Annual Report 2020

For responsible consumption

SQDC

$26.3 million

in dividends paid to the Quebec government

The Société québécoise du cannabis (SQDC) has ended its first full year of operation with total comprehensive income of $26.3 million, which will be used primarily to fund research, education and efforts to counter the adverse effects of cannabis. The company's 28 new stores and transactional website (SQDC.ca) helped it capture more than 30% of Quebec's illegal cannabis market. In reducing black market activity by nearly a third, the SQDC has clearly demonstrated the relevance of its mission and viability of its business model, and it has done so while positioning itself, with its mission of education and health protection, as a benchmark for the industry.

Contents

Highlights
of Fiscal 2019-2020

Year ended March 28, 2020
(in thousands of Canadian dollars and in kilograms for volume sales)

Financial results	
Sales	311,572
Gross margin	70,957
Net expenses[1]	44,661
Comprehensive income	26,296
Financial position	
Total assets	88,570
Property, plant and equipment, intangible assets and right-of-use assets	41,321
Shareholder's equity	2
Sales by network	
Stores	285,908
SQDC.ca transactional website	25,664
Total	**311,572**
Sales by product category	
Dried flowers	287,976
	43,005 kg
Other products (oils, sprays, etc.)	23,596
	3,858 kg
Total	**311,572**
	46,863 kg

1. Net expenses consist of selling and administrative expenses. They also include financial expenses net of financial income.

Message from the Chair of the Board of Directors

Fiscal 2020 was a busy year for the Board of Directors of the Société québécoise du cannabis (SQDC). In the first six months of the company's existence, its directors dedicated their energies to setting up the basic structures for sound and effective governance. In the year just ended, they turned their attention to longer-term planning.

Last year, the Board helped develop the organization's first-ever strategic plan. The plan will guide the SQDC's actions over the coming three years and allow the company to continue doing business while remaining true to its vision, values and mission, which is to sell cannabis with a focus on health protection, the goal being to attract and retain users from the illegal cannabis market without encouraging use.

The Board also assisted with the creation of the SQDC's first social responsibility plan, which is closely aligned with its main strategic orientations and commits the company to taking concrete action in the areas of health, ethics, sustainable development and community involvement.

The Board of Directors continued putting in place all the elements of governance necessary for the SQDC to meet the requirements of the *Act respecting the governance of state-owned enterprises*. Also, determined to carry out its health protection mandate, the Board created the Health Protection and Research Committee (HPRC) to ensure compliance with the company's mission.

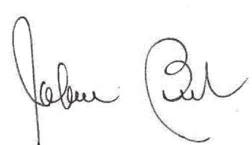
I am especially proud to note that at the end of its first full fiscal year, the SQDC is remitting $26.3 million to a fund comprised of monies from cannabis sales. That fund, in turn, is used to maintain the Cannabis Prevention and Research Fund, support projects for countering the adverse effects of psychoactive substances and underwrite cannabis information and awareness campaigns. The amount, which will be reinvested by the government, demonstrates that the public health-focused model for retail cannabis sales favoured by Quebec is viable, even desirable. I want to take advantage of this opportunity to thank the company's directors who, drawing on their respective areas of expertise, supported the SQDC during this crucial period of long-term planning and organizational optimization.

Backed by a strong team, the company was able to continue growing in an emerging, constantly shifting industry even as it increased accessibility by opening 28 new stores and offering a transactional website, all while remaining in strict compliance with all applicable laws and regulations.

None of this would have been possible without the discipline and professionalism of the members of the Management Committee, to whom I offer my warm thanks.

I also want to highlight the remarkable work done by all the SQDC's teams, employees and managers, who have stayed the course, most notably during the COVID-19 pandemic that rolled across Quebec and the rest of the world. The Board of Directors saw to it that management to ensure the company, declared an essential business by the government, stayed open without interruption while maintaining a constant focus on the health and safety of its employees and customers.

In conclusion, I want to note the vision and positive leadership of the SQDC's President and Chief Executive Officer, Jean-François Bergeron, who has helmed the company during a period of growth that is both enviable and, above all, responsible.



Johanne Brunet
Chair of the Board of Directors

Message from the President and Chief Executive Officer

What a privilege it has been to lay the foundations for Quebec's newest government corporation, to work to define a new industry and to carry out such an inspiring mission with such experienced colleagues focused on the health and safety of our customers!

Our efforts have borne fruit. The Société québécoise du cannabis (SQDC) has ended its first full fiscal year with net earnings of more than $26 million and an excellent illegal to legal-market conversion rate, two achievements that are a source of pride.

The company recorded net sales of $311.6 million, up 337% from fiscal 2018-2019. This growth was supported by the opening of 28 new stores, bringing the total to 41, and an efficient transactional website with same-day processing of most orders. A flexible logistics and organization structure also contributed to the company's financial viability and fulfillment of its mission.

With sales equivalent to 47 metric tons of cannabis, the SQDC has succeeded, after only 18 months of operation, in garnering more than 30% of the illegal cannabis market in Quebec, confirming the effectiveness of its business model and relevance of its mission.

The company declared a surplus of $26.3 million, nearly 30% above the targeted $20.6 million. Adding in government revenues from operations in the form of excise and consumer taxes, the amounts remitted to the government total more than $90 million, making the SQDC one of the top government corporation contributors to Quebecers' collective piggy bank. All profits from operations will be reinvested, primarily in research, education and efforts to counter the adverse effects of cannabis.

Beyond these impressive results, I am especially pleased that the SQDC accomplished all this while offering products at prices competitive with the illegal market and fulfilling its mission to sell cannabis with a focus on health protection. Each of the SQDC's decisions was guided by this mission, just as each of its actions was guided by the company's core values of responsibility, simplicity, proximity and excellence.

Having laid the operational foundation for a well-performing company, our team now intends to continue working to sell high-quality products while adding more Quebec producers to its list of suppliers. The coming year will also be an opportunity for the SQDC to begin implementing the initiatives called for in its 2021-2023 strategic and social responsibility plans.

In the coming fiscal year, the SQDC will continue expanding its sales network and improving access to competitively priced, quality-controlled products in safe surroundings in the goal of migrating even more cannabis users to the legal market.

In closing, I want to thank the members of the SQDC Board of Directors for their support from day one. Their involvement and great expertise are invaluable and contribute to the company's success and the attainment of the objectives of its mission.

I also want to underscore the enormous contribution of the company's Management Committee and the useful collaboration of the various government departments concerned, in particular the Finance Department, for their trust and support. Gratitude, too, to the Ministère de la Santé et des Services sociaux for its unwavering support for our education and prevention initiatives for consumers and employees. Lastly, I want to note the remarkable contribution of the employees at every level of the company. Their knowledge and effort are key to our success. Together, we will continue to define what it is to be responsible and profitable cannabis retailer.

Jean-François Bergeron
President and Chief Executive Officer

Management Committee

A team of experienced professionals who work each day to define what a responsible cannabis business is

Jean-François Bergeron

President and Chief Executive Officer

Robert Dalcourt

Controller and Director, Finance

Éliane Hamel

Director, Social Responsibility, Health Protection, Education and Communication

Geneviève Giroux

Director, Supply Chain, Product Management and Supplier Relations

Paul Furfaro

Director, Store Operations

Ève Larrivée

Director, e-Commerce Operations

Normand McKenzie

Director, Human Resources and Labour Relations

Pietro Perrino

Secretary General and Director, Legal Services and Government Relations

Mission

Sell cannabis in compliance with the *Cannabis Regulation Act* and with a focus on health protection
in order to attract and retrain users from the illegal cannabis market without encouraging use.

Vision

Be the benchmark for the responsible cannabis industry

By making ethics and health protection an integral part of our company and encouraging partners to do the same	By establishing the highest standards in the industry and ensuring compliance from the production facility to the sales floor	By becoming the model of an efficient, flexible and responsible government corporation

Values

Responsibility

Responsibility forms the basis of who we are as a company. At all times, we place customers' health at the centre of our actions. We advise and support them in order to reduce the risks related to use of our products.

We are also committed to efficiently and effectively managing our business so our profits can benefit all Quebecers, in particular by funding cannabis research and prevention.

We have adopted the principles of sustainable development to limit our impact on the community and grow our value for Quebec.

Proximity

At the SQDC, the notion of proximity underpins those of authenticity, openness and collaboration. Whether it is between colleagues, with our partners or with our customers, we establish a relationship of trust so we can all go farther together.

Proximity is also the determination to provide high-quality, accessible service to Quebecers in every region of Quebec.

Simplicity

Because we care deeply about efficiency, we strive to make the right choices and solve problems at the source. Every day throughout the company, our determination to do things differently and keep our processes simple guides our decision-making.

Excelling

Every day, we work to build the SQDC by being bold and courageous. Our passion for our work and our collective desire to succeed drive us to constantly innovate, encourage initiative and always give our all.

Review of Activities

Operational Highlights

695
employees

28
new stores

12,461
hours of training completed

41
stores in all

14
cannabis suppliers
with active contracts
(Canadian and Quebec products exclusively)

7.75 million
transactions

As many as
200
products offered

40%
Quebec-based
production

7.39 million
in-store
transactions

355,000
online
transactions

176,000
online customer accounts

355,000
parcels delivered

47
metric tons
of cannabis sold

592,000
visits
to SQDC.ca each month

An ever-changing context

After barely six months of operation, the SQDC embarked on a second fiscal year that would prove full of accomplishments, including optimizing its business processes, improving its responsible practices and growing its network and therefore its sales.

A year marked by success

Fiscal 2019-2020 was rich in events of all kinds for the SQDC. Three developments were particularly significant for the company:

- Factors such as the opening 28 new stores (bringing the total number of points of sale to 41), a customer experience built around advice and support, a robust transactional website featuring optimized parcel handling and a competitive product offer have enabled the SQDC to capture around 30% of illegal cannabis market sales.

- The SQDC declared net earnings of more than $26 million. Our operational efficiency and flexible business model undoubtedly had much to do with this achievement.

- According to the *Portrait de la consommation de cannabis au Canada et au Québec* published in March 2020 by the Institut national de santé publique du Québec (INSPQ)—a document that deals with the Canadian Cannabis Survey 2019, among other things—nearly 78% of people who used cannabis in the preceding year said their level of use had not changed since legalization, while 13% said it had increased and 9% said it had decreased. In all likelihood, the company's support for the Ministère de la Santé et des Services sociaux educational campaigns as well as its health-focused mission and various education and information initiatives implemented in its stores and on its website all played a role in limiting the rise in use.

Development of the 2021-2023 strategic and social responsibility plans

Supported by the Board of Directors, the management team carried out a strategic planning process that gave birth to the SQDC Strategic Plan 2021-2023. The plan sets forth three main orientations that will guide the company's actions: expanding the sales network, delivering a competitive product offer and growing responsibly. The SQDC intends to reach the 11 objectives it has set for itself by 2023. Performance indicators will track progress on an annual basis.

The company also adopted its first social responsibility plan. The SQDC Social Responsibility Plan 2021-2023 is aligned with the company's main strategic orientations. The SQDC has set 13 objectives in four main action categories—health, ethics, community and the environment—that define its contribution to Quebec's Government Sustainable Development Strategy. Once again, annual targets will be used to track attainment of these objectives.

Legal age

21+

Also, to ensure sound governance, the company worked with the Board of Directors to implement a risk management process and quarterly risk tracking.

Increase in the legal age and restrictions on the sale of cannabis derivatives

October 17, 2019, was the first anniversary of the legalization of cannabis in Canada. The main indicators currently available, including the *Enquête québécoise sur le cannabis 2019* published by the Institut national de santé publique du Québec (INSPQ), are insufficient to conclude that legalization has had a marked negative impact on use or public health.

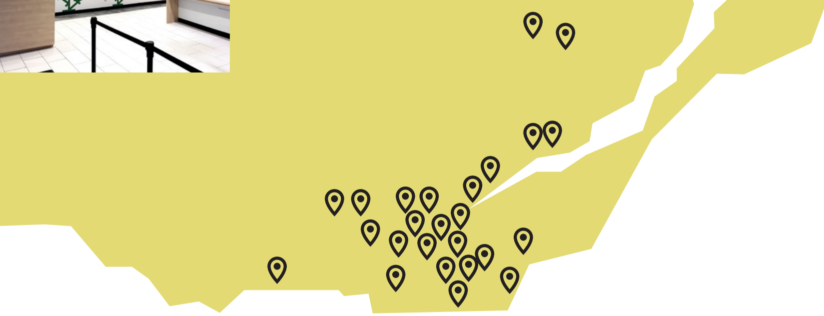
On October 29, 2019, the Quebec government adopted the *Act to tighten the regulation of cannabis*, which raises the minimum age for buying and using cannabis to 21 and includes colleges and universities among the educational institutions to which operating a cannabis point of sale nearer than 250 metres is banned.

On January 1, 2020, cannabis derivatives officially became legal in Canada. Intent on protecting Quebecers' health, Quebec decided to ban or limit the sale of some of these products. Accordingly, the SQDC does not sell vaping products or accessories and limits its offer of edible cannabis products to ones with no appeal for people under the age of 21. This means that gummies and chocolates, for example, are banned.

Health remains a priority issue for the company

COVID-19 pandemic

The COVID-19 pandemic has rocked the entire world, and Quebec is no exception. Government authorities justifiably imposed a number of severe measures, which had a real impact on all aspects of Quebec society. No organization or industry was spared. In Quebec, the government ordered a full shutdown of all non-essential activities and the closing of many businesses. However, the Société québécoise du cannabis was among those directed by the government to remain open. Despite the unprecedented situation and many hygiene and physical distancing measures put in place, SQDC employees continued to provide efficient service and responsible support to customers. At the operations level, the SQDC implemented a number of mitigation measures to protect the health of employees and customers; these included controlling traffic at store entrances, accepting payment only by card to avoid handling cash and adding plexiglass barriers in front of all store service counters. The SQDC also began closing on Sundays on March 22 to give its employees a break.



A growing store network

Store inaugurations

It is by increasing accessibility to its stores, products, sound advice and competitive prices that the SQDC can best fulfill its mission of shifting users from the illegal market to the legal market. As per its plan to gradually establish a presence throughout Quebec, the company continued to expand its network, adding 28 new stores and bringing to 41 the number of points of sale in 13 regions of Quebec. As at March 28, 2020, the SQDC had invested $13.8 million in opening new stores.

When opening new stores, the SQDC demonstrates flexibility, openness and a collaborative spirit to encourage the municipalities concerned to sign on to the project. Meetings were held with officials from towns and cities under consideration by the company, the goal being to gauge the social acceptability and identify areas potentially suitable for a store location, in full compliance with the *Cannabis Regulation Act*, the required distances separating stores from vulnerable groups and all applicable municipal by-laws.

28
new stores
just about everywhere in Quebec

More than 300 new hires to better serve customers

To support its rapid growth and Quebec-wide expansion, the SQDC focused much energy on hiring, creating hundreds of new employees. This massive recruitment effort brings the total number of in-store employees to 664, comprised of 577 advisors, 44 assistant managers and 43 managers. The company encourages the professional development and accountability of all personnel. Its management approach favours excelling and encourages the acquisition of new skills and responsibilities. This is why the company offered 26 promotions to employees who excelled. Head office is home base for 31 employees.

Determined to provide a safe and healthy working environment, the SQDC implemented a regular workplace inspection program and created an occupational health and safety (OHS) committee in each of its stores. The OHS committees meet three times a year to discuss various measures to be implemented.

The SQDC also took other initiatives to optimize working conditions, boost employee engagement and formalize procedures. This included defining the company's values (responsibility, proximity, simplicity and excelling), a process carried out with employees.

Lastly, it was during the fiscal year just ended that the SQDC signed its first collective agreements with the unions representing the employees in 38 of its 41 stores. Reached to the satisfaction of both parties, the two-year agreements guarantee employees enjoy conditions competitive with other retailers while also providing the management with the flexibility it needs to efficiently run the company's operations.

Simple, efficient operations

Quebec's newest government corporation, the SQDC continues to reinvent how it does business and to rely on the simplicity of its business model and efficiency of its processes to keep operating expenses at a level that allows prices to remain competitive with the illicit market. Simplicity holds such an important place in the organization that it has been made one of the company's values.

The SQDC continues to favour direct delivery from producers to its stores. This just-in-time approach to inventory management makes it possible to maintain a reliable, recurring supply while at the same time minimizing risks and financial commitments. Online order processing is centralized with a logistics partner that prepares and packages the products for delivery. A delivery partner picks up the parcels and delivers them directly to customers in two working days on average. Proof of age is, of course, required for delivery.

Combined with the company's procurement strategies, this way of working enables the SQDC to keep its margins and operating costs at the levels necessary to compete with the illegal market.

4 million
grams
of cannabis ordered online

Reviewed and improved store concept

The SQDC's store concept combines sobriety, education as well as security and complies with all current laws and regulations. On the outside, stores have discreet signage and windows that provide no view of products or store interiors. A reception area allows security guards to check the IDs of all would-be customers, irrespective of age. The sales area—the heart of the store—features simple educational posters and signage and touch-screen terminals. An information counter favours interaction between advisors and customers and provides the latter with relevant information about the products on offer, the risks associated with cannabis use, any warnings and, if necessary, referrals to available support services. The environment is designed to be safe for all, employees and customers alike.

