2019-20

ANNUAL REPORT

LCBO

Ontario

LETTER OF TRANSMITTAL

The Honourable Peter Bethlenfalvy, Minister of Finance:

Dear Minister, I have the honour to present you with the 2019–20 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,

Carmine Nigro, Chair

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HIGHLIGHTS

BY THE NUMBERS

- **Record dividend of $2.38 billion to the Government of Ontario - the 26th year in a row of increased transfers**
- **e-Commerce sales soared by almost 20 percent from last year**
- **Customer donations raised a record $12.7 million for charitable organizations including the United Way of Greater Toronto, MADD Canada, Children's Hospitals of Ontario, and the newest partner, Women's College Hospital Foundation**
- **Total number of active grocers selling beer, cider, and in some stores, wine, is now 439, providing Ontarians with more convenience and choice**

The LCBO supports its people, customers, partners, to ensure engaging, responsible, safe shopping experiences, constantly focused on improving digital and retail channels to help Ontarians discover the world of wines, beer, ciders, and spirits. Investments in technology, training, and infrastructure support our constant modernization and continue to be a driving force in our operations.

FINANCIAL OVERVIEW

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

- Dividends transferred to the Ontario Government: $2.38 billion
- Revenue: $6.77 billion
- Net Income: $2.40 billion
- Total e-Commerce sales: $23.4 million
- Grocery: Sales from the wholesale supply of beer, wine and cider to grocery stores totaled $320 million with 439 active store authorizations by the end of FY2020

RETAIL OVERVIEW

The LCBO is a responsible retailer dedicated to bringing the best products from Ontario and the world to the province efficiently, effectively – and safely.

- Number of LCBO stores serving communities across Ontario: 669
- LCBO Convenience Outlet (LCO) Program stores (previously titled agency stores) added an additional 160 locations
- Total number of products available in-store and online at the LCBO, LCOs and Specialty Services: 31,500+

- e-Commerce sales increased nearly 20 percent year over year
- Same-Day Pickup pilot program expanded

SUSTAINABILITY & SOCIAL IMPACT

Through our contribution to the province and Spirit of Sustainability, we are making a positive impact in communities and the lives of Ontarians and ensuring our customers can do the same.

- Increase in our total community investment with $12.7 million raised to support organizations including:
  - MADD Canada
  - Women's College Hospital Foundation
  - The United Way of Greater Toronto
  - Children's Hospitals of Ontario including Children's Health Foundation, McMaster Children's Hospital Foundation, SickKids Foundation, and the Children's Hospital of Eastern Ontario (CHEO) Foundation
- Alcohol literacy initiative reached 1.3 million Ontarians aged 19-25
- *Bring on the New* campaign focused on customers' well-being, which provided expanded product selection that promotes lighter beverage choices, lower sugar, lower calorie, lower alcohol and alcohol-free products
- 712,600 product tests in the LCBO's world-class quality assurance laboratory
- Ensured safe and informed consumption with 217,515 total annual refusals, of which 82.3 percent of refusals were related to age
- 80.8 percent of containers returned by customers through the Ontario Deposit Return Program

MESSAGE FROM THE CHAIR

As I enter my second year as Chair, I continue to experience immense pride in working with the team here at the LCBO. Part of our continued success rests in the ability to adapt to the expanding marketplace with great willingness and enthusiasm. It is inspiring to me that the LCBO sees the value in helping to drive that change – not just keeping up with it, and we are making great strides in enhancing service levels to all our customers, in-store and online.

Toward the end of the fiscal year, we were faced with a challenge that forced us to adapt faster than ever before – COVID-19. At our core, the LCBO is a responsible retailer and wholesaler dedicated to bringing the best products from Ontario and the world to the province efficiently, effectively – and safely. Our organization and our partners stepped up quickly to ensure the safest shopping experience possible. I am especially proud of our retail and warehouse team members who were on our front lines keeping our products moving, looking out for one another, and keeping customers safe while continuing to provide the same exceptional service they have come to expect from us.

With respect to the Board, I want to thank all our Members for their sound guidance. This fiscal year we were pleased to strengthen the team by welcoming four new Members. Kandy Samsundar has more than 30 years of experience in banking and 20 years of teaching experience working to enhance the learning abilities of students within the multicultural community. She is also the founder of the Canadian Caribbean Cultural Association of Durham. Kathleen Novak has been in the Financial Services industry for almost 20 years and is a community leader, serving as Chair of Saakaate House Women's Shelter, Vice-Chair of the Kenora and District Chamber of Commerce and as Vice-Chair of Kenora Bass International. Dragan Matovic has more than 25 years of experience in economics and marketing, with a specialization in real estate development of tourism-related properties. Our other new member, Quinto Annibale, is a lawyer who has practiced municipal, land-use planning and development law for more than 25 years. They have all made strong contributions to the Board and I look forward to continuing to work with them, and all Members, throughout their terms.

Anyone who has worked with me in the past knows that I believe an organization is only as strong as its partnerships and its commitment to its people. The LCBO continues to focus on community commitments while investing in technology, training and infrastructure to support our constant modernization and to provide greater choice and convenience in when, where, and how customers shop with us. This includes expanding the LCBO Convenience Outlet Program to an additional 160 stores this year to provide socially responsible beverage alcohol retail options as a part of that commitment.

I look forward to working collaboratively alongside the Board and LCBO senior leadership, led by President & CEO George Soleas, to provide oversight, leadership, and support change, so we can continue to make a positive impact on the lives of Ontarians.

Carmine Nigro, Chair

MESSAGE FROM THE PRESIDENT & CEO

I have never been prouder to share the LCBO's 2019-2020 Annual Report than in this unique time. Transferring a record $2.38 billion in dividends to the government is an incredible accomplishment as we strive not only to fulfill our mandate to the people of Ontario, but to support critical services such as health care, infrastructure, and education.

While COVID-19 became a significant issue at the tail end of our 2019-20 fiscal year, I would be remiss not to acknowledge the challenges that people and businesses across Ontario faced as a result of the pandemic. Throughout uncertain and trying circumstances, COVID-19 brought forth many examples of what we can accomplish through thoughtful preparation and by working together. We swiftly implemented safety measures to ensure safe working and shopping experiences for our customers and employees, while maintaining excellence in customer service for our partners across all channels. Within the organization, our teams demonstrated care, passion, and commitment to supporting our local industry. The pride I feel leading the LCBO reached an entirely new level throughout this crisis.

Over the past several years, the LCBO has been on a transformative journey, and while health and safety are our number one priority, we also remained laser-focused on propelling that journey forward. I am pleased that through innovation and responsible investment in technology, we have made significant headway in enhancing the LCBO customer experience. LCBO's e-Commerce sales totalled a record $23.4 million and Same-Day Pickup continued to expand. We have doubled down on our commitment to finding new ways to amplify our customer experience, regardless of when, where, or how they like to shop with us, and I am delighted to see the investment is paying off.

Maintaining our position as a best-in-class retailer means investing in the backend of our operations. Understanding the criticality of our supply chain function, we underwent a major update to the legacy technology systems across our network. Though not without its challenges, the hard work and tremendous efforts by our teams and collaboration from our industry partners resulted in increased efficiencies, enhanced operations, and, in turn, improved supply chain capabilities that better serve our customers.

Our commitment to excellence does not stop with our retail channels. We are proud to support the province as the wholesaler to a growing network of grocers and LCBO Convenience Outlets (LCOs) across the province. As part of the marketplace expansion, the LCBO authorized 160 new LCOs in support of independent businesses and expanded the grocery program with 76 new active authorizations, bringing the total number of grocers selling beer, cider, and in some stores, wine to 439, providing Ontarians with greater convenience and choice in how and where they shop for beverage alcohol.

Throughout all of this, we never lost sight of our commitment to social responsibility through our *Spirit of Sustainability* platform. As one of the largest retailers of beverage alcohol in the world, we understand the wide reach and deep impact we can have in communities across the province. It is why we embrace our obligation and opportunity to be a leading corporate citizen, govern the responsible sale of alcohol, and champion issues that matter to all Ontarians.

We have outstanding employees – they care about their jobs, their stores and the communities in which they live and work. Together with the people of Ontario, they raised over $12.7 million in support of critical organizations such as The United Way of Greater Toronto, MADD Canada, Children's Hospitals of Ontario, and our newest partner, Women's College Hospital Foundation, who is dedicated to equity in research and healthcare. Our support for communities across the province is collectively one of our proudest achievements of the year.

The LCBO also strengthened our alcohol literacy initiative to discourage overconsumption and prevent alcohol consumption among minors through an online campaign that reached 1.3 million Ontarians aged 19-25. As a global leader in product quality assurance, we empowered customers to make informed decisions by performing 712,600 product tests in our world-class laboratory.

Not only has our sustainability platform been met with great enthusiasm from our employees, but also our partners. We took the time to celebrate and highlight the incredible work our suppliers are doing to support our communities through a 'Good partnership' content series. From the partners who pivoted their operations to support the province by creating critical hand sanitizer, to wineries such as Megalomaniac who honoured healthcare workers on the frontlines battling COVID-19 by producing Much Obliged wine, with a portion of the proceeds going to support Food Banks Canada, it was an honour to amplify the important work happening across our industry.

At the LCBO, sustainability is more than a buzzword. It means prioritizing the health and well-being of our people, our communities, and our planet, and encouraging others to do the same. It will continue to guide how we work, the organizations and suppliers we partner with, and practices we employ moving forward - all with the goal of delivering on our mandate to help shape a more sustainable Ontario.

