Transforming for the FUTURE

LCBO Annual Report 2016–17

Letter of Transmittal

The Honourable Charles Sousa, Minister of Finance

Dear Minister,

I have the honour to present you with the 2016–17 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,

Penny Lipsett,
Acting Chair

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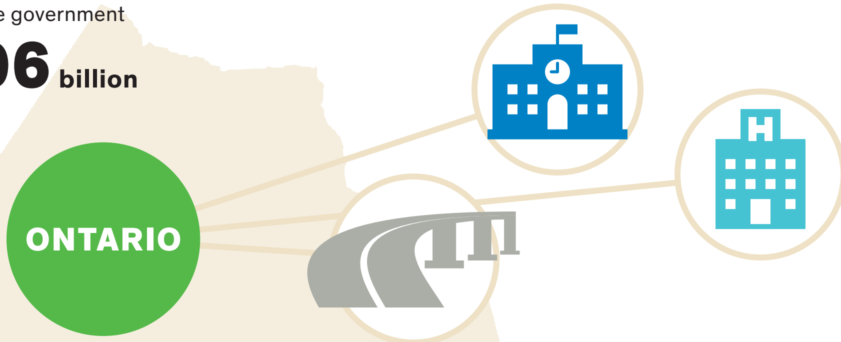
For a more detailed discussion of fiscal 2016–17, please see the LCBO's Year In Review section on www.lcbo.com under "About LCBO."

We launched a highly-successful e-commerce platform, which put more than 5,000 products for sale online.

Highlights

Dividend to the government

$2.06 **billion**

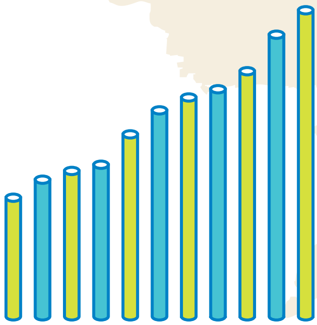


Revenues

$5.89 **billion**

Net earnings

$2.07 **billion***



E-commerce sales

$4.4 **million**

Total Ontario wine sales ($) increase

5.9%

Total Ontario craft beer sales ($) increase

27.6%

Grocery revenue

$65 **million**

**This figure is normalized to exclude the sale of the LCBO head office property.*

Total fundraising

$13.3 million

New Products of the World boutiques

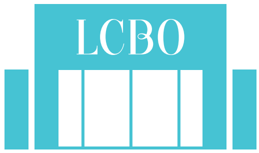
7

New stores, expansions and relocations

12

Total number of stores

660



Number of countries we sell products from

81

Total challenges for all reasons **14.4 million**

Total refusals for all reasons **258,628**

Quality assurance laboratory tests **633,000**

Number of beverage alcohol containers returned through ODRP program since 2007

3 billion**

***Announced in May 2017.*

Transforming for the Future

There is little resemblance between the LCBO today and the LCBO that opened its doors 90 years ago. We evolved with the needs of the public and our communities to remain relevant to consumers while upholding our founding commitment to social responsibility.

While the LCBO's evolution during our first 90 years was at a measured pace, the marketplace is changing more rapidly today. And so are we.

INVESTING IN EMPLOYEES

We recognize that in an increasingly competitive marketplace, customer loyalty is not something that can be owned. It must be earned. The LCBO made one of its largest-ever investments in staff training last year. Not only are we equipping frontline staff with enhanced product knowledge, but also a "customer first" mindset.

Beyond upgrading our stores and broadening our product selection, we want to engage customers as soon as they enter the store. To ensure we always provide a consistently outstanding customer

experience, we routinely measure our stores' success in meeting our multi-step customer engagement process, which includes greeting, determining, matching, confirming, and thanking customers for their business.

We will continue to invest in staff training, ensuring frontline staff have detailed knowledge of the products we carry, to make the LCBO shopping experience enjoyable and educational. Customers with specific interests can also call on our WOW (World of Ontario Wine) Leaders, Spirits Advocates, Beer Ambassadors and Product Consultants in Vintages, for their specialty-knowledge and advice in these product categories.

INVESTING IN TECHNOLOGY

Successful retailers embrace new and innovative technologies and the LCBO is no different.

We launched a highly-successful e-commerce platform, which put more than 5,000 wine, beer, spirits and coolers online, many of which are exclusive to this channel or available for the first time

outside of licensed bars and restaurants, or private ordering. The next stage will involve the creation of a "global marketplace," which will make more than 15,000 products from around the world available for case ordering.

The LCBO was the first government agency to partner with Communitech, a tech hub in the Kitchener-Waterloo area, which supports tech companies/start-ups, academic institutions and government. Dubbed LCBO | next, we have rotating groups of co-op students bringing their skills and ideas to enhance LCBO's technology initiatives.

We also commenced a project last year to upgrade store network connectivity. The new network, with its increased capacity, speed and reliability, lays the foundation for improved services. For instance, we're introducing public WiFi to all stores, allowing customers to conveniently and freely access our LCBO "On the Go" app, which received a comprehensive update and added features this year. An upgrade to the app in the summer of 2017 allows customers to make mobile purchases and pay with a digital wallet.

GROWING GROCERY

Among the outcomes of the Premier's Advisory Council on Government Assets was to provide consumers with added choice and convenience through expanding the sale of certain categories of beverage alcohol to grocery stores. In the coming years, up to 450 grocery locations will be selling beer and cider, of which up to 300 may also be selling wine.

More competition in the beverage alcohol marketplace in Ontario means both change and opportunity for the LCBO. Although the public may not realize, as the wholesaler to the grocery channel the LCBO plays a major role in the distribution of beverage alcohol to grocery store shelves. We took on this role professionally and responsibly, bringing a "customer first" attitude to wholesale as well. Working closely with our grocery partners, we are improving efficiencies and simplifying processes to grow this profitable and growing business.

While retail remains vital to the LCBO, we envision a seamless customer experience that integrates our physical stores, digital platforms and wholesale partners in the future.

Message From the Minister

I am pleased to see that in 2016–17 the LCBO has once again achieved success, delivering excellent results without compromising its leadership in promoting responsible drinking.

For the first time, in 2016–17, the LCBO's dividend to the government exceeded $2 billion. That milestone also marked 23 consecutive years of rising dividends – dividends that have helped the government fund hospitals, schools and roads, and contributed to Ontario reaching the first balanced budget since the global recession.

Our government continues to deliver on a promise to modernize Ontario's beverage alcohol marketplace. If the LCBO wants its success to continue, it must embrace transformation, and that is precisely what we see happening under the leadership of President and CEO George Soleas.

While the LCBO is modernizing its own operations, it is at the same time playing an integral role in modernizing the marketplace. With beverage alcohol now available in many grocery stores, consumers have even more choice and convenience. In the coming years, people will be able to buy beer and cider in up to 450 grocery stores and wine in up to 300 of those locations. More competition is good for consumers, good for the LCBO — and good for the local wineries, breweries and cideries that are competing in this new marketplace.

As the wholesaler to grocers who retail beer, cider and wine, the LCBO is both enhancing its business-to-business capacity and continuing to meet its commitments to satisfy Ontario consumers. I'm confident the LCBO will do everything possible to make grocery sales a triumph while continuing to provide exceptional service to its own retail customers.

As this report notes, the LCBO has moved into e-commerce. I was excited to be a part of the July 2016 launch of its online sales website. Key to the LCBO's modernization strategy, the site gives Ontario residents convenient access to more than 5,000 local and international wines, beers and spirits, regardless of where in our province they live.

As the LCBO readies for increasing retail competition, and supports the growing wholesale channel, it is upholding the public trust and promoting a culture of moderation. In 2016–17, the LCBO helped keep our communities safe by challenging 14.4 million customers and refusing service to more than 258,000 for reasons of age or intoxication. Also in 2016–17, in response to the Ontario Chief Coroner's investigation into the tragic deaths of seven First Nation youth in Thunder Bay, the LCBO worked with the community to strengthen practices that help prevent illegal second-party alcohol purchases on behalf of youth. I am proud of the determination the LCBO has shown in collaborating with local parents, schools, First Nations and police to keep their children safe.

The sale of the LCBO's head office lands in Toronto was another of the year's milestones. The government dedicated the sale's net proceeds to the Trillium Trust, which helps fund transit, transportation and other key infrastructure projects across the province. This was a complex transaction and I congratulate the LCBO and its partners in maximizing the value of these assets.

Ontario customers are well-served by the LCBO. As it adapts to today's increasingly sophisticated consumers, I am confident the LCBO will also remain transparent and accountable to all stakeholders while never losing sight of its founding commitment to social responsibility.

With a board, senior management team and staff that are dedicated to excellence, the LCBO is on the right path. I'm confident it will continue to fulfil its mandates of responsible retailing and maximizing returns to the province for years to come. Together we are building a stronger and healthier Ontario.

The Honourable Charles Sousa,
Minister of Finance

Message From the Chair

If there is a lesson I've learned in my career, it's that transformation never gets old.

An organization able to deliver a record $2.06 billion dividend to its owner and record sales of $5.89 billion, as the LCBO did in 2016–17, could be content with the results and expect to set more records in the future.

That's not the attitude at the LCBO.

This organization is committed to change – to doing things better, smarter and staying ahead of consumer trends. In an increasingly competitive beverage alcohol marketplace, these attributes will continue to serve the LCBO, its customers, and Ontario well.

The LCBO fully understands the challenges and opportunities ahead. As the organization transforms into a more competitive retailer, while at the same time strengthening and growing its wholesale operations, management can count on the Board to continue to provide guidance and oversight.

With respect to the Board, I want to thank former Board Chairs Bonnie Brooks and Edward Waitzer, as well as former Board member Stacey Mowbray, for their dedication and service, and wish them well in their future endeavors. At the same time, we welcome three new members: Susan Robinson, John Mowat, and Lori Spadorcia. Susan has an extensive background in human resources, marketing and communications; John's logistics career spans half a century; and Lori is a public policy and communications expert. All bring valuable experience to our Board and I look forward to working with them.

I also want to recognize Penny Wyger, Senior Vice President of Legal Services, and her team, who helped facilitate the sale of LCBO's head office lands. An extremely complex transaction that was more than a year in the making, the sale generated proceeds of $283 million, of which $246 million was transferred to the Consolidated Revenue Fund for the government. The sale also earned the LCBO and others involved in the transaction the Investment Deal of the Year award at the 16th Annual Real Estate Excellence Awards competition.

Financial results are important, but the LCBO's corporate social responsibility mandate is equally so. Employees at the LCBO refused service to more than 258,000 customers for such reasons as age and suspected intoxication; and with the generous donations of our customers the LCBO raised more than $13 million for charities such as the United Way, MADD Canada and Ontario's four regional children's hospitals. LCBO employees have my sincere thanks for the support they provide communities across the province every day.

President and CEO George Soleas believes competition can make the LCBO stronger and I agree. As the LCBO advances its customer-centric strategies to transform the shopping experience and continue to deliver value for Ontario, the Board looks forward to working with management to ensure the LCBO enters the next chapter in its history with success.

Penny Lipsett,
Acting Chair

Message From the President and CEO

Fiscal 2016–17 was my first year as President and CEO of the LCBO. And what a year it was.

For the first time ever, we transferred a dividend to the Ontario government of more than $2 billion, up 6.5 per cent from last year and above plan by $30 million. That's an outstanding achievement and I thank all LCBO employees for their dedication and commitment to the organization, as well as our customers, for helping us reach this milestone. I also acknowledge our suppliers and their agents, who work together with us in a true partnership, for their contributions in helping us reach this record.

Equally important to the financial results are the sales we refuse every day to keep our communities safe. Our frontline staff challenged 14.4 million customers and refused service to more than 258,000 — 82 per cent were for reasons of age. Knowing when *not* to serve a customer is the LCBO's founding mandate and these results continue to show our unwavering commitment to social responsibility.

The beverage alcohol marketplace is evolving rapidly. At the end of the fiscal year, there were 60 grocery stores authorized to sell beer and cider and 70 authorized to sell beer, cider and wine. This number will rise to about 450 in the coming years.

As the wholesaler to grocers, our goal is to maintain the LCBO's leadership in Ontario's beverage alcohol marketplace while supporting the growth of this new wholesale business to maximize returns for the province. This objective can't be achieved by looking back at past successes, but by *transforming for the future*.

In the summer of 2016, we successfully launched a new e-commerce platform, which put more than 5,000 products for sale online. Customers can either pick up their orders at the closest LCBO store (free of charge) or have them delivered to their homes (for a fee). Sales during the first year were $4.4 million, which exceeded our expectations and shows the great promise for this new business. With e-commerce, customers anywhere in Ontario have access to our growing assortment of products and online exclusives.

We opened seven more *Products of the World* boutiques, which offer the best single-store selection of beverage alcohol outside featured regions, such as Italy, Australia and East Asia. Many of these products were previously only available through licensed bars and restaurants, or private ordering. Customers can also purchase a wide selection of these products through our e-commerce site, as well as items exclusive to our online channel.

Wholesaling to grocers, which accounted for $65 million in sales, is an important segment of future growth. Following the successful introduction of beer, our Grocery Operations group added cider and wine to its grocery authorizations. The team continues to expand its capabilities to meet the needs of our grocery partners and support the growth of this channel.

These programs stem from the Premier's Advisory Council on Government Assets, a year-long review process that looked at all aspects of the LCBO and how the LCBO could maximize value for Ontario. This year, the LCBO initiated its own review that will assess its organizational structure and how it should change to remain successful in a more competitive environment.

These are exciting times for the LCBO. Competition is good for the marketplace, our customers and us. The transformative changes underway will make the LCBO a stronger organization for the benefit of Ontarians today and tomorrow.

George Soleas,
President and CEO

Corporate Structure

MISSION STATEMENT

We are a best-in-class, customer-first, responsible retailer and wholesaler, supporting our local communities and delivering value to Ontarians.

The LCBO is a Crown agency reporting to the Minister of Finance and is classified by the Ontario government as an operational enterprise.

The LCBO is overseen by a Board of Directors consisting of up to 11 members. They are appointed by the Lieutenant-Governor-in-Council on the recommendation of the Premier of Ontario and the Minister of Finance. Each term can last up to five years and can be renewed for additional terms. The Chair of the Board of Directors is responsible for providing strategic leadership to its members and to the President and CEO, ensuring the LCBO and its Board of Directors meet their respective responsibilities.

The mandate of the Board is to oversee the management of the business affairs of the LCBO. Its most important responsibilities are to:

- ensure that policies and processes are in place to maintain the integrity of the LCBO's internal controls
- submit annual financial plans, strategic/business plans, and periodic and annual financial statements to the Minister of Finance
- establish by-laws governing the operations of the LCBO
- approve the three-year strategic plan and monitor management's success in meeting the objectives and goals set out in this plan
- ensure the LCBO has an appropriate communications policy
- ensure the LCBO operates in a fair, ethical and impartial manner in accordance with applicable laws
- oversee the succession planning strategy for senior management
- approve major policy and business decisions
- assess and evaluate annually the performance of the President and CEO
- establish committees of the Board as appropriate to exercise some or all of the Board's responsibilities; at present this includes an audit committee and a governance and compensation committee.

ETHICS AND BUSINESS CONDUCT

The LCBO Board has adopted a code of conduct that includes policies addressing human rights, conflict of interest, confidentiality, the outside activities of employees and officers, gifts and entertainment.

HEALTH AND SAFETY

The Board approves an annual health and safety policy and the senior vice president, Human Resources, provides the Board with regular health and safety reports.

BOARD COMMITTEES

Audit Committee

The Audit Committee assists the Board of Directors with oversight of the integrity of LCBO's financial statements; the financial reporting process; the systems of internal control and risk management functions; and the performance of the Internal Audit Services Department's functions.

Governance and Compensation Committee

The Governance and Compensation Committee is responsible for reviewing and advising on possible changes to the Board's corporate governance practices and framework and ensuring the LCBO adheres to sound corporate governance principles. It also makes recommendations on human resources and management employee compensation.

MANAGEMENT COMMITTEES

The Store Planning and Development Committee reviews real estate and leasing transactions and makes recommendations to the Board for final approval.

The Listings Appeals Committee reviews supplier and agent appeals of business unit decisions concerning product listings.

The Management Positions Evaluation Committee evaluates and rates management positions in the organization for purposes of determining appropriate pay classifications.

ACCOUNTABILITY

The LCBO is committed to transparency and accountable to its stakeholders in a number of ways:

- our annual report is tabled in the provincial legislature and is made available to all Ontarians online (http://www.lcbo.com/content/lcbo/en/corporate-pages/about/annual-report.html)
- our annual business plan is posted on the LCBO website (http://www.lcbo.com/content/lcbo/en/corporate-pages/about/business-plan.html)
- the memorandum of understanding between the LCBO and the Minister of Finance can be read online (http://www.lcbo.com/content/lcbo/en/corporate-pages/about/memorandum-of-understanding.html)
- information concerning the operations, governance and policies of the LCBO is available online at lcbo.com, on the LCBO's customer service website hellolcbo.com and on doingbusiness-withlcbo.com
- we promote and practice routine disclosure and active dissemination of information as well as respecting timelines when providing public access to records under the Freedom of Information and Protection of Privacy Act
- travel expenses for Board members and senior management are reviewed by the Office of the Integrity Commissioner and posted online on lcbo.com (http://www.lcbo.com/webapp/wcs/stores/servlet/OverViewView?catalogId=10001&langId=-1&storeId=10151)

- Board members are appointed by Order-in-Council (for more information see the Public Appointments Secretariat website: https://www.pas.gov.on.ca/scripts/en/home.asp)
- LCBO employee conduct is governed by a Code of Business Conduct (http://www.lcbo.com/content/dam/lcbo/corporate-pages/about/pdf/Code%20of%20Business%20Conduct%20E.pdf)
- The Supplier Code of Business Conduct (http://www.doingbusinesswithlcbo.com/tro/Forms-Documents/Documents/Downloads/GuideandManuals/Supplier%20Code%20of%20Business%20Conduct%20-%20English.pdf) sets out the principles applicable to every supplier that wishes to establish and maintain a business relationship with the LCBO
- LCBO financial statements are audited annually by the Office of the Auditor General of Ontario and are included in the LCBO annual report
- LCBO has also been the subject of external reviews, a number of which are publicly available, such as the review of LCBO new product procurement by the Office of the Auditor General of Ontario, the agency review by the Standing Committee on Government Agencies of the Legislative Assembly, and most recently by the Premier's Advisory Council on Government Assets

SENIOR LEADERSHIP TEAM (AT MARCH 31, 2017)

Day-to-day operations of the LCBO are overseen by the following members of senior management:

George Soleas, *president and CEO*

Nancy Cardinal, *senior vice president, Sales, Marketing, & Insights*

Mandesh Dosanjh, *senior vice president, Supply Chain*

Michael Eubanks, *senior vice president, Information Technology and Chief Information Officer*

Patrick Ford, *senior vice president, Human Resources*

Rafik Louli, *acting senior vice president, Retail Operations*

Beili Wong, *acting senior vice president, Finance & Administration and Chief Financial Officer*

Penny Wyger, *senior vice president, general counsel and corporate secretary, Legal Services*

Board Members

PENNY LIPSETT

Appointed May 30, 2007. Term renewed in 2010, 2013, 2015 and February 1, 2017, for a two-year term. Vice chair and chair, Governance and Compensation Committee.

Ms. Lipsett was an investor and government relations specialist. She spent much of her career in the political and business worlds. Following graduation from the University of Western Ontario, she worked as a special assistant on Parliament Hill in Ottawa during the Trudeau years. Following this and until 1992, she worked for Xerox Canada in increasingly responsible roles concluding with the management of all corporate affairs functions.

Ms. Lipsett ran her own consulting practice with a focus on investor and government relations starting in 1993. She is chair of the Ontario Place Corporation and a member of the Board of Directors of the Bank of America Canada Bank and Speed River Track & Field Club, Guelph, Ontario. In 2016, she was named to Canada's Top 100 Most Powerful Women by Women's Executive Network.

NOBLE CHUMMAR

Appointed July 23, 2014. Term renewed July 23, 2016, for a three-year term. Member, Governance and Compensation Committee.

