Liquor Control Board of Ontario

Financial Statements & Notes

For the Year Ended March 31, 2019

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, and Chief Financial Officer
June 27, 2019

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, 2019, 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, 2019 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 relating 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.

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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 27, 2019

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

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LIQUOR CONTROL BOARD OF ONTARIO
Statement of Financial Position

(thousands of Canadian dollars)

	Note	March 31 2019	March 31 2018
ASSETS			
Current Assets			
Cash and cash equivalents	5	380,435	421,406
Trade and other receivables	6	83,506	79,923
Inventories	7	486,351	463,792
Prepaid expenses and other assets	8	23,674	28,373
Total Current Assets		973,966	993,494
Property, plant and equipment and intangible assets	9	419,549	409,115
Total Assets		**1,393,515**	**1,402,609**
LIABILITIES & EQUITY			
Current Liabilities			
Trade and other payables	10	772,738	685,524
Provisions	13	23,188	23,765
Current portion of non-pension employee benefits	14	14,271	14,235
Total Current Liabilities		810,197	723,524
Non-pension employee benefits	14	119,757	120,281
Total Liabilities		**929,954**	**843,805**
Equity			
Retained earnings		473,331	567,205
Accumulated other comprehensive loss		(9,770)	(8,401)
Total Equity		463,561	558,804
Total Liabilities and Equity		**1,393,515**	**1,402,609**

See accompanying notes to the financial statements.

Approved By:

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 2019	March 31 2018[1]
Revenue	18	6,391,574	6,174,135
Cost of sales	7	(3,141,946)	(3,036,713)
Gross margin		3,249,628	3,137,422
Other income	19	34,246	53,381
Selling, general and administrative expenses	20	(1,009,603)	(983,817)
Income from operations		2,274,271	2,206,986
Finance income	22	6,427	3,495
Finance costs	14, 22	(4,572)	(3,957)
Net income		**2,276,126**	**2,206,524**
Other comprehensive loss			
Actuarial loss on non-pension employee benefits	14	(1,369)	(6,659)
Total other comprehensive loss		(1,369)	(6,659)
Total comprehensive income		**2,274,757**	**2,199,865**

See accompanying notes to the financial statements.

[1] Certain prior year figures have been restated due to the adoption of new accounting standards (refer to Note 2.1).

LIQUOR CONTROL BOARD OF ONTARIO
Statement of Changes in Equity

(thousands of Canadian dollars)

	Note	Retained Earnings	Accumulated other comprehensive loss	Total Equity
Balance at April 1, 2018		567,205	(8,401)	558,804
Net income		2,276,126	-	2,276,126
Other comprehensive loss		-	(1,369)	(1,369)
Dividend paid to province		(2,370,000)	-	(2,370,000)
Balance at March 31, 2019		473,331	(9,770)	463,561
Balance at April 1, 2017		480,681	(1,742)	478,939
Net income		2,206,524	-	2,206,524
Other comprehensive loss		-	(6,659)	(6,659)
Dividend paid to province		(2,120,000)	-	(2,120,000)
Balance at March 31, 2018		567,205	(8,401)	558,804

LIQUOR CONTROL BOARD OF ONTARIO
Statement of Cash Flows

(thousands of Canadian dollars)

For the year ended	March 31 2019	March 31 2018
Operating activities:		
Net income	2,276,126	2,206,524
Depreciation, amortization and impairment	66,771	69,706
(Gain)/loss on sale and disposal of property, plant and equipment and intangible assets	(913)	220
Non-pension employee benefit expenses	13,513	21,033
Non-pension employee benefit payments	(15,370)	(13,101)
	64,001	77,858
Change in non-cash balances related to operations:		
Trade and other receivables	(3,583)	(4,191)
Inventories	(22,559)	13,312
Prepaid expenses and other assets	4,699	(833)
Trade and other payables	87,214	8,392
Provisions	(577)	(1,940)
	65,194	14,740
Net cash provided by operating activities	2,405,321	2,299,122
Investing activities:		
Purchase of property, plant and equipment, intangible assets and assets held for sale	(77,799)	(82,523)
Proceeds from sale of property, plant and equipment and intangible assets	1,507	221
Net cash used in investing activities	(76,292)	(82,302)
Financing activities:		
Dividend paid to the Province of Ontario	(2,370,000)	(2,120,000)
Net cash used in financing activities	(2,370,000)	(2,120,000)
(Decrease)/Increase in cash	(40,971)	96,820
Cash and cash equivalents, beginning of year	421,406	324,586
Cash and cash equivalents, end of year	380,435	421,406

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 27, 2019.