In fiscal 2020, the SQDC modernized the layout of its stores, in part to add spaces dedicated to newly legalized cannabis products, such as edibles. To better guide users, the educational posters were also updated and improved with additional information on methods of cannabis use.

Improved website

SQDC.ca, the company's transactional website, attracted 592,000 visitors a month last year and is constantly evolving.

The site includes an extensive educational section recently expanded with additional content, including a page of useful tips. The Learn About Cannabis pages have been viewed 805,000 times, which speaks volumes of their usefulness.

The website was also updated to include cannabis products newly available in Quebec and reflect the newly applicable rules. In addition, icons now make it easier to find products appropriate for one's intended use.

The SQDC.ca website includes a corporate information section for finding out more about the company, quickly locating its points of sale and learning store opening hours and other practical information.

Lastly, SQDC.ca is also a transactional platform. In fiscal 2019-2020, users ordered nearly 4 million grams (3,858 kilograms) of cannabis online, paying a total of $25.7 million. The volume of online sales remained stable throughout the year, with the exception of March. Consumers have altered their buying habits since the start of the COVID-19 crisis, pushing online sales to 18% of overall sales. That is more than twice the annual average of 8.2%.

Active presence on social media

The SQDC also maintains a presence on Facebook LinkedIn and Twitter, making it possible for the government corporation to dialogue with Quebecers, provide advice concerning responsible use and field questions and comments from cybernauts. In fiscal 2019-2020, the SQDC replied to more than 2,000 queries, including questions about buying products, product availability, delivery and navigating the SQDC.ca website. Facebook, LinkedIn and Twitter were also used to inform customers and remain in touch with followers during the COVID-19 pandemic. As at March 28, 2020, the SQDC had 16,307 followers of its Facebook page, 4,100 connections to its LinkedIn account and 4,532 followers of its Twitter account.

As many as

200
products
available

A competitive offer to better compete with the illegal market

Keeping our customer promise

From the very start, the SQDC has based its customer promise on four main pillars: quality products, responsible support, fair prices and adequate availability. In its second year of business, the company has taken concrete action to keep its customer promise.

In the area of responsible advice, for example, all store employees were trained on hiring and have received additional training about the second wave of cannabis products. Advisors are required to pass a yearly test to ensure they have retained an adequate level of knowledge. Additionally, all training programs have been updated in collaboration with the Ministère de la Santé et des Services sociaux.

On the product quality front, the SQDC requires all its suppliers to comply with safe-packaging rules and carry out the laboratory analyses required by Health Canada. Labelling gives consumers the information they need to select the product best adapted to their needs while tests guarantee that all products offered for sale are free of unauthorized contaminants and pesticides.

The SQDC focuses much energy on fair prices, ones that are low enough to attract illegal market customers but not to encourage or increase use. This is why the company worked to keep its product offer at prices competitive with the illicit market's. According to Statistics Canada, the average price of cannabis in Quebec is around 20% less than the Canadian average.

As for product availability, the SQDC improved its offer by signing several new agreements with cannabis suppliers in fiscal 2020. Since April of 2019, the SQDC has gone from having around 80 products on offer to an current average of 150 products in stores and 180 products online. The company's catalogue includes new categories like coolers and cannabis extracts and now contains around 200 different items. Also, in collaboration with its partners, the SQDC has developed products in 28 gram packages, satisfying a customer segment that usually purchased in large quantities on the illegal market. The 28 new stores opened during the year further facilitate access for consumers.

Like its counterparts in other Canadian provinces, the company faced supply challenges at the start of its first year of operation. However, the SQDC's actions have enabled it to continuously improve its supply situation since March of 2019. That is why on May 20, 2019, the SQDC returned to its regular opening hours, seven days a week. This return to the regular schedule and the expansion of the store network combined to significantly reduce queues outside stores.

Diversifying the product offer

Since mid-December 2019, new types of cannabis products have been authorized for sale in Canada. These include topical products, edibles and certain types of concentrate. All the products must be intended for adult users and without appeal to young people. Quebec is even more restrictive, banning candies, desserts and other sweets as well as topical products. Also, after consulting with public health authorities, the SQDC decided not to sell any vaping supplies. The company fully endorses this measured approach, which is consistent with its determination to avoid creating new users and new needs.

To help prevent users from returning to the illegal market, however, the SQDC decided to diversify its product offer, most notably by introducing edible cannabis products with no appeal to people under 21.

The line-up of new products has been carefully selected and gradually expanded to include coolers and CBD-infused teas. As at March 28, 2020, the end of the company's 2019-2020 fiscal year, no cannabis extracts had yet been sold at the SQDC.

The relatively late arrival of these new product categories is partly due to suppliers having to adjust their product development efforts to remain in compliance with the standards set by Quebec. Hash and THC-infused teas, kief and decarboxylated cannabis powder are all slated to arrive on store shelves in the coming months.

The SQDC also works with suppliers to guide them in developing edible products that comply with all federal and provincial laws and regulations.

12,461
hours
of training provided

Responsible development on every front

Supporting customers: informing and educating

The SQDC places responsible use and Quebecers' health at the top of its priorities. This can be seen in, among other things, the guidance that employees provide to customers in stores. The training employees receive on hiring and then on a continuous basis focuses first and foremost on advice and education.

Because what is known about cannabis and its effects on health and the human body is constantly changing, the SQDC conducts an annual review of the training provided to its in-store employees, the better to ensure they are well informed and always able to provide customers with adequate advice. As a result, the company has, since December 2019, offered additional training on the new cannabis products now authorized in Canada. Employees were consequently able to learn about the newly introduced product categories, the potential health risks and the instructions for low-risk use as well as to provide responsible advice about the new products as soon as they appeared in the stores.

Sales ethic: health first

The primary goal of the sales ethic is to prevent persons under 21, the legal age for buying and using cannabis, from entering our stores. The ban also applies to anyone in a state of intoxication who shows up at a store.

To enforce this ban, the SQDC relies on the know-how of its employees. That is why the company has continued its awareness efforts through training—upon hiring and then on a continuous basis—to equip employees to apply the sales ethic constantly, strictly and rigorously. The training covers how to handle problem customers, be they ones with behaviour issues or showing signs of intoxication. Additional training on problem cases will soon be provided to strengthen enforcement of this measure.

The SQDC also reviewed its ID policy to avoid any form of age-based discrimination. Since January 1, 2020, the security guards responsible for checking IDs at store entrances have systematically required proof of age from all persons attempting to enter the store.

37,000
requests handled
by the CRC

40%
of the product offer
now from Quebec

Customer Relations Centre: impeccable service

Supporting SQDC customers happens in stores and online, of course, but also at the other end of the line. The Customer Relations Centre (CRC) is responsible for answering customers' queries and offering them assistance, always courteously and efficiently, as is proved by the average response time of less than 90 seconds.

In fiscal 2019-2020, the CRC handled more than 37,000 requests, a 40% drop from the preceding year. Complaints formed only 6% of the messages. The most frequently asked questions were about products and product availability (35%), online orders (32%) and general store information, such as opening hours and addresses (9%).

Secure information management

Managing customers' and employees' personal data is a priority for the SQDC. Last year, the company therefore improved its cybersecurity governance structure and adjusted its systems architecture to add additional security devices. From a more operational standpoint, the number of connected systems grew considerably to securely support the growth of the SQDC sales network.

Health Protection and Research Committee: a new tool to guide decision-making

Determined to make informed, public health-driven decisions, the company's Board of Directors created a committee dedicated to research and health protection this year. Five Board members will sit on the committee to ensure adherence to the SQDC's health-focused social mission.

Listening to local players

Wanting to better understand the view of various stakeholders, in particular those in health, public security and municipal affairs, the SQDC's executive team increased its meetings with representatives of the groups. The meetings provided an opportunity not only to explain the company's mission and the measures taken to ensure adherence to it but also to hear stakeholders' concerns. Based on transparency and openness, this dialogue resulted in the company adjusting some of its actions and gaining a better understanding of its role for the parties concerned.

In favour of buying local

Non-medical cannabis is an emerging industry and Quebec companies that hold Canadian production and transformation licences are, for now, few on the ground. The SQDC is keen to encourage the buy local trend. Already, around 40% of the cannabis produced by the SQDC's suppliers is grown in Quebec. Yet the company wants to do more. This is why, during the fiscal year, it launched various measures to favour the introduction of local producers and boost the local economy. Among other things, throughout the certification processes of Health Canada and the Autorité des marchés publics (AMP), the SQDC provided support to various Quebec suppliers hoping to do business with the company. The SQDC has set the goal of having at least 20% of its suppliers being based in Quebec.

13 ambitious objectives

in the Social Responsibility Plan

Preparing the first social responsibility plan

The SQDC developed and published its first-ever social responsibility plan, which comes into effect at the beginning of fiscal 2021. Although the organization has been active on this front since its founding, the plan gives it a clear and detailed guide in the areas of health, ethics, community relations and the environment. The company is committed to improving its practices and reaching the plan's 13 ambitious objectives, which include setting up a responsible procurement process and reducing the environmental footprint of the containers and packaging it sells.

Shrinking our environmental footprint

While the Social Responsibility Plan 2021-2023 will provide a framework for structuring efforts and measuring results, the SQDC has already taken several initiatives to reduce its environmental footprint.

First, the company asked its dried flower suppliers to reduce the size of their packaging and containers. Several have already dropped secondary packaging and most have a clear plan to do so by the end of 2020.

In addition, a pilot project to recover plastic cannabis containers has been under way in four SQDC stores since the start of March 2020. If the results are positive, the company intends to expand the initiative to its entire network this spring. Ultimately, it could recover a potential 420,000 metric tons of plastic a year.

Anticipating the arrival of edible cannabis products in cans, the SQDC worked with local authorities to ensure its compliance with the RECYC-QUÉBEC deposit-refund program and help the industry structure for the change.

The company also provided financial support for selective collection through Éco Entreprises Québec, to which it pays compensation each year. Basically, as a retail business subject to the *Environmental Quality Act*, the SQDC is required to report all containers, packaging and printed materials that it markets in Quebec based on the materials used and quantities involved and to pay a contribution to help fund municipal selective collection services.

Financial results that exceed expectations

In fiscal 2020, the SQDC recorded total sales of $311.6 million, a figure in line with the company's financial objectives. This is an increase of more than $240 million from the preceding fiscal year, when sales totalled $71.3 million. It should be noted, however, that the 2019 fiscal year comprised only six months of operation, as sales in stores and online only began on October 17, 2018.

At the end of its second fiscal year, the SQDC reported net earnings of $26.3 million, making it the most profitable government cannabis corporation in Canada. Government revenues from operations in the form of excise taxes (collected from producers) and consumer taxes enabled the company to generate some $120 million in revenue for the two levels of government.

All told, the SQDC concluded more than 7.7 million transactions in fiscal 2020, 8.2% of which took place on line.

Finance

Financial Review

This report reviews the operations of the Société québécoise du cannabis (SQDC) for the year ended on March 28, 2020, and its financial position as at that date. The report should be read in conjunction with the financial statements and notes thereto, which will be found later in this section. The information contained in this analysis includes all significant events that have occurred up to May 21, 2020.

Overview of results

For the year ended March 28, 2020, the SQDC reported comprehensive income of $26.3 million, a result that exceeded our target. Entirely remitted to the Quebec Finance Department in the form of a dividend, the sum will be reinvested mainly in cannabis-related prevention and research. To it can be added government revenues from operations in the form of consumer and excise taxes, estimated to be approximately $93.5 million ($66.2 million to Quebec and $27.3 million to the federal government). In all, then, the SQDC returns approximately $120 million to the two governments.

In addition, with sales corresponding to 46,863 kg of cannabis and an annual market estimated at approximately 150,000 kg[1] in Quebec, the SQDC considers it has taken a more than 30% share of the illegal market, a figure that exceeds forecasts and shows that the company is on the way to attaining its objective of converting illegal market users to the legal market.

The accompanying financial statements include comparative results. The preceding year, the company's first, had only 292 days, as calculated from June 12, 2018, the date of its founding. The SQDC began generating earnings on October 17, 2018 (166 days of operation).

1. This estimate of volume is based on a report published in November 2016 by the Parliamentary Budget Officer (*Legalized Cannabis: Fiscal Considerations*, https://www.pbo-dpb.gc.ca/en/blog/news/Legalized_Cannabis).

Sales

In the year ended March 28, 2020, the SQDC's sales totalled $311.6 million, the equivalent of 46,863 kg of cannabis, compared with $71.3 million and 9,922 kg of cannabis in the preceding fiscal year, which comprised only six months of operation. These results are fully in line with our objectives. The company continued implementing its development plan continued during the year, adding 28 new stores for a total of 41.

The SQDC completed 7.7 million transactions in its stores and through its website. The average shopping cart totalled $46.30 (taxes included). The average sales price of a gram of cannabis, all product categories combined, was $7.64.

Sales by network

The SQDC's network of 41 stores—the 41st opened its doors only weeks before the end of the fiscal year—had sales of $285.9 million ($57.6 million in 2019 with 13 stores). The sales volume in our store network was 43,005 kg of cannabis (8,036 kg in 2019).

For their part, sales made on the SQDC's transactional website totalled $25.7 million ($13.7 million in 2019). This corresponded to a volume of 3,858 kg (1,886 kg in 2019).

Cost of products sold and gross margin

In fiscal 2019-2020, the cost of products sold stood at $240.6 million ($58.1 million for the preceding fiscal year). The resulting gross margin totalled $71 million or 22.8% of sales ($13.2 million or 18.5% of sales for the preceding fiscal year).

Net expenses

Net expenses consist of selling and administrative expenses. They also include financial expenses net of financial income. Accordingly, net expenses were $44.7 million ($18.1 million in fiscal 2019).

Employee compensation, which is the SQDC's largest expense category, totalled $20 million in fiscal 2019-2020. This line item accounts for around 44.7% of net expenses. Expressed as a percentage of sales, employee compensation was 6.4%.

Building occupancy expenses and other operating expenses are the next two largest expense categories. The former totalled $9.6 million or approximately 21.5% of net expenses and 3% of sales. Other operating expenses totalled $8.9 million or 19.9% of net expenses and 2.9% of sales.

Lastly, transportation, merchandising and other expenses totalled $6.2 million or 13.9% of net expenses and 2% of sales. Expressed as a percentage of sales, total net expenses were 14.3%.

Investments

During the year, investments in property, plant and equipment and in intangible assets totalled $14.7 million. Most of these investments were related to new store openings.

Financial position

As at March 28, 2020, the SQDC had total assets of $88.6 million, compared with $34.2 million as at March 30, 2019, a $54.4 million increase. Cash rose $25.9 million to $31.9 million. The company has no accounts receivable because all sales are paid by cash, debit or credit card at the time of purchase. The value of inventories rose $6.7 million to $14.6 million. Non-current assets are property, plant, equipment, intangible assets and right-of-use assets at net value.

Current liabilities totalled $72.6 million at fiscal year-end, a $38.5 million increase. Accounts payable and accrued liabilities rose $24.6 million. This year, the SQDC has a dividend payable of $26.3 million while the amount owed to the SAQ was reduced by $14.1 million through repayment of the costs incurred to set up the SQDC and start operations. Non-current liabilities consist of lease obligations totalling $15.9 million.

Cash flows

The SQDC's activities generate cash flows sufficient to cover its investment and financing activities. Specifically, the $51.4 million of cash flows generated by the company's operating activities allowed the company to spend $24.3 million to acquire property, plant, equipment and intangible assets and $1.1 million for charges related to lease obligations. As a result, the statement of cash flows shows a net increase of $25.9 million, compared with the preceding fiscal year, when cash flows were $5.9 million.

Outlook

In the coming fiscal year, the SQDC will continue implementing its store development plan, consolidating its supply network and prudently managing its costs across the company. However, the COVID-19 crisis has had an impact on construction projects and will force the SQDC to postpone the opening dates of some stores. As expansion of its store network is the company's main vector of financial growth, this could slow its sales growth and consequently its profits.

The pandemic has also had an impact on consumer buying behaviour, especially around online shopping. The SQDC expects the steady increase seen in sales on its transactional website since the start of the crisis to continue.

Management is confident its disciplined actions combined with the professionalism and responsible approach of its in-store advisors will enable it to reach its objectives while complying with its mission to distribute and sell cannabis with a focus on health protection.

Management's Responsibility for Financial Reporting

The following financial statements have been prepared by the management of the Société québécoise du cannabis (SQDC) and approved by its Board of Directors. Management is responsible for the information and representations contained in these financial statements and in the other sections of the Annual Report. The financial statements have been prepared according to the policies and procedures established by management in compliance with International Financial Reporting Standards (IFRS) and reflect management's best judgment and estimates based on the information available on May 21, 2020.

As part of its duties, SQDC management maintains an internal control system designed to provide reasonable assurance that the company's assets are adequately safeguarded, that all transactions are duly authorized and that the accounting records constitute a reliable basis for the preparation of accurate and timely financial statements. Management acknowledges that it is responsible for managing the SQDC's business in compliance with the governing laws and regulations.