As we head into another transformative year, we remain committed to the pivotal role we play in the modernization of the beverage alcohol market by building on the strong foundations we have put in place. With the support of our Board of Directors, we will continue to be agile, nimble, and make decisions that best benefit the customer and ensure engaging, responsible, safe shopping experiences. We remain focused on improving digital, retail, and wholesale channels to help Ontarians discover the world of wines, beer, ciders, and spirits and will continue to invest in technology, training and infrastructure that supports our modernization and operations.

I look toward the upcoming year with confidence and hope. We will continue to embrace change and think differently, increase our contribution to the province, and give back to all Ontarians.

George Soleas
President & CEO

CORPORATE STRUCTURE

MISSION STATEMENT

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

SENIOR LEADERSHIP TEAM (AT MARCH 31, 2020)

Day-to-day operations of the LCBO are overseen by the following members of senior management:
George Soleas, *President and CEO*
Alix Box, *chief customer officer*
Aaron Campbell, *chief of staff*
Michael Eubanks*, senior vice president, Information Technology and Chief Information Officer*
Kent Harris, *senior vice president, Finance & Administration, and Chief Financial Officer*
Julie Lane, *senior vice president, General Counsel & Corporate Secretary*
Nick Nanos, *senior vice president, Supply Chain & Wholesale*

The LCBO is a Crown agency reporting to the Minister of Finance and is classified by the Ontario government as an operational enterprise.
The LCBO is overseen by a Board of Directors consisting of up to 11 members. They are appointed by the Lieutenant-Governor-in-Council on the recommendation of the Premier of Ontario and the Minister of Finance. Members are appointed for a term of up to five years and terms can be renewed. There are generally six to eight regular Board meetings annually and special Board meetings if required.

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

- ensuring that the LCBO provides high-quality service to the public;
- developing and approving the strategic plan and monitoring management's success in meeting its business plans;
- approving the annual financial plan;
- ensuring that the organization remains financially sound;
- assessing the management of business risks;
- submitting an annual financial plan to the Minister of Finance;
- ensuring the organization has communications programs to inform stakeholders of significant business developments; and
- ensuring that the LCBO performs its regulatory role in a fair and impartial manner.

ETHICS AND BUSINESS CONDUCT

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

HEALTH AND SAFETY

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

COMMITTEES

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

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

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

ACCOUNTABILITY

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

- Our annual report is tabled in the provincial legislature and is made available online / on the 'About LCBO' section of LCBO.com
- Our annual business plan is posted on the LCBO website / on the 'About LCBO' section of LCBO.com
- The memorandum of understanding between the LCBO and the Minister of Finance can be read online / on the 'About LCBO' section of LCBO.com
- Information concerning the operations, governance and policies of the LCBO is available online at lcbo.com, on the LCBO's customer service website hellolcbo.com and on doingbusinesswithlcbo.com

- We promote and practice routine disclosure and active dissemination of information as well as respecting timelines when providing public access to records under the Freedom of Information and Protection of Privacy Act
- Travel expenses for Board members and senior management are reviewed by the Office of the Integrity Commissioner and posted online / on the 'About LCBO' section of LCBO.com
- Board members are appointed by Order-in-Council (for more information see the Public Appointments Secretariat website)
- LCBO employee conduct is governed by a Code of Business Conduct
- The Supplier Code of Business Conduct sets out the principles applicable to every supplier that wishes to establish and maintain a business relationship with the LCBO
- LCBO financial statements are audited annually by the Office of the Auditor General of Ontario and are included in the LCBO annual report and posted separately online

BOARD MEMBERS (AT MARCH 31, 2020)

Carmine Nigro
Chair
Appointed Chair in April 2019 for a three-year term.

Carmine Nigro is an accomplished real estate development executive and entrepreneur known for his practical and solutions-focused approach to complex projects. Carmine "gives back" through incorporating sustainability in all aspects of building, as well as through his community work. In addition to volunteering for children's Make-A-Wish, he is a member of the Friends of the Orphans Canada organization, helping to design and build schools, hospitals and other facilities in Guatemala, the Dominican Republic and other countries.
Remuneration: $21,145

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

Quinto Annibale is a lawyer at Loopstra Nixon LLP where he has practiced municipal, land-use planning and development law for more than 33 years. An accomplished author and lecturer who speaks frequently at conferences across North America, Quinto is also an active community member. Of his volunteer activities, he is most proud to be the founder and president of the Carol Annibale Ovarian Cancer Foundation, a charity he oversees in memory of his late wife, Carol.
Remuneration: $10,250

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

Mr. Bradbury has more than 40 years of experience as an entrepreneur and business leader, and continues to share his knowledge and expertise through his own consulting firm, which specializes in start-ups, business development and operations. In addition to running his consulting practice today, James has also supported several Ontario communities as a Rotary Club member and board member.
Remuneration: $5,200

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

Mr. Chummar is a partner with leading Canadian law firm Cassels Brock & Blackwell LLP and a member of the firm's Business Law and Government Relations groups. He has been decorated with the Government of Canada's 125th Anniversary of the Confederation of Canada Medal and the Queen's Diamond Jubilee Medal.
Remuneration: $4,300

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

Mr. Colfer has more than 25 years of experience in the Canadian retail industry specializing in brand and product development. Currently, he is the General Manager of Lagostina (Canada). He holds a Bachelor of Business Administration in finance from Bishop's University in Quebec, and has attended the IMD Leadership and Management Program in Switzerland and China. He actively gives back to the community through his involvement in several charities focused on education and family support.
Remuneration: $5,600

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

Ms. Hooper has acquired extensive financial and managerial background across diverse industries in multiple capacities, including C-suite, board and international experience. She has an MBA from York University, is a CPA, CA and is a member of the Institute of Corporate Directors.
Remuneration: $10,340

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

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

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

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

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

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

FORMER BOARD MEMBERS

Penny Lipsett
Acting Chair
Appointed May 2007. Term renewed in 2010.
Appointed Vice Chair February 2013. Term renewed February 2015 and February 2017 for two-year terms. Final term extended for a three-month term.
Served as Acting Chair from April 2017 to February 2018 and then again from August 2018 to April 2019.
Term ended April 4, 2019
Remuneration: $3,815

David Graham
Member, Audit Committee
Appointed August 2017 for a three-year term.
Resigned May 14, 2019
Remuneration: $600

WM. John Mowat
Member, Audit Committee
Appointed August 2016 for a three-year term.
Term ended August 2019
Remuneration: $4,900

Susan Robinson
Chair, Human Resources and Compensation Committee
Appointed August 2016 for a three-year term.
Term ended August 2019
Remuneration: $2,960

Lori Spadorcia
Member, Governance Committee
Appointed February 2017 for a three-year term.
Term ended February 2020
Remuneration: $5,400

STRATEGIC PLAN OVERVIEW

As part of its commitment to outcome-based performance measures, while focusing on maximizing returns to Ontario, the LCBO prepares three-year strategic plan overviews to track key mandates. The overall goal remains to ensure the appropriate performance indicators are met while providing transparency into the efficiency, effectiveness, and performance in all aspects of the LCBO's business.

With the emergence of a global pandemic towards the conclusion of the fiscal year, 2019-20 ended with unique challenges. Our expanded network of LCO operators, along with local producers, indicated the LCBO's continued operations enabled their businesses to weather the early stages of the pandemic. The LCBO extends its gratitude to these partners and our employees for working quickly to implement measures to ensure safe working conditions and shopping experiences, and for demonstrating the care, passion, and commitment to supporting our local industry. The benchmarks set below were not adjusted for the weeks of COVID-19 in this fiscal year, however, 2020-21 strategic performance indicators will be reassessed to ensure they remain relevant in the current landscape.

ASSESSMENT OF STRATEGIC PROGRESS

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

HELP SHAPE A SUSTAINABLE ONTARIO

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

Good People: Safe and Informed Consumption

We're committed to improving the well-being of our customers, employees, and communities across Ontario. Safe and informed consumption ensures we continue to be a leader in testing performed in our quality assurance laboratory, ensuring the prevention of alcohol consumption among minors, and continuing to strengthen our alcohol literacy initiatives to discourage over-consumption. This year the LCBO made more than 12.1 million challenges for all reasons leading to 217,515 refusals, a 7.7 percent decrease, and a 9.9 percent decrease respectively. 82.3 percent of refusals were for age. A decrease is the desired outcome. This can be attributed to customer behaviour aligning with the LCBO's policies and procedures, as well as new campaigns that resonated with the public. The *Don't Know* Campaign targeted individuals aged

19-25 to remind them to have their ID ready and reached a total impression count of 11.2 million.

The LCBO also sets goals to continue to be a leader in product quality assurance so our customers can have even greater confidence in the products we offer. In FY2020, 712,600 product tests were performed, a 3.2 percent increase over FY2019. 31,000 sample beverage products were also tested, maintaining FY2019 levels.

Good People: Thriving Communities

The LCBO seeks to ensure charitable partnerships help activate or strengthen our communities. In FY2020, over $12.7 million in charitable funds were raised to support the health and wellbeing of Ontarians, a 1.5 percent increase over FY2019. This includes supporting charitable partners like MADD Canada, Women's College Hospital Foundation, United Way of Greater Toronto, Children's Hospitals of Ontario, and various charities through the donation box program.

