
Annual Report 2021
For responsible consumption
SQ
DC

53%

illegal market

conversion rate

Cover page photo:
Justine Côté
Advisor, Rue Crescent store,
Montréal

In its 2020-2021 fiscal year, the Société québécoise du cannabis (SQDC) generated comprehensive income of $66.5 million, nearly double the figure for the preceding fiscal year. Remitted in full to the Gouvernement du Québec, the monies will be used primarily to fund cannabis-related research, education and harm prevention efforts. At this point, more than 50% of illegal market sales have been converted to the SQDC, fulfilling a key part of the company's mission. The Québec model, which focuses the SQDC on health protection, can thus be seen as having clear public health and safety benefits in addition to being profitable for Québec society.

Contents

Rodolfo Jr Martinez
Advisor, Rue Crescent store, Montréal

Highlights
of Fiscal 2020-2021

Year ended March 27, 2021
(in thousands of Canadian dollars and in kilograms for volume sales)

Financial results	
Sales	537,236
Gross margin	133,770
Net expenses[1]	67,266
Comprehensive income	66,504

Financial position	
Total assets	105,673
Property, plant and equipment, intangible assets and right-of-use assets	61,131
Shareholder's equity	2

Sales by network	
Stores	486,754
SQDC.ca transactional website	50,482
Total	**537,236**

Sales by product category	
Dried flowers	484,247
	82,837 kg
Other products (oils, sprays, etc.)	52,989
	8,692 kg
Total	**537,236**
	91,529 kg

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

Message from the Chair of the Board of Directors

Like everyone everywhere, the Board of Directors of the Société québécoise du cannabis (SQDC) has been forced to adapt its priorities to the reality of the pandemic. Having developed and implemented a governance process before turning their attention to consolidation and long-term planning, the Board members were able play a role more key than ever.

Over the last year, the Board assisted the organization in making the decisions necessary to review and adapt its operations and ensure the company remained fixed on carrying out its strategic plan in compliance with its mission: to sell cannabis with health protection in mind.

In keeping with this mission, the Board created the Health Protection and Research Committee, which began its work by identifying its priority action areas and defining its terms of reference. The committee will monitor developments in the understanding of cannabis and its health effects to gain insight into future research and support the company in its efforts to educate customers.

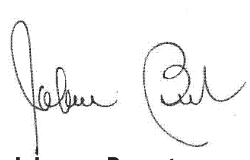
I want to commend the contribution, generosity and availability of the 10 Board members who supported the SQDC during this period of sustained growth under unprecedented conditions, all while conducting the Board's regular business.

With a solid team in place, the company was able not only to maintain operations and provide a safe environment to customers and employees but also to continue expanding its store network. I have seen for myself the seriousness and prudence with which the SQDC has played its role and the professionalism and resilience of the in-store teams, who delivered impeccable service. My thanks go out to them.

The exceptional work of the company's officers and employees has enabled it to capture more than 50% of the underground market, a symbolic milestone, in addition to generating comprehensive income of $66.5 million, all of which will be transferred to the fund comprised of monies from cannabis sales for use primarily in supporting the projects of the Cannabis Research and Prevention Fund. Beyond the economic benefits for the government, it is the company's responsible growth and constant concern for the health and safety of its employees and customers that fill me with pride.

Such a performance would not have been possible without the exemplary contribution of the members of the Management Committee, whom I warmly thank for their efforts and rigour. I also want to pay tribute to the remarkable work of all SQDC teams, employees and managers, who succeeded in both guiding the company's responsible growth and maintaining the safety of its operations.

In closing, I want to highlight the strategic skills and rallying spirit of the SQDC's President and Chief Executive Officer, Jean-François Bergeron. Without his inspired leadership, the SQDC would not be the innovative, responsible and successful government corporation we know today.
Even under these extraordinary circumstances, Mr. Bergeron was able to rally his teams and lead them to exceed the targets the company had set. These are all qualities of exceptional executives. On behalf of the Board of Directors, I thank him for these three years of dedication, secure in the knowledge that he leaves a solid company ready to continue its growth.



Johanne Brunet
Chair of the Board of Directors

Message from the President and Chief Executive Office

The 2020-2021 fiscal year was, without question, exceptional in every way for the Société québécoise du cannabis (SQDC). While company teams had to adapt our processes, rethink how we do things and work in the midst of a pandemic, the SQDC succeeded in remaining on track toward achieving the objectives of its Strategic Plan 2021-2023.

The company had sales of $537.2 million, up approximately 72% from fiscal 2019-2020. This growth is mainly attributable to the 25 new stores that opened this year and to higher sales on the transactional website, which were boosted by the introduction of same-day delivery. This increased accessibility for consumers while remaining consistent with the company's mission.

As a result, the company generated $66.5 million in profit, an amount that exceeded budget forecasts. Adding in tax revenue, the SQDC's operations generated some $238 million for the two levels of government.

I am proud to say that the SQDC showed responsibility in taking on its commercial role by remaining open and providing a safe shopping environment for cannabis users.

The company reached several important milestones during the year. Sales since opening passed the $1 billion mark, which corresponds to 148 metric tons of cannabis legally sold. The company has also converted more than half of the underground market.

Expanding the store network remains a strategic vector for improving access to quality products sold at competitive prices. Enhancements to our advisory and support service also continued with a series of initiatives aimed at better meeting customers' needs. The SQDC will continue playing a leadership role in favouring Québec cannabis products and producers and making the containers and packaging of the products sold more eco-responsible, all while encouraging low-risk methods of use.

In the business world, success is the result of teamwork. That is why I want to thank the members of the Board of Directors for their support, involvement and great expertise. I also salute the discipline and professionalism of the Management Committee and, of course, the valued cooperation of our business partners. All did much to help us maintain operations and overcome the challenges we faced. I also want to thank the various Gouvernement du Québec departments for their collaboration, in particular the Ministère des Finances, the Ministère de la Santé et des Services sociaux and the Secrétariat du Conseil du trésor.

I conclude by underscoring the work of our employees, who, at every level of the company, valiantly stayed on course and enabled us to achieve these exceptional results. The sum of all the efforts invested in the endeavour has produced results that make us proud today.

Jean-François Bergeron
President and Chief Executive Officer

Management Committee

A team of experienced professionals actively defining the responsible cannabis industry

Jean-François Bergeron

President and Chief Executive Officer

Robert Dalcourt

Director, Finance

Éliane Hamel

Director, Social Responsibility, Health Protection, Education and Communication

Geneviève Giroux

Director, Demand, Product Management and Supplier Relations

Paul Furfaro

Director, Store Operations

Ève Larrivée

Director, e-Commerce Operations

Normand Mc Kenzie

Director, Human Resources and Labour Relations

Pietro Perrino

Secretary General and Director, Legal Services and Government Relations

Harry Raphaël

Director, Information Technology

The SQDC wouldn't be what it is without the vision, enthusiasm and effort invested by the members of management and their teams since the company's earliest days. They have succeeded in building a solid organization, one that is already a model in Canada and around the globe – and we've only just begun!

Jean-François Bergeron
President and
Chief Executive Officer

Carry out its mission

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

By prioritizing its strategic orientations

1

Expand the network

Maintain a geographic presence in every region of Québec and provide an effective transactional website so that all Québec consumers age 21 and over have safe access to legal cannabis products.

2

Develop a competitive offer

Migrate illegal market users to the legal market by offering a broad range of traceable quality products at competitive prices and providing impeccable customer support.

3

Grow responsibly

Act with a focus on protecting Québecers' health by providing advice that favours low-risk use and implementing the best ethical and environmental practices in the industry.

In line with its values

Responsibility

The SQDC takes its role seriously and prioritizes customers' health while limiting the impact of cannabis on the community and the environment. Rigorously managing its finances and optimizing its operations so that its profits benefit all Québecers by, among other things, funding cannabis-related research and prevention efforts are a priority.

Simplicity

Simplify how the company does business and, when a problem does occur, fix it at its source. Every day, the SQDC invents its own ways of working, which are innovative, simple and effective. Efficiency is a key aim at every level of the company. Simply.

Proximity

Value authenticity, openness and collaboration. Work closely with our partners and show respect for customers and the general public. Listen to others and exercise positive leadership.

Excelling

Build this new industry boldly and courageously. Passion and a thirst to succeed drive the SQDC to innovate, encourage initiative and give its all each and every time.

To reach the goal it has set itself

Be the benchmark for the responsible cannabis industry

Review of Activities

Derrick Celestin
Coordinator, e-Commerce

An exceptional year

883
employees

10,222
hours of sales ethic training given

66
stores
in total

25
new stores

10.6 million
transactions

10 million
in-store transactions

0.6 million
online transactions

91.5
metric tons
of cannabis sold

24
cannabis suppliers
with an active supply agreement

10
new cannabis suppliers
including five based in Québec

39%
of production
now in Québec

More than
300
products available

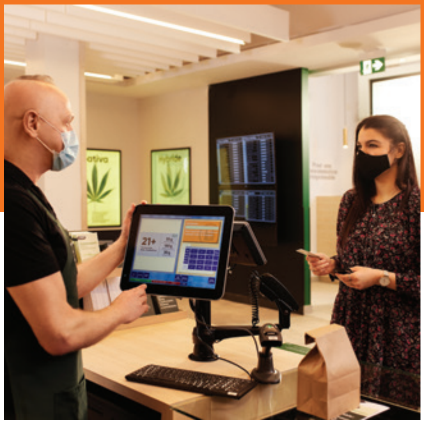
8.4 million
visits
to SQDC.ca

610,000
parcels delivered

43%
of parcels now delivered the same day
using express delivery

A year marked by COVID-19:

adapting to the new reality

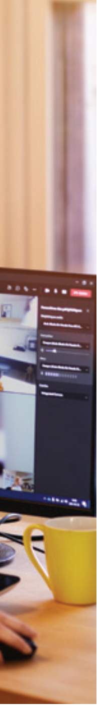


SQDC teams demonstrated great agility, implementing every new directive in less than 24 hours.

Like the rest of society, the Société québécoise du cannabis (SQDC) was forced to adapt to the global COVID-19 pandemic. While the Gouvernement du Québec shut down all non-essential businesses in the province, the SQDC was among the few retailers designated to remain open. This meant it could continue protecting customers' health by providing an alternative to the illegal market as well as a safe shopping environment compliant with all public health guidelines. SQDC employees were able to go on serving customers efficiently and providing responsible guidance.

Operations: more responsible than ever

From an operational standpoint, the SQDC strengthened the health measures already in place to protect its employees and customers. These included controlling traffic at store entrances and requiring everyone to wear a mask and sanitize their hands. Over the year, the SQDC adapted its processes to bring them into compliance with changing public health guidelines, among other things installing plexiglass panels at checkout counters and making it mandatory for employees to wear procedure masks. Based on public health recommendations, the SQDC adjusted the maximum capacity of its stores to an average of five customers on January 4, 2021. Regions' changing alert levels and the government's imposition of a curfew also forced SQDC teams to adjust their schedules. On each occasion, the teams showed great agility, implementing each new directive in less than 24 hours.



The many measures implemented and complied with by employees allowed the SQDC to remain a safe work environment. During the year, around 30% of employees were tested for COVID-19. Though 23 of the tests came back positive, no outbreak occurred. For every positive case, the SQDC followed a strict protocol in complete compliance with public health guidelines. All employees affected by COVID-19 were placed in preventive isolation and did not return to work until public health officials had authorized them to resume their normal activities.

Supply chain: adjusting our aim to meet Québecers' expectations

Despite the operational and public health challenges they faced during the pandemic, the SQDC's cannabis suppliers were able to remain in operation and ensure a stable supply. The SQDC reviewed its forecasts and adjusted the quantities made available online to adapt to pandemic-driven changes in shopping behaviour.

e-Commerce: adapting to new shopping patterns

The SQDC faced a significant logistics challenge related to online sales, as many former store customers turned to the transactional website to make their purchases. Specifically, since the beginning of the fiscal year, the company's online sales volume nearly doubled, putting pressure on the supply chain, in particular causing delays in order preparation and delivery, and on the safety and protection of supply chain employees. By working closely with all key stakeholders, the SQDC and its partners succeeded in restoring delivery times to near-normal levels in only a few days.

The SQDC also added a COVID-19 section to its SQDC.ca website to inform consumers of the measures implemented to maintain a safe shopping environment and of other operational changes, such as restricted opening hours.

Lastly, the SQDC swiftly adapted its practices and innovated in response to consumers' changing shopping behaviour. In the middle of the pandemic, the company introduced its My Store online inventory feature, allowing consumers to check online, before heading out, whether their destination store has the product they want. In July, the SQDC launched same-day delivery on the Island of Montréal. The service, which helps reduce in-store traffic, was later extended to Laval and several cities on Montréal's South Shore and in the western Montérégie region.

3 million

The combined population of the 67 towns and cities now enjoying same-day delivery service.

That's a little more than a third of Québec's total population.

The SQDC is currently **Canada's biggest cannabis retailer.**

Expand the network

Strategic orientation 1

The SQDC's mission is to convert users of the illegal cannabis market to the legal market while maintaining a focus on health protection.

Being accessible to consumers is key to competing effectively with the illegal market. Last year, the company continued expanding its store network and improving the online shopping experience. The SQDC is currently Canada's biggest cannabis retailer and has captured more than 50% of the underground market.

16
Number of administrative regions where the SQDC has a presence

In 2021, there will be at least one SQDC store in every region of Québec.

