YOUR LCBO

Annual Report 2017-18

LCBO

LETTER OF TRANSMITTAL

The Honourable Victor Fedeli, Minister of Finance

Dear Minister,
I have the honour to present you with the 2017–18 Annual Report of the Liquor Control Board of Ontario.
Respectfully submitted,

Ed Clark,
Chair

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HIGHLIGHTS

CHOICE

2,332 retail outlets selling alcoholic beverages in Ontario, up 23% since 2014

Total number of LCBO stores: **663**

247 Grocery stores

210 Agency stores

More than **26,000** spirits, wine and beer products

5,000+ products available on the LCBO mobile app

3,000 online exclusives

CONVENIENCE

E-Commerce sales **doubled**

Next-day delivery introduced

Extended Sunday hours

New in-app browsing and shopping

360 grocery authorizations awarded

COMMUNITY

Record-breaking donations to the:

$4.1 million United Way

$3.5 million CHEO Foundation, Children's Health Foundation, McMaster Children's Hospital Foundation, SickKids Foundation

$2.3 million madd No alcohol. No drugs. No victims.

93% waste diversion rate

New stores **25-30%** more energy efficient than 10 years ago

630,000 quality assurance laboratory tests

Total challenges for all reasons: **13.9 million**

Total refusals for all reasons: **255,978**

FINANCIALS

Revenue: **$6.24 billion**

Net income: **$2.21 billion, up 6.7%**

$2.12 billion in dividends transferred to the Ontario government

YOUR LCBO

The LCBO has transformed to offer a best-in-class experience in the physical and digital worlds that is easy, fast and personalized. We have evolved to meet the needs of customers to ensure everyone gets the right product from the right place at the right time – whether they shop in our stores, on our app, online, at the grocery store, or at one of our Pop-Up shops. We've upheld our commitment to social responsibility while focusing on customer-driven innovation.

No matter who you are, how you shop, or what products you're looking for, this is *Your LCBO*.

Your LCBO means we are not just about the service in our stores – it's putting the customer at the centre of every decision we make.

YOUR PRODUCTS

We are committed to continuously refreshing our selection so you'll get a chance to experience ever-changing offerings from around the world, each with a unique story to tell. There are now 26,000 spirits, wine and beer products available to Ontarians. More than 3,000 products are now available as online exclusives. 52 new wine boutiques also opened in authorized grocery locations, contributing to an increase in the volume of Ontario wine sold this year.

YOUR STORES

As of March 31, 2018, there were 2,332 retail outlets selling alcoholic beverages in Ontario. Since FY2014, the number of outlets has increased by 438 locations, or 23%, impacted in part by grocery locations, giving customers more choice about where they shop and when. When you shop in an LCBO retail store, our product experts provide Ontarians with their vast array of knowledge so they can help customers make educated choices on the products that are right for them.

YOUR WAY

Technology is the backbone of LCBO as it continues to be the world's largest purchaser of beverage alcohol from more than 60 countries. Whether you prefer e-commerce at the touch of your fingertips or bricks-and-mortar (or both!), the LCBO continued to look toward new technology and innovations to ensure Ontarians got the very best of both experiences through its innovation lab for future leaders of IT – LCBO|Next. Located within Communitech, a Waterloo tech hub, LCBO|Next is all about bringing fresh ideas, creative thinking and new skills to complement and enhance LCBO's digital initiatives.

Due to popular demand, the LCBO On the Go app now allows mobile purchases and the ability to pay with a digital wallet. And we launched next-day delivery for online orders, which accounted for over $3.8 million in sales.

We also unveiled the LCBO Pop-Up, our first-ever pop-up store, where customers had the opportunity to sip, shop, learn, and be inspired through a personalized and interactive experience. LCBO Pop-Up underscores the LCBO's commitment to giving customers the confidence to navigate the beverage alcohol world through product curation, knowledge, sharing and inspiration.

YOUR COMMUNITY

The LCBO reinvigorated its commitment to your local community through our continued social responsibility efforts and donations to important charitable causes that enhance and protect the lives of millions of Ontarians. Last year, we challenged 13.9 million people and refused service to 255,978. 82% of those people were refused due to lack of proof of age.

With your help, we raised over $2.3 million for MADD Canada to support programs that reach high school and elementary students across the province, helping them make smart choices that keep themselves and their friends safe from impaired driving. An incredible $3.5 million was also raised to help improve the lives of thousands of children who rely on health care professionals at Ontario's four children's hospitals for specialized treatment, therapy and services. We raised $4.1 million for the United Way, along with $1.1 million through local and provincial donation boxes programs to contribute to local charitable causes in Ontario communities.

YOUR LCBO

MESSAGE FROM THE CHAIR

When I joined the LCBO in February 2018, I knew that we were in the middle of a transformation. And while it comes as the delivery of another record year of dividends and sales is no surprise, the true accomplishments go far beyond that.

The LCBO understands the need to *drive change* – not try to keep up with it. An increased focus on the Ontario customer ensures that everyone gets the right product, from the right place, at the right time. The drive throughout the organization to do things better, stay in step with advancements, and to constantly focus on opportunities to exceed customer expectations is inspiring. As the expansion of wholesale, the creation of a world class online experience, and efforts to become a more competitive retailer continue, management can count on the Board to provide guidance and oversight.

With respect to the Board, I want to thank former Acting Board Chair Penny Lipsett, who has been serving with the Board since 2007. She continues to bring her experience and leadership to the LCBO in her position of Vice Chair. The Board also welcomed David Graham this year, who was appointed in August 2017. David is a public sector executive with extensive experience in governance and accountability, change leadership/management and corporate relations.

President & CEO George Soleas believes that the LCBO needs to continue to evolve to become a truly customer-centric organization that continues to deliver value for the people of Ontario and I agree. The entire Board team supports the LCBO's transformation, from both operational and cultural change perspectives, and they will continue to work collaboratively to achieve this goal.

Ed Clark

Ed Clark
Chair

MESSAGE FROM THE CEO

Fiscal 2017-18 marked my second year as President & CEO of the LCBO. We had the strongest financial results in our history, providing more than $2.1 billion in dividends to the Ontario government. But while financial results are important, it's our ability to evolve and show leadership in the retail space to enhance our customer's experience that I am most proud of. This was only achieved by being truly accountable to you – the people of Ontario – and increased collaboration with all of our partners.

Every customer – from Newmarket to Napanee – has different needs. We've worked hard to embed the customer in every decision that we make, but we needed to increase that commitment. That's why we consolidated our customer-facing departments into one, unified division – the Chief Customer Office. It also aligns us with other leading organizations that have accelerated their transformation by having a dedicated voice to represent the customer at the leadership table. With our vision of delivering remarkable experiences as the trusted destination for the world's wines, beers and spirits top of mind, our Chief Customer Office keeps us laser-focused on building a customer-centric mindset by empowering our entire team to make decisions, be creative, be bold, and be accountable.

Part of our focus on the customer is keeping pace with ever-changing technology to bring the global marketplace to the touch of their fingertips. We've made investments to make our mobile app even more sophisticated and user-friendly, adding browse & buy features along with the ability to shop for more than 5,000 products right from their smart phone. We've also seen a surge in e-commerce sales, boosted by our popular new next-day delivery service and the more than 3,000 products available as online exclusives. Internally, we are investing in the right technology and infrastructure to support our constant modernization, including our order and human capital management systems and first employee app. Cutting-edge cyber security is one of our biggest areas of focus to ensure we design our systems with customer privacy built in from their inception.

I've said before that competition is good for the marketplace, our customers, and for us. Never before have Ontarians had such power to choose where and how they want to shop. Ontarians now have the option to visit 247 grocery stores across the province, a program we continue to expand year-over-year. It's no secret that the 'shop local' trend is also on the rise. This year, we rolled out new boutiques showcasing Ontario wine, craft beer, and spirits to further support the Ontario industry making hundreds of incredible new products every year. And we continue to invest in training and support for our retail team on the ground so they can continue to share their passion and product knowledge every day.

Our commitment to Ontarians extends beyond convenience and choice. We care about the communities where we live and work. This year, we refused service to hundreds of thousands of minors, and we continue to work with our charitable partners. With your help, we fundraised millions for organizations truly making a difference in the lives of Ontarians – including $4.1 million for the United Way and $3.5 million for Ontario's four regional children's hospitals. We also raised $2.3 million to support MADD Canada and their work to educate students across the province on making smart choices that keep themselves and their friends safe from impaired driving.

We had a lot to be proud of this year, but can't take our foot off the pedal if we want to be a leading organization. That's the thing about a transformation – once you start, you don't stop. Over the next year, we will continue to look forward and evolve to offer a best-in-class experience whether you shop with us in-store, online or as a wholesale partner. We'll uphold our commitment to social responsibility while we focus on customer-driven innovation and on the ever-changing needs of Ontarians so we can continue to be *Your LCBO*.

George Soleas
President & CEO

YOUR LCBO

MISSION STATEMENT:

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

CORPORATE STRUCTURE

SENIOR LEADERSHIP TEAM (at March 31, 2018)
Day-to-day operations of the LCBO are overseen by the following members of senior management:

George Soleas, *President & CEO*

Kent Harris, *senior vice president, Finance and Administration and Chief Financial Officer**

Patrick Ford, *senior vice president, Human Resources*

Michael Eubanks, *senior vice president, Information Technology and Chief Information Officer*

Mandesh Dosanjh, *senior vice president, Supply Chain*

Joyce L. Gray, *Chief Customer Officer***

Penny Wyger, *senior vice president, General Counsel and Corporate Secretary*

**Appointed November 2017*
***Appointed July 2017*

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. The Board met 16 times in fiscal 2017-18.

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 annual financial plans;
- 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;
- 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 conduct that includes policies addressing human rights, 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, employment equity 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 (http://www.lcbo.com/content/lcbo/en/corporate-pages/about/annual-report.html)
- our annual business plan is posted on the LCBO website / on the 'About LCBO' section of LCBO.com (http://www.lcbo.com/content/lcbo/en/corporate-pages/about/business-plan.html)
- the memorandum of understanding between the LCBO and the Minister of Finance can be read online / on the 'About LCBO' section of LCBO.com (http://www.lcbo.com/content/lcbo/en/corporate-pages/about/memorandum-of-understanding.html)
- 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 (https://hellolcbo.com/) (http://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 (http://www.lcbo.com/webapp/wcs/stores/servlet/OverViewView?catalogId=10001&langId=-1&storeId=10151)
- Board members are appointed by Order-in-Council (for more information see the Public Appointments Secretariat website) (https://www.ontario.ca/page/public-appointments)
- LCBO employee conduct is governed by a Code of Business Conduct (http://www.lcbo.com/content/dam/lcbo/corporate-pages/about/pdf/Code%20of%20Business%20Conduct%20E.pdf)
- 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 (http://www.doingbusinesswithlcbo.com/tro/Forms-Documents/Documents/Downloads/GuideandManuals/Supplier%20Code%20of%20Business%20Conduct%20-%20English.pdf)
- LCBO financial statements are audited annually by the Office of the Auditor General of Ontario and are included in the LCBO annual report.

BOARD OF DIRECTORS

All Board members are members of the Institute of Corporate Directors.

William Edmund Clark
Chair

Appointed February 2018 for a three-year term

Mr. Clark is the former president and chief executive officer of TD Bank Group. He has also served as advisor to the former Liberal Provincial Government. Mr. Clark has received numerous awards and honours, including his appointment to the Order of Canada in 2010 and the Canadian Hall of Fame in 2017.

Remuneration: N/A

Cheryl Hooper
Chair, Audit Committee

Appointed February 2014.
Term renewed February 2016 and 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 serves on the Board and chairs the audit committee of Velan Inc., a Canadian public company. She has an MBA from York University, is a CPA, CA.

Remuneration: $5,870

Susan Robinson
Chair, Human Resources and Compensation Committee

Appointed August 2016 for a three-year term

Ms. Robinson is an executive with more than 25 years of experience leading human resource, marketing, strategy and communication teams in North America, Europe and Asia. Prior to her retirement from full-time work she held roles including Senior Vice President, Human Resources and Corporate Communications at Manulife Financial. A life-long volunteer, Susan was a founding Director of The Learning Partnership, the sponsor of “Take Your Kid to Work Day”.

Remuneration: $6,570

Penny Lipsett
Vice Chair, member, Governance Committee and member, Human Resources and Compensation Committee

Appointed May 2007. Term renewed in 2010, 2013, 2015 and February 2017 for a two-year term.

Served as Acting chair from April 2017 to February 2018

Ms. Lipsett was an investor and government relations specialist with a wealth of experience from the Trudeau years on Parliament Hill. She currently acts as Chair of the Ontario Place Corporation and is a Member of the Board of Directors of Bank of America Canada Bank. In 2016, she was named to Canada’s Top 100 Most Powerful Women by the Women’s Executive Network.