Good Planet: Sustainable Stores

The LCBO is committed to minimizing its impact on the environment, specifically at the store level, by aiming to increase the reuse and recycling of equipment, products, and packaging. In FY2020, 80.8 percent of containers were returned by customers through the Ontario Deposit Return Program, a 1.2 percent increase over FY2019. kWh energy used across all LCBO buildings decreased by 3.7 percent, and more than 1.26 million kg CO_2 emissions were avoided through the recycling of RSC waste.

Good Partnerships: Support & Recognize Sustainable Partners

The LCBO is proud to work alongside our good partners to help create a more sustainable Ontario. We created and launched a new *Good Partner* video series to recognize some of our local sustainable partners like Sleeman, Château des Charmes, and Rosewood Estates Winery.

DELIVERING RETURNS TO THE PEOPLE OF ONTARIO

($ billions)	FY2020 Plan	FY2020 Actual	FY2019 Actual	Y/Y Change
Revenue	$6.6	$6.8	$6.4	+5.9%
Net Income	$2.3	$2.4	$2.3	+5.6%

Net income reached a record $2.40 billion in FY2020, an additional $127.1 million from the previous year, and surpassed the FY2020 plan. Revenue increased $374.3 million from previous year, also exceeding FY2020 plan. Initiatives to boost consumer convenience for alcohol products remained a priority throughout the year including ongoing investment in LCBO retail network, grocer and e-Commerce channels and further expansion of the LCBO Convenience Outlet Program. These initiatives supported sales growth for the year.

SUPPORT FOR LOCAL ONTARIO PRODUCERS

($ millions)	FY2020 Plan	FY2020 Actual	FY2019 Actual	Y/Y Change
VQA Wine	$174.2	$169.3	$162.0	+4.5%
IDB Wine	$310.7	$354.3	$344.0	+3.0%
Craft Beer	$184.2	$169.9	$152.6	+11.3%
Craft Cider	$22.4	$18.9	$16.3	+16.0%
Small Distillers	$20.7	$20.3	$15.1	+34.2%

Championing Ontario's wine, beer and spirits industries is a long-standing priority for the LCBO. Growth exceeded the prior year across all categories. The LCBO works collaboratively with local industries to provide a wide array of programs, promotions and strategies to help grow Ontario product sales and ensure that even the smallest of local producers can find an opportunity to sell through our network. As part of our further efforts to support these producers, the LCBO has a dedicated in-store and online promotional period every September to ensure choosing Ontario-made products remain top of mind for our customers.

EXCELLENCE IN OPERATING EFFICIENCY

	FY2020 Plan	FY2020 Actual	FY2019 Actual	Y/Y Change
Inventory Turns	7.7	7.7	7.7	0
Total Expenses* as % of Net Revenue	15.7%	15.2%	15.5%	-0.3%

Total inventory turns maintained at 7.7 in FY2020, similar to FY2019. Among the categories, spirits and Vintages, both improved slightly from 8.6 to 8.7 and 3.7 to 3.8, respectively. Wine turns were unchanged at 6.4, while beer turns declined from 14.9 to 13.3, due to efforts to improve in-stock positions.

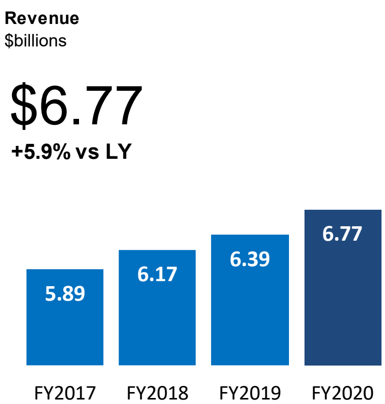
The ratio of expense to sales was 15.2 percent in FY2020, a 26 basis point improvement over the previous fiscal year. Expense control and an overall faster net sales growth rate relative to operating expenses contributed to the favourable ratio.

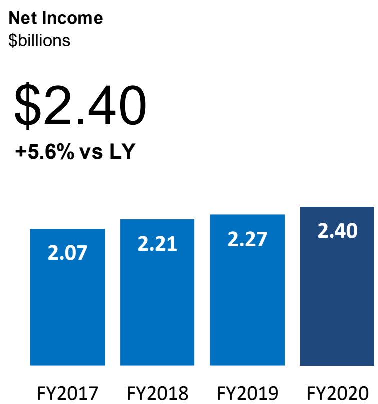
** Total Expenses refer to all selling, general and administrative (SG&A) expenses as per the Statement of Income and Other Comprehensive Income*

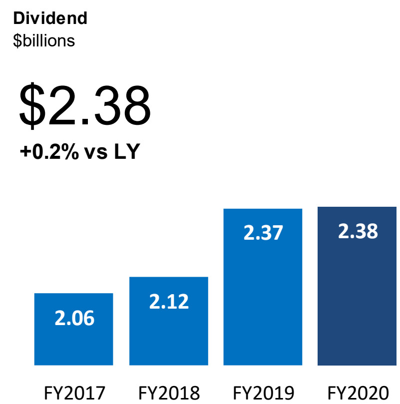
MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATIONS

The LCBO is a government business enterprise. In FY2020 it operated a network of 669 retail stores and special-order services as well as supporting 369 LCBO Convenience Outlets (LCOs) and 439 grocery stores across the province of Ontario, offering more than 31,000 spirits, wine and beer products to consumers and licensed establishments. The LCBO estimates more than 1.1 billion litres of beverage alcohol products were sold in Ontario during FY2020, with an estimated value of almost $9.2 billion[1]. The LCBO accounted for almost 49 percent of the volume sales and close to 70 percent of the value sales.

Financial Highlights







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

Operational Highlights

- The LCBO added six new stores to its retail network during the year and closed three stores, now totalling 669 locations[2]. Five other stores were either relocated or underwent major renovations in FY2020.
- The grocery channel, established in December 2015, continued its rollout towards 450 planned locations. There were 439 active authorizations by the end of FY2020, an increase of 76 from the previous year. Sales to grocery stores in FY2020 grew by almost 30 percent to $320 million.
- In FY2020, the Agency Store Program was rebranded the LCBO Convenience Outlet Program and expanded with an additional 160 locations to provide socially responsible beverage alcohol retail access to communities which lack convenient access to an LCBO

1 Not including illegal alcohol sales, homemade products and sales from brew and wine pubs. Value sales do not include taxes.
2 Location count includes three depots.

store. Sales through this program increased by over 19 percent to $147 million during the year.

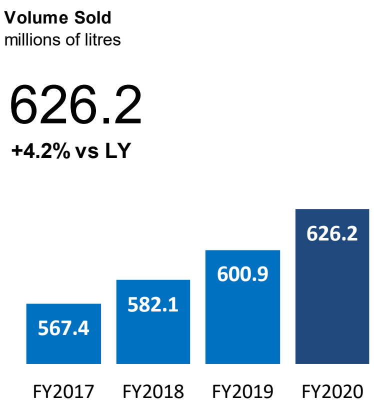
- LCBO continued to enhance its e-Commerce platform during the year by improving convenience and the customer online experience. The organization expanded its Same-Day Pick up option of products ordered online, which was piloted at the end of the previous fiscal year. FY2020 e-Commerce sales rose by almost 20 percent to $23.4 million, with approximately 27,000 more orders than the previous fiscal year.
- There was annual inflation indexing of minimum retail prices, LCBO in-store and out-of-store beer cost of service charges, and excise fees.
- There was one less selling day relative to FY2019, and an Easter-related holiday sales build compared to none during the previous fiscal year.

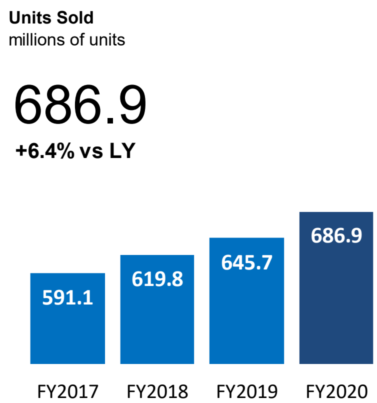
External environment

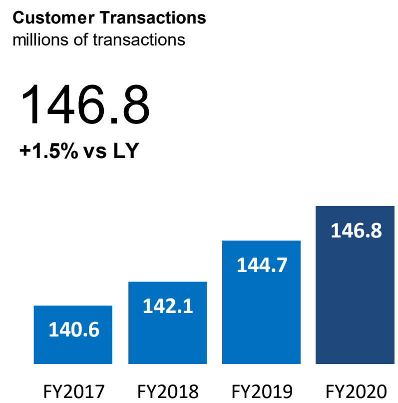
A number of factors influenced LCBO's financial performance during FY2020. Economic conditions were supportive to sales results, but at a moderating pace compared to previous years. The economy advanced at a slower pace on the back of a strengthening labour market, but the retail environment softened from lower consumer confidence and continued cooling in the housing market.

Initiatives to boost consumer convenience for alcohol products remained a priority throughout the year, with ongoing investment in LCBO's retail network, continued expansion of the grocer and e-Commerce channels and the rebranding and further expansion of the LCBO Convenience Outlet Program. These initiatives supported sales growth for the year.

A colder spring was more than offset by favourable summer weather and a milder winter during FY2020. Along with the Toronto Raptors championship run and a solid Christmas holiday season, these factors positively contributed to sales performance during the year. Towards the end of the year, rail blockades across Canada and the global pandemic constrained inventory flow and presented retail and wholesale challenges. However, the arrival of COVID-19 in the province by mid-March simultaneously had a significant positive impact on sales, influencing overall annual growth and channel compositions. This resulted from Ontarians stockpiling food, household products and beverage alcohol as they prepared for a state of emergency.





