

2020-2021 Annual Report Cannabis Management Corporation

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Hon. Ernie L. Steeves
Minister of Finance and Treasury Board
Province of New Brunswick

We are pleased to submit to you the Annual Report of the Cannabis Management Corporation
for the fiscal year ended March 31, 2021.



Cheryl Hansen
Chair



Mike Comeau
Director

Cannabis Management Corporation

The Cannabis Management Corporation (CMC) was established as a Crown Corporation in June 2018 by the *Cannabis Management Corporation Act* (the Act) in response to the federal Government's plan to legalize and regulate cannabis and to comply with section 69 of the *Cannabis Act* (Canada).

The CMC's mandate is to:

- (a) to undertake, implement, organize, conduct and manage the purchase, distribution and sale of recreational use cannabis on behalf of the government of the Province,
- (b) to undertake, implement, organize, conduct and manage the purchase, distribution and sale of recreational use cannabis on behalf of the government of the Province and the government of any other province or territory of Canada,
- (c) to ensure that the purchase, distribution and sale of recreational use cannabis are conducted and managed in secure, responsible retail outlets in accordance with the *Criminal Code* (Canada), the *Cannabis Act* (Canada), this Act and the regulations, and the *Cannabis Control Act*,
- (d) to promote the responsible consumption of recreational use cannabis in the Province, and
- (e) to take any other measures in relation to the purchase, distribution and sale of recreational use cannabis that the Lieutenant-Governor in Council may require.

The CMC has a service provider agreement with Cannabis NB, a subsidiary of Alcool New Brunswick Liquor (ANBL) under section 8(d) of the Act to establish a cannabis retail and distribution network. The CMC receives the net profit from Cannabis NB operations as per the service provider agreement.

Governance

Board of Directors

The business affairs of the Cannabis Management Corporation are administered by a board of directors, which consists of the Deputy Minister of Finance and Treasury Board, the Deputy Minister of Health, the Deputy Minister of Justice and Public Safety and no more than four senior civil servants, one of whom must be responsible for economic development.

As of March 31, 2021, members of the board of directors were:

- Cheryl Hansen, Deputy Minister of Finance and Treasury Board (Chair)
- Gérald Richard, Deputy Minister of Health (Vice-Chair)
- Mike Comeau, Deputy Minister of Public Safety
- Renée Laforest, Vice President, Service New Brunswick
- Travis Bergin, Associate Deputy Minister, Finance and Treasury Board
- Sadie Perron, Chief Executive Officer, Service New Brunswick
- Paul Martin, Comptroller

Officers and Support Staff

There were three officers of the corporation as of March 31, 2021:

- President
- Secretary-Treasurer
- Recording Secretary

These officers have specific duties as laid out in the by-laws as well as any other duties as may be stipulated by the board. All officers of the corporation are employees of the Province of the New Brunswick. The CMC also receives additional support and staff services from the Agency Relations Branch of the Department of Finance and Treasury Board.

2020-2021 Highlights

COVID-19

Cannabis retail was designated an essential service by the Mandatory Order: COVID-19, consequently, retail stores remained open to serve the public throughout the 2020-2021 fiscal year.

To ensure staff and patron safety, Cannabis NB followed the Mandatory Order and Public Health guidance. Retail and warehouse space was adjusted to ensure space for social distancing, personal protective equipment was made available and signage was added to ensure that staff and patrons were aware of COVID-19 practices.

Market Adjustment

Cannabis Supply

The cannabis market continued to stabilize throughout the 2020-2021 fiscal year, especially for edibles, concentrates and topicals, which were legalized in late 2019.

As the supply of cannabis increased both in quantity and selection, the Canadian cannabis retail sector was able to provide a more diverse product offering and competitive pricing to help meet consumer demand.

Private retail

The Government of New Brunswick had undergone a review of cannabis retail in the province and launched a Request for Proposals to investigate alternative options to the public retail model.

The process concluded in March 2021 with the determination that consumers and taxpayers can be well served through continued improvements within the current model.

