Liquor Control Board of Ontario

Financial Statements and Notes

For the Year Ended March 31, 2024

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, judgements, 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

Becky Hong,
Chief Financial Officer
June 27, 2024

LIQUOR CONTROL BOARD OF ONTARIO
Statement of Financial Position

(thousands of Canadian dollars)

	Note	March 31 2024	March 31 2023
ASSETS			
Current Assets			
Cash and cash equivalents	5	632,986	364,523
Trade and other receivables	6, 24	103,802	86,900
Inventories	7	617,950	640,526
Prepaid expenses	8	41,041	29,761
Total Current Assets		1,395,779	1,121,710
Right-of-use assets	11	645,038	662,948
Property, plant and equipment and intangible assets	9	422,957	430,360
Total Assets		**2,463,774**	**2,215,018**
LIABILITIES & EQUITY			
Current Liabilities			
Trade and other payables	10, 12	953,826	832,158
Provisions	4(v)	3,436	2,925
Current portion of non-pension employee benefits	13	15,006	13,800
Current portion of lease liabilities	11	100,628	97,809
Current portion of borrowings	14	16,351	16,089
Total Current Liabilities		1,089,247	962,781
Non-pension employee benefits	13	125,325	105,649
Lease liabilities	11	663,032	681,943
Borrowings	14	8,183	24,149
Total Liabilities		**1,885,787**	**1,774,522**
Equity			
Retained earnings		588,956	444,906
Accumulated other comprehensive loss	13	(10,969)	(4,410)
Total Equity		577,987	440,496
Total Liabilities and Equity		**2,463,774**	**2,215,018**

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 2024	March 31 2023
Revenue	18	7,458,051	7,405,158
Cost of sales	7	(3,657,970)	(3,781,983)
Gross margin		3,800,081	3,623,175
Other income	19	40,665	42,006
Selling, general and administrative expenses	20	(1,265,324)	(1,190,264)
Income from operations		2,575,422	2,474,917
Finance income	22	32,506	14,952
Finance costs	11, 13, 14, 22	(33,878)	(32,612)
Net income		**2,574,050**	**2,457,257**
Other comprehensive loss			
Items that will not be reclassified to profit or loss:			
Actuarial loss on non-pension employee benefits	13	(6,559)	(3,007)
Total other comprehensive loss		(6,559)	(3,007)
Total comprehensive income		**2,567,491**	**2,454,250**

See accompanying notes to the financial statements.

LIQUOR CONTROL BOARD OF ONTARIO
Statement of Changes in Equity

(thousands of Canadian dollars)

	Note	Retained Earnings	Accumulated other comprehensive loss	Total Equity
Balance at April 1, 2023		444,906	(4,410)	440,496
Net income		2,574,050	-	2,574,050
Other comprehensive loss	13	-	(6,559)	(6,559)
Dividend paid to province	23	(2,430,000)	-	(2,430,000)
Balance at March 31, 2024		588,956	(10,969)	577,987
Balance at April 1, 2022		567,649	(1,403)	566,246
Net income		2,457,257	-	2,457,257
Other comprehensive loss	13	-	(3,007)	(3,007)
Dividend paid to province	23	(2,580,000)	-	(2,580,000)
Balance at March 31, 2023		444,906	(4,410)	440,496

LIQUOR CONTROL BOARD OF ONTARIO
Statement of Cash Flows

(thousands of Canadian dollars)

For the year ended	**March 31 2024**	**March 31 2023**
Operating activities:		
Net income	2,574,050	2,457,257
Depreciation, amortization and impairment	67,249	72,464
Depreciation – right-of-use assets	98,425	95,078
Gain on sale and disposal of property, plant and equipment and intangible assets	(610)	(243)
Interest expense on borrowings	921	1,403
Interest paid on borrowings	(1,165)	(770)
Interest expense on lease liabilities	27,089	26,768
Interest paid on lease liabilities	(24,701)	(24,357)
Non-pension employee benefit expenses	29,158	16,198
Non-pension employee benefit payments	(14,835)	(15,071)
	181,531	171,470
Change in non-cash balances related to operations:		
Trade and other receivables	(16,902)	281
Inventories	22,576	15,780
Prepaid expenses	(11,280)	(4,917)
Trade and other payables	121,668	(77,223)
Provisions	511	879
	116,573	(65,200)
Net cash provided by operating activities	2,872,154	2,563,527
Investing activities:		
Purchase of property, plant and equipment and intangible assets	(60,765)	(73,440)
Proceeds from sale of property, plant and equipment and intangible assets	1,530	338
Net cash used in investing activities	(59,235)	(73,102)
Financing activities:		
Dividend paid to the Province of Ontario	(2,430,000)	(2,580,000)
Principal portion of lease payments	(98,996)	(99,225)
Lease Incentives received	-	1,429
Principal portion of borrowings repayment	(15,460)	(7,543)
Net cash used in financing activities	(2,544,456)	(2,685,339)
Increase/(decrease) in cash	268,463	(194,914)
Cash and cash equivalents, beginning of year	364,523	559,437
Cash and cash equivalents, end of year	632,986	364,523

1. General information and statement of compliance

1.1 General information

The Liquor Control Board of Ontario (“LCBO”) is a corporation without share capital continued under the *Liquor Control Board of Ontario Act, 2019, S.O. 2019, c. 15, Sched. 21.* 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 100 Queens Quay East, Toronto, ON, M5E 0C7.