25 new stores and three new regions

Aiming to serve all Québec regions equitably, the SQDC continued its growth by opening 25 new stores, bringing to 66 the number of storefronts across the province. While significantly below the strategic plan's 2021 target of 70 stores, this is an entirely satisfactory performance, given the challenges of the COVID-19 pandemic, including the six-week shutdown of all construction sites. The SQDC now has a presence in each of Québec's administrative regions except Nord-du-Québec. Last year, first-ever SQDC stores were opened in the Abitibi-Témiscamingue and Côte-Nord regions and Laval. As at March 27, 2021, the company had invested $11.7 million in new store openings.

The SQDC actively collaborates with the municipalities in which it wants to locate stores. Prior to each opening, the company meets with municipal partners to ensure the store is socially acceptable to the local community and identify potential store locations in the municipality that both meet the requirements of the *Cannabis Regulation Act* regarding the minimum distance from vulnerable populations and comply with all municipal regulations.

Optimized operations

The SQDC continued optimizing its processes to hold operating expenses at a reasonable level. It also favoured partnerships with producers to deliver products to stores, ensuring it of a reliable regular supply. Delivery of online orders to consumers is handled by the company's delivery partners, who pick up the parcels directly from the logistics partner and deliver them to customers or the post office nearest the customer's home, always checking the age of the recipient.

This year, the SQDC also created an IT Department that worked to secure and optimize the company's information systems, create new sales and inventory tracking tools and exploit company data to better guide the organization's operational and strategic decision-making.

Constantly seeking ways to become more efficient, the SQDC succeeded in maintaining net expenses as a percentage of sales at 12.5% in fiscal 2020-2021, 1.3 percentage points better than the strategic plan target for 2021.

252

The SQDC hired 252 persons last year.

SQDC store design: continuous improvement

The successful interior design of SQDC stores – sober, safe and educational, as current regulations require – was maintained. During the year, the SQDC reconfigured sales floor storage spaces to accommodate the growing range of products offered for sale, including beverages and various types of extract. Educational posters were updated and improved by adding new information to better guide consumers. As part of its cost optimization efforts, the SQDC also signed agreements with some lessors for turnkey spaces.

This year, the indoor concept was extended outdoors, with storefronts getting a special architectural treatment. Various architectural elements were added to reinforce the SQDC's institutional image. The use of tinted glass and black or grey mullions allowed light to enter while maintaining limited visibility of in-store activity and products. This addition to the original design is somber, simple and fully in keeping with the SQDC's mission and values.

More than 250 additional employees to support the company's growth

Due to its rapid growth across Québec, the SQDC recruited 252 new employees, bringing the total to 883, broken down as follows: 136 store managers, 697 store employees and 50 head office employees.

Because a growing company cannot succeed without talent, the SAQ prioritizes professional development and encourages employees to acquire new skills and responsibilities. As a result, it has invested some $445,000 in continuous training adapted to employees' needs, including a pilot training program to develop store managers' skills, which should see the light of day in the fall of 2021. The company also made 52 internal promotions in stores and at head office during the year.

The SQDC implemented measures aimed at providing employees with a healthy work environment that favours their psychological well-being. These included promoting the Employee and Family Assistance Program (EFAP) and, more recently, offering employees a subscription to the Dialogue telemedicine app.

In occupational health and safety (OHS), more than 80% of SQDC stores now have an OHS committee. Managers also carry out monthly prevention inspections of the premises to evaluate various OHS-related issues and correct them as required.

Lastly, in fiscal 2020-2021, the SQDC signed four collective agreements with unions. Its network now comprises 40 unionized stores and 26 non-unionized stores. To ensure equity across the network, the SQDC offers the same conditions to the employees in all its stores.

Les Sommités

SQDC.ca

8.4 million visitors

last year

Values in the right place

After barely two years in existence, the SQDC launched an internal reflection process on its corporate values. Based on input from workshops and employee consultations, four values were selected: responsibility, simplicity, proximity and excelling. The values found concrete expression in a multitude of communication activities and were integrated into employees' professional development. In addition, in April 2020 the SQDC launched Les Sommités, a recognition activity that spotlights employees who embody and apply the organization's values. A March 2021 employee survey revealed that an average 66% of SQDC team members were acquainted with and supported the company's values, well in excess of the 60% target set in its strategic plan.

Added features on SQDC.ca

The company's website, SQDC.ca, attracted a record 8.4 million visitors in fiscal 2020-2021. The many improvements made to the site were undoubtedly one of the reasons for the increase. In fact, the quality of the SQDC.ca website was recognized not once but twice during the year: the SQDC made its debut on the WOW 2020 index in the online customer experience category and was a finalist for the Molière award for excellence in the use of French on a retailer website. At the same time, overall customer satisfaction with the online experience was 77%, seven percentage points higher than the strategic plan target for 2021.

The educational section of the SQDC website was enriched with several articles answering the main questions Web users ask about cannabis. That the section had more than 450,000 views proves its relevance.

82%

Decrease in the number of calls related to product availability,

a decrease that coincides with the introduction of new inventory reporting features in stores and via the My Store function

8,692 kg
of cannabis
ordered online

Online sales totalling
$50.5 million

To better carry out its mission, the SQDC made improvements to the customer support features of the transactional section of its website. In April 2020, real-time inventories were added, making it easy for customers to know the product quantities available in stores. In addition, the My Store function, which was introduced in September 2020, lets users select their favourite store and see a listing of the products it has in stock. The two functions facilitate product searches and the shopping process. Coincidentally or not, the SQDC's Customer Relations Centre received 82% fewer calls about product availability than in fiscal 2019-2020.

This year, users ordered 8,692 kilograms of cannabis online, generating total sales of $50.5 million. The company's online sales experienced sustained growth throughout the year, in no small part due to pandemic-driven changes in Québecers' shopping habits. In fiscal 2020-2021, online sales accounted for 9.4% of the SQDC's total sales.

Rollout of same-day express delivery

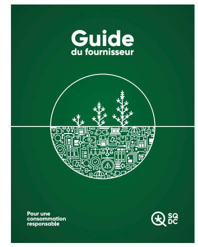
To continue converting the illegal market, the SQDC launched same-day express delivery on the Island of Montréal in July 2020. The service was later extended, first to Laval and then to more than a dozen cities on Montréal's South Shore and in the western Montérégie region. The service is now available to more than 36% of Québec's population and 74% of the population of the Communauté métropolitaine de Montréal. Express delivery now accounts for 43% of all SQDC deliveries and 74% of deliveries in the covered cities.

Express deliveries now account for
43%
of the SQDC's total deliveries.

Call and Collect pilot project

A pilot project allowing customers to call a number, receive advice and then place an order for later pick-up at a store has been under way since September 2020. Plans are for the option to be extended to the entire store network in the coming year.

More than
50%
of the illegal market
successfully converted



Competitive Offer

Strategic orientation 2

The SQDC's strategy for capturing the illegal market is based on four main pillars: product quality, responsible guidance by trained advisors, accessibility of products and points of sale, and competitive pricing.

In fiscal 2020-2021, the company worked to make improvements in each of these four areas. Its efforts paid off as, by fiscal year-end, it had passed the 50% mark. Specifically, it had migrated 52.9% of the illegal cannabis market to the legal market and, in doing so, beat the target of 49% set in its strategic plan.

Quality: collaboration, standardization, optimization

The SQDC works closely with cannabis producers, regularly reminding them of its expectations regarding product quality. In October 2020, the company held a virtual meeting with representatives of the Québec cannabis industry and updated its *Suppliers' Guide*. This collaborative approach led to a standardization of practices.

Aiming to optimize suppliers' procedures by making them more cost-effective, the company introduced a four-step product selection process, which had a structuring effect on the industry and improved category management. In partnership with Metro Logistique, it set up a delivery consolidation process to help producers increase supply chain efficiency, lower costs and reduce their environmental footprint. Lastly, the SQDC collaborated with the industry to foster partnerships among producers that made it easier for smaller local operations to get their products packaged and distributed.

71%

Percentage increase in the number of suppliers that had active supply agreements with the SQDC last year

The number has quadrupled since the start of operations in 2018.

For several months now, the SQDC has asked suppliers to identify and list the allergens found in their products. The allergen information has also been added to the product sheets, ensuring customers enjoy an even-safer shopping experience.

Guidance: for informed choices

To be able to provide responsible advice, all SQDC employees are trained on hiring. They also receive special instruction on how to handle difficult cases. Training programs are updated yearly to make sure employees have up-to-date information about cannabis, new products, methods of use and health impacts. Besides delivering in-store support, advisors are available to provide guidance by telephone during opening hours. Their expertise and informed advice are appreciated by consumers. A customer survey carried out by Ad hoc in October 2020 pegged customers' overall satisfaction with the SQDC at 80%, up 12 percentage points from the preceding fiscal year and 10 percentage points above the 2021 target set in the company's strategic plan.

In addition to the guidance provided by advisors, customers in stores have access to product sheets that now list the specific levels of some of the cannabinoids found in each lot as well as the dominant terpenes and aromas. This helps customers make better-informed choices. In-store customers can also obtain information from touch-screen terminals displaying the SQDC.ca website and from sales area education walls.

Availability: more products and more ways to buy them

In fiscal 2020-2021, the SQDC added new producers to its list of suppliers and expanded its product offer to better meet customers' expectations. More specifically, it nearly doubled the number of producers it works with, going from 14 to 24, and enriched its catalogue with more than 100 new products, pushing the total to over 300.

The sale of cannabis extracts and edibles has been legal in Canada and Québec for a little more than a year now. The SQDC has adopted a responsible and prudent approach to selecting products in both categories, as always with a focus on health protection and in full compliance with the guidelines in effect, which are stricter in Québec than in the rest of Canada. The beverages category was expanded and now comprises 34 products. In the extracts category, the company now sells 10 different hash products as opposed to one in April of 2020. The company has added two new types of extract to its offer: concentrates arrived at the SQDC in June 2020, while kief came on board in December 2020. The company is also working closely with its suppliers to develop edible products that are unappealing to people younger than 21 and comply with the various federal and provincial regulations. These should start being offered for sale in the summer of 2021.

After consulting with public health authorities, the SQDC decided not to carry vaping products. The decision arises from its aim to avoid creating new users and new demand.

$6.74

Average sales price of one gram of cannabis,

including sales taxes

In October 2020, the SQDC hired an independent outside firm to survey customers and learn how satisfied they were with the range of products it offers for sale. Of all respondents, 68% said they were satisfied with the SQDC's product lineup. That was much higher than the target 54% the company set in its Strategic Plan 2021-2023.

Price: the right balance

In fiscal 2020-2021, the SQDC continued refining its pricing strategy to find a balance that would allow it to capture market share without encouraging use. With that goal in mind, the company formed a Price Strategy Committee. The committee members work to play a regulatory role in the industry and justify the company's pricing practices without diminishing its competitiveness vis-à-vis the illegal cannabis market or ability to obtain the best prices in negotiations with suppliers.

The SQDC also expanded its various product lines to better align them with customers' preferences.

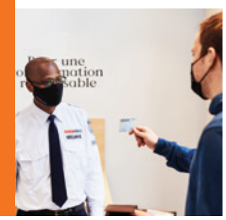
The strategy adopted, one with relatively low margins for a retail business, allows the company to compete for users while also generating dividends for taxpayers – a responsible approach from every standpoint.

The combined efforts of producers and the SQDC to offer competitive prices bore fruit. Proof in point: the average price of one gram of cannabis dropped from $7.64 to $6.74, taxes included, a 12% decrease. The average price per gram is also lower than the Canadian average, based on available data.

Marvin Escobar
Advisor,
Rue Crescent store,
Montréal

Responsible **development**

Strategic orientation 3



As a retailer whose mission is to convert the underground market, the SQDC is required to carry out in business activities. However, that doesn't prevent it from combining financial performance and health protection.

Being a government corporation means it can place health and safety at the top of its priorities and act responsibly in every aspect of its operations. According to a survey of the public conducted for the SQDC by an external firm, 74% of respondents agreed with the cannabis sales model favoured by Québec, a result four percentage points higher than the strategic plan target for 2021.

Advisory role: guide and assist but safely

Responsible use and Québecers' health are top priorities for the SQDC. This can be seen in, among other things, the support its store employees provide to customers. The training they receive on a continuous basis from the moment of hiring is mainly centred on their advisory and educational roles. During the pandemic, safe assistance also means strict adherence to public health guidelines, including hand-washing, physical distancing and mask-wearing.

The scientific literature regarding cannabis and its effects on the human body is constantly evolving. As a result, the SQDC annually updates the training it provides to store employees to ensure they are adequately informed and always able to advise customers responsibly. Just before extracts were added to the product catalogue, the company gave employees training on the products' characteristics, the related potential health risks and directions for low-risk use. This meant customers could be given responsible guidance as soon as the products appeared on the SQDC's shelves.

