
Annual Report 2019

For
responsible
consumption



The first
annual report
of the
Société québécoise
du cannabis



**Welcome
to the
SQDC**

**The Société
québécoise
du cannabis
sells cannabis
legally,
responsibly
and with
a focus on
health
protection.**



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Highlights 2019

Year ended March 30, 2019
(in thousands of Canadian dollars and in kilograms for volume sales)

The Société québécoise du cannabis (SQDC) was founded on June 12, 2018. On October 17 of the same year, the sale of recreational cannabis became legal in Canada. The Quebec government mandated the Société des alcools du Québec (SAQ) to set up the SQDC to distribute and sell cannabis with a view to health protection, the goal being to attract and retrain customers from the illicit cannabis market without actually encouraging cannabis use.

Considerable effort was expended to have the new government corporation up and running in less than a year in an industry with no precedent, all while having to deal with significant, industry-wide supply issues. The SQDC built its information systems and transactional website, found locations for its first 13 stores, constructed the stores, made arrangements for shipment of online orders, signed supply agreements, recruited and trained personnel and created a customer relations centre. Despite all these challenges, the SQDC broke even in its 2018-2019 fiscal year (excluding non-recurring start-up costs), an achievement of which it is in no small measure proud.

	2019 ⁽¹⁾
Financial results	
Sales	71,271
Gross margin	13,190
Net expenses ²	13,190
Comprehensive income	0
Financial position	
Total assets	34,157
Property, plant and equipment and intangible assets	12,086
Net working capital	(12,084)
Shareholder's equity	2
Sales by network	
Stores	57,591
Transactional website	13,680
Total	71,271
Sales by product category	
Dried flowers	62,994
	9,228 kg
Other products (oils, sprays, etc.)	8,277
	694 kg
Total	71,271
	9,922 kg

1. 292-day fiscal year.

2. Net expenses consist of selling and administrative expenses. They also include financial expenses net of financial income and the financial contribution of the Quebec government.



Message from the Chair of the Board of Directors

On October 17, 2018, following the Quebec government's passage of the *Act to constitute the Société québécoise du cannabis*, to enact the *Cannabis Regulation Act* and to amend various highway safety-related provisions on June 12, 2018, and passage of the Cannabis Act eight days later, the Société québécoise du cannabis became the sole entity legally allowed to sell non-medical cannabis in Quebec.

The Quebec government gave the SQDC the mission to sell cannabis responsibly and with a focus on health protection, the goal being to attract and retain consumers from the illicit cannabis market without actually encouraging use.

The Société des alcools du Québec (SAQ) was given the mandate to set up this new entity, whose mission is vital and activities are tightly regulated. Accordingly, the SAQ appointed a board of directors for the new subsidiary, taking care to assemble the skill sets necessary for governing such an organization. I want to take advantage of this opportunity to thank the 11 directors who put their knowledge and expertise to use in building and supporting the SQDC as well as the directors of the SAQ who, through their unstinting involvement, worked with us to set up the new government corporation.

In the last six months, the Board of Directors of the Société québécoise du cannabis has filled the position of President and Chief Executive Officer and put in place the structures required for effective governance focused on the emerging organization's needs and mission.

Since its first meeting on September 21, 2018, the Board has in particular adopted a code of ethics and professional conduct for directors, codes of ethics for employees and suppliers, a financial disclosure policy, a communication policy and policies on delegation of approval authority, contracts and financial undertakings and harassment and violence in the workplace.

In the coming year, the Board of Directors will finish implementing all the governance practices necessary to ensure the SQDC is fully compliant with the *Act respecting the governance of state-owned enterprises* by the end of its first full fiscal year.

In closing, I want to thank the members of the Management Committee for their flexibility and professionalism. With a strong team and the support of the SAQ, the company has succeeded in laying the foundation for a new government corporation doing business in an emerging industry as well as opening points of sale on day cannabis became legal and offering Quebecers a network of 12 stores and a complete transactional website while strictly complying with the law.

Lastly, I want to note the contribution of Alain Brunet, outgoing President and Chief Executive Officer of the SAQ, who between June 26 and October 27, 2018, devoted himself full time to setting up the SQDC, as well as the decisive contribution of the SQDC's President and Chief Executive Officer, Jean-François Bergeron, who has been involved with the project from the start.

A handwritten signature in black ink, appearing to read 'Johanne Brunet', with a stylized flourish at the end.

Johanne Brunet
Chair of the Board of Directors



Message from the President and Chief Executive Officer

Since opening its first stores six months ago, the Société québécoise du cannabis (SQDC) has expanded its business and refined its processes. Looking back, it can be proud of its accomplishments, despite the supply challenges faced by all the players in this new industry. Although challenges remain, the company has maintained steady sales growth by working to improve its product offer.

As for the choices that guided the setting up of the SQDC, its logistics model and organization structure enabled the company to bring cannabis products to market swiftly while creating a flexible and efficient structure for fulfilling its mission.

Since October 17 of last year, the SQDC has operated a network of a dozen customer-friendly stores and a transactional website that have given it net sales of \$71.3 million, the equivalent of some 10 metric tons of cannabis.

The SQDC ended its first fiscal year with a deficit of nearly \$5 million, most of which is related to the company's start-up, which required various non-recurring investments. Nevertheless, government revenue from operations, in the form of excise taxes (collected from producers) and consumer taxes, enabled the company to generate some \$15 million in revenue for the Quebec government.

Recently installed in its new head office, the Société québécoise du cannabis intends to work diligently to reach the near-term objectives it has set for itself, in particular regarding its customer promise. Whether the issue is product quality, product availability, customer support or pricing, the SQDC will make every effort to advise customers, as per its mission statement, with a focus on protecting public health and without promoting cannabis use. According to budget forecasts, which take producers' supply cycles into account, the company expects to become profitable in the coming fiscal year. All profit, in the form of a dividend, will be reinvested, notably in prevention and cannabis research.

In closing, I want to thank the members of the boards of directors of the Société des alcools du Québec (SAQ) and of the Société québécoise du cannabis for their support at every step of the process of starting up the new government corporation. In addition, I want to note the stupendous work done by the SAQ and SQDC management committees and the invaluable collaboration of the Quebec Department of Health and Social Services, which supported the team developing the training for employees and information and educational materials for customers. I also want to praise the contribution of the employees at every level of the company who worked tirelessly to make this business, which will mark Quebec history, a reality. I thank you for your dedication and know-how and for the effort all of you continue to make, day after day, to ensure we succeed in fulfilling the mission entrusted to us.

A handwritten signature in black ink, appearing to read 'Jean-François Bergeron'.