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, 2024.

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, 2024 financial statements as their effective dates fall in the current financial reporting period.

Disclosure of Accounting Policies – Amendment to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 *Presentation of Financial Statements* require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to *IFRS Practice Statement 2* provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The amendments are effective for annual periods beginning on or after January 1, 2023. LCBO has assessed the amendments and determined there is no impact to current disclosures on material accounting policy information.

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

Disclosure of Accounting Policies – Amendment to IAS 8

The amendment to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* clarified the definition of accounting estimates and how to distinguish a change in accounting policy, which must be applied retrospectively, from change in accounting estimate, which are accounted for prospectively.

The amendments are to be applied prospectively for annual periods beginning on or after January 1, 2023. The amendments did not have an impact to LCBO.

2.2 Accounting standards and amendments not yet effective

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

The amendments to IAS 1 *Presentation of Financial Statements* clarified that the requirement to classify liability as current when they do not have an unconditional right to defer settlement of liability for at least twelve months have been eliminated. Under the amendments, the classification of liabilities as either current or non-current would depend on the substantive rights that exist at the end of the reporting period. The amendments could affect the classification of liabilities, particularly for entities that have liabilities that can be converted into equity.

The amendments are to be applied retrospectively in accordance with the requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual periods beginning on or after January 1, 2024. The amendments are not expected to have an impact to LCBO.

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)

The amendments to IFRS 16 *Leases* clarified subsequent measurement requirements for sale and leaseback transactions for sellers-lessees.

The amendments are to be applied retrospectively in accordance with the requirements in IFRS 16 *Leases* for annual periods beginning on or after January 1, 2024. The amendments are not expected to have an impact to LCBO.

2.2 Accounting standards and amendments not yet effective (continued)

Non-current Liabilities with Covenants (Amendments to IAS 1)

The amendments to IAS 1 *Presentation of Financial Statements* modified the 2020 amendments to IAS 1 to further clarify the classification, presentation, and disclosure requirements in the standard for non-current liabilities with covenants.

The amendments are to be applied retrospectively in accordance with the requirements in IAS 1 *Presentation of Financial Statements* for annual periods beginning on or after January 1, 2024. The amendments are not expected to have an impact to LCBO.

Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7

The amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* added disclosure requirements that allows users to assess how supplier finance arrangements affect an entity’s liabilities, cash flows, and exposure to liquidity risk.

The IASB has provided transitional relief by not requiring disclosures on comparative information in the first year of adoption and not requiring disclosure of specified opening balances. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. The amendments are not expected to have an impact to LCBO.

Lack of Exchangeability – Amendments to IAS 21

The amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates* require entities to apply a consistent approach in assessing whether a currency can be exchanged into another currency, and in determining the exchange rate to use and the disclosures to provide when it cannot.

The entity cannot restate comparative information in accordance with the requirements in IAS 21 *The Effects of Changes in Foreign Exchange Rates* for annual periods beginning on or after January 1, 2025. The amendments are not expected to have an impact to LCBO.

3. Material Accounting Policies

The material accounting policies used in the preparation of these financial statements are set out below.

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 (ECL). LCBO applies the simplified approach, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

The lifetime expected credit loss is estimated using a provision matrix based on LCBO's 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 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 and incurred to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation commences when the assets are ready for their intended use and 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 Equipment	4 years

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

Property, plant and equipment under construction and not available for use, are carried at cost, less any recognized impairment loss. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

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 and depreciation method are reviewed at the end of each reporting period.

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 assets

LCBO reviews the carrying amounts of its right-of-use assets, property, plant and equipment and intangible assets to determine whether there is any indication of an impairment loss. An indication exists when events or changes in circumstances indicate 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

3.6 Impairment of assets (continued)

amount is the higher of the asset's fair value less cost of disposal and value in use. Where the asset does not generate cash flows that are independent from other assets, LCBO estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. For right-of-use assets, property, plant and equipment and intangible assets, the CGU is deemed to be each retail store. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a subsequent increase in the recoverable amount. In this event, the carrying amount of the asset or CGU is increased to its revised recoverable amount. The recoverable amount is limited to the original carrying amount less depreciation or amortization, as if no impairment had been recognized for the asset or CGU for prior periods. Any impairment charge or reversal is recognized in the Statement of income and other comprehensive income in the year in which it occurs. The resulting disclosures are presented in Notes 9, 11 and 20.