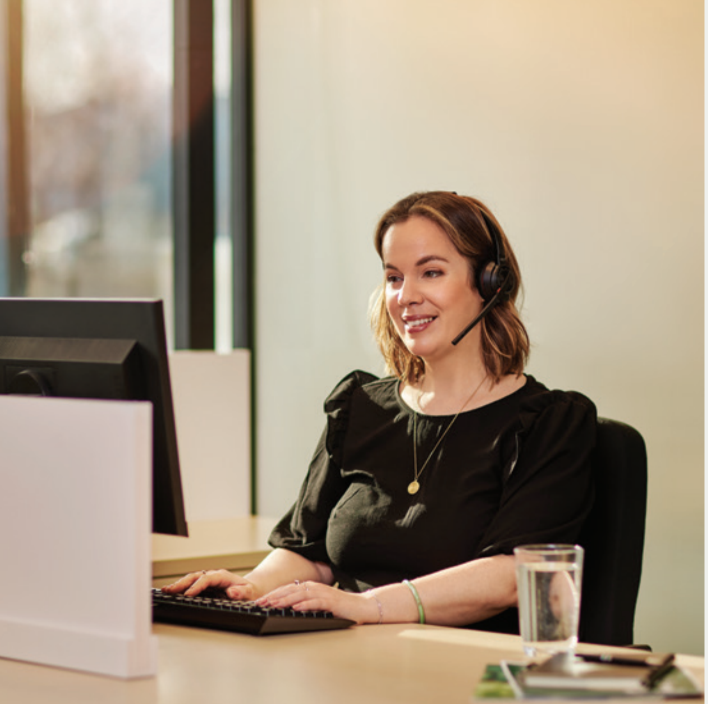
Sales ethic: health first

Adhering to a sales ethic means, first and foremost, preventing individuals not of legal age – persons under 21 – from buying and using cannabis and from setting foot in our stores. It also means refusing access to all individuals obviously under the influence.

Providing guidance to customers draws significantly on employees' inter-personal skills. That is why the SQDC prepares its employees by providing continuous training from the moment they are hired. This ensures they are always able to enforce a strict sales ethic. Managing problem customers remains an area of crucial importance and a special training program for the purpose was taken by all employees in the winter of 2021.

18 hours
Amount of training given to all SQDC advisors on hiring

Employment is conditional on successfully completing the course.



4,904
Twitter
subscribers

19,711
Facebook
subscribers

6,543
LinkedIn
subscribers

Customer Relations Centre: listening and acting

Supporting SQDC customers doesn't stop when they exit the store. The Customer Relations Centre (CRC) team is responsible for answering customers' questions and providing assistance by email or telephone, always with the utmost courtesy and efficiency. The two-minute average response time to calls proves this is no empty claim.

During the year, the CRC replied to 37,773 queries. The most frequent subjects concerned store information, with opening hours (24%) topping the list, followed by product information (21%), including availability and purchasing advice, and delivery of online orders, whether regular or express (19%). Overall, 18% of contacts involved complaints, a percentage nearly three times higher than last year. The pandemic and its many impacts on operations contributed significantly to the increase. Specifically, 44% of the complaints received concerned Canada Post's decision to halt to-the-door delivery while another 13% were about delivery times. Most of the complaints arrived during Québec's first COVID-19 wave in March and April 2020.

The CRC replied to
37,773
queries
this year.

Social media: virtually present for the community

The SQDC also maintains a presence on Facebook, LinkedIn and Twitter. These online platforms let the government corporation speak with Québecers, provide advice on responsible use and respond to users' questions and comments, a record number of which were received this year.

In fiscal 2021, the SQDC received 4,395 private messages on Facebook covering a wide range of topics, including shopping, product quality and availability, new product categories, parcel delivery times and store opening hours. The SQDC's social media presence gives it another channel for informing customers and staying in touch with subscribers, all the more so during the COVID-19 crisis. As at March 27, 2021, the SQDC had 19,711 Facebook subscribers, 6,543 LinkedIn subscribers and 4,904 subscribers to its Twitter feed.

21
metric tons
of plastic recycled

Favouring local producers and products

As a government corporation, the SQDC is keen to encourage a Québec cannabis industry still in its infancy. That is why, last year, it held the first edition of a forum for Québec cannabis producers, an online event that aimed to help local producers and micro-producers learn about and understand all the prerequisites and steps involved in becoming an SQDC supplier. In fiscal 2021, the SQDC signed agreements with five Québec producers, namely Laurentian Organic, Great White North, QC Gold Tech, ROSE ScienceVie and Cannara Biotech, as well as 25 letters of intent for start-up producers with a business establishment in Québec.

Besides adding local producers to its portfolio, the company launched a project to designate Québec-grown products. The project will be officially rolled out in the spring of 2021.

Containers and packaging: reduce, recycle, rethink

Like its employees and customers, the SQDC is concerned about the environmental footprint of the product containers and packaging it sells. Its strategic plan sets a target of 30% of containers and packaging meeting eco-responsible criteria in 2021.

The SQDC took action on several fronts to achieve this goal, most notably by creating an issue table on eco-responsible containers and packaging that brought together stakeholders from all along the value chain. By March 27, 2021, the company had finished quantifying the environmental impact of the product containers and packaging it sells. One of the findings was that, in 2021, approximately 16% of containers and packaging met at least two of the company's four eco-responsible criteria: the ratio between product mass and packaging mass, the percentage of integrated recycled content, container end-of-life recyclability and whether the container is locally supplied.

11
Number of organizations with seats on the issue table on eco-responsible containers and packaging created by the SQDC

Although the results are not as high as expected, the actions taken during the year allow the SQDC to feel optimistic about reaching the objective set in the strategic plan for the next two years, especially as most current containers and packaging meet at least one of the four criteria. The company will continue working with suppliers on this issue.

Along the same lines, in August 2020, the company introduced a network-wide container recovery program in partnership with TerraCycle. As at March 31, 2021, the SQDC had sent 2,291,143 units to this innovative recycling company, giving a second life to nearly 21 metric tons of plastic.

88%

Proportion of respondents to a public opinion survey who describe as important the SQDC's role in informing and educating consumers about cannabis products to reduce the harmful side effects

Mitigation of cybersecurity risks

The SQDC was audited to identify any potential cybersecurity risks. The internal auditor of the Société des alcools du Québec (SAQ), of which the company is a subsidiary, made four main recommendations related to security training for employees, protecting critical data, accessing such data and evaluating suppliers. To follow up on the measures to be implemented, the SQDC created a Protection of Personal Information Committee in January 2021. The following February, it collaborated with the SAQ to launch a cybersecurity awareness campaign. The first of six training modules, *Hameçonnage – Protection des renseignements personnels – Signalement d'incident – Rançongiciel*, had been successfully completed by more than 91% of SQDC employees at March 27, 2021. Other actions will be taken in the coming fiscal year to address the auditor's other recommendations.

Listening to stakeholders

The SQDC sells a product unlike any other, one that remains less than well understood despite its recent legalization. That is why, in a spirit of listening, openness and collaboration, the SQDC's senior management team held more than 20 meetings with representatives of the health care, public security, environmental, municipal and other sectors. The encounters provided an opportunity for explaining the company's mission and the actions taken to fulfill it as well as hearing the questions and concerns of these key stakeholders.

Sustained growth

The SQDC reported total sales of $537.2 million and comprehensive income of $66.5 million in fiscal 2021, compared with comprehensive income of $26.3 million last year. The amount will be remitted in full to the Gouvernement du Québec and reinvested primarily in cannabis-related research and prevention.

With this performance, the company exceeded the target of $50 million in profit set in its Strategic Plan 2021-2023 while continuing to fulfill its mission of converting the illegal market and maintaining a focus on protecting consumers' health.

Government revenue from operations in the form of excises taxes (collected from producers) and consumer taxes allowed it generate another approximately $171 million for the government, an 84% increase from the preceding fiscal year.

Overall, the SQDC saw strong growth in the number of transactions, which rose from 7.75 million in fiscal 2020 to 10.6 million in fiscal 2021. The increase is mainly due to the expansion of the company's retail network, with 25 new stores being added this year.

73%

That's the SQDC's media reputation score for the year, as determined by the Mesure Média firm.

This result exceeds the 63% target set in the strategic plan.

Strategic Plan 2021-2023 Results
Summary Table

1 Network expansion

	Strategy	Indicator	2021 target	2021 result
1.1	Gradually achieve a geographic presence in every region of Québec	Number of stores in operation	70	**66**
1.2	Maintain a simple and efficient business model	Ratio of net expenses to sales	13.8%	**12.5%**
1.3	Create and promote a culture that is based on know-how and aligned with our values	Employees' awareness of and commitment to the SQDC's values	60%	**66%**
1.4	Increase use of the Web channel for purchasing products	Increase in online sales	5%	**75%**
		Online customers' overall satisfaction rate	70%	**77%**

2 Competitive offer

	Strategy	Indicator	2021 target	2021 result
2.1	Ensure competitive pricing	Percentage migration from the illegal market[1]	49%	**52.9%**
2.2	Increase appreciation of the advisory service	Overall satisfaction of store customers	70%	**80%**
2.3	Offer a diverse range of products	Customer satisfaction with product variety	54%	**68%**

3 Responsible development

	Strategy	Indicator	2021 target	2021 result
3.1	Help protect health in collaboration with our stakeholders	Contribution to the fund for funding prevention, research and the fight against adverse effects related to cannabis	$50 million	**$66.5 million**
3.2	Promote the SQDC's social role to its target audiences	Media analysis measurement	63%	**73%**
3.3	Develop and communicate the SQDC brand	Public support for the SQDC's mission	70%	**74%**
3.4	Reduce our environmental footprint arising from product containers and packaging	Percentage of products that meet eco-responsible criteria	30%	**15.58%**

1. The percentage migration from the illegal market is based on the Ministère des Finances du Québec's estimate of cannabis demand in Québec, pegged at 173 metric tons in fiscal 2020-2021.

Finance

Valérie Lemaire, CPA auditor, MBA
Controller, Finance

Financial Review

This report reviews the operations of the Société québécoise du cannabis (SQDC) for the year ended March 27, 2021, and its financial position as at that date. The report should be read in conjunction with the financial statements and notes thereto, which will be found later in this section. The information contained in this analysis includes all significant transactions and events that have occurred up to May 20, 2021.

2020-2021 highlights

The company completed its second full year of operation in an industry that continues to expand and adjust. The company's product offering grew significantly during the fiscal year. With the addition of new licensed producers and the introduction of new varieties and product categories, the company has improved its supply strategy and expanded the choices available to customers.

The company's procurement strategy and operational efficiency have enabled it to offer a more competitive product selection. For the company, the average sales price of a gram of cannabis, all products combined, decreased by almost 12%, from $7.64 (taxes included) to $6.74. The data compiled shows that Québec continues to offer the lowest average price in Canada.

The Société québécoise du cannabis is committed to maintaining an efficient business model in order to successfully achieve its mission. The company achieved a net expense to sales ratio, including financial expenses (income), of 12.5%, compared with 14.3% in the preceding fiscal year, an improvement of nearly 12%. This improvement happened while the company's average sales price decreased and a gross margin that remained at nearly 25%, allowing it to compete with the illegal market.

The opening of new stores, an essential component of the company's strategic plan, resulted in the addition of 25 new points of sale. The company now has a total of 66 active stores. The company applied COVID-19-related health measures and was consequently able to maintain safe work sites throughout the construction period.

The company also made improvements to its transactional website last year, one of the most notable being the addition of same-day express delivery. Initially limited to the Island of Montréal, the program was gradually expanded to Laval and now includes parts of the South Shore. Since its introduction, 70% of online sales in these areas have made use of this new service much appreciated by customers.

Deployed over the past fiscal year, these strategies enabled the company to reach a significant milestone, the conversion of nearly 53% of the illegal market.

Overview of results

For the fiscal year ended March 27, 2021, the company had comprehensive income of $66.5 million, a result well above the fiscal target of $50.1 million. Remitted in full to the Ministère des Finances du Québec in the form of a dividend, the sum will be reinvested primarily in cannabis-related research and prevention. The operations of the company generated consumer and excise tax revenue, estimated at approximately $171.4 million ($121.8 million to Québec and $49.6 million to the federal government). The company has thus remitted some $238 million to the two levels of government, including about $188 million to the Gouvernement du Québec.

Furthermore, with sales corresponding to 91,529 kg of cannabis out of an estimated annual Québec market of 173,000 kg, the company continued capturing a larger share – currently estimated at nearly 53% – of the illegal market through its strategy of responsible sales, adapted advice and a competitive product offer.

Sales

The company's sales for the fiscal year totalled $537.2 million,the equivalent of 91,529 kg of cannabis, compared with $311.6 million and 46,863 kg of cannabis in the preceding fiscal year. The growth is due in large part to the addition of 25 new stores during the year.

The company recorded 10.6 million in-store and online transactions at an average price per transaction of $58.41 (taxes included) and an average price per gram of $6.74 (taxes included) compared with $7.64 last year.

By sales network
The company's 66-store network, with the three most recent openings occurring in the last two weeks of the fiscal year, generated sales of $486.7 million ($285.9 million in 2020 with 41 stores). Volume sales in stores totalled 82,837 kg of cannabis (compared with 43,005 kg in 2020).

The company's website generated dollar sales of $50.5 million (compared with $25.7 million in 2020) and volume sales of 8,692 kg (compared with 3,858 kg in 2020).

Cost of products sold and gross margin

In fiscal 2020-2021, the cost of products sold amounted to $403.4 million (compared with $240.6 million in fiscal 2019-2020). The company generated gross profit of $133.8 million (compared with $71.0 million the preceding year).

Net expenses

Net expenses consist of selling and administrative expenses. They also include net finance (income) costs. Accordingly, the company's net expenses were $67.3 million ($44.7 million in fiscal 2020). As a percentage of sales, total net expenses were 12.5% (14.3% in the preceding fiscal year).

Employee compensation, which is the company's largest expense category, totalled $31.3 million and accounts for about 46.5% of net expenses. Expressed as a percentage of sales, employee compensation was 5.8%.

Building occupancy expenses and other operating expenses are the next two largest expense categories. The former totalled $16.8 million or approximately 25.0% of net expenses and 3.1% of sales. Other operating expenses totalled $11.1 million or 16.5% of net expenses and 2.1% of sales.