The Board of Directors of the SQDC is responsible for ensuring that management fulfills its obligations for financial reporting and internal controls. The Board performs this function through its Audit Committee, which consists solely of independent directors. The committee periodically reviews the financial statements and examines the reports on the accounting methods and on the internal control systems. The external independent auditors have unrestricted access to meet with the Audit Committee to discuss any audit-related matters.

The financial statements have been audited by the Auditor General of Quebec and by the firm Raymond Chabot Grant Thornton LLP in accordance with Canadian generally accepted auditing standards. The Independent Auditors' Report, shown below, specifies the nature and scope of their audit and presents their opinion on these financial statements.

Jean-François Bergeron
President and Chief Executive Officer

Robert Dalcourt
Controller and Director, Finance

Montreal, May 21, 2020

Independent Auditors' Report

To the Minister of Finance

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Société québécoise du cannabis (the Company), which comprise the statement of financial position as at March 28, 2020, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 28, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Statements and the Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the information included in the 2020 annual report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identify above, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained the 2020 annual report prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the 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 Company'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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our 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 auditors' report that includes our 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, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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 our 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company 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.

We 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 we identify during our audit.

Report on Other Legal and Regulatory Requirements

As required by the *Auditor General Act* (CQLR, chapter V-5.01), we report that, in our opinion, with the exception of the adoption of the new accounting standard on leases detailled in note 4, these accounting policies have been applied on a basis consistent with that of the preceding year.

Guylaine Leclerc FCPA Auditor, FCA

Guylaine Leclerc, FCPA Auditor, FCA
Auditor General of Quebec

Montreal, May 21, 2020

Raymond Chabot Grant Thornton LLP[1]

Raymond Chabot Grant Thornton LLP
[1]CPA Auditor, CA, public accountancy permit nº. A127023

Montreal, May 21, 2020

Statement of Comprehensive Income

for the year ended March 28, 2020

(in thousands of Canadian dollars))

	2020	2019 (292 days)
Sales (Note 7)	**$311,572**	**$71,271**
Cost of products sold (Note 7)	**240,615**	**58,081**
Gross margin (Note 7)	**70,957**	**13,190**
Selling expenses	36,179	8,653
Administrative expenses	8,371	9,490
Operating results	**26,407**	**(4,953)**
Financial contribution of the Government of Quebec (Note 9)	–	(4,889)
Net finance costs (income) and other income (Note 10)	111	(64)
Net earnings and comprehensive income for the year	**$26,296**	**$–**

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Equity

for the year ended March 28, 2020

(in thousands of Canadian dollars)

	2020	2019 (292 days)
Share capital	**2**	**2**
Retained earnings		
Beginning balance	–	–
Net earnings and comprehensive income for the year	26,296	
Dividend	(26,296)	–
Ending balance	–	–
Total – Equity	**2**	**2**

The accompanying notes are an integral part of the financial statements.

Statement of Financial Position

As at March 28, 2020

(in thousands of Canadian dollars)

	March 28, 2020	March 30, 2020
Assets		
Cash assets		
Cash	$31,854	$5,912
Trade and other accounts receivable (Note 11)	18	4,892
Taxes receivable	189	3,268
Inventories (Note 12)	14,616	7,927
Prepaid expenses	572	72
	47,249	**22,071**
Property, plant and equipment (Note 13)	20,006	7,589
Intangible assets (Note 14)	4,405	4,497
Right-of-use assets (Note 15)	16,910	–
	$88,570	**$34,157**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 17)	$43,858	$19,241
Dividend payable (Note 9)	26,296	–
Due to the SAQ (Note 25)	828	14,914
Short-term portion of lease obligations (Note 19)	1,637	–
	72,619	**34,155**
Lease obligations (Note 19)	15,949	–
	88,568	**34,155**
Equity		
Share capital (Note 20)	2	2
Retained earnings	–	–
	2	**2**
	$88,570	**$34,157**

The accompanying notes are an integral part of the financial statements.

Johanne Brunet
Chair of the Board of Directors

Louise Martel
Chair of the Audit Committee

Statement of Cash Flows

for the year ended March 28, 2020

(in thousands of Canadian dollars)

	2020	2019 (292 days)
Operating activities		
Net earnings and comprehensive income for the year	26,296	–
Items not affecting cash:		
Depreciation of property, plant and equipment	1,350	291
Amortization of intangible assets	1,015	413
Depreciation of right-of-use assets	1,408	–
Interest paid under lease obligations	286	–
	33,355	**704**
Net change in non-cash working capital items (note 22)	21,046	7,295
Cash flows provided by operating activities	**51,401**	**7,999**
Investing activities		
Additions to property, plant and equipment (Note 13 and 22)	(18,631)	(1,668)
Additions to intangible assets (Note 14 and 22)	(5,687)	(421)
Cash flows used in investing activities	**(24,318)**	**(2,089)**
Financing activities		
Lease obligations' repayments	(855)	–
Interest paid under lease obligations	(286)	–
Proceeds from the issue of shares	–	2
Cash flows provided by financing activities	**(1,141)**	**2**
Net increase in cash	**25,942**	**5,912**
Cash, beginning of year	**5,912**	**–**
Cash, end of year	**31,854**	**5,912**

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements

Year ended March 28, 2020
(in thousands of Canadian dollars)

1

General, statutes and nature of activities

The Société québécoise du cannabis (SQDC or the Company) was established on June 12, 2018, under the *Act to constitute the Société québécoise du cannabis, to enact the Cannabis Regulation Act and to amend various highway safety-related provisions* (CLRQ, 2018, c. 19). Its head office is located at 7355 Notre-Dame Street East in Montreal, Quebec, Canada. The SQDC began commercial operation on October 17, 2018, and its mission is to sell cannabis with a focus on health protection, the goal being to shift users away from the illicit market without actually encouraging cannabis use. The Company is a subsidiary under the *Act respecting the Société des alcools du Québec* (SAQ). However, it does not meet the eligibility criteria for subsidiaries under the International Financial Reporting Standards (IFRS). As a government corporation, the SQDC is exempt from corporate income tax.

2

Fiscal year

The SQDC's fiscal year ends on the last Saturday of March. Accordingly, its fiscal year ended on March 28, 2020, had 52 weeks of operation (292 days of operation for the initial fiscal year ended March 30, 2019).

3

Significant accounting policies

Basis of presentation and statement of compliance

These financial statements and accompanying notes have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements were approved and authorized for publication by the Board of Directors on May 21, 2020.

The financial statements are presented in Canadian dollars, the functional currency of the SQDC.

Basis of measurement

These financial statements have been prepared using the historical cost basis.

3. Significant accounting policies (cont.)

Revenue recognition

The main source of revenue arising from the SQDC's regular operations is the sale of cannabis products. To determine whether it has to recognize revenue from regular operations, the SQDC uses the following five-step process:

1. identify a contract with a customer;
2. identify performance obligations;
3. determine the transaction price;
4. allocate the transaction price to the performance obligations; and
5. recognize revenue from regular operations when/as the performance obligations are met.

Revenue from regular operations is recognized at a specific moment, when the company has fulfilled its performance obligations by transferring the goods or services to its customers.

Finance income is recognized on an accrual basis using the effective interest rate method.

Financial instruments

<u>Recognition and derecognition</u>
Financial assets and liabilities are recognized when the SQDC becomes party to the contractual provision of a financial instrument.

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all significant risks and rewards have been transferred.

A financial liability is derecognized upon extinguishment, termination, cancellation or expiration.

<u>Classification and initial measurement of financial assets</u>
Financial assets, except for trade and other accounts receivable that do not have a significant financing component and are measured at the transaction price under IFRS 15, are measured at fair value on initial recognition, plus or minus the transaction costs, except for financial assets and liabilities recognized at fair value through profit or loss for which the transactions costs are recognized on the statement of comprehensive income. Their measurement over subsequent fiscal years and the recognition of variations in their fair value depend on the category in which they are classified.

Generally speaking, financial assets are classified based on the business model for managing financial assets and the financial asset's contractual cash flow characteristics. Financial assets are classified and measured on these categories: amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

<u>Subsequent measurement of financial assets</u>
A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. Significant accounting policies (cont.)

After their initial recognition, these financial assets are measured at amortized cost using the effective interest rate method. Discounting is omitted if its effect is not significant.

Cash and trade and other accounts receivable are part of this category of financial instrument.

An asset is measured at FVOCI if both of the following conditions are met and it is not designated at FVTPL.

- It is held within a business model in whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The SQDC does not hold any financial assets in the FVOCI category for the reported year.

Financial assets are measured at FVTPL unless they are measured at amortized cost or at FVOCI.

The SQDC does not hold any financial assets in the FVTPL category for the reported year.

Financial assets are not reclassified subsequent to their initial recognition unless the SQDC identifies changes in its business model for managing them. Where applicable, all relevant financial assets and liquidities concerned are reclassified prospectively as from the reclassification date.

Classification and measurement of financial liabilities
Financial liabilities are classified and measured on two categories: amortized cost and FVTPL. On Initial recognition, all financial liabilities are classified as being measured at amortized cost or at FVTPL. Under the standard, the SQDC may designate liabilities at FVTPL.

Financial liabilities are initially recognized at fair value and, when applicable, adjusted by the transaction costs, unless the SQDC has designated a financial liability at FVTPL. Financial assets are subsequently measured at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities (except for employee compensation payable), the dividend payable and the due to the SAQ are classified in "Financial liabilities at amortized cost."

Measurement of financial instruments
Fair value is based on the market price when there is an active market; otherwise, fair value is measured using methods based mainly on discounted cash flows that incorporate external market data when possible. The amortized cost of a financial asset or financial liability at initial recognition, less the principal repayments, plus or minus the accumulated depreciation corresponds to the value assigned to a financial asset or financial liability at initial recognition calculated using the effective interest rate method, of any difference between the initial value and the value at maturity and, for financial assets, adjusted as a loss allowance. Although the SQDC's financial assets are subject to the expected credit loss requirements, the identified loss is not significant.

Cash

Cash are liquidities deposited with recognized financial institutions and bearing interest at the market rate.

Taxes receivable

Taxes receivable are recognized at the amount required by law.

3. Significant accounting policies (cont.)

Inventories

Inventories are stated at the lower of cost and net realizable value, with cost being established according to the first in, first out method. The cost of cannabis product inventories includes acquisition cost. Freight in, customs duties and excise taxes are assumed by the suppliers. Net realizable value is the estimated selling price in the normal course of business, less the costs needed to complete the sale.

Property, plant and equipment

Leasehold improvements, furniture and equipment and IT equipment are recognized at acquisition cost, less depreciation and impairment losses.

Property, plant and equipment items are derecognized when they are disposed of or when no future economic benefit is expected from continued use of the asset. Gains or losses on disposals or decommissionings of property, plant and equipment, which equal the difference between the proceeds from the sale and the asset's carrying amount, are recognized in the statement of comprehensive income.

These assets are depreciated from the date they become available for use, i.e. when the assets are in the location and condition necessary for them to be capable of operating as intended by management, over their expected useful lives using the straight-line method. Residual values, useful lives and the depreciation method are reviewed at the end of each fiscal year. The depreciation periods are as follows:

Leasehold improvements	5 to 10 years
Furniture and equipment	10 years
IT equipment	5 years

The depreciation of property, plant and equipment is allocated to “Selling expenses” and “Administrative expenses.”

Intangible assets

Intangible assets, which consist of internally developed software and acquired software licences, are recognized at cost less subsequent amortization and impairment losses. Cost includes expenses related directly to the acquisition, installation and development of software for internal use.

Costs that are directly attributable to the development phase of new software are recognized as intangible assets provided that they meet the following criteria:

- completion of the intangible asset is technically feasible so that it will be available for use;
- the SQDC intends on completing the intangible asset and using it;
- the SQDC has the ability to use the intangible asset;
- the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources are available to complete the development of the intangible asset and use it; and
- expenditures attributable to the intangible asset during its development can be reliably measured.

Expenses for the research phase of an internal project and development expenses that do not meet these asset recognition criteria are expensed as incurred.

3. Significant accounting policies (cont.)

Intangible assets (cont.)

Intangible assets are derecognized when they are disposed of or when no future economic benefit is anticipated from continued use of the asset. Gains or losses on disposals or decommissionings of intangible assets, which equal the difference between the proceeds from the sale and the asset's carrying amount, are recognized in the statement of comprehensive income.

These assets are amortized from the date they become available for use, i.e. when the assets are in the location and condition necessary for them to be capable of operating in the manner intended by management, over their expected useful lives using the straight-line method. Residual values, useful lives and the amortization method are reviewed at the end of each reporting period. The following useful lives are applied:

Acquired software and licences	5 years
Internally developed software	5 years

Software maintenance costs, i.e. the amounts spent for the purchase and installation of minor patches and upgrades, are recognized in net earnings for the fiscal year in which they are incurred.

The amortization of intangible assets is allocated to "Selling expenses" and "Administrative expenses."

Depreciation of financial assets

On each closing date, management measures the impairment of financial assets measured at amortized cost at an amount corresponding to the expected credit losses over their useful life, if the credit risk associated with the financial instrument has increased significantly since its initial recognition. When the credit risk has not increased significantly, the company measures the impairment as the amount of the credit losses for the coming 12 months. When appropriate, the impairment is recognized in the Statement of Comprehensive Income.

Depreciation of non-financial assets

For the purposes of assessing depreciation, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). The company considers each retail store to be a separate cash generating unit for the purposes of depreciation testing. As a result, some assets are tested individually for depreciation and some are tested at the cash generating unit level.

Property, plant and equipment, intangible assets and right-of-use of assets are tested for impairment when events or changes in circumstance indicate that their carrying value may not be recoverable. At the end of each fiscal year, the SQDC determines whether there is any indication that a long-lived asset may be impaired. At fiscal year-end, the SQDC tests intangible assets not yet available for use for impairment, irrespective of whether there is any indication of impairment. An impairment loss is recognized as the amount by which the carrying amount of an asset or a cash generating unit exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. To determine value in use, management estimates the future cash flows of each asset or cash generating unit and then establishes an appropriate interest rate to calculate the discounted present value of those cash flows. Data used for impairment testing are directly tied to the most recently approved budget and adjusted as necessary. The discounting factors are established separately for each asset or cash generating unit and reflect their respective risk profiles, as determined by management.

Impairment losses related to cash generating units are allocated pro rata to the assets of the cash generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. A previous impairment loss may be reversed if the recoverable amount of an asset or cash generating unit exceeds its carrying amount up to a maximum of what the amortized cost would have been had the impairment not been recognized.

3. Significant accounting policies (cont.)

Leases

Policy applicable as of March 31, 2019
On March 31, 2019, the SQDC adopted IFRS 16 – Leases using the modified retrospective approach (Note 4: Adoption of a new accounting standard).

The SQDC recognizes a right-of-use asset and a lease obligation related to a lease as at the date on which the underlying asset is available for use by the company (hereinafter the "date of initial application").

The right-of-use asset is initially measured at cost, which includes the initial amount of the lease obligation adjusted for rent payments made on or before the commencement date plus the initial direct costs incurred and an estimate of all dismantling and removal costs for the underlying asset and less any lease inducement received.

The right-of-use asset is amortized over the shortest period between the useful life of the underlying asset and the term of the lease on a linear basis, such terms ranging from five to 10 years. In addition, the cost of a right-of-use asset is decreased by the accumulated impairment losses and, if applicable, adjusted to account for remeasurement of the related lease obligation.

The lease obligation is initially measured at the current value of the lease payments that have not been paid by the commencement date, calculated using the interest rate implicit in the lease or, if that rate cannot easily be determined, the SQDC's incremental borrowing rate. Generally speaking, the SQDC uses its incremental borrowing rate as its discount rate. The lease payments included in the lease obligation comprise the following.

- fixed payments (including in-substance fixed payments) less any incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate in effect on the commencement date; and
- lease payments related to the extension options that the SQDC is reasonably likely to exercise.

Interest charges related to the lease obligations are recorded in net earnings using the effective interest method.

The lease obligation is remeasured when there is a change in the future lease payments arising from a change in an index or rate or when the SQDC changes its measurement with respect to the exercise of a purchase, extension or termination option.

Adjustment of the lease obligation is done by adjusting the related right-of-use asset or is recorded in the net earnings if the value of the right-of-use asset is reduced to zero.

Lease payments related to leases with a term of less than 12 months and leases whose underlying asset is of low value are recognized on a straight-line basis as a charge to net earnings.

Policy applicable before March 31, 2019
Prior to March 31, 2019, leases for which the risks and rewards of ownership of a leased asset are retained by the lessor were considered operating leases.

Operating lease payments are expensed on a straight-line basis over the lease term. Related expenses, such as maintenance and insurance, are expensed as incurred. All these expenses are recognized in "Selling expenses" and "Administrative expenses."

3. Significant accounting policies (cont.)

Employee benefit plans

Pension plans
SQDC employees are members of general and mandatory pension plans, either the Government and Public Employees Retirement Plan (RREGOP) or the Pension Plan of Management Personnel (RRPE). The SQDC considers these plans, which are administered by Retraite Québec, to be defined contribution plans. The SQDC's obligations under these government plans are therefore limited to its employer contributions. The employee portion of these plans is expensed in the period in which the corresponding employee services are received.