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.

3.9 Borrowings

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

3.9 Borrowings (continued)

Borrowings are removed from the Statement of financial position when the obligation specified in the contract is discharged, expired or cancelled. The resulting disclosures are presented in Note 14.

3.10 Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalized during the period required to complete and prepare the asset for its intended use or sale by management. Qualifying assets are assets that necessarily take a substantial period to get ready for their intended use or sale. Other borrowing costs are expensed in the period in which they are incurred. The resulting disclosures are presented in Note 14.

3.11 Financial instruments

Financial assets and financial liabilities are recognized when LCBO becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Their measurement in subsequent periods and the recognition of changes in fair value depend on the category in which they are classified. The classification is dependent on LCBO's business model for managing the financial assets and the contractual terms of the cash flows.

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

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

i. **Amortized cost**

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

3.11 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**

Financial instruments 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 instruments 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).

3.12 Revenue recognition

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

i. **Aeroplan®**

The Aeroplan® program is split into two distinct components:

(1) Base – LCBO pays Aeroplan Inc. a fee for each base Aeroplan point issued to customers. LCBO acts as an agent for Aeroplan Inc. in this arrangement, therefore

3.12 Revenue recognition (continued)

the associated costs of the base points 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 Aeroplan® program. LCBO also pays Aeroplan Inc. a fee for each bonus Aeroplan point 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.

3.13 Other income

i. **Services rendered**

Income from services rendered is recognized when the services are provided, and the income can be measured reliably. Such services consist of border point levies and sale of data to trade partners.

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

In 2006, the Province entered into an agreement with Brewers Retail Inc. (BRI), 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. BRI was appointed the exclusive service provider for a period of five years effective 2007. In 2015, the Province extended the contract with BRI for ODRP as part of the Master Framework Agreement, and the ODRP Agreement 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.

3.13 Other income (continued)

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. The resulting disclosures are presented in Note 19.

3.14 Vendor allowances

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

3.15 Employee benefits

i. **Short-term employee benefits**

Short-term employee benefit obligations are expensed as the related service is provided. LCBO recognizes a liability and an expense for short-term benefits such as performance pay, unused vacation entitlements and other employee benefits if LCBO has a present legal or constructive obligation to pay this amount as a result of past

3.15 Employee benefits (continued)

service provided by the employee and the obligation can be estimated reasonably. The resulting disclosures are presented in Notes 13 and 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 13.

iii. **Non-pension employee benefits**

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

The liability of the CSP, ECTB, LTIP, NVSL and service awards was actuarially determined by using the Projected Unit Credit Method and management's best estimate. The WCB liability was actuarially determined by calculating the present value of the projected future payments. The annual benefit cost is the sum of the service cost and one year's interest cost plus remeasurements of the defined benefit obligation. LCBO recognizes all actuarial gains and losses due to remeasurements of the net defined benefit liability arising from the CSP and ECTB benefits immediately in other comprehensive income, and reports them in accumulated other comprehensive income in the Statement of financial position, as these benefits are accrued over an employee's years of service.

3.15 Employee benefits (continued)

Any actuarial gains and losses due to remeasurements of the net defined benefit liability arising from the LTIP, WCB, NVSL and service awards benefits are recognized in the Statement of income and other comprehensive income in the period in which they arise, as these benefits are defined as Other Long-Term Employee Benefits which do not have remeasurements that can be recognized in Other comprehensive income. The resulting disclosures are presented in Note 13.

3.16 Finance income

Finance income is comprised 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.

3.17 Finance costs

Finance costs consist of interest expense on the non-pension employee benefits obligation, interest expense on the loan and financing charges on lease liabilities. The resulting disclosures are presented in Notes 11, 13, 14 and 22.

3.18 Leasing

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

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

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

3.18 Leasing (continued)

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

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

For non-property leases, LCBO has elected not to separate non-lease components, and to instead account for any leases and associated non-lease components as a single arrangement. In addition, LCBO applies the portfolio approach to account for certain equipment leases with nearly identical contractual terms. The resulting disclosures are presented in Note 11.

