Liquor Control Board of Ontario

Financial Statements and Notes

For the Year Ended March 31, 2020

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
July 16, 2020

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, 2020, 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, 2020, 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.

Box 105, 15th Floor
20 Dundas Street West
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-326-3812

B.P. 105, 15e étage
20, rue Dundas ouest
Toronto (Ontario)
M5G 2C2
416-327-2381
télécopieur 416-326-3812

www.auditor.on.ca

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.

Bonnie Lysyk

Toronto, Ontario	Bonnie Lysyk, MBA, FCPA, FCA, LPA
July 16, 2020	Auditor General

LIQUOR CONTROL BOARD OF ONTARIO
Statement of Financial Position

(thousands of Canadian dollars)

	Note	March 31 2020	March 31 2019 Restated[1]	April 1 2018 Restated[1]
ASSETS				
Current Assets				
Cash and cash equivalents	5	367,122	380,435	421,406
Trade and other receivables	6	91,153	83,506	79,923
Inventories	7	523,818	486,351	463,792
Prepaid expenses	8	20,066	13,205	13,251
Total Current Assets		1,002,159	963,497	978,372
Right-of-use assets	11	559,271	566,267	545,003
Property, plant and equipment and intangible assets	9	410,881	419,549	408,882
Total Assets		**1,972,311**	**1,949,313**	**1,932,257**
LIABILITIES & EQUITY				
Current Liabilities				
Trade and other payables	10	741,213	739,770	652,397
Provisions	13	20,933	23,188	23,765
Current portion of non-pension employee benefits	14	12,505	14,271	14,235
Current portion of lease liabilities	11	74,972	69,233	66,605
Total Current Liabilities		849,623	846,462	757,002
Non-pension employee benefits	14	117,361	119,757	120,281
Lease liabilities	11	587,911	593,494	568,541
Total Liabilities		**1,554,895**	**1,559,713**	**1,445,824**
Equity				
Retained earnings		425,970	399,370	494,834
Accumulated other comprehensive loss	14	(8,554)	(9,770)	(8,401)
Total Equity		417,416	389,600	486,433
Total Liabilities and Equity		**1,972,311**	**1,949,313**	**1,932,257**

See accompanying notes to the financial statements.

Approved By:

Chair, Board of Directors

Cheryl Hooper

Board Member, Chair, Audit Committee

[1] The financial statements reflect the adoption of IFRS 16 on April 1, 2019. For additional information on IFRS 16 adoption, refer to Note 2.1. Comparative figures have been restated.

LIQUOR CONTROL BOARD OF ONTARIO
Statement of Income and Other Comprehensive Income

(thousands of Canadian dollars)

For the year ended	Note	March 31 2020	March 31 2019 Restated[1]
Revenue	18	6,765,851	6,391,574
Cost of sales	7	(3,344,076)	(3,141,946)
Gross margin		3,421,775	3,249,628
Other income	19	31,403	35,021
Selling, general and administrative expenses	20	(1,028,097)	(987,705)
Income from operations		2,425,081	2,296,944
Finance income	22	5,392	6,427
Finance costs	11, 14, 22	(28,873)	(28,835)
Net income		**2,401,600**	**2,274,536**
Other comprehensive gain/(loss)			
Actuarial gain/(loss) on non-pension employee benefits	14	1,216	(1,369)
Total other comprehensive gain/(loss)		1,216	(1,369)
Total comprehensive income		**2,402,816**	**2,273,167**

See accompanying notes to the financial statements.

[1] The financial statements reflect the adoption of IFRS 16 on April 1, 2019. For additional information on IFRS 16 adoption, refer to Note 2.1. Comparative figures have been restated.