Mr. Chummar is a partner with Cassels Brock & Blackwell LLP, a leading Canadian law firm with offices in Toronto and Vancouver, and is a member of the firm's Business Law and Government Relations groups. He advises clients on public policy matters from a wide range of industry sectors, including energy, government, education, pharmaceutical, hospitals, insurance, mining, transportation, banking, retail and real estate development.

Mr. Chummar serves on a number of private and public sector boards, and has served two terms at the College of Physicians and Surgeons, the regulatory body that governs doctors in the Province of Ontario. He was also a strategic advisor to the chair of the Toronto 2015 Pan Am/Parapan Am Games, and a past president of the Empire Club of Canada.

He has been decorated with the Government of Canada's 125th Anniversary of the Confederation of Canada medal, the Queen's Diamond Jubilee medal and by decree of the President of France, has been given the rank of Knight in the National Order of Merit (Chevalier, Ordre National du Mérite).

Mr. Chummar graduated from law school at the London School of Economics and also received his Masters of Law from Osgoode Hall Law School. He is a graduate of the corporate directors' program at the Rotman School of Management at the University of Toronto and holds the ICD.D designation granted by the Institute of Corporate Directors.

CHERYL HOOPER

Appointed February 12, 2014. Term renewed February 12, 2016, for a two-year term. Chair, Audit Committee.

Ms. Hooper has an extensive financial and managerial background including C-suite, board and international experience. She has an MBA from York University, is a CPA, CA and is a member of the Institute of Corporate Directors.

As a board member of Velan Inc., a public company with international operations, she is chair of the Audit Committee and a member of the Corporate Governance and Human Resource Committee. Previous board involvement included not-for-profit organizations in Toronto, Quebec and France.

From 2005 to 2012, Ms Hooper was employed at the Canadian Public Accountability Board (CPAB), Canada's regulator of public company auditors. Prior to joining CPAB, she was president of a Montreal-based company providing strategic consulting, financial monitoring and management services to a high net worth family with forestry and real estate holdings in Canada and internationally. From 1983 to 1996, Ms. Hooper worked for Olympia & York Developments and then its property management successor, O & Y Properties Inc., where she became its first Chief Operating Officer in 1993.

WM. JOHN MOWAT

Appointed August 4, 2016, for a three-year term. Member, Audit Committee.

Mr. Mowat is President and CEO of The Logistics Alliance Inc., a 4PL Supply Chain Management company whose customers include more than 1,000 consumer packaged goods (CPG) companies and major national retail clients.

A business owner and corporate executive, he founded The Logistics Alliance Inc. in 1999, and has more than 50 years of experience in transportation, distribution, logistics, and supply chain. He has worked from the shop floor as a warehouse handler and truck driver, to the boardroom as both a CEO and board member. Mr. Mowat has experience working with both family businesses and some of Canada's largest companies.

With a focus on maximizing efficiency for clients, he has developed a proven reputation for building and strengthening businesses and effecting positive change.

Mr. Mowat has a BA in Economics from York University. He has been involved with numerous industry associations and activities and is also a leader and fundraiser for the Look Good Feel Better and Facing Cancer Together programs for women surviving cancer, as well as other philanthropic activities.

SUSAN ROBINSON

Appointed August 4, 2016, for a three-year term. Member, Governance and Compensation Committee.

Ms. Robinson is an executive with more than 25 years of experience leading human resource, marketing, strategy and communication teams in North America, Europe and Asia. She has extensive experience in human resource operations, labour relations, leadership development and change management.

Prior to her retirement from full-time work in 2009, some of her roles included: Vice President, Learning, Xerox Corporation; Vice President, Human Resources and Total Quality Management, Telus; Vice President, Human Resources, for Baxter Healthcare, in Canada and then in Europe; Global Senior Vice President, Human Resources and Corporate Communications, Manulife Financial.

Ms. Robinson is known in the human resources and business community for her ability to lead large scale change initiatives. She has successfully led significant change in unionized and non-unionized environments. Since her retirement she has been consulting, on a part time basis, in the fields of HR strategy, succession planning and leadership development.

A lifelong volunteer, she was a founding Director of The Learning Partnership, the sponsor of "Take Your Kid to Work Day," Chair of the Human Resource Professional Association's annual award committee, Community Advisor committee member at Joseph Brant Hospital, and a Board Member of The Royal Botanical Gardens (Hamilton, Ontario).

LORI SPADORCIA

Appointed February 15, 2017, for a three-year term. Member, Governance and Compensation Committee.

Ms. Spadorcia is Vice President, Communications and Partnerships, at the Centre for Addiction and Mental Health (CAMH). Her portfolio includes Community Engagement, Public Affairs, Public Policy, Strategic Planning, Health Equity and the Provincial System Support Program. A policy and communications expert, she supports the alignment of mission critical activities designed to be responsive to CAMH's many stakeholders and is engaging partners and resources to better position the hospital to make a sustainable system contribution to mental health.

As a senior advisor to Cabinet Ministers at the Federal and Provincial level, Ms. Spadorcia played a key role in finding solutions that yield advancements in public policy. At the Federal level, she led the negotiations with the provinces to spearhead the first Early Learning and Child Care Multilateral Framework, as well as Canada's Innovation Strategy, which brought the private and non-profit sectors together with governments to implement a skills and learning action plan. In Ontario, she served as a senior advisor to the Minister of Finance, where she advised on the creation and execution of the provincial budget.

In addition to her role at CAMH, she serves on the board of Research Canada, advocating for Canada's leadership in health research. A strong believer in investing in girls and women in Canada and internationally, she is also a founding board member of the global initiative G(irls)20.

MICHAEL STROPLE

Appointed February 12, 2014. Term renewed February 12, 2016, for a two-year term. Member, Audit Committee.

Michael Strople is managing director, Canada, and president, Zayo Enterprise Networks with the Zayo Group. Zayo, headquartered in Boulder, Colorado, builds and operates communications infrastructure, including fibre optic systems and data centres to provide the enormous bandwidth that drives the global economy. A licensed professional engineer with a bachelor of applied science in electrical engineering, he has more than two decades of experience in the telecommunications industry.

Mr. Strople joined Zayo (Zayo acquired Allstream from MTS in 2016) in October 2005, as vice-president, Technology, overseeing the integration of the MTS and Allstream networks. He then served as chief technology officer for the combined companies before being named president of Allstream. In his capacity as president, he was accountable for all aspects of the operations and strategic direction of Allstream.

His career began at Nortel Networks in 1994 in its Global Operations division as a research and development engineer. During his tenure, he acquired increasingly senior roles within the organization in both technical and customer relationship management. He worked closely with large global telecom carriers to implement voice, data and wireless networks.

Mr. Strople is currently chair of MEF (Metro Ethernet Forum), an industry organization dedicated to realizing the vision of a seamlessly interconnected planet. He has previously been an advisory board member of the University of Toronto's Master of Engineering in Telecommunications Executive Development Program. He also sat on the TR Tech board of directors, where he served as chair of its Governance Committee and its Technology Advisory Council.

REMUNERATION

Board members receive a per diem remuneration for all Board-related business, such as attending regularly scheduled meetings, serving on either the Audit Committee or the Governance and Compensation Committee, and representing the LCBO. The table below lists the total remuneration each Board member received for the 2016 calendar year.

Board Member	Remuneration
Edward Waitzer[1]	$ 54,145
Bonnie Brooks[2]	$ 2,100
Penny Lipsett[3]	$ 7,380
Noble Chummar	$ 3,250
Cheryl Hooper	$ 5,740
John Mowat	$ 1,350
Stacey Mowbray[4]	$ 3,000
Susan Robinson	$ 1,160
Michael Strople	$ 3,950

1. *Former Chair; term ended August 27, 2016.*
2. *Appointed Chair August 28, 2016; resigned April 24, 2017.*
3. *Named Acting Chair April 24, 2017.*
4. *Term ended (October 2016).*

Management Discussion and Analysis of Operations

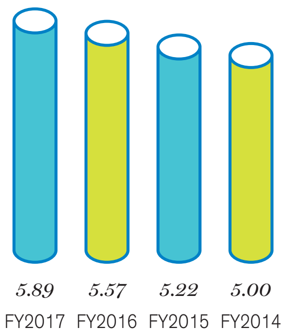
The LCBO is a government business enterprise. In the fiscal year ended March 31, 2017 (hereafter referred to as FY2017) it operated a network of 660 retail stores and special-order services as well as supporting 212 agency stores across the province of Ontario, offering nearly 25,000 spirits, wine and beer products to consumers and licensed establishments. The LCBO estimates 1.2 billion litres of beverage alcohol products were sold in Ontario during FY2017, with an estimated retail value of more than $11 billion. The LCBO accounts for more than one-third of these volume sales and half of the retail value sales.

FINANCIAL HIGHLIGHTS

Revenue
$billions

$5.892

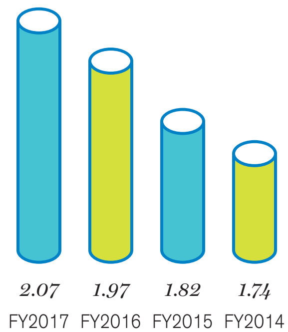
+5.8% vs LY



Net income*
$billions

$2.068

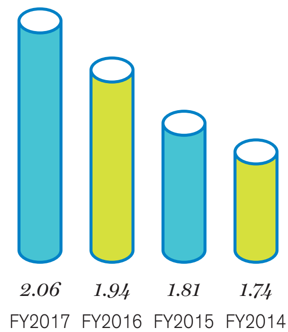
+5.1% vs LY



Dividend
$billions

$2.060

+6.5% vs LY



**FY2017 net income has been normalized to exclude the gain from the sale of the LCBO head office property.*

OPERATIONAL HIGHLIGHTS

- The LCBO added six new stores to its retail network during the year, now totalling 660 locations[1]. Six other stores were either relocated or underwent major expansions in FY2017.
- The grocery channel, established in December 2015 following the recommendation of the Premier's Advisory Council on Government Assets, continued its planned rollout. The 60 initial locations, which were selling beer only, received permission to also sell cider, commencing June 2016. In October 2016, 70 more authorizations were issued. In addition to selling beer and cider, these 70 grocer locations can also retail wine.
- The LCBO launched its new e-commerce platform in July 2016 to create a convenient online shopping experience. Customers have the option of either home-delivery service for a fee, or free in-store pick-up at an LCBO location of their choice.

1 *Location count includes three licensee depots.*

- The *Products of the World* program added seven more destination boutiques throughout the year; specialty stores offering an expanded assortment of products from Chile, Australia, South Africa, Germany, Italy and California; a second East Asia location was added subsequent to the end of the fiscal year.
- There was a $0.03 per litre increase to beer mark-up rates on November 1, 2016.
- There was a 2 per cent increase to wine mark-up rates, as recommended by the Premier's Advisory Council.
- There were no Easter holidays during the fiscal year compared to two in FY2016 but there were three more selling days.
- A single pay grid, resulting from a bargaining unit agreement, was implemented in FY2017. The single pay grid will be used for both permanent full time retail employees and casual retail employees who perform similar roles. While the new grid increases retail operating expenses, it improves flexibility for Sunday scheduling and eliminates permanent vacancy reviews.

EXTERNAL ENVIRONMENT

LCBO financial performance was favourably impacted by a number of factors in FY2017. Ontario, one of the leading growth provinces in Canada, posted solid economic results for the third consecutive year. Real gross domestic output expanded by 2.7 per cent on the back of strong export growth during the year and household retail spending.

The Canadian dollar's average exchange rate was US$0.76, which was even lower than the previous year, bolstering retail sector performance in Ontario and also benefitting the LCBO. From the retail sector side, which grew close to an adjusted five per cent (excluding motor vehicles and gas), the weak Canadian dollar influenced travel patterns, leading to higher domestic spending. Cross-border shopping by Ontarians was down and "staycations" were up. The weak currency also benefitted inbound tourism by Americans, providing a boost to domestic retail spending. Despite inflation returning to normal levels at 1.8 per cent, low oil and gas prices throughout the year supported inbound travel from across the border.

The Canadian dollar, from a trade standpoint, also benefitted the domestic economy. Manufacturing and export activities thrived as the weaker dollar coincided with the beginning of a U.S. economic expansion last year. The U.S. is Canada's and Ontario's largest trading partner.

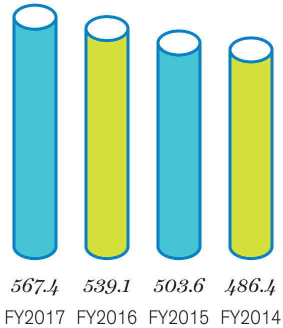
Resilient consumer sentiment and strong labour market performance also supported the retail sector and LCBO growth results. Despite fluctuations in employment levels during the year, an overall gain of more than 80,000 jobs positively affected consumer confidence, as the unemployment rate dropped 30 basis points to 6.5 per cent. Further adding to the improvement in consumer sentiment, was another phenomenal year for the Ontario real estate market, particularly in the Greater Toronto Area.

Meanwhile, the LCBO's ongoing investment in its retail network and the continued expansion of the grocer and e-commerce sales channels also contributed to positive year-over-year sales performance. In addition, sporting events – especially playoff runs by the Toronto Blue Jays, Toronto Raptors and Toronto Football Club – and exceptional spring and summer weather, contributed to annual sales growth.

Volume sold
millions of litres

567.4

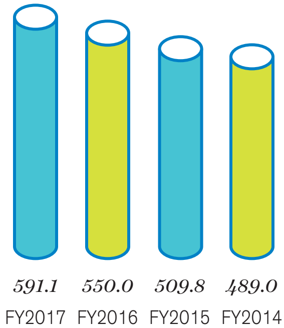
+5.2% vs LY



Units sold
millions of units

591.1

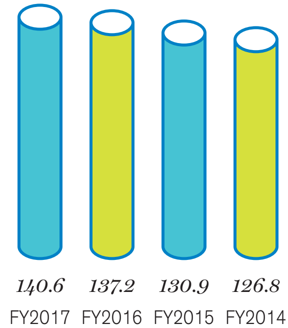
+7.5% vs LY



Customer transactions
millions of transactions

140.6

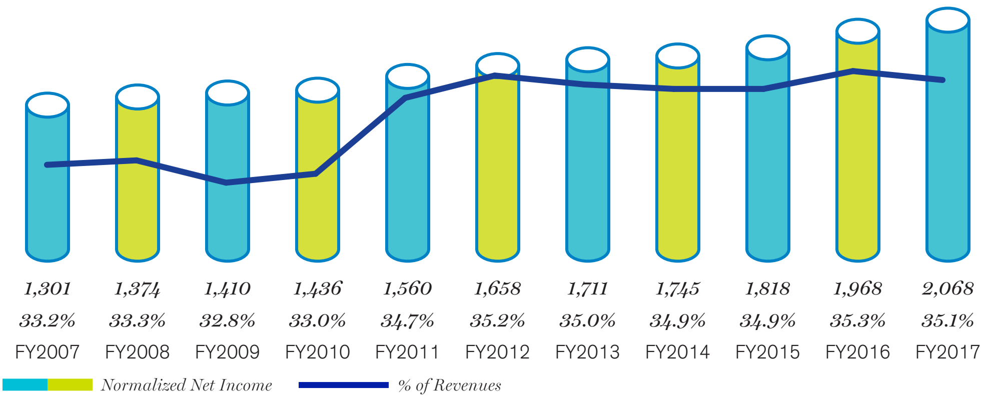
+2.5% vs LY



NET INCOME

Net income has been normalized to exclude the gain from the sale of the LCBO Head Office Property in FY2017. Net Income represented 35.1 per cent of revenues, 20 basis points lower than the previous year. Non-normalized net income was $2.340 billion with a ratio of 39.7 per cent of revenue. In this report, any further discussion and ratio relating to net income refers to the normalized amount.

Net income** ($ millions) **and as a percentage of revenues

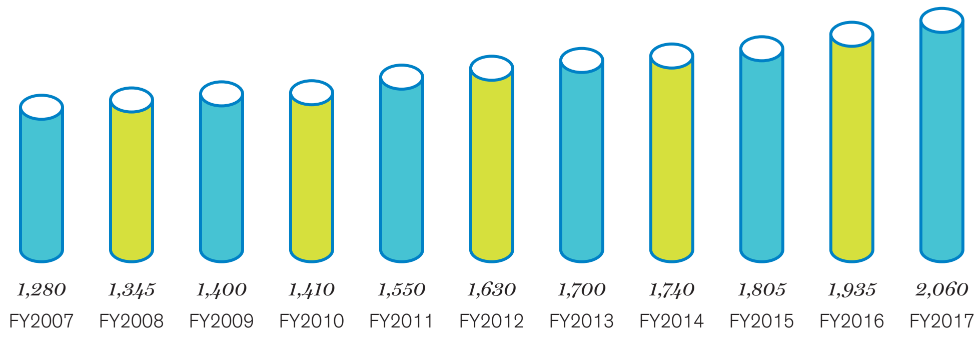


Over the past 10 years, net income has risen by $767 million, or 59 per cent, as a result of sales growth, improved margins and expense control.

DIVIDEND

The LCBO transferred $2.060 billion in dividends to the Ontario government in FY2017, excluding taxes and the net cash proceeds from the sale of the LCBO Head Office Property. This was $125 million more than in FY2016 and marked the 23rd straight year of increased transfers.

Dividend *($ millions)*



The dividend has grown by 61 per cent since FY2007, reflecting an additional $780 million. Cumulatively, the Ontario government has received more than $16.5 billion in dividend transfers from the LCBO during the past decade.

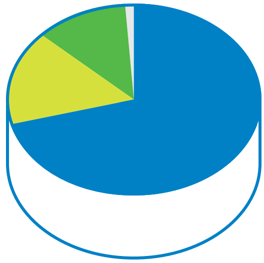
PAYMENTS TO GOVERNMENT

The LCBO paid $3.2 billion to all levels of government in FY2017. The dividend – excluding excise, duty and all sales and municipal taxes – and the sale of head office transfer, comprising of the net cash proceeds from the sale of the LCBO Head Office Property, were remitted at the provincial level and accounted for 71 per cent of the total. The Canadian government received $897 million in the form of excise, duty and sales taxes. Realty and leased property taxes paid to Ontario municipalities by the LCBO totalled more than $33 million.

		FY2017
Total payments	**$ 3,236,877,354**	
Government of Ontario – Dividend & Sale of Head Office Transfer	2,306,215,000	71%
Government of Canada – HST	503,461,936	16%
Government of Canada – Excise & Duty	393,924,453	12%
Ontario Municipalities	33,275,965	1%

LCBO payments to government

$3.2 Billion



●	Government of Ontario – Dividend & Sale of Head Office Transfer	*71%*
●	Government of Canada – HST	*16%*
●	Government of Canada – Excise & Duty	*12%*
●	Ontario Municipalities	*1%*

LCBO IN THE SHARED MARKETPLACE

The LCBO operates in a shared marketplace along with other retailers of beverage alcohol in the province of Ontario, including the Beer Store, Ontario winery retail stores, on-site brewery and distillery stores, and duty-free operators. In addition, the LCBO has authorized established retailers in smaller Ontario communities to act as agents on its behalf and sell beverage alcohol products in conjunction with other goods. These agency stores sell spirits, wine and imported beer purchased from the LCBO and domestic beer purchased from the Beer Store or other domestic beer suppliers. Newly-authorized grocer locations across the province sell imported and domestic beer, cider and wine with the LCBO established as the wholesaler of record.

Number of outlets

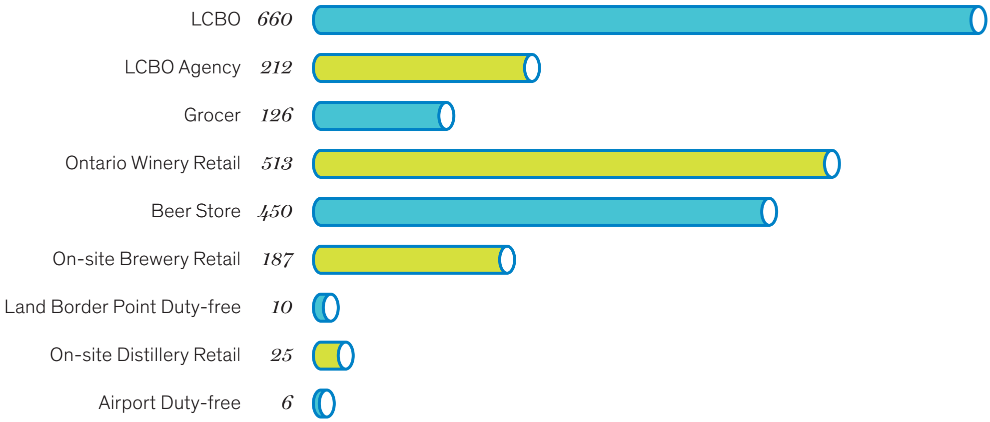
As of March 31, 2017, there were 2,189 retail outlets selling alcoholic beverages in Ontario. Since FY2013, the number of outlets has increased by 338 locations, or 18 per cent.