3.19 Foreign currencies

Transactions in currencies other than LCBO's functional currency are recognized at the rates of exchange prevailing on the dates of the transactions. Items denominated in foreign currencies, comprised of US and Euro 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 judgements

The preparation of financial statements in accordance with IFRS requires management to make judgements, 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 judgements and key sources of estimation uncertainty that have a material effect on the amounts recognized in the financial statements are discussed below.

i. **Non-pension employee benefits**

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

The discount rates applied by LCBO in the valuation of non-pension employee benefits are based on the interest rates of high-quality corporate bonds that are denominated in the Canadian dollars in which the benefits will be paid. Other key assumptions for employee benefit obligations are based in part on current market conditions. Additional disclosures are presented in Note 13.

ii. **Impairment of assets**

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

Right-of-use assets, property, plant and equipment and intangible assets are subject to impairment and impairment reversal reviews based on whether current circumstances suggest that their recoverable amount may be less than their carrying value, or has

4. Use of estimates and judgements (continued)

subsequently increased. Recoverable amounts 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 Notes 9 and 11.

iii. **Inventories**

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

iv. **Leases**

LCBO leases a significant number of retail store locations and also enters into leases for non-retail locations as part of its operations (collectively "property" leases), along with non-property leases. As a practical expedient, the LCBO elected, by class of non-property lease, not to separate the non-lease and lease components, and instead account for them together as a single lease component. The LCBO also applies the portfolio approach to account for certain equipment lease contracts with similar characteristics and nearly identical contractual terms. 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.

Judgement is also required in determining the appropriate discount rates 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 sales returns, store closing costs and other contingent liabilities. 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

(thousands of Canadian dollars)

4. Use of estimates and judgements (continued)

actual future liability will be accounted for in the period when such determination is made, and the difference is recognized in the Statement of income and other comprehensive income at that time. Provisions for the year ended March 31, 2024 were $3.4 million (2023 – $2.9 million).

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.

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 2024	March 31 2023
Cash on hand and in transit	286,269	255,301
Short term investments	346,717	109,222
	632,986	364,523

6. Trade and Other Receivables

	March 31 2024	March 31 2023
Trade and other receivables	109,236	91,567
Loss allowance	(5,434)	(4,667)
	103,802	86,900

(thousands of Canadian dollars)

6. Trade and Other Receivables (continued)

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, 2024 were $3,658 million (2023 – $3,782 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, 2024 and 2023.

8. Prepaid Expenses

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

9. Property, Plant & Equipment and Intangible Assets

Net book value of property, plant & equipment and intangible assets	**March 31 2024**	**March 31 2023**
Land	9,754	9,756
Buildings	108,465	108,700
Machinery and equipment	51,544	50,454
Leasehold improvements	213,772	219,132
Computer equipment	16,010	14,462
Computer software	11,415	13,467
Software/Construction in progress	11,997	14,389
	422,957	430,360

(thousands of Canadian dollars)

9. Property, Plant & Equipment and Intangible Assets (continued)

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

Property, plant & equipment and intangible assets continuity for the year ended March 31, 2024

	Land	Buildings	Machinery and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
Cost								
Balance at April 1, 2023	9,756	397,489	176,214	665,203	79,027	92,375	14,389	1,434,453
Net Additions/Transfers	-	10,341	10,430	29,207	8,403	4,776	(2,392)	60,765
(Impairment)/Reversal	-	-	-	-	-	-	-	-
Disposals/Retirements	(2)	(673)	(4,797)	(546)	(11,117)	-	-	(17,135)
Balance at March 31, 2024	9,754	407,157	181,847	693,864	76,313	97,151	11,997	1,478,083
Accumulated depreciation								
Balance at April 1, 2023	-	288,789	125,760	446,071	64,565	78,908	-	1,004,093
Depreciation for the year	-	10,303	9,250	34,553	6,310	6,828	-	67,244
Impairment/(Reversal)	-	-	-	-	5	-	-	5
Disposals/Retirements	-	(400)	(4,707)	(532)	(10,577)	-	-	(16,216)
Balance at March 31, 2024	-	298,692	130,303	480,092	60,303	85,736	-	1,055,126
Net book value at March 31, 2024	9,754	108,465	51,544	213,772	16,010	11,415	11,997	422,957

Property, plant & equipment and intangible assets continuity for the year ended March 31, 2023

	Land	Buildings	Machinery and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
Cost								
Balance at April 1, 2022	9,756	377,275	170,685	635,405	72,958	85,437	13,917	1,365,433
Net Additions/Transfers	-	20,707	8,061	30,805	6,449	6,946	472	73,440
(Impairment)/Reversal	-	-	-	-	(2)	-	-	(2)
Disposals/Retirements	-	(493)	(2,532)	(1,007)	(378)	(8)	-	(4,418)
Balance at March 31, 2023	9,756	397,489	176,214	665,203	79,027	92,375	14,389	1,434,453
Accumulated depreciation								
Balance at April 1, 2022	-	278,369	119,641	415,760	58,317	63,867	-	935,954
Depreciation for the year	-	10,086	9,254	31,452	6,623	15,049	-	72,464
Impairment/(Reversal)	-	-	-	-	(2)	-	-	(2)
Disposals/Retirements	-	(362)	(2,439)	(1,141)	(373)	(8)	-	(4,323)
Transfers	-	696	(696)	-	-	-	-	-
Balance at March 31, 2023	-	288,789	125,760	446,071	64,565	78,908	-	1,004,093
Net book value at March 31, 2023	9,756	108,700	50,454	219,132	14,462	13,467	14,389	430,360

(thousands of Canadian dollars)

10. Trade and Other Payables

	March 31 2024	March 31 2023
Trade payables	548,540	469,891
Accruals and other payables	382,818	340,519
Employee benefit accrual	22,468	21,748
	953,826	832,158

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. The employee benefits accrual includes annual vacation entitlements and performance bonus payments expected to be paid in the following year. Due to their short-term nature, LCBO considers trade and other payable to be the same as their fair value.