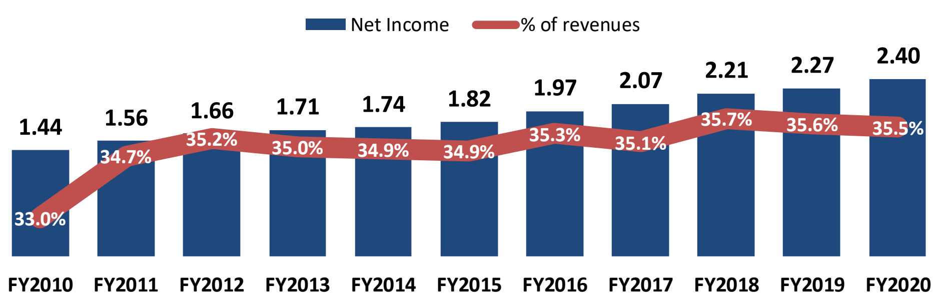


Volume and Units Sold in FY2018 has been restated to reflect the adoption IFRS 15, which reduced volume and unit sales.

Net income[3]

Net income reached a record $2.40 billion in FY2020, an additional $127.1 million from the previous year. It represented 35.5 percent of revenues, which was 10 basis points lower than FY2019.

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

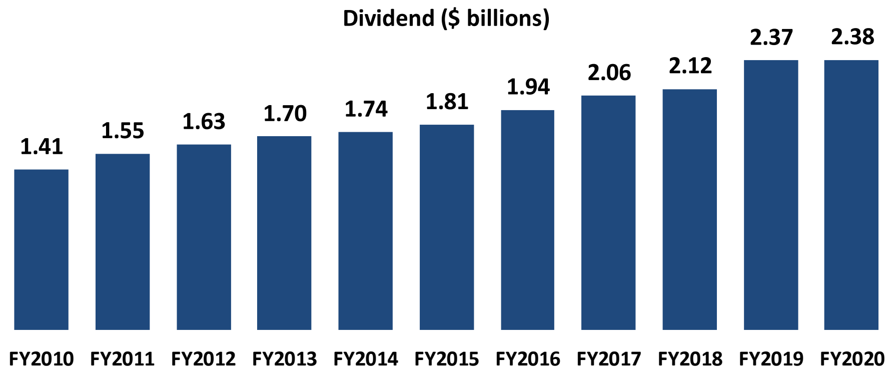


Over the past 10 years, net income has risen by $966 million, or 67.3 percent, as a result of sales growth, improved margins and expense control.

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

Dividend

The LCBO transferred \$2.375 billion in dividends to the Ontario government in FY2020, excluding taxes. This was \$5 million more than in FY2019 and marked the 26th straight year of increased transfers.



The dividend has grown by 68.4 percent since FY2010, reflecting an additional \$965 million. Cumulatively, the Ontario government has received over \$19 billion in dividend transfers from the LCBO in the past decade.

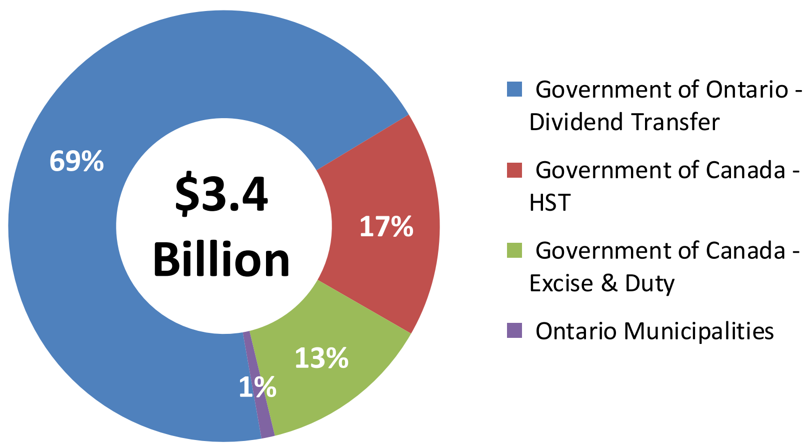
Payments to government

The LCBO paid \$3.4 billion to all levels of government in FY2020. The dividend – excluding excise, duty and all sales and municipal taxes, was remitted at the provincial level and accounted for 69 percent of the total. The Canadian government received \$1.03 billion in the form of excise, duty and sales taxes. Realty and leased property taxes paid to Ontario municipalities by the LCBO totalled \$35 million.

($ millions)		FY2020	
Total payments	**$**	**3,435**	
Government of Ontario - Dividend Transfer		2,375	69%
Government of Canada - HST		582	17%
Government of Canada - Excise & Duty		444	13%
Ontario Municipalities		35	1%

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

LCBO payments to government



LCBO in the shared marketplace

The LCBO operates in a shared marketplace along with other retailers of beverage alcohol in the province of Ontario, including The Beer Store (TBS), Ontario Winery Retail stores (WRS), on-site brewery and distillery stores, and duty free operators. In addition, the LCBO has authorized established retailers in smaller Ontario communities to act as agents on its behalf and sell beverage alcohol products in conjunction with other goods. These LCBO Convenience Outlets (LCOs, and previously called agency stores) sell spirits, wine and imported beer purchased from the LCBO and domestic beer purchased from The Beer Store or other domestic beer suppliers. Further, authorized grocer locations across the province sell imported and domestic beer, cider and wine, which are recognized as LCBO sales.

Number of outlets

As of March 31, 2020, there were 2,786 retail outlets selling alcoholic beverages in Ontario. In the last five years, the number of outlets has increased by more than 800, primarily from grocery, LCOs and on-site brewery and distillery locations.

Number of outlets	FY2019	FY2020	Change
LCBO	666	669	+3
LCBO Convenience Outlets (LCOs)	209	369	+160
Grocer*	363	439	+76
Ontario Winery Retail	454	489	+35
The Beer Store	450	433	-17
On-site Brewery Retail	291	320	+29
On-site Distillery Retail	41	51	+10
Land Border Point Duty free	10	10	0
Airport Duty free	5	6	+1
Total	**2,489**	**2,786**	**+297**

*Grocer included 69 wine boutiques in FY2020 (68 in FY2019) which are Ontario Winery Retail locations situated within a grocery store, also selling beer and cider.

Market share[4]

In FY2020, the total spirits market in Ontario (including spirits ready-to-drink and coolers) grew by 11.5 percent or 13.5 million litres, to almost 131 million litres, with the LCBO accounting for 99.8 percent of the share.

Total wine sales in the province (including cider and wine coolers) saw an increase of 2.6 percent in volume or 5.2 million litres during the year, to more than 203 million litres. LCBO's share expanded by five basis points to 83.3 percent of total wine volumes, while advancing its share through the grocer channel by 88 basis points. Winery retail stores, including direct delivery to licensees, account for the remaining 16.7 percent of the provincial wine volume market.

Beer volume sales (excluding LCBO and The Beer Store reciprocal sales) declined during the year, by 1.8 percent or 14.5 million litres, to 794 million litres. While The Beer Store still accounts for almost two-thirds of the province's total beer volume sales at 62.7 percent of the market, its share eroded 167 basis points from 64.3 percent last year. Beer sales through the grocer channel were responsible for 80 percent of LCBO's volume market share gain of 173 basis points to 31.5 percent of the beer market. On-site brewery stores, including direct delivery to licensees, accounted for the remaining 5.8 percent, a slight share erosion of six basis points during the year.

Revenue[5]

LCBO revenue totalled $6.77 billion in FY2020, growth of $374 million, or 5.9 percent over the previous year.

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

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

Channel sales

The LCBO sells beverage alcohol to its customers through a variety of sales channels. Retail sales via brick and mortar stores and online to home consumers increased 5.7 percent, topping $5.3 billion during the year, with an impetus from consumers' stockpiling to the pandemic towards the end of the year. Home consumer sales represented 78.4 percent of total LCBO sales in FY2020, losing 15 basis points from the previous year to the expanding grocer and LCO channels.

Channel ($ millions)	Share	FY2020	vs. FY2019
Home Consumer - Retail	78.4%	$ 5,307	5.7%
Licensee	8.4%	$ 571	-1.1%
The Beer Store	5.4%	$ 365	-0.6%
Grocer	4.7%	$ 320	29.7%
LCBO Convenience Outlets	2.2%	$ 147	19.1%
Duty free	0.6%	$ 39	8.1%
Other*	0.3%	$ 17	-3.9%
Total	**100%**	**$ 6,766**	**5.9%**

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

Beverage alcohol purchased by licensed establishments, such as bars and restaurants, make up the second-largest LCBO sales channel. Sales to licensees declined during the year by 1.1 percent to $571 million and represents 60 basis points less than in FY2019, at 8.4 percent of total LCBO sales. The channel was the most adversely impacted by pandemic-related restrictions, as the operations of licensed establishments were severely curtailed towards the end of the year.

LCBO sales to TBS, the third-largest LCBO sales channel, declined 0.6 percent in FY2020. Continued expansion of the grocer and convenience outlet channels and a production shift of a previously imported beer brand to domestic, partially contributed to the decline. At $365 million in sales, the channel accounts for 5.4 percent of LCBO sales, 35 basis points less than the previous year.