Other
Short-term employee benefits, including vacation entitlement, are current liabilities included in "Accounts payable and accrued liabilities," measured at the undiscounted amount the SQDC expects to pay as a result of the unused entitlement.

Provisions

Provisions are recognized when it is probable that the present obligations (legal or constructive) arising from a past event will require an outflow of economic resources from the SQDC and amounts can be reliably estimated. Provisions are liabilities of uncertain timing or amount.

Provisions are measured as the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted to their present values where the time value of money is material.

Provisions are reviewed at the end of each fiscal year and adjusted to reflect the current best estimates at the date. Adjustments are recognized in the statement of comprehensive income.

Where the possible outflow of economic resources as a result of a present obligation is considered improbable or remote, no liability is recognized.

Equity and dividend

Equity includes share capital, representing the par value of issued shares and retained earnings. When the dividend payable to the shareholder is approved before the closing date, it is reported separately on the Statement of Financial Position.

4

Adoption of a new accounting standard

IFRS 16 – Leases

On March 31, 2019, the SQDC adopted IFRS 16 – Leases using the modified retrospective approach. In conformance with the IFRS 16 transition guidance, the new requirements were applied retroactively with the cumulative effect of the initial application recognized as at March 31, 2019. The comparative financial statements were not restated.

Previously, the SQDC classified all its leases as operating leases and did not recognize assets or liabilities on the statement of financial position as nearly all the risks and awards inherent in ownership of the leased asset was not transferred. IFRS 16 requires that, in the statement of financial position, lessors recognize the assets as right-of-use assets and lease obligations for all leases unless the term of the lease is 12 months or less or the underlying asset is of low value.

Upon adopting IFRS 16, the SQDC recognized the lease obligations for leases previously classified as operating leases under IAS 17 – Leases. These obligations were measured at the present value of the remaining lease payments, discounted using the SQDC's incremental borrowing rate as at March 31, 2019. The weighted average incremental borrowing rate applied to lease obligations as at March 31, 2019, was 2.343%.

On the statement of financial position, adopting IFRS 16 had the consequence of increasing assets by $8.1 million and liabilities by $8.3 million due to the recognition of right-of-use assets and the recognition of lease obligations. The value of the right-of-use assets was initially measured at the amount of the lease obligations and then adjusted based on the amounts payable already recognized on the statement of financial position for these leases immediately before the initial date of application. Application of IFRS 16 did not have an impact on the balance of retained earnings as at March 31, 2019.

On the statement of comprehensive income, adopting IFRS 16 resulted in the interest on lease obligations and depreciation on right-of-use assets being substituted for building occupancy expenses.

For cash flows, lease obligation principal repayments are presented separately in the Financing Activities section.

(in thousands of Canadian dollars)

4. Adoption of a new accounting standard (cont.)

IFRS 16 – Leases (cont.)

The company used the following practical expedients permitted by the standard:

- Apply the standard to contracts previously identified as leases under IAS 17 and IFRIC 4. Contracts not previously identified as leases or as contracts containing leases were not restated;
- Apply the same discount rate for a lease portfolio with similar characteristics;
- Exclude the initial direct costs from the measurement of the right-of-use asset during the transaction;
- Recognize only the lease component as a lease-type component. Non-lease components are recognized as operating expenses;
- On transition, for leases previously recognized as operating leases with a remaining lease term of less than 12 months, the SQDC has applied optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term;
- The SQDC has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

The following is a reconciliation of the commitments and lease expense as at March 30, 2019, and the lease obligations recognized as at March 31, 2019:

Commitments and lease expense as at March 30, 2019	**$8,838**
Recognition exemptions:	
Lease with a remaining lease term of less than 12 months	(977)
Non-lease components and unrecognized variable lease payments	(3,433)
Lease obligations before discounting	4,428
Extension options reasonably likely to be exercised	4,800
Application of the discount rate (equal to the incremental borrowing rate)	(958)
Lease obligations as at March 31, 2019	**$8,270**

5

Future standards, amendments and interpretations

Standards not yet effective

As at the date of authorization of these financial statements, several new standards, amendments made to existing standards and interpretations were to be issued by the IASB but were not yet in effect. The SQDC has not early-adopted any of these standards, amendments or interpretations.

Management expects that all relevant pronouncements will be adopted during the first period commencing on the effective date of the pronouncement. New standards, amendments and interpretations that have not been early-adopted and are not listed below are unlikely to have a significant impact on the SQDC's financial statements.

6

Use of estimates and significant judgments

Preparing financial statements in accordance with IFRS requires management to exercise judgment when applying accounting policies and to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses recognized during the fiscal year.

Underlying estimates and assumptions are reviewed regularly, and the impact of any change is recognized immediately. They are based on experience, economic conditions and general trends, as well as speculation on the likely outcome of those matters. Actual results could differ from management estimates.

The main judgments, assumptions and estimates are explained below:

Internally developed software and research expenses
Management must use significant judgment when distinguishing the research phase from the development phase. Costs directly attributable to the development phase are recognized as assets when all the criteria are met, whereas research costs are expensed as incurred.

The SQDC also makes sure it is continually meeting all of the requirements for recognizing, as assets, all of the costs directly attributable to development work. Such follow-up is necessary, as software development is uncertain and can be affected by technical problems that occur after recognition.

(in thousands of Canadian dollars)

6. Use of estimates and significant judgments (cont.)

Useful life of depreciable assets
Management examines the useful lives of depreciable assets at the end of each reporting period. The uncertainties regarding these estimates are related to technical obsolescence, which could affect useful lives.

Impairment of non-financial assets
Measuring facts and circumstances that indicate that an asset's value might be impaired or recovered is a subjective process that requires judgment and often a number of estimates and interpretations. If there is an indication that an asset's value might be impaired or recovered, the recoverable amount of the individual asset or cash generating unit must be estimated.

When measuring expected future cash flows, management makes assumptions regarding future operating results. These assumptions are related to future events and circumstances. Actual results could differ from those estimates and lead to future adjustments.

Leases
The SQDC accounts for lease obligations with regards to leases at the discounted value of the remaining lease payments, calculated using the SQDC's incremental borrowing rate. In addition to management's estimates for determining the terms of the leases and the appropriate interest rate for measuring the lease obligation, judgement is used to determine whether there is reasonable certainty that a lease's extension or termination option will be exercised.

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Sales, cost of products sold and gross margin

	2020			2019 (292 days)		
	Stores	Online	Total	Stores	Online	Total
Sales	**$285,908**	**$25,664**	**$311,572**	$57,591	$13,680	$71,271
Cost of products sold	**220,931**	**19,684**	**240,615**	46,891	11,190	58,081
Gross margin	**$64,977**	**$ 5,980**	**$70,957**	$10,700	$2,490	$13,190

(in thousands of Canadian dollars)

8

Employee compensation

Employee benefits consist of the following:

	2020	2019 (292 days)
Selling expenses		
Salaries and other employee benefits	**$13,957**	$3,039
Employee benefit costs and pension plan contributions	**2,735**	621
	16,692	3,660
Administrative expenses		
Salaries and other employee benefits	**2,677**	999
Employee benefit costs and pension plan contributions	**650**	189
	3,327	1,188
	$20,019	$4,848

9

Financial contribution of the Government of Quebec

The Government of Quebec contributed financially to the SQDC by making financial contributions to it to offset the preceding year annual deficit. As a result, the SQDC recognized the contributions as income in the preceding year under “Financial contribution of the Government of Quebec.” The contributions were recognized as revenue, provided that they were authorized by the government, that the SQDC has met the eligibility criteria, if applicable, and that a reasonable estimate of the amounts involved can be made.

For the fiscal year ended March 28, 2020, the dividend declared by the SQDC was set by the Quebec Finance Department. The dividend is remitted in its entirety to the fund composed of monies from cannabis sales and reinvested primarily in cannabis-related prevention and research. Each year, the Finance minister declares the amount equal to the net earnings established in conformity with IFRS up to the maximum amount, without impacting the SQDC’s capital. The minister also determines the terms and conditions of payment.

As at March 28, 2020, the declared dividend remained to be paid.

(in thousands of Canadian dollars)

10 Net finance costs (income)

	2020	2019 (292 days)
Interest paid due to lease obligations	**$286**	$–
Interest on the due to the SAQ	**85**	–
Interest on the Minister of Finance's line of credit	**–**	1
Other finance charges	**14**	–
	385	1
Less finance income:		
Interest on cash	**(192)**	(64)
Other finance income	**(6)**	–
Other income	**(76)**	(1)
	(274)	(65)
	$111	$(64)

(in thousands of Canadian dollars)

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Trade and other accounts receivable

	March 28, 2020	March 30, 2019
Corporate accounts receivable	**$18**	$3
Financial contribution of the Government of Quebec (Note 9)	**-**	4,889
	$18	$4,892

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Inventories

	March 28, 2020	March 30, 2019
Dried cannabis products	**$14,096**	$7,828
Related products	**115**	69
Work-in-process inventory	**405**	30
	$14,616	$7,927

The cost of inventory sold during the fiscal year is recognized as an expense under "Cost of products sold" in the statement of comprehensive income.

The cost of products sold is comprised solely of inventory.

No inventory has been pledged to secure liabilities.

(in thousands of Canadian dollars)

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Property, plant and equipment

	Leasehold improvements	Furniture and equipment	IT equipment	Total
Cost				
Beginning balance	$–	$–	$–	$–
Acquisitions	4,266	1,185	2,429	7,880
Balance as at March 30, 2019	$4,266	$1,185	$2,429	$7,880
Acquisitions[1]	9,667	2,563	1,537	13,767
Balance as at March 28, 2020	**$13,933**	**$3,748**	**$3,966**	**$21,647**
Accumulated depreciation				
Beginning balance	$–	$–	$–	$–
Depreciation	128	44	119	291
Balance as at March 30, 2019	$128	$44	$119	$291
Depreciation	758	199	393	1,350
Balance as at March 28, 2020	**$886**	**$243**	**$512**	**$1,641**
Net carrying value				
Balance as at March 30, 2019	$4,138	$1,141	$2,310	$7,589
Balance as at March 28, 2020	**$13,047**	**$3,505**	**$3,454**	**$20,006**

1. Property, plant and equipment, with a value of $1.8 million, were in progress as at March 28, 2020 ($2.3 million as at March 30, 2019), and are not depreciated. This mainly involves work to make leasehold improvements and to install furnishings and IT equipment for the future opening of stores not yet in operation.

The depreciation of property, plant and equipment has been allocated as follows on the statement of comprehensive income:

	2020	2019 (292 days)
Selling expenses	**$1,136**	$242
Administrative expenses	**214**	49
	$1,350	$291

(in thousands of Canadian dollars)

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Intangible assets

	Acquired software and licences	Internally developed software	Total
Cost			
Beginning balance	$–	$–	$–
Acquisitions	4,162	748	4,910
Balance as at March 30, 2019	$4,162	$748	$4,910
Acquisitions[1]	923	–	923
Balance as at March 28, 2020	**$5,085**	**$748**	**$5,833**
Accumulated amortization			
Beginning balance	$–	$–	$–
Amortization	344	69	413
Balance as at March 30, 2019	$344	$69	$413
Depreciation	866	149	1,015
Balance as at March 28, 2020	**$1,210**	**$218**	**$1,428**
Net carrying value			
Balance as at March 30, 2019	$3,818	$679	$4,497
Balance as at March 28, 2020	**$3,875**	**$530**	**$4,405**

1. Intangible assets valued at $0.4 million were in progress as at March 28, 2020, and are not amortized ($0.4 million as at March 30, 3019). This mainly pertains to professional fees for the development of functionalities intended to upgrade the company's information systems.

The amortization of intangible assets has been allocated as follows on the statement of comprehensive income:

	2020	2019 (292 days)
Selling expenses	**$65**	$23
Administrative expenses	**950**	390
	$1,015	$413

(in thousands of Canadian dollars)

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Right-of-use assets

Cost	
Balance as at March 30, 2019	$–
Right-of-use assets recognized under IFRS 16 as at March 31, 2019[1]	8,147
Acquisitions	10,171
Balance as at March 28, 2020	**$18,318**
Accumulated depreciation	
Balance as at March 30, 2019	$–
Depreciation	1,408
Balance as at March 28, 2020	**$1,408**
Net carrying value	
Balance as at March 30, 2019	$–
Balance as at March 28, 2020	**$16,910**

1. The right-of-use assets recognized under the initial application of IFRS 16 on March 31, 2019, were as follows: $8.27 million lease obligation as at March 31, 2019, less $123,000 corresponding to the lease payments made on or before the date of initial application less any lease inducements received.

The depreciation of right-of-use assets has been allocated as follows on the statement of comprehensive income:

	2020	2019 (292 days)
Selling expenses	**$1,320**	$–
Administrative expenses	**88**	–
	$1,408	$–

(in thousands of Canadian dollars)

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Borrowings

The SQDC has been authorized to establish a borrowing regime, valid until June 30, 2020, that will enable it to borrow, on a short-term basis or through a line of credit with financial institutions and the Minister of Finance, or on a long-term basis through the Minister of Finance, an amount not exceeding $100 million, of which $75 million shall be on a short-term or line-of-credit basis for its operating requirements and $25 million on a short-term, line-of-credit or long-term basis for its capital projects, in conformity with the characteristics and limits established by this borrowing regime. As at March 28, 2020, the entirety of the regime was available.

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Accounts payable and accrued liabilities

	March 28, 2020	March 30, 2019
Accounts payable	**$39,511**	$16,333
Accrued liabilities	**2,233**	2,514
Employee compensation benefits payable	**2,114**	394
	$43,858	$19,241

(in thousands of Canadian dollars)

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Employee benefit assets and liabilities

General and mandatory pension plans

On January 1, 2020, the rate for the Government and Public Employees Retirement Plan (RREGOP) went from 10.88% to 10.63% of the eligible payroll and the rate for the Pension Plan of Management Personnel (RRPE) went from 12.82% to 12.29% of the eligible payroll. The contributions paid by the employer are equal to the employee contributions, except for a compensation amount, provided for in the RRPE Act. For the 2019 calendar year, this compensation was set at 2.97% of the eligible payroll to be paid by the employer. For the 2020 calendar year, the amount of compensation to be paid by the employer (members' share plus employer's share), which will be determined by Retraite Québec, will be based on the loss incurred by the RRPE members' fund due to the members' transfer from the RREGOP.

Accordingly, the SQDC must pay a supplemental amount corresponding to 5.94% of the eligible payroll for the 2019 calendar year and an estimated 3% of the eligible payroll for the 2020 calendar year.

The SQDC's contributions, including the amount of compensation to pay to the RRPE, charged to the fiscal 2020 results, total $467,000 ($148,000 in fiscal 2019) and are recognized in "Selling expenses" and "Administrative expenses" on the statement of comprehensive income. The SQDC's obligations under these government plans are limited to its obligations as an employer.

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Lease obligations

The SQDC has signed leases for its stores. Each lease is shown on the statement of financial position as a right-of-use asset, the details of which are given in Note 15, and lease obligations. Variable lease payments not based on an index or rate are not recognized in the initial measurement of lease obligations and the asset.

Cost	
Balance as at March 30, 2019	$–
Lease obligations recognized under IFRS 16 as at March 31, 2019	8,270
Lease obligations added	10,171
Lease obligation repayments	(855)
Balance as at March 28, 2020	**$17,586**

(in thousands of Canadian dollars)

19. Lease obligations (cont.)

The lease obligations are presented in the statement of financial position as follows:

	March 28, 2020
Current	**$1,637**
Non-current	**15,949**
	$17,586

As at March 28, 2020, the minimum future minimum lease payments were as follows:

	No later than one year	Later than one year and not later than five years	More than five years	Total
March 28, 2020				
Disbursements	$1,995	$8,298	$9,101	$19,394
Finance charges	(358)	(1,052)	(398)	(1,808)
Lease obligations	$1,637	$7,246	$8,703	$17,586

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Equity

Share capital

The SQDC is a business corporation whose shares are part of the public domain and allocated to the Quebec Minister of Finance and the SAQ. The SQDC's authorized share capital consists of 100,000 shares (one category A share and 99,999 category B shares) having a par value of $100 million. The amount issued and paid was $2,000 (two shares):

1 category A share with only the right to vote at any meeting of shareholders:

- held by the SAQ; and

1 category B share with only the right to receive any declared dividend and to share any remaining property in the event of liquidation:

- held by the Quebec Minister of Finance.

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Capital management

The SQDC's capital consists of the equity. The SQDC manages its capital such that it meets the requirements of its shareholders, safeguards funds at all times and sustains its growth. It maintains a strict management framework to ensure that it effectively meets the purposes set out in its incorporating act.

The SQDC is not subject to any other requirements concerning the use of outside sources of financing.