11. Leases

a. Right-of-use assets

Right-of-use assets continuity for the year ended March 31, 2024

	Property[1]	Non-property[2]	Total
Cost			
Balance at April 1, 2023[3]	1,743,395	22,012	1,765,407
Additions/Modifications	80,675	(160)	80,515
Disposals	(1,918)	-	(1,918)
Balance at March 31, 2024	1,822,152	21,852	1,844,004
Accumulated depreciation			
Balance at April 1, 2023[3]	1,093,813	8,646	1,102,459
Depreciation for the year	93,481	4,944	98,425
Disposals	(1,918)	-	(1,918)
Balance at March 31, 2024	1,185,376	13,590	1,198,966
Net book value at March 31, 2024	**636,776**	**8,262**	**645,038**

[1] Property leases consist of retail stores and a warehouse facility from a third party.

[2] Non-property leases consist of leased machinery, IT, printers and other equipment assets.

[3] Prior year figures were restated to remove expired leases from cost and accumulated depreciation.

(thousands of Canadian dollars)

11. Leases (continued)

Right-of-use assets continuity for the year ended March 31, 2023

	Property[1,3]	Non-property[2]	Total
Cost			
Balance at April 1, 2022	1,694,495	17,355	1,711,850
Additions	74,940	4,657	79,597
Disposals	(26,040)	-	(26,040)
Balance at March 31, 2023	1,743,395	22,012	1,765,407
Accumulated depreciation			
Balance at April 1, 2022	1,028,828	4,593	1,033,421
Depreciation for the year	91,025	4,053	95,078
Disposals	(26,040)	-	(26,040)
Balance at March 31, 2023	1,093,813	8,646	1,102,459
Net book value at March 31, 2023	649,582	13,366	662,948

[1] Property leases consist of retail stores and a warehouse facility from a third party.
[2] Non-property leases consist of leased machinery, IT, printers and other equipment assets.
[3] Prior year figures were restated to remove expired leases from cost and accumulated depreciation.

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

	March 31 2024	March 31 2023
Depreciation – right-of-use assets	98,425	95,078
Interest expense on lease liabilities	27,089	26,768
Rent expense relating to short-term leases	1,145	1,425
Variable lease expenses not included in the measurement of lease liabilities	55,394	54,803

(thousands of Canadian dollars)

11. Leases (continued)

c. Lease liabilities

Maturity analysis – undiscounted cash flow		
Less than one year	126,052	123,103
One to five years	435,703	435,322
More than five years	344,387	382,905
	906,142	941,330
Lease liabilities included in the statement of financial position		
Current	100,628	97,809
Non-current	663,032	681,943
	763,660	779,752

12. Gift Cards

For the year ended	March 31 2024	March 31 2023
Unredeemed gift cards	69,061	67,679

Revenue generated from gift cards is recognized when gift cards are redeemed. For the fiscal year ended March 31, 2024, a total of $116.4 million (2023 – $118.6 million) gift cards were redeemed and recognized in revenue. Breakage income recognized in revenue for the year ended March 31, 2024 was $2.4 million (2023 – $2.4 million).

13. Employee Benefits

a. Pension plan

For the year ended March 31, 2024 the expense was $43.0 million (2023 – $40.4 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.

(thousands of Canadian dollars)

13. Employee Benefits (continued)

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

As of March 31, 2024, the weighted average duration of the plans obligations are 7.5 years (2023 – 7.2 years).

i. **Statement of financial position**

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

	March 31 2024	March 31 2023
Current	15,006	13,800
Non-current	125,325	105,649
Total non-pension employee benefit obligation	140,331	119,449

The current portion represents LCBO's estimated contribution to non-pension employee benefits for fiscal 2025.

