2020-21

ANNUAL REPORT

LCBO

Ontario

LETTER OF TRANSMITTAL

The Honourable Peter Bethlenfalvy, Minister of Finance:

Dear Minister, I have the honour to present you with the 2020-21 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,

Carmine Nigro, Chair

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HIGHLIGHTS

BY THE NUMBERS

- **Dividend of $2.39 billion to the Government of Ontario to support critical services like healthcare, education and infrastructure**
- **Total number of active grocers selling beer, cider, and in some stores, wine, has hit its target of 450**
- **eCommerce sales soared in response to the demand for greater convenience and the COVID-19 pandemic**
- **Customer donations raised a record $13.6 million to support the health and wellbeing of Ontarians**
- **LCBO Convenience Outlet (LCO) Program stores increased by 30, now servicing 396 communities, and supporting small businesses across Ontario**

The LCBO is a customer-centric retailer, dedicated to innovation and excellence in bringing the best of local and the world to the people of Ontario while ensuring a sustainable future. Wellness is our number-one priority as we strive for excellence to continuously deliver engaging, responsible shopping experiences, including enhancing our customer experience and strengthening our digital, retail, and wholesale channels.

FINANCIAL OVERVIEW

The LCBO is a proud contributor to the Government of Ontario. The revenues it generates supports key public programs and services for Ontarians, including health care, education, and infrastructure within the province.

- Dividends transferred to the Ontario Government: $2.39 billion
- Revenue: $7.18 billion
- Net income: $2.54 billion
- Total eCommerce sales: $140+ million
- Grocery: Sales from the wholesale supply of beer, wine and cider to grocery stores totaled $486.5 million with 450 active store authorizations by the end of FY2021

RETAIL OVERVIEW

The LCBO is a customer-centric retailer dedicated to bringing the best products from Ontario and the world efficiently through a diverse array of commerce options.

- Number of LCBO stores serving communities across Ontario: 677
- Enhanced health and safety measures included modified store operating hours, in-store traffic limits, increased cleaning and sanitization protocols at stores and warehouses, and directional signage and plexiglass barriers at checkouts in all stores
- eCommerce sales increased by 250 percent year over year, largely driven by the COVID-19 pandemic
- Same-Day Pickup option of products ordered online was expanded to 192 locations, and surpassed half of a million total orders

SUSTAINABILITY & SOCIAL IMPACT

The LCBO is in a unique position to help shape a more sustainable Ontario. Through the Spirit of Sustainability, the LCBO is encouraging our customers to discover incredible local producers and a world of wine, beer, ciders and spirits - all while adapting our business with a positive impact as our guiding principle.

- Increase in our total community investment with $13.6 million raised to support organizations including:
    - Food relief programs across Ontario as part of the COVID-19 response
    - The Careers Education Empowerment (CEE) Centre for Young Black Professionals to help provide essential education, skills training, and employment opportunities at the LCBO
    - Women's College Hospital Foundation in support of their mission to provide equitable and compassionate health care to women and marginalized groups across Ontario
    - Children's Hospitals of Ontario including Children's Health Foundation, McMaster Children's Hospital Foundation, SickKids Foundation, and the Children's Hospital of Eastern Ontario (CHEO) Foundation

- Launched Good News from the Good Partners content series featuring 39 partners celebrated on social channels and LCBO.com for supporting communities during the COVID-19 pandemic
- 75 percent of customers believe LCBO promotes the responsible sale of alcoholic beverages; 612 extra light and light beverage alcohol products are now offered at the LCBO
- 621,939 product tests in the LCBO's world-class quality assurance laboratory
- Reimagined our Challenge & Refusal Program in January 2021 to ensure responsible retailing policies are inclusive, clear, and easy for customers to understand, and for retail employees to enforce
- 13,051,208 customers challenged and 235,608 customers refused services for not adhering to the Responsible Service Program
- 83 percent of warehouse waste diverted from landfills

MESSAGE FROM THE CHAIR

As I enter my third year as Chair, I have never been prouder of the incredible team at the LCBO as we navigated an unprecedented climate.

Our people, customers, partners, and communities are what inspired us to meet this year's challenges with a firm focus on wellness as our number one priority. In speaking with our President & CEO, George Soleas, we frequently discussed the importance of showing up to keep the province running. Every one of our people did just that; they showed up for the people of Ontario to keep personal safety at the forefront while ensuring smooth operations so we could continue to deliver strong returns to the province. With hospitals and infrastructure stretched, these funds support Ontarians in difficult times.

One of the items I am most proud of from this fiscal year is that the team never took their foot off the pedal to continuously deliver customer-centric service, drive digital innovation, and to showcase our local beverage alcohol industry in response to the continued demand for their world-class products.

With respect to the Board, I want to thank all of our Members for their guidance during the ever-changing environment. This fiscal year we were pleased to strengthen the team by welcoming several new Members to the Board. Larry Flynn is our new Chair of the Human Resources and Compensation Committee, which assists the Board of Directors with oversight and makes recommendations concerning human resources and compensation matters, including workplace health and safety, and talent management strategies and programs to ensure the LCBO has the employee capabilities to achieve its goals. He is currently the President of 2 Vice Advice Inc. and the O'Flynn Group of Companies Inc., and brings a wealth of experience through his previous role with the Ontario Lottery and Gaming Corporation (OLG). We also welcomed Kathleen Novak as a Member of our Governance Committee. She has been in the financial services industry for almost 20 years and is a community leader, serving as Chair of Saakaate House Women's Shelter, and as Vice Chair of the Kenora and District Chamber of Commerce and Kenora Bass International.

With another fiscal year operating during COVID-19, I am filled with optimism when I think of what we can accomplish with our continued collaboration in the face of a global pandemic, and the heights we will reach as we look toward a healthier future. For 94 years, the LCBO has put social responsibility at the core of its mandate. That *Spirit of Sustainability* will continue to drive what we do as we deliver engaging, responsible shopping experiences and strengthen our retail, digital, and wholesale channels.

I look forward to working collaboratively alongside the Board and LCBO senior leadership, to provide oversight, leadership, and support adaptive change so we can ensure a sustainable future for Ontario.

Keep well,

Carmine Nigro, Chair

MESSAGE FROM THE PRESIDENT & CEO

These days, it seems that everywhere we look, we see everyday Ontarians stepping up for the wellness of our communities.

I am proud that throughout the COVID-19 pandemic, LCBO team members showed up to keep the province moving and working and it fills me with gratitude to present the LCBO's FY2021 Annual Report.

Wellness has been our number one priority as we strive for excellence to continuously deliver engaging, responsible shopping experiences. The LCBO was poised to meet the unexpected challenges this year as we had thoughtful business continuity measures in place for a pandemic as part of our enterprise risk management planning. Having this foundation was a key component of keeping the LCBO open for business. However, there was no blueprint for something of this unexpected size and scale and no precedent in modern history. The pandemic continues to be a dynamic situation that tests our resilience, but our solid foundations have allowed us to pivot to keep everyone safe as we strive for excellence.

Through the pandemic, our incredible team of warehouse, retail, and head office staff worked collaboratively to not only keep the LCBO going but to continuously raise the bar to enhance our customer experience and strengthen our digital, retail and wholesale channels. To maintain a safe environment in which to shop and work, we also offered new paid leave for COVID-19 related absences and paid time off for employees to receive their vaccines, ensured no loss of regular wages to team members who tested positive for COVID-19, and increased our focus on mental wellness.

We were also able to deliver strong dividends back to the province to fund our hospitals, infrastructure, and education systems. I am often asked about the LCBO's contribution to the province. As I reflect on this question, I'm drawn to a vision of the impact it would have had if the LCBO had closed instead of working together with our people, customers, partners, and communities to weather COVID-19. I think of our 11,000 staff and the hundreds of thousands of Ontarians employed by the local beverage alcohol market. I think of our LCBO Convenience Outlets, small businesses that have shared with us that our partnership was the only thing that helped them to keep the lights on this year. We added new LCOs and grocery authorizations in FY2021 to continue to provide convenience and choice to Ontarians.

As part of our transformative journey, the LCBO's digital presence was propelled forward even further to provide more avenues to both meet and anticipate our customers' future needs. Convenience is paramount: seamless, digital-enabled, and fast are the new standards for retail. Throughout the year we accelerated the growth of our eCommerce channel to meet evolving customer preferences, bringing our brand promise to life online.

We are also in a unique position to help shape a more sustainable Ontario. Through LCBO's social impact platform, the *Spirit of Sustainability*, we are committed to driving meaningful and equitable change in our communities, lead the industry in sustainable practices and take better care of the planet – for the good of Ontario. Sustainability is more than a buzzword for us as we strive to support the province's environmental and social needs. Part of this impact is to close the healthcare gaps for women and diverse communities through our support for Women's College Hospital Foundation. Last year, the LCBO raised millions for our first ever equitable healthcare access campaign in partnership with this critical organization. As part of our ongoing efforts to build an inclusive business and stand against racism, injustice, and inequality, we continued to support and celebrate our BIPOC employees, customers, and partners. This year, and through our Diversity and Inclusion strategy, we partnered with the CEE Centre for Young Black Professionals to help provide essential education, skills training, and employment opportunities at the LCBO.

As we look toward next year, we know the only thing that is constant is change. Ontarians are shifting their shopping behaviours and continue to have a strong desire to explore local producers. We'll look to expand popular initiatives like *Pair It Forward* which celebrates Ontario's spectacular food and beverage producers, starting a chain reaction of their favourite pairings for their products while shining a spotlight on local farmers, growers and makers throughout the province, showing the world what Ontario is truly made of. Before joining the LCBO, I worked in the Ontario wine industry and I know that our world-class producers will continue to grow and thrive with the right support in place to foster consumer discovery.

Finally, I would like to again extend my heartfelt gratitude to our people, customers, partners, and communities. I am confident that the LCBO will meet - and exceed - its ongoing commitment to support the province and its people.

George Soleas
President & 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.

SENIOR LEADERSHIP TEAM (AT MARCH 31, 2021)

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

George Soleas, *President & CEO*
Aaron Campbell, *chief of staff & vice president, corporate affairs, strategy and sustainability*
Geoff Cronin, *senior vice president, information technology & chief information officer*
Kent Harris, *senior vice president, finance & administration, & chief financial officer*
Barb Keenan, *senior vice president, human resources*
Julie Lane, *senior vice president, general counsel & corporate secretary*
Nick Nanos, *senior vice president & chief supply chain officer*

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 or the Minister of Finance. Members are appointed for a term of up to five years and terms can be renewed. There are generally six to eight regular Board meetings annually and special Board meetings if required.

The mandate of the Board is to supervise the business affairs of the LCBO. Among its most important responsibilities are:

- ensuring that the LCBO provides high-quality service to the public;
- developing and approving the strategic plan and monitoring management's success in meeting its business plans;
- approving the annual financial plan;

- ensuring that the organization remains financially sound;
- assessing the management of business risks;
- submitting an annual financial plan to the Minister of Finance;
- ensuring the organization has communication programs to inform stakeholders of significant business developments and;
- ensuring that the LCBO performs its regulatory role in a fair and impartial manner.

ETHICS AND BUSINESS CONDUCT

The LCBO Board has adopted a code of business conduct that includes policies addressing 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.

COMMITTEES

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.

The Governance Committee is responsible for recommending the LCBO's corporate governance policies and practices and ensuring that the LCBO adheres to sound corporate governance principles.

The Human Resources and Compensation Committee (HRCC) assists the Board of Directors with oversight and makes recommendations concerning human resources and compensation matters, including workplace health and safety, and talent management strategies and programs to ensure LCBO has the employee capabilities to achieve its goals.

ACCOUNTABILITY

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

- Our annual report is tabled in the provincial legislature and is made available online and on the 'About LCBO' section of LCBO.com
- Our annual business plan is posted on the LCBO website and on the 'About LCBO' section of LCBO.com
- The memorandum of understanding between the LCBO and the Minister of Finance can be read online and on the 'About LCBO' section of LCBO.com
- 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 doingbusinesswithlcbo.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 and on the 'About LCBO' section of LCBO.com
- Board members are appointed by Order-in-Council (for more information see the Public Appointments Secretariat website)
- LCBO employee conduct is governed by a Code of Business Conduct
- The Supplier Code of Business Conduct 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 and posted separately online

BOARD MEMBERS (AT MARCH 31, 2021)

CARMINE NIGRO
Chair
Appointed Chair in April 2019 for a three-year term.

Carmine Nigro is an accomplished real estate development executive and entrepreneur known for his practical and solutions-focused approach to complex projects. Carmine "gives back" through incorporating sustainability in all aspects of building, as well as through his community work. In addition to volunteering for children's Make-A-Wish Foundation, he is a member of the Friends of the Orphans Canada organization, helping to design and build schools, hospitals and other facilities in Guatemala, the Dominican Republic and other countries.

Total Annual Remuneration: $10,675
Per Diem Remuneration Rate: $350

QUINTO ANNIBALE
Vice Chair, Board, and Chair, Governance Committee
Appointed in April 2019 for a three-year term.

Quinto Annibale is a lawyer at Loopstra Nixon LLP where he has practiced municipal and land-use planning and development law for more than 35 years. An accomplished author and lecturer who speaks frequently at conferences across North America, Quinto is also an active community member. Of his volunteer activities, he is most proud to be the founder and president of the Carol Annibale Ovarian Cancer Foundation, a charity he oversees in memory of his late wife, Carol.

Total Annual Remuneration: $8,500
Per Diem Remuneration Rate: $250

James Bradbury
Member, Governance Committee and HRCC
Appointed March 2019 for a three-year term.

Mr. Bradbury has more than 40 years of experience as an entrepreneur and business leader, and continues to share his knowledge and expertise through his own consulting firm, which specializes in start-ups and business development. In addition to running his consulting practice today, James has also supported several Ontario communities as a Rotary Club member and board member.

Total Annual Remuneration: $8,200
Per Diem Remuneration Rate: $200

Noble C. Chummar
Chair, Audit Committee
Appointed July 2014. Term renewed July 2016 for a three-year term and again in September 2019 for an additional two-year term.

Mr. Chummar is a partner with leading Canadian law firm, Cassels Brock & Blackwell LLP, and a member of the firm's Business Law and Government Relations groups. He has been decorated with the Government of Canada's 125th Anniversary of the Confederation of Canada Medal and the Queen's Diamond Jubilee Medal.

Total Annual Remuneration: $5,800
Per Diem Remuneration Rate: $200

David Colfer
Member, Audit Committee
Appointed February 2019 for a three-year term.

Mr. Colfer has more than 25 years of experience in the Canadian retail industry specializing in brand and product development. Currently, he is the General Manager of Lagostina (Canada). He holds a Bachelor of Business Administration in finance from Bishop's University in Quebec, and has attended the IMD Leadership and Management Programs in Switzerland and China. He actively gives back to the community through his involvement in several charities focused on education and family support.

Total Annual Remuneration: $7,500
Per Diem Remuneration Rate: $200

Larry Flynn
Chair, HRCC
Appointed April 2020 for a one-year term.