Remuneration: $24,090

Noble C. Chummar
Chair, Governance Committee

Appointed July 2014. Term renewed July 2016 for a three-year term

Mr. Chummar is a partner with leading corporate Canadian law firm Cassels Brock & Blackwell and is National Head of the Government Practice group. 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. Mr. Chummar is a graduate of the London School of Economics and Osgoode Hall Law School.

Remuneration: $3,450

BOARD OF DIRECTORS

All Board members are members of the Institute of Corporate Directors.

Lori Spadorcia
Member, Governance Committee
Appointed February 2017 for a three-year term

Ms. Spadorcia is Vice President, Communications and Partnerships, at the Centre for Addiction and Mental Health (CAMH). In addition to her role at CAMH, she serves on the board of Research Canada, advocating for Canada's leadership in health research. A strong believer in investing in girls and women in Canada and internationally, she is also a founding board member of the global initiative G(irls)20.

Remuneration: $2,200

Michael Strople
Member, Human Resources and Compensation Committee
Appointed February 2014.
Term renewed February 2016 and February 2018 for a three-year term

Michael Strople is Managing Director, Canada, and President of Allstream with the Zayo Group. Zayo, headquartered in Boulder, Colorado, builds and operates communications infrastructure. Michael is currently chair of MEF (Metro Ethernet Forum), an industry organization dedicated to realizing the vision of a seamlessly interconnected planet.

Remuneration: $3,650

WM. John Mowat
Member, Audit Committee
Appointed August 2016 for a three-year term

Mr. Mowat is the Executive Chair of The Logistics Alliance Inc, which he founded in 1999. He has more than 50 years of experience in transportation, distribution, logistics, and supply chain. Mr. Mowat is also a leadership fundraiser for the Look Good Feel Better and Facing Cancer Together programs for women surviving cancer.

Remuneration: $4,200

David Graham
Member, Audit Committee
Appointed August 2017 for a three-year term

Mr. Graham is the CFO and Vice President of Finance and Corporate Services at Providence Healthcare, St. Joseph's Health Centre and St. Michael's Hospital Health Network. In addition, David is a Certified Management Accountant (CMA) and a Chartered Professional Accountant (CPA).

Remuneration: $1,100

Bonnie Brooks
Former Chair
Appointed August 2016, resigned in April 2017
Remuneration: $18,550

YOUR LCBO

Management Discussion & Analysis of Operations

MANAGEMENT DISCUSSION & ANALYSIS OF OPERATIONS

The LCBO is a government business enterprise. In the fiscal year ended March 31, 2018 (hereafter referred to as FY2018) it operated a network of:

663

retail stores

210

agency stores supported

247

grocery stores supplied across the province of Ontario

Offering more than

26,000

spirits, wine and beer products to consumers and licensed establishments

The LCBO estimates

1.2 Billion

litres of beverage alcohol products were sold in Ontario during FY2018, with an estimated retail value of more than $12 billion

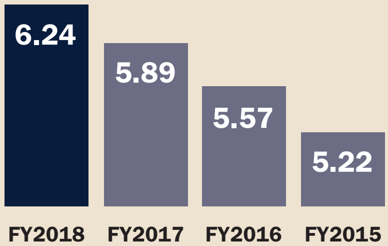
The LCBO accounts for more than one-third of these volume sales and half of the retail value sales.

FINANCIAL HIGHLIGHTS AT A GLANCE

REVENUE
$billions

$6.24

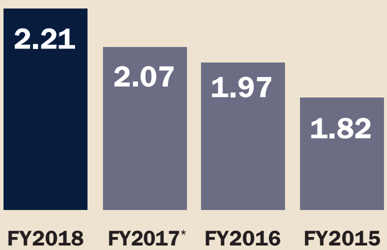
+6.0% vs LY



NET INCOME
$billions

$2.21

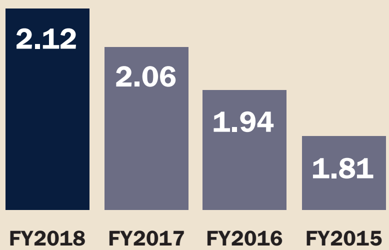
+6.7% vs LY



DIVIDEND
$billions

$2.12

+2.9% vs LY

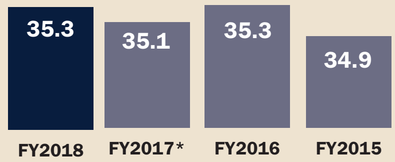


*FY2017 net income has been normalized to exclude the gain from the sale of the LCBO head office property.

NET INCOME RATIO
percentage of revenue

35.3%

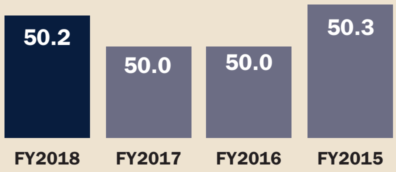
+20bp vs LY



GROSS MARGIN RATIO
percentage of revenue

50.2%

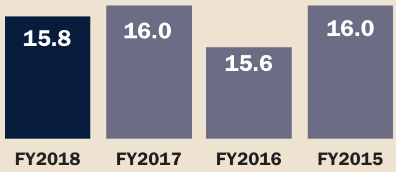
+20bp vs LY



SG&A EXPENSE RATIO
percentage of revenue

15.8%

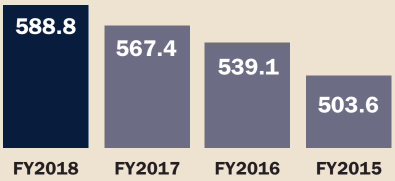
-20bp vs LY



VOLUME SOLD
millions of litres

588.8

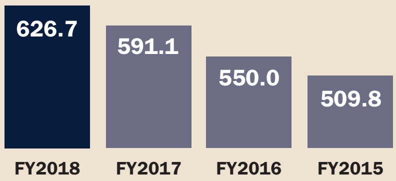
+3.8% vs LY



UNITS SOLD
millions of units

626.7

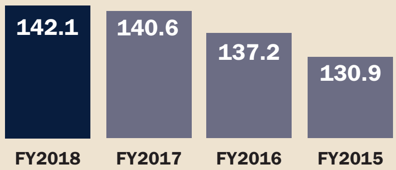
+6% vs LY



CUSTOMER TRANSACTIONS
millions of transactions

142.1

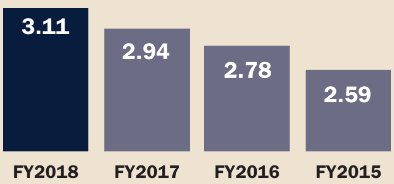
+1.0% vs LY



COST OF SALES
$billions

$3.11

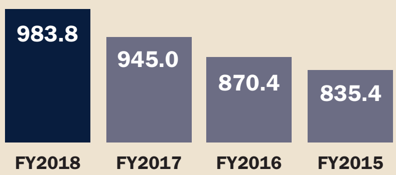
+5.6% vs LY



EXPENSES
$millions

$983.8

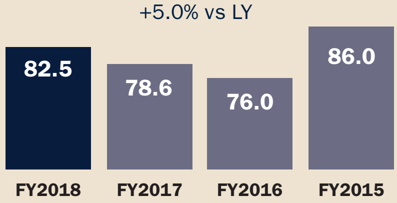
+4.1% vs LY



CAPEX
$millions

$82.5

+5.0% vs LY



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

OPERATIONAL HIGHLIGHTS

EXPANSION

The LCBO added six new stores to its retail network during the year and closed three stores, now totalling 663 locations.[1] Five other stores were either relocated or underwent major expansions in FY2018.

E-COMMERCE

LCBO completed its first full year of e-commerce sales in FY2018, having launched the platform in July 2016 to create a convenient online shopping experience. Enhancements during the year included a next-day home delivery option, in addition to the previously existing regular home delivery and in-store pick-up services. E-commerce sales more than doubled in FY2018 to over $11 million, with upwards of 7,500 unique alcoholic products sold through the channel.

Over 700,000 individual product orders were made within 67,000 basket checkouts during the year.

EXPANDED HOURS

Extended Sunday hours openings were established across many stores in the LCBO retail network during the year.

GROCERY

The grocery channel, established in December 2015 continued its planned rollout. The number of active authorizations increased in FY2018 to 247 locations, surpassing the halfway mark of the 450 intended total. Sales to grocery stores in FY2018 topped $150 million.

COLLECTIVE BARGANING

Following the end of the previous four-year collective bargaining agreement on March 31, 2017, a new agreement was negotiated during the fiscal year.

MARK-UPS

There was a two per cent increase to wine mark-up rates (April 2017) and a 1.8 per cent indexing of beer markups and cost of service fees (March 2017), as decided by the Government of Ontario in Budget 2015 and 2016. There was a $0.03 per litre increase to beer mark-up rates on November 1, 2017.

SELLING DAYS

There were three less selling days relative to FY2017, but two Easter-related holiday sales build-ups compared to none during the previous fiscal year.

1. Location count includes three licensee depots.

EXTERNAL ENVIRONMENT

SOLID ECONOMY

LCBO financial performance was favourably impacted by a number of factors in FY2018. Ontario enjoyed its fourth consecutive year of solid economic results, as real gross domestic output expanded by 2.8 per cent on the back of strong household retail spending for a second straight year.

HEALTHY RETAIL SALES & LABOUR MARKET

Despite two interest rate increases in 2017, after remaining unchanged for seven years, consumer spending did not falter, registering an increase above seven per cent for the year. Retail sales were consistently healthy throughout 2017, supported by strong labour market performances, which ended the year with 175,000 more jobs, a 17-year low unemployment rate at six per cent, and wage gains for consumers. The provincial job market results buoyed consumer confidence, as sentiments progressively improved towards the end of the year, reaching a ten-year high in December.

ADDITIONAL FACTORS

The success of major Ontario sports teams also provided a boost to sales results. Cool and wet weather conditions during the spring and summer months limited sales, offset by summer-like temperatures in September and October.

MODEST INFLATION GROWTH

Despite rising gas prices, lower food prices, electricity tax rebates and hydro bill reductions during the year contributed to overall modest inflation growth. The relatively low Canadian dollar influenced travel patterns resulting in higher domestic spending. The exchange rate coupled with healthy economic growth south of the border, however, was not enough to boost export growth and provincial net trade.

STABILIZED HOUSING MARKET

In 2017, there was some stabilization in the Ontario housing market, which tempered economic growth. Wealth effects from past home price gains, however, supported consumer spending and retail sector growth, as did lower than normal levels of inflation and a relatively low Canadian dollar.

LCBO GROCERY & E-COMMERCE EXPANSION

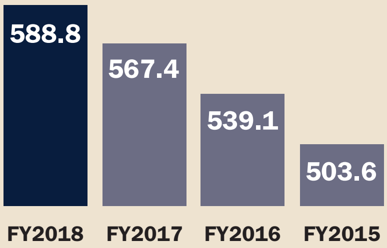
Meanwhile, the LCBO's ongoing investment in its retail network and the continued expansion of the grocer and e-commerce sales channels contributed to another positive year-over-year sales performance. During the fiscal year, economic conditions and minimum wage increases supported sales growth.

VOLUME, UNITS AND CUSTOMER TRANSACTIONS AT A GLANCE

VOLUME SOLD
millions of litres

588.8

+3.8% vs LY



UNITS SOLD
millions of units

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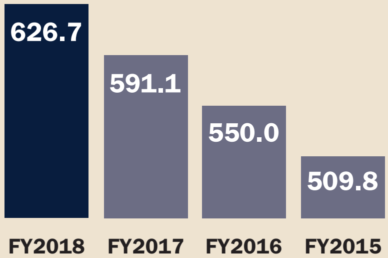
+6.0% vs LY



CUSTOMER TRASACTIONS
millions of transactions

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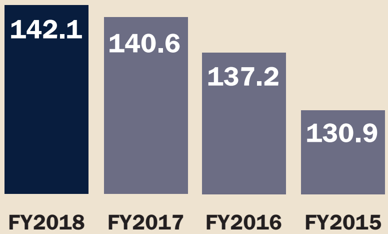
+1.0% vs LY

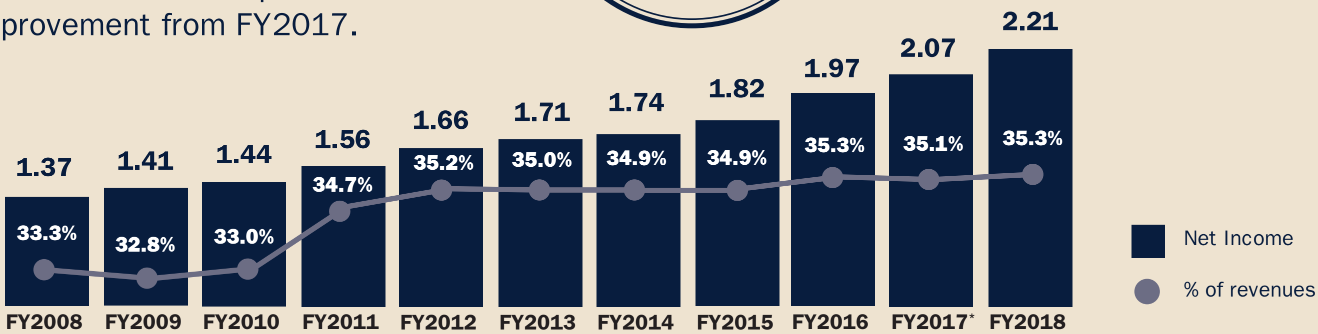


NET INCOME

Excluding last year's gain from the sale of the LCBO Head Office property for comparability, net income increased by **6.7%** or **$138.6 million** and represented **35.3%** of revenues.