The capital structure, as defined by the SQDC, was as follows :

	March 28, 2020	March 30, 2019
Share capital	**$2**	$2
Retained earnings	**–**	–
	$2	$2

(in thousands of Canadian dollars)

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Information on the cash flow statement

	2020	2019 (292 days)
Net change in non-cash working capital items breaks down as follows:		
Trade and other accounts receivable	**$4,874**	$(4,892)
Taxes receivable	**3,079**	(3,268)
Inventories	**(6,689)**	(7,927)
Prepaid expenses	**(500)**	(72)
Accounts payable and accrued liabilities	**24,801**	18,107
Due to the SAQ	**(4,519)**	5,347
	$21,046	$7,295
Non-cash investing activities:		
Acquisitions of property, plant and equipment financed by:		
Accounts payable and accrued liabilities	**$1,073**	$1,134
Due to the SAQ	**–**	9,567
	$1,073	$10,701
Other activities with no impact on cash flows:		
Lease payments paid on or before March 31, 2019, less lease incentives received and reclassified from accounts payable and other payables to right-of-use assets.	**$(123)**	$–

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Fair value of financial assets and financial liabilities

The fair values of short-term financial instruments are deemed to be equal to their carrying values. These financial instruments include cash, trade and other accounts receivable, accounts payable and accrued liabilities (except for employee compensation and benefits payable), dividend payable as well as the due to the SAQ.

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Financial instrument risk

Financial risk management objectives and policies

The SQDC is exposed to the financial risks that result from its operating, investing and financing activities. The SQDC's management manages these financial risks. The objective is to secure the SQDC's short-term and medium-term cash flows by reducing exposure to financial risks.

The SQDC does not enter into financial instrument contract or agreements, including financial derivatives, for speculative purposes.

Financial risks

Interest rate risk
Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument may fluctuate due to fluctuations in market interest rates.

Cash exposes the SQDC to the cash flow risk that results from interest rate fluctuations, as it bears interest at variable rates. The due to the SAQ bears interest at a fixed rate and exposes the SQDC to the risk of variation in fair value that results from interest rate fluctuations. The risk to which the SQDC is exposed is minimal, as the amount owed has a short-term maturity.

As at March 28, 2020, the cash balance was $31.9 million and bore interest at the financial institution's preferred rate less two points. The due to the SAQ (relating to the SQDC's creation and start-up costs) bore interest at a fixed annual rate of 2.3% until repaid during the fiscal year. The due to the SAQ as at March 28, 2020, under the shared services agreement, is of a current nature and does not bear interest.

A 1% change in the interest rates on variable-rate instruments would not have had a significant impact on the SQDC's financial results and equity.

The SQDC does not use derivative financial instruments to reduce its exposure to interest rate risk.

Credit risk
Credit risk is the risk that a counterparty fails to discharge an obligation to the SQDC. The SQDC is exposed to credit risk due to its financial assets.

Credit risk arises from the possibility of incurring a loss due to a counterparty's failure to meet its obligations. The value recognized in the SQDC's statement of financial position as financial assets exposed to credit risk are the maximum amount that it exposed to credit risk.

Credit risk is collectively managed in accordance with the SQDC's credit risk management policies and procedures.

The credit risk associated with cash balances and bank deposits is managed by diversifying bank deposits, which are made only with large, reputable financial institutions.

The SQDC considers that its exposure to the credit risk associated with selling cannabis is limited due to its sales being direct sales to consumers, who pay immediately by cash or credit card.

(in thousands of Canadian dollars)

24. Management of financial instrument risk (cont.)

Financial risks (cont.)

Liquidity risk
Liquidity risk is the risk of the SQDC having difficulty meeting its commitments to discharge financial liabilities. The SQDC is exposed to liquidity risk mainly through its accounts payable and accrued liabilities (except for employee compensation and benefits payable), its dividend payable and the due to the SAQ.

Managing liquidity risk consists of maintaining a sufficient amount of cash and ensuring that the SQDC has financing sources in the form of sufficient authorized borrowing amounts. The SQDC prepares budget and cash forecasts to make sure it has the funds needed to meet its obligations.

The SQDC's exposure to liquidity risk is reduced by a significant amount of cash flow from operations, its level of cash, preauthorized sources of financing and management of short-term variable-rate borrowings. Considering the normal operation of its business, the SQDC believes it will be able to honour financial liabilities in the short term.

The maturities of financial liabilities, including interest payments, are as follows:

	March 28, 2020		March 30, 2019	
	Not later than 6 months	Later than 6 months	Not later than 6 months	Later than 6 months
Accounts payable and other liabilities	**$41,744**	**$–**	$18,754	$93
Dividend payable	**16,296**	**10,000**	–	–
Due to the SAQ	**828**	**–**	15,000	–
	$58,868	**$10,000**	$33,754	$93

(in thousands of Canadian dollars)

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Related party transactions

The SQDC is related to all Government of Quebec ministries and special funds as well as to all agencies and enterprises directly or indirectly controlled by the Government of Quebec or subject to either the joint control or significant joint influence of the Government of Quebec. The other parties related to the SQDC include its key management personnel and the SAQ. The SQDC is a legal subsidiary of the SAQ. However, it does not meet the criteria for a subsidiary under the International Financial Reporting Standards (IFRS), which considers it an associate. As at March 30, 2019, the amount due to the SAQ totalled $14.9 million, being mainly comprised of the SQDC's start-up and operating costs. This amount, which bore interest at the rate of 2.3%, was repaid in full during the fiscal year.

Entities controlled by the Government of Quebec

Without gathering information that would have involved significant costs, the SQDC believes that it did not enter into any significant business transactions individually or collectively with these related parties, with the exception of the transactions with the SAQ presented below. The SQDC is therefore availing itself of the exemption provided by IAS 24.25 regarding disclosure obligations pertaining to transactions and balances, including commitments, with parties related to a public authority that has control, joint control or significant influence over it. This information would provide no added value to the annual financial statements.

Key management personnel

The SQDC's key management personnel are the members of its Board of Directors, the President and Chief Executive Officer and the directors that make up the Executive Committee.

The compensation expense for the key management personnel is as follows:

	2020	2019 (292 days)
Salaries and short-term benefits	**$1,666**	$601

Related party transactions

The SQDC is a legal subsidiary of the SAQ. However, it does not meet the criteria for a subsidiary under the International Financial Reporting Standards (IFRS), which considers it an associate. The due to the SAQ is comprised of monthly charges related to its annual service agreement with the SAQ. These services (hereinafter the "shared services") relate to the following fields: information technology, customer service centre, real estate development, acquisition of goods and services and other services of an administrative nature. The term of the agreement is indefinite and may be changed or terminated under the terms and conditions specified in the agreement. In addition, a member of the SQDC management team is a member of the supplemental pension plan for SAQ executives. This amount, totalling $114,800 and not part of the shared services agreement, is included in the transactions below. The details of this plan will be found in the Finance section of the SAQ annual report.

(in thousands of Canadian dollars)

25. Related party transactions (cont.)

Related party transactions (cont.)

The details of the transactions and balances between the SQDC and the SAQ are as follows:

	2020	2019 (292 days)
Transactions		
Property, plant and equipment	**$(135)**	$5,078
Intangible assets	**373**	4,489
Fees for shared services	**5,414**	2,592
Interest	**85**	–
Non-recurring start-up costs	**–**	4,708
	$5,737	$16,867

	March 28, 2020	March 30, 2019
Account balance		
Due to the SAQ	**$828**	$14,914

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Impact of the COVID-19 pandemic

Due to COVID-19, some situations had or could have an impact on the SQDC's future activities, including:

- additional spending to ensure the safety of advisors and the workplace;
- a slowing of the store network development plan, which is one of the SQDC's key growth vectors; and
- additional challenges for our cannabis suppliers, which could have an impact on future supply.

These events are likely to cause significant changes in assets and liabilities over the coming fiscal year. To minimize the impacts, the SQDC has taken and will continue taking steps in response to these events. However, it is at present impossible to know all their financial repercussions.

Quarterly Data

Years ended March 28, 2020, and March 30, 2019
(in millions of Canadian dollars)
(unaudited figures)

	2020				
Number of weeks	Year 52	Q4 12	Q3 16	Q2 12	Q1 12
Sales (Note 7)	**$311,572**	**$92,067**	**$110,779**	**$63,621**	**$45,105**
Cost of products sold (Note 7)	**240,615**	**70,706**	**85,357**	**49,270**	**35,282**
Gross margin (Note 7)	**70,957**	**21,361**	**25,422**	**14,351**	**9,823**
Selling expenses[1]	**36,179**	**11,692**	**11,346**	**7,640**	**5,501**
Administrative expenses[1]	**8,371**	**1,330**	**2,484**	**1,678**	**2,879**
Operating result	**26,407**	**8,339**	**11,592**	**5,033**	**1,443**
Financial contribution of the Government of Quebec (Note 9)	**–**	**–**	**–**	**–**	**–**
Net finance costs (income) and other income (Note 10)	**111**	**(12)**	**(13)**	**49**	**87**
Net earnings and comprehensive income	**$26,296**	**$8,351**	**$11,605**	**$4,984**	**$1,356**
Net sales by network					
Stores	**$285,908**	**$84,677**	**$103,398**	**$58,281**	**$39,552**
Online	**25,664**	**7,390**	**7,381**	**5,340**	**5,553**
	311,572	**92,067**	**110,779**	**63,621**	**45,105**
Net sales by category					
Dried flowers	**287,976**	**84,662**	**103,443**	**58,497**	**41,374**
Other products (oils, sprays, etc.)	**23,596**	**7,405**	**7,336**	**5,124**	**3,731**
	$311,572	**$92,067**	**$110,779**	**$63,621**	**$45,105**
Other data					
Number of stores	**41**	**41**	**33**	**20**	**16**
Number of kilograms	**46,863**	**15,334**	**16,624**	**8,641**	**6,264**
Number of transactions[2]	**7,746,000**	**2,275,000**	**2,860,000**	**1,557,000**	**1,054,000**

1. During the fiscal year, certain expenses were allocated between the selling expenses and administrative expenses for quarters 1 and 2. As a result, these figures differ from those published previously in the quarterly reports.
2. The figures are rounded to the nearest thousand.

Quarterly Data

Years ended March 28, 2020, and March 30, 2019
(in millions of Canadian dollars)
(unaudited figures)

	2019[3]				
	Year	Q4	Q3	Q2	Q1
Number of weeks	24	12	12	0	0
Sales (Note 7)	$71,271	$34,332	$36,939	$–	$–
Cost of products sold (Note 7)	58,081	27,976	30,105	–	–
Gross margin (Note 7)	13,190	6,356	6,834	–	–
Selling expenses	8,653	880	7,773	–	–
Administrative expenses	9,490	5,487	4,003	–	–
Operating result	(4,953)	(11)	(4,942)	–	–
Financial contribution of the Government of Quebec (Note 9)	(4,889)	(4,889)	–	–	–
Net finance costs (income) and other income (Note 10)	(64)	(20)	(44)	–	–
Net earnings and comprehensive income	$–	$4,898	$(4,898)	$–	$–
Net sales by network					
Stores	$57,591	$28,324	$29,267	$–	$–
Online	13,680	5,978	7,702	–	–
	71,271	34,302	36,969	–	–
Net sales by category					
Dried flowers	62,994	30,698	32,296	–	–
Other products (oils, sprays, etc.)	8,277	3,604	4,673	–	–
	$71,271	$34,302	$36,969	$–	$–
Other data					
Number of stores	13	13	12		
Number of kilograms	9,922	4,623	5,299		
Number of transactions[4]	1,527,000	749,000	778,000		

3. For the 2019 fiscal year, the SQDC was created on June 12, 2018 (giving a total of 292 days for its fiscal year ended March 30, 2019), but only began operations on October 17 (i.e. 24 weeks of operation).
4. The figures are rounded to the nearest thousand.


Montréal, ce 23 décembre 2019
David Clément
Président
Sarah Nassar
Vice-présidente
Shaun Hesse
Secrétaire-trésorier
Marcin Kazmierczak
Conseiller syndical SCFP
SQDC Saint-Jérôme

Governance

Report of the Board of Directors

The Board of Directors of the Société québécoise du cannabis (SQDC) ensures that the company's business is administered in compliance with all applicable laws and regulations and that the company's officers take all necessary measures to meet the objectives arising from its mission. Accordingly, the Board reviews, together with management, the proposals, scenarios and strategic directions likely to influence the SQDC's actions and development. To carry out its mission, the Board had created three committees: the Governance and Ethics Committee, the Audit Committee and the Human Resources Committee. In fiscal 2019-2020, the Board created the Health Protection and Research Committee, whose terms of reference are now being drafted.

In fiscal 2019-2020, the Board held seven meetings, including two special sessions. At each of these meetings, management submitted a report on the SQDC's business and an update on the various projects under way. To fulfill its duties regarding the conduct of the company's business, the Board also received oral reports as well as documents and minutes of meeting regarding issues examined at committee meetings. A closed session not attended by management was held at the end of each Board meeting. The Board has access to internal and external resources to support its activities.

Fiscal 2019-2020 was the SQDC's first full year of operation. During the year, its Board of Directors adopted the instruments necessary for the company to conform to the strict framework imposed on government corporations. It adopted the SQDC Strategic Plan 2021-2023 and the SQDC Social Responsibility Plan 2021-2023. It adopted and updated policies relating to employee pay and benefits and to occupational health and safety. It oversaw the collective bargaining process that took place during the year. It approved a Whistleblower Policy and a Responsible Procurement Policy. It also updated the Information Security Policy and, generally speaking, oversaw the SQDC's policies and their updating. The Board also evaluated its own functioning.

Composition of the Board of Directors

The directors of the SQDC are appointed by the Board of Directors of the Société des alcools du Québec (SAQ) based on the expertise and experience profile defined by the SQDC Board of Directors. The SQDC's directors played a role in the search for and recruitment of Board members. Four permanent observers attend Board meetings but are not entitled to vote; these observers are designated by the Quebec ministers of Municipal Affairs, Regions and Land Occupancy, Finance, Health and Social Services and Public Security.

As at March 28, 2020, the SQDC Board of Directors had 10 members, five of whom were women and five men. All except the President and Chief Executive Officer qualify as independent members. The directors come from the Montreal, Laurentides, Monterégie and Capitale-Nationale administrative regions.

To ensure its smooth functioning and guide member recruitment, the Board drew up an exhaustive profile of the expertise and experience expected of its members. The areas of expertise include governance, finance, human resources and labour relations, public health, drug dependence, social intervention and youth issues, education and communication, managing medium to large-sized organizations, operations management, retailing, real estate, information resources, laws and regulations and government operations.

To perform their governance role at the SQDC in an informed manner, the members of the Board of Directors updated their knowledge of cannabis during the fiscal year. A recognized toxicologist made a presentation on the health risks associated with cannabis use. The Quebec Cannabis Legalization Branch, which reports to the Department of Health and Social Services, made a presentation to the members on the legislative and regulatory framework around cannabis in Quebec and on the coming steps. Lastly, the members toured the facilities of a cannabis producer to better understand the production methods and safety, sanitary and traceability measures put in place.

Board Committees

The tasks of the Board committees include in-depth study of issues crucial for the SQDC. The committees mainly do this in two ways. First, they perform periodic monitoring of the situation in their respective fields based on reports prepared by management, whose work they support and oversee. Second, they conduct a thorough study of the SQDC's policies and other documents, including budgets, financial statements and action plans, and recommend their adoption by the Board of Directors. Each of the Board committees is comprised solely of independent directors. The committees have access to the internal and external resources necessary to carry out their duties. The committees hold a closed session at the end of each meeting. In addition, they evaluate their own functioning and perform annual planning of their work.

Activity Report of the Governance and Ethics Committee

The main focus of the SQDC Governance and Ethics Committee is the company's governance rules and practices. It ensures the company maintains the highest standards in this regard. It develops and submits for approval to the Board of Directors the expertise and experience profiles used in nominating all Board members except the President and Chief Executive Officer. In fiscal 2019-2020, the committee's terms of reference were reviewed to expand its responsibilities regarding business practices and contract management.

The Governance and Ethics Committee is chaired by Céline Blanchet and has six independent members. During the fiscal year, the committee met five times and held a closed session at the end of each meeting.

The committee recommended to the Board of Directors that it adopt the SQDC Social Responsibility Plan 2021-2023, the Whistleblower Policy and the Responsible Procurement Policy. It also updated several important instruments, including the Code of Ethics and Conduct of the Employees of the Société québécoise du cannabis and the Information Security Policy. In addition, the committee oversaw evaluation of the Board's performance, the bank of director's position candidates, communications, reputational risk factors, the SQDC's Language Policy and real estate.

After each of its meetings, the committee reported on its activities to the Board of Directors.

Activity Report of the Audit Committee

The Audit Committee of the Société québécoise du cannabis is primarily concerned with the integrity of the company's financial information. It also ensures the company's internal control and risk management mechanisms are adequate and effective. The Audit Committee is chaired by Louise Martel and has four independent members, including three members of the Ordre des comptables professionnels agréés du Québec (CPAs). In fiscal 2019-2020, the committee met five times and held a closed session at the end of each meeting.

The SQDC's internal auditing activities are among the services its shares with the SAQ, although they are placed under the direct authority of the SQDC Audit Committee. In fiscal 2019-2020, the SQDC Audit Committee reviewed and approved the internal audit plan in addition to monitoring and overseeing ongoing audit projects. They held closed meetings with the director of the Internal Audit Department with management not present. Among the purposes of the meetings was to ensure internal auditors' independence from management. The meetings were also an opportunity to review any activity likely to have an adverse impact on the SQDC's financial health.