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, 2019 financial statements as their effective dates fall in the current financial reporting period.

<u>IFRS 9 *Financial Instruments*</u>

Previous standards and interpretations:

- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRIC 9 *Reassessment of Embedded Derivatives*

The new standard incorporates new classification and measurement requirements and new hedge accounting model. IFRS 9 introduces a single forward-looking expected credit loss impairment model. The adoption of IFRS 9 also resulted in consequential amendments to IFRS 7 *Financial Instruments: Disclosures* to include disclosures about an entity's risk management strategy. The standard is effective for annual periods beginning on or after January 1, 2018.

LCBO adopted IFRS 9 effective April 1, 2018 and elected not to restate comparative results in line with the transitional provision. Disclosures that are applicable to current financial results have not been applied to comparative information.

The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminated previous categories of loans and receivables, held to maturity and available for sale. An assessment was carried out on date of initial application of IFRS 9 on which business model apply to the financial assets held. LCBO has classified its financial instruments into the appropriate IFRS 9 categories.

(thousands of Canadian dollars)

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

On date of initial application, the financial instruments were classified as follows:

Financial instruments	Original classification under IAS 39	New classification under IFRS 9
Cash and cash equivalent	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Trade and other payables	Other financial liabilities	Other financial liabilities
Derivative and foreign exchange spot contracts	Fair value through profit or loss ("FVTPL")	Fair value through profit or loss ("FVTPL")

Although the reclassification for LCBO's financial instruments under IAS 39 to IFRS 9 did change as shown in table above, the measurement category remained the same with all financial instruments carried at amortized cost with the exception of derivatives and foreign exchange spot contracts measured at fair value.

IFRS 9 replaces IAS 39's incurred loss model with the expected credit loss ("ECL") model. On adoption of IFRS 9, LCBO revised its impairment methodology for its financial assets that are measured at amortized cost. The cumulative impact on transition to IFRS 9 is immaterial and has therefore been taken in the profit or loss of the current period. Refer to Note 6 for additional disclosures on impairment.

IFRS 15 *Revenue from Contracts with Customers*

Previous standards and interpretations:

- IAS 11 *Construction Contracts*
- IAS 18 *Revenue*
- IFRIC 13 *Customer Loyalty Programmes*
- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 18 *Transfer of Assets from Customers*
- SIC-31 *Revenue – Barter Transactions Involving Advertising Services*

IFRS 15 establishes a comprehensive framework for the recognition, measurement and disclosure of revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments).The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is effective for annual periods beginning on or after January 1, 2018.

LCBO adopted IFRS 15 effective April 1, 2018 using the full retrospective approach with restatement of prior period results. The standard mainly impacted LCBO's direct delivery programs for Wineries and Distilleries.

(thousands of Canadian dollars)

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

Under previous accounting guidance, revenue from the direct delivery programs was recognized on a gross basis and cost of goods sold presented separately. Under IFRS 15, the standard requires an entity to determine whether it is the principal or the agent in the transaction on the basis of whether it controls the goods or services before they are transferred to the customer. LCBO has determined that it acts as an agent in the program upon assessment of control. Therefore, LCBO recognized revenue from the direct delivery programs as the agent in the transaction, with cost of goods sold netted against gross revenues. This impacted the presentation of revenue and cost of sales, with no impact to gross margin or net income. There was no material effect to the Statement of financial position of this initial adoption, therefore a third balance sheet is not presented. The following table summarizes the impact of adopting IFRS 15 on the Statement of income and other comprehensive income for the comparative year ending March 31, 2018.