This was a 20 basis-point improvement from FY2017.

NET INCOME REACHED A RECORD
$2.21
BILLION IN FY2018

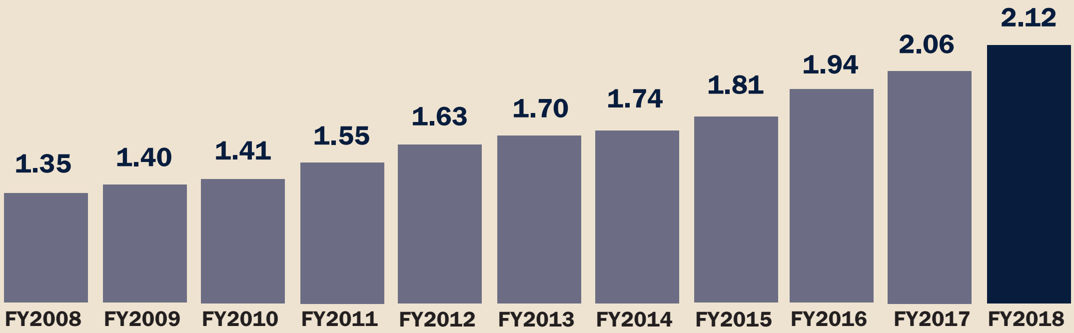


*FY2017 net income has been normalized to exclude the gain from the sale of the LCBO head office property.

Over the past 10 years, net income has risen by $832 million, or 60.5 per cent, as a result of sales growth, improved margins and expense control.

DIVIDEND ($ billions)

The LCBO transferred $2.12 billion in dividends to the Ontario government in FY2018, excluding taxes. This was **$60 million more than in FY2017 and marked the 24th straight year of increased transfers**.



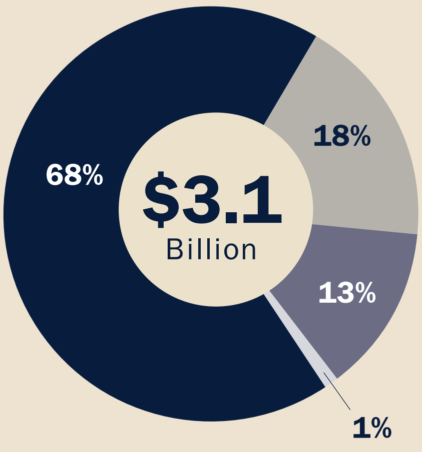
The dividend has grown by 58 per cent since FY2008, reflecting an additional $775 million. Cumulatively, the Ontario government has received over $17 billion in dividend transfers from the LCBO during the past decade.

PAYMENTS TO THE GOVERNMENT

The LCBO paid **$3.1 billion** to all levels of government in FY2018.

The dividend – excluding excise, duty and all sales and municipal taxes, was remitted at the provincial level and accounted for 68 per cent of the total. The Canadian government received $951 million in the form of excise, duty and sales taxes. Realty and leased property taxes paid to Ontario municipalities by the LCBO totalled more than $32 million.

LCBO PAYMENTS TO THE GOVERNMENT



TOTAL PAYMENTS
$ millions

Government of Ontario - Dividend Transfer
2,120 (68%)

Government of Canada - HST
546 (18%)

Government of Canada - Excise & Duty
405 (13%)

Ontario Municipalities
32 (1%)

TOTAL PAYMENTS
3,103

Note: HST collected by the LCBO is remitted to the Canadian government where a portion of approximately $336 million is later transferred back to the Ontario 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 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 with the LCBO established as the wholesaler of record.

NUMBER OF OUTLETS

As of March 31, 2018, there were 2,332 retail outlets selling alcoholic beverages in Ontario. Since FY2014, the number of outlets has increased by 438 locations, or 23 per cent, primarily from grocery and on-site brewery locations.

	FY2018	CHANGE	FY2017	FY2016	FY2015	FY2014
LCBO	663	+3	660	654	651	639
LCBO Agency	210	-2	212	212	212	217
Grocer*	247	+121	126	60	-	-
Ontario Winery Retail	470	-43	513	507	504	491
The Beer Store	450	0	450	451	450	447
On-site Brewery Retail	244	+57	187	150	113	73
On-site Distillery Retail	33	+8	25	18	14	12
Land Border Point Duty-Free	10	0	10	10	10	10
Airport Duty-Free	5	-1	6	5	5	5
Total	**2,332**	**+143**	**2,189**	**2,067**	**1,959**	**1,894**

*Grocer includes 57 wine boutiques in FY2018 (5 in FY2017) which are Ontario Winery Retail locations situated within a grocery store, also selling beer and cider.

Note: When the LCBO's 663 locations are combined with Ontario's 210 LCBO agency stores, the total market share as a percentage of the total number of outlets is 37 per cent.

MARKET SHARE

Ontario's total beverage alcohol marketplace, which includes the LCBO, The Beer Store, Ontario Winery Retail stores, grocers, as well as other legal (e.g. ferment on premise), homemade and illegal channels[1], amounted to an **estimated 1.2 billion litres sold during FY2018**. The LCBO's overall market share by volume increased to 39.8 per cent from 39.1 per cent in FY2017.[2]

WINE[3]

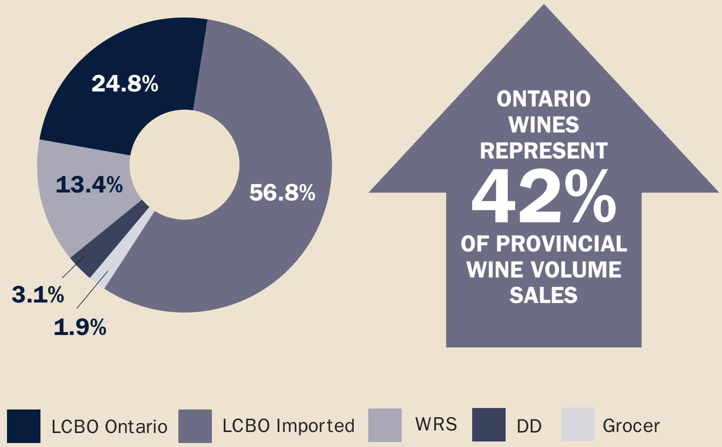
During FY2018, wine sales in the province grew by 2.9 per cent, or 5.7 million litres, to 201 million litres. Ontario wines accounted for more than half of the favourable variance, as volume sales increased 3.7 per cent year-over-year. By outpacing imported wine growth of 2.4 per cent, Ontario increased its share of the total provincial wine market by 32 basis points to 42 per cent.

FY2018 was the first full year of wines being sold through authorized grocery locations. The number of outlets continued to expand during the year, including the addition of 52 new wine boutiques, contributing to volume market-share expansion of 119 basis points to 1.9 per cent of the provincial wine market. Ontario wines represent 46 per cent of these sales.

As wholesaler of record to authorized grocery locations, the LCBO transferred some of its retail volume share to the wholesale grocery locations. Excluding the grocery channel, the LCBO accounts for 81.6 per cent of all wines sold in Ontario, a decline of 142 basis points from the previous year. The share of Ontario wines retreated 46 basis points to 24.8 per cent while imported wines declined by 96 basis points to 56.8 per cent.

Ontario Winery Retail stores (WRS) and Ontario winery direct delivery (DD) channels both improved their volume market shares. WRS wines accounts for 13.4 per cent of the wine market, up 10 basis points, while DD occupies 3.1 per cent of the market, an improvement of 13 basis points from FY2017, as Ontario wines grew through all sales channels.

FY2018 WINE MARKET VOLUME



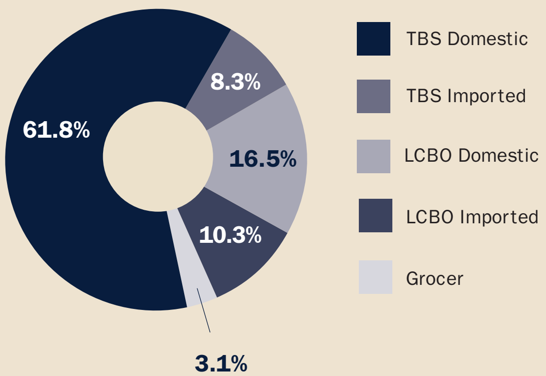
1 Illegal channel sales consist of LCBO estimates for smuggling and illegal wine manufacturing.
2 See Ontario Sales Channel Summary for further detail.
3 Wine products include cider and wine coolers.

BEER

Beer volume sales in Ontario decreased two per cent, or 16 million litres, to 783.8 million litres during FY2018. A cooler and wetter summer contributed to the lower sales. The Beer Store accounted for approximately 70.1 per cent of provincial beer volume sales, after losing 238 basis points from a 5.2 per cent decline in litres sold during the year. LCBO beer volume sales, excluding sales to TBS, increased marginally by 0.2 per cent compared to the previous year. The increase, coupled with TBS sales decline resulted in LCBO volume share expanding by 58 basis points to occupy 26.7 per cent of the provincial beer volume market. The grocer channel accounts for 3.1 per cent of the annual share, an improvement of 181 basis points from the previous year as the number of active authorizations continue to grow.

In Ontario, domestic (Canadian) beer accounts for eighty per cent of the market by volume.

FY2018 BEER MARKET VOLUME



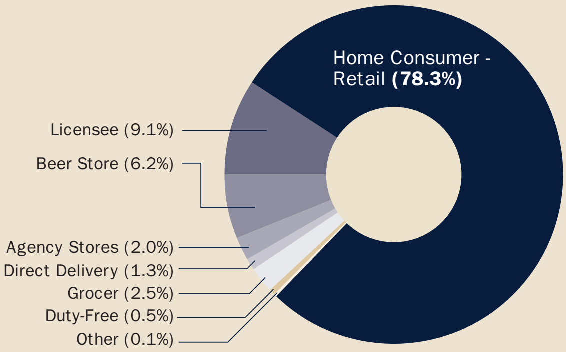
NET SALES BY CHANNEL[5]

LCBO NET SALES:

$6.24	+$352	+6%
billion in FY2018	million	over the previous year

HOME CONSUMER-RETAIL

The LCBO sells beverage alcohol to its customers through a variety of sales channels. Retail sales via stores and online to home consumers represented 78.3 per cent of total LCBO sales in FY2018, a decline of 65 basis points from the previous year. Sales through this channel increased 5.1 per cent to almost $4.9 billion during the year.



CHANNEL ($ millions)	FY2018	VS. FY2017
Home Consumer - Retail	$4,891	5.1%
Licensee	$568	4.7%
Beer Store	$387	-2.8%
Agency Stores	$122	3.1%
Direct Delivery	$82	11.3%
Grocer	$153	137.2%
Duty-Free	$34	2.2%
Other	$7	-25.7%
Total	**$6,244**	**6.0%**

LICENSEE

Beverage alcohol purchased by licensed establishments, such as bars and restaurants, make up the second-largest LCBO sales channel. Sales to licensees increased at a slightly slower rate than to home consumers during the year, at 4.7 per cent to almost $568 million in FY2018. This channel also saw a decline in share, 11 basis points less than in FY2017, at 9.1 per cent of total LCBO sales.

THE BEER STORE

LCBO sales to The Beer Store, the third-largest LCBO sales channel, declined 2.8 per cent in FY2018. Unfavourable spring and summer weather and a production shift of a previously imported beer brand to domestic partially contributed to the decline. At $387 million in sales, the channel accounts for 6.2 per cent of LCBO sales, 56 basis points less than the previous year.

AGENCY STORES

Sales to agency stores, an extension of the LCBO retail channel through authorized independent local retailers serving smaller communities around Ontario, increased 3.1 per cent to more than $121 million during the year. This channel lost five basis points from last year, representing 1.5 per cent of total LCBO sales.

DIRECT DELIVERY

Sales through the direct delivery channel, comprising of remittances by Ontario wineries to the LCBO, registered sales growth of 11.3 per cent in FY2018. At $82 million, this channel advanced six basis points of LCBO sales share to 1.3 per cent of the total.

GROCERY

The grocer channel, as expected, continues to see rapid growth and market share expansion. In FY2018, with almost double the number of active authorizations from the previous year, sales grew by 137 per cent to $153.4 million. The channel added 136 basis points to its share of LCBO sales, now accounting for 2.5 per cent of the total.