The grocer channel, as expected, continues to see strong growth and market share expansion. In FY2020, with 76 more active authorizations from the previous year, sales grew by 29.7 percent to $320 million. The channel added 87 basis points to its share of LCBO sales, now accounting for 4.7 percent of the total sales. Pandemic impacts also added to the channel's growth.

Sales to LCBO Convenience Outlets, an extension of the LCBO retail channel through authorized independent local retailers serving smaller communities across Ontario, increased 19.1 percent to $147 million during the year. The channel was boosted by the addition of 160 more outlets during the year, and pandemic-related impacts, as it gained 24 basis points relative to FY2019 and now represents 2.2 percent of total LCBO sales.

Duty free operators at airports and land border points represented 0.6 percent of LCBO sales in FY2020. Sales through this channel grew 8.1 percent to almost $39 million.

Category sales

Aside from products sold through Specialty Services, all categories received a boost towards the end of the year, as consumers stockpiled at the beginning of the pandemic declaration.

Spirits, including ready-to-drink (RTDs) and cooler products, maintained the largest portion of LCBO product sales in FY2020 at $2.7 billion, or 40.1 percent, of total sales. With an 8.7 percent increase in sales, the category share rose for the third straight year, adding 103 basis points.

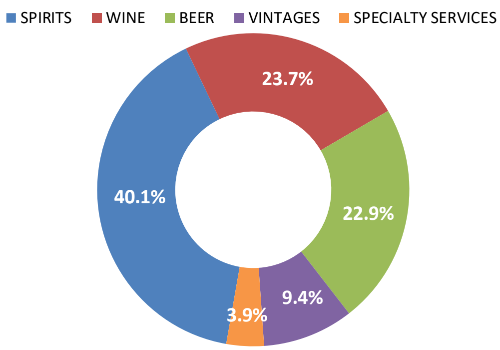
Wine (excluding VINTAGES) remained the second-largest category at 23.7 percent of total net sales, despite losing 51 basis points. The category rebounded from a previous year decline to post growth of 3.7 percent, to almost $1.6 billion in sales.

VINTAGES, at $635 million, grew by 5.3 percent over last year. With a slight decline in share of six basis points, the category represents 9.4 percent of LCBO sales.

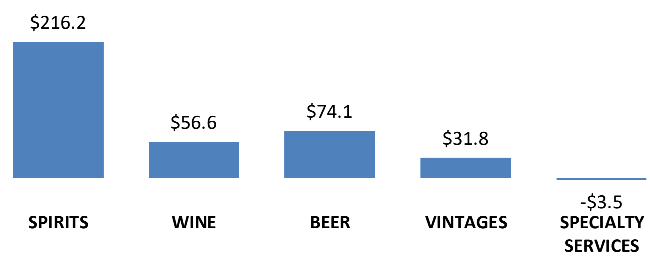
Beer continued to benefit from more active grocer authorizations while softer sales to TBS tempered category growth to 5.0 percent during the year. The beer category topped $1.5 billion in sales for the first time but lost 18 basis points to 22.9 percent of total sales.

Specialty Services, accounting for 3.9 percent of LCBO sales, was hit by slower sales to licensees and TBS towards the end of the year. Sales declined by 1.3 percent in FY2020 to $262 million, and lost 28 basis points in share.

FY2020 Sales Share by Category



Category sales growth Yr/Yr ($ millions)



Operating results

In FY2020, every $1 in revenue was broken out in the following manner:

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

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

Margins

LCBO gross margin totalled $3.4 billion in FY2020, representing an improvement of 5.3 percent compared to FY2019. As a percentage of revenues, gross margin declined 27 basis points to 50.6 percent.

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

Spirits	$0.58
Wine	$0.54
VINTAGES	$0.49
Beer	$0.39
Specialty Services	$0.38

Spirits accounted for 45.6 percent, or more than $1.5 billion, of total gross margin in FY2020. Spirits margin had the highest category increase of 8.2 percent from FY2019, adding 98 basis points to its share of total margin.

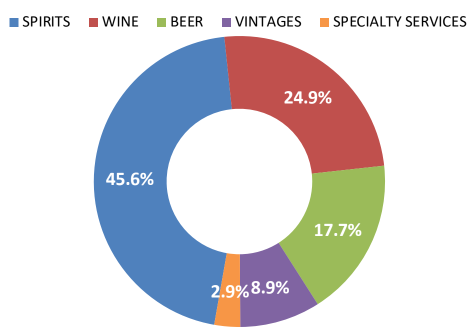
Wine share declined to 24.9 percent of total LCBO gross margin during FY2020, 58 basis points lower than last year. This category posted margin growth of 3.5 percent during the year to almost $858 million.

Gross margin from beer grew by 4.1 percent, and unlike the previous year when it had the largest share gain, its share retreated 29 basis points to 17.7 percent. Beer category margin totalled $609 million during FY2020.

VINTAGES gross margin, at $308 million, increased 6.1 percent from FY2019, and advanced slightly by two basis points to 8.9 percent of total margin.

Specialty Services contributed almost $99 million to gross margin. Growth was slowest at 1.4 percent from the previous year, as the share declined 13 basis points.

FY2020 Margin Share by Category



Selling, general and administrative expenses

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

LCBO total expenses increased by $40.4 million, or 4.1 percent, in FY2020 compared to the previous year. Operating expenses represented 75 percent of the total and increased by 3.6 percent during the year. Retail store expenses, the largest share at almost 65 percent of operating expenses, rose 3.1 percent versus the previous year, with retail security expenses and salaries driving the variance.

Administrative expenses accounted for the second-largest portion of operating expenses and the highest increase from the previous year, at 7.5 percent. Information Technology projects, applications and support services contributed to higher administrative costs. These were reflected through increased spending on ongoing platform services, which include a warehouse modernization project, security and continued business-to-business and back office system delivery expansions.

Supply Chain expenses were marginally above FY2019, while Merchandising and Marketing declined. Reduced spending on thematic programs and VINTAGES primarily drove the favourable variance to the previous fiscal year.

Operating Expenses ($ millions)		**FY2020**	**vs. FY2019**
Retail Stores	$	499	3.1%
Administrative	$	196	7.5%
Supply Chain	$	40	1.5%
Merchandising & Marketing	$	35	-6.6%
Total	**$**	**771**	**3.6%**

Non-operating expenses, accounting for the remaining 25 percent of total expenses, rose 5.6 percent from FY2019. Depreciation (including right-of-use assets), amortization and impairment, representing more than 58 percent of these expenses, increased by 7.0 percent for the year.

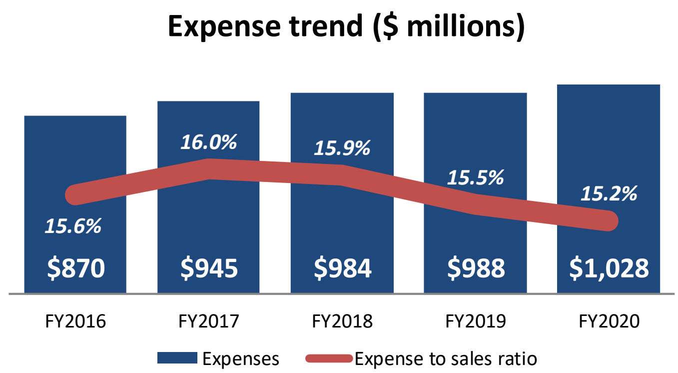
Expenses related to environmental initiatives, comprising mainly of LCBO Ontario stewardship obligations and service fees to TBS for the Ontario Deposit Return Program, outpaced the previous year. Higher sales volume drove the unfavourable variances relating to environmental initiatives. Debit and credit card charges were above last year’s charges, driven by the higher level of sales registered in FY2020.

Non-Operating Expenses ($ millions)		**FY2020**	**vs. FY2019**
Depreciation, amortization and impairment	$	73	9.1%
Depreciation - right-of-use assets	$	78	5.1%
Environmental Initiatives	$	51	2.5%
Debit/Credit Charges	$	50	9.9%
Other Expenses*	$	6	-24.2%
Total	**$**	**257**	**5.6%**

* Other expenses primarily include gift card program expenses and bank fees.

Expense to sales ratio

The ratio of expense to sales was 15.2 percent in FY2020, a 26 basis point improvement over the previous fiscal year. Expense control and an overall faster net sales growth rate relative to operating expenses contributed to the favourable ratio.



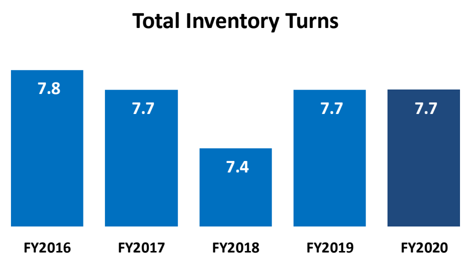
FY2019 expenses and expense to sales ratio have been restated to reflect the adoption of IFRS 16.

Inventory

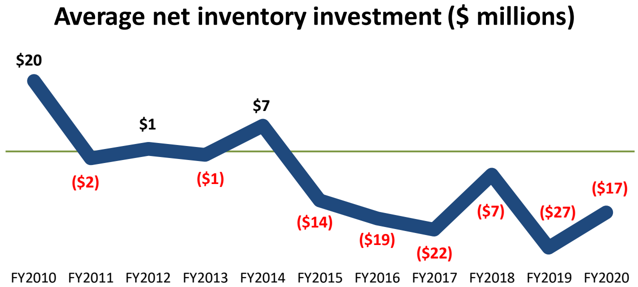
Total inventory turns maintained at 7.7 in FY2020, compared to FY2019. Among the categories, spirits (including RTDs) and Vintages, both improved slightly from 8.6 to 8.7 and 3.7 to 3.8, respectively. Wine turns were unchanged at 6.4, while beer turns declined from 14.9 to 13.3, due to efforts to improve in-stock positions.