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, 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
Balance at April 1, 2018		567,205	(8,401)	558,804
Adjustment on initial application of IFRS 16	2	(72,371)	-	(72,371)
Restated balance at April 1, 2018		494,834	(8,401)	486,433
Restated net income		2,274,536	-	2,274,536
Other comprehensive loss		-	(1,369)	(1,369)
Dividend paid to province		(2,370,000)	-	(2,370,000)
Restated balance at March 31, 2019		399,370	(9,770)	389,600

LIQUOR CONTROL BOARD OF ONTARIO
Statement of Cash Flows

(thousands of Canadian dollars)

For the year ended	March 31 2020	March 31 2019 Restated[1]
Operating activities:		
Net income	2,401,600	2,274,536
Depreciation, amortization and impairment	72,592	66,537
Depreciation – right-of-use assets	77,810	74,013
Gain on sale and disposal of property, plant and equipment and intangible assets	(2,537)	(913)
Interest expense on lease liabilities	24,601	24,270
Interest paid on lease liabilities	(24,542)	(23,913)
Non-pension employee benefit expenses	11,809	13,513
Non-pension employee benefit payments	(14,755)	(15,370)
	144,978	138,137
Change in non-cash balances related to operations:		
Trade and other receivables	(7,647)	(3,583)
Inventories	(37,467)	(22,559)
Prepaid expenses	(6,861)	46
Trade and other payables	1,443	87,373
Provisions	(2,255)	(577)
	(52,787)	60,700
Net cash provided by operating activities	2,493,791	2,473,373
Investing activities:		
Purchase of property, plant and equipment and intangible assets	(64,684)	(77,799)
Proceeds from sale of property, plant and equipment and intangible assets	3,297	1,507
Net cash used in investing activities	(61,387)	(76,292)
Financing activities:		
Dividend paid to the Province of Ontario	(2,375,000)	(2,370,000)
Principal portion of lease payments	(70,717)	(68,052)
Net cash used in financing activities	(2,445,717)	(2,438,052)
Decrease in cash	(13,313)	(40,971)
Cash and cash equivalents, beginning of year	380,435	421,406
Cash and cash equivalents, end of year	367,122	380,435

[1] The financial statements reflect the adoption of IFRS 16 on April 1, 2019. For additional information on IFRS 16 adoption, refer to Note 2.1. Comparative figures have been restated.

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 July 16, 2020.

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, 2020 financial statements as their effective dates fall in 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*

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

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of 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 standard is effective for annual periods beginning on or after January 1, 2019.

LCBO adopted IFRS 16 effective April 1, 2019 using the full retrospective approach restating comparative information for the fiscal year ended March 31, 2019 and its opening balance sheet dated April 1, 2018, as if IFRS 16 had always been in effect. On the date of initial application, there were no onerous lease contracts that would have required an adjustment to the right-of-use assets.

The LCBO has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and International Financial Reporting Interpretations Committee ("IFRIC") 4 *Determining Whether an Agreement Contains a Lease*, will continue to be applied to those leases entered into or modified before April 1, 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. The following tables summarize the impacts of adopting IFRS 16 on LCBO's financial statements.

(thousands of Canadian dollars)

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

Financial impact on initial application of IFRS 16

The tables below show the amount of adjustments of each financial statement line item affected by the application of IFRS 16 for the prior years.

i. Statement of Financial Position

	April 1, 2018 As previously reported	**IFRS 16 adjustment**	**As restated[2]**
ASSETS			
Current Assets			
Cash and cash equivalents	421,406	-	421,406
Trade and other receivables	79,923	-	79,923
Inventories	463,792	-	463,792
Prepaid expenses	28,373	(15,122)	13,251
Total Current Assets	993,494	(15,122)	978,372
Right-of-use assets	-	545,003	545,003
Property, plant and equipment and intangible assets	409,115	(233)	408,882
Total Assets	**1,402,609**	**529,648**	**1,932,257**
LIABILITIES & EQUITY			
Current Liabilities			
Trade and other payables	685,524	(33,127)	652,397
Provisions	23,765	-	23,765
Current portion of non-pension employee benefits	14,235	-	14,235
Current portion of lease liabilities	-	66,605	66,605
Total Current Liabilities	723,524	33,478	757,002
Non-pension employee benefits	120,281	-	120,281
Lease liabilities	-	568,541	568,541
Total Liabilities	**843,805**	**602,019**	**1,445,824**
Equity			
Retained earnings	567,205	(72,371)	494,834
Accumulated other comprehensive loss	(8,401)	-	(8,401)
Total Equity	558,804	(72,371)	486,433
Total Liabilities and Equity	**1,402,609**	**529,648**	**1,932,257**

[2] April 1, 2018 represents the restated opening balance sheet of the fiscal year ended March 31, 2019.