For the year ended	**March 31, 2018**		
	As previously reported	IFRS 15 adjustment	As restated
Revenue	6,244,493	(70,358)	6,174,135
Cost of sales	(3,107,071)	70,358	(3,036,713)
Gross margin	3,137,422	-	3,137,422

Annual Improvement – 2014-2016 Cycle

The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle on December 8, 2016, amending the following standards:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* deleted the short-term exemptions.
- IAS 28 *Investments in Associates and Joint Ventures* has clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The amendments are effective for annual periods beginning on or after January 1, 2018. The implementation of these amendments did not have an impact to LCBO.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

The interpretation is effective for annual periods beginning on or after January 1, 2018. The implementation of this interpretation 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 LCBO's March 31, 2019 financial statements as their effective dates fall in periods beginning subsequent to the current financial reporting period.

IFRS 16 *Leases*

Previous standards and interpretations:

- IAS 17 *Leases*
- IFRIC 4 *Determining Whether an Arrangement Contains a Lease*
- SIC-15 *Operating Leases – Incentives*
- SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. The new standard is effective for annual periods beginning on or after January 1, 2019.

LCBO will adopt IFRS 16 effective April 1, 2019, using the full retrospective approach. Therefore, LCBO will be restating comparative information for the fiscal year ended March 31, 2019 as if IFRS 16 had always been applied.

IFRS 16 requires lessees to recognize a lease liability reflecting the present value of the future lease payments and a right-of use asset for virtually all lease contracts on the Statement of financial position. Given LCBO's significant contractual obligations relating to its operating leases (Note 11) for property, primarily retail stores, under IAS 17, the impact on the Statement of financial position is expected to be significant due to the addition of right-of-use assets and the associated lease liability for LCBO's retail property leases. The impact on the Statement of income and other comprehensive income is expected to be less significant, but will result in the reclassification of some costs from selling, general and administrative expenses to finance costs as rent expense will be replaced by depreciation on right-of-use assets and interest on lease liabilities under IFRS 16. While IFRS 16 will not cause a difference in the amount of cash transferred between the parties of a lease, the presentation of the cash flows relating to leases will change in the Statement of cash flows.

LCBO is in the process of completing its review of IFRS 16 and its impact, including the implementation of a new lease accounting software.

IAS 19 *Employee Benefits*

The amendments in Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) are:

If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendment is effective for annual periods beginning on or after January 1, 2019. LCBO is assessing the potential impact of this amendment.

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 & 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.

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.

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 property, plant and equipment and intangible assets

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

3.7 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 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.

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
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 interest accrued from these financial assets. Cash and cash equivalents, trade receivables, and trade payables 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.

3.9 Financial instruments (continued)

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.

From April 1, 2018, LCBO assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortized cost. For trade receivables, LCBO applied the simplified approach, which requires expected lifetime losses to be recognized from initial recognition of the receivables. Refer to Note 16 for further details.

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).

3.10 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.

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.

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 guidance for variable consideration is followed when estimating the amount of breakage. The resulting disclosures are presented in Note 12.

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

LCBO recognizes a refund liability upon the receipt of container deposits. 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.

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.

3.12 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.

3.13 Employee benefits

i. Short-term employee benefits

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

ii. Pension Benefit Costs

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

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.

3.13 Employee benefits (continued)

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.

3.14 Finance income

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

3.15 Finance costs

Finance costs consist of interest expense on the non-pension employee benefits obligation and financing charges on capital leases. The resulting disclosures are presented in Notes 14 and 22.

3.16 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

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

3.17 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.

3.18 Ontario Cannabis Retail Corporation ("OCRC")

In support of OCRC's establishment and initial operations, the LCBO provides shared services, goods and other property to OCRC that are recoverable on a cost basis from OCRC. Expenditures related to OCRC are expensed in the period that these costs are incurred, with the recovery netted against the expenses in the Statement of income and other comprehensive income.

4. Use of estimates and judgments

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

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

i. **Non-pension employee benefits**

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

LCBO determines the appropriate discount rate at the end of each year. In determining the appropriate discount rate, LCBO uses the interest rates of high-quality corporate bonds that are denominated in the Canadian dollars in which the benefits will be paid. Other key assumptions for employee benefit obligations are based in part on current market conditions. Additional disclosures are presented in Note 14.