Cannabis NB Performance

Cannabis NB posted a profit of \$10.8 million in fiscal year 2020-2021. All product categories exceeded gross profit targets.

Cannabis NB continued to have 20 stores within 17 municipalities as well as an online store available via mail or in-store pickup.

FINANCIAL STATEMENTS

Cannabis Management Corporation

31 MARCH 2021



INDEPENDENT AUDITOR'S REPORT

To the Chairperson and Board of Directors of Cannabis Management Corporation

Report on the Audit of the Consolidated Financial Statements

Opinion

I have audited the consolidated financial statements of Cannabis Management Corporation (the Entity), which comprise the consolidated statement of financial position as at March 31, 2021, and the consolidated statements of operations, change in net debt, change in accumulated deficit, and cash flow for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at March 31, 2021, and the consolidated results of its operations, changes in its net debt, changes in its accumulated deficit and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of my report. I am independent of the Entity in accordance with the ethical requirements that are relevant to my audit of the consolidated financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

My objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate,

they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity'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 Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the consolidated financial statements, to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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



Janice Leahy, CPA, CA, CIA
Acting Auditor General

Fredericton, New Brunswick, Canada
December 2, 2021

Management Report

March 31, 2021

The preparation of the financial information is an integral part of management's responsibilities and the accompanying financial statements are the responsibility of the management of the Cannabis Management Corporation (CMC).

The CMC has an accounting system and related controls to provide management and the Board of Directors with reasonable assurance that transactions are executed and recorded as authorized, that assets are properly safeguarded and accounted for, and that financial records are reliable for the preparation of financial statements in accordance with Canadian public sector accounting standards.

It is the responsibility of the CMC's Board of Directors to oversee management's performance of its financial reporting responsibilities and to review and approve the financial statements. The Board reviews and recommends approval of the financial statements, and meets periodically with management and the external auditors concerning internal controls and other financial matters.



Cheryl Hansen
Deputy Minister, Finance and Treasury Board
Chair, CMC



Ian Hollohan
President, CMC



Cannabis Management Corporation
Consolidated Statement of Financial Position
as at 31 March

Financial Assets	2021	2020
Cannabis Education Awareness Fund Receivable	\$ 49,233	\$ 63,645
Total Financial Assets	\$ 49,233	\$ 63,645
Liabilities		
Investment in Cannabis New Brunswick - Deficit	\$ 6,212,920	\$ 17,023,000
Cannabis Education Awareness Fund Payable	49,233	63,645
Total Liabilities	\$ 6,262,153	\$ 17,086,645
Net Debt	\$ (6,212,920)	\$ (17,023,000)
Accumulated Deficit	\$ (6,212,920)	\$ (17,023,000)

Contingent Liabilities - Note 8

Commitments - Note 9

The accompanying notes are an integral part of these consolidated Financial Statements.

Approved by the Corporation



Director



Director

Cannabis Management Corporation
Consolidated Statement of Operations
for the year ended 31 March

Revenues	2021 Budget- Note 7	2021	2020
Income from Investment in Cannabis NB	\$ 3,000,000	\$ 10,810,080	\$ -
Cannabis Education and Awareness Fund - Note 5	1,400,000	625,835	812,933
Total Revenues	\$ 4,400,000	\$ 11,435,915	\$ 812,933
Expenses			
Loss from Investment in Cannabis NB	\$ -	\$ -	\$ 4,273,000
Cannabis Education and Awareness Fund - Note 5	1,400,000	625,835	812,933
Total Expenses	\$ 1,400,000	\$ 625,835	\$ 5,085,933
Annual Surplus (Deficit)	\$ 3,000,000	\$ 10,810,080	\$ (4,273,000)

The accompanying notes are an integral part of these consolidated Financial Statements.