(thousands of Canadian dollars)

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

i. Statement of Financial Position (continued)

	March 31, 2019 As previously reported	IFRS 16 adjustment	As restated
ASSETS			
Current Assets			
Cash and cash equivalents	380,435	-	380,435
Trade and other receivables	83,506	-	83,506
Inventories	486,351	-	486,351
Prepaid expenses	23,674	(10,469)	13,205
Total Current Assets	973,966	(10,469)	963,497
Right-of-use assets	-	566,267	566,267
Property, plant and equipment and intangible assets	419,549	-	419,549
Total Assets	**1,393,515**	**555,798**	**1,949,313**
LIABILITIES & EQUITY			
Current Liabilities			
Trade and other payables	772,738	(32,968)	739,770
Provisions	23,188	-	23,188
Current portion of non-pension employee benefits	14,271	-	14,271
Current portion of lease liabilities	-	69,233	69,233
Total Current Liabilities	810,197	36,265	846,462
Non-pension employee benefits	119,757	-	119,757
Lease liabilities	-	593,494	593,494
Total Liabilities	**929,954**	**629,759**	**1,559,713**
Equity			
Retained earnings	473,331	(73,961)	399,370
Accumulated other comprehensive loss	(9,770)	-	(9,770)
Total Equity	463,561	(73,961)	389,600
Total Liabilities and Equity	**1,393,515**	**555,798**	**1,949,313**

(thousands of Canadian dollars)

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

ii. Statement of Income and Other Comprehensive Income

For the year ended	March 31, 2019 As previously reported	IFRS 16 adjustment	As restated
Revenue	6,391,574	-	6,391,574
Cost of sales	(3,141,946)	-	(3,141,946)
Gross margin	3,249,628	-	3,249,628
Other income	34,246	775	35,021
Selling, general and administrative expenses	(1,009,603)	21,898	(987,705)
Income from operations	2,274,271	22,673	2,296,944
Finance income	6,427	-	6,427
Finance costs	(4,572)	(24,263)	(28,835)
Net income	**2,276,126**	**(1,590)**	**2,274,536**
Other comprehensive loss			
Actuarial loss on non-pension employee benefits	(1,369)	-	(1,369)
Total other comprehensive loss	(1,369)	-	(1,369)
Total comprehensive income	**2,274,757**	**(1,590)**	**2,273,167**

(thousands of Canadian dollars)

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

iii. Statement of Cash Flows

For the year ended	**March 31, 2019 As previously Reported**	**IFRS 16 adjustment**	**As restated**
Operating activities:			
Net income	2,276,126	(1,590)	2,274,536
Depreciation, amortization and impairment	66,771	(234)	66,537
Depreciation – right-of-use assets	-	74,013	74,013
Gain on sale and disposal of property, plant and equipment and intangible assets	(913)	-	(913)
Interest expense on lease liabilities	-	24,270	24,270
Interest paid on lease liabilities	-	(23,913)	(23,913)
Non-pension employee benefit expenses	13,513	-	13,513
Non-pension employee benefit payments	(15,370)	-	(15,370)
	64,001	74,136	138,137
Change in non-cash balances related to operations:			
Trade and other receivables	(3,583)	-	(3,583)
Inventories	(22,559)	-	(22,559)
Prepaid expenses	4,699	(4,653)	46
Trade and other payables	87,214	159	87,373
Provisions	(577)	-	(577)
	65,194	(4,494)	60,700
Net cash provided by operating activities	2,405,321	68,052	2,473,373
Investing activities:			
Purchase of property, plant and equipment and intangible assets	(77,799)	-	(77,799)
Proceeds from sale of property, plant and equipment and intangible assets	1,507	-	1,507
Net cash used in investing activities	(76,292)	-	(76,292)
Financing activities:			
Dividend paid to the Province of Ontario	(2,370,000)	-	(2,370,000)
Principal portion of lease payments	-	(68,052)	(68,052)
Net cash used in financing activities	(2,370,000)	(68,052)	(2,438,052)
Decrease in cash	(40,971)	-	(40,971)
Cash and cash equivalents, beginning of year	421,406	-	421,406
Cash and cash equivalents, end of year	380,435	-	380,435

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

IAS 19 *Employee Benefits*

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

The amendment clarifies that if a plan amendment, curtailment or settlement occurs, it is required that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for the re-measurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. Prior to the amendment, the standard makes no reference to changes resulting from plan amendments, curtailments or settlement. The amendment is effective for annual periods beginning on or after January 1, 2019. The implementation of this amendment 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, 2020 financial statements as their effective dates fall in periods beginning subsequent to the current financial reporting period.