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

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

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

4. Use of estimates and judgments (continued)

iii. Inventories

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

iv. Leases

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

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

v. Provisions

Provisions have been made for certain employee benefits, sales returns and store closing costs. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Additional disclosures are presented in Note 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 past history. The estimated ODRP container deposit breakage is included in other income in the period when the likelihood of redemption is considered to be remote.

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. For the year ended March 31, 2019, LCBO estimated the breakage rate to remain at 2 per cent based on historical data.

(thousands of Canadian dollars)

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, 2019	March 31, 2018
Cash on hand and in transit	142,253	172,305
Short term investments	238,182	249,101
	380,435	421,406

6. Trade and Other Receivables

	March 31, 2019	March 31, 2018
Trade and other receivables	84,891	80,365
Loss allowance	(1,385)	(442)
	83,506	79,923

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

LCBO trade and other receivables do not contain significant financing component 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 16.

7. Inventories

The cost of inventories sold and recognized as cost of sales during the year ended March 31, 2019 was $3,142 million (2018 - $3,037 million). There were no significant write-downs or reversal of previous write-downs to net realizable value during the year ended March 31, 2019 and 2018.

8. Prepaid Expenses and Other Assets

Included in Prepaid expenses and other assets is the non-monetary incentive received from the sale of LCBO Head Office Lands in 2016. The total non-monetary incentive was approximately $23.3 million for the leaseback of a portion of the Head Office Lands. The non-monetary incentive for the leaseback is amortized over the interim occupancy period, until the new office building and retail space is ready for occupancy by LCBO expected in late 2021. The unamortized balance of the non-monetary incentive as of March 31, 2019 is $10.5 million (2018 – $15.1 million).

(thousands of Canadian dollars)

9. Property, Plant & Equipment and Intangible Assets

Net book value of property, plant & equipment and intangible assets	March 31, 2019	March 31, 2018
Land	9,944	9,963
Buildings	104,023	104,856
Machinery and equipment	45,426	42,716
Leasehold improvements	178,690	176,822
Computer equipment	11,061	12,827
Computer software	44,626	32,121
Software/Construction in progress	25,779	29,810
	419,549	409,115

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, 2019

	Land	Buildings	Machinery and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
Cost								
Balance at April 1, 2018	9,963	385,940	151,444	539,524	56,257	128,991	29,810	1,301,929
Net additions	-	9,809	12,196	28,474	3,730	26,576	(2,986)	77,799
Disposals/Retirements	(19)	(1,079)	(8,062)	(2,687)	(1,807)	(10,259)	-	(23,913)
Balance at March 31, 2019	9,944	394,670	155,578	565,311	58,180	145,308	26,824	1,355,815
Accumulated depreciation and impairment								
Balance at April 1, 2018	-	281,084	108,728	362,702	43,430	96,870	-	892,814
Depreciation for the year	-	10,258	9,354	26,558	5,486	14,070	-	65,726
Impairment	-	-	-	-	-	-	1,045	1,045
Disposals/Retirements	-	(695)	(7,930)	(2,639)	(1,797)	(10,258)	-	(23,319)
Balance at March 31, 2019	-	290,647	110,152	386,621	47,119	100,682	1,045	936,266
Net book value at March 31, 2019	9,944	104,023	45,426	178,690	11,061	44,626	25,779	419,549

(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, 2018

	Land	Buildings	Machinery and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
Cost								
Balance at April 1, 2017	9,963	373,685	153,433	525,289	56,688	109,957	23,527	1,252,542
Additions	-	12,382	9,275	29,005	5,758	19,820	6,283	82,523
Disposals/Retirements	-	(127)	(11,264)	(14,770)	(6,189)	(786)	-	(33,136)
Balance at March 31, 2018	9,963	385,940	151,444	539,524	56,257	128,991	29,810	1,301,929
Accumulated depreciation and impairment								
Balance at April 1, 2017	-	271,174	110,327	349,331	41,094	83,877	-	855,803
Depreciation for the year	-	10,010	9,416	28,131	8,378	13,771	-	69,706
Impairment	-	-	-	-	-	-	-	-
Disposals/Retirements	-	(100)	(11,015)	(14,760)	(6,042)	(778)	-	(32,695)
Balance at March 31, 2018	-	281,084	108,728	362,702	43,430	96,870	-	892,814
Net book value at March 31, 2018	9,963	104,856	42,716	176,822	12,827	32,121	29,810	409,115