Cannabis Management Corporation
Consolidated Statement of Change in Net Debt
for the year ended 31 March

	2021 Budget- Note 7	2021	2020
Net Debt - Beginning of Year	\$ (17,023,000)	\$ (17,023,000)	\$ (12,514,000)
Changes in Year			
Annual Surplus (Deficit)	\$ 3,000,000	\$ 10,810,080	\$ (4,273,000)
Impact of change in accounting policy - Note 4	-	-	(236,000)
Decrease (Increase) Net Debt	<u>\$ 3,000,000</u>	<u>\$ 10,810,080</u>	<u>\$ (4,509,000)</u>
Net Debt - End of year	<u><u>\$ (14,023,000)</u></u>	<u><u>\$ (6,212,920)</u></u>	<u><u>\$ (17,023,000)</u></u>

Cannabis Management Corporation
Consolidated Statement of Change in Accumulated Deficit
for the year ended 31 March

	2021 Budget- Note 7	2021	2020
Accumulated Deficit - Beginning of Year	\$ (17,023,000)	\$ (17,023,000)	\$ (12,514,000)
Annual Surplus (Deficit)	\$ 3,000,000	\$ 10,810,080	\$ (4,273,000)
Impact of change in accounting policy - Note 4	-	-	(236,000)
Accumulated Deficit - End of Year	<u>\$ (14,023,000)</u>	<u>\$ (6,212,920)</u>	<u>\$ (17,023,000)</u>

The accompanying notes are an integral part of these consolidated Financial Statements.

Cannabis Management Corporation
Consolidated Statement of Cash Flow
for the year ended 31 March

	2021	2020
Cash and Cash Equivalents Generated by (used in):		
Operating Activities		
Annual Surplus (Deficit)	\$ 10,810,080	\$ (4,273,000)
Impact of change in accounting policy - Note 4	\$ -	\$ (236,000)
Net Cash Used in Operating Activities	\$ 10,810,080	\$ (4,509,000)
Investing Activities		
(Increase)Decrease in Investment in Cannabis NB	\$ (10,810,080)	\$ 4,509,000
Net Cash Used in Investing Activities	\$ (10,810,080)	\$ 4,509,000
Decrease in Cash and Cash Equivalents During The Year	\$ -	\$ -
Cash and Cash Equivalents, Beginning of Year	\$ -	\$ -
Cash and Cash Equivalents, End of Year	\$ -	\$ -

The accompanying notes are an integral part of these consolidated Financial Statements.

Cannabis Management Corporation
Notes to the Consolidated Financial Statements
31 March 2021

1. Nature of the Corporation

The Cannabis Management Corporation (CMC) is a Crown Corporation established under the *Cannabis Management Corporation Act* as of March 16, 2018. The CMC is responsible for the oversight, organization, conduct and management of the retail sales of cannabis in New Brunswick.

The CMC is governed by a board of directors, fully internal to government. The board composition is laid out in Section 12(1) of the *Cannabis Management Corporation Act*. As per Section 13 of the Act, the Deputy Ministers of Finance and Treasury Board and Health act as the Chairperson and Vice-Chairperson, respectively, of the board. The by-laws establish three officers of the Corporation – a President, a Vice-President and a Secretary-Treasurer who undertake specific duties as laid out in the by-laws and may undertake other duties as prescribed by the board of directors. Support services for the Corporation (e.g. the preparation of annual financial statements and annual report, day-to-day operational management, etc.) are undertaken by staff of the Agency Relations branch of the Department of Finance and Treasury Board.

The CMC has the authority to enter into agreements in respect of the distribution and sale of cannabis as well as a mandate to create a policy on responsible consumption of cannabis, subject to approval from the Lieutenant Governor in Council. The CMC has entered into a Service Provider Agreement with Cannabis NB (a subsidiary of Alcool NB Liquor (ANBL)) to operate cannabis retail outlets on its behalf in New Brunswick.