Lastly, delivery, handling and other expenses totalled $8.1 million or 12.0% of net expenses and 1.5% of sales.

Investments

Capital investments amounted to $12.1 million during the year, with the majority relating to new store openings.

Financial position

As at March 27, 2021, the company had total assets of $105.7 million, compared with $88.6 million as at March 28, 2020, a $17.1 million increase. Cash decreased by $6.0 million to $25.9 million, due to the partial dividend payment made during the year. The company has no accounts receivable because all sales are paid in cash or by debit or credit card at the time of purchase. The value of inventories rose $3.6 million to $18.2 million. Non-current assets are property, plant, equipment, intangible assets and right-of-use assets at net value.

Current liabilities totalled $78.7 million at fiscal year-end, a $6.1 million increase. Accounts payable and accrued liabilities decreased $4.1 million to $39.8 million. The $33.5 million dividend payable is the unpaid declared dividend at year-end and will be paid during the first half of next fiscal year. The $0.7 million due to the SAQ is for expenses from the last period. Non-current liabilities consist of lease obligations totalling $27.0 million.

Cash flows

During the year ended March 27, 2021, the company's operating activities generated sufficient cash to cover its investing and financing activities. Specifically, the cash flows of $66.8 million generated by the company's operating activities allowed it to spend $11.2 million to acquire property, plant, equipment and intangible assets, repay $2.3 million in lease obligations and pay $26.3 million for the fiscal 2020 dividend and $33.0 for part of the fiscal 2021 dividend. As a result, the company's statement of cash flows shows a net decrease of $6.0 million.

Outlook

Company management is satisfied with the year ended March 27, 2021. In the coming fiscal year, the company will continue implementing its store network development plan, consolidating its supply network and prudently managing its overall costs.

The company will maintain its same-day delivery service for online orders on the Island of Montréal and in the Laval region and parts of the South Shore. The service will be expanded to other areas in the coming year.

Management remains alert to COVID-19's potential impacts on the organization as the pandemic continues to affect social and economic activity in Québec and worldwide. The company will also maintain its strict public health measures. Company advisors have been trained to properly guide clients toward responsible use. The company is confident its disciplined actions combined with the professionalism and responsible approach of its in-store advisors will enable it to achieve its objectives while fulfilling its mission to distribute and sell cannabis with a focus on protecting Québecers' health.

Management's Responsibility for Financial Reporting

The following financial statements have been prepared by the management of the Société québécoise du cannabis ("the company') and approved by its Board of Directors. Management is responsible for the information and representations contained in these financial statements and in the other sections of the Annual Report. The financial statements have been prepared according to the policies and procedures established by management in compliance with International Financial Reporting Standards (IFRS) and reflect management's best judgment and estimates based on the information available on May 20, 2021.

As part of its duties, the company's 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 company's business in compliance with the governing laws and regulations.

The company's Board of Directors 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 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 jointly audited by the Vérificatrice générale du Québec and 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
Director, Finance

Montréal, May 20, 2021

Independent Auditors' Report

To the Minister of Finances

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 27, 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 27, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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 the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the other information. The other information comprises the information included in the 2021 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 2021 annual report prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

As required by the *Auditor General Act* (CQLR, chapter V-5.01), we report that, in our opinion, these accounting standards have been applied on a basis consistent with that of the preceding year.

On behalf of the Auditor General of Québec,

Marc-Antoine Daoust, CPA auditor, CA
Assistant Auditor General

Montréal, May 20, 2021

Raymond Chabot Grant Thornton LLP*

*CPA Auditor, CA, public accountancy permit no. A127023

Montréal, May 20, 2021

Statement of Comprehensive Income

for the year ended March 27, 2021

(in thousands of Canadian dollars)

	2021	2020
Sales (Note 7)	**$537,236**	**$311,572**
Cost of products sold (Note 7)	**403,466**	**240,615**
Gross margin (Note 7)	**133,770**	**70,957**
Selling expenses	56,591	36,179
Administrative expenses	10,902	8,371
Operating results	**66,277**	**26,407**
Net finance (income) costs and other income (Note 10)	(227)	111
Net income and comprehensive income for the year	**$66,504**	**$26,296**

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

Statement of Changes in Equity

for the year ended March 27, 2021

(in thousands of Canadian dollars)

	2021	2020
Share capital	**$2**	**$2**
Retained earnings		
Beginning balance	–	–
Net income and comprehensive income for the year	66,504	26,296
Dividend	(66,504)	(26,296)
Ending balance	–	–
Total – Equity	**$2**	**$2**

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

Statement of Financial Position

As at March 27, 2021

(in thousands of Canadian dollars)

	March 27, 2021	March 28, 2020
Assets		
Current assets		
Cash	$25,900	$31,854
Trade and other accounts receivable (Note 11)	106	18
Taxes receivable	–	189
Inventories (Note 12)	18,189	14,616
Prepaid expenses	347	572
	44,542	**47,249**
Property, plant and equipment (Note 13)	28,833	20,006
Intangible assets (Note 14)	3,692	4,405
Right-of-use assets (Note 15)	28,606	16,910
	$105,673	**$88,570**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 17)	$39,845	$43,858
Taxes payable	1,655	–
Dividend payable (Note 9)	33,504	26,296
Due to the SAQ (Note 25)	663	828
Current portion of lease obligations (Note 19)	2,998	1,637
	78,665	**72,619**
Lease obligations (Note 19)	27,006	15,949
	105,671	**88,568**
Shareholder's equity		
Share capital (Note 20)	2	2
Retained earnings	–	–
	2	**2**
	$105,673	**$88,570**

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

Johanne Brunet
Chair of the Board of Directors

Louise Martel
Chair of the Audit Committee

Statement of Cash Flows

for the year ended March 27, 2021

(in thousands of Canadian dollars)

	2021	2020
Operating activities		
Net income for the year	$66,504	$26,296
Non-cash items:		
Depreciation of property, plant and equipment	2,803	1,350
Amortization of intangible assets	1,171	1,015
Depreciation of right-of-use assets	2,576	1,408
Loss on disposal of property, plant and equipment	17	-
Interest paid under lease obligations	453	286
	73,524	**33,355**
Net change in non-cash working capital items (Note 22)	(6,688)	21,046
Cash flows provided by operating activities	**66,836**	**51,401**
Investing activities		
Additions to property, plant and equipment (Notes 13 and 22)	(10,814)	(18,631)
Additions to intangible assets (Notes 14 and 22)	(377)	(5,687)
Proceeds on disposal of property, plant and equipment	4	-
Cash flows used in investing activities	**(11,187)**	**(24,318)**
Financing activities		
Repayment of lease obligations	(1,854)	(855)
Interest paid under lease obligations	(453)	(286)
Dividend payment	(59,296)	-
Cash flows provided by financing activities	**(61,603)**	**(1,141)**
Net (decrease) increase in cash	**(5,954)**	**25,942**
Cash, beginning of year	**31,854**	**5,912**
Cash, end of year	**$25,900**	**$31,854**

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

Notes to the Financial Statements

Year ended March 27, 2021
(tables in thousands of Canadian dollars)

1

General, statutes and nature of operations

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, rue Notre-Dame est in Montréal, Québec, Canada. The company began commercial operation on October 17, 2018, and its mission is to sell cannabis with a focus on health protection, the goal being to shift users away from the illegal market without actually encouraging cannabis use. The company is a subsidiary under the *Act respecting the Société des alcools du Québec* (SAQ). However, it does not meet the eligibility criteria for subsidiaries under IFRS 10 of the International Financial Reporting Standards (IFRS). It is considered as an associate instead. As a government corporation, the company is exempt from income tax.

2

Fiscal year

The company's fiscal year ends on the last Saturday of March each year. As a result, the fiscal years ended March 27, 2021, and March 28, 2020, each include 52 weeks of operation.

3

Impacts of the COVID-19 pandemic

In March 2020, the declaration of a COVID-19 pandemic and the numerous measures put in place by the federal, provincial and municipal governments to protect the public had impacts on the economy in general. The company stayed open throughout the pandemic, as the provincial government considers it to be one of the businesses that should do so. These events did not have a significant impact on the assets, liabilities, revenues and expenses for the year ended March 27, 2021. However, the company noted some changes without a significant impact on its operations during the year ended March 27, 2021, including:

- additional expenses to ensure the safety of employees, customers and the workplace; and
- a slowdown in the store network development plan, which is one of the company's key growth vectors.

The crisis could cause significant changes in the assets and liabilities in the coming year or have a significant impact on future operations, depending on how the situation evolves and what new government measures are required. To minimize the impacts, the company has taken and will continue taking steps in response to these events. However, at this time, it is impossible to know all their financial repercussions.

4

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 20, 2021.

The financial statements are presented in Canadian dollars, the company's functional currency.

Basis of measurement

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

Revenue recognition

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

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

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

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

Financial instruments

Recognition and derecognition
Financial assets and liabilities are recognized when the company 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 substantially all significant risks and rewards have been transferred.

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

4. Significant accounting policies (cont.)

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, 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.

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

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

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

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

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

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

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

4. Significant accounting policies (cont.)

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 company's financial assets are subject to the expected credit loss requirements, the identified loss is not significant.

Cash

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

Taxes receivable and payable

Taxes receivable or payable are recognized at the amount required by law.

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. Net realizable value is the estimated selling price in the normal course of business, less the costs needed to complete the sale.

Property, plant and equipment

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

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

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

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

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

4. Significant accounting policies (cont.)

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 company intends on completing the intangible asset and using it;
- the company 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 continued use of the asset. Gains or losses on the disposal or decommissioning of intangible assets, which equal the difference between the proceeds from the sale and the asset's carrying amount, are recognized in the statement of comprehensive income.

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

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

Depreciation of financial assets

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

4. Significant accounting policies (cont.)

Depreciation of non-financial assets

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

Property, plant and equipment, intangible assets and right-of-use of assets are tested for impairment when events or changes in circumstance indicate that their carrying value may not be recoverable. At the end of each fiscal year, the company determines whether there is any indication that a long-lived asset may be impaired. At fiscal year-end, the company 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.

Leases

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

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

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

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

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

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

4. Significant accounting policies (cont.)

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

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

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

Employee benefit plans

Pension plans
The company's employees are members of general and mandatory pension plans, either the Government and Public Employees Retirement Plan (RREGOP), the Pension Plan of Management Personnel (RRPE) or the Pension Plan for Senior Management (RRAS). The company considers these plans, which are administered by Retraite Québec, to be defined contribution plans. The company'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 company 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 company and amounts can be reliably estimated. Provisions are liabilities of uncertain timing or amount.

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

Provisions are reviewed at the end of each fiscal year and adjusted to reflect the current best estimates at the date. Adjustments are recognized in the Statement of Comprehensive Income.

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

Equity and dividend

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

5

Future standards, amendments and interpretations

Standards not yet effective

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

6

Use of estimates and significant judgments

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

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

The main judgments, assumptions and estimates are explained below:

<u>Internally developed software and research expenses</u>
The company makes sure it is continually meeting all of the requirements for recognizing, as assets, all of the costs directly attributable to development work. Such follow-up is necessary, as software development is uncertain and can be affected by technical problems that occur after recognition.

(in thousands of Canadian dollars)

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

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

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

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

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

7

Sales, cost of products sold and gross margin

	2021			2020		
	Stores	Online	Total	Stores	Online	Total
Sales	**$486,754**	**$50,482**	**$537,236**	$285,908	$25,664	$311,572
Cost of products sold	**365,857**	**37,609**	**403,466**	220,931	19,684	240,615
Gross margin	**$120,897**	**$12,873**	**$133,770**	$64,977	$5,980	$70,957

(in thousands of Canadian dollars)

8

Employee compensation

Employee benefits consist of the following:

	2021	2020
Selling expenses		
Salaries and other employee benefits	**$22,091**	$13,957
Employee benefit costs and pension plan contributions	**4,647**	2,735
	26,738	16,692
Administrative expenses		
Salaries and other employee benefits	**3,583**	2,677
Employee benefit costs and pension plan contributions	**957**	650
	4,540	3,327
	$31,278	$20,019

9

Dividend

For the fiscal year ended March 27, 2021, the dividend declared by the company was set by the Québec Ministère des Finances. The dividend is remitted in its entirety to the fund composed of monies from cannabis sales and reinvested primarily in cannabis-related research and prevention. Each year, the Ministre des Finances declares the amount equal to the net income established in conformity with IFRS up to the maximum amount that does not impact the company's capital. The minister also determines the terms and conditions of payment.

As at March 27, 2021, $33 million of the $66.5 million declared dividend was paid before fiscal year-end. The remaining amount of $33.5 million is still payable.

(in thousands of Canadian dollars)

10

Net finance (income) costs and other income

	2021	2020
Interest paid under lease obligations	**$453**	$286
Interest on the amount due to the SAQ	**–**	85
Loss on disposal of property, plant and equipment	**17**	–
Other finance charges	**15**	14
	485	385
Less finance income:		
Interest on cash	**(286)**	(192)
Other finance income	**–**	(6)
Other income	**(426)**	(76)
	(712)	(274)
	$(227)	$111

(in thousands of Canadian dollars)

11

Trade and other accounts receivable

	March 27, 2021	March 28, 2020
Corporate accounts receivable	**$80**	$18
Other accounts receivable	**26**	–
	$106	$18

12

Inventories

	March 27, 2021	March 28, 2020
Dried cannabis products	**$17,920**	$14,096
Related products	**254**	115
Work-in-process inventory	**15**	405
	$18,189	$14,616

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

The cost of products sold is comprised solely of inventory.