Number of outlets	FY2017	FY2016	FY2015	FY2014	FY2013
LCBO	660	654	651	639	634
LCBO Agency	212	212	212	217	219
Grocer*	126	60	–	–	–
Ontario Winery Retail	513	507	504	491	479
Beer Store	450	451	450	447	446
On-site Brewery Retail	187	150	113	73	52
Land Border Point Duty-free	10	10	10	10	10
On-site Distillery Retail	25	18	14	12	7
Airport Duty-free	6	5	5	5	4
Total	**2,189**	**2,067**	**1,959**	**1,894**	**1,851**

**Grocer included 5 wine boutiques in FY2017 which are Ontario Winery Retail locations situated within a grocery store, that also sells beer and cider.*

Note: When the LCBO's 660 locations are combined with Ontario's 212 LCBO agency stores, the total market share as a percentage of the total number of outlets is 40 per cent.

Ontario's alcohol marketplace by number of outlets



Market share

Ontario's total beverage alcohol marketplace, which includes the LCBO, the Beer Store, Ontario winery retail stores, grocers, as well as other legal (e.g. ferment on premise), homemade and illegal[2] channels, amounted to an estimated 1.2 billion litres sold during FY2017. The LCBO's overall market share by volume increased to 38.8 per cent from 38.3 per cent in FY2016.[3]

Wine[4]

During FY2017, wine sales in the province grew by 2.4 per cent, or 4.5 million litres, to 196 million litres. Ontario wine accounted for 75 per cent of the favourable variance, as volume sales increased 4.3 per cent year-over-year. By outpacing imported wine growth, which was one per cent, Ontario increased its share of the total provincial wine market by 80 basis points to 42 per cent.

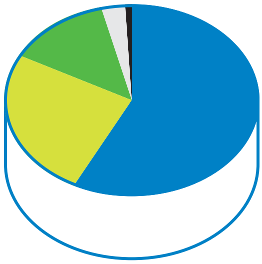
Sales of Ontario wine registered growth through all channels in FY2017. Ontario wine sales at the LCBO accounted for 25.1 per cent of the total wine market, a 30 basis-point improvement from a year earlier, as volume sales increased by 3.8 per cent. Ontario winery on-site and off-site retail stores (WRS) volume sales share retreated by 20 basis points to 13.5 per cent as volume sales grew 1.1 per cent. Sales through the direct delivery (DD) channel – Ontario winery sales directly to licensed establishments – experienced robust growth, up 12.7 per cent over last year, and grew share by 30 basis points to three per cent.

2 *Illegal channel sales consist of LCBO estimates for smuggling and illegal wine manufacturing.*
3 *See Ontario Sales Channel Summary for further detail.*
4 *Wine products include cider and wine coolers.*

In October 2016, wine was made available for sale through authorized grocery locations. During FY2017, volume sales of wine at grocers accounted for 0.7 per cent of the total Ontario market, with 45 per cent of these sales representing Ontario wines.

FY2017 wine market – volume

	FY2017	FY2016
LCBO Imported	*57.7%*	*58.8%*
LCBO Ontario	*25.1%*	*24.8%*
WRS	*13.5%*	*13.7%*
DD	*3.0%*	*2.7%*
Grocer	*0.7%*	



↑**42%**

Ontario wines represent 42% of provincial wine volume sales

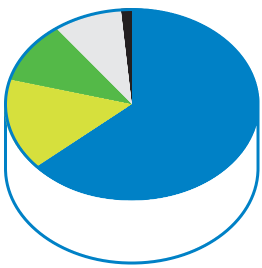
Beer

Beer volume sales in Ontario increased 0.6 per cent, or 4.4 million, to 800 million litres during FY2017. The Beer Store (TBS) accounts for approximately 72.5 per cent of provincial beer sales and registered a 1.6 per cent decline in litres sold during the year. At the LCBO, beer volume sales increased 2.3 per cent compared to the previous year and expanded market share by 40 basis points to 26.2 per cent. The grocer channel accounted for 1.3 per cent of the annual share, with 69 per cent of the share representing domestic beer.

Retail network expansion and growing consumer preference for imported beers and premium craft beers, particularly those produced locally in Ontario, continue to drive sales growth in this category at the LCBO. In FY2017, Ontario craft beers sold at the LCBO registered sales growth of 27.6 per cent compared to a year earlier, the leading performance in all beer segments.

FY2017 beer market – volume

	FY2017	FY2016
TBS Domestic	*63.7%*	*65.6%*
LCBO Domestic	*15.7%*	*15.4%*
LCBO Imported	*10.5%*	*10.4%*
TBS Imported	*8.8%*	*8.4%*
Grocer	*1.3%*	*0.2%*



↑**26%**

LCBO accounts for 26% of all beer sold in Ontario

NET SALES[5]

LCBO net sales totalled $5.89 billion in FY2017, growth of $321 million, or 5.8 per cent over the previous year.

Channel sales

The LCBO sells beverage alcohol to its customers through a variety of sales channels. Retail sales to home consumer represented 79.0 per cent of total LCBO sales in FY2017, a decline of 90 basis points from the previous year. Sales through this channel increased 4.5 per cent to more than $4.6 billion during the year.

Channel *($ thousands)*	Share	FY2017	vs. FY2016
Home Consumer – Retail	79.0%	$ 4,653,543	4.5%
Licensee	9.2%	$ 542,182	4.6%
Beer Store	6.8%	$ 398,532	7.4%
Agency	2.0%	$ 117,833	3.8%
Direct Delivery	1.2%	$ 73,982	6.7%
Grocer	1.1%	$ 64,682	720.5%
Duty-free	0.6%	$ 33,513	6.7%
Other	0.1%	$ 8,230	3.0%
Total	**100%**	**$ 5,892,497**	**5.8%**

Beverage alcohol purchased by licensed establishments, such as bars and restaurants, make up the second-largest LCBO sales channel. Sales to licensees increased at a similar rate to home consumers during the year, 4.6 per cent pace to $542 million in FY2017. This channel also saw a decline in share, 10 basis points less than in 2016, at 9.2 per cent of total LCBO sales.

LCBO sales to the Beer Store, the third-largest LCBO sales channel, increased 7.4 per cent to more than $398 million in FY2017. As a percentage of overall LCBO sales, this channel gained 10 basis points to 6.8 per cent share.

Sales to agency stores, an extension of the LCBO retail channel through authorized independent local retailers serving smaller communities around Ontario, increased 3.8 per cent to almost $118 million during the year. This channel maintained its 2.0 per cent share of total LCBO sales from last year.

Sales through the direct delivery channel, representing remittances by Ontario wineries to the LCBO, registered sales growth of 6.7 per cent in FY2017. At $74 million, this channel declined 10 basis points of LCBO sales share to 1.2 per cent of the total.

The grocer channel, established in December 2015, is expected to see rapid growth in the coming years and an increasing share of LCBO sales. In FY2017, cider and wine were added to grocer sales and more authorizations were activated. Comprising of 126 operational locations across the province, sales to grocers totalled $64.7 million and represented 1.1 per cent of LCBO sales.

Duty-free operators at airports and land-border points, accounting for 0.6 per cent of LCBO sales in FY2017, experienced sales growth of 6.7 per cent to more than $33 million.

5 *Net sales are equal to gross sales less discounts and taxes. Net sales are used to calculate retail and supply chain productivity ratios.*

Category sales

Spirits maintained the largest portion of LCBO product sales in FY2017 at $2.2 billion, or 38.5 per cent, of total sales. Despite a 5.1 per cent increase in sales, the category's representative share declined for the eighth consecutive year. However, compared to the annual plan, spirits sales outpaced expectations by 1.3 per cent.

Wine (excluding Vintages) remained the second-largest category at 25.8 per cent of total net sales, with sales surpassing the $1.5 billion. Wine sales increased 3.5 per cent versus FY2016, but narrowly missed plan by 0.1 per cent.

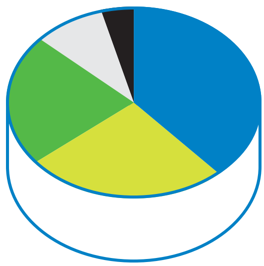
Vintages, exceeding half of a billion dollars for the second successive year, saw its share of total net sales diminish slightly to 9.2 per cent. The category improved 5.0 per cent over last year, but fell short of plan by 1.0 per cent.

For the second year in a row, beer sales were exceptional and topped all major categories, with growth of 9.9 per cent over the previous year and close to $1.3 billion. The category exceeded plan by 1.4 per cent, and gained 80 basis points as it accounted for 22.3 per cent of overall sales.

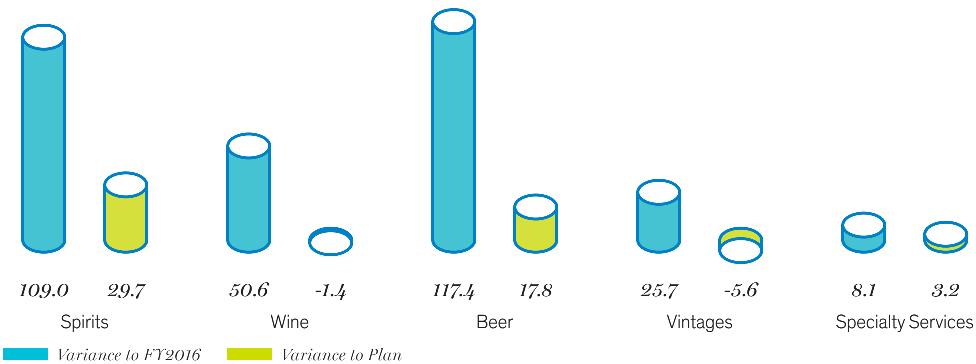
Specialty Services, accounting for 4.1 per cent of LCBO sales, outpaced both the previous year and plan by 3.4 per cent and 1.4 per cent respectively.

Sales share by category

	FY2017	FY2016
Spirits	*38.5%*	*38.7%*
Wine	*25.8%*	*26.3%*
Beer	*22.3%*	*21.5%*
Vintages	*9.3%*	*9.3%*
Specialty Services	*4.1%*	*4.2%*



Category sales performance *($ millions)*



OPERATING RESULTS

In FY2017, every $1 in revenue was broken out in the following manner:

Product cost	$	0.49
Income from operations	$	0.35
Selling, general and administrative expenses	$	0.16

Margins

Total LCBO gross margin totalled $2.9 billion in FY2017, representing an improvement of 5.8 per cent compared to FY2016 and 0.2 per cent more than plan. As a percentage of revenues, gross margin remained flat relative to last year at 50.0 per cent, primarily owing to a continued high sales share of lower-margin beer.

The major categories generated the following gross margin from every $1 in sales:

Spirits	$	0.58
Wine	$	0.52
Vintages	$	0.48
Beer	$	0.39
Specialty Services	$	0.35

Spirits accounted for 44.4 per cent, or more than $1.3 billion, of total gross margin in FY2017. Despite rising 4.7 per cent versus the previous year and 0.8 per cent above plan, spirits margin experienced a 40 basis point decline in share compared to FY2016, but was 30 basis points higher than plan.

Wine share declined to 26.7 per cent of total LCBO gross margin during FY2017, 50 basis points lower than last year and 20 basis points below plan. This category posted margin growth of 3.9 per cent over the previous year to $786 million, but trailed plan by 0.7 per cent.

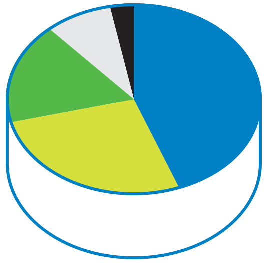
Gross margin from beer surpassed the half-billion dollar mark, totaling $506 million in FY2017, 10.3 per cent higher year-over-year but 0.6 per cent lower than plan. At 17.2 per cent of total margin, beer's share grew 70 basis points from last year, but fell short of plan by 10 basis points.

Vintages gross margin, at $257 million, increased 5.4 per cent from FY2016 but lagged plan by 2.1 per cent. Margin share for Vintages remained flat year-over-year, but was 20 basis points below plan.

Specialty Services contributed $84 million to gross margin, increasing by 5.9 per cent from the previous year and outpacing plan by 3.6 per cent. While the share also remained flat to last year's level, the category was higher than plan by 10 basis points.

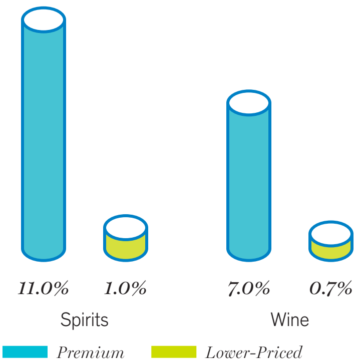
Margin share by category

	FY2017	FY2016
Spirits	*44.4%*	*44.7%*
Wine	*26.7%*	*27.2%*
Beer	*17.2%*	*16.5%*
Vintages	*8.8%*	*8.8%*
Specialty Services	*2.9%*	*2.8%*



Sales growth of premium spirits and wines continue to outpace that of lower-priced products in the same category. This trend has supported absolute margin improvement at the LCBO. Unlike spirits and wine, the mark-up on beer is applied on a volume basis, which means similar-sized beer products typically generate the same margin, regardless of their price.

Lower-priced versus premium product volume growth



Premium spirits, with prices of at least $35 for a 750 mL bottle, registered volume sales growth of 11.0 per cent year-over-year in FY2017 compared to 1.0 per cent of similar-sized, lower-priced spirits products. Volume sales of premium wines, retailing for $18 or more for a 750 mL bottle, likewise increased at a higher rate than lower-priced wine products at 7.0 per cent versus 0.7 per cent, respectively, compared to FY2016.

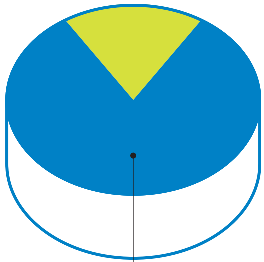
Selling, general and administrative expenses

In this section, expenses refer to all selling, general and administrative (SG&A) expenses as per the audited Statement of Income and Other Comprehensive Income.

LCBO total expenses increased $74.5 million, or 8.6 per cent, in FY2017 compared to the previous year and exceeded plan by 1.2 per cent.

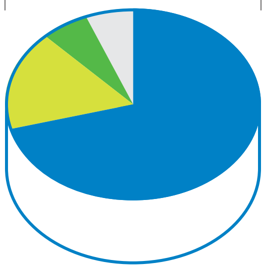
Total expenses

$945 Million



Operating	*82%*
Non-Operating	*18%*

Operating expenses



Retail Stores	*71%*
Administrative	*17%*
Sales, Marketing & Insights	*6%*
Supply Chain	*6%*

Operating expenses represented 82 per cent of the total and accounted for most of the overall expense growth during the year. Retail store expenses, representing 71 per cent of operating expense, rose 6.3 per cent versus the previous year and 2.8 per cent over plan. Retail salaries and benefits, which outpaced last year by 6.8 per cent and plan by 2.8 per cent, drove the variances. Higher utility, rent and property taxes also contributed to year-over-year expense increase, while repairs and maintenance, stock shortages and higher utility costs drove the plan variance.

Administration accounts for the second-largest portion of operating expenses. In FY2017, these expenses rose by 17.1 per cent but were marginally below plan. Higher expenses relating to Information Technology infrastructure and enterprise architecture and Human Resources programs, relative to FY2016, accounted for the increase. Such expenses include initiatives that will improve operational efficiencies in future years and include employee training and development costs.

Initiatives involving customer insights and thematic programs mainly drove the Sales, Marketing & Insights increase of 6.2 per cent year-over-year, while higher imputed warehouse rent and property taxes were responsible for a 10.5 per cent increase in Supply Chain costs.

Operating Expenses *($ thousands)*		FY2017	vs. FY2016	vs. Plan
Retail Stores	$	555,552	6.3%	2.8%
Administrative	$	133,168	17.1%	-0.4%
Sales, Marketing & Insights	$	45,708	6.2%	0.6%
Supply Chain*	$	44,242	10.5%	2.5%
Total	**$**	**778,670**	**8.2%**	**2.1%**

**Direct labour costs in Supply Chain are included in cost of goods sold. In FY2017, direct labour costs were approximately $32 million, similar to the preceding year.*

Non-operating expenses, accounting for the remaining 18 per cent of total expenses, registered at 10.4 per cent higher than FY2016 but 2.9 per cent below plan. Depreciation, the single-largest non-operating expense component, increased 4.6 per cent versus last year but remained below plan by 1.1 per cent.

Expenses related to environmental initiatives, comprising mainly of LCBO Ontario stewardship obligations and service fees to the Beer Store for the Ontario Deposit Return Program, were also higher than last year but lower than plan. Debit and credit card charges, owing to the higher level of sales registered in FY2017 as well as more customers switching from cash to higher-fee premium credit cards, contributed to this expense and exceeded FY2016 and plan.

One of the main drivers of the non-operating expense variances was employee benefit obligation (EBO). This is an actuarial estimate, which in FY2016 was $8.4 million lower than this year owing to favourable experience and application of lower discount rates. This year, EBO returned to a more normal level but registered at $4.9 million below plan. EBO totalled $9.7 million in FY2017 as adjustments were made to retirement assumptions projecting later retirements, which generated actuarial losses across all plans. Health trend rates and dental benefits have also increased from the prior valuation, contributing to the increase.

Non-Operating Expenses *($ thousands)*		FY2017	vs. FY2016	vs. Plan
Depreciation	$	67,502	4.6%	-1.1%
Environmental Initiatives	$	43,978	2.4%	-1.2%
Debit/Credit Charges	$	41,975	8.6%	0.9%
Other Expenses*	$	12,852	182.2%	-24.0%
Total	**$**	**166,307**	**10.4%**	**-2.9%**

**Other expenses include gift card program expenses and employee benefit obligations.*

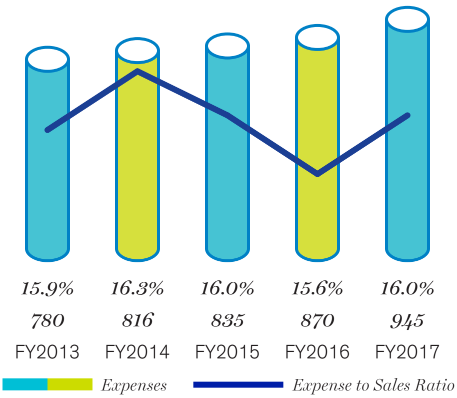
Expense to sales ratio

The ratio of expense to sales was 16.0 per cent in FY2017, as planned, but 40 basis points higher than the prior year.

In FY2016, lower employee benefit obligation expense – an actuarial estimate – favourably benefited the expense to sales ratio by 20 basis points. However, the expense returned to a normal level in FY2017, contributing to the ratio rising to a level comparable with two years ago.

Note the ratio increase in FY2014 was affected by costs related to Collective Bargaining ratification as well as contingency planning for possible labour action.