Mr. Flynn is the President of 2 Vice Advice Inc. and the O'Flynn Group of Companies Inc. Previously, he was the Senior Vice President, Gaming, of the Ontario Lottery and Gaming Corporation (OLG), a role that he held for 14 years until his retirement in April 2015. He is also a Chartered Director (C.Dir.) and has completed management programs at Wilfrid Laurier University, Dalhousie University, Ivey School of Business and the University of Nevada.

Total Annual Remuneration: $7,100
Per Diem Remuneration Rate: $200

Dragan Matovic
Member, Audit Committee
Appointed January 2020 for a three-year term.

Mr. Matovic is the Chairman and CEO of Halex Capital Inc. and of Halex Travel Technologies Inc. He is completing his second appointed term on the Canadian Tourism Commission (Destination Canada) and previously served as a Director for the Niagara Health System and as a Governor of Niagara College. He was the Founder and Chairman of the Niagara Convention & Civic Centre and of Tourism Partnership of Niagara.

Total Annual Remuneration: $7,200
Per Diem Remuneration Rate: $200

Kathleen Novak
Member, Governance Committee
Appointed March 2020 for a three-year term.

Kathleen Novak has been in the Financial Services industry for almost 20 years and is currently a Mortgage Specialist at RBC Royal Bank. She has been a community leader for many years, serving as Chair of Saakaate House Women's Shelter, and as Vice Chair of the Kenora and District Chamber of Commerce and Kenora Bass International.

Total Annual Remuneration: $5,100
Per Diem Remuneration Rate: $200

Khamini (Kandy) Samsundar
Member, HRCC
Appointed January 2020 for a three-year term.

Ms. Samsundar has more than 30 years of experience in banking and is currently a Senior Manager for International Trade Finance at CIBC. With a passion to serve and give back to the community, she has held various positions in business and charitable organizations across Ontario, such as Rouge Valley Hospital, United Way and Duffins Creek Non-Profit Housing. She is also the founder of the Canadian Caribbean Cultural Association of Durham.

Total Annual Remuneration: $4,300
Per Diem Remuneration Rate: $200

FORMER BOARD MEMBERS (AT MARCH 31, 2021)

Cheryl Hooper
Chair, Audit Committee
Appointed February 2014. Term renewed February 2016 for a two-year term and again in February 2018 for a three-year term.
Term ended February 2021

Total Annual Remuneration: $12,400
Per Diem Remuneration Rate: $200

Total Remuneration for all Board Members in FY2021: $76,775

STRATEGIC PLAN OVERVIEW

As part of its commitment to outcome and output-based performance measures, the LCBO prepares strategic plans to track and monitor key mandates. The overall goal remains to ensure the appropriate performance indicators are met while providing transparency into efficient and effective performance in all aspects of the LCBO's business.

FY2021 was a year like no other. COVID-19 impacted people and businesses across Ontario throughout FY2021 and continues to do so into the new fiscal year. As goals are mapped out, the focus remains on maintaining our position as a best-in-class retailer and wholesaler, ensuring safe working and shopping experiences.

This commitment to wellness is our number one priority as we strive to continuously deliver engaging and responsible shopping experiences, including amplifying our customer experience and strengthening our digital, retail, and wholesale channels. Our employees all play an important role in the delivery of services to our customers, both wholesale and retail. This has never been more evident than during the pandemic. We thank all of our employees for their hard work and commitment during this unprecedented time. The dividends have never been more important as we transfer them back to the province to provide essential services including funding our hospitals and key infrastructure. The LCBO is in a unique position to work toward a sustainable future for Ontario. We are also grateful for the continued understanding, patience, and kindness of our customers during this challenging time.

LCBO targets below were developed prior to the pandemic but remained the benchmark baseline against which actual performances were measured throughout the year. Ontario's beverage alcohol marketplace experienced uneven but solid performance overall during the pandemic, with a shift towards higher off-premise consumption at home, which also benefited strong LCBO eCommerce growth in FY2021. Uncertainty relating to the path of the pandemic and economic impacts on Ontarians remain. Retailers, including the LCBO, will need to remain agile in assessing and accordingly adjusting plans to navigate the current and post-pandemic environments.

ASSESSMENT OF STRATEGIC PROGRESS

The LCBO measures and evaluates the performance of its strategic plan using key metrics. This allows the LCBO to be agile, forward-thinking, and responsive to a changing environment and to seize new opportunities as they arise.

HELP SHAPE A SUSTAINABLE ONTARIO

Under the three pillars of the Spirit of Sustainability: Good People, Good Planet, and Good Partnerships, the LCBO has developed measurable commitments that will support it in delivering on its mandate to shape a sustainable Ontario.

Good People: Safe and Informed Consumption

In FY2021, 621,939 tests were performed by the LCBO Lab for quality, safety, and label accuracy. As part of a commitment to safe and informed consumption, the LCBO also reimagined the Challenge & Refusal program in January 2021 to ensure responsible retailing policies are inclusive, clear, and easy for customers to understand, and for retail employees to enforce. As a result, 13,051,208 customers were challenged and 235,608 customers were refused services for not adhering to the Responsible Service Program.

Good People: Engaged Employees

Engaged employees feel connected to and advocate the LCBO's mission and values. Prioritizing employees' wellness and continued delivery of customer excellence, LCBO supported employees physical and mental health at all levels of the organization throughout FY2021. Training programs were offered to employees to reinforce the need for self-care, "Taking care of you", and to leaders to further support their staff mental health while working from home during the extended period. The LCBO also provided all employees with paid sick days and time off to receive COVID-19 vaccinations.

Good People: Thriving Communities

Thriving Communities is the *Spirit of Sustainability*'s commitment to building communities where everyone has equitable access to essential resources to live happy, healthy lives. The LCBO's extensive network of stores provides a powerful fundraising platform for registered charities to make a meaningful impact. Through the commitment of our employees and the generosity of our customers, we're able to contribute to organizations and initiatives making a difference in Ontario communities.

Over $13.6 million in charitable funds were raised to support the health and wellbeing of every Ontarian, regardless of gender, age, sex, race, class, religion, ethnicity, ability, language, sexual orientation, or gender identity. The COVID-19 Response, for example, raised $3.3 million in only 21 days to support food relief programs across Ontario. The LCBO also raised over $4 million for the Women's College Hospital Foundation to support equitable access to healthcare and continues to sponsor Pride Toronto in support of the 2SLGBT+ communities.

Good Planet: Waste & Energy Reduction

The Good Planet pillar advances practices that minimize the environmental impacts our business creates through two of our core tenets: Waste and Energy Reduction and Responsible Supply Chains. In FY2021, 83 percent of warehouse waste was diverted from landfills and more than 888,000kg CO_2 emissions were avoided through recycling of retail service centre waste. 91.4 percent of glass bottles assessed by Quality Assurance were compliant with the LCBO's Lightweight Glass Policy.

Good Partnerships: Support & Recognize Sustainable Partners

In FY2021, 2,327 Ontario products were offered that supported the local economy to thrive in challenging economic circumstances. As part of our efforts to support local partners, the LCBO launched *Good News* from our *Good Partners* content series to feature 39 partners. They were celebrated on the LCBO's strong social channels and LCBO.com for their support of local communities during the COVID-19 pandemic.

Good Partnerships: Enhance Industry Diversity & Influence Industry Standards

The LCBO is committed to championing equity, diversity and inclusion and advocating for underrepresented communities, both internally and across Ontario. In FY2021, the LCBO partnered with the CEE Centre for Young Black Professionals to help provide essential education, skills training, and employment opportunities at the LCBO. Members of LCBO's HR leadership team developed virtual sessions to offer support and guidance to members of CEE on their career path in addition to a $100,000 charitable donation.

The new *Spirit of Inclusion* initiative in FY2021 also created opportunities for diverse women to enter, advance and thrive in the beverage alcohol industry. Through Good Partnerships with Ontario's educational institutions, charitable organizations, and trade partners, the LCBO will provide bursaries and scholarships, facilitate mentor relationships and identify paid co-op placements for diverse women who are looking to begin or advance their careers in the winery, brewery, and distillery fields.

STRATEGIC CHALLENGES & OPPORTUNITIES

Head Office & Facility Relocation

Key spending initiatives included the head office relocation, the transition of our eCommerce, Vintages Shop Online, and Specialty Services distribution operations out of the Toronto retail service centre. These transformation initiatives were adjusted where necessary as a result of the pandemic. The LCBO has also reduced its overall footprint and agility ratio as a result of this transformation.

Enhancing Wholesale & Retail Channels

Throughout FY2021, the LCBO focused on wellness as its number one priority through increased health and safety measures to create a safe in-store environment while at the same time expanding Same-Day Pickup option of products ordered online to 192 locations. The LCBO hit the target of 450 grocer authorizations, responded to consumers' changing preferences and demands with regards to product preferences and selections, and coordinated with stakeholders to facilitate amendments to licensees' alcohol retailing policies. As we look toward FY2022, the LCBO will continue to respond to changing consumer demands both driven by COVID-19 and other external consumer trends to exceed consumer expectations and to work effectively with its wholesale partners.

DELIVERING RETURNS TO THE PEOPLE OF ONTARIO

($ billions)	FY2021 Actual	FY2021 Plan	FY2020 Actual	Y/Y Change
Net Sales	$7.2	$6.9	$6.8	+6.2%
Net Income	$2.5	$2.4	$2.4	+5.7%

FY2021 net sales and income outpaced plan levels, and grew 6.2 percent and 5.7 percent respectively, relative to the previous year. The home consumer channel accounted for the largest share of LCBO sales at 83 percent, up 452 basis points from FY2020. Health and safety restrictions during the pandemic affected many licensed establishments and contributed to licensee sales shifting towards the home consumer channel. Please see the MD&A below for further details.

LOCAL ONTARIO PRODUCERS

($ millions)	FY2021 Actual	FY2021 Plan	FY2020 Actual	Y/Y Change
VQA Wine	$184.3	$166.0	$169.3	+8.9%
Craft Beer	$184.3	$176.8	$169.9	+8.5%
Craft Cider	$23.4	$19.7	$18.9	+23.7%
Small Distillers	$23.0	$23.4	$20.3	+13.4%

The LCBO understands that Ontarians value products from local vintners, craft brewers, craft cideries, and artisanal spirits producers. The LCBO is proud to strategically respond to this demand for Ontario's outstanding products, which it elevates through collaborative efforts and a comprehensive product assortment in-store and online throughout the year. One program to support this is the LCBO's annual fall campaign dedicated to celebrating new VQA wines, local products and producers.

EXCELLENCE IN OPERATING EFFICIENCY

	FY2021 Actual	FY2021 Plan	FY2020 Actual	Y/Y Change
Inventory Turns	7.4	7.7	7.7	-4.0%
Total Expenses[1] as % of Revenue	15.5%	16.0%	15.2%	+26 bps

Inventory turns declined in FY2021 relative to the previous year. Contingency measures to boost inventory levels, with high initial consumer demand, amid the pandemic and mitigation against potential global supply chain issues resulted in slower turnover rates during the year. Expense growth outpaced revenue growth leading to an unfavourable expense to revenue ratio compared to FY2020, but better than planned. Spending on health and safety measures for employees and customers during the pandemic, along with higher labour costs required to

[1] *Total Expenses refer to all selling, general and administrative (SG&A) expenses as per the Statement of Income and Other Comprehensive Income.*

keep pace with the elevated sales levels, contributed to expense growth and the higher ratio. Please see the MD&A for further details.

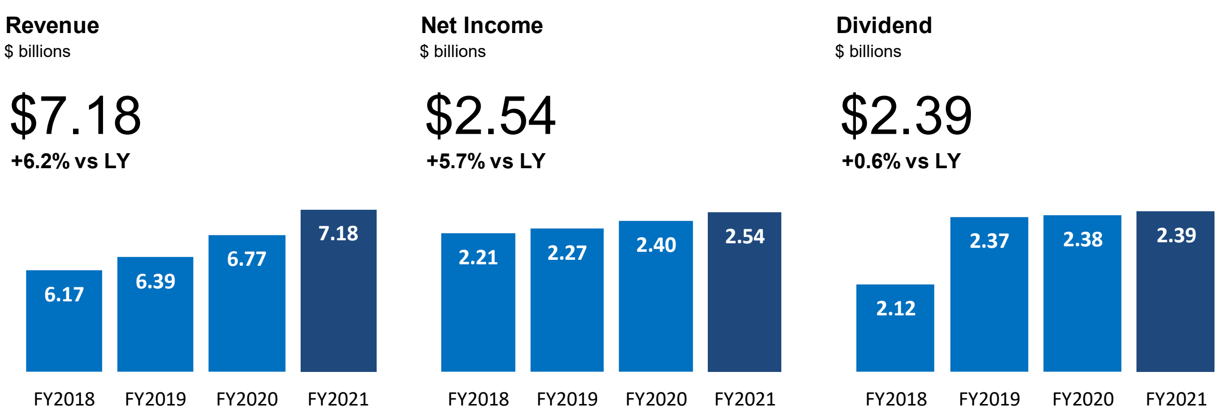
EXCELLENCE IN CUSTOMER EXPERIENCE

As part of the strategic plan, the LCBO continues to focus on its customer-first approach by seeking to improve access, convenience, and choice for Ontarians. Performance indicators, including customer satisfaction scores relating to their shopping experience, contribute to determining the company's Brand Health, which tracks the progress of the customer-first approach on a 10 points scale. In FY2021, Brand Health was 86 percent, three percent higher than forecast. LCBO intends to continue improving on the Brand Health performance indicators to refine and achieve excellence in the overall customer experience.

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATIONS

The LCBO is a government business enterprise. In the fiscal year ended March 31, 2021, it operated a network of 677 retail stores, an eCommerce platform, and special-order services, offering almost 29,000 spirits, wine and beer products to consumers and licensed establishments. The business also supported 399 LCBO Convenience Outlets (LCOs) and 450 grocery stores across the province of Ontario. The LCBO estimates more than 1.1 billion litres of beverage alcohol products were sold in Ontario during FY2021, with an estimated value in excess of $9.6 billion[2]. The LCBO accounted for more than 51 percent of the volume sales and 72 percent of the value sales.

Financial Highlights



Net Income in FY2019 has been restated to reflect the adoption of IFRS 16.

Operational Highlights

- LCBO was declared an essential service during the COVID-19 pandemic and ensured the health and safety of its customers and employees a top priority during FY2021. Actions included a number of measures; such as modified store operating hours and strict policing of in-store traffic limits, increased cleaning and sanitization protocols at stores

[2] *Not including illegal alcohol sales, homemade products and sales from brew and wine pubs. Value sales do not include sales taxes.*

and warehouses, and directional signage and plexiglass barriers at checkouts in all stores.