Jean-François Bergeron
President and Chief Executive Officer

Management Committee



Left to right: Normand McKenzie, Director, Human Resources and Labour Relations; Éliane Hamel, Director, Social Responsibility, Health Protection, Education and Communication; Pietro Perrino, Secretary General and Director, Legal Services and Government Relations; Jean-François Bergeron, President and Chief Executive Officer; Robert Dalcourt, Director, Finance; Geneviève Giroux, Director, Supply Chain, Product Management and Supplier Relations; Paul Furfaro, Director, Store Operations; and Ève Larrivée, Director, e-Commerce Operations





Review of Activities

Creation of the SQDC

April 13, 2017

Bill C 45, the Act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and other Acts, is tabled by the federal government

June 12, 2018

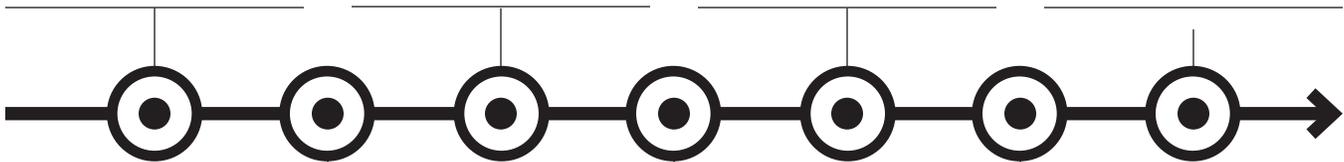
The Act to constitute the Société québécoise du cannabis, to enact the Cannabis Regulation Act and to amend various highway safety-related provisions is passed by the Quebec government

August 23, 2018

The SAQ appoints the SQDC's Board of Directors

March 20, 2019

The SQDC's President and Chief Executive Officer is appointed



November 16, 2017

Bill 157, the Act to constitute the Société québécoise du cannabis, to enact the Cannabis Regulation Act and to amend various highway safety-related provisions is tabled by the Quebec government

June 20, 2018

The Cannabis Act is passed by the Senate

October 17, 2018

The Cannabis Act enters into force and legal sales begin in SQDC stores and on the SQDC website

Birth of a new industry

The sale of non-medical cannabis became legal in Canada on October 17, 2018. The Société des alcools du Québec, through its legal subsidiary, the Société québécoise du cannabis, was mandated to distribute and sell the product. A new business corporation focused on public health, the SQDC sells cannabis with health protection in mind, the goal being to attract and retain consumers from the illicit cannabis market while avoiding promotion of cannabis use. The SQDC is a separate organization managed independently from the SAQ. All the company's profits will be paid in the form of a dividend to a fund comprised of monies from cannabis sales; the fund will be used especially to support prevention efforts and cannabis research. The SQDC's head office is located in Montreal's east end.

More than a store

The SQDC provides more than just a network of cannabis stores and a website. It also offers advice to adult Quebecers, encouraging them to be responsible users but not promoting use. While complying with strict, socially oriented regulations, the SQDC aims to provide superior service to its customers. Four priorities guide its business: quality, support, pricing and availability.



Quality

Rigorous control

Our cannabis comes from inspected, authorized producers. It contains no additives or pesticides not approved by Health Canada.



Support

Trained advisors

Our personnel is trained to help our customers make informed, responsible decisions.

Quality

Because customers' health and safety is among its top priorities, the SQDC is committed to carefully selecting a range of quality products that meet Health Canada's strictest standards. For example, all the products sold by the SQDC are free of pesticides and contaminants not approved by Health Canada. The SQDC works closely with its suppliers and ensures they comply scrupulously with the Health Canada regulations. Each month, the SQDC selects around 10 products from each supplier for analysis by an external laboratory. The results are verified and complied by the SQDC's Procurement team. Since October 17, 2018, all products tested have been in compliance. The company also ensures that, in conformance with regulations, all product labels provide clear and accurate information about the product's composition and source.

Support

The SQDC supports its customers discreetly and it respects their choice of products. Its employees are trained to advise customers with a focus on informed, responsible and lower-risk consumption. On hiring, SQDC employees receive some 20 hours of training developed in collaboration with the Department of Health and Social Services. The subjects covered include botany, current laws and regulations, the products, their immediate effects, methods of use, contraindications, the risks related to use, the sales ethic and customer relations. In the company's first fiscal year, a total of 5,184 hours of training were given. In addition, an annual review of the training program's content is planned, with employee updates on the latest information provided by the Health and Social Services Department.

SQDC customers can also contact the company's Customer Relations Centre (CRC) for answers to their questions. Since its creation in October 2018, the CRC has answered more than 50,450 telephone calls and replied to 11,930 email messages from customers. The most frequently asked questions concerned product availability and online orders.

5,184
hours of training
for store employees



Pricing

Fair prices

Our prices are competitive and reflect the quality and traceability of our products and the support provided to customers.



Availability

Products available across Quebec

Our transactional website (SQDC.ca) and store network mean cannabis can be purchased securely and confidentially throughout Quebec.

The SQDC's Facebook page has also been another way for Quebecers to communicate with the government corporation. A wide range of questions and comments have been posted and replied to through this channel. On October 17, 2018, alone, more than 200 questions about buying products, product availability, product delivery and website navigation were answered. At March 30, 2019, the SQDC's Facebook page had 14,520 followers while its Twitter feed had 3,970.

Quebecers can also turn to the SQDC.ca website for accurate, verified information. Since the day non-medical cannabis was legalized, the website has presented much information-rich, educational content about subjects as diverse as cannabis plants and strains, the types of products, the effects of use, product potency, responsible use and even how to make a purchase. Between October 17, 2018, and March 20, 2019, the site was visited more than six million times.

Pricing

The SQDC charges fair prices that reflect not only the quality of the products and their guaranteed traceability but also the safe, legal purchasing environment and professional, responsible support provided to customers. Although it hopes to charge prices that help shrink the black market, the SQDC also ensures its prices are not so low that they prompt Quebecers not using cannabis to begin doing so. Accordingly, last fiscal year, the average price for cannabis in dried flower form was \$7.76/gram, including taxes. Elsewhere in Canada, the same quantity was retailing for an average \$9.99. In fact, SQDC prices are, on average, the lowest on the legal market in Canada.

Availability

With a powerful transactional website and a store network to be expanded across Quebec, the SQDC provides a safe, confidential and increasingly accessible way to buy cannabis.

Once cannabis sales became legal, the SQDC offered its customers a network of 13 stores:

1. Brossard
2. Drummondville
3. Lévis
4. Mascouche
5. Mirabel
6. Montreal – St-Hubert St.
7. Montreal – Ste-Catherine St. West
8. Montreal – Acadie Blvd.
9. Quebec City – Lebourgneuf
10. Quebec City – Sainte-Foy
11. Rimouski
12. Saint-Jean-sur-Richelieu
13. Trois-Rivières

The company made sure each of the stores complied with the Cannabis Act requirement that they be located at least 150 metres from schools in Montreal and 250 metres in the rest of Quebec.

6
million visits
to SQDC.ca

303
employees



The ID of every person likely to be under 25 years old was checked.

Sales ethic: a priority

The Société québécoise du cannabis is focused on protecting public health. Because the company is aware of the potential impacts of cannabis use on Quebecers' well-being, its approach is centred on educating customers and on a sales ethic that is understood and adopted by its advisors, who put it into practice in the stores.

Last year, SQDC employees and the security guards in each store carefully checked the IDs of all persons looking younger than 25 who entered the store's reception area and denied access to minors, even ones accompanied by an adult. Store staff refused to sell cannabis to minors, to the obviously intoxicated or to anyone attempting to purchase cannabis on their behalf.

SQDC employees also provided advisory service focused on education and they offered straightforward, accurate information, including print materials, on the products and their effects, the goal being to help consumers better understand the products and make informed choices. As at March 30, 2019, some 150,000 educational brochures designed by the SQDC, the Department of Health and Social Services and Health Canada were distributed to SQDC customers. This was in addition to the advice given orally.

At all times and in conformance with laws and regulations, the SQDC and its employees avoided encouraging or promoting cannabis use.

SQDC stores also display posters with warnings about cannabis use and its potential negative effects. In addition, the company required everyone who visited its website to state their age and ensured that most customers' age was checked by Canada Post when delivering online purchases.