Isolated events throughout the year impacted individual category turns. At the beginning of the fiscal year, higher inventory levels of beer and RTDs were warehoused to ensure availability during spring. An abnormally cold spring, however, resulted in softer sales of those products and slower inventory depletion. Similarly, in the summer, higher than expected levels of inventory resulted during the implementation of a new warehouse management system, as the movement of inventory from warehouses to stores was slowed.

Towards the end of the fiscal year, however, inventory turns improved from a combination of higher level of sales and slower inbound inventory. A shortage of shipping containers, resulting from the pandemic, and rail blockades across Canada hindered inventory receival. At the same time, consumers' reactionary stockpiling to the pandemic, drove sales and inventory depletion at a faster than usual rate. These events resulted in normalized annual turns, compensating for the slower levels earlier in the year.

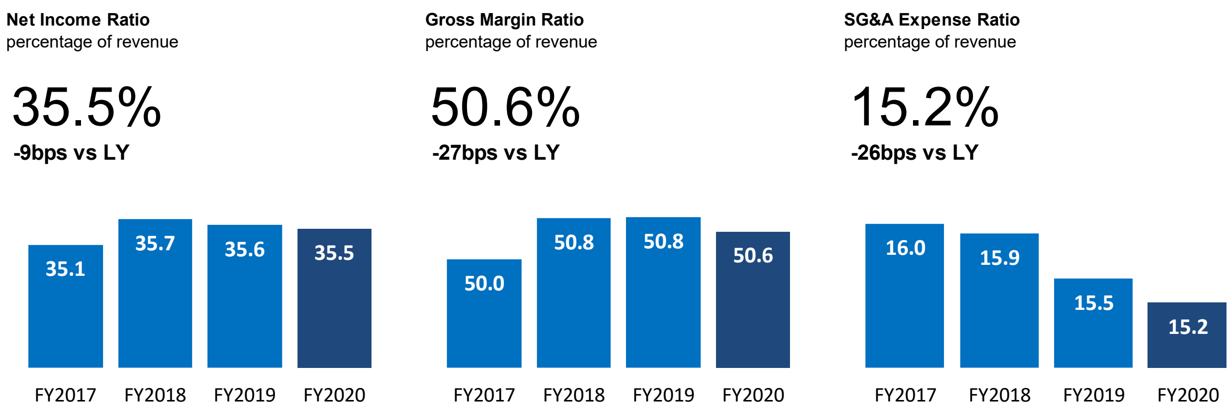


Average net inventory investment[6] during FY2020 was negative $17.4 million. In the last decade, LCBO net investment in inventory has fallen by almost $38 million, highlighting continuous improvement in sales, inventory, and cash flow management.



Key Performance Indicators

Financial Ratios



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Revenue in FY2018 has been restated to reflect the adoption of IFRS 15, which reduced revenue but not net income.
Expenses in FY2019 have been restated to reflect the adoption of IFRS 16.

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

In FY2020, net income was 35.5 percent of revenue, nine basis points less than last year's ratio. Gross margin ratio also declined by 27 basis points to 50.6 percent, while selling, general and administrative expenses as a percentage of revenue improved by 26 basis points to 15.2 percent.

Productivity ratios

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

Retail productivity highlights

	FY2016	FY2017	FY2018	FY2019	FY2020
Retail sales per transaction	$ 34.38	$ 35.29	$ 36.64	$ 36.80	$ 38.08
Unit sales per hour paid	43.0	42.7	42.4	43.5	45.5
Salaries & Benefits as a percentage of retail sales	7.0%	7.1%	7.1%	7.1%	6.9%
Total retail expenses as a percentage of retail sales	10.9%	11.0%	10.8%	9.1%	9.0%

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

Retail productivity ratios were favourable compared to last year. Retail sales per transaction continued its upward trend as consumers spent $1.28 more per purchase than they did in FY2019. Product sales mix, consumer trading up and larger basket checkouts at the end of the year (beginning of the pandemic), contributed to the increase. Despite rising retail labour costs, unit sales per hour paid and salaries and benefits as a percentage of retail sales both improved from faster rates of growth in both unit and net sales. The favourable change in total retail expenses as percentage of retail sales, likewise, also benefitted from the higher net sales growth rate and effective expense controls during the year.

Supply Chain productivity highlights

	FY2016	FY2017	FY2018	FY2019	FY2020
Warehouse cases throughput per hour paid	38	39	39	39	38
Warehouse salaries & benefits per case throughput	$ 0.98	$ 0.95	$ 0.97	$ 0.99	$ 1.05
Warehouse cost per case throughput	$ 1.20	$ 1.22	$ 1.22	$ 1.21	$ 1.26

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

Supply Chain productivity ratios were mostly unfavourable in FY2020. Post implementation support of a new warehouse management system primarily lowered supply chain productivity. Higher expenses resulted from overtime hours worked and case volumes being fulfilled by other warehouses within the network. The new system implementation also slowed the growth in the number of cases handled, which were further challenged by rail blockades across Canada. The COVID-19 pandemic also slowed inbound inventory towards the end of the fiscal year. Warehouse cases throughput per hour paid declined and cost per case throughput increased compared to FY2019.

Capital expenditures

Capital expenditures (capex) totalled $64.7 million in FY2020, with the majority of investment allocated to LCBO retail network expansion and improvement. Major investments included in the almost $40 million spent through Store Development and Real Estate, comprised of six new stores and five relocated and expanded locations.

Information Technology projects accounted for the second-largest portion of capex, totalling $17.1 million in FY2020, followed by Supply Chain with $7.6 million. Some of the key initiatives during the year included commencement of a data centre migration project as the organization prepares for its head office relocation, continual development of the e-Commerce platform, wireless and control upgrades to the Durham warehouse facility, and spending on the LCO program expansion.

Capex ($ millions)	FY2020	
Store Development and Real Estate	$	39.8
Information Technology	$	17.1
Supply Chain	$	7.6
Other	$	0.2
Total Capital Expenditures	**$**	**64.7**

Enterprise risk management

The LCBO manages risk in support of achieving its strategic, business and operating objectives in accordance with Enterprise Risk Management (ERM) best practices. The LCBO is committed to maturing our ERM program over time to evolve our risk governance, risk culture and risk management process.

The LCBO ERM program consists of risk management principles, an ERM framework and process, assignment of authority and responsibility and semi-annual reporting to the Board of Directors. The LCBO Board, through its Audit Committee, provides oversight for the risk management program. The Risk Management Oversight Committee (RMOC) meets quarterly to review and assess existing and emerging risks, as well as mitigation strategies. The CEO has ultimate accountability for risk management. Risks are reviewed regularly, and actions are taken to mitigate risks to acceptable levels. The primary objectives of the ERM program are:

- To establish a culture where risk management is linked to strategy setting and considered in all business decision making.
- To create value from our assets and other business opportunities.
- To provide a consistent and systematic approach to risk management, which identifies, assesses, manages and monitors major risks effectively.
- To anticipate and respond to changing social, environmental and legislative conditions.

The LCBO is committed to maximizing revenues for its shareholder, while at the same time investing in innovations to improve the customer experience in a socially responsible way. LCBO processes and technology must continue to operate the day-to-day business while adapting to the changing marketplace. This influences the risk landscape for the LCBO. The following is a summary of the key current risks facing the LCBO.

LCBO's top three current enterprise risks are:

1. Government policy and legislative change
2. IT systems support risk
3. IT system and technology limitations

Government policy and legislative change

Changes in legislation and regulation, interprovincial and international trade agreements, and public service directives and standards all affect the LCBO because it is a public agency and operates within a regulated industry. As a result, significant shifts in policy or legislation may require the LCBO to adapt quickly.

To mitigate this challenge, the LCBO proactively provides information to the government on the potential impact of proposed policy changes on its financial performance and operations. It also adopts a nimble, flexible and collaborative culture so that it can respond quickly to changes in the environment. All the while, the LCBO remains focused on providing excellence in socially responsible retailing, customer experience and operational efficiency.

IT systems support risk

The LCBO faces similar challenges as other large retail and wholesale businesses when it comes to its reliance on IT systems for its business processes. The risk is that without adequate support and responsiveness to incidents, the LCBO could experience disruptions in its service.

As with most larger organizations, the LCBO relies on a combination of legacy and newer IT systems. To ensure that all IT systems remain fully supported and that incidents are dealt with on a timely basis, the LCBO has many mitigation strategies in place. These include ongoing support for all IT systems, through vendor support or through internal expertise; an incident response process that ensures timely notification of incidents and a prioritization process to address incidents; ongoing monitoring of incident resolution; root cause analysis for repeat incidents; and, ongoing review with business divisions of IT system related requests for enhancements and changes to systems.

IT system and technology limitations

The LCBO understands the need to embrace and implement new technologies to continue to connect with our customers. If we do not keep pace with changes in the marketplace, or properly leverage advancements in technology we will not achieve or sustain competitive advance in our products, services and processes.

To manage this risk, the LCBO has established technology roadmaps and capabilities at multiple levels. As part of continuous improvement, these technology roadmaps are being refreshed with new design principles. Cross-divisional committees have been established to ensure the highest impact IT projects are invested in, setup for success and monitored applying project management principles.