- The LCBO added nine new stores to its retail network during the year and closed one store, now totalling 677 locations[3]. Eight other stores were either relocated or underwent major renovations in FY2021.
- The grocery channel, established in December 2015, added the final 11 locations to reach the 450 planned authorizations during the year. Sales to grocery stores grew by 52 percent to $486.5 million in FY2021.
- The LCBO Convenience Outlet Program continued its expansion with a further 30 locations during the year, providing socially responsible beverage alcohol retail to communities lacking convenient access to an LCBO store. Sales through this program almost doubled to $293.6 million from the previous year.
- Demand for online ordering increased during the pandemic. LCBO enhanced its eCommerce platform during the year by improving convenience and customer online experience. The Same-Day Pickup (SDP) option of products ordered online was expanded to 192 locations, up from 11 the year before. SDP orders increased by more than 80 times, surpassed half of a million orders, and accounted for almost two-thirds of total online orders. FY2021 total eCommerce sales, exceeding $140 million, rose by 250 percent, with approximately 650,000 more orders than the previous fiscal year.
- Pricing changes included the annual inflation indexing of minimum retail prices, LCBO in-store and out-of-store beer cost of service charges, and excise rates.

External environment

A number of factors influenced LCBO's financial performance during FY2021. They were, however, not the usual favourable ones traditionally associated with higher sales results, as observed.

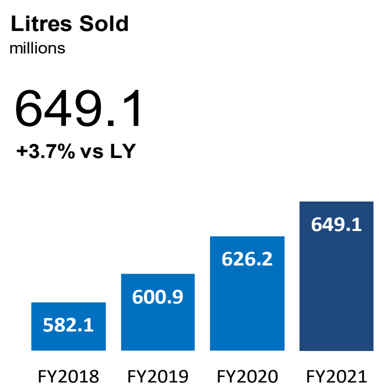
The COVID-19 pandemic headlined an unfamiliar year, with its broad effects negatively impacting the global economy and financial markets, as uncertainty reigned. Ontario's economy was similarly not unscathed by the ensuing restrictive pandemic effects. Overall provincial economic conditions were unfavourable, as output contracted and the deficit soared. The derived protective and cautious atmosphere contributed to job losses and higher unemployment rates, lower consumer sentiment levels and plummeting retail sector performance, furthering uncertainty. There was a shift in the housing market dynamics, as sales

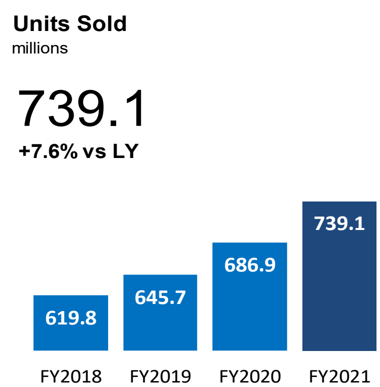
[3] *Location count includes one depot which also serves licensee customers.*

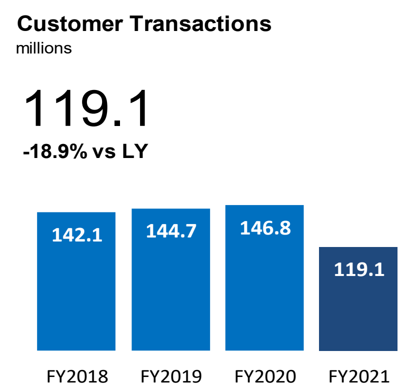
and rental activity and prices for home types fluctuated, favouring houses and against condominiums. Lower interest rates and previously accumulated household wealth boosted real estate market activity. Increased volatility within the financial market was also evident.

The abnormal circumstances of LCBO's revenue growth in FY2021 was unlike previous years. The effects of the usual holiday and long weekends sales build, sporting and public events and activities, and favourable seasonal weather, among others, were all tempered during the year. Restrictive measures, including multiple lockdowns, to curb mass gathering in public places, especially in relation to dining out, resulted in a transfer to greater off-premise alcohol consumption.

Forced staycations, increased household savings and promoted self-entertainment, contributed to alcohol sales growth. LCBO's performance was buoyed by consumers' resilience and the company's ability to quickly adapt to the economic, retail and health dynamics of the environment. Amidst store closures, reduced operating hours and implementing health and safety protocols under the guidance of Public Health, which included strict policing of in-store customer capacity and cleaning and sanitization practices, LCBO further pursued measures to satisfy demand and improve convenience. Examples of these measures included, continued retail store network expansion, improvement of eCommerce delivery options, greater support to the grocer and LCBO convenience outlet channels, responding to consumers' changing preferences and demands with regards to product preferences and selections, and coordinating with stakeholders to facilitate amendments to licensees' alcohol retailing policies.



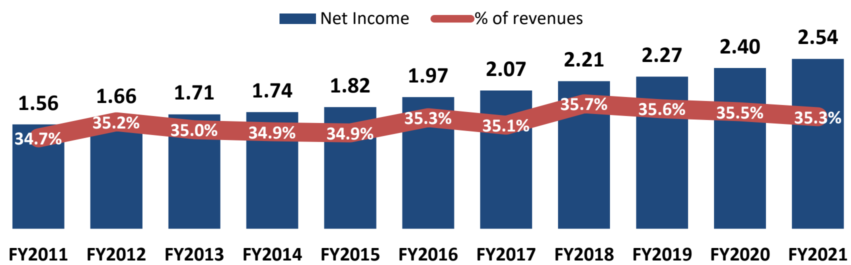




Net income[4]

Net income reached a record $2.54 billion in FY2021, an additional $136.8 million from the previous year. It represented 35.3 percent of revenues, which was 15 basis points lower than FY2020.

Net income ($ billions) and as a percentage of revenues

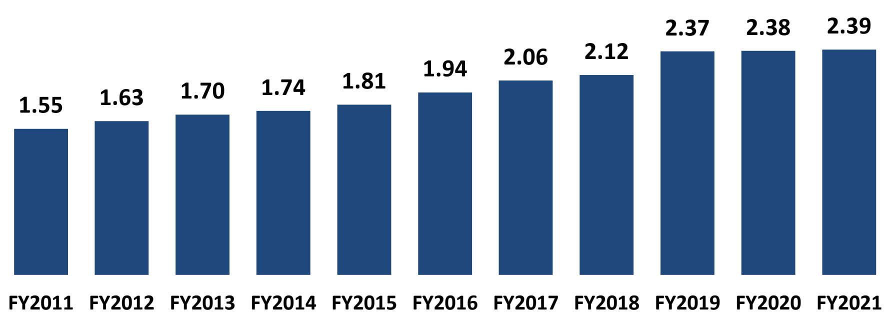


Over the past 10 years, net income has risen by $978.4 million, or 62.7 percent, resulting from sales growth, improved margins and expense control.

Dividend

The LCBO transferred $2.39 billion in dividends to the Ontario government in FY2021. This was $15 million more than in FY2020 and marked the 27th straight year of increased transfers.

Dividend ($ billions)



[4] *FY2017 net income has been normalized to exclude the gain from the sale of the LCBO head office property. Revenue in FY2018 has been restated to reflect the adoption of IFRS 15, which reduced revenue but not net income. Net Income in FY2019 has been restated to reflect the adoption of IFRS 16.*

The dividend has grown by 54.2 percent since FY2011, reflecting an additional $840 million. Cumulatively, the Ontario government has received over $20 billion in dividend transfers from the LCBO in the past decade.

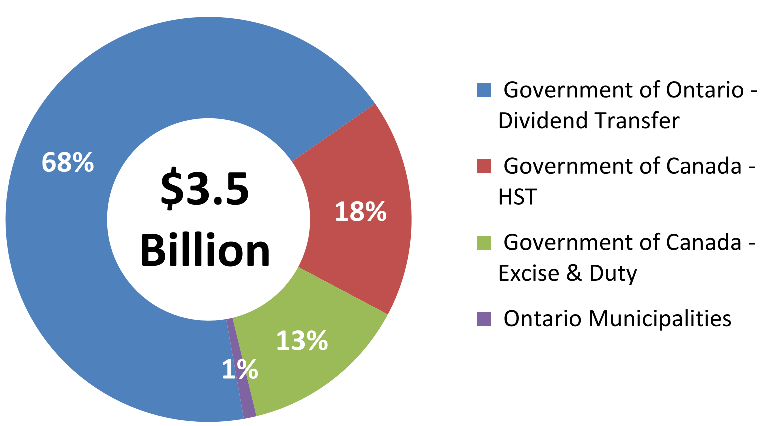
Payments to government

The LCBO paid $3.5 billion to all levels of government in FY2021. The dividend – excluding excise, duty and all sales and municipal taxes – was remitted at the provincial level and accounted for 68 percent of the total. The Canadian government received $1.08 billion in the form of excise, duty and sales taxes. Realty and leased property taxes paid to Ontario municipalities by the LCBO totalled more than $35 million.

($ millions)		FY2021
Total payments	**$**	**3,510**
Government of Ontario - Dividend Transfer		2,390
Government of Canada - HST		613
Government of Canada - Excise & Duty		471
Ontario Municipalities		36

Note: HST collected by the LCBO is remitted to the Canadian government where a portion is later transferred back to the Ontario government.

LCBO payments to government



Ontario beverage alcohol marketplace

The LCBO operates in a shared marketplace along with other retailers of beverage alcohol in the province of Ontario, including The Beer Store (TBS), Winery Retail Stores (WRS), Brewery Retail Stores (BRS), Distillery Retail Stores (DRS), 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 LCBO Convenience Outlets (LCOs, and previously called agency stores) sell spirits, wine and imported beer purchased from the LCBO and domestic beer purchased from TBS (for LCOs in southern Ontario) or other domestic beer suppliers. Further, authorized grocer locations across the province sell imported and domestic beer, cider and wine, which are recognized as LCBO sales.

Number of outlets

As of March 31, 2021, there were 2,924 retail outlets selling alcoholic beverages in Ontario. In the last five years, the number of outlets has increased by more than 850, primarily from grocer, LCO, BRS and DRS locations.

Number of outlets	FY2020	FY2021	Change
LCBO	669	677	+8
LCBO Convenience Outlets (LCOs)	369	399	+30
Grocer*	439	450	+11
Winery Retail	489	531	+42
The Beer Store	433	433	0
Brewery Retail	320	355	+35
Distillery Retail	51	63	+12
Land Border Point Duty free	10	10	0
Airport Duty free	6	6	0
Total	**2,786**	**2,924**	**+138**

*Grocer includes 69 wine boutiques which are Winery Retail locations situated within a grocery store, also selling beer and cider.

Market share[5]

In FY2021, the total spirits market in Ontario (including spirits-based ready-to-drink coolers and seltzers) grew by 26.8 percent or 35 million litres, to almost 166 million litres, with the LCBO accounting for 99.5 percent of the share.

Total wine sales in the province (including cider and wine coolers) saw an increase of 2.5 percent in volume or 5.1 million litres during the year, to more than 208 million litres. LCBO overall share retreated by 47 basis points to 82.7 percent of total wine volumes as growth in

[5] *Previous year volume numbers may be restated.*

the retail, LCO and grocer channels did not offset a 532 basis point loss in LCBO licensee sales. WRS, including direct delivery to licensees, account for the remaining 17.3 percent of the provincial wine volume market.

Beer volume sales (excluding LCBO and TBS reciprocal sales) declined during the year, by 1.5 percent or 12.1 million litres, to almost 783 million litres. TBS added 30 basis points during the year and continues to account for the largest share of the provincial beer volume market at 62.9 percent of sales. Beer sales through the grocer and LCO channels were responsible for LCBO's volume market share gain of 107 basis points to 32.7 percent of the beer market. BRS share eroded by 137 basis points to 4.4 percent, as the growth in retail sales were not enough to offset the significant decline in direct delivery sales to licensees experienced during the pandemic.

Revenue[6]

LCBO revenue totalled $7.18 billion in FY2021, a growth of $416.7 million, or 6.2 percent over the previous year.

LCBO Channel sales

The LCBO sells beverage alcohol to its customers through a variety of sales channels. Restrictions relating to the COVID-19 pandemic resulted in a considerable shift to off-premise consumption sales in FY2021. Retail sales via brick and mortar stores and online to home consumers recorded the largest absolute lift, as sales increased by more than $650 million or 12.3 percent, reaching almost six billion dollars during the year. Home consumer sales represented 83 percent of total LCBO sales in FY2021, 452 basis points more than the previous year.

[6] *Revenue is equal to net sales (gross sales less discounts and taxes) plus gift card breakage income.*

Channel ($ millions)	Share		FY2021	vs. FY2020
Home Consumer - Retail	83.0%	$	5,958	12.3%
Licensee	2.4%	$	170	-70.3%
The Beer Store	3.7%	$	263	-27.8%
Grocer	6.8%	$	486	52.1%
LCBO Convenience Outlets	4.1%	$	294	99.6%
Duty free	0.0%	$	1	-96.5%
Other*	0.1%	$	10	-46.0%
Total	**100%**	**$**	**7,183**	**6.2%**

*Other includes winery and distillery direct margins, sales to other provinces and gift card breakage income.

Beverage alcohol purchased by licensed establishments, such as bars and restaurants, traditionally account for the second-largest share of LCBO sales. This on-premise consumption channel suffered a deep decline in FY2021, losing more than $400 million in sales and 607 share points relative to the previous year. Operations of licensed establishments were severely impacted during the year due to health and safety restrictions during the pandemic.

Sales to TBS, typically the third-largest LCBO sales channel, also significantly declined during FY2021. Reduced sales flowing through TBS to licensees, continued expansion of the grocer and convenience outlet channels and production shifts of previously imported beer brands to domestic, all contributed to a 172 basis point share retreat. Channel sales totalled $263 million during the year, representing 27.8 percent less than the year before.

The grocer channel, as expected, continued its strong growth and market share expansion. With full allotment of planned authorizations achieved in FY2021, and further supported by consumers shift to off-premise consumption amid the pandemic, grocer sales increased by 52.1 percent to $486 million. Its share advanced 205 basis points and accounted for the second largest portion of LCBO sales in FY2021 at 6.8 percent.

Sales to LCOs, an extension of the LCBO retail channel through authorized independent local retailers serving smaller communities across Ontario, increased 99.6 percent to $294 million during the year. Like grocers, the channel was similarly boosted by the addition of 30 more outlets, and pandemic-related impacts during the year, as share improved 191 basis points to 4.1 percent of LCBO sales.

Travel restrictions and forced staycations resulted in a loss of almost all duty free sales to operators at airports and land border points. Sales totalled one million dollars, down from $39 million the year before.

LCBO Category sales

Spirits, including ready-to-drink (RTD) and cooler products, maintained the largest share of LCBO product sales in FY2021, topping three billion dollars for the first time. The category grew by 14.2 percent, or $383.7 million, over the previous year and advanced its share of total LCBO sales by 300 basis points. RTDs and imported products, led by vodka, propelled the category's performance, which accounted for 43.1 percent of total sales.