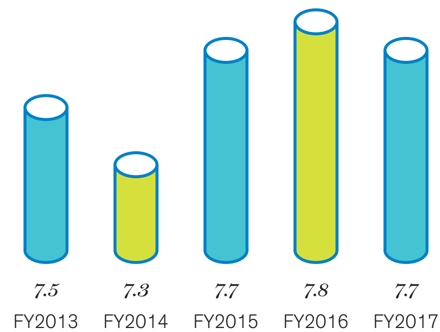
Expense trend *($ millions)*



Inventory

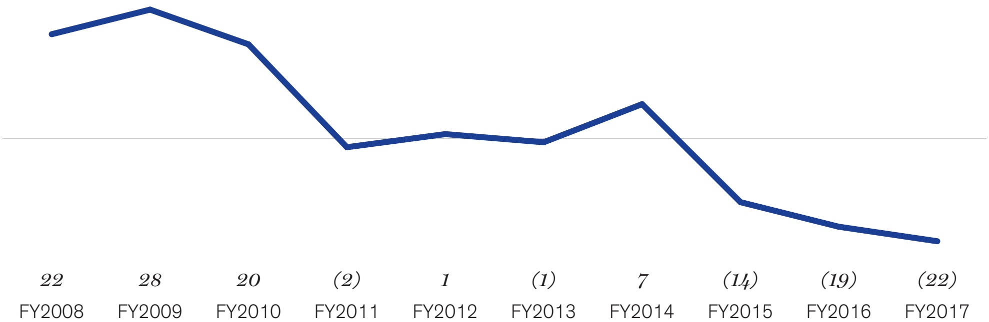
Total inventory turns registered at 7.7 in FY2017 compared to 7.8 in the previous year. Higher beer inventory, to ensure adequate fill rates to grocers, was primarily responsible for the overall decline. Beer turns decreased from 16.1 to 15.0, spirits turns decreased from 9.0 to 8.8, and wine turns went from 6.9 to 6.8. Vintages turns were unchanged at 3.7.

Total inventory turns



Average net inventory investment during FY2017 was negative $22 million. In the last decade, LCBO net investment in inventory has fallen by more than $44 million, highlighting continuous improvement in sales and inventory management.

Net inventory investment *($ millions)*



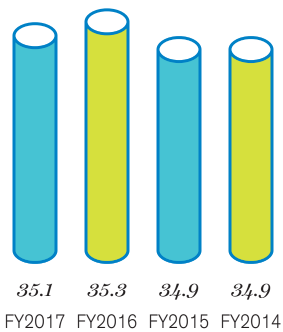
Key performance indicators

Financial ratios

Net income ratio
percentage of revenue

35.1%

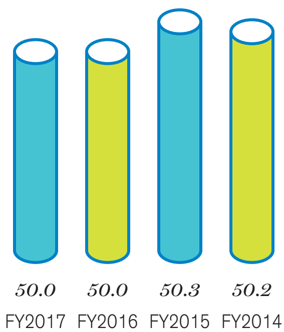
-20bp vs LY



Gross margin ratio
percentage of revenue

50.0%

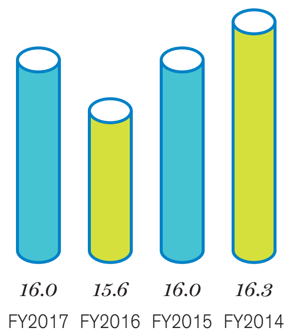
0bp vs LY



SG&A expense ratio
percentage of revenue

16.0%

+40bp vs LY



In FY2017, normalized net income was 35.1 per cent of revenues, 20 basis points below last year. Gross margin as a percentage of revenue remained unchanged, while selling, general and administrative expenses were 16.0 per cent of revenue, 40 basis points lower than the FY2016 ratio.

Productivity ratios

To help monitor expenses and identify areas of focus, the LCBO compares its productivity ratios to previous years to measure improvement. The total retail expenses as percentage of retail sales ratio, for example, shows the total amount of store expenses as a percentage of the stores' net sales.

Retail productivity highlights

	FY2017	FY2016	FY2015	FY2014	FY2013
Retail sales per transaction	$36.64	$35.62	$35.38	$35.04	$34.39
Unit sales per hour paid	43.3	43.6	42.7	41.8	43.1
Salary & Benefits as a percentage of retail sales	6.9%	6.8%	6.9%	7.3%	7.1%
Total retail expenses as a percentage of retail sales	10.8%	10.5%	10.6%	10.9%	10.5%

Despite efficiency improvements, retail productivity ratios were generally unfavourable compared to last year. Higher store salaries and benefits lowered unit sales per hour paid by 0.3 units, while adding 10 basis points to salaries and benefits as a percentage of retail sales, to 6.9 per cent. Other retail expenses relating to new stores, higher rental and utility costs and property taxes resulted in total retail expenses as a percentage of retail sales advancing 30 basis points. Retail sales per transaction, however, was favourable as consumer spent $1.02 more per store purchase than they did in 2016.

Supply chain productivity highlights

	FY2017	FY2016	FY2015	FY2014	FY2013
Warehouse cases throughput per hour paid	40	38	36	35	35
Warehouse salary & benefits per case throughput	$0.94	$0.96	$1.00	$1.02	$1.02
Warehouse cost per case throughput	$1.20	$1.18	$1.25	$1.26	$1.24

Supply Chain productivity ratios were mixed in FY2017. Warehouse cases throughput per hour paid improved by two cases compared to FY2016 as salaries and benefits declined by $0.02 per case throughput. Higher overall warehouse costs, stemming from increases in imputed rent and property taxes, resulted in total cost per case throughput increasing by $0.02 to $1.20.

CAPITAL EXPENDITURES

Capital expenditures (capex) totalled $79 million in FY2017, with the majority of investment allocated to LCBO retail network expansion and improvement. Major investments included in the $48 million spent through Store Development comprised of six new stores and six relocated and expanded locations.

Information Technology (IT) projects accounted for the second-largest portion of capex, totalling more than $26 million in FY2017. This division manages all IT related projects across the organization, which were previously self-managed by each respective division. Some of the key initiatives in FY2017 included the continual development and implementation of the e-commerce platform, grocery management system, a merchandise financial planning system and a new order management system.

($ thousands)	FY2017
Store Development	$ 47,900
IT – All Divisions	$ 26,400
Supply Chain	$ 3,500
Other	$ 799
Total Capital Expenditures	**$ 78,599**

ENTERPRISE RISK MANAGEMENT

Our Enterprise Risk Management (ERM) efforts align to our strategic plan and business operations. The LCBO uses processes to mitigate risks throughout the organization. We are dedicated to maturing the ERM program and optimizing our ability to meet all of the organization's objectives.

The LCBO ERM program consists of a risk framework, an ERM assessment process, continuous monitoring of key risks and semi-annual reporting to the Audit Committee of the Board of Directors. We identified and ranked 17 risks that could negatively impact the LCBO's performance. Senior management is responsible for developing and implementing risk mitigation strategies for these enterprise risks.

LCBO's top three risks are:

1. Government policy and legislative change
2. Competition and customer engagement
3. Labour-related risk

Government policy and legislative change

Changes in legislation and regulation, interprovincial and international trade agreements, and public service directives and standards all affect the LCBO because it is a public agency and operates within a regulated industry. As a result, significant shifts in policy or legislation may put our business at risk.

To mitigate this challenge, the LCBO provides input and advises government on the potential impact of any proposed policy changes on our financial performance and operations. We also adopt an agile, flexible and cooperative culture so that we can respond quickly to changes in our environment. All the while, we remain focused on providing excellence in socially responsible retailing, customer experience and operational efficiency.

Competition and customer engagement

The LCBO faces increased competition due to the government's decision to allow up to 450 grocery stores to sell some combination of beer, cider, and wine. Grocery stores have a competitive advantage as they are able to provide a one-stop shopping experience for customers who want to buy food and beverage alcohol at the same time. This evolving competitive marketplace may negatively impact the number of customers in our retail stores.

To mitigate these challenges, the LCBO will focus on achieving high retail customer engagement, particularly in the emotional engagement areas (brand equity) and emphasizing our own points of difference through, for example, our product expertise and exclusives and our e-commerce offering. By identifying strategies and implementing initiatives to strengthen LCBO brand drivers so that customers continue to shop with us, we will be on the right path. We will also focus on our role as a wholesaler to provide a seamless customer experience to grocery stores so that we are well equipped to solidify our position in the future.

Labour related risk

The Ontario Public Service Employees' Union (Liquor Board Employees' Division) represents nearly 8,000 LCBO employees for collective bargaining and labour-management relations. The efficiency and performance of the LCBO directly correlates to the quality of this relationship, the extent of employee engagement and the conditions established through collective bargaining. This risk is particularly heightened due to the recent introduction of a single wage grid for retail staff and the collective bargaining that is underway.

To mitigate these challenges, the LCBO focuses on positive employee relations, ongoing dialogue on matters of common interest and targeted initiatives aimed at a collaborative labour environment. Provincial and local labour-management meetings relating to labour and employee relations and health and safety, support a regular dialogue with the Union. Corporate and divisional employee engagement strategies are focused on making the LCBO a great place to work.

The LCBO will continue to manage our risks and we are committed to the continuous advancement of the ERM process to protect and support the achievement of LCBO objectives.

LOOKING AHEAD

In FY2018, LCBO revenues are planned to reach $6.22 billion, a new all-time high. This will represent a 5.6 per cent, or $329 million increase, compared to FY2017.

Overall sales growth will be supported by continuing favourable economic conditions, including increased domestic tourism and retail spending, a healthy labour market, improved consumer sentiments, continued implementation of recommendations by the Premier's Advisory Council, and further investment in the LCBO retail network.

Gross margin expectations are in line with revenue growth, with a 5.6 per cent planned increase to $3.1 billion in 2018. As a percentage of revenues, margin is expected to remain stable at 50.0 per cent.

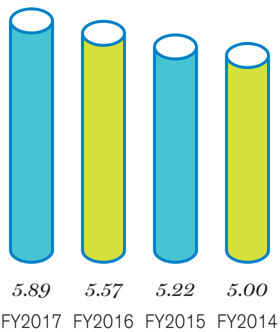
Expenses are planned to be 7.1 per cent higher in FY2018 at $1.0 billion. The continuing expansion of the store network and investments to improve operational efficiencies and drive profitability will contribute to this increase.

Net income is expected to increase 3.3 per cent, up $69 million, to $2.14 billion. This will support the 24th consecutive increase in dividend transfer to the Ontario government by the LCBO. The dividend projection for 2018 is $2.12 billion, up $60 million, or 2.9 per cent, than the amount transferred in FY2017.

Revenue
$billions

$5.892

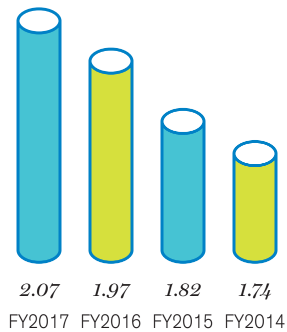
+5.8% vs LY



Net income*
$billions

$2.068

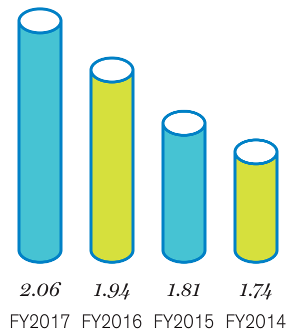
+5.1% vs LY



Dividend
$billions

$2.060

+6.5% vs LY

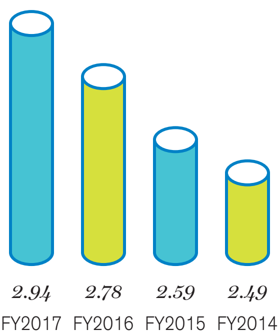


**FY2017 net income has been normalized to exclude the gain from the sale of the LCBO head office property.*

Cost of sales
$billions

$2.943

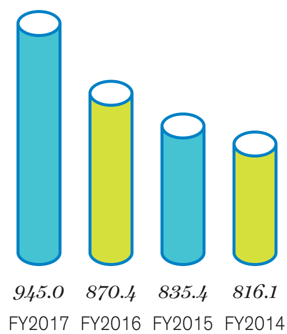
+5.7% vs LY



Expenses
$millions

$945

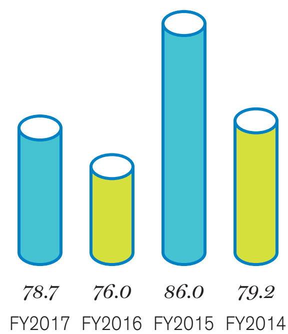
+8.6% vs LY



CapEx
$millions

$78.7

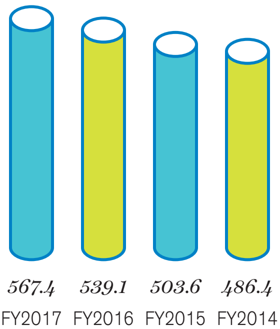
+3.5% vs LY



Volume sold
millions of litres

567.4

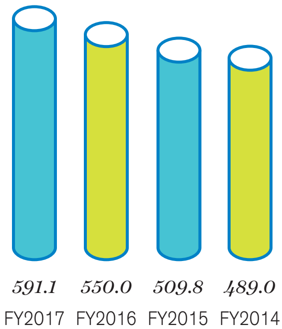
+5.2% vs LY



Units sold
millions of units

591.1

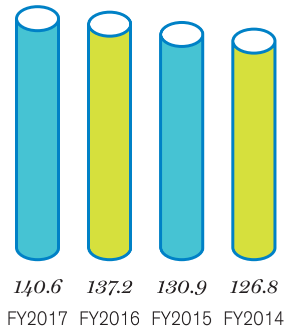
+7.5% vs LY



Customer transactions
millions of transactions

140.6

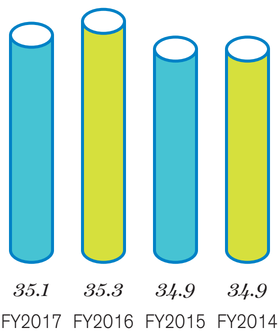
+2.5% vs LY



Net income ratio
percentage of revenue

35.1%

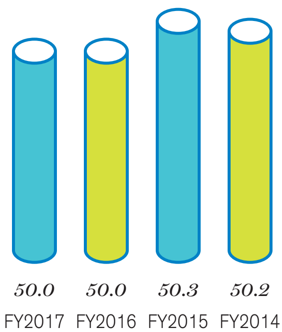
-20bp vs LY



Gross margin ratio
percentage of revenue

50.0%

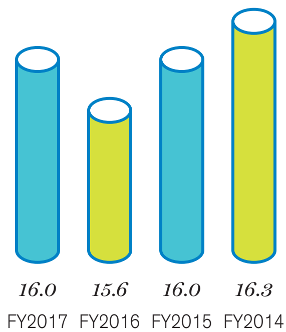
0bp vs LY



SG&A expense ratio
percentage of revenue

16.0%

+40bp vs LY



Responsibility for Financial Reporting

The preparation, presentation and integrity of the financial statements are the responsibility of management. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the estimates, judgments and assumptions necessary to prepare the financial statements in accordance with International Financial Reporting Standards. The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with International Financial Reporting Standards and include amounts that are based on management's best estimates and judgment.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, composed of three Members who are not employees/officers of the LCBO, generally meets periodically with management, the internal auditors and the Office of the Auditor General of Ontario to satisfy itself that each group has properly discharged its respective responsibility. Also, the Office of the Auditor General of Ontario meets with the Audit Committee without management present.

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

On behalf of management:

George Soleas
President and Chief Executive Officer

Beili Wong
Acting Senior Vice President, Finance & Administration, and Chief Financial Officer

June 29, 2017

Independent Auditor's Report

To the Liquor Control Board of Ontario and to the Minister of Finance

I have audited the accompanying financial statements of the Liquor Control Board of Ontario, which comprise the statement of financial position as at March 31, 2017, and the statement of income and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

AUDITOR'S RESPONSIBILITY

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Liquor Control Board of Ontario as at March 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Toronto, Ontario
June 29, 2017

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

Statement of Financial Position

(thousands of Canadian dollars)

	Note	March 31 2017	March 31 2016
ASSETS			
Current Assets			
Cash and cash equivalents	*5*	324,586	273,125
Trade and other receivables	*6*	75,732	60,881
Inventories	*7*	477,104	432,852
Prepaid expenses and other assets	*8*	27,540	9,410
Assets held for sale	*19*	–	10,249
Total Current Assets		904,962	786,517
Property, plant and equipment and intangible assets	*9*	396,739	387,646
Total Assets		**1,301,701**	**1,174,163**
LIABILITIES & EQUITY			
Current Liabilities			
Trade and other payables	*10*	677,132	588,725
Provisions	*12*	25,705	18,932
Current portion of non-pension employee benefits	*13*	11,889	15,356
Total Current Liabilities		714,726	623,013
Non-pension employee benefits	*13*	108,036	105,241
Total Liabilities		822,762	728,254
Equity			
Retained earnings		480,681	447,199
Accumulated other comprehensive loss		(1,742)	(1,290)
Total Equity		478,939	445,909
Total Liabilities and Equity		**1,301,701**	**1,174,163**

See accompanying notes to the financial statements.

Approved By:

Acting Chair, Board of Directors

Board Member, Chair, Audit Committee

Statement of Income and Other Comprehensive Income

(thousands of Canadian dollars)

For the year ended	*Note*	March 31 2017	March 31 2016
Revenue	*18*	5,892,497	5,571,765
Cost of sales	*7*	(2,943,420)	(2,784,913)
Gross margin		2,949,077	2,786,852
Other income		65,425	53,877
Selling, general and administrative expenses	*20*	(944,977)	(870,385)
Income from operations		2,069,525	1,970,344
Gain on sale of Head Office	*19*	271,762	–
Finance income	*22*	2,349	1,458
Finance costs	*13, 22*	(3,939)	(3,966)
Net income		2,339,697	1,967,836
Other comprehensive (loss) income:			
Actuarial (losses) gains on non-pension employee benefits	*13*	(452)	1,515
Total other comprehensive (loss) income		(452)	1,515
Total comprehensive income		2,339,245	1,969,351

See accompanying notes to the financial statements.

Statement of Changes in Equity

(thousands of Canadian dollars)

	Note	Retained Earnings	Accumulated other comprehensive income (loss)	Total Equity
Balance at April 1, 2016		447,199	(1,290)	445,909
Net income		2,339,697	–	2,339,697
Other comprehensive loss		–	(452)	(452)
Dividends paid to province		(2,060,000)	–	(2,060,000)
Sale of Head Office transfer	*19, 23*	(246,215)	–	(246,215)
Balance at March 31, 2017		480,681	(1,742)	478,939
Balance at April 1, 2015		414,363	(2,805)	411,558
Net income		1,967,836	–	1,967,836
Other comprehensive income		–	1,515	1,515
Dividends paid to province		(1,935,000)	–	(1,935,000)
Balance at March 31, 2016		447,199	(1,290)	445,909

Statement of Cash Flows

(thousands of Canadian dollars)

For the year ended	March 31 2017	March 31 2016
Operating activities:		
Net income	2,339,697	1,967,836
Depreciation, amortization and impairment	67,502	64,541
Gain on sale of property, plant and equipment and intangible assets	(4,366)	(358)
Gain on sale of Head Office	(271,762)	–
Non-pension employee benefit expenses	17,590	8,120
Non-pension employee benefit payments	(18,714)	(14,344)
	(209,750)	57,959
Change in non-cash balances related to operations:		
Trade and other receivables	(14,851)	(16,018)
Inventories	(44,252)	(18,634)
Prepaid expenses and other assets	5,134	87
Trade and other payables	88,407	34,108
Provisions	6,773	194
	41,211	(263)
Net cash provided by operating activities	2,171,158	2,025,532
Investing activities:		
Purchase of property, plant and equipment, intangible assets and assets held for sale	(78,599)	(76,034)
Proceeds from sale of property, plant and equipment and intangible assets	6,370	1,435
Net monetary proceeds from sale of Head Office	258,747	–
Net cash provided by (used in) investing activities	186,518	(74,599)
Financing activities:		
Dividend paid to the Province of Ontario	(2,060,000)	(1,935,000)
Sale of Head Office transfer	(246,215)	–
Net cash used in financing activities	(2,306,215)	(1,935,000)
Increase in cash	51,461	15,933
Cash and cash equivalents, beginning of year	273,125	257,192
Cash and cash equivalents, end of year	324,586	273,125
Supplemental cash flow information		
Non-monetary proceeds from sale of Head Office included in Prepaid expenses and other assets	23,264	–

Notes to Financial Statements

For the years ended March 31, 2017 and 2016
(thousands of Canadian dollars)

1. GENERAL INFORMATION AND STATEMENT OF COMPLIANCE

1.1 General information

The Liquor Control Board of Ontario ("LCBO") is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. LCBO is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario ("Province").