Secure management of personal information

Secure management of personal information is another priority for the organization. That is why the SQDC requires the companies it does business with to store on Canadian soil all the data they collect. As a result, all servers handling the internal and external data used by the SQDC and its suppliers are located in Canada.

10
metric tons
of cannabis sold

6
cannabis
suppliers
all based in Quebec or Canada

The logo

Q for Quebec

Standing for Quebec, the letter Q lends the logo an institutional character.



Cannabis leaf

Simple and stylized, the symbol also recalls Quebec's iconic *fleur de lys*.



Logotype

The letters SQDC (Société québécoise du cannabis) discreetly incorporate the notion of cannabis in a neutral, institutional acronym.



Supply chain: from the greenhouse to store shelves

The Société québécoise du cannabis (SQDC) ensures the quality of the products it sells. It sources the products only from producers certified by Health Canada and, in Quebec, by the Autorité des marchés publics (AMP). It also favours purchasing locally and continues to expand its portfolio of Quebec-based suppliers.

In its fiscal year just ended, the SQDC acquired products from six producers that had collectively contracted to supply it with up to 58 metric tons of cannabis in its first year of existence.

The SQDC was one of the first players in Canada to launch its procurement process. This enabled it to avoid the worst of the shortage of products that occurred in the months immediately following the legalization of non-medical cannabis. By being pro-active, the company secured a significant share of the little material initially available in Canada. Unfortunately, the realities of cannabis cultivation, the slow pace of the Health Canada and AMP certification processes, supply chain issues and strong demand had an impact on the SQDC's supply. That is why, in its third week of operation, the company reduced the days and hours its points of sale were open and slowed the planned expansion of its store network.

Meanwhile, the SQDC signed letters of intent with six new producers that will help meet Quebecers' demand. The market impact of these new suppliers and of the initial suppliers' expected production increases should begin to be felt in the second quarter of fiscal 2019-2020, when more products become available.

232,322
parcels delivered

1.3 million
transactions

Despite the challenges, it should be noted that, during the fiscal year ended March 30, 2019, Quebec had some of the highest volume sales of recreational cannabis in Canada. According to data published by Statistics Canada, the SQDC is estimated to have sold nearly 30% of all the recreational cannabis legally purchased in the country.

A quick and effective distribution model

To be as flexible as possible, to be able to adapt swiftly to customers' expectations and because all the products it sells are grown in Quebec or Canada, the SQDC opted for direct delivery of products from the production site to its stores. This distribution model allows the points of sale to be supplied regularly without involving a third party and while avoiding various fixed costs (truck fleet, warehouses, personnel, etc.) at a time when the annual sales volume is unknown.

The processing of all online orders was handled by a logistics collaborator that prepared and packaged the products for delivery. The SQDC's delivery partner picked up the parcels and delivered them directly to customers, always checking the recipient's age before completing the delivery.

Credentialed companies

The SQDC's mission—to sell non-medical cannabis with a focus on public health—also reflects the government's desire to limit the activities of organized crime. Under the law, to do business with the SQDC, cannabis producers must have obtained two authorizations, one from Health Canada and the other from the Autorité des marchés publics (AMP). The SQDC firmly believes in the value of these certifications and is consequently very active in communicating with producers to inform them of this unique-to-Quebec requirement.

The SQDC and its customers are thus assured of the legitimacy of the funding sources of the cannabis producers concerned.

Overview of sales and the company's financial position

Between October 17, 2018, and March 30, 2019, the SQDC had overall sales of \$71 million. This result was less than expected due to the supply challenges that led to a noticeable slowdown of the expansion of the government corporation's store network and to a reduction in the stores' opening hours. The company's start-up costs, such as recruiting and training employees, opening 13 stores, creating a brand image and building a website and technology infrastructure, totalled \$16 million, including \$11.1 million for property, plant and equipment and intangible assets and \$4.9 million for non-recurring expenses. In its first fiscal year, which was just under 24 weeks long, the SQDC posted a loss of \$4.9 million. However, government revenue from operations, in the form of excise taxes (collected from the producers) and consumer taxes, enabled it to generate some \$15 million in income for Quebec.

To nobody's surprise, the busiest day of the year was October 17, the day the sale of non-medical cannabis became legal. A total of 12,240 in-store transactions and 23,513 online transactions were recorded. In all, during its first fiscal year, the SQDC completed 1.3 million transactions, 18.25% of which were carried out online.



Customers are supported throughout the shopping experience

Efficiency objective

Creating a company in any field requires investment by its shareholders. To minimize start-up and operating costs and to give itself a flexible organization structure, the SQDC outsourced various aspects of its operation, in particular all services related to information technology and store development. Delivery of these services was entrusted to the Société des alcools du Québec, with which the SQDC maintains a contractual relationship independent of its status as a subsidiary. This business decision also has the advantage of maximizing use of the SAQ's infrastructures.

Developing the store network

When setting up its store network, the SQDC adopted an approach based on openness and collaboration to encourage the selected municipalities to sign onto the proposed locations. From the outset, several municipalities expressed interest in having the government corporation's points of sale in their communities. Meetings with officials from the cities selected by the SQDC were held on a priority basis. The SQDC's goal was and remains to make the product accessible to customers across Quebec through a prudent, progressively implemented development plan while also ensuring the stores are acceptable to the communities involved and in compliance with all applicable laws and municipal regulations, including the prescribed distances between stores and potentially vulnerable consumers. As at March 30, 2019, the SQDC had invested \$4.83 million to open the 13 stores in its current network.

Design of points of sale

The SQDC has developed a design for its stores that complies with all current regulations. The stores opened by the government corporation have discreet external signage, no products may be seen from the street and promotional content of any sort is avoided. Also, to block access to persons under age 18, a security guard greets customers in a reception zone and checks IDs before allowing them to enter the sales zone.

Customers then gain access to the heart of the store, where simple educational signage and an information counter efficiently provide product information. The stores' current look clearly demonstrates the importance the SQDC attaches to information, education and advice. Posters, documentation, access to the SQDC website via in-store touch screens and interaction with the advisors allow customers to inform themselves about the products on offer (species, strains, types, potency, etc.), the risks associated with cannabis use and any warnings as well as assistance resources in case of need. Interaction with customers is based on advice and no product is sold over the counter. Customers are supported throughout the shopping experience.



Finance

Commercial Data

Fiscal year ended March 30, 2019
(in millions of Canadian dollars, in kilograms for volume sales and in thousands of transactions)

	Stores	Online	Total
Net sales			
Dried flowers	\$51,441	\$11,553	\$62,994
Other products (oils, sprays, etc.)	6,150	2,127	8,277
	\$57,591	\$13,680	\$71,271
Number of transactions	1,297	230	1,527
Average shopping cart (all taxes included)	\$ 51.07	\$ 61.06	\$ 52.73
Number of kilograms	8,036	1,886	9,922

Financial Review

This report reviews the operations of the Société québécoise du cannabis (SQDC) for the 292-day fiscal year which began on June 12, 2018, when the company was created, and ended on March 30, 2019, and its financial position at the latter 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 24, 2019.

Overview of results

For the 292-day fiscal year ended March 30, 2019, the SQDC reported comprehensive income of \$0. This amount is comprised of a \$4.9 million loss offset by a financial contribution from the Quebec Minister of Finance. The company's net expenses include non-recurring start-up costs on the order of \$4.9 million. Government revenues from operations (in the form of excise taxes, which are collected from producers, and consumer taxes) amounted to approximately \$21.7 million.