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 2024	March 31 2023
Current service cost	14,595	12,985
Past service cost	6,951	-
Actuarial losses/(gains) on non-vesting benefits	1,744	(1,228)
Total costs included in expenses	23,290	11,757
Interest costs	5,868	4,441
Total costs included in finance costs	5,868	4,441
Total non-pension employee benefit expenses	29,158	16,198

(thousands of Canadian dollars)

13. Employee Benefits (continued)

iii. Accumulated other comprehensive income

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

	March 31 2024	March 31 2023
Opening cumulative actuarial losses recognized	(4,410)	(1,403)
Net actuarial losses recognized	(6,559)	(3,007)
Closing cumulative actuarial losses recognized	(10,969)	(4,410)

iv. Movement in the obligation

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

	March 31 2024	March 31 2023
Opening benefit obligation	119,449	115,315
Current service cost	14,595	12,985
Past service cost	6,951	-
Interest on obligation	5,868	4,441
Actuarial losses/(gains) from changes in demographic assumptions	1,575	(513)
Actuarial losses/(gains) from changes in financial assumptions	8,228	(5,557)
Actuarial (gains)/losses from other	(1,500)	7,849
Benefits paid	(14,835)	(15,071)
Closing benefit obligation	140,331	119,449

(thousands of Canadian dollars)

13. Employee Benefits (continued)

v. Significant assumptions

Significant assumptions used for the year ended March 31, 2024:

	WCB	LTIP	NVSL	ECTB	CSP	Service Awards
Discount Rate						
Expense	4.80%	4.80%	4.80%	4.80%	4.80%	4.80%
Disclosure	4.80%	4.80%	4.80%	4.80%	4.80%	4.80%
Salary rate increase						
• Bargaining Unit	n/a	n/a	3.500% plus OPT Promotional Scale in FY24, decreasing to 2.750% plus OPT Promotional Scale in FY25+	n/a	3.500% plus OPT Promotional Scale in FY24, decreasing to 2.750% plus OPT Promotional Scale in FY25+	2.0% per annum
• Management and Executive	n/a	n/a	3.500% + 2% merit in FY24, decreasing to 2.750% + 2% merit in FY25+	3.500% + 2% merit in FY24, decreasing to 2.750% + 2% merit in FY25+	3.500% + 2% merit in FY24, decreasing to 2.750% + 2% merit in FY25+	2.0% per annum
• Disabled employees	4.4% per annum in 2024 and 2.0% per annum thereafter	2.0% per annum	Same as above	Same as above	Same as above	2.0% per annum
Health care cost increases						
• Health & Vision	6.2% per annum in 2024 reducing to 4.0% per annum in and after 2041	6.2% per annum in 2024 reducing to 4.0% per annum in and after 2041	n/a	n/a	n/a	n/a
• Dental	n/a	4.0% per annum	n/a	n/a	n/a	n/a

(thousands of Canadian dollars)

13. Employee Benefits (continued)

v. Significant assumptions (continued)

Significant assumptions used for the year ended March 31, 2023:

	WCB	LTIP	NVSL	ECTB	CSP	Service Awards
Discount Rate						
Expense	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%
Disclosure	4.80%	4.80%	4.80%	4.80%	4.80%	4.80%
Salary rate increase						
• Bargaining Unit	n/a	n/a	1.000% plus OPT Promotional Scale in FY23, increasing to 2.000% plus OPT Promotional Scale in FY25	n/a	1.000% plus OPT Promotional Scale in FY23, increasing to 2.000% plus OPT Promotional Scale in FY25	2.0% per annum
• Management and Executive	n/a	n/a	1.000% + 2% merit in FY23, increasing to 2.000% + 2% merit in FY25	1.000% + 2% merit in FY23, increasing to 2.000% + 2% merit in FY25	1.000% + 2% merit in FY23, increasing to 2.000% + 2% merit in FY25	2.0% per annum
• Disabled employees	6.5% per annum in 2023 and 2.0% per annum thereafter	1.4% per annum until 2025, then 2.0% per annum	Same as above	Same as above	Same as above	2.0% per annum
Health care cost increases						
• Health & Vision	6.0% per annum for 2022-2024, 5.0% per annum for 2025, 2026 and 4.0% per annum thereafter	6.4% per annum in 2023 reducing to 4.0% per annum in and after 2041	n/a	n/a	n/a	n/a
• Dental	n/a	4.0% per annum	n/a	n/a	n/a	n/a

(thousands of Canadian dollars)

13. Employee Benefits (continued)

vi. Sensitivity analysis

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

	Impact on total non-pension employee benefit obligation	
Assumption	**0.5% increase in assumption**	**0.5% decrease in assumption**
Discount Rate	(4,582)	4,901
Health Care Trend Rate	906	(888)
Salary Scale	3,340	(3,161)
Benefit Indexation	1,389	(1,296)

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 2024 year-end disclosures. For the sensitivity analysis on the defined benefit obligation, each main assumption was increased and decreased by 0.5% from the assumption used to determine the sensitivity impact on the March 31, 2024 defined benefit obligation.