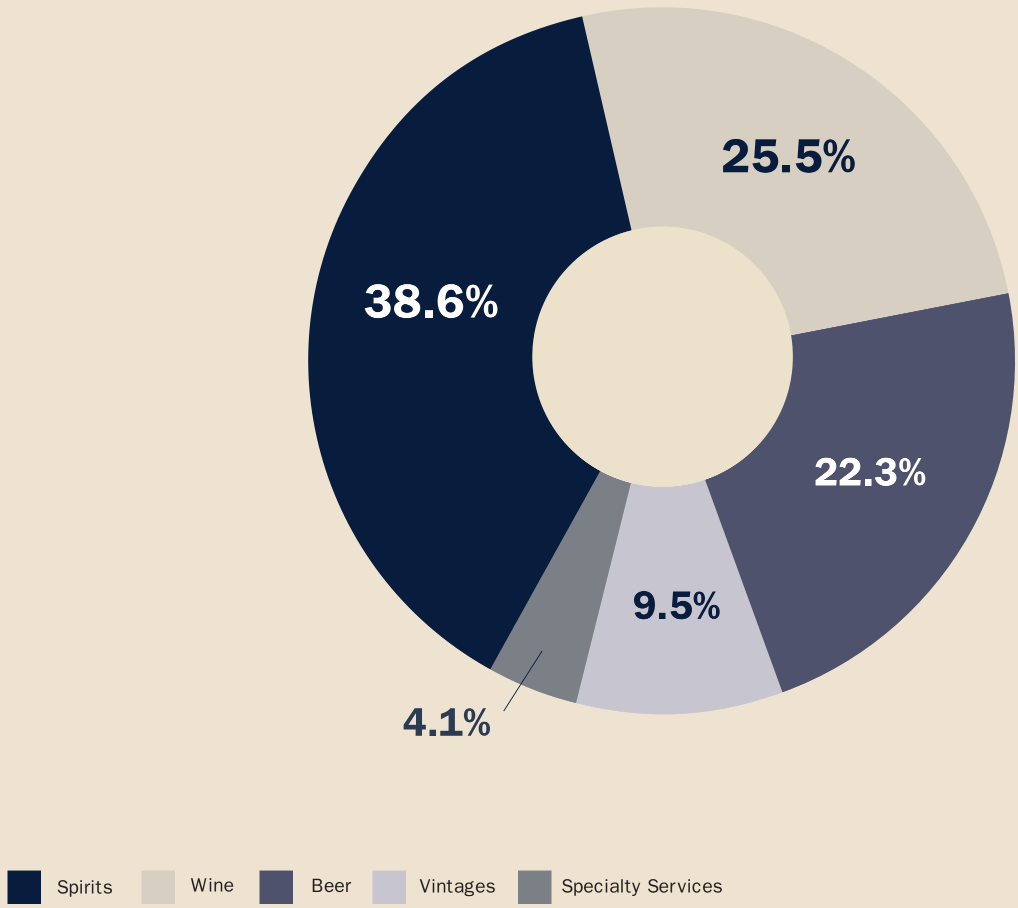
DUTY-FREE

Duty-free operators at airports and land border points, accounting for 0.5 per cent of LCBO sales in FY2018, experienced sales growth of 2.2 per cent to more than $34 million.

5 Net sales are equal to gross sales less discounts and taxes.

CATEGORY SALES

FY2018 SALES SHARE BY CATEGORY



Spirits maintained the largest portion of LCBO product sales in FY2018 at $2.4 billion, or 38.6 per cent, of total sales. With a 6.1 per cent increase in sales, the category share rose for the first time in nine years, adding 8 basis points.

Wine (excluding Vintages) remained the second-largest category at 25.5 per cent of total net sales, with sales of almost $1.6 billion. Wine sales increased 4.8 per cent versus FY2017, but the category had the slowest growth and lost 26 basis points in total share.

Vintages, with over half of a billion dollars, saw its share of total net sales advance by 18 basis points to 9.5 per cent. The category improved 8.0 per cent over last year.

After two exceptional years of beer sales growth, the category improved by a comparably modest 5.9 per cent over the previous year, totalling close to $1.4 billion. Unfavourable spring and summer weather and a shift of a previously imported beer brand to domestic production contributed to the slower growth rate. The share of beer sales remained essentially flat from FY2017.

Specialty Services, accounting for 4.1 per cent of LCBO sales, outpaced the previous year by 5.7 per cent.

OPERATING RESULTS

In FY2018, every $1 in revenue was broken out in the following manner:

$0.49	$0.35	$0.16
Product cost	Income from operations	Selling, general and administrative expenses

MARGINS

LCBO gross margin totalled $3.1 billion in FY2018, representing an improvement of 6.4 per cent compared to FY2017. As a percentage of revenues, gross margin improved 20 basis points relative to last year at 50.2 per cent, as net sales growth outpaced cost of sales growth by 40 basis points.

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

Spirits	$0.58
Wine	$0.53
VINTAGES	$0.48
Beer	$0.39
Specialty Services	$0.36

Spirits accounted for 44.3 per cent, or almost $1.4 billion, of total gross margin in FY2018. Despite rising 6.2 per cent versus the previous year, spirits margin experienced a 15 basis point contraction in share.

Wine share declined to 26.6 per cent of total LCBO gross margin during FY2018, 20 basis points lower than last year. This category posted margin growth of 5.8 per cent during the year to $832 million.

Gross margin from **beer** again surpassed the half-billion dollar mark, totaling $541 million in FY2018, 6.8 per cent higher year-over-year. At 17.3 per cent of total margin, beer's share grew 4 basis points from FY2017.

Vintages gross margin, at $282 million, increased 9.7 per cent from FY2017, and advanced 26 basis points to 9.0 per cent of total share.

Specialty Services contributed $91 million to gross margin. Growth registered at 8.7 per cent from the previous year, but the share remained flat.

Sales growth of **premium spirits and wines** continue to outpace that of lower-priced products in the same category. This trend has supported absolute margin improvement at the LCBO. Unlike spirits and wine, the mark-up on beer is applied on a volume basis, which means similar-sized beer products typically generate the same margin dollar, regardless of their price.

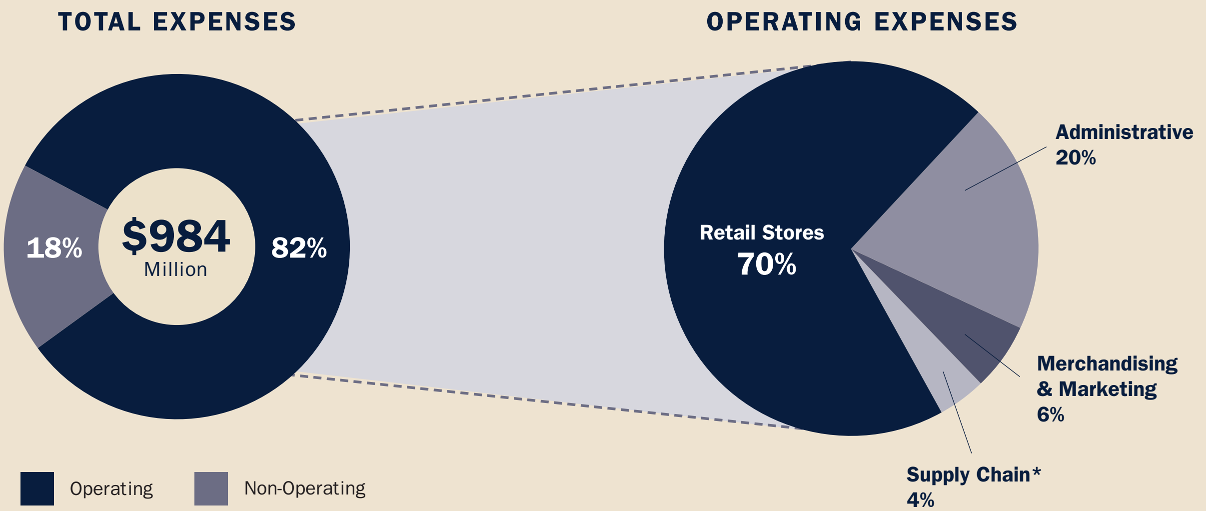
LOWER-PRICED VERSUS PREMIUM PRODUCT VOLUME GROWTH

Premium spirits, with prices of at least $35 for a 750 mL bottle, registered volume sales growth of 9.8 per cent year-over-year in FY2018 compared to 1.9 per cent for similar-sized, lower-priced spirits products. Volume sales of premium wines, retailing for $18 or more for a 750 mL bottle, likewise increased at a higher rate than lower-priced wine products at 7.1 per cent versus 2.0 per cent, respectively, compared to FY2017.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

LCBO total expenses increased by $38.8 million, or 4.1 per cent, in FY2018 compared to the previous year.



Operating expenses represented 82 per cent of the total and accounted for most of the overall expense growth during the year. Retail store expenses, the largest share at 70 per cent of operating expense, rose 2.4 per cent versus the previous year, with salaries and benefits and rent primarily driving the higher variance. Lower electricity and repairs and maintenance costs, however, provided some offset to expense growth.

Administrative accounts for the second-largest portion of operating expenses. In FY2018, these expenses rose by 9.0 per cent above the previous year, with higher expenses relating to Information Technology infrastructure platform services the ongoing organizational design and transformation, primarily driving the increase from FY2017.

The ongoing organizational redesign accounted for much of the higher expenses for Merchandising and Marketing compared to FY2017. Two groups that previously resided in the Finance and Administration division were transferred to the Merchandising division during the year. Other initiatives relating to thematic programs, marketing communications and VINTAGES events contributed to the higher spend compared to the previous year.

Supply Chain expense favourability to last year was driven by lower property taxes on warehouses and electricity charges.

OPERATING EXPENSES ($ millions)	FY2018	VS. FY2017
Retail Stores	$568	2.4%
Administrative	$157	9.0%
Merchandising & Marketing	$48	6.1%
Supply Chain*	$34	-2.9%
Total	**$807**	**3.6%**

* Direct labour costs in Supply Chain are included in cost of goods sold. In FY2018, direct labour costs were approximately $34 million, $2 million more than the preceding year.

Non-operating expenses, accounting for the remaining 18 per cent of total expenses, registered at 6.5 per cent higher than FY2017. Depreciation and amortization, representing more than a third of these expenses, grew by 3.3 per cent.

Expenses related to environmental initiatives, comprising mainly of LCBO Ontario stewardship obligations and service fees to The Beer Store for the Ontario Deposit Return Program, outpaced the previous year. Higher sales and container redemption rates drove the unfavourable variances relating to environmental initiatives. Debit and credit card charges were above last year's charges, owing to the higher level of sales registered in FY2018.

One of the main drivers of the non-operating expense variances was employee benefit obligation (EBO), which is an actuarial estimate based on a number of factors including discount rate, health trend rates, benefit indexation and retirement assumptions among others. The assumptions are updated annually which results in actuarial gains and losses. In FY2018, EBO was $4.8 million, or 50 per cent higher than the previous year mainly due to assumption changes in salary scale, indexation rates and experience.

NON-OPERATING EXPENSES ($ millions)	FY2018	VS. FY2017
Depreciation & Amortization	$70	3.3%
Environmental Initiatives	$47	6.8%
Debit/Credit Charges	$43	1.4%
Other Expenses*	$18	38.9%
Total	**$177**	**6.5%**

* Other expenses include gift card program expenses and employee benefit obligations.

EXPENSE TO SALES RATIO

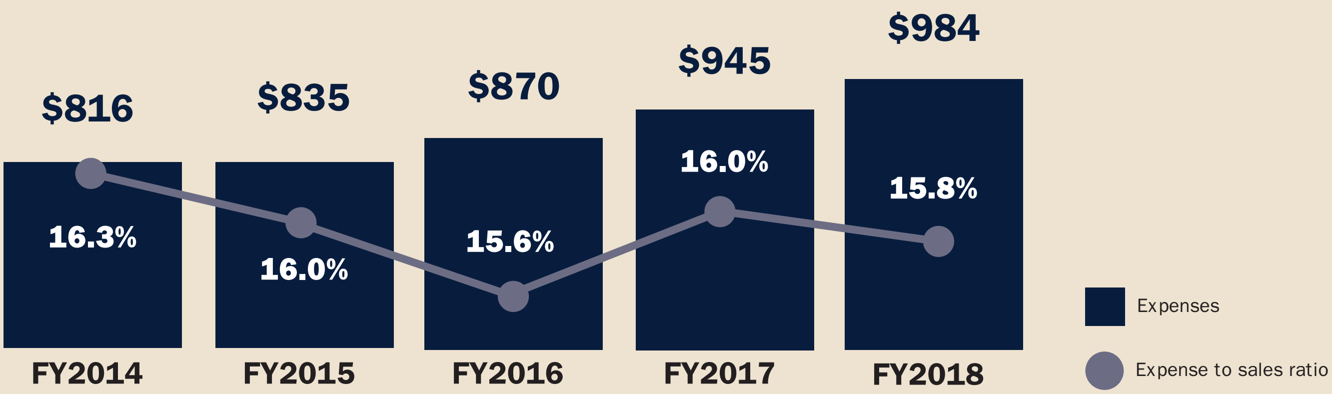
FY2018
EXPENSE TO SALES RATIO:

15.8%

Tighter expense control, especially within retail stores, and an overall faster net sales growth rate relative to operating expenses, allowed for the favourable ratio.