Sales

The SQDC's sales totalled \$71 million in its first six months of operation, the equivalent of some 9,900 kilograms of cannabis. After a blazing start and faced with persistent supply shortages, the SQDC decided to reduce the number of days its stores were open from seven to four a week. A few months later, the company added back a day to its weekly schedule.

Sales networks

The SQDC's network of 13 stores (the 13th opened its doors a few weeks after fiscal year-end) had sales of \$57.6 million. Volume sales in the store network totalled 8,036 kilograms. By year-end, 1.3 million transactions had been completed with an average shopping cart of \$51.07 (taxes included). The average sales price of 1 gram of cannabis product was \$8.24 (taxes included).

Sales made on the SQDC's transactional website totalled \$13.7 million. This corresponds to a volume of 1,886 kilograms purchased in some 257,000 transactions. The average online transaction was \$61.06 (taxes included), while the average sales price of 1 gram of cannabis (all products combined) was \$8.34 (taxes included).

Cost of sales and gross margin

Cost of sales is comprised solely of acquisition costs. In fiscal 2018-2019, the cost of sales stood at \$58 million. The resulting gross margin totalled \$13 million.

Net expenses

Net expenses consist of selling and administrative expenses. They also include financial expenses net of financial income. Accordingly, net expenses were \$18.1 million. Had non-recurring start-up costs been excluded, net expenses would have totalled \$13.2 million.

Employee compensation, which is the SQDC's largest net expense category, totalled \$4.9 million. This line item accounts for around 37% of net expenses, excluding non-recurring start-up costs. Expressed as a percentage of sales, employee compensation is 6.9%.

Transportation and merchandising expenses are the second largest net expense category. They include the infrastructure necessary to prepare and deliver orders placed on the company's transactional website. This net expense category totalled \$2.7 million or 20.5% of net expenses, excluding non-recurring start-up costs, and 3.8% of sales.

Lastly, building occupancy expenses and other expenses totalled \$5.6 million, excluding non-recurring start-up costs, which corresponds to 42.4% of net expenses and 7.8% of sales. Non-recurring start-up costs correspond to 6.9% of sales. Total net expenses correspond to 25.4% of sales (18.55% if non-recurring start-up costs are excluded). This figure is high due to the simple fact that the Société québécoise du cannabis is in its first (partial) year of operation.

Investments

Investments in capital assets totalled \$12.8 million in fiscal 2018–2019. As this was its first year of operation, the SQDC invested \$4.9 million in intangible assets to set up its information technology platforms and transactional website. In addition, \$7.9 million was invested in property, plant and equipment, specifically in order to open current and future SQDC stores.

Financial position

As at March 30, 2019, the SQDC had total assets of \$34.2 million. Cash totalled \$5.9 million. The company has no accounts receivable because all of its sales are paid for at the time of purchase with cash or by debit card or credit card. The Quebec government's financial contribution receivable was \$4.9 million. The value of inventories, that is, the value of the products in SQDC stores, was \$7.9 million. Non-current assets are property, plant, equipment and intangible assets at net value.

Current liabilities totalled \$34.2 million at fiscal year-end. Of that amount, \$14.9 million was due to the Société des alcools du Québec (SAQ), mainly for costs that the SAQ incurred to set up the SQDC and start its operations. The amount owed is repayable over six months and bears interest. The SQDC expects to have repaid the amount during the summer of 2019.

Cash flows

The SQDC's activities generated cash flows of \$5.9 million in fiscal 2018–2019.

Outlook

In the coming fiscal year, the SQDC will continue implementing its store development plan and consolidating its supply network. Although the company remains in start-up mode, it is confident both of being able to reach its objectives and of complying with its mission to sell cannabis in Quebec while prioritizing customers' health and safety.

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 available information.

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 24, 2019

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 30, 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the initial 292-day 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 30, 2019, and its financial performance and its cash flows for the initial 292-day year then ended in accordance with International Financial Reporting Standards (IFRS).

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 audit 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 2019 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, 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 2019 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.

Independent Auditors' Report

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.

 *Guylaine Leclerc, FCPA Auditor, FCA*

Guylaine Leclerc, FCPA Auditor, FCA
Auditor General of Quebec

Montreal, May 24, 2019

 *Raymond Chabot Grant Thornton LLP¹*

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

Montreal, May 24, 2019

Statement of Comprehensive Income

for the initial 292-day fiscal year ended March 30, 2019

(in thousands of Canadian dollars)

	2019 (292 days)
Sales (Note 6)	\$71,271
Cost of products sold (Note 6)	58,081
Gross margin (Note 6)	13,190
Selling expenses	8,653
Administrative expenses	9,490
Operating results	(4,953)
Financial contribution of the government of Quebec (Note 8)	(4,889)
Net finance income (note 9)	(64)
Net earnings and comprehensive income for the year	\$ -

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

Statement of Changes in Equity

for the initial 292-day fiscal year ended March 30, 2019

(in thousands of Canadian dollars)

	2019 (292 days)
Share capital	2
Retained earnings	
Starting balance	-
Net earnings and comprehensive income for the year	-
Ending balance	-
Total – Equity	2

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

Statement of Financial Position

As at March 30, 2019
(in thousands of Canadian dollars)

	2019
--	------

Assets

Cash assets

Cash	\$ 5,912
Trade and other accounts receivable (Note 10)	4,892
Taxes receivable	3,268
Inventories (Note 11)	7,927
Prepaid expenses	72

22,071

Property, plant and equipment (Note 12)

7,589

Intangible assets (Note 13)

4,497

\$34,157

Liabilities

Current liabilities

Accounts payable and accrued liabilities (Note 15)	\$ 19,241
Due to the SAQ (Note 23)	14,914

34,155

Equity

Share capital (Note 17)	2
Retained earnings	-

2

\$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 initial 292-day fiscal year ended March 30, 2019

(in thousands of Canadian dollars)

	2019 (292 days)
Operating activities	
Net earnings and comprehensive income for the year	-
Items not affecting cash:	
Depreciation of property, plant and equipment	291
Depreciation of intangible assets	413
	<u>704</u>
Net change in non-cash working capital items (note 20)	7,295
Cash flows provided by operating activities	<u>7,999</u>
Investing activities	
Additions to property, plant and equipment (Note 12 and 20)	(1,668)
Additions to intangible assets (Note 13 and 20)	(421)
Cash flows used in investing activities	<u>(2,089)</u>
Financing activities	
Proceeds from the issue of shares	2
Cash flows provided by financing activities	<u>2</u>
Net increase in cash	5,912
Cash, beginning of year	<u>-</u>
Cash, end of year	<u>5,912</u>

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

Notes to the Financial Statements

Fiscal year ended March 30, 2019
(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 operations 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 legal subsidiary of the Société des alcools du Québec (SAQ). As a government corporation, the SQDC is exempt from income taxes under the *Income Tax Act*.

2

Fiscal year

The SQDC's fiscal year ends on the last Saturday of March. Accordingly, its first fiscal year ended on March 30, 2019, and had 292 days of operation.

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 24, 2019.

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.

Notes to the Financial Statements

Fiscal year ended March 30, 2019
(in thousands of Canadian dollars)

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 prices to the performance obligations; and
5. recognize revenue from regular operations when/as the performance obligations are satisfied.

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

Recognition and derecognition

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.

Classification and initial measurement of financial assets

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).

Subsequent measurement of financial assets

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.

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.

Notes to the Financial Statements

Fiscal year ended March 30, 2019
(in thousands of Canadian dollars)

3. Significant accounting policies (cont.)

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 fiscal year concerned.