Each quarter, on receiving the report of the chair of the Financial Disclosure Committee, the committee checked that the Financial Disclosure Policy had been properly applied. It examined the budget for the fiscal year and followed up on measures implemented to ensure optimal use of resources and oversee risk management.

Lastly, the committee met with the external auditors regarding the audit plan for the fiscal year. It examined the audited financial statements for the fiscal year ended March 30, 2019[1] and recommended its approval by the Board. The Audit Committee also meet occasionally and in closed session with representatives of the Auditor General of Quebec and the external auditors and verified that they are able to act independently. It recommended that the Board authorize the budget for the audit of the fiscal 2019-2020 financial statements. The fee for the 2019-2020 annual audit mandate is $46,750.

After each of its meetings, the Audit Committee reported on its activities to the Board of Directors.

External auditors

Raymond Chabot Grant Thornton LLP and the Auditor General of Quebec act jointly as the external auditors of the books and accounts of the Société québécoise du cannabis.

Activity Report of the Human Resources Committee

The main terms of reference of the Human Resources Committee of the Société québécoise du cannabis are to examine, recommend to the Board of Directors and oversee policies and strategic orientations related to human resources management.

The Human Resources Committee is chaired by René Leprohon and has three independent members. In fiscal 2019-2020, the committee met four times and held a closed session at the end of each meeting.

The Human Resources Committee monitored negotiation of the collective agreements for the stores' bargaining units. It recommended to the Board of Directors that it adopt the Compensation Policy for Managerial, Professional and Technical Personnel as well as the Occupational Health and Safety Policy and the Policy on Working Conditions for Non-Unionized Store Personnel. The committee also recommended to the Board the update of the employee benefits policies and the adoption of measures for encouraging health at work and employee retention.

As part of its oversight efforts, the committee received detailed reports and spoke with management regarding human resources, labour relations, training, health and safety, recruitment and payroll.

After each of its meetings, the Human Resources Committee reported on its activities to the Board of Directors.

Health Protection and Research Committee

To support the company's mission of selling cannabis with a focus on health protection, the Board of Directors created the Health Protection and Research Committee during the fiscal year. The committee is chaired by Jack Siemiatycki and has five independent members. It held a first meeting in fiscal 2019-2020. The 2020-2021 fiscal year will be when the Health Protection and Research Committee defines its terms of reference and begins planning and carrying out its work.

1. The financial statements and the annual report for the fiscal year ended on March 28, 2020, were approved by the Board of Directors at the meeting held on May 21, 2020.

Members of the Board of Directors

Johanne Brunet

Chair of the Board of Directors

- Appointed on August 23, 2018, for a two-year term
- Renewal of term until August 22, 2022
- Independent member

Professor

- Marketing Department, HEC Montréal

A member of the Ordre des comptables professionnels agréés du Québec (CPA), Johanne Brunet has a doctorate in industrial and business studies from the University of Warwick (United Kingdom) and an MBA in marketing and international management from HEC Montréal. She also holds a certificate in corporate governance from the Collège des administrateurs de sociétés of Université Laval, qualifying her for the title Administratrice de sociétés certifiée.

Ms. Brunet received the 1999 Action femmes d'affaires award from the Board of Trade of Metropolitan Montreal and was a finalist for the 2013 Business Professor of the Year award conferred by the renowned weekly *The Economist*. She worked as head of external production and acquisitions at Société Radio-Canada before becoming Senior Vice-President at TV5-Amériques.

She is chair of the board of directors of the Société des alcools du Québec and also holds a seat on the boards of the Théâtre du Rideau Vert and the Société d'habitation et de développement de Montréal (SHDM) as well as on advisory boards in England.

Jean-François Bergeron

Director

- Appointed on March 20, 2019, for a five-year term

President and Chief Executive Officer

- Société québécoise du cannabis (SQDC)

Holding a bachelor's in information management from the Université de Sherbrooke, Jean-François Bergeron has acquired solid experience in strategic management and organizational development. He began his career as an information technology manager at Cascades before moving on to senior management positions, which he held for more than 20 years in the manufacturing, retailing, telecommunications and professional services industries, among others.

Known for his strategic vision, Mr. Bergeron is a natural leader who mobilizes his teams to reach ambitious goals. His professional experience, in particular as a manager in information technology, sales administration and supply chain operations, along with his broad understanding of organizations have enabled him to successfully take on challenging organizational transformations and major digital shifts at large corporations, including Kruger, Astral Media and WSP Global as well as the SAQ, where he successively held the positions of Vice-President, Information Technology, and Vice-President, Supply Chain.

Céline Blanchet

Chair of the Governance and Ethics Committee

- Appointed on August 23, 2018, for a four-year term
- Independent member

Vice-President, Corporate Affairs and Strategic Development

- DeSerres Inc.

The holder of a bachelor's in economics and a law degree from Université Laval, Céline Blanchet has been a member of the Barreau du Québec since 1985. She also holds a certificate in corporate governance from the Collège des administrateurs de sociétés of Université Laval, qualifying her for the title Administratrice de sociétés certifiée. She works in the retail sector as Vice-President, Corporate Affairs and Strategic Development, at DeSerres Inc.

She was formerly Senior Manager, Public Affairs, at Laurentian Bank of Canada, before which she held various professional positions at Hydro-Québec and with the Quebec government.

She is chair of the board of directors of the Conseil québécois du commerce de détail (CQCD) and sits on the boards of the Conseil du patronat du Québec (CPQ), the École nationale de l'humour, Neuchâtel Junior College and the Canada Committee of the House of Canadian Students in Paris.

Stéphane Borreman

Director

- Appointed on October 19, 2018 for a two-year term
- Renewal of term until October 18, 2022
- Independent member

Emergency Physician

- McGill University Health Centre
- Community hospital centers

Mr. Borreman holds a bachelor's degree in mechanical engineering, a doctor of medicine, a master's degree in surgery and a postdoctoral degree in family medicine from McGill University. He works both as a physician and as a business consultant to commercial organizations and new entrepreneurs. As a consultant for McKinsey & Company, Mr. Borreman has extensive experience in guiding his clients toward making informed decisions. Over the years, Mr. Borreman has developed recognized and sought-after expertise in the scientific, medical and business sectors which he continues to perfect through numerous professional certifications.

Martine Lapointe

Director

- Appointed on August 23, 2018, for a three-year term

Information Technology Consultant

Chair of the Board of Directors

- Réseau Action TI

A graduate of the Information Systems and Quantitative Management Methods Department of the Université de Sherbrooke, Martine Lapointe also holds a master's in project management from the Université du Québec à Montréal (UQAM) and an Executive MBA from Université de Sherbrooke. She also holds a certificate in corporate governance from the Collège des administrateurs de sociétés of Université Laval, qualifying her for the title Administratrice de sociétés certifiée. Winner of the 2017 Carrière MGP award from UQAM's School of Management Sciences, she is also certified by the Project Management Institute and is a fellow of the Life Management Institute.

With more than 25 years of experience in finance and information technology, Ms. Lapointe has worked at several major institutions, including the Desjardins Group, Laurentian Bank as Vice-President, Business Solutions, National Bank as Senior Manager, Business Initiatives, the Agence du revenu du Québec, Canadian National, Air Canada and Desjardins Group. Her expertise is primarily in organizational transformation, major project implementation and the development of high-performance business solutions aligned with the company's objectives.

The winner of many OCTAS (Quebec IT excellence) awards from the Réseau ACTION TI, Ms. Lapointe currently holds a seat on the board of directors of that organization as well as of the Fondation du Cégep du Vieux Montréal and the Caisse Desjardins Pierre-Boucher de Longueuil.

René Leprohon

Director

- Appointed on August 23, 2018, for a three-year term
- Independent member

Corporate Director

A member of the Ordre des comptables professionnels agréés du Québec (CPA), the Institute of Internal Auditors (Quebec chapter) and the Canadian Association of Management Consultants (CMC-Canada), René Leprohon holds a bachelor's in business administration from HEC Montréal and a risk management certificate (CMC) from the Insurance Institute of Canada. A retired KPMG partner, he headed the firm's internal audit and corporate risk management practice for more than a dozen years.

In the course of his career, Mr. Leprohon has also held executive positions at TD Meloche Monnex (today TD Insurance) and EY, where he, among other things, had the opportunity to develop expertise in human resources, change management, internal control, corporate reengineering, mergers and acquisitions and strategic planning.

Over the years, he has worked with or been a member of many boards of directors, audit committees and other governance committees of publicly traded companies, government corporations and not-for-profit organizations. He continues to hold a seat on the board of directors of the Institute of Internal Auditors (Montreal chapter), where he also serves as chairman of the finance and audit committee, and on the board of directors of the Société des alcools du Québec, whose governance and ethics committee he belongs to and whose audit committee he chairs.

Louise Martel

Director

- Appointed on August 23, 2018, for a four-year term
- Independent member

Honorary Professor

- HEC Montréal

A member of the Ordre des comptables professionnels agréés du Québec (CPA) and holder of a degree in business administration from HEC Montréal, Louise Martel also has a master's in management sciences (M. Sc.-Finance) from the latter institution, where she works as an honorary professor.

Specializing in the fields of financial information and analysis, corporate governance, risk management, internal control and auditing, Ms. Martel has spent much of her career is graduate education for professional accountants and MBA students. She has been actively involved in developing teaching programs and often heading them. She developed the first massive open online course (MOOC) in accounting at HEC Montréal. She also helmed the same institution's Accounting Studies Department. She was a professor for more than a decade at several universities in France and has contributed to many corporate training programs abroad as well as in Quebec.

Careful to stay up-to-date on accounting practices, she has, as a senior manager and associate professor, also been part of KPMG on a continuous basis. She is the author of many lectures and some 75 research documents and articles, several of which have been published in national and international journals, earning her an award from the Canadian Academic Accounting Association. Ms. Martel has also been made a CPA fellow of the Ordre des comptables professionnels agréés du Québec.

In recent years, she has been a member of several boards of directors and chair of the audit committee of the Ombudsman for Banking Services and Investments (OBSI) and of Télé-Québec.

Jack Siemiatycki

Director

- Appointed on August 23, 2018, for a two-year term
- Renewal of term until September 29, 2022
- Independent member

Researcher

- Centre de recherche du Centre hospitalier de l'Université de Montréal (crCHUM)

Professor of Social and Preventive Medicine and Guzzo Environmental Cancer Research Chair of the Cancer Research Society at the Université de Montréal

- École de santé publique de l'Université de Montréal (ESPUM)

Holder of a master's in statistics and a PhD in epidemiology from McGill University, Dr. Jack Siemiatycki is known in scientific circles for having developed novel and influential research methods in occupational etiology of cancer and for results concerning a wide variety of possible environmental carcinogens. He is also known for the results of his studies on the causes of cancer in the workplace and the risk of developing brain cancer from using cellular telephones. To date, he has authored or co-authored more than 300 articles.

During his career, Dr. Siemiatycki's expertise has enabled him to serve on more than a hundred national and international expert advisory boards and on the editorial committees of several scientific journals, including the *American Journal of Epidemiology*. He has served as the plaintiffs' leading expert witness in a class action lawsuit which resulted in major damages being awarded against tobacco companies.

An elected member of the Canadian Academy of Health Sciences, he is often called on to speak about the relationship between individual behaviours or environmental factors and the risk of developing various diseases. He has also co-authored children's books.

Marie-Claude Guay

Director

- Appointed on February 3, 2020, for a two-year term
- Independent member

Co-founder

- C. Global Inc and The Next 3B

Holder of an MBA from HEC Montréal, a bachelor of arts in foreign language, literature and linguistics and a certificate in design thinking from IDEO U, Marie-Claude Guay is recognized as an agent of change and innovation.

Having spent nearly 20 years in communications, media and marketing, she has international experience in brand creation and management and business strategy development. She began her career as a journalist at Radio-Canada, where several of her reports won awards. She later served as Head of Strategic Communications and Innovative Initiatives at Tata Communications, drawing on her expertise to develop and manage digital strategies and public relations for several major international events, including the Mobile World Congress, NAB and Quartz.

She then co-founded and was CEO of Next 3B, an organization of international partners that works to improve access to the Internet around the globe. She has since formed a second Market strategy development firm, C. Global Inc., and become a lecturer at HEC Montréal.

Jean-Claude Dufour

Director

- Appointed on February 3, 2020, for a two-year term
- Independent member

Expert consultant in agri-food and corporate director

Holding a bachelor's degree in agronomy with a plant major, a master's in rural economics and a doctorate in business administration from Université Laval, including specialized studies in distribution, logistics and marketing from the University of Michigan, Dr. Jean-Claude Dufour is known for his research and many publications.

Dr. Dufour has left his mark on Université Laval, where he worked as a professor for 42 years in addition to serving as dean of the Faculty of Agriculture and Food Science for 12 years. He has also chaired the Canadian Council of Deans of Agriculture and Food Science and that of Veterinary Medicine for the last two years.

During his career, Dr. Dufour has given more than 600 lecture-presentations in various countries, supervised or co-supervised 69 graduate students and written many publications.

He has held seats on some 30 boards of directors (corporations, government agencies, investment funds, colleges and a university) and has also chaired the Commission interministérielle sur la révision de la fiscalité agricole au Québec. He currently sits on the board of directors of the Conseil des appellations réservées et termes valorisants (CARTV).

In 2015, Dr. Dufour was named Quebec food personality of the year by the Conseil de la transformation alimentaire du Quebec (CTAQ). He has also received the interprofessional award of merit from the Office des professions du Québec and the Ordre des agronomes du Québec (OAQ) and has been named a commander of the Ordre du Mérite Agronomique.

Observers

Quebec Department of Health and Social Services

Horacio Arruda

- National Director of Public Heath and Assistant Deputy Minister (Public Health Branch)

Quebec Department of Public Security

Louis Morneau

- Assistant Deputy Minister (Police Affairs Branch)

Quebec Finance Department

Étienne Paré

- Director General, Revenue Optimization and Local First Nations Policies

Quebec Municipal Affairs and Housing Department

Martin Pineault

- Director General, Policy

Directors' Attendance at Meetings of the Board and Board Committees

2019-2020 fiscal year

	BoD	AC	GEC	HPRC	HRC
Number of meetings	**7**	**5**	**5**	**1**	**4**
Johanne Brunet[1]	7/7	4/5	5/5	1/1	4/4
Jean-François Bergeron	7/7	N/A[2]	N/A[2]	N/A[2]	N/A[2]
Céline Blanchet	7/7	N/A	5/5	N/A	4/4
Stéphane Borreman	6/7	N/A	4/5	1/1	N/A
Jean-Claude Dufour[3]	3/3	N/A	1/1	0/0	N/A
Marie-Claude Guay[3]	3/3	N/A	1/1	0/0	N/A
Martine Lapointe	7/7	5/5	N/A	N/A	N/A
René Leprohon	7/7	5/5	N/A	N/A	1/1
Louise Martel	7/7	5/5	N/A	N/A	N/A
Sylvain Morissette[4]	3/3	N/A	2/2	N/A	N/A
Isabeau Normandin[5]	1/1	N/A	N/A	N/A	1/1
Jack Siemiatycki	6/7	N/A	5/5	1/1	N/A
Luc Vachon[6]	5/5	N/A	N/A	N/A	3/3

BoD: Board of Directors
AC: Audit Committee
GEC: Governance and Ethics Committee
HPRC: Health Protection and Research Committee
HRC: Human Resources Committee

1. Ex officio member of all Board committees.
2. The President and Chief Executive Officer attended all committee meetings but is not a member of these committees as their membership is comprised solely of independent members.
3. Jean-Claude Dufour and Marie-Claude Guay took up their duties on February 3, 2020, and were appointed members of their respective committees on February 5, 2020.
4. Sylvain Morissette stepped down on November 9, 2019.
5. Isabeau Normandin stepped down on July 4, 2019.
6. Luc Vachon stepped down on March 15, 2020.

Directors' Compensation

2019-2020 fiscal year
(in Canadian dollars)

Johanne Brunet	$36,292
Céline Blanchet	$21,515
Stéphane Borreman	$15,591
Jean-Claude Dufour[1]	$2,911
Marie-Claude Guay[1]	$2,815
Martine Lapointe	$15,808
René Leprohon	$18,357
Louise Martel	$19,995
Sylvain Morissette[2]	$8,876
Isabeau Normandin[3]	$4,677
Jack Siemiatycki	$16,171
Luc Vachon[4]	$13,602
Total	**$176,570**

1. Jean-Claude Dufour and Marie-Claude Guay took their seats on February 3, 2020, and were appointed members of their respective committees on February 5, 2020.
2. Sylvain Morissette stepped down on November 9, 2019.
3. Isabeau Normandin stepped down on July 4, 2019.
4. Luc Vachon stepped down from the Board on March 15, 2020.

