiscounted lease payments	**50,338**
Less: Imputed interest on lease	**(7,402)**
Total discounted lease payments	**42,936**

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 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 OFA at the lease commencement date.

Distribution centre equipment lease

Between the years ended March 31, 2019, to March 31, 2022, the OCRC entered into equipment leases for use at the distribution centre. The lease terms range from 36 months to 60 months with optional one year extension terms. The lease payments were discounted using OCRC's incremental borrowing rate, which is the applicable rate of the OFA at the lease commencement date.

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 $165 for the year ended March 31, 2024 (2023 - $209). As at March 31, 2024, commitments for low-value leases are $46 (2023 - $211).

Variable lease payments

Total variable lease expenses that are not included in the measurement of lease liabilities are $530 (2023 - $584).

(Thousands of Canadian dollars)

b) Right-of-use assets

The following table presents the changes in the cost of right-of-use assets for the year ended March 31, 2024:

	Office premises	Distribution centre premises	Distribution centre equipment	Distribution center equipment under construction	Total
Cost					
Balance at April 1, 2023	11,603	33,539	12,146	222	57,510
Additions	-	-	1,453	-	1,453
Transfers	-	-	222	(222)	-
Balance at March 31, 2024	**11,603**	**33,539**	**13,821**	**-**	**58,963**
Accumulated depreciation					
Balance at April 1, 2023	3,048	4,399	4,712	-	12,159
Depreciation	770	1,649	2,409	-	4,828
Balance at March 31, 2024	**3,818**	**6,048**	**7,121**	**-**	**16,987**
Carrying amount					
As at April 1, 2023	8,555	29,140	7,434	222	45,351
Balance at March 31, 2024	**7,785**	**27,491**	**6,700**	**-**	**41,976**

The distribution centre equipment consists of leased and purchased right-of-use assets. During the year, the OCRC elected to purchase distribution centre equipment assets upon expiry of the leases at fair market values. In addition, the OCRC purchased right-of-use assets that are distribution centre equipment.

(Thousands of Canadian dollars)

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

The distribution centre equipment consists of leased and purchased right-of-use assets. During the year, the OCRC elected to purchase distribution centre equipment assets upon expiry of the leases at fair market values.

8. Trade and other payables

Trade and other payables include the following:

	March 31, 2024	March 31, 2023
Inventory payables and accruals	**133,260**	128,683
Vendor chargebacks offset against inventory payables	**(6,109)**	(9,999)
Other trade payables and accrued expenses	**22,689**	13,457
Sales tax payable	**3,685**	4,339
	153,525	136,480

(Thousands of Canadian dollars)

9. Provisions

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

Provisions for the year ended March 31, 2024:

	Contract terminations	Long-term employee benefits	Other	Total
Balance at April 1, 2023	90	473	55	618
Additional provisions recognised during the year	318	36	208	562
Utilization of provision	(90)	-	(55)	(145)
Balance at March 31, 2024	**318**	**509**	**208**	**1,035**

Provisions continuity for the year ended March 31, 2023:

	Contract terminations	Long-term employee benefits	Other	Total
Balance at April 1, 2022	-	480	93	573
Additional provisions recognised during the year	90	-	55	145
Unused and reversal of provisions	-	(7)	-	(7)
Utilization of provision	-	-	(93)	(93)
Balance at March 31, 2023	**90**	**473**	**55**	**618**

	March 31, 2024	March 31, 2023
Current portion	**526**	145
Long-term portion	**509**	473
	1,035	618

The contract terminations provision includes claims where it is probable that the OCRC will have to make a payment to settle the claim. The long-term employee benefits provision includes employee benefits other than those provided by the Province which includes Workplace Safety and Insurance Board ("WSIB") and Long-Term Disability ("LTD") and is measured at the present value of the estimated future cash flows. Other is the provision of other claims and allowances where it is probable that the OCRC will have to make a payment to settle the claim.

(Thousands of Canadian dollars)

10. Borrowings

During the year ended March 31, 2020, OCRC entered into a non-revolving 10-year term loan ("OFA Loan") with the 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, 2024, changes in the carrying value of borrowings are as follows:

	OFA Loan
Balance, as at April 1, 2023	59,715
Principal payments	(9,386)
Interest accretion	1,552
Balance, as at March 31, 2024	**51,881**

	March 31, 2024	March 31, 2023
OFA Loan	**51,881**	59,715
Less: current portion of borrowings	**(9,386)**	(9,386)
Non-current borrowings	**42,495**	50,329

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 or is estimated to receive the product.