A financial asset shall be measured at FVTPL unless it is measured at amortized cost or at FVTOCI.

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

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 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) 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.

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.

Notes to the Financial Statements

Fiscal year ended March 30, 2019
(in thousands of Canadian dollars)

3. Significant accounting policies (cont.)

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 the 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 in the manner 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.

Intangible assets are derecognized when they are disposed of or when no future economic benefit is anticipated from the 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.

Notes to the Financial Statements

Fiscal year ended March 30, 2019
(in thousands of Canadian dollars)

3. Significant accounting policies (cont.)

Intangible assets (cont.)

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 in the manner 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 reporting period. The depreciation periods are as follows:

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 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). As a result, some assets are tested individually for depreciation and some are tested at the cash generating unit level.

Property, plant and equipment and intangible 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. During the fiscal year, 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.

Leased assets

Leases for which the risks and rewards of ownership of a leased asset are retained by the lessor are all 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."

Notes to the Financial Statements

Fiscal year ended March 30, 2019
(in thousands of Canadian dollars)

3. Significant accounting policies (cont.)

Taxes receivable

Taxes receivable are recognized at the amount required by law.

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

Equity includes share capital, representing the par value of issued shares and retained earnings.

Notes to the Financial Statements

Fiscal year ended March 30, 2019
(in thousands of Canadian dollars)



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.

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.

IFRS 16 – Leases

IFRS 16 will supersede IAS 17 – Leases and three related interpretations, completing the IASB's long-term project on leases. Leases will be recognized on the statement of financial position as a right-to-use asset and a lease obligation. IFRS 16 provides two significant simplifications for leases whose underlying asset is of low value and for short-term leases (with a term of less than 12 months).

IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. Although earlier application is permitted, the SQDC decided not to early-adopt the standard.

Management is currently assessing the full impact of the standard. To date, the SQDC:

- has decided to avail itself of the simplification measure whereby it does not have to apply IFRS 16 to contracts that it had not previously identified as leases and to contracts that it had not previously identified as containing a lease;
- considers that the most significant impacts are that it will have to recognize a right-to-use asset and a lease obligation for its head office and its stores currently treated as operating leases. As at March 30, 2019, the minimum future operating lease payments total \$8.8 million, meaning that the nature of the above-mentioned costs will transition from operating lease expenses to depreciation, amortization and interest and property tax expenses; and
- implement a new IT system, which will facilitate the registration of leases.

The SQDC intends to adopt IFRS 16 using the modified retrospective approach as at March 31, 2019. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application. Comparative figures are not restated.

Notes to the Financial Statements

Fiscal year ended March 30, 2019
(in thousands of Canadian dollars)

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Use of estimates and 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.

Inventories

For inventories, management primarily makes estimates and assumptions when measuring the provision for obsolescence and product defects.

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.

Classification of leases

Leases under which the lessor retains a significant share of the risks and benefits inherent in the property are classified as operating leases. Finance leases are leases under which the lessee assumes a significant share of the risks and benefits inherent in the property. The SQDC assesses the extent to which the risks and benefits inherent in the property are assumed by it or the lessor.

Notes to the Financial Statements

Fiscal year ended March 30, 2019
(in thousands of Canadian dollars)

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Sales, cost of products sold and gross margin

	2019 (292 days)		
	Stores	Online	Total
Sales	\$ 57,591	\$13,680	\$ 71,271
Cost of sales	46,891	11,190	58,081
Gross margin	\$10,700	\$ 2,490	\$13,190

7

Employee compensation

Employee benefits consist of the following:

	2019 (292 days)
Selling expenses	
Salaries and other employee benefits	\$ 3,039
Employee benefit costs and pension plan contributions	621
	<hr/>
	3,660
Administrative expenses	
Salaries and other employee benefits	999
Employee benefit costs and pension plan contributions	189
	<hr/>
	1,188
	<hr/>
	\$4,848

Notes to the Financial Statements

Fiscal year ended March 30, 2019
(in thousands of Canadian dollars)

8

Financial contribution of the Government of Quebec

The Government of Quebec contributes financially to the SQDC by making financial contributions to it to offset its annual deficit. In the fiscal year results, the SQDC recognizes these as income under "Financial contribution of the Government of Quebec." These contributions are recognized as revenue, provided that they were authorized by the government, that the SQDC has met the eligibility criteria, if applicable, and that it is possible to make a reasonable estimate of the amounts involved.

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Net finance income

	2019 (292 days)
Interest on the Minister of Finance's line of credit	\$ 1
	1
Less finance income:	
Interest on cash	(65)
	(65)
	\$(64)

Notes to the Financial Statements

Fiscal year ended March 30, 2019
(in thousands of Canadian dollars)

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Trade and other accounts receivable

	March 30, 2019
Corporate accounts receivable	\$ 3
Financial contribution of the Government of Quebec (Note 8)	\$4,889
	<hr/>
	\$4,892

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Inventories

	March 30, 2019
Dried cannabis products	\$ 7,828
Related products	69
Work-in-process inventory	30
	<hr/>
	\$ 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.

Notes to the Financial Statements

Fiscal year ended March 30, 2019
(in thousands of Canadian dollars)

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Property, plant and equipment

	Leasehold improvements	Furniture and equipment	IT equipment	Total
Cost				
Acquisitions ¹	4,266	1,185	2,429	7,880
Balance as at March 30, 2019	\$4,266	\$1,185	\$2,429	\$7,880
Accumulated depreciation				
Depreciation	128	44	119	291
Balance as at March 30, 2019	\$ 128	\$ 44	\$ 119	\$ 291
Net carrying value				
Balance as at March 30, 2019	\$4,138	\$1,141	\$2,310	\$7,589

1. Property, plant and equipment, with a value of \$2.3 million, were ongoing 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 that are not yet in operation.

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

	2019 (292 days)
Selling expenses	\$242
Administrative expenses	49
	\$291

Notes to the Financial Statements

Fiscal year ended March 30, 2019
(in thousands of Canadian dollars)

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Intangible assets

	Acquired software and licences	Internally developed software	Total
Cost			
Acquisitions ¹	4,162	748	4,910
Balance as at March 30, 2019	\$4,162	\$748	\$4,910
Accumulated depreciation			
Depreciation	344	69	413
Balance as at March 30, 2019	\$ 344	\$ 69	\$ 413
Net carrying value			
Balance as at March 30, 2019	\$3,818	\$679	\$4,497

1. Intangible assets with a value of \$0.4 million were ongoing as at March 30, 2019, and are not amortized. This mainly involves professional fees for upgrading information systems.

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

	2019 (292 days)
Selling expenses	\$ 23
Administrative expenses	390
	\$413

Notes to the Financial Statements

Fiscal year ended March 30, 2019
(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 30, 2019, the entirety of the regime was available.

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Accounts payable and accrued liabilities

	March 30, 2019
Accounts payable	\$16,333
Accrued liabilities	2,514
Employee compensation payable	394
	<hr/>
	\$19,241

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Employee benefit assets and liabilities

General and mandatory pension plans

On January 1, 2019, the rate for the Government and Public Employees Retirement Plan (RREGOP) went from 10.97% to 10.88% of the eligible payroll and the rate for the Pension Plan of Management Personnel (RRPE) remained at 12.82 % of payroll. The contributions paid by the employer are equal to the employee contributions, except for a compensation amount, provided for in the RRPE Act, of 2.97% on January 1, 2019, (2.97% on June 12, 2018) of the eligible payroll, which must be paid by the employer to the RRPE members and an equal amount for the part to be paid by the employees. Accordingly, the SQDC must pay a supplemental amount corresponding to 5.94% of the eligible payroll for the 2019 civil year as well as for the 2018 civil year.