Compensation Paid to the Five Most Highly Compensated Officers

2019-2020 fiscal year
(in Canadian dollars)

Name	Title	Annual base salary	Base salary paid	Annual bonus program[1]	Other forms of compensation[2,3]
Jean-François Bergeron	President and Chief Executive Officer	$290,000	$290,000	–	$9,321
Pietro Perrino[4]	Secretary General	$197,303	$195,889	–	$–
Paul Furfaro	Director, Store Operations	$179,288	$179,288	–	$–
Éliane Hamel	Director, Social Responsibility, Health Protection, Education and Communication	$160,000	$160,000	–	$2,011
Robert Dalcourt	Director, Finance	$158,798	$158,798	–	$2,190

1. No bonus program.
2. Taxable benefits related to professional dues and group insurance on the basis of the 2019 calendar year and, for the President and Chief Executive Officer, the taxable benefit related to the use of an automobile.
3. Management participates in the PPMP with an annual pension accrual rate of 2% up to the maximum eligible salary set by Retraite Québec. In addition, the President of the SQDC participates in the SAQ supplementary pension plan. He therefore has an annual pension accrual rate of 2% on the portion of his salary in excess of the maximum eligible pay through this supplementary pension plan. This participation is billed to the SQDC.
4. Pietro Perrino's compensation is paid by the Quebec Department of the Executive Council and billed in full to the SQDC.

Policy on the Use and Quality of the French Language

The Secretary General of the SQDC is responsible for ensuring compliance with the Charter of the French Language and the quality of the language used in the company's oral and written communications. A permanent committee has been created to ensure compliance with the policy and all language laws.

In fiscal 2019-2020, the SQDC prepared and adopted a draft Language Policy that determines how the Charter of the French Language should be applied at the company. The draft policy was shared with the Office québécois de la langue française (OQLF) and a joint effort was undertaken to improve it based on the OQLF's expertise.

Act to facilitate the disclosure of wrongdoings relating to public bodies

Under section 25 of the *Act to facilitate the disclosure of wrongdoings relating to public bodies*, the SQDC is required to publish the number of allegations of wrongdoing it received in fiscal 2019-2020.

Under the Act, any of the following acts is considered wrongdoing:

1. a contravention of a Quebec law, of a federal law applicable in Quebec or of a regulation made under such a law;
2. a serious breach of the standards of ethics and professional conduct;
3. a misuse of funds or property belonging to a public body, including the funds or property it manages or holds for others;
4. gross mismanagement within a public body, including an abuse of authority;
5. any act or omission that seriously compromises or may seriously compromise a person's health or safety or the environment;
6. directing or counselling a person to commit any of the wrongdoings described in 1 through 5 above.

In the fiscal year ended March 28, 2020, the SQDC received no allegations of wrongdoing.

Strategic plan

The SQDC adopted its strategic plan in fiscal 2019-2020. The SQDC Strategic Plan 2021-2023 addresses the major challenges identified by the company, namely accessibility to the legal market, competing with the illicit market and the social acceptability of its mission. The company has set specific objectives that will guide its actions and allow it to measure its performance using a set of key indicators. The plan is also the result of extensive reflection on the SQDC's mission, vision and values, around which the company's strategic orientations—developing the network, remaining competitive and growing responsibly—and strategies for attaining the objectives set are built. The first report on the measures of the SQDC Strategic Plan 2021-2023 will be drafted after the end of the 2020-2021 fiscal year.

Social Responsibility Plan 2021-2023

In fiscal 2019-2020, the SQDC also adopted its first-ever social responsibility plan. Aligned with the orientations of the SQDC Strategic Plan 2021-2023, this plan focuses on the SQDC's social responsibility. It sets forth actions for improving the company's social contribution in the areas of health, ethics, community involvement and the environment. It will enable the SQDC to meet its obligations under the *Sustainable Development Act* and contribute to the efforts made as part of the Quebec Government Sustainable Development Strategy.

The first report on the measures of the SQDC Social Responsibility Plan 2021-2023 will be drafted after the end of the 2020-2021 fiscal year.

Access to Information and the Protection of Personal Information

Report on access requests received

The Société québécoise du cannabis (SQDC) handles requests for access to documents in conformance with the *Act respecting access to documents held by public bodies and the protection of personal information*. In fiscal 2019-2020, it handled 40 of 41 requests within the prescribed time frames. The following tables present a detailed breakdown of how the requests received were handled.

Number of requests handled, by type and processing time

	Types of request handled during the fiscal year		
	Access requests		
Processing time	Administrative documents (number)	Personal information (number)	Correction (number)
0 to 20 days	22	0	0
21 to 30 days	19	0	0
31 days or longer (if applicable)	0	0	0
Total	**41**	**0**	**0**

Number of requests handled, by type and decision

	Access requests			
Decision made	Administrative documents (number)	Personal information (number)	Correction (number)	Cited sections of the *Act*
Accepted (entirely)	9	0	0	N/A
Partly accepted[1]	19	0	0	9, 15, 21, 22, 23, 24, 28, 29, 35, 37, 39, 40, 53, 54, 56, 57, 59, 137.1
Refused (entirely)	7	0	0	20, 21, 22, 23, 24, 28, 37, 39
Other[1]	6	0	0	
Total	**41**	**0**	**0**	

1. The six cases classified as "other" are cases in which the requested document did not exist. Among the partly accepted requests, two were based only on this reason and one partly so (one of the requested documents did not exist).

Reasons for refusal

The stated reasons for refusing access to documents held by the SQDC were that the documents concerned or contained:

- confidential information;
- personal information;
- information related to a collective bargaining mandate;
- records of directors' deliberations; or
- information of a commercial nature.

Code of Ethics and Professional Conduct for the Directors of the Société québécoise du cannabis

Preamble

Whereas the members of the Board of Directors are required to adopt a Code of Ethics and Professional Conduct under the *Act respecting the governance of state-owned enterprises* (RLRQ c. G 1.02);

Whereas the *Act* and the *Regulation respecting the ethics and professional conduct of public office holders* prescribe principles of ethics and rules of professional conduct applicable to directors, which are partly reproduced for information purposes in Schedule 1 of this Code;

Whereas the adoption of a Code of Ethics and Professional Conduct is intended to preserve and reinforce the citizens' bond of trust in the integrity and impartiality of the Société's Board of Directors, encourage transparency and make directors and public office holders aware of their responsibilities;

Whereas the members of the Board of Directors wish to provide the corporation with its own Code of Ethics and Professional Conduct;

In consideration of the foregoing, the members of the Board of Directors shall adopt the following Code of Ethics and Professional Conduct:

Section 1 – Interpretation

1. In this Code, unless otherwise indicated by the context:
   a) "**director**" means a member of the Société's Board of Directors, whether full-time or not;
   b) "**association**" means an association or group of persons with a direct or indirect interest in the cannabis trade;
   c) "**relevant authority**" means the secretary general of the Société québécoise du cannabis;
   d) "**committee**" means the Société's Governance and Ethics Committee;
   e) "**spouse**" means spouses and persons living as if married for more than one year;
   f) "**Board**" means the Société's Board of Directors;
   g) "**contract**" includes a proposed contract;
   h) "**control**" means the direct or indirect ownership by a person of securities conferring more than 50% of the voting rights or economic interest without this right depending on the occurrence of a specific event or allowing the election of the majority of directors;
   i) "**embargo**" means a temporary ban, applicable to all directors, on dealing in or carrying out a transaction involving the shares of a public or private corporation;
   j) "**enterprise**" means any form of economic unit for the production of goods or services or any other business of a commercial, industrial or financial nature;
   k) "**competing enterprise**" means a corporation whose activities are comparable in nature to those of the Société or its subsidiaries and related companies and which may complete against them;

l) "**related enterprise**" means the Société des alcools du Québec, a subsidiary and any legal person or corporation of which shares are directly or indirectly held by the Société or a wholly owned subsidiary of the Société;

m) "**subsidiary**" means a legal person or a corporation directly or indirectly controlled by the Société;

n) "**immediate family**" means the spouse of a director, the child of the director or of the director's spouse, the director's father, mother, brother and sister, the spouse of the director's mother and father, the spouse of the spouse's mother and father, the spouse of the director's child or any other person for which the director acts as a legal representative or administrator of the property of others;

o) "**confidential information**" means any information regarding the Société or one of its subsidiaries or enterprises related to its directors, officers, employees, partners and suppliers, all personal information unless the information is of a public nature under the Act as well as any other information related to an industry or sector and all information of a strategic nature, which is not public knowledge;

p) "**inside information**" means any information not yet known to the public and likely to affect the decision of a reasonable investor or likely to have an appreciable influence on the value or price of the securities of a public or private company, including information concerning an issue of securities, a change in dividend policies, a significant change in the composition of the management team or a significant change relating to the Société's business. All confidential information is deemed to constitute inside information;

q) "**Act**" means the *Act respecting the governance of state-owned enterprises* (RLRQ c. G 1.02), as amended and modified from time to time;

r) "**person**" means any physical or legal person, as determined by the context of the Code;

s) "**Société**" means the Société québécoise du cannabis; and

t) "**security**" means any security within the meaning of the *Securities Act* (RLRQ c. V 1.1) and includes shares, bonds, subscription rights and warrants, partnership shares, private company stock and options, futures contracts or derivatives, except for any government-issued debt instrument, Treasury bonds, term notes and certificates of deposit issued by a financial institution or a government. Any current, eventual or conditional instrument or instrument that confers the right to buy securities is also considered a security.

2. In this Code, a prohibited action includes any attempt or encouragement to perform such action.

Section 2 – General Provisions

3. The purpose of this Code is to establish the ethical principles and rules of professional conduct for the members of the Board.

   The ethical principles take into account the Société's mission, the values underlying its action and its general management principles.

   The rules of professional conduct apply to the directors' duties and obligations; they clarify and illustrate them in an indicative manner.

4. In performing his duties, a director is required to comply with the ethical principles and rules of professional conduct prescribed by the Act and by the *Regulation respecting the ethics and professional conduct of public office holders*, as well as the principles and rules set forth in this Code of Ethics and Professional Conduct. In case of discrepancy, the more stringent provisions shall apply.

5. Within 30 days of the adoption of this Code by the Board of Directors, every director shall complete and sign the attestation reproduced in Schedule 2 hereof. Once completed, the attestation shall be remitted to the Chair of the Board of Directors, who shall entrust it to the Société's secretary for safekeeping.

Every new director shall do likewise within 30 days of being appointed.

The Société shall take the actions necessary to protect the confidentiality of the information provided by the directors under this Code.

6. The directors undertake to cooperate with the Chair of the Board of Directors and comply with the opinions that the Chair may be called upon to give verbally or in writing.

Section 3 – Ethical Principles

7. For the duration of his term in office, a director shall act with caution, diligence, honesty and loyalty in the Société's interest.

   A director shall discharge his duties effectively and assiduously, and in accordance with the law and principles of fairness.

   In performing his duties, a director shall give his colleagues and the Société the benefit of the knowledge and skills he has acquired in the course of his career.

8. A director may not discharge his duties in his own interest or that of a third party.

9. A director shall make decisions so as to ensure and maintain the bond of trust between the Société, its customers, suppliers and partners, as well as the government.

10. A director shall assure and maintain the confidentiality of the information obtained in the course of his duties as a member of the Board. He shall take the actions necessary to ensure the confidentially of any confidential or inside information of which he becomes aware or makes use in performing his duties. Specifically, these measures include:

    a) not leaving the documents containing confidential information in the view of third parties or persons not involved;

    b) not sharing with or leaving in view of third parties passwords that provide access to documents containing confidential information;

    c) taking the appropriate measures to ensure paper and electronic documents are physically protected;

    d) ensuring any confidential document that is no longer required for performing his duties is destroyed; and

    e) not favouring one party over another in business relations they have or could have with the Société.

    The obligations mentioned in this section remain in effect even after the director has ceased to hold his position.

11. The decisions of the Board of Directors are public, unless otherwise decided by the Board for serious reasons; however, the directors' discussions, viewpoints and votes are confidential.

Section 4 – Rules of Professional Conduct

12. A director shall avoid placing himself in a situation of conflict between his personal interest and the duties of his office or in any situation likely to cast reasonable doubt on his ability to discharge his duties with loyalty and impartiality.

13. A director may not, on penalty of dismissal, have a direct or indirect interest in an organization, a competing or related enterprise or an association or private company entailing a conflict between his personal interest and that of the Société. However, such dismissal shall not occur if such interest devolves on him by succession or gift, provided he renounces it or disposes of it promptly.

14. A director who hold inside information relating to a private or public company is forbidden from sharing the information.

A director who holds inside information about a private or public company which could involve the Société or one of its subsidiaries shall contact the secretary general, who shall determine whether the security concerned must be placed under embargo. The director shall also refrain from sharing or using this inside information except for the purposes for which it was provided to him.

15. A director is bound to discretion in regard to anything that comes to his knowledge in the performance or during the performance of his duties and is at all times bound to maintain the confidentiality of information thus received.

    Any document identified as confidential by the Board of Directors or the secretary general shall be treated as such and shall not be transmitted or passed on or its content disclosed to anyone by the director without specific authorization from the Board.

    A director may not accept a gift, hospitality or other advantage except what is customary and is of modest value. Any gift, hospitality or advantage that does not meet these criteria shall be returned to the donor or remitted to the Société.

16. A director may not, directly or indirectly, grant, seek or accept a favour or undue advantage for himself or for a third party.

17. A director may not accept nor seek an advantage from a person or corporation doing business with the Société or acting on behalf or for the benefit of such a person or corporation, if such advantage is intended or likely to influence him in the performance of his duties or to generate such expectations.

18. A director shall not make any commitments to third parties nor offer them any guarantee about a vote he may be called upon to take or influence that he may be able to exert on any decision whatsoever that the Board of Directors may be called upon to make.

19. In performing his duties, a director may not do business with a person who has ceased being a director of the Société for less than one year if the person is acting on behalf of others with respect to a procedure or other operation to which the Société is a party and about which this person holds information that is not public knowledge.

20. Upon ceasing to perform his duties, no director shall disclose any information that is not public knowledge regarding the Société or another organization or corporation with which it had significant direct relations during the year preceding the cessation of his duties.

    In the year following this date, he is forbidden from acting for or on behalf of others with respect to a procedure, negotiation or other operation to which the Société is a party and about which he holds information that is not public knowledge.

21. A director shall collaborate with the Chair of the Board or of the committee when requested to do so.

22. A director who intends to run as a candidate for an elected position shall inform the Chair of the Board of it.

    The Chair of the Board or the president and chief executive officer with the same intention shall inform the secretary general of the Executive Committee of it.

Section 5 – Disclosure and Abstention

23. The disclosure required under article 13 is made:
    a) where the contract or matter in question is discussed; or
    b) after the director who had no interest in the contract or matter in question acquires one.

24. A director shall make the disclosure required under article 13 as soon as he becomes aware of a contract described in this article and which, in the normal course of business of the Société, does not require the approval of the directors.

25. Articles 12, 13, 15, 16, 17, 18, 23, 24 and 25 shall also apply when the interest in question is held by a member of the director's immediate family.

26. A director shall remit to the secretary of the Société, within 30 days of his appointment and on March 31 of every year he remains in office, a statement in the form prescribed by Schedule 3 containing the following information:

    a) statement of conformance with the provisions of the Code of Ethics and Professional Conduct for the Directors of the Société québécoise du cannabis;

    b) the name of any legal person, competing or related enterprise or private or public company in which, to the best of his knowledge, his immediate family or he hold shares, debt, securities or any other form of pecuniary interest in for-profit or not-for-profit legal persons;

    c) the name of any legal person, competing or related enterprise or private or public company for which his spouse or he holds an employee's, director's or officer's position or any analogous position or other interest in for-profit or not-for-profit legal persons; and

    d) the name of any legal person, competing or related enterprise or private or public company in which he holds other interests which bind him to a legal person and which could be seen as liable to influence his assessment of items submitted to the Board regarding the legal person.

    A director to whom the provisions of paragraphs 27 a) to d) do not apply shall make a statement to that effect and remit it to the secretary of the Société.

    A director shall also produce such a statement in the 30 days of any significant change in its content.

    Statements remitted under this article shall be deemed confidential and treated accordingly.

27. The secretary of the Société shall keep available to the directors and the committee the statements received in application of articles 5 and 27. In addition, the secretary of the Société shall advise the Chair of the Board and the Committee of any failure to meet the obligations specified in this Code as soon as he becomes aware of it.

Section 6 – Directors Appointed to Other Boards

28. A person appointed by the Société to perform the duties of director with another organization or corporation (hereinafter the "appointee") shall be bound by the ethical principles and rules of conduct under the law, the Regulation and this Code, as well as those set forth in the code of ethics and professional conduct of such organization or corporation. In case of discrepancy, the more stringent principles and rules shall apply.

29. During his tenure as a Board member, the appointee shall be entitled only to the corresponding compensation. This compensation shall not include, even in part, cash benefits such as those made possible by profit sharing based on changes in stock value or on investment in capital stock of the company. However, any compensation awarded to the President and Chief Executive Officer holding a full-time position in the Société shall be paid directly to the Société.

30. Without prejudice to confidentiality agreements and the duty to act with honesty and loyalty and, more generally, commitments of the same nature under the law and the code of ethics of the organization or corporation in which the appointee performs the duties of a director, the appointee shall inform the Société of any issue raised on the agenda of a board of directors' meeting of the organization or corporation that may have a significant impact on the finances, reputation or operations of the Société.

    The appointee shall inform the Société of any such issue within a reasonable time, prior to the directors' vote on the issue.