No inventory has been pledged to secure liabilities.

(in thousands of Canadian dollars)

13

Property, plant and equipment

	Leasehold improvements	Furniture and equipment	IT equipment	Total
Cost				
Balance as at March 30, 2019	$4,266	$1,185	$2,429	$7,880
Acquisitions	9,667	2,563	1,537	13,767
Balance as at March 28, 2020	$13,933	$3,748	$3,966	$21,647
Acquisitions[1]	7,824	2,045	1,782	11,651
Disposals		(23)		(23)
Balance as at March 27, 2021	**$21,757**	**$5,770**	**$5,748**	**$33,275**
Accumulated depreciation				
Balance as at March 30, 2019	$128	$44	$119	$291
Depreciation	758	199	393	1,350
Balance as at March 28, 2020	$886	$243	$512	$1,641
Depreciation	1,639	412	752	2,803
Disposals		(2)		(2)
Balance as at March 27, 2021	**$2,525**	**$653**	**$1,264**	**$4,442**
Net carrying value				
Balance as at March 28, 2020	$13,047	$3,505	$3,454	$20,006
Balance as at March 27, 2021	**$19,232**	**$5,117**	**$4,484**	**$28,833**

1. Property, plant and equipment, with a value of $3.5 million, were in progress as at March 27, 2021 ($1.8 million as at March 28, 2020) and are not depreciated. These projects consist mainly in leasehold improvements and the installation of furniture and computer equipment for the deployment of stores not in service as at March 27, 2021.

The depreciation of property, plant and equipment has been allocated as follows on the Statement of Comprehensive Income:

	2021	2020
Selling expenses	**$2,565**	$1,136
Administrative expenses	**238**	214
	$2,803	$1,350

(in thousands of Canadian dollars)

14

Intangible assets

	Acquired software and licences	Internally developed software	Total
Cost			
Balance as at March 30, 2019	$4,162	$748	$4,910
Acquisitions	923	–	923
Balance as at March 28, 2020	$5,085	$748	$5,833
Acquisitions[1]	458	–	458
Balance as at March 27, 2021	**$5,543**	**$748**	**$6,291**
Accumulated amortization			
Balance as at March 30, 2019	$344	$69	$413
Amortization	866	149	1,015
Balance as at March 28, 2020	$1,210	$218	$1,428
Amortization	1,021	150	1,171
Balance as at March 27, 2021	**$2,231**	**$368**	**$2,599**
Net carrying value			
Balance as at March 28, 2020	$3,875	$530	$4,405
Balance as at March 27, 2021	**$3,312**	**$380**	**$3,692**

1. Intangible assets valued at $0.2 million were in progress as at March 27, 2021, ($0.4 million as at March 28, 2020) and are not amortized. This mainly pertains to professional fees for the development of new functionalities intended to upgrade the company's information systems.

The amortization of intangible assets has been allocated as follows on the Statement of Comprehensive Income:

	2021	2020
Selling expenses	**$165**	$65
Administrative expenses	**1,006**	950
	$1,171	$1,015

(in thousands of Canadian dollars)

15

Right-of-use assets

Cost	
Impact of adopting IFRS 16	8,147
Acquisitions	10,171
Balance as at March 28, 2020	$18,318
Acquisitions	14,272
Balance as at March 27, 2021	**$32,590**
Accumulated depreciation	
Balance as at March 30, 2019	$ –
Depreciation	1,408
Balance as at March 28, 2020	$1,408
Depreciation	2,576
Balance as at March 27, 2021	**$3,984**
Net carrying value	
Balance as at March 28, 2020	$16,910
Balance as at March 27, 2021	**$28,606**

The depreciation of right-of-use assets has been allocated as follows on the Statement of Comprehensive Income:

	2021	2020
Selling expenses	**$2,488**	$1,320
Administrative expenses	**88**	88
	$2,576	$1,408

(in thousands of Canadian dollars)

16

Borrowings

The company has been authorized to establish a borrowing regime, valid until June 30, 2023, that will enable it to borrow, on a short-term basis or through a line of credit with financial institutions and the Ministre des Finances, or on a long-term basis through the Ministre des Finances, an amount not exceeding $50 million, of which $25 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 27, 2021, the entirety of the regime was available (as at March 28, 2020, it was also entirely available).

17

Accounts payable and accrued liabilities

	March 27, 2021	March 28, 2020
Accounts payable	**$32,786**	$39,511
Accrued liabilities	**3,775**	2,233
Employee compensation and benefits payable	**3,284**	2,114
	$39,845	$43,858

(in thousands of Canadian dollars)

18

Employee benefit assets and liabilities

General and mandatory pension plans

As at January 1, 2021, the RREGOP contribution rate was reduced from 10.63% to 10.33% of the eligible payroll and the rate for the RRPE and RRAS, which is part of the RRPE, remained unchanged at 12.29% of eligible payroll. The contributions paid by the employer are equal to the employee contributions, except for a compensation amount, provided for in the RRPE Act. For the 2020 and 2021 calendar years, the amount of compensation to be paid by the employer (members' share plus employer's share), which will be determined by Retraite Québec, will be based on the loss incurred by the RRPE members' fund due to the members' transfer from the RREGOP.

Accordingly, the company has estimated a compensation amount of 6.00% of the eligible payroll for the 2021 calendar year (2020: 6.00%).

The company's contributions, including the amount of compensation to pay to the RRPE and RRAS, charged to income for year total $902,000 ($467,000 in 2020). The company's obligations under these government plans are limited to its obligations as an employer.

19

Lease obligations

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

Cost	
Impact of adopting IFRS 16	8,270
Lease obligations additions	10,171
Lease obligation repayments	(855)
Balance as at March 28, 2020	$17,586
Lease obligations additions	14,272
Lease obligations repayment	(1,854)
Balance as at March 27, 2021	**$30,004**

(in thousands of Canadian dollars)

19. Lease obligations (cont.)

The lease obligations are presented in the Statement of Financial Position as follows:

	March 27, 2021	March 28, 2020
Current	**$2,998**	$1,637
Non-current	**27,006**	15,949
	$30,004	$17,586

As at March 27, 2021, the minimum future minimum lease are:

	Less than one year	One to five years	More than five years	Total
March 27, 2021				
Disbursements	$3,501	$14,255	$14,668	$32,424
Finance charges	(503)	(1,440)	(477)	(2,420)
Lease obligations	$2,998	$12,815	$14,191	$30,004

20

Shareholder's equity

Share capital

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

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

- held by the SAQ; and

1 Class 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 Québec Ministre des Finances.

21

Capital management

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

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

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

	March 27, 2021	March 28, 2020
Share capital	**$2**	$2
Retained earnings	**–**	–
	$2	$2

(in thousands of Canadian dollars)

22

Information on the cash flow statement

	2021	2020
Net change in non-cash working capital items breaks down as follows:		
Trade and other accounts receivable	**$(88)**	$4,874
Taxes receivable	**189**	3,079
Inventories	**(3,573)**	(6,689)
Prepaid expenses	**225**	(500)
Accounts payable and accrued liabilities	**(4,931)**	24,801
Taxes payable	**1,655**	–
Due to the SAQ	**(165)**	(4,519)
	$(6,688)	$21,046
Non-cash investing activities:		
Acquisitions of property, plant and equipment financed by:		
Accounts payable and accrued liabilities	**$1,991**	$1,073
Other activities with no impact on cash flows:		
Lease payments paid on or before March 31, 2019, less lease incentives received and reclassified from accounts payable and other payables to right-of-use assets	**$ –**	$(123)

23

Fair value of financial assets and financial liabilities

The carrying amount of short-term financial instruments is a reasonable approximation of the fair value. These financial instruments include cash, trade and other accounts receivable, accounts payable and accrued liabilities (except for employee compensation and benefits payable), dividend payable as well as the amount due to the SAQ.

24

Financial instrument risk management

Financial risk management objectives and policies

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

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

Financial risks

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

Cash exposes the company to cash flow risk resulting from interest rate fluctuations since it bears interest at a variable rate.

As at March 27, 2021, the cash balance was $25.9 million and bore interest at the financial institution's preferred rate less two basis points. The amount due to the SAQ as at March 27, 2021, under the shared services agreement, is of a current nature and does not bear interest.

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

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

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

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

Credit risk is collectively managed in accordance with the company'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 company considers that its exposure to the credit risk associated with selling cannabis is limited due to its sales being direct sales to consumers, who pay immediately by cash or credit card.

(in thousands of Canadian dollars)

24. Management of financial instrument risk (cont.)

Financial risks (cont.)

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

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

The company'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 company 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 27, 2021		March 28, 2020	
	Less than 6 months	More than 6 months	Less than 6 months	More than 6 months
Accounts payable and accrued liabilities	**$36,561**	**$–**	$41,744	$–
Dividend payable	**33,504**	**–**	16,296	10,000
Due to the SAQ	**663**	**–**	828	–
	$70,728	**$–**	$58,868	$10,000

(in thousands of Canadian dollars)

25

Related party transactions

The company is related to all Gouvernement du Québec ministries and special funds as well as to all agencies and enterprises directly or indirectly controlled by the Gouvernement du Québec or subject to either the joint control or significant joint influence of the Gouvernement du Québec. The other parties related to the company include its key management personnel and the SAQ. The company is a subsidiary of the SAQ as per the *Act respecting the Société des alcools du Québec*. However, it does not meet the eligibility criteria for subsidiaries under IFRS 10 of International Financial Reporting Standards (IFRS). It is considered an associate instead.

Entities controlled by the Gouvernement du Québec

Without gathering information that would have involved significant costs, the company 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 company 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 company'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:

	2021	2020
Salaries and short-term benefits	**$1,818**	$1,666

Related party transactions:

The amount due to the SAQ is comprised of monthly charges related to its annual service agreement with the SAQ. These services (hereinafter the "shared services") relate to the following fields: information technology, customer service centre, real estate development, acquisition of goods and services and other services of an administrative nature. The term of the agreement is indefinite and may be changed or terminated under the terms and conditions specified in the agreement. In addition, a member of the company's management team is a member of the supplemental pension plan for SAQ executives. This amount, totalling $71,800 ($114,800 for the year ended March 28, 2020) and not part of the shared services agreement, is included in the transactions below. The details of this plan will be found in the Finance section of the SAQ annual report.

(in thousands of Canadian dollars)

25. Related party transactions (cont.)

Related party transactions (cont.)

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

	2021	2020
Transactions		
Property, plant and equipment	**$–**	$(135)
Intangible assets	**–**	373
Fees for shared services	**6,199**	5,414
Interest	**–**	85
	$6,199	$5,737

	March 27, 2021	March 28, 2020
Account balance		
Due to the SAQ	**$663**	$828

Quarterly Data

Years ended March 27, 2021 and March 28, 2020
(in thousands of Canadian dollars)
(unaudited figures)

	2021				
Number of weeks	Year 52	Q4 12	Q3 16	Q2 12	Q1 12
Sales (Note 7)	**$537,236**	**$133,641**	**$172,990**	**$120,243**	**$110,362**
Cost of products sold (Note 7)	**403,466**	**99,379**	**129,501**	**90,394**	**84,192**
Gross margin (Note 7)	**133,770**	**34,262**	**43,489**	**29,849**	**26,170**
Selling expenses	**56,591**	**14,018**	**16,603**	**12,513**	**13,457**
Administrative expenses	**10,902**	**2,047**	**3,614**	**2,310**	**2,931**
Operating results	**66,277**	**18,197**	**23,272**	**15,026**	**9,782**
Net finance costs (income) and other income (Note 10)	**(227)**	**(202)**	**(41)**	**(28)**	**44**
Net earnings and comprehensive income for the year	**$66,504**	**$18,399**	**$23,313**	**$15,054**	**$9,738**
Net sales by network					
Stores	**$486,754**	**$121,591**	**$159,175**	**$111,397**	**$94,591**
Online	**50,482**	**12,050**	**13,815**	**8,846**	**15,771**
	537,236	**133,641**	**172,990**	**120,243**	**110,362**
Net sales by category					
Dried flowers	**484,247**	**116,101**	**154,897**	**111,081**	**102,168**
Other products (oils, sprays, etc.)	**52,989**	**17,540**	**18,093**	**9,162**	**8,194**
	$537,236	**$133,641**	**$172,990**	**$120,243**	**$110,362**
Other data					
Number of stores	**66**	**66**	**56**	**45**	**42**
Number of kilograms	**91,529**	**23,523**	**28,254**	**20,830**	**18,922**
Number of transactions[1]	**10,568,000**	**2,690,000**	**3,492,000**	**2,391,000**	**1,995,000**

1. The figures are rounded to the nearest thousand.

Quarterly Data

Years ended March 27, 2021 and March 28, 2020
(in thousands of Canadian dollars)
(unaudited figures)

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

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

History Since the Legalization of Cannabis

Years ended the last Saturday of the month of March
(in thousands of Canadian dollars)
(unaudited figures)

	2021	2020	2019[1]
Number of weeks	Year 52	Year 52	Year 24
Sales	**$537,236**	$311,572	$71,271
Cost of products sold	**403,466**	240,615	58,081
Gross margin	**133,770**	70,957	13,190
Selling expenses	**56,591**	36,179	8,653
Administrative expenses	**10,902**	8,371	9,490
Operating results	**66,277**	26,407	(4,953)
Financial contribution of the Gouvernement du Québec	**–**	–	(4,889)
Net finance costs (income) and other income (Note 10)	**(227)**	111	(64)
Net earnings and comprehensive income for the year	**$66,504**	$26,296	$ –
Net sales by network			
Stores	**$486,754**	$285,908	$57,591
Online	**50,482**	25,664	13,680
	537,236	311,572	71,271
Net sales by category			
Dried flowers	**484,247**	287,976	62,994
Other products (oils, sprays, etc.)	**52,989**	23,596	8,277
	$537,236	$311,572	$71,271
Other data			
Number of stores	**66**	41	13
Number of kilograms	**91,529**	46,863	9,922
Number of transactions[2]	**10,568,000**	7,746,000	1,527,000

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

Governance

Report of the Board of Directors

The Board of Directors of the Société québécoise du cannabis (SQDC) ensures that the company's business is administered in compliance with all applicable laws and regulations and that the company's officers take all necessary measures to achieve the objectives arising from its mission. Accordingly, the Board reviews, together with management, the proposals, scenarios and strategic directions which influence the SQDC's actions and development. To carry out its mission, the Board has created four committees: the Governance and Ethics Committee, the Audit Committee, the Human Resources Committee and the Health Protection and Research Committee.