COVID-19

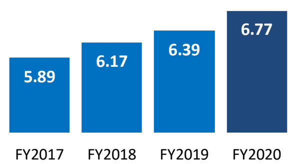
While COVID-19 did not pose a significant financial impact in FY2020, the evolving uncertainty surrounding the vast implications of the pandemic has triggered a range of many complex risks affecting almost all aspects of our organization. It is anticipated that the LCBO will continue to experience the impacts and learning lessons from this crisis into the future. The ERM program has helped cultivate an enhanced proactive culture and establish a process for risk management with discussion on mitigations for the critical existing and emerging risks we face. Specific examples of these measures include:

- The pandemic has been included as a risk event within the current Business Continuity risk in the enterprise risk register. Mitigation plans are being developed and action plans enacted. We will continue to monitor and mitigate this risk. A formal robust corporate pandemic plan will be developed and reviewed on an ongoing basis. Lessons learned will be incorporated into the plan to prepare for any future events.
- The COVID-19 crisis drove changes in risks across the world. LCBO reviewed external sources of reliable risk information to ensure new or changed risks were included for assessment at the LCBO. The assessment identified that all the risks relevant to the LCBO are currently embedded and managed within our existing and previously identified enterprise risks (e.g., Employee Health, Safety & Wellness, Business Continuity, Supply Chain Disruption, Privacy, Breach of IT Security and Economic Conditions). As such, no new enterprise risks have been identified.

Financial Trends

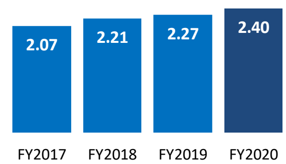
Revenue
$billions

$6.77
+5.9% vs LY



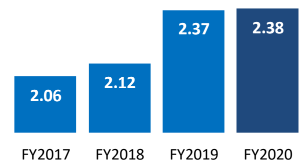
Net Income
$billions

$2.40
+5.6% vs LY



Dividend
$billions

$2.38
+0.2% vs LY



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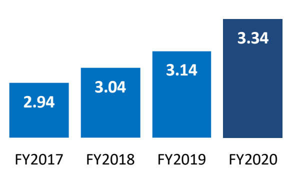
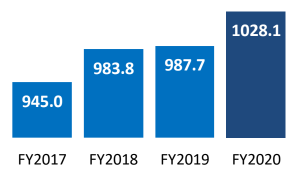
Cost of Sales
$billions

$3.34
+6.4% vs LY



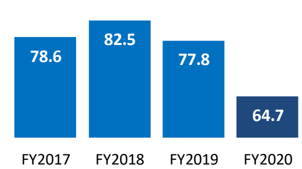
Expenses
$millions

$1028.1
+4.1% vs LY



CapEx
$millions

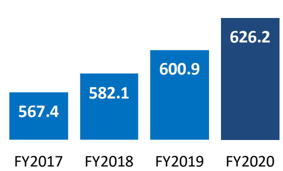
$64.7
-16.8% vs LY



Cost of Sales in FY2018 has been restated to reflect the adoption of IFRS 15.
Expenses in FY2019 have been restated to reflect the adoption of IFRS 16.

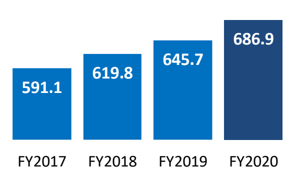
Volume Sold
millions of litres

626.2
+4.2% vs LY



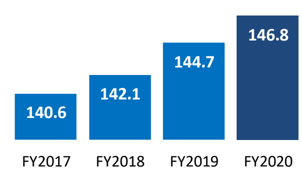
Units Sold
millions of units

686.9
+6.4% vs LY



Customer Transactions
millions of transactions

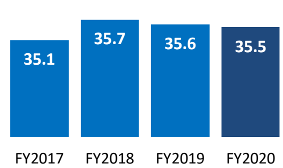
146.8
+1.5% vs LY



Volume and Units Sold in FY2018 has been restated to reflect the adoption IFRS 15, which reduced volume and unit sales.

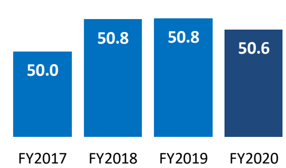
Net Income Ratio
percentage of revenue

35.5%
-9bps vs LY



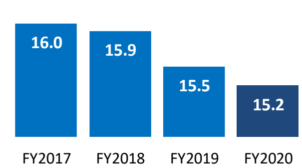
Gross Margin Ratio
percentage of revenue

50.6%
-27bps vs LY



SG&A Expense Ratio
percentage of revenue

15.2%
-26bps vs LY



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

Responsibility for Financial Reporting

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

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

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

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

On behalf of management:

George Soleas
President & Chief Executive Officer

Kent Harris
Senior Vice President, Finance &
Administration, 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.

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

report. However, future events or conditions may cause the LCBO to cease to continue as a going concern.

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

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

Toronto, Ontario
July 16, 2020

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

Financial Statements and Notes

For the Year Ended March 31, 2020

LIQUOR CONTROL BOARD OF ONTARIO

Statement of Financial Position

(thousands of Canadian dollars)

	Note	March 31 2020	March 31 2019 Restated[7]	April 1 2018 Restated[7]
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

Carmine Nigro, Chair, Board of Directors

Cheryl Hooper, Board Member, Chair, Audit Committee

[7] 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[8]
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.

[8]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[9]
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

[9] 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.

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[10]
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**

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

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**

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**

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)

IAS 1 *Presentation of Financial Statements*

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.

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.

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

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, 201	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.

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

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.

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.

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.

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)

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

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

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

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 other 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.

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

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

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.

Province of Ontario

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.

Ontario Cannabis Retail Corporation ("OCRC")

OCRC is an agency of the Province and was established on December 12, 2017 to sell recreational cannabis in the Province of Ontario. 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.

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.

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.

FINANCIAL OVERVIEW

Key operational indicators

	FY2020	FY2019	FY2018	FY2017	FY2016
LCBO stores*	669	666	663	660	654
Full-time equivalent employees	7,461	7,425	7,343	7,032	6,665
Product listings	31,585	28,376	26,056	24,854	22,711

** LCBO store count includes depots (3 as of FY2020)*

Financial indicators *($ thousands)*

	FY2020	FY2019	FY2018	FY2017	FY2016
Total revenues*	6,802,646	6,433,022	6,231,010	5,960,271	5,627,100
Growth over previous year	5.7%	3.2%	4.5%	5.9%	7.2%
Total expenses**	1,056,970	1,016,540	987,774	948,916	874,351
As a percentage of total revenues	15.5%	15.8%	15.9%	15.9%	15.5%
Net income***	2,401,600	2,274,536	2,206,524	2,067,935	1,967,836
As a percentage of total revenues	35.3%	35.4%	35.4%	34.7%	35.0%

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

** Total revenues represent revenues plus other income plus finance income.*

*** Total expenses represents selling, general and administrative (SG&A) expenses plus finance cost.*

**** Net Income of $2.340 billion in FY2017 has been normalized to exclude the gain from the sale of the LCBO head office property.*

Revenue payments *($ thousands)*

Treasurer of Ontario	FY2020	FY2019	FY2018	FY2017	FY2016
Remitted by the Liquor Control Board:					
on account of profits	2,375,000	2,370,000	2,120,000	2,060,000	1,935,000
Trillium Trust transfer - sale of Head Office				246,215	
Remitted by the Alcohol and Gaming Commission:					
on account of licence fees and permits	14,760	14,268	11,570	9,983	9,193
Remitted by the Ministry of Revenue:					
Beer, wine and spirits tax[1]	575,000	607,000	603,000	589,000	582,000
Total	**2,964,760**	**2,991,268**	**2,734,570**	**2,905,198**	**2,526,193**
Receiver General for Canada	**FY2020**	**FY2019**	**FY2018**	**FY2017**	**FY2016**
Remitted by the Liquor Control Board:					
Excise taxes and customs duties	443,565	417,325	404,661	393,924	382,415
Goods and Services Tax (GST) / Harmonized Sales Tax (HST)	581,964	551,705	546,287	503,462	485,135
Remitted by others:					
Excise taxes, GST/HST and other duties/taxes[2]	511,203	517,117	521,648	519,755	544,643
GST/HST remitted on sales through agency stores	21,264	17,857	17,577	17,043	16,421
Total	**1,557,995**	**1,504,005**	**1,490,174**	**1,434,184**	**1,428,614**
Ontario Municipalities	**FY2020**	**FY2019**	**FY2018**	**FY2017**	**FY2016**
Remitted by the Liquor Control Board:					
Realty taxes[3]	34,651	33,294	32,147	33,276	31,488
Total revenue payments	**4,557,407**	**4,528,567**	**4,256,890**	**4,372,658**	**3,986,296**

[1] The beer, wine and spirits tax figure of $575 million is an interim number for FY2020. The FY2018 and FY2019 numbers have been restated to actual as per Ontario's March 2020 Economic and Fiscal Update.

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

[3] Includes property taxes on leased properties.