As an Ontario Crown Corporation, LCBO is exempt from income taxes. LCBO transfers most of its earnings to the Province's Consolidated Revenue Fund in the form of a dividend.

LCBO's head office is located at 55 Lake Shore Blvd East, Toronto, Ontario, Canada, M5E 1A4.

1.2 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The financial statements are presented in Canadian dollars ("C$"), LCBO's functional currency.

The audited financial statements were approved by the Board of Directors and authorized for issue on June 29, 2017.

2. ADOPTION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS

2.1 Accounting standards and amendments adopted in the current year

The IASB has issued the following relevant standards and amendments that have been applied in preparing our March 31, 2017 financial statements as their effective dates fall in the current financial reporting period. The standards and amendments did not have any impact on LCBO's financial statements.

Standards and amendments	Description	LCBO Effective Date	Assessed impact
IAS 16 & IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization	IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* have been revised to incorporate amendments issued by the IASB in May 2014. The amendments to IAS 16 clarify the use of revenue-based methods to determine the depreciation of an asset is not appropriate. The amendments to IAS 38 clarify that an amortization method based on revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible. The amendments are effective for annual periods beginning on or after January 1, 2016.	April 1, 2016	No impact

(thousands of Canadian dollars)

2.1 Accounting standards and amendments adopted in the current year *(continued)*

Standards and amendments	Description	LCBO Effective Date	Assessed impact
Disclosure Initiative (Amendments to IAS 1 *Presentation of Financial Statements)*	IAS 1 *Presentation of Financial Statements* has been revised to incorporate amendments issued by the IASB in December 2014. The amendments clarify the existing presentation and disclosure requirements in IAS 1, including the presentation of line items, subtotals and notes. They also provide guidance to assist entities to apply judgment in determining what information to disclose, and how that information is presented in their financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016.	April 1, 2016	No impact
Annual Improvements to IFRSs – 2012–2014 Cycle	The following standards have been revised to incorporate amendments issued by the IASB in September 2014: • IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* has been amended to clarify the application of the guidance in the standard in circumstances in which an entity reclassifies an asset (or disposal group) from held for sale to held for distribution (or vice versa), and the circumstances in which an asset no longer meets the criteria for held for distribution. • IFRS 7 *Financial Instruments: Disclosures* has been amended to clarify guidance on servicing contracts and the applicability of the amendments to IFRS 7 regarding offsetting financial assets and financial liabilities, to interim financial statements. • IAS 19 *Employee Benefits* has been amended to clarify the application of the discount rate requirements for currencies for which there is no deep market in high quality corporate bonds. • IAS 34 *Interim Financial Reporting* has been amended to clarify the meaning of disclosure of information "elsewhere in the interim financial report." The amendments are effective for annual periods beginning on or after January 1, 2016.	April 1, 2016	No impact

(thousands of Canadian dollars)

2.1 Accounting standards and amendments adopted in the current year *(continued)*

The IASB also issued the following standards and amendments with effective dates beginning on or after January 1, 2016 and fall in the current financial reporting period, but were not applicable to LCBO.

- IFRS 11 *Joint Arrangements*: standard revised to incorporate amendments on how to account for the acquisition of an interest in a joint operation that constitutes a business.
- IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures*: amendments to clarify issues associated with investment entities.
- IFRS 14 *Regulatory Deferral Accounts*: new standard issued by the IASB in January 2014, to provide interim guidance on rate-regulated activities.

2.2 Accounting standards and amendments not yet effective

The following relevant standards and amendments issued by the IASB have not been applied in preparing our March 31, 2017 financial statements as their effective dates fall in periods beginning subsequent to the current financial reporting period.

Proposed standards and amendments	Description	LCBO Effective Date	Estimated impact
Disclosure initiative (Amendments to IAS 7 *Cash Flows*)	IAS 7 *Statement of Cash Flows* has been revised to incorporate amendments issued by the IASB in January 2016. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017.	April 1, 2017	LCBO is assessing the potential impact
IFRS 9 *Financial Instruments*	Previous standards and interpretations: • IAS 39 *Financial Instruments*: Recognition and Measurement • IFRIC 9 *Reassessment of Embedded Derivatives* Finalized version issued in July 2014 incorporating the classification and measurement requirements and new hedge accounting model included in earlier versions. This version introduces a single forward-looking expected credit loss impairment model. IFRS 9 also resulted in consequential amendments to IFRS 7 *Financial Instruments: Disclosures* to include disclosures about an entity's risk management strategy and the effect of hedge accounting on the financial statements. The standard is effective for annual periods beginning on or after January 1, 2018.	April 1, 2018	LCBO is assessing the potential impact

(thousands of Canadian dollars)

2.2 Accounting standards and amendments not yet effective *(continued)*

Proposed standards and amendments	Description	LCBO Effective Date	Estimated impact
Annual improvement – 2014–2016 cycle	The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle on 8 December 2016, amending the following standards:		No anticipated impact
	• IFRS 1 *First-time Adoption of International Financial Reporting Standards* deleted the short-term exemptions.	April 1, 2018	
	• IFRS 12 *Disclosure of Interests in Other Entities* has clarified the scope of the standard by specifying that the disclosure requirements in the standard apply to an entity's interests that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.	April 1, 2017	
	• IAS 28 *Investments in Associates and Joint Ventures* has clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.	April 1, 2018	
	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018, the amendment to IFRS 12 for annual periods beginning on or after January 1, 2017.		

(thousands of Canadian dollars)

2.2 Accounting standards and amendments not yet effective *(continued)*

Proposed standards and amendments	Description	LCBO Effective Date	Estimated impact
IFRS 15 *Revenue from Contracts with Customers*	Previous standards and interpretations: • IAS 11 *Construction Contracts*; • IAS 18 *Revenue*; • IFRIC 13 *Customer Loyalty Programmes*; • IFRIC 15 *Agreements for the Construction of Real Estate*; • IFRIC 18 *Transfer of Assets from Customers*; • SIC-31 *Revenue – Barter Transactions Involving Advertising Services* IFRS 15 establishes a comprehensive framework for the recognition, measurement and disclosure of revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments).The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard is effective for annual periods beginning on or after January 1, 2018.	April 1, 2018	LCBO is assessing the potential impact
IFRS 16 *Leases*	Previous standard(s): • IAS 17 *Leases* • IFRIC 4 *Determining Whether an Arrangement Contains a Lease* • SIC-15 *Operating Leases – Incentives* • SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. The new standard is effective for annual periods beginning on for after January 1, 2019.	April 1, 2019	LCBO is assessing the potential impact

2.2 Accounting standards and amendments not yet effective *(continued)*

The IASB also issued the following standards and amendments with effective dates that fall subsequent to March 31, 2017, but are not applicable to LCBO.

- IAS 12 *Income Taxes* Recognition of Deferred Tax Assets for Unrealized Losses: amendments to clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.
- IFRS 2 *Share-based Payment* Classification and Measurement of Share-based Payment Transactions: narrow-scope amendments to clarify how to account for certain types of share-based payment transactions.
- IFRS 4 *Insurance Contracts*: amendments regarding the interaction of IFRS 4 Insurance Contracts and IFRS 9 Financial Instruments, providing two options for entities that issue insurance contracts within the scope of IFRS 4.
- IAS 40 *Investment Property* Transfers of Investment Property: amendments to clarify transfers of property to, or from, investment property.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value through profit or loss ("FVTPL").

3.1 Cash & Cash Equivalents

Cash and cash equivalents comprise of cash, deposits held in trust and highly liquid investments with original maturity dates of 90 days or less from the date of acquisition.

LCBO's investment policy restricts short-term investments to highly liquid, high-grade money market instruments such as federal/provincial treasury bills, bankers' acceptances and term deposits. The resulting disclosures are presented in Note 5.

3.2 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost less an allowance for impairment, if any. Almost all of LCBO's receivables are due within 30 days.

The carrying amount of account receivables are reduced through the use of an allowance account where there is objective evidence that LCBO will not be able to collect all amounts due according to the original terms of the receivables. LCBO establishes an allowance taking into consideration customer credit worthiness, current economic trends and past experience. When receivables are deemed to be uncollectible after recording an allowance, they are written off against the allowance. The loss is recognized as a selling, general and administrative expense in the Statement of income and other comprehensive income. The resulting disclosures are presented in Note 6.

3.3 Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined by the weighted average cost or landed cost method. Landed cost includes the supplier quote, rebate, excise, import duties and inbound freight. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.3 Inventories *(continued)*

The cost of inventories comprises all cost of purchase net of vendor allowances and includes other direct costs, such as transportation and direct warehouse handling costs that are incurred to bring inventories to their present location and condition. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable. The resulting disclosures are presented in Note 7.

3.4 Assets classified as held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, and it should be expected to qualify for recognition as a completed sale within one year from the date of classification. Assets classified as held for sale are measured at the lower of the carrying amount or fair value less costs to sell. An asset that is classified as held for sale is no longer depreciated. The resulting disclosures are presented in Note 19.

3.5 Property, plant and equipment

Major capital expenditures with a future useful life beyond the current year are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition, construction or development of the asset.

Depreciation is recognized in the Statement of income and other comprehensive income over the expected useful lives of each major component of property, plant and equipment, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The estimated useful lives for property, plant and equipment are as follows:

Buildings	5 to 40 years
Leasehold Improvements	5 to 20 years
Furniture and Equipment	5 to 20 years
Computer Equipment	4 years

Land assets are carried at cost, less any recognized impairment losses and are not depreciated.

Property, plant and equipment under construction and not available for use, are carried at cost, less any recognized impairment loss. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

The cost of subsequently replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits related to the part will flow to LCBO, and its cost can be measured reliably. The carrying amount of the replaced item of property, plant and equipment is derecognized, if any. The costs of the day-to-day servicing of property, plant and equipment are recognized in the Statement of income and other comprehensive income as incurred. The resulting disclosures are presented in Note 9.

3.6 Intangible assets

i. Acquired intangible assets

Acquired intangible assets, such as software, are measured initially at cost and are amortized on a straight-line basis over their estimated useful lives.

The estimated useful lives for intangible assets are as follows:

Computer software	4 years

The resulting disclosures are presented in Note 9.

ii. Internally generated intangible assets – research and development costs

Expenditures related to research activities are recognized as an expense in the period in which they are incurred.

Development expenditures incurred are capitalized only if LCBO can demonstrate all of the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale as intended by management;
(b) its intention to complete the intangible asset and use or sell it;
(c) its ability to use or sell the intangible asset;
(d) how the intangible asset will generate probable future economic benefits;
(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Software under development and not available for use, are carried at cost, less any recognized impairment loss. When completed and ready for intended use these assets are amortized on the same basis as other acquired intangible assets. The resulting disclosures are presented in Note 9.

3.7 Impairment of property, plant and equipment and intangible assets

Annually LCBO reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication of an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, LCBO estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. For property, plant and equipment and intangible assets, the CGU is deemed to be each retail store. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. Any impairment charge is recognized in the Statement of income and other comprehensive income in the year in which it occurs. The resulting disclosures are presented in Note 9.

3.8 Trade and other payables

Trade and other payables are classified as other financial liabilities and are generally short term in nature and due within one year of the Statement of financial position date. Trade payables are non-interest-bearing and are initially measured at fair value and subsequently remeasured at amortized cost. The resulting disclosures are presented in Note 10.

3.9 Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation. The resulting disclosures are presented in Note 12.

3.10 Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Their measurement in subsequent periods and the recognition of changes in fair value depend on the category in which they are classified.

The LCBO has classified its financial instruments as follows:

Financial Asset / Financial Liability	Category	Measurement
Cash and cash equivalents	Loans and receivables or available for sale ("AFS")	Loans and receivables are measured at amortized cost. AFS is measured at fair value through other comprehensive income.
Trade and other receivables	Loans and receivables	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Provisions	Other financial liabilities	Amortized cost
Derivatives and foreign exchange spot contracts	Fair value through profit or loss ("FVTPL")	Fair value through profit or loss ("FVTPL")

3.10 Financial instruments *(continued)*

Financial instruments measured at fair value must be classified according to a three-level hierarchy based on the type of inputs used to make the measurements. This hierarchy is as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than the Level 1 quoted prices that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market inputs (unobservable inputs).

At the end of each reporting period, the LCBO determines whether there is any indication that a financial asset may be impaired. It does so for all financial assets except for those recognized at fair value through profit or loss. A financial asset or group of financial assets is impaired when there is objective evidence of impairment. In instances of impairment, the recognized impairment loss is the difference between the carrying amount of the asset and the present value of estimated future cash flows.

LCBO's financial assets and liabilities are generally classified and measured as follows:

i. Financial assets

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' ("FVTPL"), 'available-for-sale' ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or designated as such upon initial recognition. Financial assets are classified as held for trading if acquired principally for the purpose of selling in the near future or it has been part of an identified portfolio of financial instruments that LCBO manages together and has a recent actual pattern of short-term profit-making. Derivatives are also categorized as held for trading.

Financial assets classified as FVTPL are measured at fair value, with changes in fair value recorded in the Statement of income and other comprehensive income in the period in which they arise.

Available for sale ("AFS")

Financial instruments classified as AFS financial assets are measured at fair value with changes in fair value recognized in other comprehensive income ("OCI") until realized through disposal or impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

3.10 Financial instruments *(continued)*

ii. Financial liabilities

Financial liabilities are classified as 'other financial liabilities', which are subsequently measured at amortized cost using the effective interest method.

iii. Derivatives

Derivative financial instruments are classified as FVTPL. Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at fair value, with changes recognized in the Statement of income and other comprehensive income. The resulting disclosures are presented in Note 16.

3.11 Revenue recognition

Revenue consists of the fair value of consideration received or receivable for the sale of goods in the ordinary course of LCBO's activities less any sales taxes. Sales taxes on the sale of goods are recorded as a liability in the period the sales taxes are deemed to be owed and are excluded from revenues. Revenue is recognized when the significant risks and rewards of ownership of the goods have been transferred to the buyer and the amount of revenue can be measured reliably. For goods delivered to customers, revenue is recognized at the time the customer receives the product or upon estimated receipt by the customer. Revenue is recorded net of returns, trade discounts, volume rebates, applicable taxes and container deposits, in the Statement of income and other comprehensive income.

i. Gift Cards

Revenue generated from gift cards is recognized when gift cards are redeemed. LCBO also recognizes revenue from unredeemed gift cards if the likelihood of gift card redemption by the customer is considered to be remote.

ii. AIR MILES®[1]

Income from the AIR MILES® "program" is recognized in the period in which it is earned, in accordance with the terms of the contract. The program is split into two distinct components:

(1) Base – LCBO pays LoyaltyOne a fee for each Base AIR MILES® issued to customers. Base AIR MILES® are treated as a sales incentive to customers, therefore the associated costs of the Base are accounted for as a reduction to revenues in the Statement of income and other comprehensive income.

(2) Bonus – LCBO charges vendors a fee whose products are participating in the Bonus AIR MILES® program. The associated income net of costs of the Bonus is accounted for as a reduction to cost of sales in the Statement of income and other comprehensive income.

1 *AIR MILES® is a trademark of AIR MILES International Trading B.V. Used under license by LoyaltyOne.*

3.12 Other income

i. Services rendered

Income from services rendered is recognized when the services are provided and the income can be measured reliably. Such services consist of border point levies and fees generated from special occasion permits such as those required by an individual or organization, who plan to serve alcohol at an event or location other than a private place.

ii. Unredeemed Ontario Deposit Return Program container deposits

LCBO recognizes income from estimated unredeemed Ontario Deposit Return Program ("ODRP") container deposits as not all customers return the container for their deposit. LCBO determines its ODRP container redemption rate based on historical redemption data and estimates the unredeemed ODRP container deposit income. The resulting income is recognized based on historical redemption patterns, commencing when the container deposits are collected. The resulting disclosures are presented in Note 25.

3.13 Vendor allowances

LCBO receives allowances from certain suppliers whose product it purchases for resale. The allowances are received for a variety of promotional activities, including allowances received for in store promotion of the supplier's product, advertising the launch of a new product and labeling and shelf space provided on limited time product offers. LCBO recognizes consideration received from vendors as a reduction in the price of the vendors' products and reflects it as a reduction to cost of sales when recognized in the Statement of income and other comprehensive income. Certain exceptions apply where the cash consideration received is a direct reimbursement of specific, incremental and identifiable costs incurred by LCBO for assets or services delivered to the vendor or reimbursement of selling costs incurred to promote the vendor's product. In these particular instances, the consideration is reflected as a reduction in selling, general and administrative expenses.

3.14 Employee benefits

i. Short-term employee benefits

Short-term employee benefit obligations are expensed as the related service is provided. LCBO recognizes a liability and an expense for short-term benefits such as performance pay, unused vacation entitlements and other employee benefits if LCBO has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reasonably. The resulting disclosures are presented in Note 21.

ii. Pension Benefit Costs

LCBO provides defined pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund). The Province, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU Pension Fund, determines LCBO's annual contribution to the funds. As the sponsors are responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of LCBO.

3.14 Employee benefits *(continued)*

LCBO's contributions to both plans are accounted for on a defined contribution basis with LCBO's contribution charged to the Statement of income and other comprehensive income in the period the contributions become payable. The resulting disclosures are presented in Note 13.

iii. Non-pension employee benefits

Employee benefits other than those provided by the Province include accrued contractual severance payments ("CSP"), executive compensation time banking ("ECTB"), unfunded workers compensation obligation ("WCB") and benefits extended to employees on long-term income protection ("LTIP"). These plans provide benefits to employees when they are no longer providing active service. Other non-pension employee benefit obligations of the LCBO include accumulating non-vesting sick leave ("NVSL") and Service Awards. LCBO accrues these employee benefits over the periods in which the employees earn the benefits or upon absence. The cost of other post-retirement, non-pension employee benefits is paid by the Province and is not included in the Statement of income and other comprehensive income.

The liability of the CSP, ECTB, LTIP, NVSL and Service Awards was actuarially determined by using the Projected Unit Credit Method and management's best estimate. The WCB liability was actuarially determined by calculating the present value of the projected future payments. The annual benefit cost is the sum of the service cost and one year's interest cost plus remeasurements of the defined benefit obligation.

LCBO recognizes all actuarial gains and losses due to remeasurements of the net defined benefit liability arising from the CSP and ECTB benefits immediately in other comprehensive income, and reports them in accumulated other comprehensive income in the Statement of financial position, as these benefits are accrued over an employee's years of service. Any actuarial gains and losses due to remeasurements of the net defined benefit liability arising from the LTIP, WCB, NVSL and Service Awards benefits are recognized in the Statement of income and other comprehensive income in the period in which they arise, as these benefits are defined as Other Long-Term Employee Benefits which do not have remeasurements that can be recognized in Other comprehensive income. The resulting disclosures are presented in Note 13.

3.15 Finance income

Finance income comprises of interest income on funds invested. Interest income is recognized as it accrues in the Statement of income and other comprehensive income, using the effective interest method. The resulting disclosures are presented in Note 22.

3.16 Finance costs

Finance costs consist of interest expense on the non-pension employee benefits obligation and financing charges on capital leases. The resulting disclosures are presented in Notes 13 and 22.

3.17 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. LCBO has very few finance leases which are immaterial.

All other leases are classified as operating leases. Operating lease payments, including scheduled escalations, are recognized as an expense on a straight-line basis over the term of the lease. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability and amortized over the lease term. The aggregate benefit of incentives is recognized as a reduction of selling, general and administrative expenses on a straight-line basis. The resulting disclosures are presented in Note 11.

3.18 Foreign currencies

Transactions in currencies other than LCBO's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. Items denominated in foreign currencies, comprised of US bank accounts and liabilities are translated at the prevailing rates at the end of each reporting period. Exchange gains and losses are recognized immediately in the Statement of income and other comprehensive income.

4. USE OF ESTIMATES AND JUDGMENTS

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

The judgments and key sources of estimation uncertainty that have a significant effect on the amounts recognized in the financial statements are discussed below.

i. Non-pension employee benefits

The present value of the non-pension employee benefits obligation depends on a number of factors that are determined using an actuarial estimate based on numerous assumptions, including the discount rate, wage escalation, inflation rates, mortality rate and employee turnover. Any changes in these assumptions will impact the carrying amount of non-pension employee benefits obligations.