In fiscal 2020-2021, the Board held four regular meetings. At each of the meetings, management submitted a report on the SQDC's business and an update on the main projects under way. To fulfill its duties regarding the conduct of the company's business, the Board received an oral report and documents and minutes of meeting regarding issues examined at committee meetings. A closed session not attended by management and observers was held at the end of each Board meeting. The Board also held nine special meetings, which were called mainly to ensure the changes and risks arising from the COVID-19 pandemic were properly managed.

During the fiscal year, the Board of Directors monitored the company activities over which it exercises an oversight role, including employee remuneration, internal audit activities, contracting practices, risk management and communications. In addition to reviewing and approving the changes made to the company's policies, the fiscal year provided an opportunity for the Board to update the Policy Regarding Contracts and Financial Commitments to favour local purchasing. The Board also adopted the SQDC Language Policy once it received a favourable opinion from the Office québécois de la langue française. At the end of the fiscal year, the Board also evaluated its own functioning.

Composition of the Board of Directors

As provided in the *Act respecting the Société des alcools du Québec*, the directors of the SQDC are appointed by the Board of Directors of the Société des alcools du Québec (SAQ), based on the expertise and experience profile defined by the SQDC Board of Directors. The SQDC's directors analyzed the current expertise and experience profile and assisted in the search for candidates for future seats on the Board. Four permanent observers attend Board meetings but are not entitled to vote; these observers are designated by the Ministre des Affaires municipales, des Régions et de l'Occupation du territoire, Ministre de la Santé et des Services sociaux, Ministre des Finances and Ministre de la Sécurité publique.

At March 26, 2021, the SQDC Board of Directors had 10 members, five of whom were women and five men. All except the President and Chief Executive Officer qualify as independent members. The directors come from the Montréal, Laurentides, Montérégie and Capitale-Nationale administrative regions. The Board has access to internal and external resources for carrying out its activities.

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

Board Committees

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

Activity Report of the Governance and Ethics Committee

The main focus of the SQDC Governance and Ethics Committee is the company's governance rules and practices. The committee's terms of reference also include establishing and overseeing the SQDC's business and contract management practices. The committee 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, LL.L., and has five independent members. During the fiscal year, it met four times and held a closed session at the end of each meeting.

In fiscal 2020-2021, the Governance and Ethics Committee headed the improvements made to the induction and training practices applicable to directors. Most notably, it provided the directors with a series of online training modules covering and expanding upon subjects related to cannabis and its regulatory framework, the sales ethic, the products sold by the SQDC and other subjects key to the company's mission and day-to-day activities. The committee also piloted and recommended to the Board the review and update of the Code of Ethics and Conduct that it had adopted when the company was founded.

As part of its terms of reference, the committee also recommended, based on a detailed evaluation of their compliance with the SQDC's Policy Regarding Contracts and Financial Commitments, the budget allocations required to develop and maintain the performance of the company's operations. In addition, it exercised its power of oversight to ensure the integrity of the company's contractual processes and the mechanisms implemented to control them. The company led the evaluation of the Board's operation and studied issues related to the pool of candidates for the Board, communications, reputational indices, the SQDC's Language Policy and its management of real estate files.

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 committee is chaired by Louise Martel, FCPA, FCA, and has four independent members, three of whom are members of the Ordre des comptables professionnels agréés (CPAs). In fiscal 2020-2021, the Audit Committee met four times and held a closed session at the end of each meeting.

Internal audit activities are part of the services shared with the SAQ under the direct authority of the Audit Committee. In fiscal 2020-2021, the Audit Committee reviewed the audit universe and approved the internal audit plan in addition to monitoring and overseeing ongoing audit projects. They held closed meetings with the head of the internal audit department. Among the purposes of the meetings was to ensure internal auditors' independence from management. The meetings were also an opportunity to review any activity likely to have an adverse impact on the SQDC's financial health.

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

Lastly, the committee met with the external auditors regarding the external audit plan for the fiscal year. It examined the audited financial statements for the preceding fiscal year and recommended their approval by the Board. The Audit Committee also met occasionally and in closed session with representatives of the Vérificatrice générale du Québec and the external auditors and verified that they are able to act independently. It recommended that the Board authorize the budget for the audit of the fiscal 2020-2021 financial statements. The fee for the 2020-2021 annual audit mandate of these financial statements is $44,500.

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 Vérificatrice générale du Québec 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 are to examine, recommend to the Board of Directors and oversee policies and strategic orientations related to human resources management.

The Human Resources Committee is chaired by René Leprohon, CPA, CRMA, and has five independent members. During the fiscal year, the committee met six times and held a closed session at the end of each meeting.

Each quarter, the committee was updated on the main human resources issues and indicators at the SQDC, including the quality of the work environment, occupational health and safety, staffing, diversity, labour relations, recruitment and compensation. It monitored the actions taken by senior management in these areas and reviewed and recommended to the Board related improvements to the company's policies. During the fiscal year, the COVID-19 pandemic was a special focus of the committee, which played an oversight and advisory role for management, enabling the company to continue safely providing services to the public while also prioritizing employees' health and favouring their well-being within the SQDC team.

In fiscal 2020-2021, the committee considered how the SQDC's organization structure should evolve in order to preserve its distinctive values while also accommodating the needs of an organization on its way to reaching the 1,000-employee milestone next year. Accordingly, the committee looked at overall compensation, annual raises, payroll, executive succession planning, changes to the employee and senior management evaluation processes and the implementation of an ambitious plan for deploying the SQDC's values.

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

Activity Report of the Health Protection and Research Committee

In addition to the three committees required under the *Act respecting the governance of State-owned enterprises*, the Board of Directors created the Health Protection and Research Committee to pay specific attention to the aspects of the SQDC's mission that are related to the government's public health goals. Fiscal 2020-2021 was the committee's first full year of operation. The committee took advantage of the opportunity to identify areas of intervention in which it could further health protection and research and define its terms of reference accordingly. Presented to and adopted by the Board of Directors, those terms mainly concern of staying up-to-date on the state of knowledge regarding cannabis and its health effects. The terms also include identifying ways in which the SQDC could contribute to cannabis and health-related research while maintaining its focus on health protection.

The Health Protection and Research Committee is chaired by Dr. Jack Siemiatycki, Ph.D. It has five independent members, who collectively have strong skills in public health and related fields, and enjoys great independence in choosing its initiatives. In fiscal 2020-2021, it met twice and held a closed session limited to the independent members at the end of each meeting. After each meeting, the chair reported on the committee's 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
- Renewal of term until August 22, 2022
- Independent member

Professor

- Marketing Department, HEC Montréal

A member of the Ordre des comptables professionnels agréés du Québec, 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 Administratice de sociétés certifiée.

Ms. Brunet received the 1999 Action femmes d'affaires award from the Board of Trade of Metropolitan Montréal 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.

Chair of the boards of directors of the Société des alcools du Québec and the Société d'habitation de Montréal (SHDM), she also holds a seat on the board of the Théâtre du Rideau Vert as well as on the boards of consultative committees in England. She also sits on the boards of the Théâtre du Rideau Vert and 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, which he held for more than 20 years in the manufacturing, retailing, telecommunications and professional services industries, among others.

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

Céline Blanchet

Director

- 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 Administratice 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 Gouvernement du Québec.

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

Stéphane Borreman

Director

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

Emergency Physician

- CIUSSS du Nord-de-l'Île de Montréal
- CIUSSS des Laurentides

Stephen 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. A health care professional, he works both as a physician and as a business consultant to commercial organizations and new entrepreneurs. As a consultant for McKinsey & Company, Dr. Borreman has extensive experience in guiding his clients towards making informed decisions. Over the years, Dr. 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
- Renewal of term until September 30, 2024
- Independent member

Information Technology Consultant

Chair of the Board of Directors

- Réseau Action TI

A graduate of the Information Systems and Quantitative Management Methods Department of the Université de Sherbrooke, Martine Lapointe also holds a master's in project management from the Université du Québec à Montréal (UQAM) and an Executive MBA from the Université de Sherbrooke. She also holds a certificate in corporate governance from the Collège des administrateurs de sociétés of Université Laval, qualifying her for the title Administratice de sociétés certifiée. Recipient 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, and National Bank as Senior Manager, Business Initiatives. She now works as a digital transformation consultant for the Agence du revenu du Québec, Canadian National, Air Canada, Hydro-Québec and the Desjardins Group, among other organizations. Her expertise is primarily in digital transformation of business services and technology, strategic planning and implementing high-performance business solutions aligned with the company's objectives.

The winner of many OCTAS (Québec IT excellence) awards from the Réseau ACTION TI, Ms. Lapointe currently holds a seat on the board of directors of that organization. She is also vice-chair of the board of the Caisse Desjardins Pierre-Boucher de Longueuil.

René Leprohon

Director

- Appointed on August 23, 2018, for a three-year term
- Renewal of term until September 30, 2024
- Independent member

Corporate Director

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

During 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 taken part in 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 (Montréal chapter), where he serves as chairman of the audit committee. Since February 2018, he has been a member of the board of directors of the Société des alcools du Québec, where he serves as chair of the audit committee and holds a seat on the governance and ethics committee.

Louise Martel

Director

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

Honorary Professor

- HEC Montréal

A member of the Ordre des comptables professionnels agréés du Québec 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 worked in graduate education for professional accountant and MBA students. She has played an active role in developing educational programs, which she has often headed. She developed the first-ever massive online open course (MOOC) in accounting at HEC Montréal. She also led the same institution's Accounting Studies Department. She was a professor for more than 10 years in various universities in France and has taken part in numerous corporate training sessions in Québec and abroad.

Always staying up-to-date with the latest accounting practices, she has 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.

Jack Siemiatycki

Director

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

Researcher

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

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

- École de santé publique de l'Université de Montréal

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. As an author or co-author, he has more than 300 articles to his credit.

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 was the main expert witness for the plaintiffs in a class action lawsuit that resulted in the conviction of tobacco companies.

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

Marie-Claude Guay

Director

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

Director, Consulting Services – Transformation and Innovation

- CGI

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

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

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

Jean-Claude Dufour

Director

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

Expert Agri-food Consultant and Corporate Director

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

Mr. Dufour has left his mark on Université Laval, where he worked as a professor for 42 years in addition to serving as dean of the Faculty of Agriculture and Food Science for 12 years.

During his career, Mr. Dufour has given more than 600 lecture-presentations in various countries, served as a thesis supervisor or co-supervisor to 69 doctorate students and written many publications.

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

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

Observers

Ministère de la Santé et des Services sociaux du Québec	Ministère de la Sécurité publique du Québec	Ministère des Finances du Québec	Ministère des Affaires municipales et de l'Habitation du Québec
Horacio Arruda	**Louis Morneau**	**Étienne Paré**	**Érika Desjardins-Dufresne**
Directeur national de santé publique et sous-ministre adjoint à la Direction générale de la santé publique	Sous-ministre associé à la Direction générale des affaires policières	Directeur général de l'optimisation des revenus et des politiques locales et autochtones	Directrice générale de la fiscalité et de l'évaluation foncière

Directors' Attendance at Meetings of the Board and Board Committees

2020-2021 fiscal year

	BoD	AC	GEC	HPRC	HRC
Number of meetings	**13**	**4**	**4**	**2**	**6**
Johanne Brunet[1]	13/13	4/4	4/4	2/2	6/6
Jean-François Bergeron	13/13	N/A[2]	N/A[2]	N/A[2]	N/A[2]
Céline Blanchet	13/13	N/A	4/4	N/A	6/6
Stéphane Borreman	11/13	N/A	3/4	2/2	N/A
Jean-Claude Dufour[3,5]	13/13	N/A	2/2	2/2	6/6
Marie-Claude Guay[3,4]	13/13	N/A	4/4	2/2	3/3
Martine Lapointe[6]	12/13	4/4	2/2	N/A	N/A
René Leprohon	13/13	4/4	N/A	N/A	6/6
Louise Martel[7]	12/13	4/4	N/A	N/A	3/3
Jack Siemiatycki[8]	13/13	N/A	2/2	2/2	N/A

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

1. The Chair of the Board is an ex officio member of all Board committees.
2. The President and Chief Executive Officer attended all committee meetings but is not a member of these committees, as their membership is comprised solely of independent members.
3. Jean-Claude Dufour and Marie-Claude Guay became members of the Human Resources Committee on May 14, 2020.
4. Marie-Claude Guay ceased to be a member of the Human Resources Committee on September 3, 2020.
5. Jean-Claude Dufour ceased to be a member of the Governance and Ethics Committee on September 3, 2020.
6. Martine Lapointe became a member of the Governance and Ethics Committee on September 3, 2020.
7. Louise Martel became a member of the Human Resources Committee on September 3, 2020.
8. Jack Siemiatycki ceased to be a member of the Governance and Ethics Committee on September 3, 2020.