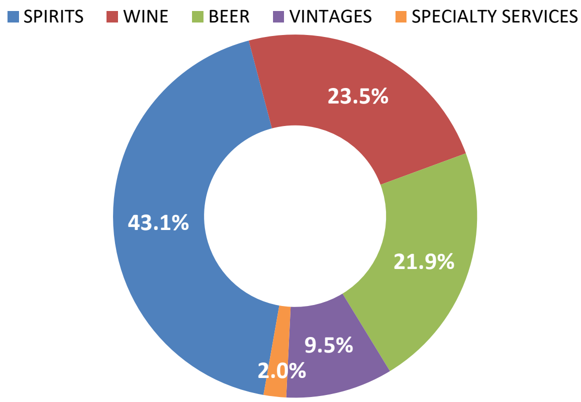
Wine (excluding VINTAGES) posted growth of 5.2 percent, or $83.7 million over FY2020, driven mainly by strong performance of local Ontario wines. Wine remained the second-largest LCBO category at 23.5 percent of total net sales, despite losing 22 basis points during the year.

VINTAGES reached near $681 million, registering growth of 7.4 percent, or $46.7 million more than last year. The category's share improved by 10 basis points to 9.5 percent of annual LCBO sales. The overall favourable result in the category was attributed to the performances of European and New World wine essentials.

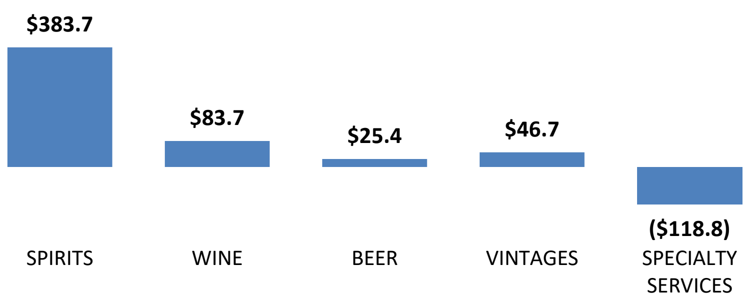
Beer performance, including ciders, continues to be tempered by increased preference for coolers and seltzers, as well as reduced wholesale to TBS due to production shifts of key beer brands from imported to domestic. Despite these challenges, the category rose 1.6 percent, or $25.3 million, to $1.6 billion, primarily driven by craft beer performance and new grocer locations. Lower growth compared to other product categories resulted in a share decline of 99 basis points to 21.9 percent of LCBO sales.

With typically more than eighty percent of its annual sales to licensees and TBS, Specialty Services recorded a 45.3 percent decline in FY2021. Sales reached $143.3 million and represented two percent of total sales, a retreat of 189 basis points.

FY2021 Sales Share by Category



Category sales growth Yr/Yr ($ millions)



Operating results

In FY2021, every $1 in revenue was broken out in the following manner:

Product cost*	$0.49
Income from operations	$0.36
Selling, general and administrative expenses	$0.15

*Product Cost includes purchase price from supplier plus excise tax and freight.

Margins

LCBO gross margin totalled almost $3.7 billion in FY2021, representing an improvement of 6.7 percent compared to FY2020. As a percentage of revenues, gross margin improved 27 basis points to 50.8 percent.

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

Spirits	$0.58
Wine	$0.53
VINTAGES	$0.48
Beer	$0.39
Specialty Services	$0.44

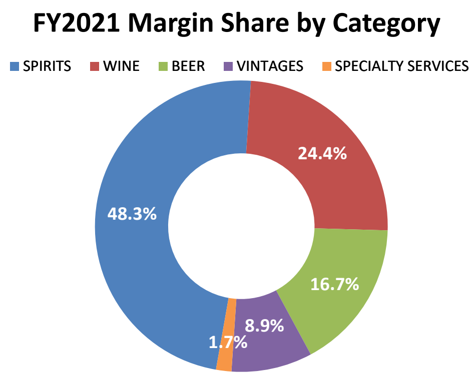
Spirits accounted for 48.3 percent, or close to $1.8 billion, of total gross margin in FY2021. Spirits margin had the highest category increase of 13.4 percent, from FY2020, adding 269 basis points to its share of total margin.

Wine share of total LCBO gross margin in FY2021 was 24.4 percent, 51 basis points lower than last year. The category, however, posted margin growth of 4.9 percent during the year to almost $900 million.

Beer gross margin growth of 0.8 percent could not prevent a share decline of 104 basis points. With $614 million, the beer category accounted for 16.7 percent of overall margin share.

VINTAGES gross margin, at almost $330 million, increased 7.1 percent from FY2020. The share of total margin, however, remained flat.

Specialty Services contributed almost $63 million to gross margin, a decline of 35.9 percent from the previous year. The category lost 114 share points and accounted for 1.7 percent of total gross margin.



Selling, general and administrative expenses[7]

LCBO total expenses increased by $81.8 million, or eight percent, in FY2021 compared to the previous year.
Operating expenses represented 75.4 percent of the total and increased by 8.6 percent during the year. Retail store expenses, the largest share at almost 64 percent of operating expenses, rose seven percent versus the previous year, with salaries to support higher sales and retail security expenses driving the variance.

Administrative expenses accounted for the second-largest portion of operating expenses, increasing by 14.3 percent during the year. Information Technology projects, applications and support services drove much of the higher administrative costs. These were reflected through increased spending on ongoing platform services and data processing server upgrades and maintenance, which supported the entire organization, including retail and wholesale services. Supply Chain strategy and continuous improvement and eCommerce labour costs to support the additional service demand during the year, also contributed to the rise in administrative expenses.

Similar to retail store expenses, increased health and safety measures and labour costs to support the higher sales volume, drove Supply Chain and Wholesale year-over-year expense

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

growth. Merchandising and Marketing expenses declined on reduced in-store and partnership promotion launches.

Operating Expenses ($ millions)		**FY2021**	**vs. FY2020**
Retail Stores	$	534	7.0%
Administrative	$	224	14.3%
Supply Chain and Wholesale	$	47	15.3%
Merchandising and Marketing	$	32	-8.8%
Total	**$**	**837**	**8.6%**

Non-operating expenses, accounting for the remaining 24.6 percent of total expenses, rose 6.1 percent from FY2020. Depreciation (including right-of-use assets), amortization and impairment, representing more than 56 percent of these expenses, increased by 2.8 percent for the year.

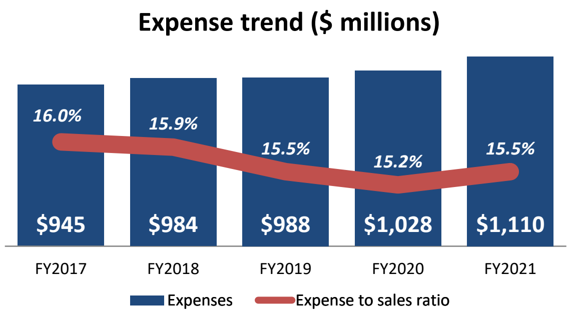
Expenses related to environmental initiatives, comprising mainly of LCBO Ontario stewardship obligations and service fees to TBS for the Ontario Deposit Return Program, outpaced the previous year. Higher sales volume drove the unfavourable variances relating to environmental initiatives. Debit and credit card charges were also above last year's charges, attributed to higher sales and penetration rates.

Non-Operating Expenses ($ millions)		**FY2021**	**vs. FY2020**
Depreciation, amortization and impairment	$	71	-2.3%
Depreciation - right-of-use assets	$	84	7.7%
Environmental Initiatives	$	54	6.6%
Debit/Credit Charges	$	51	3.1%
Other Expenses*	$	13	106.3%
Total	**$**	**273**	**6.1%**

* Other expenses include non-pension employee benefits costs, gift card program expenses and bank fees.

Expense to revenue ratio

The ratio of expense to revenue was 15.5 percent in FY2021, 26 basis points higher than the previous fiscal year. Despite tighter expense control in recent years, increased and unexpected outlay on measures during the pandemic relating to health and safety for employees and customers, along with higher labour costs required to keep pace with elevated sales levels, drove higher expense growth in FY2021.



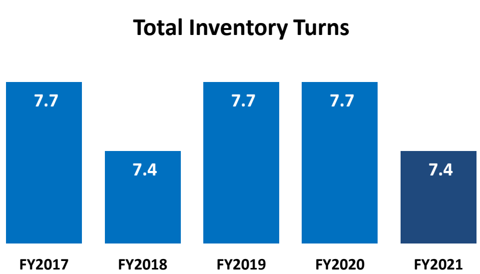
FY2019 expenses and expense to sales ratio have been restated to reflect the adoption of IFRS 16.

Inventory

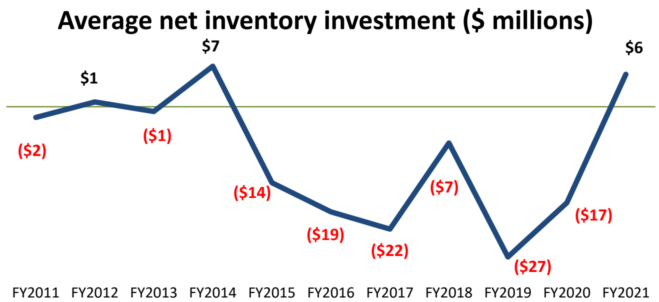
Total inventory turns declined in FY2021 to 7.4 from 7.7 in the previous year. A combination of factors, dictated mostly by the effects and uncertainty of the COVID-19 pandemic path, resulted in the slower rate.

Consumers' reactionary stockpiling, at the beginning of the fiscal year, resulted in higher turnover rates among product categories. These were, however, offset by the atypical dynamics of the channel performances, strategic decisions to improve in-stock positions to simultaneously satisfy consumer demand and mitigate potential supply chain issues amid global uncertainty, and beer production shifts from import to domestic.

By category, Beer and VINTAGES recorded higher turns relative to the previous year, while Spirits, Wine and Specialty Services, primarily from constrained keg beer sales for the latter, all witnessed slower turns.

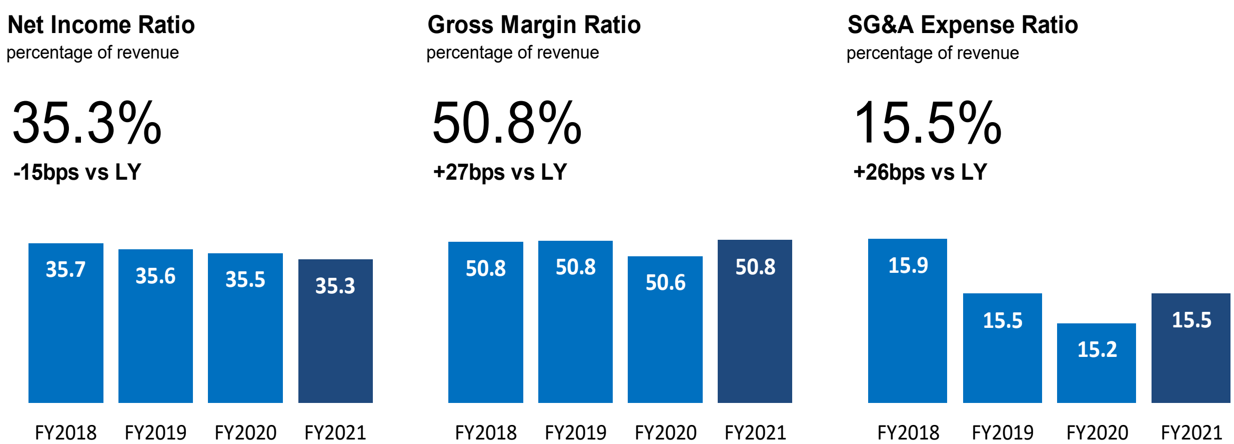


Average net inventory investment[8] during FY2021 was $5.9 million. In the last decade, LCBO's annual net investment in inventory has averaged negative $9.3 million, highlighting continuous improvement in sales, inventory, and cash flow management.



Key performance indicators

Financial ratios



Expenses in FY2019 have been restated to reflect the adoption of IFRS 16.

In FY2021, net income was 35.3 percent of revenue, 15 basis points less than last year's ratio. Gross margin ratio improved by 27 basis points to 50.8 percent, while selling, general and administrative expenses as a percentage of revenue rose 26 basis points to 15.5 percent.

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[8] *Average net inventory investment refers to the amount of unpaid, but includes prepaid liquor inventory, as well as goods-in-transit, averaged over LCBO's 13 fiscal reporting periods.*

Productivity ratios

To help monitor expenses and identify areas of focus, the LCBO compares its productivity ratios to previous years to measure improvement.

Retail productivity

	FY2017	FY2018	FY2019	FY2020	FY2021
Retail sales per transaction	$ 35.29	$ 36.64	$ 36.80	$ 38.08	$ 50.48
Unit sales per hour paid	42.7	42.4	43.5	45.5	44.5
Salaries & Benefits as a percentage of retail sales	7.1%	7.1%	7.1%	6.9%	6.8%
Total retail expenses as a percentage of retail sales	11.0%	10.8%	9.1%	9.0%	8.9%

FY2019 retail expenses have been restated to reflect the adoption of IFRS 16, which has resulted in a lower Total retail expenses as a percentage of retail sales ratios.

Retail productivity ratios were mostly favourable compared to last year. Average retail sales per transaction increased by $12.40, or almost 33 percent, primarily due to changes in consumer behaviour during the pandemic (less visits but larger baskets). Including eCommerce store pickups, store sales increased 7.6 percent on an almost 19 percent reduction in transactions as store traffic was sharply reduced. The higher growth of hours paid relative to unit sales growth led to an unfavourable two percent reduction in unit sales per hour paid, but the slower growth of store labour costs and overall expenses compared to retail sales increase, resulted in improvements in labour and total expense to sales ratios for the stores.

Distribution productivity

	FY2017	FY2018	FY2019	FY2020	FY2021
Warehouse cases throughput per hour paid	39.0	39.0	38.7	37.7	37.0
Warehouse salaries & benefits per case throughput	$ 0.95	$ 0.97	$ 0.99	$ 1.05	$ 1.10
Warehouse cost per case throughput	$ 1.22	$ 1.22	$ 1.21	$ 1.26	$ 1.33

FY2019 warehouse cost has been restated to reflect the adoption of IFRS 16, which has resulted in a lower Warehouse cost per case throughput.

Unfavourable distribution productivity ratios, in FY2021 relative to the previous year, were attributable primarily to COVID-19 pandemic effects. Despite an increase in the volume of cases handled during the year, case sales growth was outpaced by higher warehouse related expenses, including labour costs. Similar to retail stores, promotion of health and safety measures within the warehouses and necessity for greater labour capacity to fulfill higher store shipment demands, during the pandemic, drove the higher supply chain costs.

Capital expenditures

Capital expenditures (capex) totalled $59.0 million in FY2021, with the majority of investment allocated to LCBO retail network expansion and improvement. Nine new stores, three relocated and five expanded ones were among the major investments included in the almost $42 million spent through Store Development and Real Estate.

Information Technology projects accounted for the second-largest portion of capex, totalling $11.8 million in FY2021, followed by Supply Chain and Wholesale with $5.5 million. Key spending initiatives revolved around the head office and Toronto retail service centre relocation projects, including the significant undertaking of the company's data centre migration. Other expenditures comprised of infrastructural initiatives such as wireless and control upgrades to the Durham warehouse facility, store refrigeration and emergency and security equipment purchases.