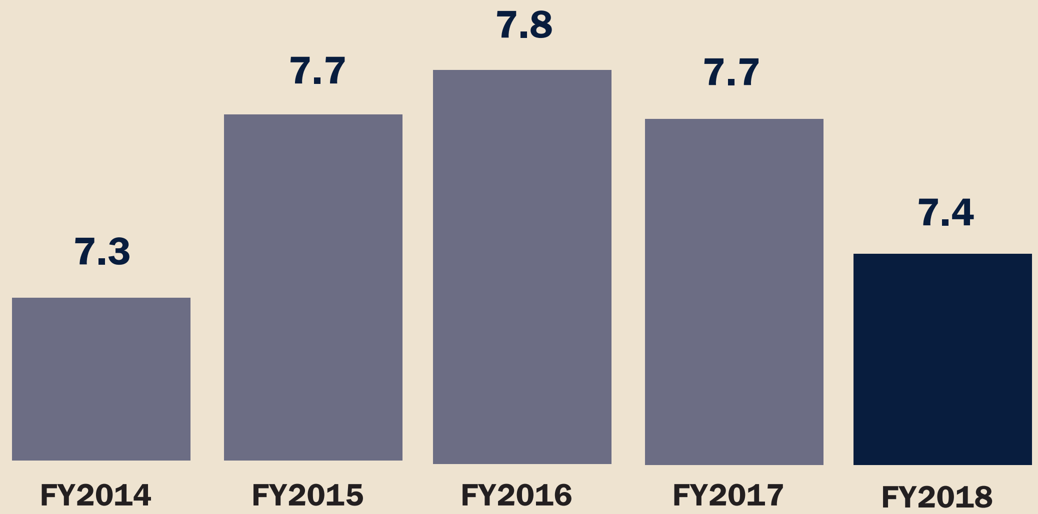
Over the last five years, this ratio has remained relatively consistent, with variances being explained primarily by employee benefit obligation, which is an annual actuarial estimate.

EXPENSE TREND ($ millions)

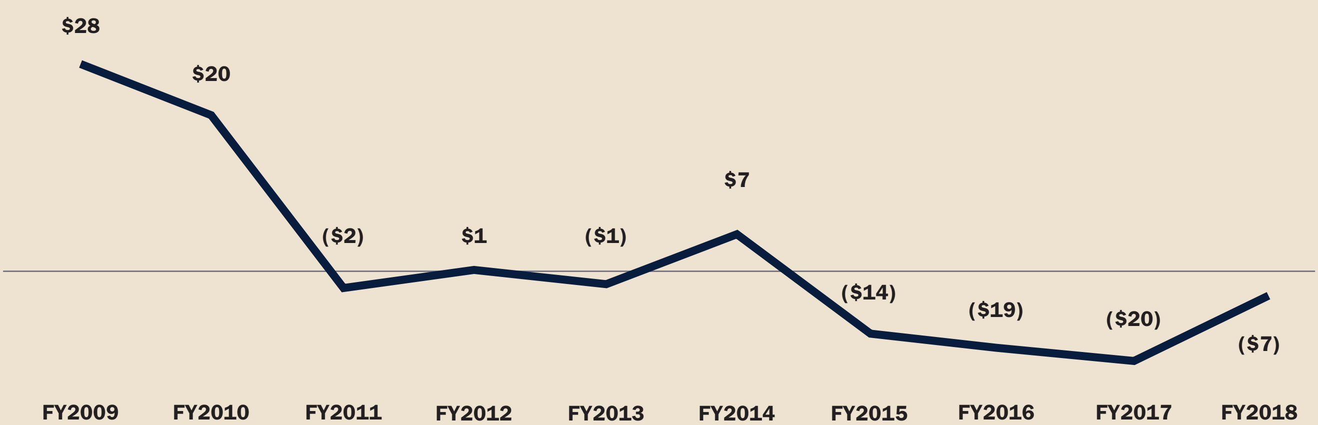


INVENTORY

TOTAL INVENTORY TURNS



NET INVENTORY INVESTMENT ($ millions)



Total inventory turns registered at 7.4 in FY2018 compared to 7.7 in the previous year. Contingency inventory build prior to the settlement of the collective bargaining negotiations contributed to higher inventory levels for most of the year, reducing turns, especially for spirits and wines. Spirits turns had the biggest decline from 8.6 to 7.8 also because of holding larger quantities of domestic products in the second half of the year to improve service levels. Wine turns dropped by 0.2 to 6.4, while beer maintained the same level as FY2017 at 14.7. VINTAGES products turned at a faster rate from 3.5 to 3.7.

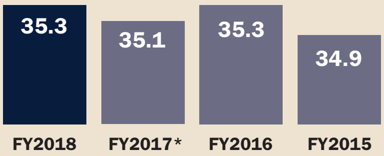
Average net inventory investment during FY2018 was negative $6.6 million. In the last decade, LCBO net investment in inventory has fallen by more than $34 million, highlighting continuous improvement in sales and inventory management.

KEY PERFORMANCE INDICATORS

NET INCOME RATIO
percentage of revenue

35.3%

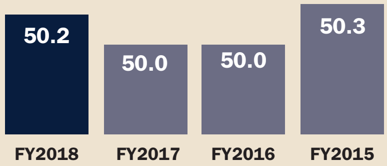
+20bp vs LY



GROSS MARGIN RATIO
percentage of revenue

50.2%

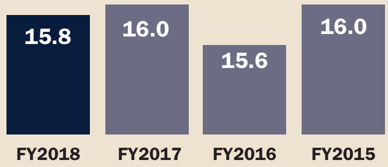
+20bp vs LY



SG&A EXPENSE RATIO
percentage of revenue

15.8%

-20bp vs LY



PRODUCTIVITY RATIOS

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

	FY2018	FY2017	FY2016	FY2015	FY2014
Retail sales per transaction	$38.06	$36.64	$35.62	$35.38	$35.04
Unit sales per hour paid	43.1	43.4	43.6	42.7	41.8
Salaries & Benefits as a percentage of retail sales	6.9%	6.9%	6.8%	6.9%	7.3%
Total retail expenses as a percentage of retail sales	10.5%	10.8%	10.5%	10.6%	10.9%

RETAIL PRODUCTIVITY HIGHLIGHTS

Retail productivity ratios were mostly favourable compared to last year, reflecting efficiency improvements for the organization. Retail sales per transaction continued its upward trend as consumers spent $1.42 more per store purchase than they did in FY2017, reflecting further evidence of product premiumization. Higher store salaries and benefits lowered unit sales per hour paid by 0.3 units, while salaries and benefits as a percentage of retail sales were unchanged at 6.9 per cent for the year. Slower overall retail expense growth, relative to retail sales, resulted in total retail expenses as a percentage of retail sales retreating by 30 basis points. Reductions in other controllable retail expenses, primarily repairs and maintenance and data processing costs, supported the favourable variance.

SUPPLY CHAIN PRODUCTIVITY HIGHLIGHTS	FY2018	FY2017	FY2016	FY2015	FY2014
Warehouse cases throughput per hour paid	39	39	38	35	35
Warehouse salaries & benefits per case throughput	$0.97	$0.95	$0.98	$1.02	$1.04
Warehouse cost per case throughput	$1.22	$1.22	$1.20	$1.26	$1.27

Supply Chain productivity ratios were mixed in FY2018. Warehouse cases throughput per hour paid and warehouse cost per case throughput both remained unchanged from the previous year, despite higher warehouse salaries and benefits. The $0.02 rise in warehouse salaries and benefits per case throughput ratio was attributed to various factors, including inventory build-up during labour negotiations and the production shift of an imported beer brand to domestic. Overall higher case volume handling resulted in more hours worked and thus, an increase in labour expenses.

CAPITAL EXPENDITURES

($ millions)

$45.0

STORE DEVELOPMENT

$32.6

INFORMATION TECHNOLOGY

$4.1

SUPPLY CHAIN

$0.8

OTHER

TOTAL CAPITAL EXPENDITURES: $82.5 ($ MILLIONS)

The majority of investment allocated to LCBO retail network expansion and improvement. Major investments included in the $45 million spent through Store Development, which comprised of six new stores and five relocated and expanded locations.

Information Technology projects accounted for the second-largest portion of capital expenditures.

Some of the key initiatives during the year included the continual development and implementation of the e-commerce platform, an order management system, a warehouse management system, and a new telephony system, which services the entire organization from head office to all stores across the province.

ENTERPRISE RISK MANAGEMENT

The LCBO is committed to managing risk in support of achieving its business and operating objectives and goals, and in accordance with Enterprise Risk Management (ERM) best practices and standards. We are dedicated to maturing the ERM program.

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

LCBO's top three enterprise risks are:

1. GOVERNMENT POLICY AND LEGISLATIVE CHANGE
2. COMPETITION
3. TALENT/SUCCESSION MANAGEMENT & COMPETITIVENESS

GOVERNMENT POLICY AND LEGISLATIVE CHANGE

All retailers, including the LCBO, need to anticipate and respond to changes in their legal and regulatory environments. However, as an agency of the province of Ontario, there are additional factors we need to consider, including:
- Public service directives and standards that support provincial policy objectives;
- Changes in interprovincial and international trade agreements; and,
- Public policy directives to further liberalize alcohol sales.

As a result, significant changes in policy or legislation may pose risks to LCBO's business.

To mitigate these challenges, the LCBO proactively provides information and advice to the government on the potential impact of any proposed policy changes on our financial performance and operations. We also adopt an agile, flexible and collaborative culture so that we can respond quickly to changes in our environment. At the same time, we remain focused on providing excellence in socially responsible retailing, customer experience and operational efficiency.

COMPETITION

The government's decision to allow up to 450 grocery stores to sell some combination of beer, cider and wine has transformed our business model. Grocery stores have a competitive advantage as they are able to provide a one-stop shopping experience for customers who want to buy food and beverage alcohol at the same time. This evolving competitive marketplace may result in a loss of some customers from our retail stores.

To mitigate these challenges, the LCBO will focus on achieving high retail customer engagement, particularly in the emotional engagement areas (brand equity). We will emphasize our own points of differentiation through a number of key initiatives: focusing on our extensive product offering, emphasizing and demonstrating our product knowledge and insights and bringing global experiences to our local market to engage our customers and enhance our trusted brand. These strategies, and the implementation of corresponding initiatives to strengthen LCBO brand drivers to keep customers shopping in our stores and online, will set us on the right course. At the same time, as we need to ensure that we are well equipped to solidify our wholesale position in the future, we strive to provide a seamless service experience to our wholesale customers

TALENT/SUCCESSION MANAGEMENT AND COMPENSATION COMPETITIVENESS

In recent years, a number of employees have taken early retirement opportunities. Retirements can translate into a loss of corporate knowledge and history, a lack of continuity for key program areas and potential losses in management abilities/skills to implement corporate programs effectively.

In addition, current compensation constraints can affect the LCBO's ability to recruit externally for some key positions. In response to these challenges, the LCBO has developed an overriding strategy to ensure the LCBO is prepared for future growth by having the right people at the right time to perform the work of the organization. As part of this strategy, the organization is taking an enhanced approach to succession planning and leadership development. Additionally, the LCBO continues to review its recruitment strategies to attract greater internal/external interest.

The LCBO will continue to manage our risks, and we are committed to the continuous advancement of the ERM process to protect and support the achievement of LCBO objectives.

LOOKING AHEAD

Overall sales growth in FY2019 are expected to be underpinned by supportive economic conditions, including:

HEALTHY LABOUR MARKET
STEADY CONSUMER SENTIMENTS
FURTHER INVESTMENT IN THE LCBO RETAIL NETWORK

Gross margin expectations are in line with revenue growth for the upcoming year, but expenses are expected to increase at a slightly faster rate. Continuing expansion of the store network and investments to improve operational and administrative efficiencies will contribute to the higher expense growth, but will drive long-term organizational profitability.

Net income growth will support the 25th consecutive increase in dividend transfer to the Ontario government by the LCBO.