Revised conceptual framework for financial reporting

The IASB clarified that the revised conceptual framework has not changed any of the current accounting standard. The revised Conceptual Framework is 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:

- Concepts 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.
- 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 revisions are not expected to have an impact to LCBO.

2.2 Accounting standards and amendments not yet effective (continued)

<u>IAS 1 *Presentation of Financial Statements*</u>

The IASB clarified that the intention of the amendment is to make the definition of ‘material’ easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. 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 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.

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.

3.4 Property, plant and equipment (continued)

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 property, plant and equipment and intangible assets

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. An indication exist 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 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.

3.9 Financial instruments (continued)

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 16.

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 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 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.

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 is earned 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 lease liabilities. The resulting disclosures are presented in Notes 14 and 22.

3.16 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 some 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;
- 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.

3.16 Leasing (continued)

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 not used this practical expedient, as a result the LCBO accounts for each lease component and any associated non-lease component as distinct components. 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.

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.

4. Use of estimates and judgments (continued)

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. 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.

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 as part of its operations as well as other assets. 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. 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 19.

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.

(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 2020	**March 31 2019**
Cash on hand and in transit	237,200	142,253
Short term investments	129,922	238,182
	367,122	380,435

6. Trade and Other Receivables

	March 31 2020	**March 31 2019**
Trade and other receivables	92,929	84,891
Loss allowance	(1,776)	(1,385)
	91,153	83,506

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 16.

7. Inventories

Inventories sold during the year ended March 31, 2020 was $3,344 million (2019 - $3,142 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, 2020 and 2019.

8. Prepaid Expenses

Prepaid expenses consists 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 2020	March 31 2019 Restated
Land	9,899	9,944
Buildings	102,211	104,023
Machinery and equipment	47,425	45,426
Leasehold improvements	176,875	178,690
Computer equipment	11,948	11,061
Computer software	41,023	44,626
Software/Construction in progress	21,500	25,779
	410,881	419,549

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, 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

(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, 2019 (Restated)

	Land	Buildings	Machinery and equipment Restated	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
Cost								
Balance at April 1, 2018	9,963	385,940	149,056	539,524	56,257	128,991	29,810	1,299,541
Additions	-	9,809	12,196	28,474	3,730	26,576	(2,986)	77,799
Impairment	-	-	-	-	-	-	(1,045)	(1,045)
Disposals/Retirements	(19)	(1,079)	(5,674)	(2,687)	(1,807)	(10,259)	-	(21,525)
Balance at March 31, 2019	9,944	394,670	155,578	565,311	58,180	145,308	25,779	1,354,770
Accumulated depreciation								
Balance at April 1, 2018	-	281,084	106,574	362,702	43,430	96,870	-	890,660
Depreciation for the year	-	10,258	9,120	26,558	5,486	14,070	-	65,492
Disposals/Retirements	-	(695)	(5,542)	(2,639)	(1,797)	(10,258)	-	(20,931)
Balance at March 31, 2019	-	290,647	110,152	386,621	47,119	100,682	-	935,221
Net book value at March 31, 2019	9,944	104,023	45,426	178,690	11,061	44,626	25,779	419,549

10. Trade and Other Payables

	March 31 2020	March 31 2019 Restated
Trade payables	515,516	505,080
Accruals and other payables	225,697	234,690
	741,213	739,770

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, 2020

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

Right-of-use assets continuity for the year ended March 31, 2019

	Total
Cost	
Balance at April 1, 2018	1,288,836
Additions	95,278
Balance at March 31, 2019	1,384,114
Accumulated depreciation	
Balance at April 1, 2018	743,834
Depreciation for the year	74,013
Balance at March 31, 2019	817,847
Net book value at March 31, 2019	566,267

(thousands of Canadian dollars)