Capex ($ millions)		FY2021
Store Development and Real Estate	$	41.6
Information Technology	$	11.8
Supply Chain and Wholesale	$	5.5
Other	$	0.1
Total Capital Expenditures	**$**	**59.0**

Enterprise risk management

The LCBO has an Enterprise Risk Management (ERM) program in place that aligns with the Ontario Public Sector requirements and internationally recognized ERM Standards. Risks are reviewed and assessed on a regular basis throughout the year, including assessing risks being identified globally by other entities (the external risk scan). A standing risk oversight team made up of senior leaders reviews risks quarterly and the Board of the LCBO reviews risk information bi-annually.

Risks are assessed on three dimensions: likelihood, impact, and the speed with which the risk would impact the organization when realized. The LCBO uses a 5-point scale for all three metrics. The highest level of risk impact is catastrophic. The LCBO currently does not have any risks in that category.

Certain risks, such as the COVID-19 pandemic, economic conditions, and government policy decisions, are not within the LCBO's control. However, the impact of these risks on the organization are assessed on an ongoing basis and steps were taken in the past year to manage the impact on the LCBO as discussed in the section titled *External environment*.

Risk mitigations are monitored on an ongoing basis and management takes additional actions for managing risks where needed.

The LCBO risk oversight committee monitors all risks quarterly and ensures that appropriate mitigations are in place for risks that are in the top 10. The three most significant of these risks are:

- Pandemic Fatigue: This risk did not exist a year ago and emerged in late summer 2020 internally through internal surveys and pulse monitoring, as well as through the external risk scans. The LCBO has put new mitigations in place to manage this risk through:
    - Leadership training to help leaders focus on their employees' mental health during a protracted pandemic and work from home period.
    - Leadership training on managing teams remotely.
    - Employee training on managing conflicts in the workplace, especially at store level to defuse customer interactions.
    - Employee training on "Taking care of you" to reinforce the need for self-care and LCBO's support for employee self-care.
    - The "Spark the Conversation Series" and the Diversity, Inclusion, and Belonging work to help employees have conversations about the impact world events have had on individuals and their mental well health concurrent with the pandemic.
    - Ongoing messaging on staying safe, staying healthy, and using all available tools including the Employee and Family Assistance Program.

    Additional mitigations continue to be explored as the LCBO navigates through the pandemic.

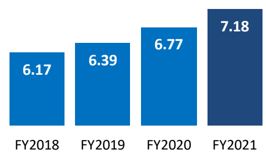
- Information Technology: The LCBO has a complex underlying IT infrastructure to drive its business. Growth in different channels such as eCommerce and other business driven initiatives require ongoing investments in new infrastructure, with FY2021 spending discussed in the section titled *Capital expenditures*. Integration into the existing infrastructure is complex because of legacy technology and disparate platforms, resulting in an elongated time to change and human capital challenges. As the cyber threat landscape continues to evolve, the LCBO remains on alert and in addition to targeted mitigations, response plans continue to be upgraded to ensure the LCBO can maintain its security stance.

- Supply Chain Disruption: this risk elevated through the pandemic as discussed in the section titled *Inventory*. The supply and demand for ocean freight tightened, vendors had supply chain disruption that impacted LCBO supplies, and strikes at the Port of Montreal during the year all required tighter inventory management to ensure the LCBO had sufficient inventory on hand to manage the higher demand.

Financial and operational highlights at a glance

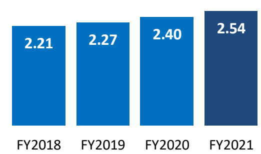
Revenue
$ billions

$7.18
+6.2% vs LY



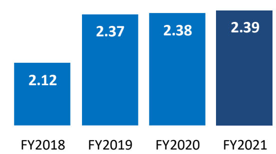
Net Income
$ billions

$2.54
+5.7% vs LY



Dividend
$ billions

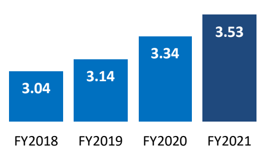
$2.39
+0.6% vs LY



Net Income in FY2019 has been restated to reflect the adoption of IFRS 16.

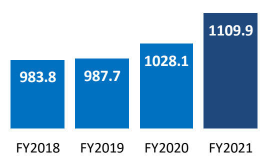
Cost of Sales
$ billions

$3.53
+5.6% vs LY



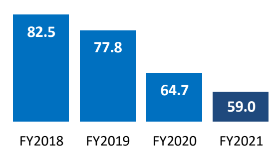
Expenses
$ millions

$1109.9
+8.0% vs LY



CapEx
$ millions

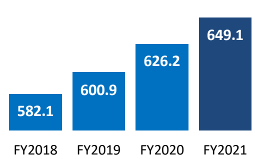
$59.0
-9.0% vs LY



Expenses in FY2019 have been restated to reflect the adoption of IFRS 16.

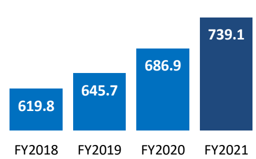
Litres Sold
millions

649.1
+3.7% vs LY



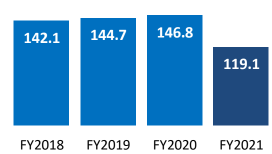
Units Sold
millions

739.1
+7.6% vs LY



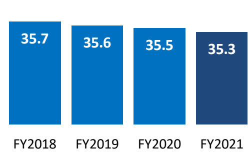
Customer Transactions
millions

119.1
-18.9% vs LY



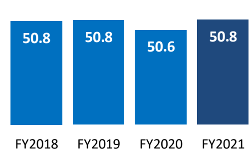
Net Income Ratio
percentage of revenue

35.3%
-15bps vs LY



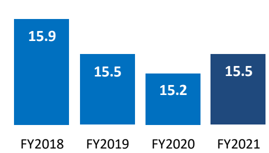
Gross Margin Ratio
percentage of revenue

50.8%
+27bps vs LY



SG&A Expense Ratio
percentage of revenue

15.5%
+26bps vs LY



Expenses in FY2019 have been restated to reflect the adoption of IFRS 16.

RESPONSIBILITY FOR FINANCIAL REPORTING

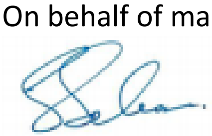
The preparation, presentation and integrity of the financial statements are the responsibility of management. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the estimates, judgments and assumptions necessary 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 & Chief Executive Officer

Kent Harris
Senior Vice President, Finance & Administration, & Chief Financial Officer

June 24, 2021

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

INDEPENDENT AUDITOR'S REPORT

To the Liquor Control Board of Ontario

Opinion

I have audited the financial statements of the Liquor Control Board of Ontario (the LCBO), which comprise the statement of financial position as at March 31, 2021, and the statements of income and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the LCBO as at March 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the LCBO's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the LCBO's

ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the LCBO to cease to continue as a going concern.

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

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

Toronto, Ontario
June 24, 2021

Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General

FINANCIAL STATEMENTS AND NOTES

For the Year Ended March 31, 2021

LIQUOR CONTROL BOARD OF ONTARIO

Statement of Financial Position

(thousands of Canadian dollars)

	Note	March 31 2021	March 31 2020
ASSETS			
Current Assets			
Cash and cash equivalents	5	496,437	367,122
Trade and other receivables	6	86,593	91,153
Inventories	7	583,123	523,818
Prepaid expenses	8	26,756	20,066
Total Current Assets		1,192,909	1,002,159
Right-of-use assets	11	601,179	559,271
Property, plant and equipment and intangible assets	9	398,756	410,881
Total Assets		**2,192,844**	**1,972,311**
LIABILITIES & EQUITY			
Current Liabilities			
Trade and other payables	10	758,850	741,213
Provisions	13	23,102	20,933
Current portion of non-pension employee benefits	14	15,728	12,505
Current portion of lease liabilities	11	87,442	74,972
Total Current Liabilities		885,122	849,623
Non-pension employee benefits	14	111,709	117,361
Lease liabilities	11	622,863	587,911
Borrowings	15	4,544	-
Total Liabilities		**1,624,238**	**1,554,895**
Equity			
Retained earnings		574,365	425,970
Accumulated other comprehensive loss	14	(5,759)	(8,554)
Total Equity		568,606	417,416
Total Liabilities and Equity		**2,192,844**	**1,972,311**

See accompanying notes to the financial statements.

Approved By:

Carmine Nigro, Chair, Board of Directors

Board Member, Chair, Audit Committee

LIQUOR CONTROL BOARD OF ONTARIO

Statement of Income and Other Comprehensive Income

(thousands of Canadian dollars)

For the year ended	Note	March 31 2021	March 31 2020
Revenue	19	7,182,507	6,765,851
Cost of sales	7	(3,530,382)	(3,344,076)
Gross margin		3,652,125	3,421,775
Other income	20	23,601	31,403
Selling, general and administrative expenses	21	(1,109,852)	(1,028,097)
Income from operations		2,565,874	2,425,081
Finance income	23	1,605	5,392
Finance costs	11, 14, 23	(29,084)	(28,873)
Net income		**2,538,395**	**2,401,600**
Other comprehensive gain/(loss)			
Actuarial gain/(loss) on non-pension employee benefits	14	2,795	1,216
Total other comprehensive gain/(loss)		2,795	1,216
Total comprehensive income		**2,541,190**	**2,402,816**

See accompanying notes to the financial statements.

LIQUOR CONTROL BOARD OF ONTARIO

Statement of Changes in Equity

(thousands of Canadian dollars)

	Note	Retained Earnings	Accumulated other comprehensive gain/(loss)	Total Equity
Balance at April 1, 2020		425,970	(8,554)	417,416
Net income		2,538,395	-	2,538,395
Other comprehensive gain		-	2,795	2,795
Dividend paid to province		(2,390,000)	-	(2,390,000)
Balance at March 31, 2021		574,365	(5,759)	568,606
Balance at April 1, 2019		399,370	(9,770)	389,600
Net income		2,401,600	-	2,401,600
Other comprehensive gain		-	1,216	1,216
Dividend paid to province		(2,375,000)	-	(2,375,000)
Balance at March 31, 2020		425,970	(8,554)	417,416

LIQUOR CONTROL BOARD OF ONTARIO

Statement of Cash Flows

(thousands of Canadian dollars)

For the year ended	March 31 2021	March 31 2020
Operating activities:		
Net income	2,538,395	2,401,600
Depreciation, amortization and impairment	70,890	72,592
Depreciation – right-of-use assets	83,785	77,810
Loss/(gain) on sale and disposal of property, plant and equipment and intangible assets	58	(2,537)
Interest expense on lease liabilities	24,243	24,601
Interest paid on lease liabilities	(22,384)	(24,542)
Non-pension employee benefit expenses	15,912	11,809
Non-pension employee benefit payments	(15,546)	(14,755)
	156,958	144,978
Change in non-cash balances related to operations:		
Trade and other receivables	4,560	(7,647)
Inventories	(59,305)	(37,467)
Prepaid expenses	(6,690)	(6,861)
Trade and other payables	17,637	1,443
Provisions	2,169	(2,255)
	(41,629)	(52,787)
Net cash provided by operating activities	2,653,724	2,493,791
Investing activities:		
Purchase of property, plant and equipment and intangible assets	(58,909)	(64,684)
Proceeds from sale of property, plant and equipment and intangible assets	100	3,297
Net cash used in investing activities	(58,809)	(61,387)
Financing activities:		
Dividend paid to the Province of Ontario	(2,390,000)	(2,375,000)
Principal portion of lease payments	(80,508)	(70,717)
Lease Incentives received	378	-
Proceeds from borrowings	4,530	-
Net cash used in financing activities	(2,465,600)	(2,445,717)
Increase/(decrease) in cash	129,315	(13,313)
Cash and cash equivalents, beginning of year	367,122	380,435
Cash and cash equivalents, end of year	496,437	367,122

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 24, 2021.

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 LCBO's March 31, 2021 financial statements as their effective dates fall in the current financial reporting period.

IAS 1 Presentation of Financial Statements

The IASB clarified that the intention of the amendments to IAS1 *Presentation of Financial Statements* is to make the definition of 'material' easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards.

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

The main improvements include:

- The inclusion of obscuring information in definition places more emphasis on ensuring only material information is evident to the users.
- Elaborating on the primary users of general purpose financial statements to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

The amendments are effective for annual periods beginning on or after January 1, 2020. The amendments to IAS 1 *Presentation of Financial Statements* did not have an impact to LCBO.

Revised Conceptual Framework for financial reporting

The Conceptual Framework sets out the fundamental concepts in developing accounting standards. IASB clarified that the revised conceptual framework did not change any of the current accounting standard. The revised Conceptual Framework is intended to guide entities that rely on the Framework in determining their accounting policies for transactions or conditions that are not dealt with under the entity's accounting policies.

The main improvements include:

- Guidance on measurement, including factors to be considered when selecting a measurement basis.
- Concepts on presentation and disclosure, including when to classify income and expenses in other comprehensive income.
- Reinstatement of prudence as a component of neutrality.
- Guidance on when assets and liabilities are removed from the financial statements.

The revised Conceptual Framework is effective for annual periods beginning on or after January 1, 2020. The revised Conceptual Framework did not have an impact to LCBO.

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, 2021 financial statements as their effective dates fall in periods beginning subsequent to the current financial reporting period.

2.2 Accounting standards and amendments not yet effective (continued)

COVID-19-Related Rent Concessions – Amendments to IFRS 16

As a result of the COVID-19 pandemic, lessors were compelled to grant rent concessions to affected lessees. These concessions took a variety of forms, including deferral of lease payments and payment holidays. Previously under IFRS 16 *Leases*, rent concessions often met the definition of a lease modification, unless they were anticipated in the original lease agreement.

The amendments to IFRS 16 *Leases* introduced an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient would treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this would result in accounting for the concessions as variable lease payments in the period in which they were granted. Entities applying the practical expedient must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognized in profit or loss arising from the rent concessions.

The amendments are effective for annual periods beginning on or after April 1, 2021. The amendments are not expected to have an impact to LCBO.

Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37

The amendment to IAS 37 clarified that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

The amendments are effective for annual periods beginning on or after January 1, 2022. The amendments are not expected to have an impact to LCBO.

Classification of Liabilities (Current vs Non-current) – Amendments to IAS 1

The amendments to IAS 1 *Presentation of Financial Statements* clarified that the requirement to classify liability as current when they do not have an unconditional right to defer settlement of liability for at least twelve months have been eliminated. Under the amendments, the classification of liabilities as either current or non-current would

2.2 Accounting standards and amendments not yet effective (continued)

depend on the substantive rights that exist at the end of the reporting period. The amendments could affect the classification of liabilities, particularly for entities that have liabilities that can be converted into equity.

The amendments are to be applied retrospectively in accordance with the requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual periods beginning on or after January 1, 2023. The amendments are not expected to have an impact to LCBO.

Annual Improvements to IFRS Standards 2018–2020

The following improvements were finalized in May 2020:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* – amended to allow entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent.