Directors' Compensation

2020-2021 fiscal year
(in Canadian dollars)

Johanne Brunet	$41,896.00
Céline Blanchet	$25,259.04
Stéphane Borreman	$17,775.00
Jean-Claude Dufour	$21,207.00
Marie-Claude Guay	$20,895.00
Martine Lapointe	$18,399.00
René Leprohon	$24,635.04
Louise Martel	$22,763.04
Jack Siemiatycki	$17,506.65
Total	**$210,335.77**

Compensation Paid to the Five Most Highly Compensated Officers

2020-2021 fiscal year
(in Canadian dollars)

Name	Title	Annual base salary	Base salary paid	Variable pay[1]	Other forms of compensation[2,3]
Jean-François Bergeron	President and Chief Executive Officer	$297,395	$297,395	–	$31,203
Pietro Perrino[4]	Secretary General	$197,303	$197,303	–	$–
Paul Furfaro	Director, Store Operations	$182,874	$182,874	–	$7,200
Éliane Hamel	Director, Social Responsibility, Health Protection, Education and Communication	$163,200	$163,200	–	$8,513
Robert Dalcourt	Director, Finance	$161,974	$161,974	–	$13,386

1. The SQDC does not have a variable pay or bonus program.
2. Taxable benefits related to professional dues and group insurance on the basis of the 2020 calendar year as well as, for the President and Chief Executive Officer, paid vacations and the taxable benefit related to the use of an automobile.
3. Management participates in the PPMP with an annual pension accrual rate of 2% up to the maximum eligible salary set by Retraite Québec. In addition, since November 25, 2020, the President of the SQDC has participated in the RRAS, under which he has an annual pension accrual rate of 3% on his salary. Prior to this date, he participated in the PPMP and the SAQ supplementary pension plan, under which he received an annual pension accrual rate of 2% in excess of the maximum PPMP-eligible pay. The employer contribution to this supplementary pension plan was billed to the SQDC by the SAQ.
4. Pietro Perrino's compensation is paid by the Ministère du Conseil du Québec and billed in full to the SQDC.

Policy on the Use and Quality of the French Language

The Secretary General of the SQDC is responsible for ensuring compliance with the *Charter of the French Language* and the quality of the language used in the company's communications. He is assisted in carrying out his duties by the permanent Language Policy Committee, which he chairs.

In fiscal 2020-2021, the SQDC completed and adopted its Language Policy after receiving advice and a favorable opinion from the Office québécois de la langue française (OQLF). The policy details how the *Charter of the French Language* will be applied at the SQDC and reaffirms the company's commitment to promoting the French language and to the quality of French in its own service offering. At the same time, the company created and convened its permanent language policy committee and, with the OQLF, moved forward with the linguistic analysis of operations, a process which should result in the company's eventually obtaining a francization certificate.

Strategic Plan 2021-2023

The SQDC's Strategic Plan 2021-2023 is at the centre of the actions that the company takes to carry out its mission, increase access to the legal market and fight the illegal market while maintaining a constant focus on health protection. That is why, in addition to growing its store network and competitive offer, the SQDC has incorporated its main sustainable development-related strategic orientations into the plan.

The results achieved for the first year of the plan will be found in the Review of Activities section of this annual report.

Social Responsibility Plan 2021-2023

Aligned with the orientations of the SQDC's

Strategic Plan 2021-2023, the Social Responsibility Plan 2021-2023 guides the company's actions to improve its impact in health, ethics, the community and the environment. It allows the SQDC to meet its obligations under the *Sustainable Development Act* and contribute to the efforts made as part of the Gouvernement du Québec's Stratégie gouvernementale du développement durable 2015-2020.

The report on the measures of the SQDC Social Responsibility Plan 2021-2023, which covers the first year of application of the plan, was drafted alongside this annual report, to which it is appended.

Access to Information and Protection of Personal Information

Report on access requests received

The 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 2020-2021, 30 requests were handled and 28 requests were received[1]. The following table presents a detailed breakdown of the requests handled during the fiscal year:

Number of requests handled, by type and processing time

	Types of request handled during the fiscal year		
	Access requests		
Processing time	Administrative documents (number)	Personal information (number)	Correction (number)
0 to 20 days	14	1	3
21 to 30 days	9	1	0
31 days or longer (if applicable)	0	0	0
Total	**23**	**2**	**3**

1. The apparent discrepancy stems from the fact that requests received at fiscal year-end may be handled at the beginning of the following fiscal year.

Number of requests handled, by type and decision

	Access requests			
Decision made	Administrative documents (number)	Personal information (number)	Correction (number)	Cited sections of the *Act*
Accepted (entirely)	5	0	0	N/A
Partially accepted	6	1	0	9, 12, 14, 15, 19, 21, 22, 23, 24, 27, 28, 29, 32, 35, 37, 39, 41, 53, 54, 57, 59, 88, 137.1
Refused (entirely)	6	0	0	21, 22, 23, 24, 47
Other[1]	6	1	3	
Total	**23**	**2**	**3**	

1. The six cases classified as "other" are cases in which the requested document did not exist. The other cases are related to abandoned requests.

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

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

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

Preamble

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

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

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

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

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

Section 1 – Interpretation

1. In this Code, unless otherwise indicated by the context:

   a) "**director**" means a member of the Société's Board of Directors, whether full-time or not;

   b) "**association**" means an association or group of persons with a direct or indirect interest in the cannabis trade;

   c) "**relevant authority**" means the secretary general of the Société des alcools du Québec (SAQ);

   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) "**enterprise operating in the same business segment**" means an enterprise having a direct or indirect interest in the cannabis field, including an enterprise whose activities are comparable in nature to those of the Société and which may complete against them;

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

   m) "**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;

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

o) "**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 inside information is deemed to constitute confidential information;

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

q) "**Organization**" means a not-for-profit organization or legal person with a direct or indirect interest in the cannabis field;

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

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

Section 2 – General Provisions

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

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

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

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

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

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

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

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

Section 3 – Ethical Principles

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

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

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

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

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

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

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

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

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

    d) ensuring any confidential document that is no longer required for performing his duties as a director 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, an association or an enterprise operating in the same business segment. 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.

    A full-time director, including the president and chief executive officer, may not, on penalty of dismissal, have a direct or indirect interest in an organization, an association, a related enterprise, an enterprise operating in the same business segment or a private or public company that places his personal interest in conflict with 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.

    Any director, other than a full-time director, who has or whose employer has a direct or indirect interest in an organization, an enterprise, a public company, a private company, a contract or an association shall disclose such interest immediately and in writing and shall refrain from taking part in any deliberation or any discussion regarding the organization, enterprise, company, contract or association in which he has the interest. Moreover, he shall withdraw from the meeting for the duration of the deliberations and vote related to this issue.

    As soon as he becomes aware of it, the director shall disclose any claim which he could assert against the Société and indicate its nature and value, if applicable.

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

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

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

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

    A director may not accept a gift, hospitality or other advantage except what is customary and 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 enterprise doing business with the Société or a related enterprise or a subsidiary or acting on behalf or for the benefit of such a person or enterprise, 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 enterprise with which it had significant direct relations during the year preceding the cessation of his duties.

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

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

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

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

Section 5 – Disclosure and Abstention

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

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

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

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

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

    b) the name of any legal person, related enterprise, enterprise operating in the same business segment 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, related enterprise, enterprise operating in the same business segment 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, related enterprise, enterprise operating in the same business segment 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 26 a) to d) do not apply shall make a statement to that effect and remit it to the secretary of the Société.

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

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

27. The secretary of the Société shall keep available to the directors and the committee the statements received in application of articles 5 and 26. In addition, the secretary of the Société shall advise the Chair of the Board and the Committee of any failure to meet the obligations specified in this Code as soon as he becomes aware of it.

Section 6 – Directors Appointed to Other Boards

28. A person appointed by the Société to perform the duties of director with another organization or enterprise (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 enterprise. In case of discrepancy, the more stringent principles and rules shall apply.

29. During his tenure as a Board member, the appointee shall be entitled only to the corresponding compensation. This compensation shall not include, even in part, cash benefits such as those made possible by profit sharing based on changes in stock value or on investment in capital stock of the enterprise. However, any compensation awarded to the president and chief executive officer of the Société shall be paid directly to the Société.

30. Without prejudice to confidentiality agreements and the duty to act with honesty and loyalty and, more generally, commitments of the same nature under the Act and the code of ethics of the organization or enterprise 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 enterprise that may have a significant impact on the finances, reputation or operations of the Société.

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

Section 7 – Exemptions

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

Section 8 – Disciplinary Process

32. The Committee shall see to the application of this Code, interpret its provisions and ensure the directors' compliance with the principles of ethics and rules of professional conduct. The Committee has a mandate to:
    a) give advice and support to the Société and any director faced with a situation that he deems to be a problem;
    b) deal with any inquiry about this Code; and
    c) investigate on its own initiative or upon report of any alleged irregularities with regard to this Code.

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

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

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

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

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

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

Section 9 – Final Provisions

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

    It shall not be retroactive.

Schedule 1

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

Québec Civil Code (CQLR 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 (CQLR c. M 30, r. 1)

Act respecting the Ministère du Conseil exécutif (CQLR 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 Québec, 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 toward the Société québécoise du cannabis.

Signed in_________________, on __________________________________.

____
Director

Schedule 3

Declaration of Interest Statement

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

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

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

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

1. Treasury bonds or monetary instruments and government (federal and provincial) bonds are not considered as interests in a legal person.
2. Art. 31 para. f): ". . . does not apply to . . . the holding of securities in a publicly traded company or a private company, other than a related enterprise or an enterprise operating in the same business segment, which correspond to less than 5% of this category of securities of this company."

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

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

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

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

Name of the legal person	Nature of the interest

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

Signed in______________________ , on _________________

____

Signature

Social Responsibility Report 2021

Building a responsible industry

SQ
DC

Contents

The SQDC is proud to present its first-ever Social Responsibility Report, which provides an overview of the achievements made in the first year of its Social Responsibility Plan 2020-2023.

84%
of employees are satisfied
with their overall work experience.

2 million
containers
recovered

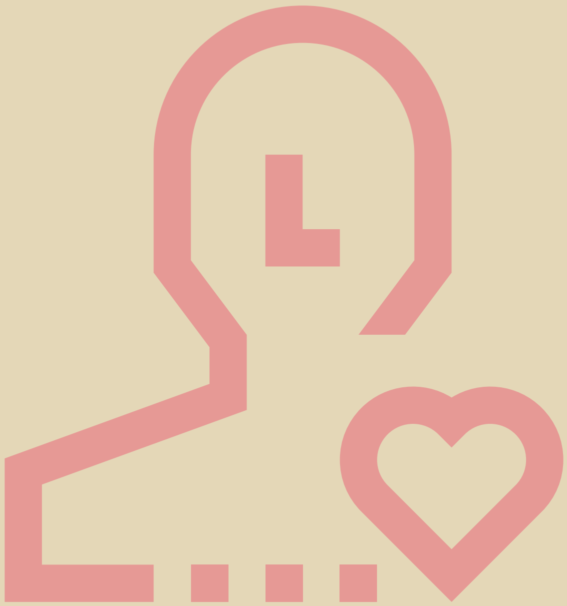
39%
of products now grown
in Québec

In fiscal 2019-2020, the SQDC adopted its first Social Responsibility Plan as part of its efforts to support the Gouvernement du Québec's Stratégie. The company believes it is important for businesses to behave responsibly in all aspects of their operation. The SQDC's approach is based on four main pillars: health, ethics, the community and the environment. In adopting the plan, the company has committed to attaining 13 ambitious objectives by 2023.

Fiscal 2020-2021 was, without a doubt, a year marked by the COVID-19 health crisis. Major efforts were made and maintained to protect the health and safety of employees and customers. Despite the many changes imposed by the pandemic, the SQDC was able to lay the groundwork for all its social responsibility initiatives and reach this significant first milestone.

The company is especially proud that 84% of its employees say they are satisfied with their overall work experience, that more than two million containers have been saved from landfill through its in-store recovery initiative and that no less than 39% of the products it sells are now grown in Québec.

The results of this first year of implementation demonstrate the SQDC's clear desire to play a positive leadership role in building a responsible cannabis industry. The results also confirm that, while ambitious, the objectives the company has set for itself are indeed achievable if we are serious about taking on our role.



Health

Our approach is based mainly on educating and informing. We guide customers toward responsible use and, before expanding our store network, always consult with the communities involved. We also work closely with health sector organizations and take their concerns into account. Any profits made are used to fund initiatives in education, research and preventing harm associated with cannabis use.

Objective	Indicator	2021 target	2021 Result
Continue training our employees to educate customers about responsible cannabis use	Percentage of employees who receive annual training on responsible use	100%	**100%** ✔

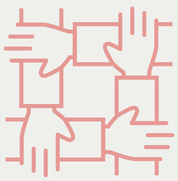
Directly aligned with its value of responsibility, employee training is a priority for the SQDC. Training on cannabis and its components, effects, methods of use and associated risks is mandatory for all employees on being hired to work in our stores. The training adequately prepares them to provide quality service. advise customers on responsible cannabis use and help them make informed, lower-risk choices.

Based on the latest scientific knowledge and the reality on the ground, the SQDC updated and adapted the content covered in the training. For example, a new module on managing difficult situations was added in fiscal 2020-2021. Each year, employees are also required to validate their knowledge by undergoing an evaluation and, if necessary, taking a refresher course.