11. Leases (continued)

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

	March 31 2020	March 31 2019 Restated
Depreciation – right-of-use assets	77,810	74,013
Interest expense on lease liabilities	24,601	24,270
Rent expense relating to short-term leases	1,105	1,640
Variable lease expenses not included in the measurement of lease liabilities	46,387	44,351

c. Lease liabilities

	March 31 2020	March 31 2019 Restated
Maturity analysis – undiscounted cash flow		
Less than one year	98,776	94,232
One to five years	377,008	358,712
More than five years	454,804	499,271
Total undiscounted cash flows	930,588	952,215
Lease liabilities included in the statement of financial position		
Current	74,972	69,233
Non-current	587,911	593,494
	662,883	662,727

LCBO entered into an agreement with a warehousing services provider for an initial term of 5 years, with an option to extend for an additional 5 years. To fulfill the services contract, the warehousing services provider leased a warehouse facility from a third party, for an initial term of 10 years, with an option to extend for an additional 10 years. The minimum rent commitment over the initial lease term is $40.8 million. The lease has not yet commenced and is therefore excluded from the measurement of lease liabilities.

(thousands of Canadian dollars)

12. Gift Cards

For the year ended	March 31 2020	March 31 2019
Unredeemed gift cards	49,702	48,896

Revenue generated from gift cards is recognized when gift cards are redeemed. For the fiscal year ended March 31, 2020, a total of $115.6 million (2019 - $110.8 million) gift cards were redeemed and recognized in revenue. Breakage income recognized in revenue for the year ended March 31, 2020 was $2.4 million (2019 - $2.3 million).

13. Provisions

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

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

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

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.

(thousands of Canadian dollars)

14. Employee Benefits

a. Pension plan

For the year ended March 31, 2020 the expense was $34.5 million (2019 – $34.4 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, 2020, the weighted average duration of the plans obligations are 7.5 years (2019 – 7.0 years).

i. **Statement of financial position**

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

	March 31 2020	**March 31 2019**
Current	12,505	14,271
Non-current	117,361	119,757
Total non-pension employee benefit obligation	129,866	134,028

The current portion represents LCBO's estimated contribution to non-pension employee benefits for fiscal 2021.

(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 2020	March 31 2019
Current service cost	16,287	15,950
Past service credit	-	(3,920)
Actuarial gains on non-vesting benefits	(8,750)	(3,082)
Total costs included in expenses	7,537	8,948
Interest costs	4,272	4,565
Total costs included in finance costs	4,272	4,565
Total non-pension employee benefit expenses	11,809	13,513

iii. Accumulated other comprehensive income

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

	March 31 2020	March 31 2019
Opening cumulative actuarial losses recognized	(9,770)	(8,401)
Net actuarial gains/(losses) recognized	1,216	(1,369)
Closing cumulative actuarial losses recognized	(8,554)	(9,770)

(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 2020	March 31 2019
Opening benefit obligation	134,028	134,516
Current service cost	16,287	15,950
Past service credit	-	(3,920)
Interest on obligation	4,272	4,565
Actuarial (gains)/losses from changes in demographic assumptions	(1,543)	(562)
Actuarial (gains)/losses from changes in financial assumptions	(3,729)	2,430
Actuarial (gains)/losses from other	(4,694)	(3,581)
Benefits paid	(14,755)	(15,370)
Closing benefit obligation	129,866	134,028

(thousands of Canadian dollars)

14. Employee Benefits (continued)

v. Significant assumptions

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)

v. Significant assumptions (continued)

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)

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	(4,264)	4,562
Health care trend rate	880	(863)
Salary Scale	3,381	(3,195)
Benefit Indexation	1,448	(1,347)

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 2020 year-end disclosures. For the sensitivity analysis, each main assumption was increased and decreased by 0.5 percent from the assumption used to determine the defined benefit obligation at March 31, 2020, to determine the sensitivity impact on the March 31, 2020 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.

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, 2020, all foreign forward contracts and cash and cash equivalents were held with regulated Canadian financial institutions that met minimum credit rating requirements.

16. 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 others receivables arises primarily from sales invoiced to independent businesses, agents and other debtors. As at March 31, 2020, approximately 33% (2019 – 38%) 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, 2020 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.

16. Financial Risk Management (continued)

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 low risk, fixed income instruments such as federal/provincial treasury bills, bankers' acceptances, bearer deposit notes, term deposits and guaranteed income certificates, 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 if the interest rate is more favourable than the aforementioned investment instruments.

c. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market price. Market risk typically comprises 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, 2020, 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.