- IFRS 9 *Financial Instruments* – amended to clarify which fees should be included in the 10% test for derecognition of financial liabilities.

- IFRS 16 *Leases* – amended to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

- IAS 41 *Agriculture* – amended to remove the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41.

The amendments are effective for annual periods beginning on or after January 1, 2022. The amendments are not expected to have an impact to LCBO.

3. Significant Accounting Policies

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

3.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash 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 the lifetime expected credit loss. LCBO applies the simplified approach, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

The lifetime expected credit losses is estimated using a provision matrix based on LCBO's historical loss rates of its historical credit loss experience for different customer segments. The historical losses are adjusted as appropriate to reflect current conditions and estimates of future economic conditions. The loss is recognized as selling, general and administrative expenses 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.

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 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.

3.4 Property, plant and equipment (continued)

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
Machinery and Equipment	5 to 20 years
Computer Hardware	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.

3.5 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.

3.5 Intangible assets (continued)

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.

3.6 Impairment of assets

LCBO reviews the carrying amounts of its right-of-use assets, property, plant and equipment and intangible assets to determine whether there is any indication of an impairment loss. An indication exists when events or changes in circumstances indicates that the carrying amount may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of the asset's fair value less cost of disposal and value in use. 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 right-of-use assets, 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 and Note 11.

3.7 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.

3.8 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 13.

3.9 Borrowings

Borrowings are financial liabilities initially measured at fair value less transaction costs and subsequently remeasured at amortized cost using the effective interest method. The effective interest method is used to recognize in the Statement of income and other comprehensive income, the difference between the proceeds less transaction cost if any and the redemption amount. Transaction costs of a borrowing are the fees paid on the establishment of the borrowing to the extent that some or all of the facility will be drawn down.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, expired or cancelled. The resulting disclosures are presented in Note 15.

3.10 Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalized during the period required to complete and prepare the asset for its intended use or sale by management. Qualifying assets are assets that necessarily take a substantial period to get ready for their intended use or sale. Other borrowing costs are expensed in the period in which they are incurred. The resulting disclosures are presented in Note 15.

3.11 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 classification is dependent on LCBO’s business model for managing the financial assets and the contractual terms of the cash flows.

3.11 Financial instruments (continued)

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

Financial Asset / Financial Liability	Measurement category
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Trade and other payables	Amortized cost
Borrowings	Amortized cost
Derivatives and foreign exchange spot contracts	Fair value through profit or loss ("FVTPL")

i. **Amortized cost**

This measurement category applies to financial instruments in which assets are held for collection of contractual cash flows in which the cash flows represent solely payments of principal and interest. The effective interest rate method is used to recognize in finance income and finance cost interest accrued from these financial assets and liabilities respectively. Cash and cash equivalents, trade receivables, trade payables, and borrowings are measured at amortized cost.

ii. **Fair value through other comprehensive income**

This measurement category applies to financial instruments in which assets are held for collection of contractual cash flows and for selling the financial assets. LCBO does not hold any financial assets under this measurement category.

iii. **Fair value through profit or loss**

Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. Financial assets classified as fair value through profit or loss are measured at fair value with changes in fair value recorded in profit or loss and presented net with other gains/(losses) in the period in which they arise.

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 profit and loss. The resulting disclosures are presented in Note 17.

3.11 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).

3.12 Revenue recognition

Revenue from sale of goods is measured at the fair value of consideration received or receivable for the sale of goods in the ordinary course of LCBO's activities less any applicable taxes, actual and expected returns, discounts, rebates and container deposits. Revenue is recognized when the control of the goods has been transferred to the customer. For goods delivered to customers, revenue is recognized at the time the customer receives the product or upon estimated receipt by the customer. Other items in revenue include:

i. **Air Miles®**

The Air Miles® program is split into two distinct components:

(1) Base – LCBO pays LoyaltyOne a fee for each base Air Miles® issued to customers. LCBO acts as an agent for LoyaltyOne in this arrangement, therefore the associated costs of the base miles are accounted for as a reduction to revenue 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. LCBO also pays LoyaltyOne a fee for each bonus Air Miles® issued to customers. The associated income net of costs of the bonus program is accounted for as a reduction to cost of sales in the Statement of income and other comprehensive income.

LCBO no longer participates in the Air Miles® program following contract termination with LoyaltyOne on March 31, 2021.

ii. **Direct Delivery**

The LCBO has established programs whereby Ontario wineries and small Ontario distillers may obtain approval to deliver products directly to licensees on behalf of the LCBO. The LCBO recognizes revenue from the direct delivery programs as the agent in the transaction, with cost of goods sold netted against gross revenues.

3.12 Revenue recognition (continued)

iii. **Gift Card breakage income**

LCBO recognizes a contract liability upon the sale of gift cards. LCBO expects to be entitled to a breakage amount in the contract liability as not all customers redeem the full amount of gift cards. Therefore, the LCBO recognizes the breakage amount as revenue in proportion to the pattern of gift card redemption. LCBO estimates the breakage rate based on historical redemption data. The resulting disclosures are presented in Note 12.

3.13 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 sale of data to trade partners.

ii. **Ontario Deposit Return Program ("ODRP") container deposit breakage income**

In 2006, the Province entered into an agreement with Brewers Retail Inc., operating as The Beer Store (TBS) 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 2007. In 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 and recognizes a refund liability upon the receipt of container deposits.

LCBO reimburses Brewers Retail Inc. for deposits paid to customers who return containers to locations it operates, plus a service fee. The service fees paid to Brewers Retail Inc. are included in selling, general and administrative expenses as part of environmental initiatives expenses. The net amounts are included in trade and other payables in the Statement of financial position.

LCBO expects to be entitled to a breakage amount in the refund liability as not all customers return the container for their deposit. LCBO estimates its ODRP container redemption rate based on historical redemption data and determines the breakage rate. The breakage income is recognized based on redemption patterns and is included in other income.

3.13 Other income (continued)

iii. Domestic airline revenue

LCBO has a process to facilitate the sale of alcohol from Ontario suppliers to airlines, who in turn sell the alcohol on their flights. LCBO charges airlines a mark-up on products removed from the Customs Bonded Warehouse/Excise Warehouse for in-flight sales on flights departing from Ontario with a Canadian destination.

3.14 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.

3.15 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 22.

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.

3.15 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 14.

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 14.

3.16 Finance income

Finance income comprises of interest income on funds invested. Interest income is recognized as it is earned in the Statement of income and other comprehensive income, using the effective interest method. The resulting disclosures are presented in Note 23.

3.17 Finance costs

Finance costs consist of interest expense on the non-pension employee benefits obligation and financing charges on lease liabilities. The resulting disclosures are presented in Notes 14 and 23.

3.18 Leasing

Under IFRS 16, LCBO assesses whether a contract is or contains a lease, at the inception of the contract. LCBO recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, the LCBO recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the LCBO's incremental borrowing rate, unless the implicit interest rate in the lease can be readily determined. Lease payments are comprised of fixed payments including in-substance fixed payments, less any lease incentives receivable. The period over which the lease payments are discounted is the reasonably certain lease term, which may include lease renewal options. The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The LCBO remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;

3.18 Leasing (continued)

- The lease payments change due to changes in an index or rate, in which cases the lease liability is remeasured by discounting the revised lease payments using the same discount rate used in initially setting up the liability (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise of the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date, less any lease incentives received. They are subsequently measured at cost less accumulated depreciation and impairment losses, if any. The right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset.

Variable rent payments that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occur and are included in selling, general and administrative expenses in the Statement of income and comprehensive income.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and to instead account for any lease and associated non-lease components as a single arrangement. The LCBO has elected to apply this practical expedient to account for its non-property leases. The resulting disclosures are presented in Note 11.

3.19 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, Euro and AUD 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

4. Use of estimates and judgments (continued)

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.

The COVID-19 pandemic caused significant market volatility, increasing measurement uncertainty in the valuation of non-pension employee benefits obligation as a result of fluctuations in discount rates. The discount rate applied by LCBO in the valuation of non-pension employee benefits are based on 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 14.

ii. Impairment of assets

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

Right-of-use assets, property, plant and equipment and intangible assets 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 and Note 11.

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.

4. Use of estimates and judgments (continued)

iv. Leases

LCBO leases a significant number of retail store locations and also enters into leases for non-retail locations as part of its operations (collectively "property" leases), along with a non-property lease. As a practical expedient, the LCBO elected, by class of non-property lease, not to separate the non-lease and lease components, and instead account for together as a single lease component. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods covered by termination options) are only included in the lease term if management determines the lease to be reasonably certain to be extended (or terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of LCBO.

Judgment is also required in determining the appropriate discount rate used for measurement of lease liabilities. Generally, the interest rate implicit in LCBO's leases are not readily determinable. As such, LCBO estimates an incremental borrowing rate at the lease commencement date based on Ontario bond rates, adjusted for financing spreads, risk premiums and fees.

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, and the difference is recognized in the statement of comprehensive income at that time. Additional disclosures are presented in Note 13.

vi. ODRP container deposit breakage income

LCBO has determined that not all deposits paid by customers for the ODRP containers will be redeemed. Estimates have been made for the breakage rate on ODRP containers based on historical redemption data. The estimated ODRP container deposit breakage is included in other income on the Statement of income and comprehensive income in the period when the likelihood of redemption is considered to be remote. Additional disclosures are presented in Note 20.

(thousands of Canadian dollars)

4. Use of estimates and judgments (continued)

vii. Gift Card breakage income

LCBO has determined that not all gift cards purchased will be redeemed in full by customers. Estimates have been made for the breakage rate on gift cards based on past history and industry trends. Additional disclosures are presented in Note 12.

5. Cash and Cash Equivalents

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

	March 31 2021	**March 31 2020**
Cash on hand and in transit	232,621	237,200
Short term investments	263,816	129,922
	496,437	367,122

6. Trade and Other Receivables

	March 31 2021	**March 31 2020**
Trade and other receivables	90,604	92,929
Loss allowance	(4,011)	(1,776)
	86,593	91,153

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

LCBO's trade and other receivables do not contain significant financing components due to their short-term nature and as a result are recognized at transaction price. The receivables are held within a business model to collect all the contractual cash flows and therefore measured subsequently at amortized cost. The carrying amount of trade and other receivables is reduced through the use of a loss allowance for expected credit losses.

The relevant disclosures on LCBO's impairment policies and the calculation of the loss allowances are provided in Note 17.

7. Inventories

Inventories sold during the year ended March 31, 2021 was $3,530 million (2020 - $3,344 million) and are included in cost of sales. There were no significant write-downs or reversal of previous write-downs to net realizable value during the year ended March 31, 2021 and 2020.

8. Prepaid Expenses

Prepaid expenses consist of product purchases for Vintage Futures that have been paid but not yet received, prepaid IT service and maintenance contracts and other miscellaneous pre-payments.

(thousands of Canadian dollars)

9. Property, Plant & Equipment and Intangible Assets

Net book value of property, plant & equipment and intangible assets	March 31 2021	March 31 2020
Land	9,898	9,899
Buildings	97,318	102,211
Machinery and equipment	48,432	47,425
Leasehold improvements	181,968	176,875
Computer equipment	16,420	11,948
Computer software	33,165	41,023
Software/Construction in progress	11,555	21,500
	398,756	410,881

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, 2021

	Land	Buildings	Machinery and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
Cost								
Balance at April 1, 2020	9,899	402,344	164,313	587,244	62,886	161,393	21,500	1,409,579
Net additions	-	5,188	10,316	30,426	11,050	10,989	(9,046)	58,923
Impairment	-	-	-	-	-	-	(899)	(899)
Disposals/Retirements	(1)	(221)	(2,054)	(4)	(900)	-	-	(3,180)
Balance at March 31, 2021	9,898	407,311	172,575	617,666	73,036	172,382	11,555	1,464,423
Accumulated depreciation								
Balance at April 1, 2020	-	300,132	116,889	410,369	50,938	120,370	-	998,698
Depreciation for the year	-	10,002	9,243	25,329	6,570	18,847	-	69,991
Disposals/Retirements	-	(141)	(1,989)	-	(892)	-	-	(3,022)
Balance at March 31, 2021	-	309,993	124,143	435,698	56,616	139,217	-	1,065,667
Net book value at March 31, 2021	9,898	97,318	48,432	181,968	16,420	33,165	11,555	398,756

(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, 2020

	Land	Buildings	Machinery and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
Cost								
Balance at April 1, 2019	9,944	394,670	155,578	565,311	58,180	145,308	25,779	1,354,770
Net additions	-	9,271	11,742	25,059	6,747	16,144	(4,279)	64,684
Impairment	-	(128)	(8)	-	-	-	-	(136)
Disposals/Retirements	(45)	(1,470)	(2,998)	(3,126)	(2,041)	(59)	-	(9,739)
Balance at March 31, 2020	9,899	402,343	164,314	587,244	62,886	161,393	21,500	1,409,579
Accumulated depreciation								
Balance at April 1, 2019	-	290,647	110,152	386,621	47,119	100,682	-	935,221
Depreciation for the year	-	10,515	9,568	26,814	5,812	19,747	-	72,456
Disposals/Retirements	-	(1,030)	(2,831)	(3,066)	(1,993)	(59)	-	(8,979)
Balance at March 31, 2020	-	300,132	116,889	410,369	50,938	120,370	-	998,698
Net book value at March 31, 2020	9,899	102,211	47,425	176,875	11,948	41,023	21,500	410,881

10. Trade and Other Payables

	March 31 2021	**March 31 2020**
Trade payables	515,045	515,516
Accruals and other payables	243,805	225,697
	758,850	741,213

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. Due to their short-term nature, LCBO considers trade and other payable to be the same as their fair value.

(thousands of Canadian dollars)

11. Leases

a. Right-of-use assets

Right-of-use assets continuity for the year ended March 31, 2021

	Property[9]	Non-property[10]	Total
Cost			
Balance at April 1, 2020	1,454,928	-	1,454,928
Additions	108,540	17,153	125,693
Balance at March 31, 2021	1,563,468	17,153	1,580,621
Accumulated depreciation			
Balance at April 1, 2020	895,657	-	895,657
Depreciation for the year	82,879	906	83,785
Balance at March 31, 2021	978,536	906	979,442
Net book value at March 31, 2021	584,932	16,247	601,179

9 Property leases consist of retail stores and a warehouse facility from a third party.
10 Non-property leases consist of leased machinery, IT and other equipment assets.