LCBO determines the appropriate discount rate at the end of each year. In determining the appropriate discount rate, LCBO uses the interest rates of high-quality corporate bonds that are denominated in the Canadian dollars in which the benefits will be paid. Other key assumptions for employee benefit obligations are based in part on current market conditions. Additional disclosures are presented in Note 13.

4. USE OF ESTIMATES AND JUDGMENTS *(continued)*

ii. Impairment of property, plant and equipment and intangible assets

LCBO has determined each store as a separate cash-generating unit ("CGU"). When there are indicators for impairment, LCBO performs an impairment test.

Intangible assets and property, plant and equipment are subject to impairment reviews based on whether current circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount for CGUs are based on a calculation of expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance. Additional disclosures are presented in Note 9.

iii. Inventories

LCBO makes estimates on the warehouse handling costs that directly relate to bringing inventories to their selling location and condition. Accordingly, LCBO includes the direct warehouse handling costs within inventories and they are expensed to cost of sales in the period the inventories are sold. Additional disclosures are presented in Note 7.

iv. Leases

LCBO leases a significant number of retail store locations as part of its operations as well as other assets. In determining the classification of a lease as either a finance or an operating lease, judgment is required in assessing whether substantially all of the risks and rewards incidental to ownership are transferred. LCBO analyzes each lease independently, considering various factors such as whether there is a bargain purchase and/or renewal option included in the lease, the economic life of the asset when compared to the term of the lease, and the minimum lease payments when compared to the fair value of the leased asset.

In respect of finance leases, judgment is required in determining the appropriate discount rate implicit in the lease to discount minimum lease payments. For leases where it is not practical to determine the implicit discount rate, LCBO estimates an appropriate discount rate based on the Ontario government borrowing rate.

v. Provisions

Provisions have been made for certain employee benefits, sales returns and store closing costs. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Additional disclosures are presented in Note 12.

vi. ODRP unredeemed container deposit income

LCBO has determined that not all deposits paid by customers for the ODRP containers will be redeemed. Estimates have been made for the redemption rate on ODRP containers based on past history. The estimated unredeemed ODRP container deposits are treated as other income in the period the likelihood of redemption is considered to be remote. Additional disclosures are presented in Note 25.

(thousands of Canadian dollars)

4. USE OF ESTIMATES AND JUDGMENTS *(continued)*

vii. Unredeemed Gift cards

LCBO has determined that not all gift cards purchased will be redeemed in full by customers. Estimates have been made for the redemption rate on gift cards based on past history and industry trends. LCBO had previously estimated the unredeemed percentage to be 3%. For the year ended March 31, 2017, LCBO estimated the unredeemed percentage to be 2% based on historical data and redemption patterns.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include both cash on hand and in transit, deposits held in trust, and short term investments (such as term deposits and bankers' acceptances), as follows:

	March 31, 2017	March 31, 2016
Cash on hand and in transit	113,160	109,195
Deposits Held in Trust	–	5,000
Bankers' acceptances	211,426	158,930
	324,586	273,125

The deposit held in trust for the year ended March 31, 2016 was received from the buyer as a deposit for the sale of LCBO's Head Office facility, warehouse facility, retail store and adjacent lands located in downtown Toronto. See Note 19 for more details relating to the sale.

6. TRADE AND OTHER RECEIVABLES

	March 31, 2017	March 31, 2016
Trade and other receivables	76,501	61,233
Allowance for doubtful accounts	(769)	(352)
	75,732	60,881

Trade and other receivables arise primarily from sales billed to independent businesses, agents and other debtors.

The carrying amount of trade and other receivables is reduced through the use of an allowance for doubtful accounts at levels LCBO considered adequate to absorb credit losses. Subsequent recoveries of receivables previously provisioned are credited to the Statement of income and other comprehensive income.

(thousands of Canadian dollars)

7. INVENTORIES

The cost of inventories sold and recognized as cost of sales during the year ended March 31, 2017 was $2,943 million (2016 – $2,785 million). There were no significant write-downs or reversal of previous write-downs to net realizable value during the year ended March 31, 2017 and 2016.

8. PREPAID EXPENSES AND OTHER ASSETS

Included in Prepaid expenses and other assets is the non-monetary incentive from the sale of LCBO Head Office Lands, which closed June 2016. The proceeds from the sale consisted of a monetary cash payment of approximately $260.0 million and a non-monetary incentive of approximately $23.3 million for the leaseback of a portion of the Head Office Lands in the interim. The non-monetary incentive for the leaseback will be amortized over the interim occupancy period, until the new office building and retail space is ready for occupancy by LCBO expected in late 2021. The unamortized balance of the non-monetary incentive as of March 31, 2017 is $19.8 million (2016 – nil). Refer to Note 19 for further details regarding the sale.

9. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

Net book value of property, plant & equipment and intangible assets	March 31, 2017	March 31, 2016
Land	9,963	10,381
Buildings	102,511	100,608
Furniture and equipment	43,106	40,317
Leasehold improvements	175,958	169,870
Computer equipment	15,594	18,185
Computer software	26,080	19,290
Software/construction in progress	23,527	28,995
	396,739	387,646

(thousands of Canadian dollars)

9. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS *(continued)*

The following table presents the changes in the cost and accumulated depreciation and impairment on the LCBO's property, plant and equipment and intangible assets:

Property, plant & equipment and intangible assets continuity for the year ended March 31, 2017

	Land	Buildings
Cost		
Balance at April 1, 2016	10,381	365,103
Additions	–	12,812
Disposals/Retirements	(418)	(4,230)
Impairment	–	–
Balance at March 31, 2017	9,963	373,685
Accumulated depreciation and impairment		
Balance at April 1, 2016	–	264,495
Depreciation for the year	–	9,707
Impairment losses	–	–
Disposals/Retirements	–	(3,028)
Balance at March 31, 2017	–	271,174
Net book value at March 31, 2017	9,963	102,511

(thousands of Canadian dollars)

Furniture and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
148,127	494,647	57,090	94,419	28,995	1,198,762
12,023	34,756	5,756	18,646	(5,394)	78,599
(6,717)	(4,114)	(6,158)	(3,108)	–	(24,745)
–	–	–	–	(74)	(74)
153,433	525,289	56,688	109,957	23,527	1,252,542
107,810	324,777	38,905	75,129	–	811,116
9,082	28,520	8,263	11,856	–	67,428
–	–	–	–	–	–
(6,565)	(3,966)	(6,074)	(3,108)	–	(22,741)
110,327	349,331	41,094	83,877	–	855,803
43,106	175,958	15,594	26,080	23,527	396,739

(thousands of Canadian dollars)

9. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS *(continued)*

Property, plant & equipment and intangible assets continuity for the year ended March 31, 2016

	Land	Buildings
Cost		
Balance at April 1, 2015	10,437	351,602
Additions	–	15,501
Disposals/Retirements	(56)	(2,000)
Impairment	–	–
Balance at March 31, 2016	10,381	365,103
Accumulated depreciation and impairment		
Balance at April 1, 2015	–	256,521
Depreciation for the year	–	9,205
Impairment losses	–	–
Disposals/Retirements	–	(1,231)
Balance at March 31, 2016	–	264,495
Net book value at March 31, 2016	10,381	100,608

(thousands of Canadian dollars)

Furniture and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
141,524	460,721	54,333	84,453	27,299	1,130,369
8,087	34,205	5,506	10,074	1,696	75,069
(1,484)	(279)	(2,749)	(108)	–	(6,676)
–	–	–	–	–	–
148,127	494,647	57,090	94,419	28,995	1,198,762
100,108	297,790	32,417	65,338	–	752,174
9,015	27,266	9,232	9,823	–	64,541
–	–	–	–	–	–
(1,313)	(279)	(2,744)	(32)	–	(5,599)
107,810	324,777	38,905	75,129	–	811,116
40,317	169,870	18,185	19,290	28,995	387,646

(thousands of Canadian dollars)

10. TRADE AND OTHER PAYABLES

	March 31, 2017	March 31, 2016
Trade payables	364,053	301,446
Accruals and other payables	313,079	287,279
	677,132	588,725

Trade payables consist of amounts outstanding for purchases of alcohol products, freight and federal taxes. Accruals and other payables include amounts relating to harmonized sales tax, unredeemed gift cards, ODRP container deposits collected and other miscellaneous accruals and purchases.

11. OPERATING LEASE ARRANGEMENT

LCBO enters into operating leases in the ordinary course of business, primarily for retail stores. The leases have varying terms, escalation clauses, renewal rights and do not contain any contingent rental payments.

Minimum lease payments recognized as an expense in 2017 were $86.2 million (2016 – $82.6 million). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	March 31, 2017
Fiscal 2018	86,722
Fiscal 2019 to 2022	311,272
Beyond fiscal 2022	502,745
	900,739

(thousands of Canadian dollars)

12. PROVISIONS

The following table represents the changes to LCBO's provisions:

Provisions continuity for the year end March 31, 2017

	Short term employee benefits	Other	Total
Balance at April 1, 2016	18,364	568	18,932
Charges recognized during the year	18,821	6,884	25,705
Utilization of provision	(18,364)	(568)	(18,932)
Balance at March 31, 2017	18,821	6,884	25,705

Provisions continuity for the year end March 31, 2016

	Short term employee benefits	Other	Total
Balance at April 1, 2015	17,927	811	18,738
Charges recognized during the year	18,364	568	18,932
Utilization of provision	(17,927)	(811)	(18,738)
Balance at March 31, 2016	18,364	568	18,932

Disclosed as:	March 31, 2017	March 31, 2016
Current	25,705	18,932
Non-current	–	–
	25,705	18,932

The employee benefits provision includes vacation entitlements earned by employees and performance bonus payments expected to be paid in the following year.

Other provisions include store closure provisions, which arise when LCBO agrees to restore a leased property to a specified condition at the completion of the lease period. These lease retirement provisions relate primarily to leases which expire over the next year. Other provisions also include a sales returns allowance for future returns on goods sold in the current period. The estimate has been made on the basis of historical sales returns trends. Included in this year's provision is an amount to compensate certain retail store Customer Service Representatives ("CSRs") for wage increases that may have been given to them as a result of their placement on the common wage grid for retail store CSRs, retroactive to November 1, 2016. The amount is expected to be paid out early next fiscal year. Refer to Note 14 for further details.

(thousands of Canadian dollars)

13. EMPLOYEE BENEFITS

a. Pension plan

For the year ended March 31, 2017, the expense was $29.1 million (2016 – $28.3 million) and is included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

b. Non-pension employee benefits

The non-pension employee benefits obligation (“benefit obligation”) include accruals for contractual severance payments (“CSP”), executive compensation time banking (“ECTB”), benefits extended to employees on long-term income protection (“LTIP”), unfunded workers compensation obligation (“WCB”), non-vesting sick leave plan (“NVSL”) and service awards.

LCBO measures its benefit obligation for accounting purposes as at March 31st of each year.

As of March 31, 2017, the weighted average duration of the plans obligations are 7.1 years (2016 – 7.3 years).

i. Statement of financial position

The non-pension employee benefits recognized in the Statement of financial position is as follows:

	March 31, 2017	March 31, 2016
Current	11,889	15,356
Non-current	108,036	105,241
Total non-pension employee benefit obligation	119,925	120,597

The current portion represents LCBO’s estimated contribution to non-pension employee benefits for fiscal 2017/2018.

ii. Statement of income and other comprehensive income

The non-pension employee benefit costs recognized in the Statement of income and other comprehensive income is as follows:

	March 31, 2017	March 31, 2016
Current service cost	10,895	10,826
Actuarial losses (gains) on non-vesting benefits	2,822	(6,616)
Total costs included in expenses	13,717	4,210
Interest costs	3,873	3,910
Total costs included in finance costs	3,873	3,910
Total non-pension employee benefit expenses	17,590	8,120

(thousands of Canadian dollars)

13. EMPLOYEE BENEFITS *(continued)*

iii. Accumulated other comprehensive income

The non-pension employee benefits recognized in accumulated other comprehensive income are as follows:

	March 31, 2017	March 31, 2016
Opening cumulative actuarial losses recognized	(1,290)	(2,805)
Net actuarial (losses) gains recognized	(452)	1,515
Closing cumulative actuarial losses recognized	(1,742)	(1,290)

iv. Movement in the obligation

The movements in the non-pension employee benefit obligation are as follows:

	March 31, 2017	March 31, 2016
Opening benefit obligation	120,597	128,336
Current service cost	10,895	10,826
Interest on obligation	3,873	3,910
Actuarial losses (gains) from changes in demographic assumptions	2,103	(1,538)
Actuarial (gains) losses from changes in financial assumptions	(838)	(5,062)
Actuarial losses (gains) from other	2,009	(1,531)
Benefits paid	(18,714)	(14,344)
Closing benefit obligation	119,925	120,597

(thousands of Canadian dollars)

13. EMPLOYEE BENEFITS *(continued)*

v. Significant assumptions

The significant assumptions used are as follows:

	CSP, ECTB & NVSL		Service Awards		WCB		LTIP	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Discount rate to determine the benefit obligation	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%
Discount rate to determine the benefit cost	3.20%	3.00%	3.20%	3.00%	3.20%	3.00%	3.20%	3.00%
Salary rate increase • Bargaining Unit	2.0% inflation for FY 2017 and 1.4% thereafter for COLA, plus OPT Promo-tional Scale	2.0% inflation for COLA, plus OPT Promo-tional Scale	2.0% per annum	2.0% per annum	n/a	n/a	n/a	n/a
• Management and Executive	FY2017: 1.4% COLA + 2% merit FY2018+: 0% COLA + 2% merit	FY2015: 0% COLA + 2% merit FY2016: 1.95% COLA + 2% merit FY2017: 0% COLA + 2% merit	2.0% per annum	2.0% per annum	n/a	n/a	n/a	n/a
Benefit index	1.4% Inflation for CSP	2.0% Inflation for CSP	2.0% per annum	2.0% per annum	2.5% for fully indexed benefits and 0.5% for partially indexed benefits	2.5% for fully indexed benefit and 0.5% for partially indexed benefits	1.4% Inflation	2.0% Inflation
Health cost rate increase	n/a	n/a	n/a	n/a	8.0% per annum in 2017 reducing to 4.5% per annum in and after 2027	6.6% per annum in 2016 reducing to 4.5% per annum in and after 2023	8.0% per annum in 2017 reducing to 4.5% per annum in and after 2027	6.6% per annum in 2016 reducing to 4.5% per annum in and after 2023

(thousands of Canadian dollars)

13. EMPLOYEE BENEFITS *(continued)*

vi. Sensitivity analysis

The sensitivity of the non-pension employee benefit obligation to changes in assumptions is set out below.

	Impact on total non-pension employee benefit obligation	
Assumption	0.5% increase in assumption	0.5% decrease in assumption
Discount rate	(4,055)	4,330
Health care trend rate	743	(726)
Salary Scale	2,750	(2,598)
Benefit Indexation	428	(398)

Excluding the assumption that is being tested, the sensitivity analysis was conducted using the same membership data, assumptions, and methods used to determine the fiscal 2017 year-end disclosures. For the sensitivity analysis, each main assumption was increased and decreased by 0.5 per cent from the assumption used to determine the defined benefit obligation at March 31, 2017, to determine the sensitivity impact on the March 31, 2017 defined benefit obligation.

14. CONTINGENT LIABILITIES

LCBO is involved in various legal actions arising out of the ordinary course and conduct of business. In view of the inherent difficulty of predicting the outcome on such matters, LCBO cannot state what the eventual outcome on such matters will be. However, based upon legal assessment and information presently available, LCBO does not believe that liabilities, if any, arising from pending litigation will have a material effect on the financial statements, with the exception of the following items.

In January 2015, LCBO was served with a proposed class proceeding seeking damages in the amount of $1.4 billion against LCBO, Brewers Retail Inc. ("BRI") and BRI's 3 corporate owners. The claim is commenced by an individual and a corporation who intend to represent a class composed of those individuals and businesses who purchased beer in Ontario since June 1, 2000 under the Framework for Improved Cooperation & Planning between Brewers Retail Inc. and the Government of Ontario (through the LCBO), dated June 1, 2000. The statement of claim alleges conspiracies regarding beer market allocation, pricing and licensee fees. The claim is being defended vigorously. At this point in time it is not possible to estimate the amounts, if any, that LCBO may have to pay in the future regarding the claim.

14. CONTINGENT LIABILITIES *(continued)*

In May 2013, during collective bargaining, OPSEU filed an Application with the Human Rights Tribunal against LCBO and Ministry of Finance alleging systemic gender discrimination. Amongst other things, the Application alleged that by not compensating CSRs at the same rates as Permanent Full Time CSRs, LCBO was discriminating on the basis of sex, which was alleged to impose significant disadvantages on workers in the predominantly female job classification of Casual CSR. However, the LCBO's Permanent Full Time CSR job classification is also predominantly female dominated. The LCBO vigorously defended the Human Rights Application and the hearing was scheduled to commence in October 2016. Just prior to the commencement of the hearing, the LCBO and OPSEU agreed to settle the Application in favour of a negotiation and arbitration process to address, amongst other things, a single wage grid for retail store CSRs (Casual, Permanent Part-time and Permanent Full-time) and the Sunday premium set out in the Collective Agreement. Negotiations were unsuccessful so the matter proceeded to arbitration. In two (2) arbitration awards, Arbitrator Kaplan, amongst other things, awarded a single wage grid and ended the Sunday premium. LCBO has included a provision amount related to the arbitration award which is expected to be paid out early next fiscal year, refer to Note 12.

The Application also addressed matters related to the revised Pay Equity Plan required for OPSEU Employees, that LCBO and OPSEU are in the process of developing. The revised Pay Equity Plan may have a financial liability attached to it. At this point in time it is not possible to reasonably estimate the value of the liability, if any, that may be arise from the updated Pay Equity Plan.

15. FINANCIAL RISK MANAGEMENT

The LCBO's Treasury policies regarding financial risk management are clearly defined and consistently applied. They are a fundamental part of the long-term strategy covering areas such as credit risk, liquidity risk and market risk (foreign exchange risk and interest rate risk). LCBO's financial risk management approach is to minimize the potential adverse effects from these risks on its financial performance. Financial risk management is carried out by LCBO, under the direction of the Board of Directors through its Governance Committee, in accordance with its Treasury Risk Management Policy. This Policy sets out the prudential framework for the identification, measurement, management and control of financial risks. Treasury operates as a centralized service and does not engage in speculative activities. Strict limits on the size and type of transaction permitted as well as authorized counterparties are set by the Board of Directors and are subject to rigorous internal controls.

a. Credit Risk

Credit risk is the risk of financial loss due to a financial counter party or another third party failing to meet its financial or contractual obligations to the LCBO. It arises from cash and cash equivalents, derivative financial instruments, and outstanding accounts receivable. LCBO minimizes credit risk associated with the various instruments as follows:

15. FINANCIAL RISK MANAGEMENT *(continued)*

Derivative financial instruments and cash and cash equivalents are placed only with approved counterparties. At March 31, 2017, all derivative instruments and cash and cash equivalents were held with regulated Canadian financial institutions that met minimum credit rating requirements.

Trade and others receivables arise primarily from sales invoiced to independent businesses, agents and other debtors. LCBO does not consider its exposure to credit risk associated with trade and other receivables to be material. As at March 31, 2017, approximately 56% (2016 – 58%) of LCBO's receivable is due from one customer whose account is in good standing.