	For the year ended March 31, 2024	For the year ended March 31, 2023
Wholesale revenue	**1,605,094**	1,431,212
E-commerce revenue	**33,375**	42,789
Data subscription program	**635**	483
	1,639,104	1,474,484

Credit losses incurred on e-commerce transactions were $15 for the year ended March 31, 2024 (2023 - $34). Refer to Note 16.

12. Cost of sales

Cost of sales includes the cost of product sold, determined using 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, 2024	For the year ended March 31, 2023
Cost of goods sold	**1,265,864**	1,117,114
Delivery fees	**34,742**	33,789
Transaction fees	**240**	241
	1,300,846	1,151,144

(Thousands of Canadian dollars)

13. Selling, general and administrative expenses

Selling, general and administrative expenses include the following:

	For the year ended March 31, 2024	For the year ended March 31, 2023
Salaries and benefits	**47,302**	39,335
Warehouse and logistics	**38,775**	36,663
Media and research	**8,174**	3,643
Information systems and technology support	**7,520**	6,862
Depreciation of right of use assets	**4,827**	4,827
Contract services	**3,550**	3,126
Provision for (recovery of) bad debts	**2,729**	930
Professional services	**2,312**	2,172
Insurance	**1,600**	1,429
Social responsibility	**1,233**	914
Occupancy	**1,059**	945
E-commerce transaction processing	**683**	1,067
Depreciation of property, equipment, and intangible assets	**649**	596
Loss on disposal of fixed assets	**66**	5
Other expenses	**1,066**	529
	121,545	103,043

14. Finance income and interest expense

Finance income and interest expense include the following:

	For the year ended March 31, 2024	For the year ended March 31, 2023
Interest income on bank balances	**30,114**	16,769
Lease liabilities interest expense (Note 7)	**(1,041)**	(1,127)
OFA loan interest expense (Note 10)	**(1,552)**	(1,760)
	27,521	13,882

15. Post-employment and long-term employee benefits

(i) Employee pension benefits

During the year, OCRC made pension contributions to the plans that amounted to $3,108 (2023 - $2,625). 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) Long-term employee benefit plans

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

(Thousands of Canadian dollars)

As at March 31, 2024, the liability for long-term income protection benefits recognized amounted to $509 (2023 - $473), which is included in selling, general and administrative expenses in the Statement of Income and Comprehensive Income.

16. Financial risk management

OCRC's Treasury Policy and Customer Credit Risk Management Policy regarding financial risk management and internal controls sets 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.

OCRC is exposed to credit risk under circumstances where chargebacks are issued from OCRC to vendors, resulting in balances due to OCRC.

OCRC mitigates such risk by reviewing the receivables position against future planned inventory purchases for eventual offset against the receivable, where applicable. OCRC also analyses the 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. 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. Vendor chargeback and trade receivables are derecognized when there is no reasonable expectation of recovery.

OCRC applies the 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 vendor chargeback and trade receivables, as at March 31, 2024, to be $2,003 (2023 - $916). The changes in the vendor chargeback and trade receivables loss allowances were as follows:

	March 31, 2024	March 31, 2023
Beginning balance	**916**	31
Loss allowance recognized during the year	**2,759**	952
Loss allowance reversed during the year	**(29)**	(22)
Loss allowance written-off during the year	**(1,643)**	(45)
Ending balance	**2,003**	916

(Thousands of Canadian dollars)

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

	March 31, 2024	March 31, 2023
Less than 60 days past due	**888**	991
61-180 days past due	**146**	280
Greater than 180 days past due	**1,659**	99
Total	**2,693**	1,370
Less: Loss allowance	**(2,003)**	(916)
Vendor chargeback & trade receivables (net)	**690**	454

(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.

17. 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, 2024, is $389,896 (2023 - $518,416).

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 and provide continuous dividends to the Province of Ontario (“Province”).

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.

18. 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) Province of Ontario

As required in Order in Council 1376/2023, OCRC transfers its earnings by quarterly payments each fiscal year equal to net income less finance income to the Province's Consolidated Revenue Fund through a dividend.

During the year ended March 31, 2024, the OCRC paid dividends of $287,000 (2023 - $nil) to the Province and accrued $78,000 as at March 31, 2024 (2023 - $nil).

(b) Ontario Financing Authority

The carrying value of the 10-year term loan with OFA (refer to note 10) as at March 31, 2024, is $51,881 (2023 - $59,715) including accrued interest of $359 (2023 - $408).

(c) 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 long-term employee benefit plans are disclosed in note 15.

(d) 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 Audit and Finance Committee and the Human Resources and Compensation Committee.

Key management personnel compensation for the year ended March 31, 2024, was $3,230 (2023 - $3,114), comprised of salaries and benefits, directors per diem fees, and other short-term employee benefits.

19. 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.

20. Comparative figures

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