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 the management:

George Soleas
President & Chief Executive Officer

Kent Harris
Senior Vice President, Finance & Administration, and Chief Financial Officer
June 28, 2018

INDEPENDENT AUDITOR'S REPORT

To the Liquor Control Board of Ontario
and to the Minister of Finance

I have audited the accompanying financial statements of the Liquor Control Board of Ontario, which comprise the statement of financial position as at March 31, 2018, and the statement of income and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Liquor Control Board of Ontario as of March 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General
Toronto, Ontario June 28, 2018

Your LCBO

Financial Statements & Notes to the Financial Statements

STATEMENT OF FINANCIAL POSITION
(thousands of Canadian dollars)

ASSETS	NOTE	MARCH 31 2018	MARCH 31 2017
Current Assets			
Cash and cash equivalents	5	421,406	324,586
Trade and other receivables	6	79,923	75,732
Inventories	7	463,792	477,104
Prepaid expenses and other assets	8	28,373	27,540
Total Current Assets		**993,494**	**904,962**
Property, plant and equipment and intangible assets	9	409,115	396,739
Total Assets		**1,402,609**	**1,301,701**

LIABILITIES & EQUITY	NOTE	MARCH 31 2018	MARCH 31 2017
CURRENT LIABILITIES			
Trade and other payables	10	685,524	677,132
Provisions	12	23,765	25,705
Current portion of non-pension employee benefits	13	14,235	11,889
Total Current Liabilities		**723,524**	**714,726**
Non-pension employee benefits	13	120,281	108,036
Total Liabilities		**843,805**	**822,762**
EQUITY			
Retained earnings		567,205	480,681
Accumulated other comprehensive loss		(8,401)	(1,742)
Total Equity		**558,804**	**478,939**
Total Liabilities and Equity		**1,402,609**	**1,301,701**

See accompanying notes to the financial statements.

Approved by:

Vice Chair, Board of Directors

Board Member, Chair, Audit Committee

STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME
(thousands of Canadian dollars)

For the year ended	NOTE	MARCH 31 2018	MARCH 31 2017
Revenue	18	6,244,493	5,892,497
Cost of sales	7	(3,107,071)	(2,943,420)
Gross margin		**3,137,422**	**2,949,077**
Other income		53,381	65,425
Selling, general and administrative expenses	20	(983,817)	(944,977)
Income from operations		**2,206,986**	**2,069,525**
Gain on sale of Head Office	19	-	271,762
Finance income	22	3,495	2,349
Finance costs	13,22	(3,957)	(3,939)
Net income		**2,206,524**	**2,339,697**
Other comprehensive loss:			
Actuarial loss on non-pension employee benefits	13	(6,659)	(452)
Total other comprehensive loss		**(6,659)**	**(452)**
TOTAL COMPREHENSIVE INCOME		**2,199,865**	**2,339,245**

STATEMENT OF CHANGES IN EQUITY (thousands of Canadian dollars)

	NOTE	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL EQUITY
Balance at April 1, 2017		480,681	(1,742)	478,939
Net income		2,206,524	-	2,206,524
Other comprehensive loss		-	(6,659)	(6,659)
Dividend paid to province		(2,120,000)	-	(2,120,000)
Balance at March 31, 2018		**567,205**	**(8,401)**	**558,804**
Balance at April 1, 2016		447,199	(1,290)	445,909
Net income		2,339,697	-	2,339,697
Other comprehensive loss		-	(452)	(452)
Dividend paid to province		(2,060,000)	-	(2,060,000)
Sale of Head Office transfer	19	(246,215)	-	(246,215)
Balance at March 31, 2017		**480,681**	**(1,742)**	**478,939**

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS (thousands of Canadian dollars)

For the year ended	MARCH 31 2018	MARCH 31 2017
Operating Activities:		
Net Income	**2,206,524**	**2,339,697**
Depreciation, amortization and impairment	69,706	67,502
Loss/(gain) on sale and disposal of property, plant and equipment and intangible assets	220	(4,366)
Gain on sale of Head Office	-	(271,762)
Non-pension employee benefit expenses	21,033	17,590
Non-pension employee benefit payments	(13,101)	(18,714)
	77,858	(209,750)
Change in non-cash balances related to operations:		
Trade and other receivables	(4,191)	(14,851)
Inventories	13,312	(44,252)
Prepaid expenses and other assets	(833)	5,134
Trade and other payables	8,392	88,407
Provisions	(1,940)	6,773
	14,740	41,211
Net cash provided by operating activities	**2,299,122**	**2,171,158**
Investing activities:		
Purchases of property, plant and equipment, intangible assets and assets held for sale	(82,523)	(78,599)
Proceeds from sale of property, plant and equipment and intangible assets	221	6,370
Net monetary proceeds from sale of Head Office	-	258,747
Net cash (used in)/provided by investing activities	**(82,302)**	**186,518**
Financing activities:		
Dividend paid to the Province of Ontario	(2,120,000)	(2,060,000)
Sale of Head Office transfer	-	(246,215)
Net cash used in financing activities	**(2,120,000)**	**(2,306,215)**
Increase in cash	96,820	51,461
Cash and cash equivalents, beginning of year	324,586	273,125
Cash and cash equivalents, end of year	**421,406**	**324,586**
Supplemental cash flow information		
Non-monetary proceeds from sale of Head Office included in Prepaid expenses and other assets	-	23,264

NOTES TO FINANCIAL STATEMENTS (For the years ended March 31, 2018 and 2017)

(thousands of Canadian dollars)

1. General information and statement of compliance

1.1 General information

The Liquor Control Board of Ontario (“LCBO”) is a corporation without share capital incorporated under the Liquor Control Act, R.S.O. 1990, Chapter L.18.

LCBO is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario (“Province”).

As an Ontario Crown Corporation, LCBO is exempt from income taxes. LCBO transfers most of its earnings to the Province’s Consolidated Revenue Fund in the form of a dividend.

LCBO’s head office is located at 55 Lake Shore Blvd East, Toronto, Ontario, Canada, M5E 1A4.

1.2 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

The financial statements are presented in Canadian dollars (“C$”), LCBO’s functional currency.

The audited financial statements were approved by the Board of Directors and authorized for issue on June 28, 2018.

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 our March 31, 2018 financial statements as their effective dates fall in the current financial reporting period. The standards and amendments did not have any impact on LCBO’s financial statements.

Standards and amendments	Description	LCBO Effective Date	Assessed impact
Disclosure initiative (Amendments to IAS 7 *Cash Flows*)	IAS 7 *Statement of Cash Flows* has been revised to incorporate amendments issued by the IASB in January 2016. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017.	April 1, 2017	No Impact until adoption of IFRS 16

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, 2018 financial statements as their effective dates fall in periods beginning subsequent to the current financial reporting period.

Proposed standards and amendments	Description	LCBO Effective Date	Assessed impact
IFRS 9 *Financial Instruments*	Previous standards and interpretations: • IAS 39 *Financial Instruments: Recognition and Measurement* • IFRIC 9 *Reassessment of Embedded Derivatives* Finalized version issued in July 2014 incorporating the classification and measurement requirements and new hedge accounting model included in earlier versions. This version introduces a single forward-looking expected credit loss impairment model. IFRS 9 also resulted in consequential amendments to IFRS 7 *Financial Instruments: Disclosures* to include disclosures about an entity’s risk management strategy and the effect of hedge accounting on the financial statements. The standard is effective for annual periods beginning on or after January 1, 2018.	April 1, 2018	No anticipated significant impact
Annual improvement– 2014-2016 cycle	The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle on 8 December 2016, amending the following standards: • IFRS 1 *First-time Adoption of International Financial Reporting Standards* deleted the short-term exemptions. • IAS 28 *Investments in Associates and Joint Ventures* has clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018.	April 1, 2018	No anticipated impact
IFRS 15 *Revenue from Contracts with Customers*	Previous standards and interpretations: • IAS 11 *Construction Contracts* • IAS 18 *Revenue* • IFRIC 13 *Customer Loyalty Programmes* • IFRIC 15 *Agreements for the Construction of Real Estate* • IFRIC 18 *Transfer of Assets from Customers* • SIC-31 *Revenue – Barter Transactions Involving Advertising Services* IFRS 15 establishes a comprehensive framework for the recognition, measurement and disclosure of revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments).The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard is effective for annual periods beginning on or after January 1, 2018.	April 1, 2018	See note below for impact assessment

2.2 Accounting standards and amendments not yet effective

Proposed standards and amendments	Description	LCBO Effective Date	Assessed impact
IFRS 16 *Leases*	Previous standards and interpretations: • IAS 17 *Leases* • IFRIC 4 *Determining Whether an Arrangement Contains a Lease* • SIC-15 *Operating Leases – Incentives* • SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. The new standard is effective for annual periods beginning on for after January 1, 2019.	April 1, 2019	LCBO is assessing the potential impact
IAS19 *Employee Benefits*	The amendments in Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) are: If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendment is effective for annual periods beginning on or after January 1, 2019.	April 1, 2019	LCBO is assessing the potential impact
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. • The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. • If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The interpretation is effective for annual periods beginning on or after January 1, 2018.	April 1, 2019	LCBO is assessing the potential impact
Conceptual Framework for Financial Reporting 2018	The Framework's purpose is to assist the IASB in developing and revising IFRSs that are based on consistent concepts, to help preparers to develop consistent accounting policies for areas that are not covered by a standard or where there is choice of accounting policy, and to assist all parties to understand and interpret IFRS. The revised framework is effective January 1, 2020, with earlier application permitted.	April 1, 2020	No anticipated impact

IFRS 15 Revenue from Contracts with Customers Impact Assessment

The LCBO will adopt IFRS 15 for the fiscal year starting on April 1, 2018 and expects to adopt using the full retrospective approach with restatement of prior period results. Upon review of all significant revenue contracts with customers, the standard will impact the following material area:

Direct Delivery Programs for Wineries and Distilleries

Under the current IAS 18 Revenue standard, LCBO recognizes revenue from the direct delivery programs as the principal in the transaction, with revenue presented on a gross basis and cost of goods sold presented separately. Under IFRS 15, the standard requires an entity to determine whether it is the principal in the transaction or the agent on the basis of whether it controls the goods or services before they are transferred to the customer. To clarify how to assess control, the IASB had amended and extended the application guidance on this issue. Under the new IFRS 15 guidance, the LCBO will recognize revenue from the direct delivery programs as the agent in the transaction, with cost of goods sold netted against gross revenues. This will impact the presentation of revenue and cost of sales, with no impact to gross margin or net income.

3. Significant Accounting Policies

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

3.1 Cash & Cash Equivalents

Cash and cash equivalents comprise of cash, deposits held in trust 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 an allowance for impairment, if any. Almost all of LCBO's receivables are due within 30 days.

The carrying amount of account receivables are reduced through the use of an allowance account where there is objective evidence that LCBO will not be able to collect all amounts due according to the original terms of the receivables. LCBO establishes an allowance taking into consideration customer credit worthiness, current economic trends and past experience. When receivables are deemed to be uncollectible after recording an allowance, they are written off against the allowance. The loss is recognized as a selling, general and administrative expense 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 Assets classified as held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, and it should be expected to qualify for recognition as a completed sale within one year from the date of classification. Assets classified as held for sale are measured at the lower of the carrying amount or fair value less costs to sell. An asset that is classified as held for sale is no longer depreciated. The resulting disclosures are presented in Note 19.

3.5 Property, plant and equipment

Major capital expenditures with a future useful life beyond the current year are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition, construction or development of the asset.

Depreciation is recognized in the Statement of income and other comprehensive income over the expected useful lives of each major component of property, plant and equipment, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The estimated useful lives for property, plant and equipment are as follows:

Buildings	5 to 40 years
Leasehold Improvements	5 to 20 years
Machinery and Equipment	5 to 20 years
Computer Hardware	4 years

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

Property, plant and equipment under construction and not available for use, are carried at cost, less any recognized impairment loss. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

The cost of subsequently replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits related to the part will flow to LCBO, and its cost can be measured reliably. The carrying amount of the replaced item of property, plant and equipment is derecognized, if any. The costs of the day-to-day servicing of property, plant and equipment are recognized in the Statement of income and other comprehensive income as incurred. The resulting disclosures are presented in Note 9.

3.6 Intangible assets

i. Acquired intangible assets

Acquired intangible assets, such as software, are measured initially at cost and are amortized on a straight-line basis over their estimated useful lives. The estimated useful lives for intangible assets are as follows:

Computer software: 4 years

The resulting disclosures are presented in Note 9.

ii. Internally generated intangible assets – research and development costs

Expenditures related to research activities are recognized as an expense in the period in which they are incurred.

Development expenditures incurred are capitalized only if LCBO can demonstrate all of the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale as intended by management;

(b) its intention to complete the intangible asset and use or sell it;

(c) its ability to use or sell the intangible asset;

(d) how the intangible asset will generate probable future economic benefits;

(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Software under development and not available for use, are carried at cost, less any recognized impairment loss. When completed and ready for intended use these assets are amortized on the same basis as other acquired intangible assets. The resulting disclosures are presented in Note 9.

3.7 Impairment of property, plant and equipment and intangible assets

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

3.8 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.

3.9 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 12.

3.10 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.

3.10 Financial instruments (continued)

The LCBO has classified its financial instruments as follows:

Financial Asset / Financial Liability	Category	Measurement
Cash and cash equivalents	Loans and receivables or available for sale ("AFS")	Loans and receivables are measured at amortized cost. AFS is measured at fair value through other comprehensive income.
Trade and other receivables	Loans and receivables	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Provisions	Other financial liabilities	Amortized cost
Derivatives and foreign exchange spot contracts	Fair value through profit or loss ("FVTPL")	Fair value through profit or loss ("FVTPL")

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).