Share of Ontario beverage alcohol market by volume sold

	FY2020
LCBO	48.8%
The Beer Store	44.1%
Brewery/Distillery/Winery Retail Stores	7.1%

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

Volume sales *(thousands of litres)*

LCBO sales	FY2020	Growth	FY2019	FY2018	FY2017	FY2016
Domestic Spirits	30,841	3.0%	29,928	30,632	30,416	31,842
Imported Spirits	37,698	4.2%	36,189	34,525	33,055	27,826
Total Spirits	**68,538**	**3.7%**	**66,117**	**65,157**	**63,471**	**59,668**
Domestic Wine	53,668	3.9%	51,663	52,233	56,403	53,227
Imported Wine	115,614	2.5%	112,758	115,754	113,035	111,481
Total Wine	**169,282**	**3.0%**	**164,421**	**167,987**	**169,438**	**164,708**
Domestic Beer	173,709	5.0%	165,412	146,507	133,282	123,572
Imported Beer	147,615	-0.6%	148,463	152,904	156,826	150,714
Total Beer	**321,324**	**2.4%**	**313,874**	**299,410**	**290,108**	**274,286**
Domestic Coolers	54,455	26.9%	42,899	36,943	33,572	26,173
Imported Coolers	12,598	-7.0%	13,553	12,565	10,827	14,307
Total Coolers	**67,053**	**18.8%**	**56,452**	**49,508**	**44,399**	**40,480**
Total Domestic	**312,672**	**7.9%**	**289,902**	**266,315**	**253,673**	**234,814**
Total Imported	**313,525**	**0.8%**	**310,962**	**315,748**	**313,743**	**304,328**
Total LCBO	**626,197**	**4.2%**	**600,864**	**582,063**	**567,416**	**539,142**

Other sales	FY2020	Growth	FY2019	FY2018	FY2017	FY2016
Ontario winery stores	27,852	3.7%	26,865	27,460	26,095	26,224
The Beer Store & brewer on-site stores	543,892	-4.2%	567,803	594,089	617,433	597,225

Note: The FY2020 sales figures for Ontario winery stores, The Beer Store (TBS) and brewer on-site stores are unaudited and may understate total sales due to various wineries and brewers not reporting by the time of publication, while previous years' numbers may be restated. On-site Brewery Licensee sales have been added from FY2017 onwards. LCBO beer sales figures include LCBO sales to TBS; of LCBO's total beer sales in litres, 75,115,234 were to TBS. TBS sales exclude sales to LCBO. For the LCBO, prior year figures are restated annually to reflect changes in product hierarchy. FY2016 and FY2017 LCBO figures do not reflect IFRS 15 adjustments.

Value sales *($ thousands)*

LCBO sales	FY2020	Growth	FY2019	FY2018	FY2017	FY2016
Domestic Spirits	1,011,893	5.3%	961,105	964,948	935,672	948,814
Imported Spirits	1,385,174	7.6%	1,287,287	1,212,599	1,125,026	1,014,676
Total Spirits	**2,397,068**	**6.6%**	**2,248,391**	**2,177,547**	**2,060,698**	**1,963,490**
Domestic Wine	590,522	3.9%	568,252	566,249	592,200	552,962
Imported Wine	1,894,385	4.2%	1,817,332	1,799,297	1,703,068	1,641,358
Total Wine	**2,484,907**	**4.2%**	**2,385,584**	**2,365,546**	**2,295,268**	**2,194,320**
Domestic Beer	798,677	7.5%	742,994	646,083	571,998	518,554
Imported Beer	716,548	1.3%	707,389	717,036	716,939	670,267
Total Beer	**1,515,225**	**4.5%**	**1,450,383**	**1,363,119**	**1,288,937**	**1,188,821**
Domestic Coolers	299,988	29.9%	230,894	198,464	183,015	144,040
Imported Coolers	73,453	-7.3%	79,232	73,018	63,507	80,884
Total Coolers	**373,441**	**20.4%**	**310,126**	**271,481**	**246,522**	**224,924**
Total Domestic	**2,701,081**	**7.9%**	**2,503,246**	**2,375,744**	**2,282,885**	**2,164,369**
Total Imported	**4,069,560**	**4.6%**	**3,891,239**	**3,801,950**	**3,608,540**	**3,407,186**
Non-Liquor and Other	**(7,149)**	**38.2%**	**(5,173)**	**(4,992)**	**(636)**	**(2,089)**
Total LCBO	**6,763,492**	**5.9%**	**6,389,312**	**6,172,702**	**5,890,789**	**5,569,466**

Other sales	FY2020	Growth	FY2019	FY2018	FY2017	FY2016
Ontario winery stores	357,254	4.9%	340,570	334,150	310,460	305,150
The Beer Store & brewer on-site stores	2,348,454	-2.9%	2,417,994	2,462,590	2,487,514	2,622,783

Note: The FY2020 sales figures for Ontario winery stores, The Beer Store (TBS) and brewer on-site stores are unaudited and may understate total sales due to various wineries and brewers not reporting by the time of publication, while previous years' numbers may be restated. On-site Brewer Licensee sales have been estimated and included from FY2017 onwards. LCBO beer sales figures include LCBO sales to TBS; of LCBO's total beer sales, $364,593,364 were to TBS. TBS sales exclude sales to LCBO. For the LCBO, prior year figures are restated annually to reflect changes in product hierarchy. FY2016 and FY2017 LCBO figures do not reflect IFRS 15 adjustments.

Product listings

	FY2020	FY2019	FY2018	FY2017	FY2016
Domestic					
Spirits	646	597	574	508	469
Wine	631	605	577	579	554
Beer	1,301	1,294	1,246	1,038	692
Imported					
Spirits	1,032	930	1,099	980	815
Wine	1,082	1,078	1,134	1,121	1,156
Beer	380	376	383	387	391
Total regular listings	**5,072**	**4,880**	**5,013**	**4,613**	**4,077**
VINTAGES wines and spirits	5,661	5,257	5,079	4,972	5,361
Duty-free listings	220	239	234	269	273
Consignment warehouse and private ordering	20,632	18,000	15,730	15,000	13,000
Total product listings	**31,585**	**28,376**	**26,056**	**24,854**	**22,711**

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

LCBO sales by country of origin

In FY2020, excluding sales through Specialty Services and direct distillery and winery sales, the LCBO sold products from 86 different countries.

Spirits

Country		Net Sales ($)	Litres
CANADA	$	1,307,283,266	85,027,894
ONTARIO	$	751,692,941	58,418,649
UNITED STATES	$	342,921,926	19,382,941
UNITED KINGDOM	$	322,221,406	7,281,876
FRANCE	$	192,900,453	5,461,098
IRELAND	$	123,342,458	3,494,580
MEXICO	$	108,233,025	2,337,853
SWEDEN	$	79,249,514	2,470,928
ITALY	$	47,452,913	1,415,909
LATVIA	$	32,367,016	990,571
GERMANY	$	26,023,203	912,217
OTHER	$	171,881,401	5,941,025
TOTAL	**$**	**2,753,876,579**	**134,716,891**

Wine

Country		Net Sales ($)	Litres
CANADA	$	573,713,366	53,423,565
ONTARIO	$	568,115,047	52,876,780
UNITED STATES	$	417,822,884	21,551,017
ITALY	$	389,934,257	24,240,589
FRANCE	$	235,799,083	9,846,124
AUSTRALIA	$	174,639,768	11,256,466
CHILE	$	112,456,440	9,498,441
NEW ZEALAND	$	95,325,929	4,600,353
SPAIN	$	88,946,832	5,962,712
ARGENTINA	$	64,664,859	4,246,184
PORTUGAL	$	46,865,651	3,503,332
OTHER	$	126,063,398	14,065,439
TOTAL	**$**	**2,326,232,467**	**162,194,222**

Beer

Country		Net Sales ($)	Litres
CANADA	$	790,420,200	171,564,738
ONTARIO	$	714,707,453	155,193,973
NETHERLANDS	$	140,773,330	28,978,360
MEXICO	$	132,161,528	25,031,749
BELGIUM	$	99,150,931	18,661,366
UNITED STATES	$	53,293,505	12,037,874
GERMANY	$	43,484,196	11,096,299
IRELAND	$	25,951,496	5,040,721
POLAND	$	25,347,498	6,674,222
UNITED KINGDOM	$	20,885,941	4,253,382
DENMARK	$	19,612,657	4,772,235
OTHER	$	62,386,323	13,455,043
TOTAL	**$**	**1,413,467,606**	**301,565,987**

Local Products – produced in Ontario

Sales exclude Specialty Services

Volume sales *(thousands of litres)*

LCBO sales	FY2020	FY2019	Growth
Small Distillers	**490**	**362**	**35.4%**
VQA Wines	9,635	9,229	4.4%
Non-VQA Wines	36,486	35,864	1.7%
Total Wines	**46,121**	**45,092**	**2.3%**
Craft Beer	**28,645**	**26,334**	**8.8%**
Craft Cider	3,059	2,625	16.5%
Non-Craft Cider	3,602	3,409	5.6%
Total Cider	**6,661**	**6,034**	**10.4%**

Value sales *($ thousands)*

LCBO sales	FY2020	FY2019	Growth
Small Distillers	**20,327**	**15,142**	**34.2%**
VQA Wines	169,292	161,996	4.5%
Non-VQA Wines	354,309	343,962	3.0%
Total Wines	**523,601**	**505,958**	**3.5%**
Craft Beer	**169,869**	**152,638**	**11.3%**
Craft Cider	18,900	16,292	16.0%
Non-Craft Cider	21,882	19,658	11.3%
Total Cider	**40,781**	**35,951**	**13.4%**

CREDITS

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

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Teletype:
TTY number – 1-800-361-3291

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