14. Borrowings

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

Facility one is non-revolving comprised of aggregate advances up to a maximum principal amount of $51.2 million. The interest rate for each advance is based on market terms determined on advance date as the province of Ontario's cost of funds, plus 53.2 basis points. The facility one principal amount, plus interest accrued, is to be repaid using the advance from facility two.

During fiscal 2022, LCBO drew $42.4 million on facility one, bringing the total loan balance to $47.1 million inclusive of interest as at March 31, 2022. Aggregate loan amount plus interest accrued was consolidated to a new loan "facility two" on April 5, 2022 with revised loan terms. Facility two is a non-revolving three-year term loan and bears interest at 3.257 per cent per annum, compounded semi-annually, and is repayable in equal semi-annual payments of $8.3 million commencing on October 5, 2022. The loan is unsecured and is due April 7, 2025.

(thousands of Canadian dollars)

14. Borrowings (continued)

On December 17, 2021, the new head office location was deemed fit for occupancy upon substantial completion. Included in borrowings are capitalized borrowing costs related to the construction of the new head office.

The table represents the changes to LCBO's borrowings:

	March 31 2024	**March 31 2023**
Opening Balance	40,238	47,148
Interest expensed	921	1,403
Repayment	(16,625)	(8,313)
Closing Balance	24,534	40,238
Current	16,351	16,089
Non-current	8,183	24,149
	24,534	40,238

The fair value of borrowings at March 31, 2024 approximates their carrying amount.

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, 2024, 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 other receivables arise primarily from sales invoiced to independent businesses, agents, and other debtors. As at March 31, 2024, approximately 22% (2023 – 24%) 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 equivalents

There were no impairment losses recognized for March 31, 2024 related to cash and cash equivalents. Refer to Note 5 for a breakdown of cash and cash equivalents.

Trade and other receivables

LCBO's 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. 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 readily available to satisfy financial liabilities as they fall due. LCBO seeks to limit its liquidity risk by actively monitoring and managing its available cash reserves to ensure that it has sufficient access to liquidity at all times to meet financial obligations when due as well as those relating to unforeseen events. LCBO monitors the level of expected cash inflows on trade and other receivables together with outflows on trade and other payables. Treasury prepares a cash flow forecast with a time horizon of thirteen fiscal periods aligned with the LCBO financial reporting calendar. It is mandatory the cash flow forecast demonstrates having access to the board approved maximum level of liquidity. Cash that is surplus to working capital requirements is invested in low risk, fixed income instruments such as federal/provincial treasury bills and bankers' acceptances or term deposits with approved counterparties, choosing maturities which are aligned with expected cash needs with contractual maturities not greater than a year. It may also be held in bank accounts to manage counterparty limit exposure.

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

c. Market Risk

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

i. Foreign Exchange Risk

LCBO is exposed to foreign exchange risk with respect to inventory purchases denominated in currencies other than the Canadian dollar. To mitigate the impact of fluctuating foreign exchange rates on the cost of these purchases, LCBO has an established non-speculative risk management program that governs the committed and reasonably anticipated foreign currency exposures in significant currencies that must be economically hedged through permitted hedging instruments. For the year ended March 31, 2024, LCBO hedged its exposure in identified significant currencies (USD and EUR) through the purchase of foreign exchange forward contracts.

16. Financial Risk Management (continued)

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

LCBO purchases foreign exchange spot contracts for unhedged foreign currency transactions. The foreign exchange spot contracts are designated as FVTPL and the fair value is estimated by using the difference between the contractual rate and the closing rate at reporting date.

As at March 31, 2024, LCBO had 45 foreign exchange forward contracts (2023 – 59) and 5 spot contracts (2023 – 3) with fair value totalling 0.1 million loss (2023 – $0.2 million gain) classified as a level 2 fair value based on observable market data.

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

ii. Interest Rate Risk

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

(thousands of Canadian dollars)

17. Capital Management

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

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

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.

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 customer channels.

	March 31 2024	March 31 2023
Home Consumers – Retail	5,927,344	5,874,311
Licensees	620,939	598,277
Grocers	399,611	410,116
LCBO Convenience Outlets	252,837	252,008
The Beer Store	208,681	228,740
Duty Free	30,498	25,846
Direct Wineries and Distilleries and Other	18,141	15,860
	7,458,051	7,405,158

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

(thousands of Canadian dollars)

19. Other Income

The components of other income include the following:

	March 31 2024	March 31 2023
ODRP container deposit breakage income	14,916	13,901
Border point levies and fees	4,473	4,291
Domestic airline revenue	1,946	1,805
Other	19,330	22,009
	40,665	42,006

20. Selling, General and Administrative Expenses by Nature

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

	March 31 2024	March 31[1] 2023
Employee costs (Note 21)	705,840	624,043
Depreciation – right-of-use assets	98,425	95,078
Occupancy costs	95,998	94,832
Depreciation, amortization and impairment	67,250	72,464
Debit/credit charges	62,773	59,635
Maintenance & service contracts	61,373	57,116
Environmental initiatives	55,928	56,039
Professional services	17,171	18,692
Telecom	12,862	10,579
Marketing	6,637	6,873
Other	81,067	94,913
	1,265,324	1,190,264