10. Trade and Other Payables

	March 31, 2019	March 31, 2018
Trade payables	390,688	356,813
Accruals and other payables	382,050	328,711
	772,738	685,524

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. Operating Lease Arrangement

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

Minimum lease payments less lease incentives recognized in the Statement of income and comprehensive income in 2019 were $92.1 million (2018 – $88.6 million). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Amount
Fiscal 2020	94,232
Fiscal 2021 to 2024	362,173
Beyond fiscal 2024	508,489
	964,894

12. Gift Cards

For the year ended	March 31 2019	March 31 2018
Unredeemed Gift cards	48,896	45,150

Revenue generated from gift cards is recognized when gift cards are redeemed. For the fiscal year ended March 31, 2019, a total of $110.8 million (2018 - $104.7 million) gift card were redeemed and recognized in revenue. Breakage income recognized in revenue for the year ended March 31, 2019 was $2.3 million (2018 - $1.4 million).

(thousands of Canadian dollars)

13. Provisions

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

Provisions continuity for the year ended March 31, 2019

	Short term employee benefits	Other	Total
Balance at April 1, 2018	20,045	3,720	23,765
Charges recognized during the year	17,744	5,444	23,188
Utilization of provision	(20,045)	(3,720)	(23,765)
Balance at March 31, 2019	17,744	5,444	23,188

Provisions continuity for the year ended March 31, 2018

	Short term employee benefits	Other	Total
Balance at April 1, 2017	18,821	6,884	25,705
Charges recognized during the year	20,045	3,720	23,765
Utilization of provision	(18,821)	(6,884)	(25,705)
Balance at March 31, 2018	20,045	3,720	23,765

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, store closure provisions and sales return allowance. Store closure provisions arise when LCBO agrees to restore a leased property to a specified condition at the completion of the lease period. These lease retirement provisions relate primarily to leases which expire over the next year. Sales returns allowance is estimated based on historical sales return trends.

(thousands of Canadian dollars)

14. Employee Benefits

a. Pension plan

For the year ended March 31, 2019, the expense was $34.4 million (2018 – $31.7 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, 2019, the weighted average duration of the plans obligations are 7.0 years (2018 – 7.3 years).

i. Statement of financial position

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

	March 31, 2019	March 31, 2018
Current	14,271	14,235
Non-current	119,757	120,281
Total non-pension employee benefit obligation	134,028	134,516

The current portion represents LCBO's estimated contribution to non-pension employee benefits for fiscal 2020.

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, 2019	March 31, 2018
Current service cost	15,950	11,837
Past service credit	(3,920)	-
Actuarial (gains)/losses on non-vesting benefits	(3,082)	5,278
Total costs included in expenses	8,948	17,115
Interest costs	4,565	3,918
Total costs included in finance costs	4,565	3,918
Total non-pension employee benefit expenses	13,513	21,033

(thousands of Canadian dollars)

14. Employee Benefits (continued)

iii. **Accumulated other comprehensive income**

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

	March 31, 2019	March 31, 2018
Opening cumulative actuarial losses recognized	(8,401)	(1,742)
Net actuarial losses recognized	(1,369)	(6,659)
Closing cumulative actuarial losses recognized	(9,770)	(8,401)

iv. **Movement in the obligation**

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

	March 31, 2019	March 31, 2018
Opening benefit obligation	134,516	119,925
Current service cost	15,950	11,837
Past service credit	(3,920)	-
Interest on obligation	4,565	3,918
Actuarial gains from changes in demographic assumptions	(562)	(253)
Actuarial losses from changes in financial assumptions	2,430	6,426
Actuarial (gains)/losses from other	(3,581)	5,764
Benefits paid	(15,370)	(13,101)
Closing benefit obligation	134,028	134,516

(thousands of Canadian dollars)

14. Employee Benefits (continued)

v. Significant assumptions

Significant assumptions used for the year ended March 31, 2019:

	WCB	LTIP	NVSL	ECTB	CSP	Service Awards
Discount Rate						
Expense	3.30%	3.30%	3.30%	3.30%	3.30%	3.30%
Disclosure	3.10%	3.10%	3.10%	3.10%	3.10%	3.10%
Salary rate increase						
• Bargaining Unit	n/a	n/a	FY19: 2.010% plus OPT Promotional Scale FY20: 2.010% plus OPT Promotional Scale FY21+: 1.400% plus OPT Promotional Scale	n/a	FY19: 2.010% plus OPT Promotional Scale 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	FY19: 2.010% + 2% merit FY20: 2.010% + 2% merit FY21+: 1.400% + 2% merit	FY19: 2.010% + 2% merit FY20: 2.010% + 2% merit FY21+: 1.400% + 2% merit	FY19: 2.010% + 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	7.3% per annum in 2019 reducing to 4.5% per annum in and after 2027	7.3% per annum in 2019 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)

v. Significant assumptions (continued)

Significant assumptions used for the year ended March 31, 2018:

	WCB	LTIP	NVSL	ECTB	CSP	Service Awards
Discount Rate Expense Disclosure	 3.20% 3.30%	 3.20% 3.30%	 3.20% 3.30%	 3.20% 3.30%	 3.20% 3.30%	 3.20% 3.30%
Salary rate increase • Bargaining Unit	n/a	n/a	FY18: 2.010% plus OPT Promotional Scale FY19: 2.010% plus OPT Promotional Scale FY20: 2.010% plus OPT Promotional Scale FY21+: 1.400% plus OPT Promotional Scale	n/a	FY18: 2.010% plus OPT Promotional Scale FY19: 2.010% plus OPT Promotional Scale 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	FY18: 8.540% + 2% merit FY19: 2.010% + 2% merit FY20: 2.010% + 2% merit FY21+: 1.400% + 2% merit	FY18: 8.540% + 2% merit FY19: 2.010% + 2% merit FY20: 2.010% + 2% merit FY21+: 1.400% + 2% merit	FY18: 8.540% + 2% merit FY19: 2.010% + 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	7.5% per annum in 2018 reducing to 4.5% per annum in and after 2027	7.5% per annum in 2018 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	(4,460)	4,781
Health care trend rate	872	(854)
Salary Scale	3,103	(2,935)
Benefit Indexation	1,485	(1,377)

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 2019 year-end disclosures. For the sensitivity analysis, each main assumption was increased and decreased by 0.5 per cent from the assumption used to determine the defined benefit obligation at March 31, 2019, to determine the sensitivity impact on the March 31, 2019 defined benefit obligation.

15. 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.

16. 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.

16. Financial Risk Management (continued)

a. Credit Risk

Credit risk is the risk of financial loss due to a financial counter party or another third party failing to meet its financial or contractual obligations to the LCBO. It arises from cash and cash equivalents, derivative financial instruments, and outstanding trade and other receivables. The carrying amount of 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 A 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, 2019, all foreign forward contracts and cash and cash equivalents were held with regulated Canadian financial institutions that met minimum credit rating requirements.

Trade and others receivables arise primarily from sales invoiced to independent businesses, agents and other debtors. LCBO does not consider its exposure to credit risk associated with trade and other receivables to be material.

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

Cash and cash equivalents are also subject to impairment requirements, there were no impairment losses recognized for March 31, 2019 related to cash and cash equivalents. Refer to Note 5 for a breakdown of cash and cash equivalent.

16. Financial Risk Management (continued)

Trade and other receivables

The nature of LCBO`s business mitigates against credit risk exposure from retail sales due to settlement in cash and credit cards. The LCBO ECL 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 and unemployment rate as the relevant macro-economic factors that affects customers' ability to settle outstanding receivables. The impact of macro-economic factors on LCBO loss rates is negligible.

b. Liquidity Risk

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

16. Financial Risk Management (continued)

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 hedged through permitted hedging instruments. For the year ended March 31, 2019, LCBO hedged its exposure in identified significant currencies (USD, EUR and AUD) through the purchase of foreign exchange forward contracts.