The SQDC's contributions, including the amount of compensation to pay to the RRPE, charged to the fiscal 2019 results, total \$148,000 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.

Notes to the Financial Statements

Fiscal year ended March 30, 2019
(in thousands of Canadian dollars)

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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 30, 2019
Share capital	\$2
Retained earnings	-
	<hr/>
	\$2

Notes to the Financial Statements

Fiscal year ended March 30, 2019
(in thousands of Canadian dollars)

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Commitments and lease expense

Under its operating leases, the SQDC has committed to paying a total of \$8.8 million in order to lease stores and its head office. Payments for future fiscal years amount to:

	March 30, 2019
No later than one year	\$ 1,815
Later than one year and not later than five years	6,978
More than five years	45
	<hr/>
	\$8,838

Operating leases generally have a clause whereby the SQDC can renew the lease for an additional period with the same terms and conditions, except for rental payments, subject to negotiation. The SQDC can avail itself of this renewal option within the amount of time stipulated before the lease expires. The lease expenses for its stores included in "Selling expenses" totalled \$832,000 for the fiscal year ended March 30, 2019.

The SQDC signed a supply agreement under which it has committed to buy from one of its suppliers an agreed volume of cannabis though only for the first full year of the agreement, which ends October 17, 2019. As at March 30, 2019, the remaining amount of this commitment is approximately \$75 million. The SQDC expects to be able to fulfill this commitment.

Notes to the Financial Statements

Fiscal year ended March 30, 2019
(in thousands of Canadian dollars)

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Information on the cash flow statement

	2019 (292 days)
Net change in non-cash working capital items breaks down as follows:	
Trade and other accounts receivable	\$(4,892)
Taxes receivable	(3,268)
Inventories	(7,927)
Prepaid expenses	(72)
Accounts payable and accrued liabilities	18,107
Due to the SAQ	5,347
	<u>\$ 7,295</u>
Non-cash investing activities:	
Acquisitions of property, plant and equipment financed by:	
Accounts payable and accrued liabilities	\$ 1,134
Due to the SAQ	5,078
Acquisitions of intangible assets financed by:	
Due to the SAQ	4,489
Total	<u>\$10,701</u>

Notes to the Financial Statements

Fiscal year ended March 30, 2019
(in thousands of Canadian dollars)

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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) 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 expose 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. For the fiscal year ended March 30, 2019, the cash balance was \$5.9 million and bore interest at the financial institution's preferred rate less two points. The due to the SAQ bears interest at a fixed annual rate of 2.3%.

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.

Notes to the Financial Statements

Fiscal year ended March 30, 2019
(in thousands of Canadian dollars)

22. Financial instrument risk (cont.)

Financial risks (cont.)

Credit risk

Credit risk is the risk of incurring a loss due to a counterparty's failure to meet its obligations to the SQDC. The SQDC is exposed to credit risk due to its financial assets.

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 its exposure to the credit risk associated with selling cannabis is limited due to the diversity of its customer base and the large number of customers. All of the SQDC's sales are direct sales to consumers.

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 compensation and employee benefits 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 30, 2019	
	Not later than 6 months	Later than 6 months
Accounts payable and other liabilities	\$18,754	\$93
Due to the SAQ	15,000	-
	\$33,754	\$93

Notes to the Financial Statements

Fiscal year ended March 30, 2019
(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.

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:

	2019 (292 days)
Salaries and short-term benefits	\$601

Notes to the Financial Statements

Fiscal year ended March 30, 2019
(in thousands of Canadian dollars)

23. Related party transactions (cont.)

Related party transactions

The SQDC is a legal subsidiary of the SAQ. The due to the SAQ is comprised mainly of the SQDC's start-up costs. The amount is repayable over a six-month period and bears interest at the annual rate of 2.3%. The SQDC has also signed an annual service agreement with the SAQ. The services concerned, hereinafter referred to as shared services, are related 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.

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

	2019 (292 days)
Transactions	
Property, plant and equipment	\$ 5,078
Intangible assets	4,489
Fees for services shared with the SAQ	1,496
Non-recurring start-up costs	4,708
Other expenses	1,096
	\$16,867
	March 30, 2019
Account balance	
Due to the SAQ	\$ 14,914



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 laws and regulations and that the company's officers have taken the actions necessary to reach 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.

At March 30, 2019, the Board of Directors of the SQDC was composed of 11 members appointed by the board of directors of the Société des alcools du Québec; five of the members are female and six are male. Ten members qualify for the title of independent member. It should be noted that the Quebec departments of Municipal Affairs, Regions and Land Occupancy, of Finance, of Health and Social Services and of Public Security each designated an observer for the SQDC Board of Directors. These observers attended Board meetings but were not entitled to vote.

At the first meeting of the SQDC's Board of Directors, held on September 21, 2018, the Board created three committees: the Governance and Ethics Committee, the Audit Committee and the Human Resources Committee. In fiscal 2018-2019, the Board held five meetings, including one special session. At each of these meetings, management submitted a report on the company's business and an update on the various projects under way. To be able to carry out its duties with respect to the conduct of the company's business, the Board also received oral reports as well as documents and the minutes of meeting covering issues examined during committee meetings. A private session not attended by management was held at the end of each meeting.

During its first six months of existence, the Board of Directors approved the desired profiles for Board members and the expertise and experience profiles of its current members. It also adopted the by-laws of the Société québécoise du cannabis, the Code of Ethics and Professional Conduct for the Directors and the codes of ethics for employees and suppliers as well as company policies on contracts and financial undertakings, on the delegation of approval authority, on harassment and violence at the workplace, financial disclosure and communication. The Board also adopted tools that will enable it, as of next fiscal year, to perform an annual evaluation of its performance as well as that of its committees and of the Chair of the Board.

Board Committees

Activity Report of the Governance and Ethics Committee

The main focus of the Governance and Ethics Committee of the Société québécoise du cannabis (SQDC) 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.

The Governance and Ethics Committee is chaired by Céline Blanchet and has five independent members. In fiscal 2018-2019, the committee met three times and held a private session at the end of each of its meetings.

The committee recommended to the Board of Directors that it adopt the terms of reference of the Board of Directors and of the three Board committees, the desired profiles and skills and expertise grids for the directors and the, the Code of Ethics and Professional Conduct for Directors, the codes of ethics for employees and suppliers and the SQDC communication policy. The committee also adopted tools that will enable it, as of the company's next fiscal year, to carry out an annual evaluation of its performance as well as that of its committees and of the Chair of the Board.

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. In fiscal 2018-2019, the committee met three times and held a private session at the end of each of its meetings.

The committee recommended to the Board of Directors that it assign responsibility for the SQDC's internal audit to the SAQ's Internal Audit Department in accordance with the terms and conditions of the shared services agreement between the two government corporations and approve the external audit engagement plan for the fiscal year ending March 30, 2019, the budget for the audit of the 2018-2019 financial statements and the financial disclosure policy.

The Audit Committee also performed a financial analysis of the 2019-2020 budget. With no other members of management present, it met with the director of the Internal Audit Department and verified that the Internal Audit team is able to act independently of management.

The committee also met occasionally and in private session with representatives of the Auditor General of Quebec and the external auditors and verified that they are able to act independently. The fee for the 2018-2019 annual audit mandate is \$40,000.