[1]*Certain March 31, 2023 figures have been reclassified to align with current year's presentation.*

(thousands of Canadian dollars)

21. Employee Costs

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

	March 31 2024	March 31 2023
Salaries & wages	563,380	508,624
Short-term employee benefits	142,460	115,419
	705,840	624,043

22. Finance Income and Finance Costs

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

	March 31 2024	March 31 2023
Finance income		
Interest and investment income	32,506	14,952
Total finance income	32,506	14,952
Finance costs		
Interest on non-pension employee benefits	5,868	4,441
Interest expense on borrowings	921	1,403
Interest expense on lease liabilities	27,089	26,768
Total finance costs	33,878	32,612

23. Related Parties

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

<u>Province of Ontario</u>
For the year ended March 31, 2024, LCBO transferred a total dividend of $2.43 billion (2023 – $2.58 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 13.

<u>Ontario Financing Authority</u>
OFA is an agency of the province of Ontario that manages the province’s debt and borrowing program. In addition, the agency also provides financial and centralized cash management services for the government; assist crown agencies to borrow and invest money. Refer to Note 14 for disclosure of borrowings from the Ontario Financing Authority.

(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, 2024, LCBO contributed $2.0 million (2023 – $2.0 million) and these expenditures are included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

Ontario Infrastructure and Lands Corporation

LCBO entered into a lease agreement with OILC to lease a facility as an interim data centre. The lease is for a five-year term. As at March 31, 2024, the outstanding lease liability is $0.6 million (2023 – $1.2 million). These expenditures are included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

Key Management Personnel

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

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

	March 31 2024	March 31 2023
Salaries and short-term employee benefits	6,003	5,602
Post-employment benefits	574	507
Other long-term benefits	183	151
Termination benefits	4	11
	6,764	6,271

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, 2024, $2.7 million (2023 – $2.8 million) is included in trade and other receivables related to the TBS common product deposits.

25. Other Matters

Bill 124

In 2019, the Ontario legislature passed Bill 124 also called the Protecting a Sustainable Public Sector for Future Generations Act, 2019. The Act was created to implement moderation measures in respect of compensation in Ontario's public sector. In late 2022, Bill 124 was struck down after a challenge was brought before the courts by a coalition of unions, including OPSEU/SEFPO. In March 2024, LCBO and OPSEU have received an arbitration award that resolved all outstanding matters related to the Bill 124 moderation period. The award included retroactive salary adjustments of 6.5%. The estimated retroactive adjustment is included in Employees costs within Selling, general and administrative expenses.

25. Other Matters (continued)

Collective Bargaining Agreement

LCBO is currently collective bargaining with OPSEU to renew the collective agreement that expired March 31, 2024, which covers approximately 10,000 LCBO employees. In late May 2024, OPSEU requested conciliation assistance from the Ministry of Labour and a conciliation officer was appointed to assist LCBO and OPSEU in the negotiations. On June 13, OPSEU requested a No Board Report from the Ministry of Labour and the report was issued June 18, 2024. The report commences a 17-day period that puts the union in a legal strike position on July 5, 2024 or any time after. Negotiations are currently ongoing between LCBO and OPSEU.

26. Subsequent Events

Marketplace Modernization

On May 24, 2024, the Province announced details on its plans to expand the beverage alcohol marketplace. The phased expansion and rollout will begin no earlier than August 1, 2024, where existing grocery stores that are currently licensed to sell beer, cider or wine will also be able to sell ready-to-drink beverages and large-pack sizes of beer. Eligible convenience stores will be able to enter the marketplace no earlier than September 5, 2024 and the remaining grocery stores no earlier than October 31, 2024. All participating grocery and convenience stores will be able to sell eligible beer, cider, wine, and ready-to-drink products. Spirits and Vintages will continue to be sold exclusively through the LCBO network and LCBO Convenience Outlets.

The Alcohol and Gaming Commission of Ontario (AGCO) is responsible for regulating alcohol sale and service in Ontario, including licensing eligible grocery stores and convenience stores. LCBO will be the exclusive wholesaler for all beverage alcohol products sold to licensed grocery and convenience stores.

To serve new grocery and convenience stores and prepare for increased demand, LCBO needed to scale its distribution network. As a result, LCBO expanded its partnership with a warehousing services provider to support LCBO’s wholesale role for new private retailers. The amended service contract provides a lease for a term of 7 years at a minimum rent commitment of approximately $61.0 million over the lease term. The lease has not yet commenced and is therefore excluded from the measurement of lease liabilities in Note 11.