2. Summary of significant accounting policies

a) Basis of accounting

These consolidated financial statements are prepared in accordance with Canadian public sector accounting standards.

b) Specific Accounting Policies

Revenues and Expenses

Revenues and expenses are recorded on an accrual basis in the period in which the transaction or event that gave rise to the revenue or expense occurred.

c) Principals of Consolidation – Modified Equity Method

This method is used for government business enterprises (GBEs). GBEs are defined in Note 4 to these consolidated financial statements. The modified equity method reports a GBE's net assets or liabilities as an investment on the Corporation's Consolidated Statement of Financial Position. The net income of the GBE is reported as investment income or investment loss from Cannabis NB (CNB) on the Corporation's Consolidated Statement of Operations. Inter-organizational transactions and balances are not eliminated. The accounting policies of GBEs are not adjusted to conform with those of the Corporation.

d) Government Transfers

Government transfers are transfers of money, such as grants, to an organization for which the Corporation does not receive any goods or services directly in return. Government transfers are recognized in Corporation's financial statements as expenses in the period the events underlying the transfer occurred, as long as the transfer is authorized, and eligibility criteria have been met. Government transfers are comprised of expenses under the Cannabis Education and Awareness Fund. Revenue and recoveries are recognized in the period during which they are authorized, and all eligibility criteria have been met.

Cannabis Management Corporation
Notes to the Consolidated Financial Statements
31 March 2021

Note 2 continued

e) Measurement Uncertainty

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period.

Items requiring the use of significant estimates include amounts recorded in CNB financial statements such as useful lives of property and equipment and intangible assets, and impairment of property and equipment, right of use assets and lease liabilities, which all impact the net distribution and allocation of undistributed income or loss to CMC. Actual results could differ from the estimates made by management in these financial statements, and those differences which may be material, could require adjustments in subsequent reporting periods. Due to the unpredictability of future events, the extent of the measurement uncertainty cannot be reasonably estimated.

The COVID-19 pandemic was declared in March 2020 and remains on-going. The extent and timing of the continued spread, or mitigation, of the COVID-19 virus remains uncertain. Given this uncertainty, the Corporation cannot reasonably estimate the future impact of the COVID-19 virus on the significant areas requiring the use of management estimates.

f) Due from Province of New Brunswick (PNB) – Cash and Cash Equivalents

CMC uses the provincial consolidated fund as its bank account. Funds are deposited to and cheques are issued from the account to meet CMC's obligations. No receivable was due from PNB as at March 31, 2021. (\$0 – 2020).

g) Financial Instruments

Financial instruments consist of accounts receivable and accounts payable, all of which are recognized at cost and are assumed to approximate their fair value. Financial instruments are recognized when CMC becomes a party to the contractual rights and obligations of the financial instrument.

Financial instruments are derecognized when the contractual rights to the cash flows from the financial asset have expired or have been transferred, and CMC has transferred substantially all risks and rewards of ownership, or are derecognized when the contractual obligation has been discharged, cancelled, or has expired.

3. Risk Management

An analysis of risk from the CMC's financial instruments is provided below:

a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation. Management has determined the corporation does not have any exposure at this time.

Cannabis Management Corporation
Notes to the Consolidated Financial Statements
31 March 2021

Note 3 continued

b) Liquidity risk

Liquidity risk is the risk of not being able to settle or meet an obligation on time or at a reasonable price. Liquidity risk is managed through the Province's consolidated fund in order to meet operating and capital requirements. Management has determined the corporation does not have any exposure at this time.

c) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Management has determined the corporation does not have any exposure at this time.

d) Currency risk

Currency risk arises on financial instruments denominated in a foreign currency. Management has determined the corporation does not have any exposure at this time.

4. Investment in Cannabis NB LTD. – Deficit

On June 25, 2018, the New Brunswick Liquor Corporation incorporated CNB as a subsidiary under the *New Brunswick Liquor Corporation Act*. CNB operates the retail network of stores selling cannabis in New Brunswick on behalf of the CMC. CNB is recorded as a GBE in the consolidated statements of CMC. The financial statements for CNB are prepared in accordance with International Financial Reporting Standards (IFRS).

In 2019-20 as a result of adopting IFRS 16, CNB recognized additional right-of-use assets and additional lease liabilities, recognizing the difference in retained earnings. The impact of this transition resulted in a net decrease to equity in the amount of \$236,000.