Lastly, 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 monitor policies and strategic orientations related to human resources management.

The Human Resources Committee is chaired by Isabeau Normandin and has four independent members. In fiscal 2018-2019, the committee met three times, including one special session, and held a private session at the end of each of its meetings.

The Human Resources Committee recommended to the Board of Directors to recommend, to the Quebec government, a bargaining mandate for the store employees' first collective agreement. It also recommended that the government approve the company's management organization structure, policy on harassment and violence in the workplace, the appointments of the Director, Social Responsibility, Health Protection, Education and Communication and the Director, e-Commerce Operations.

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

Members of the Board of Directors

Johanne Brunet

Chair of the Board of Directors

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

Professor

- Marketing Department, HEC Montréal

A member of the Ordre des comptables professionnels agréés du Québec, 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 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 others 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 in, among others, the manufacturing, retailing, telecommunications and professional services industries.

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 IQ FIER inc., 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 2-year term
- 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 towards making informed decisions. Over the years, Mr. Borreman has developed a 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 (UQAS), Martine Lapointe also holds a master's in project management from the Université du Québec à Montréal (UQAM) and an Executive MBA from UQAS. 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 and Air Canada. 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

Corporate Director

A member of the Ordre des comptables professionnels agréés du Québec, 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 audit committee, and on the board of directors of the Société des alcools du Québec.

Louise Martel

Chair of the Audit Committee

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

Honorary Professor

- HEC Montréal

A member of the Ordre des comptables professionnels agréés du Québec 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 held several positions in the course of her career, including senior lecturer, assistant professor, adjunct professor, professor and head of the Accounting Studies Department at HEC Montréal. She has also been part of KPMG as a senior manager and associate professor 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 Télé-Québec.

Sylvain Morissette

Director

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

Vice-President, Communications

- Industries Lassonde inc.

Lecturer in Strategic Communication

- Université de Sherbrooke

Holding a bachelor's in political science from the Université de Montréal, a major in business administration from the Université du Québec à Montréal and a professional diploma in public relations management from HEC Montréal and having completed the course requirements for a master's in communication from the Université de Sherbrooke, Sylvain Morissette has more than 25 years' experience in management, business development, communication and marketing.

Having worked for a number of major Canadian organizations, including Bombardier Recreational Products, TC Transcontinental and RONA inc., Mr. Morissette currently holds the positions of Vice-President, Communications, at Industries Lassonde inc and lecturer in strategic communication at the Université de Sherbrooke.

In recent years, he has held seats on the boards of directors of the Société québécoise des professionnels en relations publiques, the Montreal Heart Institute's EPIC Foundation, ACTI-MENU (today Capsana) and Advertising Standards Canada. Mr. Morissette is also the author of several publications.

Isabeau Normandin

Chair of the Human Resources Committee

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

Vice-President, Talent and Culture

- Groupe Croix Bleue Canassurance

Holding a degree in industrial relations from the Université de Montréal, Isabeau Normandin has amassed extensive experience in the human resources field.

She has held several management positions in companies including National Bank of Canada, SSQ Financial Group (today SSQ Insurance), AXA Canada (today Intact Insurance) and Deloitte.

With more than 25 years' experience in advisory services and HR operations, Ms. Normandin stands out through her expertise in change management and shared services management.

Jack Siemiatycki

Director

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

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

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.

During his career, Dr. Siemiatycki has served 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 also authored or co-authored more than 150 articles.

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.

Luc Vachon

Director

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

Luc Vachon is a seasoned manager with more than 40 years' experience. In the course of his career, he has held the position of Vice-President, Procurement, in several major corporations, including the Société des alcools du Québec and Hudon Deaudelin (Sobey's).

Besides overseeing strategic management for all supply chain-related activities so as to better take on the organizations' business challenges and opportunities, Mr. Vachon has long been a master of the art of continuous improvement in systems and processes and in distribution infrastructures and methods in order to support the company's business strategy while optimising profitability and growth.

Directors' Attendance at Meetings of the Board and Board Committees

2018-2019 fiscal year

	BoD	AC	HRC	GEC
Number of meetings	5	3	3	3
Johanne BRUNET*	5/5	2/3	2/3	0/3
Jean-François BERGERON ¹	1/1	1/1	1/1	1/1
Céline BLANCHET	4/5	N/A	3/3	3/3
Stéphane BORREMAN ²	3/4	N/A	N/A	2/3
Martine LAPOINTE	4/5	3/3	N/A	N/A
René LEPROHON	5/5	3/3	N/A	N/A
Louise MARTEL	4/5	3/3	N/A	N/A
Sylvain MORISSETTE	5/5	N/A	N/A	3/3
Isabeau NORMANDIN	5/5	N/A	3/3	N/A
Jack SIEMIATYCKI	4/5	N/A	N/A	2/3
Luc VACHON	5/5	N/A	3/3	N/A

*Ex officio member of all Board committees

1. Appointed on March 20, 2019.
2. Appointed on October 18, 2018.

BoD: Board of Directors

AC: Audit Committee

HRC: Human Resources Committee

GEC: Governance and Ethics Committee

Directors' Compensation

September 2018 to March 2019
(in Canadian dollars)

Johanne BRUNET	\$ 17,423
Céline BLANCHET	\$ 13,051
Stéphane BORREMAN ¹	\$ 6,160
Martine LAPOINTE	\$ 9,245
René LEPROHON	\$ 9,848
Louise MARTEL	\$ 10,639
Sylvain MORISSETTE	\$ 9,848
Isabeau NORMANDIN	\$ 11,544
Jack SIEMIATYCKI	\$ 8,642
Luc VACHON	\$ 9,245
Total	\$105,645

1. Appointed on October 18, 2018.

Compensation Paid to the Five Most Highly Compensated Officers

(in Canadian dollars)

Name	Title	Date hired	Compensation paid in 2018-2019	Annualized compensation ¹	Other compensation/bonus in 2018-2019 ²
Bergeron, Jean-François ³	President and Chief Executive Officer	March 20, 2019	\$ 8,923	\$290,000	461 \$
Perrino, Pietro ⁴	Secretary General and Director, Legal Services and Government Relations	August 13, 2018	\$122,756	\$193,434	N/A
Furfaro, Paul	Director, Store Operations	November 11, 2018	\$ 67,308	\$175,000	N/A
Dalcourt, Robert	Director, Finance	October 29, 2018	\$ 65,577	\$155,000	N/A
Larrivée, Ève	Director, e-Commerce Operations	March 11, 2019	\$ 8,654	\$150,000	N/A
Giroux, Geneviève	Director, Procurement, Product Management and Supplier Relations	July 23, 2018	\$103,846	\$150,000	N/A

1. Annualized earnings at fiscal 2018-2019 salary conditions.

2. The amount shown for Jean-François Bergeron is for his use of an automobile. No bonus was granted.

3. Jean-François Bergeron's compensation for the period for November 1, 2018, to March 19, 2019, when he was responsible for setting up the SQDC, was paid by the Société des alcools du Québec. Mr. Bergeron was officially appointed President and Chief Executive Officer of the SQDC on March 20, 2019.

4. Pietro Perrino's compensation is paid by the Ministère du Conseil exécutif du Québec and billed in full to the SAQ, which in turn bills the SQDC.

Policy on the Use and Quality of the French Language

As it is currently in start-up mode, the Société québécoise du cannabis (SQDC) initially designated its Secretary General as 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. Later, in conformance with the charter, the company carried out a review of the language situation at the SQDC, which it submitted to the Office québécois de la langue française.