Right-of-use assets continuity for the year ended March 31, 2020

	Property[9]	Non-property	Total
Cost			
Balance at April 1, 2019	1,384,114	-	1,384,114
Additions	70,814	-	70,814
Balance at March 31, 2020	1,454,928	-	1,454,928
Accumulated depreciation			
Balance at April 1, 2019	817,847	-	817,847
Depreciation for the year	77,810	-	77,810
Balance at March 31, 2020	895,657	-	895,657
Net book value at March 31, 2020	559,271	-	559,271

9 Property leases consist of retail stores and a warehouse facility from a third party

(thousands of Canadian dollars)

11. Leases (continued)

b. Amount recognized in Statement of income and other comprehensive income

	March 31 2021	March 31 2020
Depreciation – right-of-use assets	83,785	77,810
Interest expense on lease liabilities	24,243	24,601
Rent expense relating to short-term leases	880	1,105
Variable lease expenses not included in the measurement of lease liabilities	48,290	46,387

c. Lease liabilities

Maturity analysis – undiscounted cash flow		
Less than one year	114,486	98,776
One to five years	431,220	377,008
More than five years	459,860	454,804
	1,005,566	930,588
Lease liabilities included in the statement of financial position		
Current	87,442	74,972
Non-current	622,863	587,911
	710,305	662,883

(thousands of Canadian dollars)

12. Gift Cards

For the year ended	March 31 2021	March 31 2020
Unredeemed gift cards	58,377	49,702

Revenue generated from gift cards is recognized when gift cards are redeemed. For the fiscal year ended March 31, 2021, a total of $109.4 million (2020 - $115.6 million) gift cards were redeemed and recognized in revenue. Breakage income recognized in revenue for the year ended March 31, 2021 was $2.2 million (2020 - $2.4 million).

13. Provisions

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

Provisions continuity for the year ended March 31, 2021

	Short term employee benefits	Other	Total
Balance at April 1, 2020	17,593	3,340	20,933
Charges recognized during the year	20,856	2,246	23,102
Utilization of provision	(17,593)	(3,340)	(20,933)
Balance at March 31, 2021	20,856	2,246	23,102

Provisions continuity for the year ended March 31, 2020

	Short term employee benefits	Other	Total
Balance at April 1, 2019	17,744	5,444	23,188
Charges recognized during the year	17,593	3,340	20,933
Utilization of provision	(17,744)	(5,444)	(23,188)
Balance at March 31, 2020	17,593	3,340	20,933

(thousands of Canadian dollars)

13. Provisions (continued)

All provisions are classified as current. 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 employee salary continuance and sales return allowance. Sales returns allowance is estimated based on historical sales return trends.

14. Employee Benefits

a. Pension plan

For the year ended March 31, 2021 the expense was $35.4 million (2020 – $34.5 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, 2021, the weighted average duration of the plans obligations are 7.5 years (2020 – 7.5 years).

i. Statement of financial position

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

	March 31 2021	March 31 2020
Current	15,728	12,505
Non-current	111,709	117,361
Total non-pension employee benefit obligation	127,437	129,866

The current portion represents LCBO's estimated contribution to non-pension employee benefits for fiscal 2022.

(thousands of Canadian dollars)

14. Employee Benefits (continued)

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 2021	**March 31 2020**
Current service cost	17,206	16,287
Past service credit	-	-
Actuarial gains on non-vesting benefits	(6,135)	(8,750)
Total costs included in expenses	11,071	7,537
Interest costs	4,841	4,272
Total costs included in finance costs	4,841	4,272
Total non-pension employee benefit expenses	15,912	11,809

iii. Accumulated other comprehensive income

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

	March 31 2021	**March 31 2020**
Opening cumulative actuarial losses recognized	(8,554)	(9,770)
Net actuarial gains/(losses) recognized	2,795	1,216
Closing cumulative actuarial losses recognized	(5,759)	(8,554)

(thousands of Canadian dollars)

14. Employee Benefits (continued)

iv. Movement in the obligation

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

	March 31 2021	**March 31 2020**
Opening benefit obligation	129,866	134,028
Current service cost	17,206	16,287
Interest on obligation	4,841	4,272
Actuarial (gains)/losses from changes in demographic assumptions	(1,380)	(1,543)
Actuarial (gains)/losses from changes in financial assumptions	7,043	(3,729)
Actuarial (gains)/losses from other	(14,593)	(4,694)
Benefits paid	(15,546)	(14,755)
Closing benefit obligation	127,437	129,866

(thousands of Canadian dollars)

14. Employee Benefits (continued)

v. Significant assumptions

Significant assumptions used for the year ended March 31, 2021:

	WCB	LTIP	NVSL	ECTB	CSP	Service Awards
Discount Rate						
Expense	3.60%	3.60%	3.60%	3.60%	3.60%	3.60%
Disclosure	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%
Salary rate increase						
• Bargaining Unit	n/a	n/a	FY21+: 1.400% plus OPT Promotional Scale	n/a	FY21+: 1.400% plus OPT Promotional Scale	2.0% per annum
• Management and Executive	n/a	n/a	FY21+: 1.400% + 2% merit	FY21+: 1.400% + 2% merit	FY21+: 1.400% + 2% merit	2.0% per annum
• Disabled employees	2.0% per annum	1.4% per annum	Same as above	Same as above	Same as above	2.0% per annum
Health care cost increases						
• Health & Vision	6.6% per annum in 2021 reducing to 4.0% per annum in and after 2041	6.6% per annum in 2021 reducing to 4.0% per annum in and after 2041	n/a	n/a	n/a	n/a
• Dental	n/a	4.0% per annum	n/a	n/a	n/a	n/a

(thousands of Canadian dollars)

14. Employee Benefits (continued)

v. Significant assumptions (continued)

Significant assumptions used for the year ended March 31, 2020:

	WCB	LTIP	NVSL	ECTB	CSP	Service Awards
Discount Rate						
Expense	3.10%	3.10%	3.10%	3.10%	3.10%	3.10%
Disclosure	3.60%	3.60%	3.60%	3.60%	3.60%	3.60%
Salary rate increase						
• Bargaining Unit	n/a	n/a	FY20: 2.010% plus OPT Promotional Scale FY21+: 1.400% plus OPT Promotional Scale	n/a	FY20: 2.010% plus OPT Promotional Scale FY21+: 1.400% plus OPT Promotional Scale	2.0% per annum
• Management and Executive	n/a	n/a	FY20: 2.010% + 2% merit FY21+: 1.400% + 2% merit	FY20: 2.010% + 2% merit FY21+: 1.400% + 2% merit	FY20: 2.010% + 2% merit FY21+: 1.400% + 2% merit	2.0% per annum
• Disabled employees	2.0% per annum	1.4% per annum	Same as above	Same as above	Same as above	2.0% per annum
Health care cost increases						
• Health & Vision	6.9% per annum in 2020 reducing to 4.5% per annum in and after 2027	6.9% per annum in 2020 reducing to 4.5% per annum in and after 2027	n/a	n/a	n/a	n/a
• Dental	n/a	5.0% per annum	n/a	n/a	n/a	n/a

(thousands of Canadian dollars)

14. 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	(4,517)	4,840
Health care trend rate	945	(929)
Salary Scale	3,065	(2,863)
Benefit Indexation	1,592	(1,480)

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 2021 year-end disclosures. For the sensitivity analysis on the defined benefit obligation, each main assumption was increased and decreased by 0.5% from the assumption used to determine the sensitivity impact on the March 31, 2021 defined benefit obligation.

15. Borrowings

On September 28, 2020, LCBO entered into a loan agreement with Ontario Financing Authority (“OFA”) and the Ministry of Finance, for the purpose of financing the capital expenditure related to the relocation of the head office to the new location.

The loan is non-revolving comprised of aggregate advances up to a maximum principal amount of $51.2 million. No payments of interest or principal are required until project completion. The interest rate for each advance is based on market terms determined on advance date as the province of Ontario’s cost of funds, plus 53.2 basis points.

(thousands of Canadian dollars)

15. Borrowings (continued)

On completion of the new head office, the principal amount plus interest accrued will be converted to a three year term loan repayable in equal-blended semi-annual instalments of principal and interest at an interest rate that reflects the cost of issuing an Ontario three-year amortizing bond, inclusive of fees and commissions, plus 53.2 basis points.

At March 31, 2021, LCBO has drawn $4.5 million of the facility. Included in borrowings are capitalized borrowing costs related to the construction of the new head office.

The table represents the changes to LCBO's borrowings:

	March 31 2021
Cash advanced - Draws	4,530
Interest capitalized	14
Balance at March 31, 2021	4,544

The fair value of borrowings at March 31, 2021 approximates their carrying amount.

16. 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. Settlements, if any, concerning these contingent liabilities will be accounted for in the period in which the settlement occurs.

17. 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 counterparty 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 trade and other receivables. The carrying amount of these financial assets represents the maximum credit exposure.

i. Risk management

Cash and cash equivalents and derivative financial instruments arising from forward contracts are placed only with approved counterparties. For banks and financial institutions, only independently rated parties that meet the minimum credit rating of A1 or equivalent are accepted. The credit ratings are regularly monitored. In the event of a downgrade in credit rating of a counterparty, no further agreements are entered until the credit ratings meet or exceed LCBO's rating requirement.

At March 31, 2021, all foreign forward contracts and cash and cash equivalents were held with regulated Canadian financial institutions that met minimum credit rating requirements.

17. Financial Risk Management (continued)

The nature of LCBO's business mitigates against credit risk exposure from retail sales due to settlement in cash and credit cards. Trade and other receivables arise primarily from sales invoiced to independent businesses, agents, and other debtors. As at March 31, 2021, approximately 23% (2020 – 33%) of LCBO's receivable is due from one customer whose account is in good standing. Apart from this, LCBO does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. LCBO does not consider its exposure to credit risk associated with trade and other receivables to be material.

ii. Impairment of financial assets

Financial assets subsequently measured at amortized cost are subject to the expected credit loss model. LCBO has two classes of financial asset subject to the expected credit loss model:

Cash and cash equivalent

There were no impairment losses recognized for March 31, 2021 related to cash and cash equivalents. Refer to Note 5 for a breakdown of cash and cash equivalents.

Trade and other receivables

LCBO's expected credit loss model loss rates are based off credit risk exposure by type of counterparty, namely wholesale customers and others. The loss rates are a function of sales payment collection over a period and the corresponding loss experience within the period. The loss rates are adjusted to reflect current and forward-looking information on factors that impact the credit risk of customers. LCBO identified GDP as the most relevant macro-economic factor that affects its customers' ability to settle outstanding receivables, and accordingly, adjusts its historical loss rates based on expected changes in GDP in its impairment model. The impact of macro-economic factors on LCBO loss rates is negligible.

17. Financial Risk Management (continued)

b. Liquidity Risk

Liquidity risk is the risk that LCBO may not have cash readily 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. LCBO monitors the level of expected cash inflows on trade and other receivables together with outflows on trade and other payables. Treasury prepares a cash flow forecast with a time horizon of thirteen fiscal periods aligned with the LCBO financial reporting calendar. It is mandatory the cash flow forecast demonstrates having access to the board approved maximum level of liquidity. Cash that is surplus to working capital requirements is invested in low risk, fixed income instruments such as federal/provincial treasury bills and bankers' acceptances or term deposits with approved counterparties, choosing maturities which are aligned with expected cash needs with contractual maturities not greater than a year. It may also be held in bank accounts to manage counterparty limit exposure. As at March 31, 2021, LCBO had access to $46.7 million as undrawn borrowing amount through financing arrangement with OFA to fund the head office capital expenditures. Additional disclosures are presented in Note 15.

Given LCBO historically generates positive cash flows, the exposure to liquidity risk is not considered to be material.

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 of 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, 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 economically hedged through permitted hedging instruments. For the year ended March 31, 2021, LCBO hedged its exposure in identified significant currencies (USD and EUR) through the purchase of foreign exchange forward contracts.

17. Financial Risk Management (continued)

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 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 closing rate at reporting date.

As at March 31, 2021, LCBO had 58 foreign exchange forward contracts (2020 – 44) with fair value totaling $1.5 million loss (2020 - $1.6 million gain) classified as a level 2 fair value based on observable market data.

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

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, borrowings 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.

18. Capital Management

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

LCBO is required to finance certain capital expenditures with borrowings obtained from the OFA. The approval of the Minister of Finance is required for LCBO to borrow funds for major capital expenditures.

(thousands of Canadian dollars)

18. Capital Management (continued)

LCBO's objectives in managing its capital are first to safeguard its ability to continue as a going concern by preserving capital and maintaining 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.

19. Revenue

LCBO generates revenue from the sale of beverage alcohol to its customers. Virtually all revenue is from the sale of goods. In the table below, revenue is disaggregated by the major customer channels.

	March 31 2021	March 31 2020
Home Consumers – Retail	5,958,429	5,306,881
Licensees	169,836	570,999
The Beer Store	263,289	364,593
Grocers	486,464	319,840
LCBO Convenience Outlets	293,577	147,073
Duty Free	1,373	38,804
Direct Wineries and Distilleries and Other	9,539	17,661
	7,182,507	6,765,851

For direct wineries and distilleries, cost of goods sold is netted against gross revenues.

20. Other Income

The components of other income include the following:

	March 31 2021	March 31 2020
ODRP container deposit breakage income	14,796	14,738
Border point levies and fees	1,264	5,599
Domestic airline revenue	266	2,552
Other	7,275	8,514
	23,601	31,403

(thousands of Canadian dollars)

21. Selling, General and Administrative Expenses by Nature

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

	March 31 2021	**March 31 2020**
Employee costs (Note 22)	593,050	549,688
Occupancy costs	84,386	82,889
Depreciation, amortization and impairment	70,890	72,592
Depreciation – right-of-use assets	83,785	77,810
Debit/credit charges	51,330	49,791
Environmental initiatives	53,997	50,649
Other	172,414	144,678
	1,109,852	1,028,097

22. Employee Costs

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

	March 31 2021	**March 31 2020**
Salaries & wages	484,321	450,397
Short-term employee benefits	108,729	99,291
	593,050	549,688

(thousands of Canadian dollars)

23. Finance Income and Finance Costs

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

	March 31 2021	March 31 2020
Finance income		
Interest and investment income	1,605	5,392
Total finance income	1,605	5,392
Finance costs		
Interest on non-pension employee benefits	4,841	4,272
Interest expense on lease liabilities	24,243	24,601
Total finance costs	29,084	28,873

24. Commitments

Head Office
LCBO entered into a lease for the new head office location for an initial term of 20 years, with four (4) extension terms of five (5) years each or an additional 20 years. The minimum rent commitment over the initial lease term is $110.6 million. The lease has not yet commenced and is therefore not recognized as a right-of-use asset or a lease liability on the Statement of Financial Position as at March 31, 2021.

As at March 31, 2021, the LCBO had capital commitments for the construction of the new head office of approximately $30.4 million.

Ontario Financing Authority Loan
Commencing at completion of the new head office, semi-annual loan repayments to the OFA are required. The amount of the commitments for loan repayment will be determined on the substantial completion of the head office reflecting the loan balance and the applicable interest rate at that time.

25. Related Parties

Related parties of the LCBO include the Province of Ontario, Ontario Financing Authority, Stewardship Ontario, Ontario Infrastructure and Lands Corporation (“OILC”) and key management personnel.

25. Related Parties (continued)

Province of Ontario
For the year ended March 31, 2021, LCBO transferred a total dividend of $2.390 billion (2020 – $2.375 billion) to the Province. LCBO also provides an annual contribution to the Province for the defined benefit plan which is discussed in Notes 3 and 14.