At the end of each reporting period, the LCBO determines whether there is any indication that a financial asset may be impaired. It does so for all financial assets except for those recognized at fair value through profit or loss. A financial asset or group of financial assets is impaired when there is objective evidence of impairment. In instances of impairment, the recognized impairment loss is the difference between the carrying amount of the asset and the present value of estimated future cash flows.

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

i. Financial assets

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' ("FVTPL"), 'available-for-sale' ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or designated as such upon initial recognition. Financial assets are classified as held for trading if acquired principally for the purpose of selling in the near future or it has been part of an identified portfolio of financial instruments that LCBO manages together and has a recent actual pattern of short-term profit-making. Derivatives are also categorized as held for trading.

Financial assets classified as FVTPL are measured at fair value, with changes in fair value recorded in the Statement of income and other comprehensive income in the period in which they arise.

Available for sale ("AFS")

Financial instruments classified as AFS financial assets are measured at fair value with changes in fair value recognized in other comprehensive income ("OCI") until realized through disposal or impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

ii. Financial liabilities

Financial liabilities are classified as 'other financial liabilities', which are subsequently measured at amortized cost using the effective interest method.

iii. Derivatives

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 the Statement of income and other comprehensive income. The resulting disclosures are presented in Note 16.

3.11 Revenue recognition

Revenue consists of the fair value of consideration received or receivable for the sale of goods in the ordinary course of LCBO's activities less any sales taxes. Sales taxes on the sale of goods are recorded as a liability in the period the sales taxes are deemed to be owed and are excluded from revenues. Revenue is recognized when the significant risks and rewards of ownership of the goods have been transferred to the buyer and the amount of revenue can be measured reliably. For goods delivered to customers, revenue is recognized at the time the customer receives the product or upon estimated receipt by the customer. Revenue is recorded net of returns, trade discounts, volume rebates, applicable taxes and container deposits, in the Statement of income and other comprehensive income.

i. Gift Cards

Revenue generated from gift cards is recognized when gift cards are redeemed. LCBO also recognizes revenue from unredeemed gift cards if the likelihood of gift card redemption by the customer is considered to be remote.

ii. Air Miles®

Income from the Air Miles® "program" is recognized in the period in which it is earned, in accordance with the terms of the contract. The program is split into two distinct components:

(1) Base – LCBO pays LoyaltyOne a fee for each Base Air Miles®[1] issued to customers. Base Air Miles®[1] are treated as a sales incentive to customers, therefore the associated costs of the Base are accounted for as a reduction to revenues 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®[1] program. The associated income net of costs of the Bonus is accounted for as a reduction to cost of sales in the Statement of income and other comprehensive income.

[1] AIR MILES® is a trademark of AIR MILES International Trading B.V. Used under license by LoyaltyOne

3.12 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 fees generated from special occasion permits such as those required by an individual or organization, who plan to serve alcohol at an event or location other than a private place. Effective April 1, 2018, special occasion permits are issued exclusively online via the Alcohol and Gaming Commission of Ontario ("AGCO") website.

ii. Unredeemed ODRP container deposits

LCBO recognizes income from estimated unredeemed ODRP container deposits as not all customers return the container for their deposit. LCBO determines its ODRP container redemption rate based on historical redemption data and estimates the unredeemed ODRP container deposit income. The resulting income is recognized based on historical redemption patterns, commencing when the container deposits are collected. The resulting disclosures are presented in Note 24.

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.

iv. Grocer auction proceeds

Since fiscal 2016, the LCBO has conducted several competitive bidding processes for grocery store licenses for the sale of beer, cider and wine in grocery stores. Proceeds from the competitive bidding processes are recognized in other income. Refer to Note 26 for more details.

3.13 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.

3.14 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 13.

iii. Non-pension employee benefits

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

The liability of the CSP, ECTB, LTIP, NVSL and Service Awards was actuarially determined by using the Projected Unit Credit Method and management's best estimate. The WCB liability was actuarially determined by calculating the present value of the projected future payments. The annual benefit cost is the sum of the service cost and one year's interest cost plus remeasurements of the defined benefit obligation.

LCBO recognizes all actuarial gains and losses due to remeasurements of the net defined benefit liability arising from the CSP and ECTB benefits immediately in other comprehensive income, and reports them in accumulated other comprehensive income in the Statement of financial position, as these benefits are accrued over an employee's years of service. Any actuarial gains and losses due to remeasurements of the net defined benefit liability arising from the LTIP, WCB, NVSL and Service Awards benefits are recognized in the Statement of income and other comprehensive income in the period in which they arise, as these benefits are defined as Other Long-Term Employee Benefits which do not have remeasurements that can be recognized in Other comprehensive income. The resulting disclosures are presented in Note 13.

3.15 Finance income

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

3.16 Finance costs

Finance costs consist of interest expense on the non-pension employee benefits obligation and financing charges on capital leases. The resulting disclosures are presented in Notes 13 and 22.

3.17 Leasing

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

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

3.18 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.

i. Non-pension employee benefits

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

LCBO determines the appropriate discount rate at the end of each year. In determining the appropriate discount rate, LCBO uses the interest rates of high-quality corporate bonds that are denominated in the Canadian dollars in which the benefits will be paid. Other key assumptions for employee benefit obligations are based in part on current market conditions. Additional disclosures are presented in Note 13.

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.

iv. Leases

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

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

v. Provisions

Provisions have been made for certain employee benefits, sales returns and store closing costs. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Additional disclosures are presented in Note 12.

vi. ODRP unredeemed container deposit income

LCBO has determined that not all deposits paid by customers for the ODRP containers will be redeemed. Estimates have been made for the redemption rate on ODRP containers based on past history. The estimated unredeemed ODRP container deposits are treated as other income in the period the likelihood of redemption is considered to be remote. Additional disclosures are presented in Note 24.

vii. Unredeemed Gift cards

LCBO has determined that not all gift cards purchased will be redeemed in full by customers. Estimates have been made for the redemption rate on gift cards based on past history and industry trends. For the year ended March 31, 2018, LCBO estimated the unredeemed percentage to be 2 per cent based on historical data and redemption patterns.

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, 2018	March 31, 2017
Cash on hand and in transit	172,305	113,160
Short term investments	249,101	211,426
	421,406	**324,586**

6. Trade and Other Receivables

	March 31, 2018	March 31, 2017
Trade and other receivables	80,365	76,501
Allowance for doubtful accounts	(442)	(769)
	79,923	**75,732**

6. Trade and Other Receivables (continued)

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

The carrying amount of trade and other receivables is reduced through the use of an allowance for doubtful accounts at levels LCBO considered adequate to absorb credit losses. Subsequent recoveries of receivables previously provisioned are credited to the Statement of income and other comprehensive income.

7. Inventories

The cost of inventories sold and recognized as cost of sales during the year ended March 31, 2018 was $3,107 million (2017 - $2,943 million). There were no significant write-downs or reversal of previous write-downs to net realizable value during the year ended March 31, 2018 and 2017.

8. Prepaid Expenses and Other Assets

Included in Prepaid expenses and other assets is the non-monetary incentive received from the sale of LCBO Head Office Lands in June 2016. The total non-monetary incentive was approximately $23.3 million for the leaseback of a portion of the Head Office Lands in the interim. The non-monetary incentive for the leaseback is amortized over the interim occupancy period, until the new office building and retail space is ready for occupancy by LCBO expected in late 2021. The unamortized balance of the non-monetary incentive as of March 31, 2018 is $15.1 million (2017 – $19.8 million). Refer to Note 19 for further details regarding the sale.

9. Property, Plant & Equipment and Intangible Assets

Net book value of property, plant & equipment and intangible assets	**March 31, 2018**	**March 31, 2017**
Land	9,963	9,963
Buildings	104,856	102,511
Machinery and equipment	42,716	43,106
Leasehold improvements	176,822	175,958
Computer equipment	12,827	15,594
Computer software	32,121	26,080
Software/Construction in progress	29,810	23,527
	409,115	**396,739**

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, 2018

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

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

Property, plant & equipment and intangible assets continuity for the year ended March 31, 2017

	Land	Buildings	Machinery and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
Cost								
Balance at April 1, 2016	10,381	365,103	148,127	494,647	57,090	94,419	28,995	1,198,762
Additions	-	12,812	12,023	34,756	5,756	18,646	(5,394)	78,599
Disposals/Retirements	(418)	(4,230)	(6,717)	(4,114)	(6,158)	(3,108)	-	(24,745)
Impairment	-	-	-	-	-	-	(74)	(74)
Balance at March 31, 2017	**9,963**	**373,685**	**153,433**	**525,289**	**56,688**	**109,957**	**23,527**	**1,252,542**
Accumulated depreciation and impairment								
Balance at April 1, 2016	-	264,495	107,810	324,777	38,905	75,129	-	811,116
Depreciation for the year	-	9,707	9,082	28,520	8,263	11,856	-	67,428
Impairment losses	-	-	-	-	-	-	-	-
Disposals/Retirements	-	(3,028)	(6,565)	(3,966)	(6,074)	(3,108)	-	(22,741)
Balance at March 31, 2017	**-**	**271,174**	**110,327**	**349,331**	**41,094**	**83,877**	**-**	**855,803**
Net book value at March 31, 2017	**9,963**	**102,511**	**43,106**	**175,958**	**15,594**	**26,080**	**23,527**	**396,739**

10. Trade and Other Payables

	March 31, 2018	March 31, 2017
Trade payables	356,813	364,053
Accruals and other payables	328,711	313,079
	685,524	**677,132**

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.

11. Operating Lease Arrangement

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

Minimum lease payments recognized as an expense in 2018 were $89.1 million (2017 – $86.2 million). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	March 31, 2018
Fiscal 2019	89,553
Fiscal 2020 to 2023	315,357
Beyond fiscal 2023	558,656
	963,566

12. Provisions

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

Provisions continuity for the year ended March 31, 2018

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

12. Provisions (continued)

Provisions continuity for the year ended March 31, 2017

	Short term employee benefits	Other	Total
Balance at April 1, 2016	18,364	568	18,932
Charges recognized during the year	18,821	6,884	25,705
Utilization of provision	(18,364)	(568)	(18,932)
Balance at March 31, 2017	**18,821**	**6,884**	**25,705**

Disclosed as:	March 31, 2018	March 31, 2017
Current	23,765	25,705
Non-current	-	-
	23,765	**25,705**

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 store closure provisions, which arise when LCBO agrees to restore a leased property to a specified condition at the completion of the lease period. These lease retirement provisions relate primarily to leases which expire over the next year. Other provisions also include a sales returns allowance for future returns on goods sold in the current period. The estimate has been made on the basis of historical sales returns trends. Included in last year's provision is an amount to compensate certain retail store Customer Service Representatives ("CSRs") for wage increases that may have been given to them as a result of their placement on the common wage grid for retail store CSRs, retroactive to November 1, 2016. The amount has been paid out in fiscal 2018. Refer to Note 14 for further details.

13. Employee Benefits

a. Pension plan

For the year ended March 31, 2018, the expense was $31.7 million (2017 – $29.1 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, 2018, the weighted average duration of the plans obligations are 7.3 years (2017 – 7.1 years).

i. Statement of financial position

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

	March 31, 2018	March 31, 2017
Current	14,235	11,889
Non-current	120,281	108,036
Total non-pension employee benefit obligation	**134,516**	**119,925**

The current portion represents LCBO's estimated contribution to non-pension employee benefits for fiscal 2019.