In the coming year, as required by the Quebec government policy respecting employment and the quality of the French language in administration, the Société québécoise du cannabis plans to adopt a language policy aligned with its business model and to determine how the Charter of the French Language should be applied at the company.

Review of Accomplishments with Respect to Information Resources

In the fiscal year just ended, the Société québécoise du cannabis (SQDC) implemented initiatives to support its business strategies and deliver an optimal customer experience, all while helping to continuously improve efficiency across the company. Here are the main accomplishments of the SQDC's most recent fiscal year:

- installation of enterprise resource planning (ERP) software to take charge of key processes;
- deployment of a point-of-sale management system; and
- in partnership with Orchestra-Mediagrif, deployment of a complete e-commerce solution, including virtual shopping cart management, coordination with a courier service for deliveries, educational content management in keeping with the SQDC's mission, and an online payment solution.

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 2018–2019.

Under the Act, any act that constitutes any of the following 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 30, 2019, the SQDC received no allegations of wrongdoing.

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 2018-2019, it handled 47 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

Processing time	Types of request handled during the fiscal year		
	Access requests		
	Administrative documents (number)	Personal information (number)	Correction (number)
0 to 20 days	23	0	0
21 to 30 days	24	0	0
31 days or longer (if applicable)	0	0	0
Total	47	0	0

Number of requests handled, by type and decision

Access requests	Types of request handled during the fiscal year			Sections of the Act cited
	Access requests			
	Administrative documents (number)	Personal information (number)	Correction (number)	
Accepted (entirely)	13	0	0	N/A
Partly accepted	30	0	0	9, 15, 21, 22, 23, 24, 27, 28, 37, 39, 40, 53, 54, 137.1
Refused (entirely)	2	0	0	22
Other	2	0	0	No document or abandoned request

Reasons for refusal

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

- confidential information;
- personal information; and
- 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 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, 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 compete against them;

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- 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 and/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 confidentiality 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.

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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.

21. 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.

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

23. 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

24. 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.
25. 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.
26. 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.

27. 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.
28. 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

29. 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.
30. 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.
31. 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

32. This Code does not apply to the following:
- the holding of interests through a mutual fund in whose management the director does not take part directly or indirectly;
 - the holding of interests through a blind trust on whose composition the beneficiary has no right of review;
 - the holding of the minimum number of shares required in order to be eligible as a director of a legal person;
 - an interest which, by its nature and scope, is common to the population in general or to a particular sector in which the director is involved;
 - 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
 - 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

33. 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:
- give advice and support to the Société and any director faced with a situation that he deems to be a problem;
 - deal with any inquiry about this Code; and
 - investigate on its own initiative or upon report of any alleged irregularities with regard to this Code.

- 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.
- The Committee may seek or receive advice from external advisors or experts on any matter it shall deem appropriate.
- 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.
- 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.
- Any employee, officer or director of the Société may, on his own initiative, file a complaint with the relevant authority against a director.
- 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

- 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

(In conformance with article 27 of the Code of Ethics and Professional Conduct for Directors of the Société québécoise du cannabis)

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 persons ^{1,2} 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.

- Treasury bonds or monetary instruments and government (federal and provincial) bonds are not considered as interests in legal person.
- 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

3. Other interests which bind me to a legal person and which could be seen as liable to be perceived as influencing my assessment of items submitted to the Board regarding the legal person	
Name of the legal person	Nature of the interest

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

I do not hold any interests corresponding to this statement.

Signed in _____ on _____ Signature: _____

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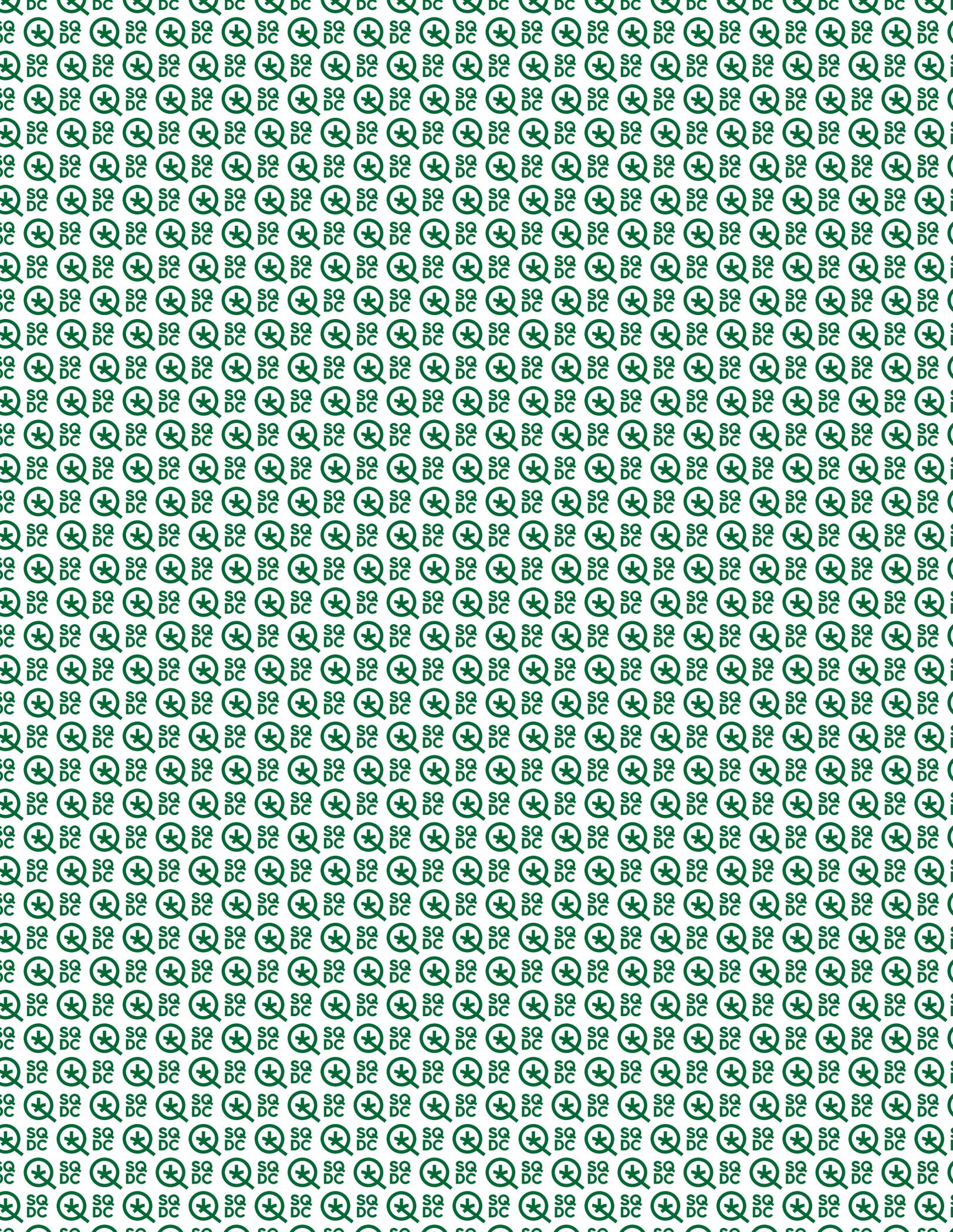
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In this document, the generic masculine is used solely to facilitate reading and without discriminatory intent.

In the event of discrepancy between the French-language and English-language versions of this annual report, the French-language version shall prevail.

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