Ontario Financing Authority
OFA is an agency of the province of Ontario that manages the province's debt and borrowing program. In addition, the agency also provides financial and centralized cash management services for the government; assist crown agencies to borrow and invest money.

On October 28, 2020, LCBO entered into a loan agreement with the OFA and the Ministry of Finance to finance the capital cost associated with relocating the LCBO head office to 100 Queens Quay East, Toronto, Ontario. The amount of loan advanced as at March 31, 2021 is $4.5 million. Additional disclosures are presented in note 15.

Stewardship Ontario

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, 2021, LCBO contributed $2.7 million (2020 - $2.7 million) and these expenditures are included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

Ontario Infrastructure and Lands Corporation

LCBO entered into a lease agreement with OILC to lease a facility as an interim data centre. The lease is for a five-year term. As at March 31, 2021, the outstanding lease liability is $2.3 million. Other cost incurred related to LCBO use of the facility amounted to $0.1 million, these expenditures are included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

Key Management Personnel

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 top senior officers. The Board members receive a per diem

(thousands of Canadian dollars)

25. Related Parties (continued)

remuneration for attending regularly scheduled meetings and for serving on the Audit Committee, Governance Committee or the Human Resources and Compensation Committee.

LCBO key management personnel compensation, including directors' fees comprise of:

	March 31 2021	**March 31 2020**
Salaries and short-term employee benefits	4,724	5,721
Post-employment benefits	445	493
Other long-term benefits	148	174
Termination benefits	114	120
	5,431	6,508

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 ODRP. 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 criteria above. If the products do not meet either criterion, they are excluded from the TBS common product program and will follow the ODRP.

26. The Beer Store (TBS) common product deposit return program (continued)

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, 2021, $2.8 million (2020 – $2.0 million) is included in trade and other receivables related to the TBS common product deposits.

27. Other Matters

In May 2021, LCBO and the OPSEU Liquor Board Employees Division ("LBED") reached a tentative agreement to renew the collective agreement that expired on March 31, 2021. The new collective agreement was ratified by LCBO Board of Directors on May 31, 2021 and LCBO bargaining employees on June 10, 2021, to be followed by approval of the Government of Ontario, through an Order in Council, which is anticipated to occur in or around late June, 2021.

FINANCIAL OVERVIEW

Key operational indicators

	FY2021	FY2020	FY2019	FY2018	FY2017
LCBO stores	677	669	666	663	660
Full-time equivalent employees	7,974	7,461	7,425	7,343	7,032
Product listings	28,924	31,585	28,376	26,056	24,854

Financial indicators *($ thousands)*

	FY2021	FY2020	FY2019	FY2018	FY2017
Total revenues*	7,207,713	6,802,646	6,433,022	6,231,010	5,960,271
Growth over previous year	6.0%	5.7%	3.2%	4.5%	5.9%
Total expenses**	1,138,936	1,056,970	1,016,540	987,774	948,916
As a percentage of total revenues	15.8%	15.5%	15.8%	15.9%	15.9%
Net income***	2,538,395	2,401,600	2,274,536	2,206,524	2,067,935
As a percentage of total revenues	35.2%	35.3%	35.4%	35.4%	34.7%

FY2018 has been restated to reflect the adoption of IFRS 15. FY2019 has been restated to reflect the adoption of IFRS 16.

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

Revenue payments *($ thousands)*

Treasurer of Ontario	FY2021	FY2020	FY2019	FY2018	FY2017
Remitted by the Liquor Control Board:					
on account of profits	2,390,000	2,375,000	2,370,000	2,120,000	2,060,000
Trillium Trust transfer - sale of Head Office					246,215
Remitted by the Alcohol and Gaming Commission:					
on account of licence fees and permits	6,547	14,760	14,268	11,570	9,983
Remitted by the Ministry of Revenue:					
Beer, wine and spirits tax[11]	615,000	582,000	607,000	603,000	589,000
Total	**3,011,547**	**2,971,760**	**2,991,268**	**2,734,570**	**2,905,198**
Receiver General for Canada	**FY2021**	**FY2020**	**FY2019**	**FY2018**	**FY2017**
Remitted by the Liquor Control Board:					
Excise taxes and customs duties	471,421	443,565	417,325	404,661	393,924
Goods and Services Tax (GST) / Harmonized Sales Tax (HST)	612,692	581,964	551,705	546,287	503,462
Remitted by others:					
Excise taxes, GST/HST and other duties/taxes[12]	503,335	511,798	517,046	521,648	519,752
GST/HST remitted on sales through agency stores	42,425	21,264	17,857	17,577	17,043
Total	**1,629,873**	**1,558,590**	**1,503,933**	**1,490,174**	**1,434,181**
Ontario Municipalities	**FY2021**	**FY2020**	**FY2019**	**FY2018**	**FY2017**
Remitted by the Liquor Control Board:					
Realty taxes[13]	35,602	34,651	33,294	32,147	33,276
Total revenue payments	**4,677,022**	**4,565,002**	**4,528,496**	**4,256,890**	**4,372,656**

[11] The beer, wine and spirits tax figure of $615 million is an interim number for FY2021. The FY2020 number has been restated to actual as per Ontario's March 2021 Budget.

[12] Figures reflect estimates for The Beer Store, Winery Retail Stores (home consumer retail sales only) and On-site Brewery stores. Previous years' figures have been restated to include estimates for On-site Brewery Licensee sales.

[13] Includes property taxes on leased properties.

Share of Ontario beverage alcohol market by volume sold

	FY2021
LCBO	51.3%
The Beer Store	42.6%
Brewery/Distillery/Winery Retail Stores	6.2%

Note: LCBO includes sales to Grocers but excludes to The Beer Store. The Beer Store excludes sales to the LCBO. Brewery/Winery/Distillery include licensee direct sales.

Volume sales *(thousands of litres)*

LCBO sales	FY2021	Growth	FY2020	FY2019	FY2018	FY2017
Domestic Spirits	31,442	2.0%	30,838	29,928	30,632	30,416
Imported Spirits	40,148	6.5%	37,696	36,189	34,525	33,055
Total Spirits	**71,590**	**4.5%**	**68,534**	**66,117**	**65,157**	**63,471**
Domestic Wine	61,596	14.8%	53,670	51,663	52,233	56,403
Imported Wine	110,664	-4.3%	115,614	112,758	115,754	113,035
Total Wine	**172,260**	**1.8%**	**169,283**	**164,421**	**167,987**	**169,438**
Domestic Beer	187,869	8.3%	173,536	165,412	146,507	133,282
Imported Beer	117,180	-20.7%	147,791	148,463	152,904	156,826
Total Beer	**305,049**	**-5.1%**	**321,326**	**313,874**	**299,410**	**290,108**
Domestic Coolers	84,386	55.0%	54,455	42,899	36,943	33,572
Imported Coolers	15,852	25.8%	12,598	13,553	12,565	10,827
Total Coolers	**100,238**	**49.5%**	**67,053**	**56,452**	**49,508**	**44,399**
Total Domestic	**365,293**	**16.9%**	**312,498**	**289,902**	**266,315**	**253,673**
Total Imported	**283,844**	**-9.5%**	**313,699**	**310,962**	**315,748**	**313,743**
Total LCBO	**649,136**	**3.7%**	**626,197**	**600,864**	**582,063**	**567,416**

Other sales	FY2021	Growth	FY2020	FY2019	FY2018	FY2017
Ontario winery stores	34,241	22.7%	27,904	26,865	27,460	26,028
The Beer Store & brewer on-site stores	527,206	-3.1%	543,892	567,803	594,089	617,433

Note: The FY2021 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, while previous years' numbers may be restated. LCBO beer sales figures include LCBO sales to TBS (55.6 million litres in FY2021). TBS sales exclude sales to LCBO (148.8 million litres in FY2021) and sales on behalf of LCBO to northern LCBO Convenience Outlets (6.1 million litres in FY2021). For the LCBO, prior year figures are restated annually to reflect changes in product hierarchy. FY2017 LCBO figures do not reflect IFRS 15 adjustments.

Value sales *($ thousands)*

LCBO sales	FY2021	Growth	FY2020	FY2019	FY2018	FY2017
Domestic Spirits	1,054,190	4.2%	1,011,892	961,105	964,948	935,672
Imported Spirits	1,541,376	11.3%	1,385,122	1,287,287	1,212,599	1,125,026
Total Spirits	**2,595,566**	**8.3%**	**2,397,015**	**2,248,391**	**2,177,547**	**2,060,698**
Domestic Wine	650,434	10.2%	590,445	568,252	566,249	592,200
Imported Wine	1,930,872	1.9%	1,894,279	1,817,332	1,799,297	1,703,068
Total Wine	**2,581,306**	**3.9%**	**2,484,724**	**2,385,584**	**2,365,546**	**2,295,268**
Domestic Beer	880,195	10.3%	797,668	742,994	646,083	571,998
Imported Beer	570,670	-20.5%	717,567	707,389	717,036	716,939
Total Beer	**1,450,865**	**-4.2%**	**1,515,235**	**1,450,383**	**1,363,119**	**1,288,937**
Domestic Coolers	467,200	55.7%	299,988	230,894	198,464	183,015
Imported Coolers	90,335	23.0%	73,453	79,232	73,018	63,507
Total Coolers	**557,535**	**49.3%**	**373,441**	**310,126**	**271,481**	**246,522**
Total Domestic	**3,052,019**	**13.0%**	**2,699,993**	**2,503,246**	**2,375,744**	**2,282,885**
Total Imported	**4,133,252**	**1.5%**	**4,070,421**	**3,891,239**	**3,801,950**	**3,608,540**
Non-Liquor and Other	**(4,996)**	**-27.8%**	**(6,923)**	**(5,173)**	**(4,992)**	**(636)**
Total LCBO	**7,180,275**	**6.2%**	**6,763,492**	**6,389,312**	**6,172,702**	**5,890,789**

Other sales	FY2021	Growth	FY2020	FY2019	FY2018	FY2017
Ontario winery stores	421,072	17.4%	358,775	340,600	334,150	310,460
The Beer Store & brewer on-site stores	2,231,651	-5.0%	2,348,454	2,417,993	2,462,590	2,487,499

Note: Total LCBO excludes gift card breakage income. The FY2021 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, while previous years' numbers may be restated. LCBO beer sales figures include LCBO sales to TBS ($263.3 million in FY2021). TBS sales exclude sales to LCBO ($388.1 million in FY2021) and sales on behalf of LCBO to northern LCBO Convenience Outlets ($14.6 million in FY2021). For the LCBO, prior year figures are restated annually to reflect changes in product hierarchy. FY2017 LCBO figures do not reflect IFRS 15 adjustments.

Product listings

	FY2021	FY2020	FY2019	FY2018	FY2017
Domestic					
Spirits	678	646	597	574	508
Wine	752	631	605	577	579
Beer	1,449	1,301	1,294	1,246	1,038
Imported					
Spirits	1,122	1,032	930	1,099	980
Wine	1,080	1,082	1,078	1,134	1,121
Beer	314	380	376	383	387
Total regular listings	**5,395**	**5,072**	**4,880**	**5,013**	**4,613**
VINTAGES wines and spirits	4,955	5,661	5,257	5,079	4,972
Duty-free listings	183	220	239	234	269
Consignment warehouse and private ordering	18,391	20,632	18,000	15,730	15,000
Total product listings	**28,924**	**31,585**	**28,376**	**26,056**	**24,854**

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.

LCBO sales by country of origin

In FY2021, excluding sales through Specialty Services, the LCBO sold products from 85 different countries.

Spirits

Country		Net Sales ($)	Litres
CANADA	$	1,526,905,578	117,110,936
ONTARIO	$	951,775,665	88,969,893
UNITED STATES	$	430,017,128	22,475,279
UNITED KINGDOM	$	350,462,045	7,215,741
FRANCE	$	198,158,693	5,478,019
IRELAND	$	145,344,001	4,047,421
MEXICO	$	120,601,709	2,394,981
SWEDEN	$	82,600,749	2,479,051
ITALY	$	52,069,929	1,509,412
LATVIA	$	36,980,298	1,111,988
POLAND	$	23,266,101	627,109
OTHER	$	172,403,748	5,870,569
TOTAL	**$**	**3,138,809,979**	**170,320,507**

Wine

Country		Net Sales ($)	Litres
CANADA	$	644,718,394	61,679,935
ONTARIO	$	638,832,564	61,082,582
UNITED STATES	$	471,028,356	23,624,823
ITALY	$	401,381,286	23,975,944
FRANCE	$	252,940,195	10,053,393
AUSTRALIA	$	183,841,519	11,792,435
CHILE	$	108,859,448	9,081,049
NEW ZEALAND	$	102,137,581	4,912,114
SPAIN	$	87,566,440	5,601,223
ARGENTINA	$	61,085,939	3,981,728
PORTUGAL	$	48,713,473	3,505,024
OTHER	$	101,322,163	9,628,744
TOTAL	**$**	**2,463,594,795**	**167,836,411**

Beer

Country		Net Sales ($)	Litres
CANADA	$	882,662,589	188,168,742
ONTARIO	$	742,407,280	158,975,190
NETHERLANDS	$	154,456,709	31,289,125
MEXICO	$	105,961,551	19,793,418
BELGIUM	$	66,655,331	12,161,595
GERMANY	$	45,652,187	11,442,992
IRELAND	$	29,763,724	5,741,053
POLAND	$	25,066,323	6,525,308
UNITED KINGDOM	$	21,025,526	4,240,851
DENMARK	$	20,680,558	5,068,651
UNITED STATES	$	16,909,979	3,731,699
OTHER	$	65,549,600	13,733,084
TOTAL	**$**	**1,434,384,077**	**301,896,518**

Local Products – produced in Ontario

Sales exclude Specialty Services

Volume sales *(thousands of litres)*

LCBO sales	FY2021	FY2020	Growth
Small Distillers	**555**	**490**	**13.2%**
VQA Wines	10,759	9,635	11.7%
Non-VQA Wines	39,206	36,486	7.5%
Total Wines	**49,965**	**46,121**	**8.3%**
Craft Beer	**30,324**	**28,645**	**5.9%**
Craft Cider	3,728	3,059	21.9%
Non-Craft Cider	7,080	3,602	96.6%
Total Cider	**10,808**	**6,661**	**62.3%**

Value sales *($ thousands)*

LCBO sales	FY2021	FY2020	Growth
Small Distillers	**23,041**	**20,327**	**13.4%**
VQA Wines	184,340	169,292	8.9%
Non-VQA Wines	381,791	354,309	7.8%
Total Wines	**566,131**	**523,601**	**8.1%**
Craft Beer	**184,320**	**169,869**	**8.5%**
Craft Cider	23,371	18,900	23.7%
Non-Craft Cider	42,056	21,882	92.2%
Total Cider	**65,427**	**40,781**	**60.4%**

CREDITS

The LCBO wishes to thank the members of the Audit Committee of the Board of Directors for their assistance in preparing this document. The report is available at www.lcbo.com under About LCBO.

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