Where there is objective evidence that the total balance of an accounts receivable is unlikely to be recovered, an allowance for impairment is made to reduce the carrying amount of the accounts receivable to the recoverable amount. See Note 6 for additional disclosures.

b. Liquidity Risk

Liquidity risk is the risk that LCBO may not have cash available to satisfy financial liabilities as they fall due. LCBO seeks to limit its liquidity risk by actively monitoring and managing its available cash reserves to ensure that it has sufficient access to liquidity at all times to meet financial obligations when due as well as those relating to unforeseen events. Cash that is surplus to working capital requirements is managed by LCBO and may be invested in federal/provincial treasury bills, bankers' acceptances, bearer deposit notes, term deposits and guaranteed income certificates, choosing maturities which are aligned with expected cash needs. It may also be held in a bank account if the interest rate is more favourable than the aforementioned investment instruments.

c. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market price. Market risk typically comprises four main types of risk: foreign exchange risk, interest rate risk, equity risk and commodity risk. Currently, LCBO is exposed only to foreign exchange risk and interest rate risk.

i. Foreign Exchange Risk

LCBO is exposed to foreign exchange risk with respect to inventory purchases denominated in currencies other than the Canadian dollar. To mitigate the impact of fluctuating foreign exchange rates on the cost of these purchases, the LCBO has an established non-speculative risk management program that governs the committed and reasonably anticipated foreign currency exposures in significant currencies that must be hedged through permitted hedging instruments. For the year ended March 31, 2017, LCBO hedged its exposure in identified significant currencies (USD, EUR and AUD) through the purchase of foreign exchange forward contracts.

In LCBO's assessment, the impact of fluctuations of foreign exchange rates would not have a significant impact on net income as majority of inventory purchases are in Canadian currency.

15. FINANCIAL RISK MANAGEMENT *(continued)*

ii. Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instruments will fluctuate due to changes in market interest rates. LCBO is exposed to interest rate risk on its cash and cash equivalents of short-term investments with maturity dates of less than 90 days and to a lesser extent on its financial lease obligations (which have fixed interest rates over their entire lease term). In LCBO's assessment, the impact of changes in interest rates would not have a significant impact on net income.

16. FINANCIAL INSTRUMENTS

LCBO uses foreign exchange forward contracts to manage foreign exchange risk on the purchase of inventory in a currency other than the Canadian dollar. LCBO has elected not to use hedge accounting on these derivative financial instruments. The forward contracts are classified as fair value through profit and loss ("FVTPL") and the fair value is estimated by using the difference between the contractual forward price and the forward price at reporting date.

LCBO purchases foreign exchange spot contracts for unhedged foreign currency transactions. The foreign exchange spot contracts are designated as FVTPL and the fair value is estimated by using the difference between the contractual rate and the Bank of Canada closing rate as at March 31, 2017.

For the year ended March 31, 2017 and 2016, LCBO reviewed these contracts and determined that it does not have significant fair values that require separate accounting and disclosures.

17. CAPITAL MANAGEMENT

LCBO is a corporation without share capital. Its capital structure consists of cash and cash equivalents and retained earnings.

LCBO's objectives in managing its capital are first to preserve capital and maintain sufficient liquidity to meet future financial commitments and second to maximize the earnings of such capital. By achieving these objectives, LCBO is able to fund its future growth and provide continuous dividends to the Province.

The Board of Directors is responsible for oversight of management including policies related to financial risk management. LCBO management is responsible for overseeing its capital structure and mitigating financial risk in response to changing economic conditions.

18. REVENUE

Virtually all revenue is from the sale of goods. In late fiscal 2016, under the recommendation of the Premier's Advisory Council of Government Assets, LCBO began the sale of beer in grocery stores where LCBO acts as a wholesaler to authorized grocery stores. In fiscal 2017, the program expanded to include cider and wine sales to grocery stores. Included in revenue is $64.7 million (2016 – $7.9 million) related to the sale of beer, cider and wine to grocery stores.

(thousands of Canadian dollars)

19. HEAD OFFICE SALE

In February 2012, the Minister of Finance announced the Province's intention to sell the LCBO's Head Office facility, warehouse facility, retail store and adjacent lands located in downtown Toronto (collectively LCBO Head Office Lands). A Request for Proposal ("RFP") in connection with the disposition of the LCBO Head Office Lands and for the provision of new LCBO Head Office and retail facility was issued in September 2014 by Infrastructure Ontario ("IO"), on behalf of LCBO. In fiscal 2016, the net assets of the LCBO Head Office Lands were classified as assets held for sale in the Statement of financial position.

It was announced on May 5, 2016 by the Minister of Finance that the LCBO had a firm and binding agreement with Menkes Developments Ltd., on behalf of a partnership comprised of Menkes, Greystone Managed Investments and Triovest Realty Advisors for the sale of LCBO Head Office Lands. The sale closed on June 8, 2016 and generated a gain of $271.8 million, calculated as proceeds less closing costs and net book value of LCBO Head Office Lands. The proceeds consisted of a monetary cash payment of approximately $260.0 million and a non-monetary incentive of approximately $23.3 million for the leaseback of a portion of the LCBO Head Office Lands in the interim, until the new office building and retail space is ready for occupancy by LCBO expected in late 2021. The net book value at the time of closing was $10.2 million and closing costs were approximately $1.3 million. The non-monetary incentive of $23.3 million has been included in Prepaid expenses and other assets, refer to Note 8 for more details.

The leases of the yet-to-be constructed office and retail space is expected to commence in late 2021, subject to changes depending on the completion of the project development by the landlord. The initial term for the office lease is twenty years, with the option to extend four further terms of five years. The initial term of the retail lease is ten years with the option to extend four further terms of five years.

As determined under section 4 of the Trillium Trust Act, from the proceeds of disposition for LCBO Head Office Lands, LCBO transferred $246.2 million to the Consolidated Revenue Fund.

20. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

The components of selling, general and administration expenses include the following:

	March 31, 2017	March 31, 2016
Employee costs (Note 21)	491,536	451,869
Occupancy costs	193,175	182,563
Depreciation and amortization	67,502	64,541
Debit/credit charges	41,975	38,645
Environmental initiatives	43,978	42,950
Other	106,811	89,817
	944,977	870,385

(thousands of Canadian dollars)

21. EMPLOYEE COSTS

Employee costs for LCBO for the year ended amounts to the following:

	March 31, 2017	March 31, 2016
Salaries & wages	398,109	372,302
Short-term employee benefits	93,427	79,567
	491,536	451,869

22. FINANCE INCOME AND FINANCE COSTS

Finance income and costs recognized by LCBO for the year ended amounts to the following:

	March 31, 2017	March 31, 2016
Finance income		
Interest earned	2,349	1,458
Total finance income	2,349	1,458
Finance costs		
Interest on non-pension employee benefits	3,873	3,910
Financing charges on capital leases	66	56
Total finance costs	3,939	3,966

23. RELATED PARTIES

Related parties of the LCBO include the Province of Ontario, Stewardship Ontario and key management personnel. For the year ended March 31, 2017, LCBO transferred a total of $2.306 billion (2016 – $1.935 billion) to the Province. The transfer included a dividend of $2.060 billion and $246.2 million for the sale of LCBO Head Office Lands, which is presented in the Statement of changes in equity. LCBO also provides an annual contribution to the Province for the defined benefit plan which is discussed in Notes 3 and 13. Refer to Note 24 for disclosure surrounding the payment to Stewardship Ontario.

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of LCBO. Key management personnel include members of the Board of Directors, President and Chief Executive Officer, Chief Financial Officer and the top senior officers. The Board members receive a per diem remuneration for attending regularly scheduled meetings and for serving on either the Audit Committee or the Governance and Compensation Committee.

(thousands of Canadian dollars)

23. RELATED PARTIES *(continued)*

Key management personnel compensation, including directors' fees comprise of:

	March 31, 2017	March 31, 2016
Salaries and short-term employee benefits	4,869	4,173
Post-employment benefits	299	254
Other long term benefits	86	70
Termination benefits	925	130
	6,179	4,627

24. WASTE DIVERSION

LCBO is responsible under the *Waste Diversion Act*, 2002 to pay municipalities through Stewardship Ontario, an industry funded waste diversion organization for costs associated with container waste and non-container waste recycled through municipal Blue Box systems. For the year ended March 31, 2017, LCBO contributed $2.1 million (2016 – $1.9 million) and these expenditures are included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

25. ONTARIO DEPOSIT RETURN PROGRAM

On November 6, 2006, the Province entered into an agreement with Brewers Retail Inc. for management of a province-wide container deposit return program ("the program") on wine, liquor and non-common beer containers sold through LCBO, Winery, on-site Microbrewery and Distillery Retail Stores. Brewers Retail Inc. was appointed the exclusive service provider for a period of five years effective February 5, 2007. In October 2015, the Province extended the contract with Brewers Retail Inc. as part of the Master Framework Agreement which ends on September 30, 2025.

Under the program, LCBO collects a deposit of 10 or 20 cents on wine, liquor and most beer containers. LCBO reimburses Brewers Retail Inc. for deposits it pays to customers who return containers to locations it operates, plus a service fee.

For the year ended March 31, 2017, LCBO collected $69.1 million (2016 – $66.9 million) of deposits on containers and was invoiced $54.2 million (2016 – $52.7 million) for refunds to the customers. The net amounts are included in trade and other payables in the Statement of financial position.

In connection with the program, expenditures related to service fees paid to Brewers Retail Inc. for the year ended March 31, 2017, amounted to $41.8 million (2016 – $41.0 million), inclusive of $4.8 million (2016 – $4.7 million) of harmonized sales tax which is unrecoverable by LCBO, but is recoverable by the Province. These expenditures are included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

25. ONTARIO DEPOSIT RETURN PROGRAM *(continued)*

LCBO's experience indicates that not all container deposits collected would be redeemed based upon its redemption data. Based on historical redemption patterns, for the year ended March 31, 2017, LCBO recognized $16.7 million (2016 – $18.4 million) of unredeemed deposits as other income as LCBO has determined the likelihood of redemption to be remote. The remaining reserve for unredeemed container deposits reflects the ODRP program to-date redemption rate.

26. THE BEER STORE (TBS) COMMON PRODUCT DEPOSIT RETURN PROGRAM

LCBO participates in a separate deposit-refund system, TBS common product program, managed and administered by Brewers Retail Inc. for containers that are not within the scope of the Ontario Deposit Return Program. Containers fall under the TBS program if:

(1) the product is available for sale at both the LCBO and TBS; or

(2) the product is an Industry Standard Bottle (ISB) regardless of whether or not the product is available at TBS

The TBS program is not mandated by government regulations; however, the TBS program is a requirement in dealing with Brewers Retail Inc.

Under the program, LCBO purchases imported and domestic beer products from various suppliers including some domestic beer products from TBS. Payment to these suppliers includes the container deposit in addition to the product cost. The container deposit is only paid to the suppliers if the products meet the program criterions above. If the products do not meet either criterion, they are excluded from the TBS common product program and will follow the Ontario Deposit Return Program as described in Note 25.

When LCBO sells TBS common products to customers including imported beer to TBS, the container deposit is collected as part of the sale proceeds.

TBS common product program deposits paid and collected are offset and included in trade and other receivables in the Statement of financial position.

For the year ended March 31, 2017, $3.3 million (2016 – $2.6 million) is included in trade and other receivables related to the TBS common product deposits.

27. OTHER MATTERS

In April 2015, the Premier's Advisory Council of Government Assets (the "Council") released a report to government entitled "Striking the Right Balance: Modernizing Beer Retailing and Distribution in Ontario", which recommended changes to the beer distribution and retailing system in Ontario. At government's direction, LCBO began to work with the Ministry of Finance and the Council on implementing certain of those recommendations relating to the sale of beer in grocery stores. Up to 450 grocery stores across the province will be allowed to sell beer, including up to 150 stores by May 2017. Following a competitive process, the first 60 grocery stores were authorized by the Alcohol and Gaming Commission ("AGCO") to sell beer in late 2015, with cider added in June 2016, and the LCBO now acts as the wholesaler of beer and cider to those authorized stores.

27. OTHER MATTERS *(continued)*

In February 2016, the Council released a follow up report to government entitled "Striking the Right Balance: Modernizing Wine and Spirits Retailing and Distribution in Ontario", which recommended substantive changes to the wine retailing system in Ontario. Once again, at government's direction, LCBO worked with the Ministry of Finance and the Council on implementing certain of the recommendations relating to the sale of imported and domestic wine, beer and cider in grocery stores. Following a new competitive process, in late 2016, 70 additional grocery stores have been authorized by the AGCO to sell beer, cider and wine. The LCBO acts as wholesaler of beer, cider and wine to those authorized stores.

At government's direction, the LCBO conducted another competitive process in the spring of 2017 and it is anticipated that 80 additional grocery stores will be authorized to sell beer and cider by early summer 2017.

All authorized grocers purchase all beer, wine and cider for sale in grocery stores from the LCBO at a wholesale discount determined through the applicable competitive process.

In addition, up to 70 existing winery retail stores located next to grocery stores will be able to move inside grocery stores and offer an expanded selection of products. Ontario wine not produced by the owners of such outlets will be purchased from the LCBO. Grocers that sign agreements with winery retail stores to have an outlet operated within their store will receive an authorization to sell beer and cider purchased from the LCBO.

28. SUBSEQUENT EVENTS

LCBO commenced collective bargaining with the Ontario Public Service Employees Union ("OPSEU") Liquor Board Employees Division ("LBED") to renew the collective agreement that expired on March 31, 2017; the expired contract covered approximately 88 per cent of LCBO's workforce as at March 31, 2017.

In April 2017, the union requested conciliation assistance from the Ministry of Labour and a conciliation officer was appointed to assist LCBO and the Union in their negotiations. On June 5, 2017, the Union requested a No Board Report from the Ministry of Labour and the report was issued on June 9, 2017.

On June 26, 2017, LCBO and the OPSEU LBED reached a tentative memorandum of agreement, which is subject to ratification by LCBO bargaining employees, followed by ratification by the LCBO's Board of Directors and the Province by way of an order in council. The results of ratification are expected by late August 2017.

Financial Overview

KEY OPERATIONAL INDICATORS

	FY2017	FY2016	FY2015	FY2014	FY2013
LCBO stores*	660	654	651	639	634
Full-time equivalent employees	6,768	6,665	6,469	6,348	6,212
Product listings	24,854	22,711	23,557	24,580	24,012

**LCBO store count includes licensee depot locations (3 as of FY2017).*

FINANCIAL INDICATORS *($ thousands)*

	FY2017	FY2016	FY2015	FY2014	FY2013
Total revenues*	5,960,271	5,627,100	5,249,115	5,057,033	4,928,824
Growth over previous year	5.9%	7.2%	3.8%	2.6%	3.8%
Total expenses**	948,916	874,351	840,282	820,839	784,242
As a percentage of total revenues	15.9%	15.5%	16.0%	16.2%	15.9%
Net income***	2,067,935	1,967,836	1,818,415	1,744,683	1,710,967
As a percentage of total revenues	34.7%	35.0%	34.6%	34.5%	34.7%

**Total revenues represent revenues plus other income plus finance income.*
***Total expenses represents selling, general and administrative (SG&A) expenses plus finance cost.*
****Net Income of $2.340 billion has been normalized to exclude the gain of the LCBO head office property in FY2017.*

BREAKDOWN OF SELLING, ADMINISTRATIVE & GENERAL EXPENSES *($ thousands)*

	FY2017	FY2016	FY2015	FY2014	FY2013
Employee costs	491,536	451,869	440,864	446,244	435,413
Occupancy costs	193,175	182,563	169,109	157,429	141,210
Depreciation	67,502	64,541	61,664	54,897	51,126
Other expenses	192,764	171,412	163,764	157,561	152,669
Total SG&A expenses	**944,977**	**870,385**	**835,401**	**816,131**	**780,418**

REVENUE PAYMENTS *($ thousands)*

Treasurer of Ontario	FY2017	FY2016	FY2015	FY2014	FY2013
Remitted by the Liquor Control Board:					
on account of profits	2,060,000	1,935,000	1,805,000	1,740,000	1,700,000
Sale of Head Office Transfer	246,215				
Remitted by the Alcohol and Gaming Commission:					
on account of licence fees and permits	9,983	9,193	8,891	9,030	8,853
Remitted by the Ministry of Revenue:					
Beer and wine tax[1]	594,000	582,000	560,000	557,000	560,000
Total	**2,910,198**	**2,526,193**	**2,373,891**	**2,306,030**	**2,268,853**

Receiver General for Canada	FY2017	FY2016	FY2015	FY2014	FY2013
Remitted by the Liquor Control Board:					
Excise taxes and customs duties	393,924	382,415	368,605	362,936	361,019
Goods and Services Tax (GST) / Harmonized Sales Tax (HST)	503,462	485,135	453,933	437,246	430,220
Remitted by others:					
Excise taxes, GST/HST and other duties/taxes	498,959	497,460	479,671	475,263	479,846
GST/HST remitted on sales through agency stores	17,043	16,421	15,312	14,926	14,780
Total	**1,413,388**	**1,381,431**	**1,317,521**	**1,290,371**	**1,285,865**

1 *The beer and wine tax figure of $594 million is an interim number for FY2017. The FY2016 number has been restated to actual as per 2017 Ontario Budget.*

REVENUE PAYMENTS *($ thousands) (continued)*

Ontario Municipalities	FY2017	FY2016	FY2015	FY2014	FY2013
Remitted by the Liquor Control Board:					
Realty taxes[2]	33,276	31,488	28,443	26,191	22,755
Total revenue payments	**4,356,863**	**3,939,113**	**3,719,855**	**3,622,592**	**3,577,473**

ONTARIO SALES CHANNEL SUMMARY *(thousands of litres)*

	FY2017	Growth	FY2016	FY2015	FY2014	FY2013
LCBO	480,018	3.2%	465,339	439,698	424,890	420,447
Beer Store	581,091	-2.1%	593,768	586,697	601,075	623,227
Winery Retail Stores	26,435	1.1%	26,147	24,355	22,867	21,963
Grocer	12,305	659.5%	1,620			
Other channels:						
Other Legal	61,958	-1.8%	63,123	49,067	56,480	54,017
Homemade	19,371	-3.2%	20,007	18,219	17,868	15,887
Illegal	46,713	-5.6%	49,483	48,713	46,830	42,368
Total Ontario	**1,227,891**	**0.7%**	**1,219,486**	**1,166,749**	**1,170,011**	**1,177,910**

Note: All figures above are shown in litres. Sales volumes reported under the Other Channels category are estimates. LCBO and TBS figures exclude reciprocal sales. The LCBO is the wholesaler of record for beverage alcohol sold through Grocers – a new channel introduced in December 2015. Previous years may be restated based on new information received.

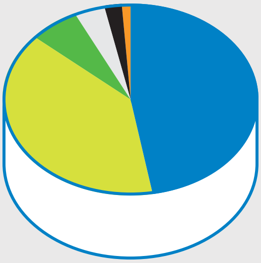
2 *Includes property taxes on leased properties.*

SHARE OF ONTARIO BEVERAGE ALCOHOL MARKET BY VOLUME SOLD

	FY2017	Change	FY2016	FY2015	FY2014	FY2013
LCBO	39.1%	0.9%	38.2%	37.7%	36.3%	35.7%
Beer Store	47.3%	-1.4%	48.7%	50.3%	51.4%	52.9%
Other Legal	6.6%	-0.2%	6.8%	5.8%	6.4%	5.9%
Illegal	3.8%	-0.3%	4.1%	4.2%	4.0%	3.6%
Winery Retail Stores	2.2%	0.0%	2.1%	2.1%	2.0%	1.9%
Grocer	1.0%	0.9%	0.1%			

2017 share of Ontario beverage alcohol market by volume sold

Beer Store	*47.3%*
LCBO	*39.1%*
Other Legal	*6.6%*
Illegal	*3.8%*
Winery Retail Stores	*2.2%*
Grocer	*1.0%*



VOLUME SALES *(thousands of litres)*

LCBO sales	FY2017	Growth	FY2016	FY2015	FY2014	FY2013
Domestic Spirits	33,683	5.8%	31,842	31,044	31,179	32,300
Imported Spirits	29,446	5.8%	27,826	27,023	26,436	26,210
Total Spirits	**63,130**	**5.8%**	**59,668**	**58,067**	**57,615**	**58,510**
Domestic Wine	56,178	5.5%	53,227	48,308	44,312	42,629
Imported Wine	112,954	1.3%	111,481	108,135	104,771	101,676
Total Wine	**169,132**	**2.7%**	**164,708**	**156,443**	**149,084**	**144,306**
Domestic Beer	133,375	7.9%	123,572	115,038	111,801	111,703
Imported Beer	157,040	4.2%	150,714	140,477	135,687	135,169
Total Beer	**290,416**	**5.9%**	**274,286**	**255,514**	**247,488**	**246,872**
Domestic Spirit Coolers	30,122	17.3%	25,690	23,599	24,897	25,918
Imported Spirit Coolers	12,894	-1.6%	13,097	7,431	5,070	4,529
Domestic Wine Coolers	196	-45.3%	359	443	158	236
Imported Wine Coolers	488	-13.4%	564	439	277	157
Domestic Beer Coolers	154	23.8%	124	131	128	136
Imported Beer Coolers	885	37.0%	646	1,545	1,728	899
Total Coolers	**44,739**	**10.5%**	**40,480**	**33,588**	**32,258**	**31,874**
Total Domestic	**253,708**	**8.0%**	**234,814**	**218,563**	**212,475**	**212,921**
Total Imported	**313,708**	**3.1%**	**304,328**	**285,050**	**273,970**	**268,640**
Total LCBO	**567,416**	**5.2%**	**539,142**	**503,613**	**486,445**	**481,562**

Other sales	FY2017	Growth	FY2016	FY2015	FY2014	FY2013
Ontario winery stores	26,435	1.1%	26,147	24,355	22,867	21,963
The Beer Store & brewer on-site stores	590,884	-1.8%	601,838	592,818	605,819	627,933

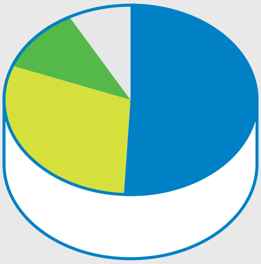
Note: The FY2017 sales figures for Ontario winery stores, The Beer Store (TBS) and brewer on-site stores are unaudited and may understate total sales due to various wineries and brewers not reporting by the time of publication. LCBO beer sales figures include LCBO sales to TBS; of LCBO's total beer sales in litres, 87,642,080 were to TBS. Prior year figures are restated annually to reflect changes in product hierarchy.