16. Financial Risk Management (continued)

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, 2020, LCBO had 44 foreign exchange forward contracts (2019 – 66) with fair value totaling $1.6 million (2019 - $418K).

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.

17. Capital Management

LCBO is a corporation without share capital. Its equity component consists of only retained earnings.

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.

(thousands of Canadian dollars)

18. 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 sales channel.

	March 31 2020	**March 31 2019**
Home Consumers – Retail	5,306,881	5,022,880
Licensees	570,999	577,465
The Beer Store	364,593	366,779
Grocers	319,840	246,679
LCBO Convenience Outlets	147,073	123,479
Duty Free	38,804	35,908
Direct Wineries and Distilleries and Other	17,661	18,384
	6,765,851	6,391,574

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

19. Other Income

The components of other income include the following:

	March 31 2020	**March 31 2019 Restated**
ODRP container deposit breakage income	14,738	14,601
Border point levies and fees	5,599	5,556
Domestic airline revenue	2,552	3,266
Other	8,514	11,598
	31,403	35,021

(thousands of Canadian dollars)

20. Selling, General and Administrative Expenses by Nature

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

	March 31 2020	March 31 2019 Restated
Employee costs (Note 21)	549,688	527,617
Occupancy costs	82,889	80,913
Depreciation, amortization and impairment	72,592	66,537
Depreciation – right-of-use assets	77,810	74,013
Debit/credit charges	49,791	45,290
Environmental initiatives	50,649	49,415
Other	144,678	143,920
	1,028,097	987,705

21. Employee Costs

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

	March 31 2020	March 31 2019
Salaries & wages	450,397	427,205
Short-term employee benefits	99,291	100,412
	549,688	527,617

(thousands of Canadian dollars)

22. Finance Income and Finance Costs

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

	March 31 2020	March 31 2019 Restated
Finance income		
Interest and investment income	5,392	6,427
Total finance income	5,392	6,427
Finance costs		
Interest on non-pension employee benefits	4,272	4,565
Interest expense on lease liabilities	24,601	24,270
Total finance costs	28,873	28,835

23. Related Parties

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

<u>Province of Ontario</u>

For the year ended March 31, 2020, LCBO transferred a total dividend of $2.375 billion (2019 – $2.370 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.

<u>Ontario Cannabis Retail Corporation ("OCRC")</u>

OCRC is an agency of the Province and was established on December 12, 2017 to sell recreational cannabis in the Province of Ontario. In support of OCRC's establishment and 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 initially entered into a warehousing services agreement with a third party vendor. This agreement was assigned to OCRC effective July 1, 2019.

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

(thousands of Canadian dollars)

23. Related Parties (continued)

All shared services provided to OCRC are recoverable on a cost basis from OCRC.

Shared services costs incurred (net of taxes)	**March 31 2020**	**March 31 2019**
Employee costs	563	4,997
Professional services	5,263	14,898
Other	535	7,923
	6,361	27,818
Less: OCRC chargeback	(6,361)	(27,818)
Total	-	-

There are no amounts outstanding from OCRC as at March 31, 2020 (2019 – $3.6 million including taxes) included in trade and other receivables.

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, 2020, LCBO contributed $2.7 million (2019 - $2.7 million) and these expenditures are included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

(thousands of Canadian dollars)

23. Related Parties (continued)

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 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 2020	March 31 2019
Salaries and short-term employee benefits	5,721	5,998
Post-employment benefits	493	480
Other long term benefits	174	154
Termination benefits	120	591
	6,508	7,223

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 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.

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, 2020, $2.0 million (2019 – $3.3 million) is included in trade and other receivables related to the TBS common product deposits.

25. Significant Event

On March 11, 2020, COVID-19 was declared a global pandemic by the World Health Organization. The Government of Ontario declared a state of emergency on March 17, 2020. Due to the resulting closure of non-essential services and travel restrictions, beginning in mid-March 2020, there was a reduction in liquor sales from licensees, duty free and direct wineries and distilleries which continued into the next fiscal year. LCBO retail stores remained open on reduced store hours. With the ongoing global pandemic, it is not possible to forecast with certainty the full impact of COVID-19 on the financial results and operations of LCBO.