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, 2019, LCBO had 66 foreign exchange forward contracts (2018 – 115) and 2 spot contracts (2018 – nil) with fair value totaling $418K (2018 - $1.2 million).

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

ii. Interest Rate Risk

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

(thousands of Canadian dollars)

17. Capital Management

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

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

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

18. Revenue

Virtually all revenue is from the sale of goods.

19. Other Income

The components of other income include the following:

	March 31, 2019	March 31, 2018
ODRP container deposit breakage income	14,601	14,559
Border point levies and fees	5,556	6,242
Domestic Airline Revenue	3,266	2,439
Other	10,823	30,141
	34,246	53,381

20. Selling, General and Administrative Expenses by Nature

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

	March 31, 2019	March 31, 2018
Employee costs (Note 21)	527,617	516,709
Occupancy costs	177,088	172,939
Depreciation, amortization and impairment	66,771	69,706
Debit/credit charges	45,290	42,643
Environmental initiatives	49,415	46,955
Other	143,422	134,865
	1,009,603	983,817

(thousands of Canadian dollars)

21. Employee Costs

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

	March 31, 2019	March 31, 2018
Salaries & wages	427,205	414,048
Short-term employee benefits	100,412	102,661
	527,617	516,709

22. Finance Income and Finance Costs

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

	March 31, 2019	March 31, 2018
Finance income		
Interest and investment income	6,427	3,495
Total finance income	6,427	3,495
Finance costs		
Interest on non-pension employee benefits	4,565	3,918
Financing charges on capital leases	7	39
Total finance costs	4,572	3,957

(thousands of Canadian dollars)

23. Related Parties

Related parties of the LCBO include the Province of Ontario, Ontario Cannabis Retail Corporation ("OCRC"), Stewardship Ontario and key management personnel.

Province of Ontario

For the year ended March 31, 2019, LCBO transferred a total dividend of $2.370 billion (2018 – $2.120 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 Cannabis Retail Corporation ("OCRC")

OCRC is an agency of the Province and was established on December 12, 2017 to sell recreational cannabis in the Province of Ontario. OCRC, operating as Ontario Cannabis Store ("OCS") is Ontario's only online cannabis retailer and wholesaler of legal recreational cannabis.

In support of OCRC's establishment and initial operations, the LCBO and OCRC entered into the following agreements:

a) Supply Chain Services: LCBO entered into an agreement with OCRC on September 11, 2018, for a period of two years, to provide services to manage and support the supply chain functions of OCRC. To provide warehouse space for OCRC, LCBO entered into a warehousing services agreement with a third party vendor. The warehouse lease is for three years ending April 30, 2021, with the future minimum lease payments included in Note 11. Included in professional services below are the costs incurred for the third party warehousing services.

b) Other Shared Services: In addition to supply chain support, LCBO provided other services, goods and property to OCRC.

All shared services provided to OCRC will be recoverable on a cost basis from OCRC. The amount is recorded net of recoveries in the Statements of income and other comprehensive income.

Shared services costs incurred (net of taxes)	March 31, 2019	March 31, 2018
Employee costs	4,997	2,117
Professional services	14,898	1,983
Other	7,923	4,895
	27,818	8,995
Less: OCRC chargeback	(27,818)	(8,995)
Total	-	-

The amount outstanding from OCRC as at March 31, 2019 is $3.6 million including taxes (2018 – $10.2 million including taxes) and is included in trade and other receivables.

(thousands of Canadian dollars)

23. Related Parties (continued)

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, 2019, LCBO contributed $2.7 million (2018 - $2.3 million) and 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 the top senior officers. The Board members receive a per diem 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, 2019	March 31, 2018
Salaries and short-term employee benefits	5,998	5,397
Post-employment benefits	480	413
Other long term benefits	154	115
Termination benefits	591	246
	7,223	6,171

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

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

(1) the product is available for sale at both the LCBO and TBS; or
(2) the product is an Industry Standard Bottle (ISB) regardless of whether or not the product is available at TBS

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

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

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, 2019, \$3.3 million (2018 – \$2.9 million) is included in trade and other receivables related to the TBS common product deposits.

25. Comparative Figures

Certain comparative figures have been reclassified to conform to the basis of the financial presentation adopted in the current year.