SHARE OF LCBO VOLUME SALES *(thousands of litres)*

	FY2017		FY2016	
	Litres sold	% of total	Litres sold	% of total
Spirits	63,130	11%	59,668	11%
Wine	169,132	30%	164,708	31%
Beer	290,416	51%	274,286	51%
Coolers	44,739	8%	40,480	8%

2017 share of LCBO volume sales

- Beer *51%*
- Wine *30%*
- Spirits *11%*
- Coolers *8%*



VALUE SALES *($ thousands)*

LCBO sales	FY2017	Growth	FY2016	FY2015	FY2014	FY2013
Domestic Spirits	979,397	3.2%	948,814	913,343	909,848	923,795
Imported Spirits	1,080,236	6.5%	1,014,676	955,676	911,102	875,010
Total Spirits	**2,059,633**	**4.9%**	**1,963,490**	**1,869,019**	**1,820,951**	**1,798,806**
Domestic Wine	592,424	7.1%	552,962	505,113	466,130	447,392
Imported Wine	1,702,999	3.8%	1,641,358	1,566,310	1,495,128	1,449,807
Total Wine	**2,295,422**	**4.6%**	**2,194,320**	**2,071,424**	**1,961,258**	**1,897,199**
Domestic Beer	572,268	10.4%	518,554	471,001	443,267	429,811
Imported Beer	717,851	7.1%	670,267	617,020	595,612	589,635
Total Beer	**1,290,119**	**8.5%**	**1,188,821**	**1,088,020**	**1,038,879**	**1,019,446**
Domestic Spirit Coolers	164,294	16.5%	141,044	130,110	137,181	142,945
Imported Spirit Coolers	73,573	-0.3%	73,797	43,765	31,303	28,762
Domestic Wine Coolers	1,250	-45.2%	2,279	2,784	963	1,487
Imported Wine Coolers	3,418	-12.4%	3,904	2,768	1,690	964
Domestic Beer Coolers	869	21.3%	716	755	706	699
Imported Beer Coolers	4,662	46.5%	3,183	8,102	8,366	4,099
Total Coolers	**248,066**	**10.3%**	**224,924**	**188,283**	**180,209**	**178,956**
Total Domestic	**2,310,501**	**6.8%**	**2,164,369**	**2,023,105**	**1,958,096**	**1,946,129**
Total Imported	**3,582,739**	**5.2%**	**3,407,186**	**3,193,641**	**3,043,201**	**2,948,278**
Non-Liquor and Other	**(2,451)**	**17.3%**	**(2,089)**	**(2,657)**	**(3,522)**	**(1,953)**
Total LCBO	**5,890,789**	**5.8%**	**5,569,466**	**5,214,089**	**4,997,774**	**4,892,454**

VALUE SALES *($ thousands) (continued)*

Other sales	FY2017	Growth	FY2016	FY2015	FY2014	FY2013
Ontario winery stores	316,312	4.2%	303,552	281,873	256,421	248,055
The Beer Store & brewer on-site stores	2,357,534	0.1%	2,354,137	2,287,357	2,270,299	2,307,715

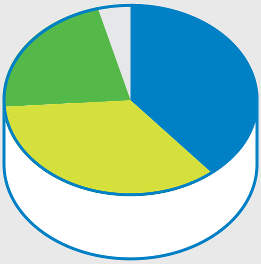
Note: The FY2017 sales figures for Ontario winery stores, The Beer Store (TBS) and brewer on-site stores are unaudited and may understate total sales due to various wineries or brewers not reporting by the time of publication. LCBO beer sales figures include LCBO sales to TBS; of LCBO's total beer sales, $398,531,641 were to TBS. Prior year figures are restated annually to reflect changes in product hierarchy.

SHARE OF LCBO VALUE SALES *($ thousands)*

	FY2017		FY2016	
	Net sales ($)	% of total	Net sales ($)	% of total
Spirits	2,059,633	35%	1,963,490	35%
Wine	2,295,422	39%	2,194,320	39%
Beer	1,290,119	22%	1,188,821	22%
Coolers	248,066	4%	224,924	4%

2017 share of LCBO value sales

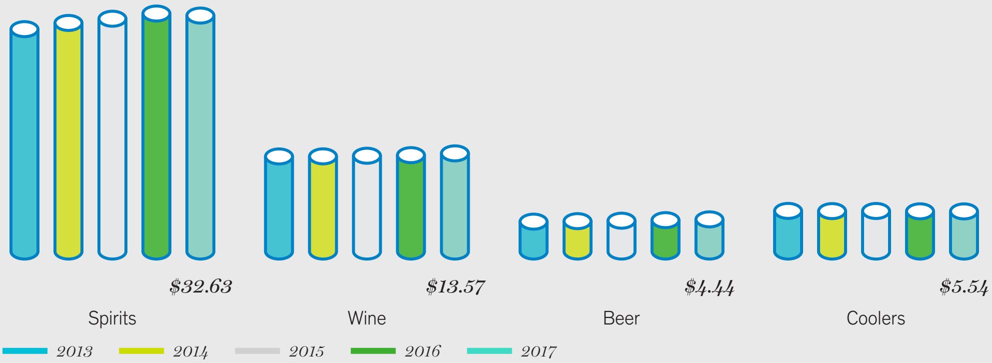
Wine	*39%*
Spirits	*35%*
Beer	*22%*
Coolers	*4%*



AVERAGE NET SALES PER LITRE *(excludes sales tax)*

	FY2017	Growth	FY2016	FY2015	FY2014	FY2013
Spirits	$ 32.63	-0.9%	$ 32.91	$ 32.19	$ 31.61	$ 30.74
Wine	$ 13.57	1.9%	$ 13.32	$ 13.24	$ 13.16	$ 13.15
Beer	$ 4.44	2.5%	$ 4.33	$ 4.26	$ 4.20	$ 4.13
Coolers	$ 5.54	-0.2%	$ 5.56	$ 5.61	$ 5.59	$ 5.61

Average net sales per litre

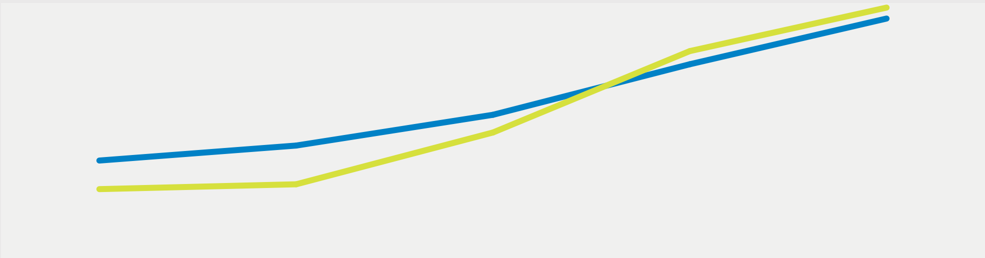


AVERAGE TRANSACTION PER CUSTOMER *(values in thousands)*

	FY2017	Growth	FY2016	FY2015	FY2014	FY2013
Net sales*	$5,890,789	5.8%	$5,569,466	$5,214,089	$4,997,774	$4,892,454
Customer transactions	140,643	2.5%	137,244	130,885	126,840	126,460
Average transaction value per customer	$ 41.88	3.2%	$ 40.58	$ 39.84	$ 39.40	$ 38.69

**Net Product Sales, excluding gift card breakage revenue.*

Net sales & customer transactions



$4,892,454	*$4,997,774*	*$5,214,089*	*$5,569,466*	*$5,890,789*
126,460	*126,840*	*130,885*	*137,244*	*140,643*
FY2013	FY2014	FY2015	FY2016	FY2017

*Net Sales** *Customer Transactions*

**Net Product Sales, excluding gift card breakage revenue.*

Average transaction value per customer

$38.69	*$39.40*	*$39.84*	*$40.58*	*$41.88*
FY2013	FY2014	FY2015	FY2016	FY2017

PRODUCT LISTINGS

	FY2017	FY2016	FY2015	FY2014	FY2013
Domestic					
Spirits	508	469	469	458	425
Wine	579	554	574	565	560
Beer	1,038	692	573	626	546
Imported					
Spirits	980	815	762	797	705
Wine	1,121	1,156	1,170	1,167	1,156
Beer	387	391	390	393	347
Total regular listings	**4,613**	**4,077**	**3,938**	**4,006**	**3,739**
Vintages wines and spirits	4,972	5,361	5,468	5,949	6,408
Duty-free listings	269	273	252	264	263
Consignment warehouse and private ordering	15,000	13,000	13,899	14,361	13,602
Total product listings	**24,854**	**22,711**	**23,557**	**24,580**	**24,012**

Note: Product listing figures for consignment and private ordering are estimated based on invoices produced by Specialty Services. The total does not include products delisted during the fiscal year.

REVENUE DISTRIBUTION BY PRODUCT TYPE

	Domestic Spirits	100% Ontario Wine	Ontario Beer
Supplier	23%	45%	43%
LCBO Mark-up	52%	43%	19%
Federal taxes & HST*	25%	12%	38%
Deposit**			

**Note: HST is collected by the federal government and a portion is later distributed back to the province of Ontario.*
***Note: Deposit collected on the sale of wine, spirits and beer is recorded as a liability, not revenue.*

LCBO VOLUME SALES SHARE BY CATEGORY *(thousands of litres)*

	FY2017	FY2016	FY2015	FY2014	FY2013
Canadian Spirits					
Spirit Coolers	28.4%	26.8%	26.6%	28.5%	28.3%
Canadian Whisky	12.9%	14.1%	14.7%	15.6%	15.5%
Canadian Vodka	8.0%	8.8%	9.1%	9.4%	9.6%
Canadian Rum	6.2%	6.9%	7.6%	8.0%	8.2%
Canadian Liqueur	1.9%	2.0%	2.2%	2.4%	2.2%
Canadian Dry Gin	0.5%	0.5%	0.5%	0.5%	0.6%
Other	2.3%	0.8%	0.7%	0.2%	1.4%
Imported Spirits					
Spirit Coolers	12.2%	11.1%	7.2%	5.8%	4.8%
Vodka	7.0%	7.5%	8.2%	8.4%	8.1%
Scotch	3.7%	4.1%	4.2%	4.3%	4.2%
Miscellaneous Liquors	3.3%	3.5%	3.9%	3.9%	3.8%
Liqueur	2.7%	3.0%	3.1%	2.9%	3.0%
French Brandy	1.7%	1.8%	1.8%	1.8%	1.8%
Other	9.1%	9.0%	10.1%	8.3%	8.7%
Total Spirits	**105,891**	**95,821**	**88,772**	**87,305**	**88,752**
Canadian Wines					
White Table	14.8%	14.7%	14.6%	14.5%	14.6%
Red Table	10.2%	10.1%	9.7%	9.3%	9.0%
Fortified	1.1%	1.1%	1.2%	1.2%	1.2%
Rose Table	0.9%	0.9%	0.9%	0.9%	0.9%
7% Sparkling	0.7%	0.7%	0.8%	0.8%	0.9%
Wine Coolers	0.1%	0.2%	0.0%	0.0%	0.0%
Other	4.1%	3.4%	2.6%	2.0%	2.0%
Imported Wines					
Red Table	34.4%	35.1%	36.4%	37.1%	38.0%
White Table	20.5%	20.4%	20.9%	21.5%	22.3%
Sparkling	2.8%	2.6%	2.5%	2.4%	2.5%
Rose Table	1.5%	1.5%	1.4%	1.4%	0.8%
Fortified	0.9%	0.9%	1.0%	1.0%	1.1%
Wine Coolers	0.3%	0.4%	0.3%	0.2%	0.1%
Other	7.7%	8.3%	8.1%	7.8%	6.7%
Total Wine	**156,672**	**154,569**	**146,403**	**139,540**	**135,079**

LCBO VOLUME SALES SHARE BY CATEGORY *(thousands of litres) (continued)*

	FY2017	FY2016	FY2015	FY2014	FY2013
Canadian Beer					
Ontario Beer	44.1%	43.6%	45.0%	45.2%	45.4%
Other Canadian Beer	3.9%	4.3%	3.3%	3.0%	3.4%
Imported Beer					
Other Imported Beer	41.2%	42.0%	42.9%	43.7%	43.3%
U.S. Beer	10.7%	10.0%	8.7%	8.0%	7.8%
Sake	0.1%	0.1%	0.1%	0.1%	0.1%
Total Beer	**257,138**	**251,747**	**233,598**	**226,677**	**224,475**
Total	**519,701**	**502,137**	**468,773**	**453,522**	**448,306**

LCBO VALUE SALES SHARE BY CATEGORY *($ thousands)*

	FY2017	FY2016	FY2015	FY2014	FY2013
Canadian Spirits					
Canadian Whisky	18.5%	19.1%	19.2%	20.2%	20.2%
Canadian Vodka	11.5%	11.9%	12.0%	12.2%	12.5%
Canadian Rum	8.9%	9.4%	10.0%	10.4%	10.7%
Spirit Coolers	7.2%	6.5%	6.4%	6.9%	7.0%
Canadian Liqueur	2.4%	2.4%	2.5%	2.7%	2.4%
Canadian Dry Gin	0.7%	0.7%	0.7%	0.7%	0.7%
Other	0.8%	0.4%	0.4%	0.3%	0.7%
Imported Spirits					
Vodka	10.8%	10.9%	11.5%	11.7%	11.6%
Scotch	8.4%	8.5%	8.4%	8.3%	8.1%
Miscellaneous Liquors	4.9%	5.0%	5.2%	5.2%	5.0%
Liqueur	4.2%	4.5%	4.4%	4.2%	4.3%
French Brandy	3.9%	3.7%	3.5%	3.4%	3.4%
Spirit Coolers	3.2%	2.9%	1.9%	1.6%	1.4%
Other	14.6%	14.1%	13.8%	12.2%	12.0%
Total Spirits	**$2,288,632**	**$2,159,539**	**$2,035,369**	**$1,983,273**	**$1,965,498**
Canadian Wines					
White Table	11.3%	11.3%	11.2%	11.1%	11.2%
Red Table	8.4%	8.4%	8.0%	7.7%	7.4%
Fortified	1.0%	1.0%	1.0%	1.1%	1.1%
Rose Table	0.7%	0.7%	0.7%	0.7%	0.7%
7% Sparkling	0.5%	0.5%	0.5%	0.5%	0.5%
Wine Coolers	0.1%	0.1%	0.0%	0.0%	0.0%
Other	2.4%	2.1%	1.8%	1.5%	1.6%
Imported Wines					
Red Table	42.4%	43.2%	44.1%	44.5%	44.9%
White Table	21.8%	21.7%	21.9%	22.3%	22.6%
Sparkling	5.2%	4.8%	4.5%	4.4%	4.5%
Rose Table	1.5%	1.4%	1.3%	1.3%	0.8%
Fortified	1.1%	1.1%	1.2%	1.2%	1.2%
Wine Coolers	0.2%	0.2%	0.1%	0.1%	0.1%
Other	3.5%	3.8%	3.7%	3.6%	3.5%
Total Wine	**$2,087,930**	**$2,016,659**	**$1,900,542**	**$1,802,878**	**$1,745,646**

LCBO VALUE SALES SHARE BY CATEGORY *($ thousands) (continued)*

	FY2017	FY2016	FY2015	FY2014	FY2013
Canadian Beer					
Ontario Beer	42.6%	42.1%	43.0%	42.4%	41.9%
Other Canadian Beer	3.8%	4.3%	3.5%	3.2%	3.7%
Imported Beer					
Other Imported Beer	42.8%	43.6%	44.6%	46.2%	46.5%
U.S. Beer	10.3%	9.5%	8.4%	7.8%	7.6%
Sake	0.5%	0.4%	0.4%	0.4%	0.4%
Total Beer	**$1,138,580**	**$1,086,962**	**$ 991,143**	**$ 948,990**	**$ 926,334**
Total	**$5,515,142**	**$5,263,161**	**$4,927,055**	**$4,735,141**	**$4,637,479**

LCBO SALES BY COUNTRY OF ORIGIN

In fiscal 2017, excluding sales through private ordering and grocers, the LCBO sold products from 81 different countries.

Spirits

Country	Net Sales ($)	Litres
Ontario	$668,181,424	44,751,834
Canada	$1,143,226,336	63,782,564
United Kingdom	$275,863,269	7,380,085
United States	$223,296,132	14,049,557
France	$168,827,244	4,651,976
Ireland	$88,702,279	2,691,174
Mexico	$73,227,792	1,795,415
Sweden	$72,523,882	2,384,119
Italy	$37,730,659	1,219,938
Germany	$25,354,700	979,935
Poland	$24,549,509	693,838
Other	$155,329,720	6,262,425
Total	$2,288,631,523	105,891,026

LCBO SALES BY COUNTRY OF ORIGIN *(continued)*

Wine

Country	Net Sales ($)	Litres
Ontario	$502,296,698	49,344,101
Canada	$509,842,066	49,928,290
United States	$359,002,946	20,779,679
Italy	$344,722,894	23,135,486
France	$200,378,985	9,656,657
Australia	$180,274,793	11,879,163
Chile	$111,982,872	9,972,370
New Zealand	$76,384,465	3,677,802
Argentina	$72,091,039	5,321,246
Spain	$69,783,811	4,060,337
South Africa	$39,094,228	3,081,387
Other	$129,846,856	15,502,645
Total	$2,093,404,955	156,995,062

LCBO SALES BY COUNTRY OF ORIGIN *(continued)*

Beer

Country	Net Sales ($)	Litres
Ontario	$485,426,283	113,433,996
Canada	$533,217,533	124,291,927
Netherlands	$121,066,984	26,193,251
United States	$116,995,312	27,591,562
Mexico	$105,983,802	21,382,305
Belgium	$76,598,261	15,300,576
Germany	$40,226,298	10,425,675
United Kingdom	$26,238,373	5,279,196
Poland	$22,414,921	6,211,594
Ireland	$21,036,834	4,202,832
Denmark	$15,788,430	3,933,489
Other	$53,538,342	12,002,397
Total	$1,133,105,089	256,814,803

Credits

The LCBO wishes to thank the members of the Audit Committee of the Board of Directors for their assistance in preparing this document. This report is also available at www.lcbo.com, under About LCBO. Produced by LCBO Corporate Communications. Design by ANITA CHEN DESIGN. Photography by AS1 Photography. Financial information prepared by LCBO Financial Planning & Analysis Group and the Controller's Office. French translation by LCBO French Language Services.

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