The following represents financial information of CNB Ltd and CMC's investment in CNB

<u>Statement of Financial Position</u> (\$ thousands)	<u>2021</u>	<u>2020</u>
Assets		
Current Assets:		
Cash	\$ 695	\$ 534
Trade and other receivables	313	2,680
Inventories	7,420	11,251
Prepaid Expenses	848	764
	9,276	15,229
Non Current Assets:		
Fixed & Intangible assets	6,514	8,051
Right-of-use assets	28,162	30,400
	34,676	38,451
Total Assets	\$ 43,952	\$ 53,680

Cannabis Management Corporation
Notes to the Consolidated Financial Statements
31 March 2021

Note 4 continued

Liabilities	<u>2021</u>	<u>2020</u>
Current liabilities:		
Trade and other payables	\$ 5,477	\$ 4,967
Due to New Brunswick Liquor Corporation	15,488	34,671
Lease liability	29,200	31,065
Total Liabilities	<u>\$ 50,165</u>	<u>\$ 70,703</u>
Equity of the Province of New Brunswick		
Deficit	\$ (6,213)	\$ (17,023)
Total Liabilities and Equity	<u>\$ 43,952</u>	<u>\$ 53,680</u>

Statement of Operations

(\$ thousands)

Total sales	\$ 70,096	\$ 44,029
Cost of Sales	42,035	27,807
Gross profit	28,061	16,222
Other income	1,207	1,165
Operating expenses	18,458	21,660
Net income (loss) and comprehensive income (loss)	<u>\$ 10,810</u>	<u>\$ (4,273)</u>

5. Cannabis Education and Awareness Fund

The Cannabis Education and Awareness Fund Act established the Cannabis Education and Awareness Fund as a special purpose account to ensure funding is available for:

- education and awareness programs related to cannabis;
- the development and implementation of policies and programs relating to the responsible consumption of cannabis and reduction of its adverse health effects and the promotion of corporate social responsibility in the distribution and sale of cannabis;
- funding for research on cannabis and its consumption; and
- reimbursement of costs of initiatives undertaken by individuals, organization or department, corporation or agency of the government of the Province that are related to the purposes set out above.

As per the General Regulation under the *Cannabis Management Corporation Act*, CMC is required to pay at least \$250,000 to the Fund annually. 2% of CNB cannabis purchases are required to be paid to the fund. For the current year \$625,835 (\$812,933 – 2020) is recorded on the consolidated statement of operations. The Minister of Finance and Treasury Board is the custodian of the Fund.

6. Related Party Transactions

The CMC is related to the Province and all departments, agencies, commissions, and Crown corporations under common control of the Province of New Brunswick.

Cannabis Management Corporation
Notes to the Consolidated Financial Statements
31 March 2021

Note 6 continued

Inter-entity transactions (transactions between commonly controlled entities) are recorded at the exchange amount when they are undertaken on similar terms and conditions as if the entities were dealing at arm's length.

Transactions with the Province of New Brunswick and entities under common control of the Province of New Brunswick have occurred and been settled on normal trade terms, with the exception of office space, information technology, human resources, legal, operational and financial administration services which CMC receives from the Province of New Brunswick at no charge.

Related parties also include key management personnel having the authority and responsibility for planning, directing, and controlling the activities of the CMC, their close family members, and any entities closely affiliated with these individuals. Key management personnel for the CMC have been identified as members of the Board of directors along with the officers of the corporation. For the year ended March 31, 2021, there were no transactions to report between the CMC and key management personnel, their close family members, or any entities affiliated with them.

7. Budget

The budget figures included in these consolidated financial statements have been derived from the estimates approved by the Board of Directors of the CMC.

8. Contingent Liabilities

The Corporation may be subject to litigation in the course of its operations. In management's judgement, no material exposure exists at this time and accordingly, management has not recorded a provision for loss in the financial statements.

9. Commitments for CNB

CNB leases buildings and premises. In addition to leases, CNB has contractual commitments for call centre services which expire in 2023. The table below outlines the commitments for CNB.

(\$ thousands)

Due within one year or less	\$ 3,724
Between one and five years	15,494
<u>More than five years</u>	<u>18,497</u>
	<u>\$ 37,715</u>

10. Comparative Figures

Certain of the 2020 figures have been reclassified to conform with the presentation adopted for 2021.