Objective	Indicator	2021 target	2021 Result
Contribute to advancing knowledge on the health and social impacts of cannabis	Creation of the Board Health Protection and Research Committee	Committee formed	**Committee formed** ✔
	Number of meetings held during the year	2 meetings	**2 meetings** ✔

At the end of the 2019-2020 fiscal year, the SQDC's Board of Directors created the Health Protection and Research Committee. Chaired by Dr. Jack Siemiatycki, a researcher at the Centre de recherche du Centre hospitalier de l'Université de Montréal (crCHUM), the committee defined and approved its terms of reference, which consist of examining issues related to protecting the health of customers, employees and the public in fulfillment of the company's mission and monitoring developments in cannabis-related knowledge. The committee also focused attention on research priorities. To begin carrying out its duties, the committee met twice In fiscal 2020-2021.

Objective	Indicator	2021 target	2021 Result
Develop and maintain relations with health-sector stakeholders	Number of new stakeholders met during the year	6 stakeholders	**10 stakeholders** ✔



To better understand the concerns of its stakeholders, the SQDC makes a point of meeting with multiple organizations each year. Such a collaborative approach ensures the company remains aware of changes in cannabis-related issues even as it builds lasting relationships with sectoral stakeholders and continuously improves its ways of doing business.

In fiscal 2020-2021, the SQDC was in contact with some 20 stakeholders, more than half of them for the first time. The organizations met work primarily in the health care, public security, environmental, education, municipal and government sectors.

Ethics

Our ethical principles shape our organizational culture and guide us to act responsibly. Our sense of ethics informs all our decisions, including those relating to users' health, human resources management and our procurement practices.

Objective	Indicator	2021 target	2021 Result
Maintain the sales ethic	Percentage of security guards and advisors having received sales ethic training	100%	**100%** ✔

For the SQDC, there is no question that selling cannabis products should be done ethically, especially when it comes to refusing to sell to individuals under 21 years of age or obviously under the influence of drugs or alcohol or to anyone who tries to buy on their behalf. Teaching the company's security guards and employees about the sales ethic is key to ensuring enforcement of its ethical principals on the ground.

For employees starting work in our stores, the mandatory training includes a complete sales ethic module. We have also developed a training guide for store security guards to define their roles and responsibilities and show them how to apply the sales ethic in their actions and interactions. Security guards are required to complete this training before starting work.

Objective	Indicator	2021 target	2021 Result
Increase and sustain employee commitment while attracting and retraining new talent	Overall employee satisfaction rate	70%	**84%** ✔

The SQDC cares about its employees' wellness and wants them to work in a satisfying environment that lets them achieve their full potential. With the assistance of an external firm, the company conducted its first employee experience survey. The survey involved all employees and aimed to gauge their satisfaction with work and give them an opportunity to express their opinion on various topics. The feedback obtained will help the SQDC determine how to maintain and increase employee commitment.

Objective	Indicator	2021 target	2021 Result
Provide employees with a healthy, safe workplace	Percentage of stores setting up an OHS committee during the year	100%	**80.4%**[1]
	Number of OHS committee meetings held during the year in each store	3 meetings	**2.25**[2] **meetings**

Determined to create a healthy environment in which employees can perform their work with complete peace of mind and no risk for their physical integrity, the SQDC committed to forming an occupational health and safety (OHS) committee in each of its stores. All store managers are also required to perform monthly safety inspections of the workplace to evaluate various OHS-related issues and take corrective action if necessary.

In fiscal 2020-2021, the challenges stemming from the COVID-19 crisis had a direct impact on operations. Early in the year, the SQDC quickly implemented measures to deal with the pandemic and protect the health and safety of employees and customers. These included installing plexiglass panels in all its stores, requiring all store employees to wear masks, stepping up cleaning practices, enforcing physical distancing measures and allowing head office employees to work from home.

Objective	Indicator	2021 target	2021 Result
Put in place a responsible procurement process (goods and services)	Percentage of contracts incorporating eco-responsible criteria	45%	**16.1%**

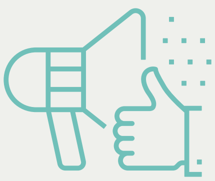
Fiscal 2020-2021 saw the development of our responsible procurement process. It aims to provide guidance to all the employees and suppliers involved in the supply chain for the goods and services needed to run the business. Drawing inspiration from the ISO 20400 standard on sustainable procurement, the process resulted in responsible procurement criteria being incorporated into our contract awarding process. It should also be noted that, beyond the contract awarding criteria, no less than 86.5% of the SQDC's goods and services spending was done locally this year. With all the attention focused on sustainable development this year, the company is now well prepared to continue integrating responsible development into the procurement process and to meet the 48% target for fiscal 2021-2022.

1. To give them a reasonable amount of time to form their committee, stores that opened after January 1, 2021, are not included in the calculation of the percentage of stores setting up an OHS committee.
2. For the indicator based on the number of annual meetings, only stores that were open during all of fiscal 2020-2021 were considered. Stores that opened during the year were still expected to hold OHS committee meetings at least once every four months.

Community

Our commitment to the community is evident in our steadfast dedication to our mission of selling cannabis with a focus on health protection. It can also be seen in our efforts to encourage the local economy.

Objective	Indicator	2021 target	2021 Result
Raise awareness of the SQDC's mission and relevance	Level of public support for the SQDC's mission	70%	**74%** ✔



This year, the SQDC conducted its first-ever public opinion survey to measure how the public's perception of the SQDC and the legalisation of cannabis has changed. In fiscal 2020-2021, the company hired an external firm to survey more than 1,000 members of the public.

The survey found that 74% of respondents were favourable to the SQDC's mission, irrespective of their stance regarding the legalisation of cannabis. This confirms that the Québec public supports the model of a government corporation overseeing the distribution and sale of cannabis. The SQDC considers communicating its mission essential, whether it be through company executives, at meetings with stakeholders or, in its publications and on its communication platforms, responding honestly and openly to questions it is asked.

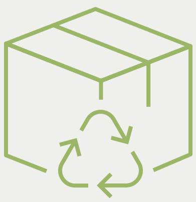
Objective	Indicator	2021 target	2021 Result
Give a preferred place to Québec-grown cannabis to encourage the local economy	Percentage of cannabis produced by the SQDC's Québec-based suppliers	35%	**39%** ✔
	Québec-based producers as a percentage of all SQDC producers	15%	**20.8%** ✔

As a government corporation, the SQDC is determined to encourage local businesses and favour job creation in Québec. The SQDC provides constant support to all its suppliers, helping them develop a business model in an fast-moving industry. The ongoing collaboration with current and potential suppliers that grow product or are based in Québec is at the core of the SQDC's strategy to develop its product offer in conformance with its mission.

Environment

As a responsible company, we strive to set an example when it comes to the environment. We evaluate our processes using eco-responsible criteria and take concrete action to reduce our ecological footprint.

Objective	Indicator	2021 target	2021 Result
Reduce the ecological footprint of our containers and packaging	Percentage of products meeting eco-responsible criteria	30%	**15.58%**



The environmental footprint of the containers and packaging sold by the SQDC is a key concern of the company and its stakeholders. The company wants to be an eco-responsibility leader in the cannabis industry. Fiscal 2020-2021 consequently saw the launch of multiple initiatives aimed at increasing the use of eco-responsible containers and packaging. An initial environmental life-cycle analysis allowed the SQDC to quantify the environmental impact of the containers and packaging it sells. Criteria were then defined for evaluating the eco-responsibility of containers and packaging, which, to be considered eco-responsible, must now meet at least two of the following criteria: the ratio between the mass of the product and that of its container, the percentage of integrated recycled content, the recyclability of containers at the end of their life and local procurement. The analysis showed that most of the containers currently in use meet at least one of the four criteria.

In fiscal 2021-2022, the SQDC will decide on and implement a series of actions to reach the ambitious target of 70% set for 2023. The actions will recommend solutions to cannabis producers that take reality and market capacity into account.

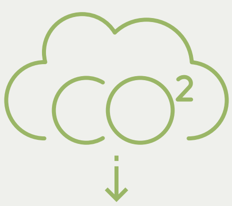
An issue table focused on eco-responsible containers and packaging and involving representatives of all players in the value chain was also created in fiscal 2020-2021. The objectives of the issue table are to offer innovative solutions in eco-responsible packaging, to identify obstacles and catalysts for these solutions and to ensure that good practices are shared and collaboration is encouraged among the players in the value chain.

Objective	Indicator	2021 target	2021 Result
Manage residual materials	Percentage of stores having implemented a used container recovery initiative	50%	**100%** ✔

Having put in place a program for recovering used containers in every store in its network, the target was significantly exceeded in fiscal 2020-2021. When its Social Responsibility Plan 2020-2023 was published, the container recovery initiative was a pilot program running in only five stores. Customer response to the initiative was positive, convincing the SQDC to extend it to the entire store network.

The actual recycling of the containers is handled by TerraCycle, a firm specialized in the recycling of hard-to-recycle materials. In fiscal 2020-2021, no fewer than 2,291,143 containers were recovered, corresponding to around 21 metric tons of recycled plastic. To favour the local circular economy, the SQDC is looking at Québec-based alternatives for recycling its containers.

Objective	Indicator	2021 target	2021 Result
Measure our buildings' greenhouse gas emissions	Metric tons of greenhouse gases emitted	Annual report published	**Annual report published** ✔



Based on the guidance of the Greenhouse Gas Protocol, the SQDC produced the first greenhouse gas (GHG) emissions report for its buildings in fiscal 2020-2021. The emission categories examined in the report are direct emissions (Category 1) and indirect emissions associated with the generation of purchased electricity (Category 2). The goal of the process is to set a realistic GHS reduction target starting in 2024.

The GHG inventory covered the period from January 1 to December 31, 2020.

Objective	Indicator	2021 target	2021 Result
Outfit buildings eco-responsibly	Percentage of stores integrating eco-responsible design criteria	100%	**100%** ✔

Drawing inspiration from the LEED v4.1 and WELL v1 green building certifications, the SQDC defined a set of eco-responsible building criteria. Its stores in operation were then analyzed to determine the criteria already met. The process showed that all of the company's stores met at least nine of the 15 criteria. The SQDC's Real Estate Development team strives to include as many of the criteria as possible when planning new store openings.

The eco-responsible building criteria can be grouped into five main categories:

- transportation (mass transit and active transit);
- water (reducing water consumption);
- energy (energy measurement and performance, renewable energy);
- materials and resources (use of low-emission materials, collecting and storing residual materials, store furnishings made from FSC-certified materials); and
- comfort (break areas, indoor air quality, thermal comfort, lighting, acoustic performance, beauty and design).

For example, in all stores special attention is paid to VOC emissions when selecting paints and coverings, most of the wood furnishings installed are FSC-certified and hardware to reduce water consumption was installed.

Summary of results
Social Responsibility Report 2020-2021

Health	Indicators	Target 2021	Result 2021
1	Percentage of employees who receive annual training on responsible use	100%	**100%** ✓
2	Creation of the Board Health Protection and Research Committee	Committee formed	**Committee formed** ✓
	Number of meetings held during the year	2 meetings	**2 meetings** ✓
3	Number of new stakeholders met during the year	6 stakeholders	**10 stakeholders** ✓

Ethics	Indicators	Target 2021	Result 2021
1	Percentage of security guards and advisors having received sales ethic training	100%	**100%** ✓
2	Overall employee satisfaction rate	70%	**84%** ✓
3	Percentage of stores setting up an OHS committee during the year	100%	**80.4%**
	Number of OHS committee meeting held during the year in each store	3 meetings	**2.25 meetings**
4	Percentage of contracts incorporating eco-responsible criteria	45%	**16.1%**

Community	Indicators	Target 2021	Result 2021
1	Level of public support for the SQDC's mission	70%	**74%** ✓
2	Percentage of cannabis produced by the SQDC's Québec-based suppliers	35%	**39%** ✓
	Québec-based producers as a percentage of all SQDC producers	15%	**20.8%** ✓

Environment	Indicators	Target 2021	Result 2021
1	Percentage of products sold at the SQDC that meet eco-responsible criteria	30%	**15.58%**
2	Percentage of stores having implemented a used container recovery initiative	50%	**100%** ✓
3	Metric tons of greenhouse gases emitted	Annual report published	**Annual report published** ✓
4	Percentage of stores integrating eco-responsible design criteria	100%	**100%** ✓

Photo credits
Most of the photographs in the SQDC Annual Report 2021 were taken by Marc-Olivier Bécotte.

The SQDC thanks the employees who agreed to appear in photographs for its Annual Report 2020. In alphabetical order, they are: Soare Abdoulaye, David Bertrand-Colin, Paul-Vincent Bourret Haberl, Georgia Campos, Roxanne Cardinal, Derrick Celestin, Richard Celzi, Justine Côté, Angie Dejo-Galvez, Félix Dubé, Renaud Dumouchel-Fournier, Marvin Escobar, Fabrice Giguère, Marie-Ève Gravel, Julien Fortier, Matei Lamasanu, Valérie Lemaire, Rodolfo Jr Martinez, Guy Millette, Kaligirwa Namahoro, Frédérique Perron Gauthier, Julie Richard and Alban Troja.

The SQDC also thanks all its partners that shared photos of their teams and facilities, helping to illustrate the reality of pandemic life. Appearing in this report are photos from Canopy Growth and Rubicon.

100%

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To view the electronic version of this report, please visit the About the SQDC section of SQDC.ca.

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

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

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