Section 7 – Exemptions

31. This Code does not apply to the following:
    a) the holding of interests through a mutual fund in whose management the director does not take part directly or indirectly;
    b) the holding of interests through a blind trust on whose composition the beneficiary has no right of review;
    c) the holding of the minimum number of shares required in order to be eligible as a director of a legal person;
    d) an interest which, by its nature and scope, is common to the population in general or to a particular sector in which the director or officer is involved;
    e) a directors liability insurance policy; the holding of securities issued or guaranteed by the Société, a government or a municipality with conditions that are identical for all; and
    f) the holding of securities in a publicly traded company or a private company other than a competing or related enterprise which correspond to less than 5% of this category of securities of this company.

Section 8 – Disciplinary Process

32. The Committee shall see to the application of this Code, interpret its provisions and ensure the directors' compliance with the principles of ethics and rules of professional conduct. The Committee has a mandate to:

a) give advice and support to the Société and any director faced with a situation that he deems to be a problem;

b) deal with any inquiry about this Code; and

c) investigate on its own initiative or upon report of any alleged irregularities with regard to this Code.

33. The secretary general of the Société shall maintain archives where shall be kept any statements, disclosures and attestations that must be submitted to him under this Code, as well as reports, decisions and advisories.

34. The Committee may seek or receive advice from external advisors or experts on any matter it shall deem appropriate.

35. The Committee shall preserve the anonymity of complainants, claimants and informers unless they manifestly intend otherwise. It shall not be compelled to reveal any information likely to disclose their identity, unless required by law or the courts.

36. If it has reasonable grounds to believe a director has failed to comply with one of the provisions of this Code, the Committee shall immediately inform the Board and the relevant authority and remit to it a complete copy of his file.

37. Any employee, officer or director of the Société may, on his own initiative, file a complaint with the relevant authority against a director.

38. The complaint shall be dealt with by the relevant authority and, where applicable, sanctions shall be applied against the director at fault, in conformity with the *Regulation respecting the ethics and professional conduct of public office holders*.

Section 9 – Final Provisions

39. This Code of Ethics and Professional Conduct shall come into effect as of the meeting following its adoption by the Board of Directors.

    It shall not be retroactive.

Schedule 1

Excerpts from acts and regulations respecting the ethical principles and rules of professional conduct applicable to public office holders

Quebec Civil Code (RLRQ c. C-1991)

Art. 321*. A director is considered to be the mandatary of the legal person. He shall, in the performance of his duties, conform to the obligations imposed on him by law, the constituting act or the by-laws and he shall act within the limits of the powers conferred on him.*

Art. 322*. A director shall act with prudence and diligence.*

He shall also act with honesty and loyalty in the best interest of the legal person.

Art. 323*. No director may mingle the property of the legal person with his own property nor may he use for his own profit or that of a third person any property of the legal person or any information he obtains by reason of his duties, unless he is authorized to do so by the members of the legal person.*

Art. 324*. A director shall avoid placing himself in any situation where his personal interest would be in conflict with his obligations as a director.*

A director shall declare to the legal person any interest he has in an enterprise or association that may place him in a situation of conflict of interest and of any right he may set up against it, indicating their nature and value, where applicable. The declaration of interest is recorded in the minutes of the proceedings of the board of directors or the equivalent.

Art. 325*. A director may, even in carrying on his duties, acquire, directly or indirectly, rights in the property under his administration or enter into contracts with the legal person.*

The director shall immediately inform the legal person of any acquisition or contract described in the first paragraph, indicating the nature and value of the rights he is acquiring, and request that the fact be recorded in the minutes of proceedings of the board of directors or the equivalent. He shall abstain, except if required, from the discussion and voting on the question. This rule does not, however, apply to matters concerning the remuneration or conditions of employment of the director.

Art. 326*. Where the director of a legal person fails to give information correctly and immediately of an acquisition or a contract, the court, on the application of the legal person or a member, may, among other measures, annul the act or order the director to render account and to remit the profit or benefit realized to the legal person.*

The action may be brought only within one year after knowledge is gained of the acquisition or contract.

Regulation respecting the ethics and professional conduct of public office holders (RLRQ c. M 30, r. 1)
Act respecting the Ministère du Conseil exécutif
(RLRQ c. M-30, s. 3.0.1)

Chapter II – Ethical Principles and General Rules of Professional Conduct

4. Public office holders are appointed or designated to contribute, within the framework of their mandate, to the accomplishment of the State's mission and, where applicable, to the proper administration of its property.

   They shall make their contribution in accordance with law, with honesty, loyalty, prudence, diligence, efficiency, application and fairness.

5. In the performance of his duties, a public office holder is bound to comply with the ethical principles and the rules of professional conduct prescribed by law and by this Regulation, as well as the principles and rules set forth in the code of ethics and professional conduct applicable to him. In case of discrepancy, the more stringent principles and rules shall apply.

In case of doubt, he shall act in accordance with the spirit of those principles and rules. He shall, in addition, arrange his personal affairs in such a manner that they cannot interfere with the performance of his duties.

A public office holder is bound by the same obligations where, at the request of a government agency or corporation, he performs his duties within another government agency or corporation, or is a member thereof.

6. A public office holder is bound to discretion in regard to anything that comes to his knowledge in the performance or during the performance of his duties and is at all times bound to maintain the confidentiality of information thus received.

   That obligation does not have the effect of preventing a public office holder from consulting or reporting to a specific interest group that he represents or to which he is linked, except where the information is confidential by law or where the board of directors requires that confidentiality be maintained.

7. In the performance of his duties, a public office holder shall make decisions regardless of any partisan political considerations.

8. A chairman of the board of directors, a chief executive of an agency or corporation and a full-time public office holder shall demonstrate reserve in the public expression of their political opinions.

9. A public office holder shall avoid placing himself in a situation of conflict between his personal interest and the duties of his office.

   He shall reveal to the agency or corporation within which he is appointed or designated to an office any direct or indirect interest that he has in an agency, corporation or association likely to place him in a situation of conflict of interest, as well as any rights that he may assert against the agency or corporation, and shall indicate, where applicable, their nature and value.

   A public office holder appointed or designated to an office within another agency or corporation shall, subject to section 6, also reveal any such situation to the authority that appointed or designated him.

10. A full-time public office holder may not, on penalty of dismissal, have a direct or indirect interest in an agency, corporation or association entailing a conflict between his personal interest and that of the agency or corporation within which he is appointed or designated to an office. Notwithstanding the foregoing, such dismissal shall not occur if such interest devolves on him by succession or gift, provided that he renounces it or disposes of it promptly.

    Any other public office holder who has a direct or indirect interest in an agency, corporation or association entailing a conflict between his personal interest and that of the agency or corporation within which he is appointed or designated to an office shall, on penalty of dismissal, reveal the interest in writing to the chairman of the board of directors and, where applicable, shall abstain from participating in any deliberation or any decision pertaining to the agency, corporation or association in which he has that interest. In addition, he shall withdraw from the sitting for the duration of the deliberations and the vote concerning that matter.

    This section does not prevent a public office holder from expressing opinions about conditions of employment applied at large within the agency or corporation and that could affect him.

11. A public office holder shall not treat the property of the agency or corporation as if it were his own property and may not use it for his own benefit or for the benefit of a third party.

12. A public office holder may not use for his own benefit or for the benefit of a third party information obtained in the performance or during the performance of his duties.

    That obligation does not have the effect of preventing a public office holder from consulting or reporting to a specific interest group that he represents or to which he is linked, except where the information is confidential by law or where the board of directors requires that confidentiality be maintained.

13. A full-time public office holder shall perform exclusively the duties of his office, except where the authority having appointed or designated him also appoints or designates him to other duties. Notwithstanding the foregoing, he may, with the written consent of the chairman of the board of directors, engage in teaching activities for which he may be remunerated or in non-remunerated activities within a non-profit organization.

The chairman of the board of directors may likewise be so authorized by the Secretary General of the Conseil exécutif. However, the chairman of the board of directors of a government agency or corporation that holds 100% of the shares of a second government agency or corporation is the authority who may give such an authorization to the chairman of the board of directors of that second agency or corporation.

14. A public office holder may not accept any gift, hospitality or other advantage, except what is customary and is of modest value. Any other gift, hospitality or advantage received shall be returned to the giver or shall be remitted to the State.

15. A public office holder may not, directly or indirectly, grant, solicit or accept a favour or an undue advantage for himself or for a third party.

16. In the decision-making process, a public office holder shall avoid allowing himself to be influenced by offers of employment.

17. A public office holder who has left public office shall conduct himself in such a manner as not to derive undue advantages from his previous service with the agency or corporation.

18. It is prohibited for a public office holder who has left public office to disclose confidential information or to give anyone advice based on information not available to the public concerning the agency or corporation for which he worked, or concerning another agency or corporation with which he had a direct and substantial relationship during the year preceding the end of his term of public service.

    Within one year after leaving office, a public office holder shall not act for or on behalf of anyone else in connection with a proceeding, negotiation or other transaction to which the agency or corporation that he served is a party and about which he has information not available to the public.

    A public office holder of an agency or corporation referred to in the second paragraph may not, in the circumstances referred to in that paragraph, deal with a public office holder referred to therein for one year following the end of his term of public service.

19. The chairman of the board of directors shall ensure that the public office holders of the agency or corporation comply with the ethical principles and rules of professional conduct.

Chapter III – Political Activities

20. A full-time public office holder, the chair of a board of directors and the chief executive officer of an agency, body or enterprise who intends to run for election to an elective public office shall so inform the Secretary General of the Conseil exécutif.

21. The chair of a board of directors or a chief executive officer of an agency, body or enterprise wishing to run for election to an elective public office shall resign from his position.

22. A full-time public office holder wishing to run for election to the National Assembly, the House of Commons of Canada or another elective public office whose functions will probably be performed on a full-time basis shall request, and is entitled to, leave without remuneration, from the day on which he announces that he is a candidate.

23. A full-time public office holder wishing to run for election to an elective office whose functions will probably be performed on a part-time basis, but whose candidacy may make it impossible for him to demonstrate reserve as required, shall apply for, and is entitled to, leave without remuneration from the day on which he announces that he is a candidate.

24. A full-time public office holder who is granted leave without remuneration in accordance with section 22 or 23 is entitled to return to his duties no later than on the thirtieth day following the final date for nominations, if he is not a candidate, or, where he is a candidate, no later than on the thirtieth day following the date on which a person other than he is declared elected.

25. A full-time public office holder whose term of office is of fixed duration, who is elected to a full-time public office and who agrees to his election shall immediately resign from his position as a public office holder.

    A full-time public office holder who is elected to a part-time public office shall, where that office may make it impossible for him to demonstrate reserve as required, resign from his position as a public office holder.

26. A full-time public office holder whose term of office is not of fixed duration who is elected to a public office is entitled to leave without remuneration for the duration of his first elective term of office.

Chapter IV - Remuneration

27. A public office holder shall be entitled, for the performance of his duties, solely to the remuneration related to those duties. Such remuneration may not include, even partially, monetary advantages such as those established, in particular, by a profit-sharing plan based on the variation in the value of shares or on a participation in the capital stock of the enterprise.

28. A public office holder dismissed for just and sufficient cause may not receive a severance allowance or payment.

29. A public office holder who has left public office, who has received or is receiving a severance allowance or payment and who holds an office, employment or any other remunerated position in the public sector during the period corresponding to that allowance or payment shall refund the part of the allowance or payment covering the period for which he receives a salary, or shall cease to receive it during that period.

    Notwithstanding the foregoing, where the salary he receives is lower than the salary he received previously, he shall be required to refund the allowance or payment only up to the amount of his new salary, or he may continue to receive the part of the allowance or payment that exceeds his new salary.

30. Any person who has received or is receiving a severance allowance or payment from the public sector and who receives a salary as a public office holder during the period corresponding to that allowance or payment shall refund the part of the allowance or payment covering the period for which he receives a salary, or shall cease to receive it during that period.

    Notwithstanding the foregoing, where the salary that he receives as a public office holder is lower than the salary he received previously, he shall be required to refund the allowance or payment only up to the amount of his new salary, or he may continue to receive the part of the allowance or payment that exceeds his new salary.

31. A full-time public office holder who has left public office, who has received so-called assisted departure measures and who, within 2 years after his departure, accepts an office, employment or any other remunerated position in the public sector shall refund the sum corresponding to the value of the measures received by him, up to the amount of the remuneration received, by the fact of his return to the public sector, during that 2-year period.

32. Sections 29 to 31 do not apply to part-time teaching activities by a public office holder.

33. For the purposes of sections 29 to 31, "public sector" means the agencies, bodies, institutions and enterprises referred to in the Schedule.

    The period covered by the severance allowance or payment referred to in sections 29 and 30 shall correspond to the period that would have been covered by the same amount if the person had received it as a salary in his former office, employment or position.

Chapter V – Code of Ethics and Professional Conduct

34. The members of the board of directors of each government agency, body or enterprise shall adopt a code of ethics and professional conduct in conformity with the principles and rules established by this Regulation.

35. The code shall establish the ethical principles and the rules of professional conduct of the agency, body or enterprise.

    The ethical principles shall reflect the agency's, body's or enterprise's mission, the values underlying its operations and its general principles of management.

    The rules of professional conduct shall pertain to the duties and obligations of public office holders. The rules shall explain and illustrate those duties and obligations in a concrete manner. They shall in particular cover

    (a) preventive measures, specifically, rules concerning the declaration of interests held by a public office holder;

    (b) identification of situations of conflict of interest; and

    (c) the duties and obligations of public office holders even after they have left public office.

36. Each agency, body or enterprise shall take the necessary measures to ensure the confidentiality of the information provided by public office holders under this Regulation.

Chapter VI – Disciplinary Process

37. For the purposes of this Chapter, the authority competent to act is the Associate Secretary General for Senior Positions of the Ministère du Conseil exécutif where the person concerned is the chair of the board of directors, a public office holder appointed or designated by the Government or a minister.

The chair of the board of directors is the authority competent to act in respect of any other public office holder.

Notwithstanding the foregoing, the chair of the board of directors of a government agency, body or enterprise that holds 100% of the shares of a second government agency, body or enterprise is the authority competent to act in respect of the chair of the board of directors of that second agency, body or enterprise, except where he himself is its chair.

38. A public office holder accused of a violation of ethics or professional conduct may be temporarily relieved of his duties, with remuneration, by the competent authority, in order to allow an appropriate decision to be made in an urgent situation requiring rapid action or in a presumed case of serious misconduct.

39. The competent authority shall inform the public office holder of the violations of which he is accused, of the possible penalty and that he may, within 7 days, provide it with his observations and, if he so requests, be heard regarding the alleged violations.

40. Where it is concluded that a public office holder has violated the law, this Regulation or the code of ethics and professional conduct, the competent authority shall impose a penalty.

However, where the competent authority is the Associate Secretary General referred to in section 37, the penalty shall be imposed by the Secretary General of the Conseil exécutif. Furthermore, if the penalty proposed is the dismissal of public office holder appointed or designated by the Government, the penalty may be imposed by the Government only; in that case, the Secretary General of the Conseil exécutif may suspend the public office holder immediately, without remuneration, for a period not exceeding 30 days.

41. The penalties that may be imposed on the public office holder is a reprimand, a suspension without remuneration for a maximum of 3 months or the dismissal.

42. Any penalty imposed on a public office holder, as well as the decision to temporarily relieve him of his duties, shall be in writing and give the reasons therefor.

Schedule 2

Declaration of adherence to the Code of Ethics and Professional Conduct for the Directors of the Société québécoise du cannabis

I, the undersigned, ________________________, domiciled and residing at ____ , in the city of __________________________________ , Province of Quebec, Director of the Société québécoise du cannabis, declare that I have read the Code of Ethics and Professional Conduct for Directors of the Société québécoise du cannabis adopted by the Board of Directors on November 15, 2018, and understand its meaning and scope. I hereby declare myself bound by each of its provisions as if it were a contractual obligation on my part.

Signed at __________________ on this ________ day of the month of ____________ 20 _____.

____

Director

Schedule 3

Declaration of Interest Statement

I, ______________________________, a member of the Board of Directors of the Société québécoise du cannabis, declare the following interests:

1. Shares, debt, securities or any other form of pecuniary interest which, to the best of my knowledge, my immediate family or I hold in for-profit or not-for-profit legal persons1,2 or which form a significant part of my holdings or of the holdings of my immediate family and could be liable to influence my assessment of items submitted to the Board regarding these legal persons.

Name of the legal person	Amount of the interest	Description (e.g. shares)	Approximate value of the interest or percentage of holdings

☐ My immediate family and I do not hold interests corresponding to this statement.

1. Treasury bonds or monetary instruments and government (federal and provincial) bonds are not considered as interests in a legal person.
2. Art. 32 para. g): "… does not apply to … the holding of securities in a publicly traded company … which correspond to less than 5% of this category of securities of this company."

2. Employee's, director's or officer's position or any analogous position or other interest which my immediate family or I hold in for-profit or not-for-profit legal persons

Name of the legal person	Position title or nature of the interest

☐ My immediate family and I do not hold interests corresponding to this statement.

3. Other interests which connect me to a legal person and could be perceived as potentially influencing my assessment of items submitted to the Board affecting that legal person

Name of the legal person	Nature of the interest

☐ I do not hold any interests corresponding to this statement.

Signed in ____________________ on ________________

____
Signature

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