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, 2018	March 31, 2017
Current service cost	11,837	10,895
Actuarial losses on non-vesting benefits	5,278	2,822
Total costs included in expenses	**17,115**	**13,717**
Interest costs	3,918	3,873
Total costs included in finance costs	**3,918**	**3,873**
Total non-pension employee benefit expenses	**21,033**	**17,590**

13. Employee Benefits (continued)

iii. Accumulated other comprehensive income

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

	March 31, 2018	March 31, 2017
Opening cumulative actuarial losses recognized	(1,742)	(1,290)
Net actuarial losses recognized	(6,659)	(452)
Closing cumulative actuarial losses recognized	**(8,401)**	**(1,742)**

iv. Movement in the obligation

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

	March 31, 2018	March 31, 2017
Opening benefit obligation	119,925	120,597
Current service cost	11,837	10,895
Interest on obligation	3,918	3,873
Actuarial (gains) losses from changes in demographic assumptions	(253)	2,103
Actuarial losses (gains) from changes in financial assumptions	6,426	(838)
Actuarial losses from other	5,764	2,009
Benefits paid	(13,101)	(18,714)
Closing benefit obligation	**134,516**	**119,925**

v. Significant assumptions

The significant assumptions used are as follows:

	CSP, ECTB & NVSL		Service Awards		WCB		LTIP	
	2018	2017	2018	2017	2018	2017	2018	2017
Discount rate to determine the benefit obligation	3.30%	3.20%	3.30%	3.20%	3.30%	3.20%	3.30%	3.20%
Discount rate to determine the benefit cost	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%
Salary rate increase • Bargaining Unit	FY 2018: 2.010% plus OPT Promotional Scale FY 2019: 2.010% plus OPT Promotional Scale FY 2020: 2.010% plus OPT Promotional Scale FY 2021+: 1.400% plus OPT Promotional Scale	2.0% inflation for FY 2017 and 1.4% thereafter for COLA, plus OPT Promotional Scale	2.0% per annum	2.0% per annum	n/a	n/a	n/a	n/a
• Management and Executive	FY2018: 8.540% + 2% merit FY2019: 2.010% + 2% merit FY2020: 2.010% + 2% merit FY2021+: 1.400% + 2% merit	FY2017: 1.4% COLA + 2% merit FY2018+: 0% COLA + 2% merit	2.0% per annum	2.0% per annum	n/a	n/a	n/a	n/a
Benefit index	Same as above	1.4% Inflation for CSP	2.0% per annum	2.0% per annum	2.0% per annum	2.5% for fully indexed benefits and 0.5% for partially indexed benefits	1.4% Inflation	1.4% Inflation
Health cost rate increase	n/a	n/a	n/a	n/a	7.5% per annum in 2018 reducing to 4.5% per annum in and after 2027	8.0% per annum in 2017 reducing to 4.5% per annum in and after 2027	7.5% per annum in 2018 reducing to 4.5% per annum in and after 2027	8.0% per annum in 2017 reducing to 4.5% per annum in and after 2027

13. Employee Benefits (continued)

vi. Sensitivity analysis

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

Assumption	Impact on total non-pension employee benefit obligation	
	0.5% increase in assumption	0.5% decrease in assumption
Discount rate	(4,316)	4,613
Health care trend rate	905	(880)
Salary Scale	3,492	(3,298)
Benefit Indexation	1,289	(1,194)

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 2018 year-end disclosures. For the sensitivity analysis, each main assumption was increased and decreased by 0.5 per cent from the assumption used to determine the defined benefit obligation at March 31, 2018, to determine the sensitivity impact on the March 31, 2018 defined benefit obligation.

14. 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, with the exception of the following items.

In January 2015, LCBO was served with a proposed class proceeding seeking damages in the amount of $1.4 billion against LCBO, Brewers Retail Inc. (“BRI”) and BRI’s 3 corporate owners. The claim was commenced by an individual and a corporation who intend to represent a class composed of those individuals and businesses who purchased beer in Ontario since June 1, 2000 under the Framework for Improved Cooperation & Planning between Brewers Retail Inc. and the Government of Ontario (through the LCBO), dated June 1, 2000. The statement of claim alleged conspiracies regarding beer market allocation, pricing and licensee fees. LCBO filed a statement of defence and a Notice of Motion for summary judgment to dismiss the action against LCBO, which was heard in February 2018. The decision of the Commercial court granted summary judgment, dismissing the Plaintiffs’ class action lawsuit and awarded costs to the Defendants, including the LCBO. The Plaintiffs have filed a strategic appeal, while costs are being negotiated.

In May 2013, during collective bargaining, OPSEU filed an Application with the Human Rights Tribunal against LCBO and Ministry of Finance alleging systemic gender discrimination. Amongst other things, the Application alleged that by not compensating Casual and Permanent Part-time CSRs at the same rates as Permanent Full-time CSRs, LCBO was discriminating on the basis of sex, which was alleged to impose significant disadvantages on workers in the predominantly female job classification of Casual and Permanent Part-time CSR. However, the LCBO’s Permanent Full-time CSR job classification is also predominantly female dominated. The LCBO vigorously defended the Human Rights Application and the hearing was scheduled to commence in October 2016. Just prior to the commencement of the hearing, the LCBO and OPSEU agreed to settle the Application in favour of a negotiation and arbitration process to address, amongst other things, a single wage grid for retail store CSRs (Casual, Permanent Part-time and Permanent Full-time) and the Sunday premium set out in the Collective Agreement. Negotiations were unsuccessful so the matter proceeded to arbitration. In two (2) arbitration awards, Arbitrator Kaplan, amongst other things, awarded a single wage grid and ended the Sunday premium. The arbitration award was processed and required amounts as determined by management staff were paid to applicable bargaining unit staff in this fiscal year.

The Application also addressed certain matters related to the revised Pay Equity Plan required for OPSEU Employees, that LCBO and OPSEU were in the process of updating prior to completing the last round of bargaining in 2017. The Pay Equity Plan for OPSEU Employees continues to require updating to bring it into compliance with the Act. At this point in time, it is not possible to reasonably estimate the value of the liability, if any, that may arise from the updated Pay Equity Plan for OPSEU Employees.

15. 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 counter party or another third party failing to meet its financial or contractual obligations to the LCBO. It arises from cash and cash equivalents, derivative financial instruments, and outstanding accounts receivable. LCBO minimizes credit risk associated with the various instruments as follows:

Derivative financial instruments and cash and cash equivalents are placed only with approved counterparties. At March 31, 2018, all derivative instruments and cash and cash equivalents were held with regulated Canadian financial institutions that met minimum credit rating requirements.

Trade and other receivables arise primarily from sales invoiced to independent businesses, agents and other debtors. LCBO does not consider its exposure to credit risk associated with trade and other receivables to be material. As at March 31, 2018, approximately 49% (2017 – 56%) of LCBO’s receivable is due from one customer whose account is in good standing.

Where there is objective evidence that the total balance of an accounts receivable is unlikely to be recovered, an allowance for impairment is made to reduce the carrying amount of the accounts receivable to the recoverable amount. See Note 6 for additional disclosures.

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. Cash that is surplus to working capital requirements is managed by LCBO and may be invested in federal/provincial treasury bills, bankers’ acceptances, bearer deposit notes, term deposits and guaranteed income certificates, choosing maturities which are aligned with expected cash needs. It may also be held in a bank account 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 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.

15. Financial Risk Management I(continued)

c. Market Risk (continued)

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, 2018, LCBO hedged its exposure in identified significant currencies (USD, EUR and AUD) through the purchase of foreign exchange forward contracts.

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.

16. Financial Instruments

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 fair value through profit and loss ("FVTPL") and the fair value is estimated by using the difference between the contractual forward price and the forward price at reporting date.

LCBO purchases foreign exchange spot contracts for unhedged foreign currency transactions. The foreign exchange spot contracts are designated as FVTPL and the fair value is estimated by using the difference between the contractual rate and the Bank of Canada closing rate as at March 31, 2018.

As at March 31, 2018, the Board had 115 foreign exchange forward contracts with fair value totaling $1.2 million (2017 - $138K). There were no outstanding spot contracts as at March 31, 2018.

17. Capital Management

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

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

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

18. Revenue

Virtually all revenue is from the sale of goods. In late fiscal 2016, LCBO began the sale of beer in grocery stores where LCBO acts as a wholesaler to authorized grocery stores. In fiscal 2017, the program expanded to include cider and wine sales to grocery stores. Included in revenue is $153.4 million (2017 – $64.7 million) related to the sale of beer, cider and wine to grocery stores.

19. Head Office Sale

On June 8, 2016, LCBO sold its Head Office facility, warehouse facility, retail store and adjacent lands located in downtown Toronto (collectively LCBO Head Office Lands) to Menkes Developments Ltd., on behalf of a partnership comprised of Menkes, Greystone Managed Investments and Triovest Realty Advisors. The sale generated a gain of $271.8 million, calculated as proceeds less closing costs and net book value of LCBO Head Office Lands. The proceeds consisted of a monetary cash payment of approximately $260.0 million and a non-monetary incentive of approximately $23.3 million for the leaseback of a portion of the LCBO Head Office Lands in the interim, until the new office building and retail space is ready for occupancy by LCBO expected in late 2021. The net book value at the time of closing was $10.2 million and closing costs were approximately $1.3 million. The non-monetary incentive of $23.3 million has been included in Prepaid expenses and other assets, refer to Note 8 for more details.

The leases of the yet-to-be constructed office and retail space is expected to commence in late 2021, subject to changes depending on the completion of the project development by the landlord. The initial term for the office lease is twenty years, with the option to extend four further terms of five years. The initial term of the retail lease is ten years with the option to extend four further terms of five years.

As determined under section 4 of the Trillium Trust Act, LCBO transferred $246.2 million in fiscal 2017 to the Consolidated Revenue Fund from the proceeds of disposition.

20. Selling, General and Administrative Expenses by Nature

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

	March 31, 2018	March 31, 2017
Employee costs (Note 21)	516,709	491,536
Occupancy costs	192,391	193,175
Depreciation and amortization	69,706	67,502
Debit/credit charges	42,583	41,975
Environmental initiatives	46,955	43,978
Other	115,473	106,811
	983,817	**944,977**

21. Employee Costs

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

	March 31, 2018	March 31, 2017
Salaries & wages	414,048	398,109
Short-term employee benefits	102,661	93,427
	516,709	**491,536**

22. Finance Income and Finance Costs

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

	March 31, 2018	March 31, 2017
Finance income		
Interest earned	3,495	2,349
Total finance income	**3,495**	**2,349**
Finance costs		
Interest on non-pension employee benefits	3,918	3,873
Financing charges on capital leases	39	66
Total finance costs	**3,957**	**3,939**

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, 2018, LCBO transferred a total dividend of $2.120 billion (2017 – $2.306 billion) to the Province. For fiscal 2017, the transfer included a dividend of $246.2 million for the sale of LCBO Head Office Lands, which is presented in the Statement of changes in equity. LCBO also provides an annual contribution to the Province for the defined benefit plan which is discussed in Notes 3 and 13.

Ontario Cannabis Retail Corporation ("OCRC")

In April 2017, the federal government introduced legislation to legalize and regulate recreational cannabis in Canada. The proposed federal Cannabis Act will create rules for producing, possessing and selling cannabis across Canada.

On September 8, 2017 the Government of Ontario further announced its proposed framework to manage the federal legalization of recreational cannabis. To ensure safe and socially responsible distribution of recreational cannabis, the Ontario Cannabis Retail Corporation was established on December 12, 2017 with the exclusive right to sell non-medical cannabis in the Province of Ontario through stand-alone stores and an online order service.

The OCRC is an agency of the Province and is a separate non-consolidated entity of the LCBO. In support of OCRC's establishment and initial operations, the LCBO will provide shared services, goods and other property to OCRC that will be recoverable on a cost basis from OCRC.

For the year ended March 31, 2018, $10.2 million (2017 – nil) is included in trade and other receivables related to recovery of costs from OCRC.

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, 2018, LCBO contributed $2.3 million (2017 - $2.1 million) and these expenditures are included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

Key Management Personnel

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

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

	March 31, 2018	March 31, 2017
Salaries and short-term employee benefits	5,397	4,869
Post-employment benefits	413	299
Other long term benefits	115	86
Termination benefits	246	925
	6,171	**6,179**

24. Ontario Deposit Return Program

On November 6, 2006, the Province entered into an agreement with Brewers Retail Inc. 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 February 5, 2007. In October 2015, the Province extended the contract with Brewers Retail Inc. as part of the Master Framework Agreement which ends on September 30, 2025.

Under the program, LCBO collects a deposit of 10 or 20 cents on wine, liquor and most beer containers. LCBO reimburses Brewers Retail Inc. for deposits it pays to customers who return containers to locations it operates, plus a service fee.

For the year ended March 31, 2018, LCBO collected $72.2 million (2017 – $69.1 million) of deposits on containers and was invoiced $56.8 million (2017 - $54.2 million) for refunds to the customers. The net amounts are included in trade and other payables in the Statement of financial position.

In connection with the program, expenditures related to service fees paid to Brewers Retail Inc. for the year ended March 31, 2018, amounted to $44.7 million (2017 – $41.8 million), inclusive of $5.1 million (2017 – $4.8 million) of harmonized sales tax which is unrecoverable by LCBO, but is recoverable by the Province. These expenditures are included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

LCBO's experience indicates that not all container deposits collected would be redeemed based upon its redemption data. Based on historical redemption patterns, for the year ended March 31, 2018, LCBO recognized $14.6 million (2017 - $16.7 million) of unredeemed deposits as other income as LCBO has determined the likelihood of redemption to be remote. The remaining reserve for unredeemed container deposits reflects the ODRP program to-date redemption rate.

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

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

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

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

Under the program, LCBO purchases imported and domestic beer products from various suppliers including some domestic beer products from TBS. Payment to these suppliers includes the container deposit in addition to the product cost. The container deposit is only paid to the suppliers if the products meet the program criterions above. If the products do not meet either criterion, they are excluded from the TBS common product program and will follow the Ontario Deposit Return Program as described in Note 24.

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, 2018, $2.9 million (2017 – $3.3 million) is included in trade and other receivables related to the TBS common product deposits.

26. Other Matters

Sale of Beer, Cider and Wine in Grocery Stores

In April 2015, at the government's direction, LCBO began to work with the Ministry of Finance and the Premier's Advisory Council on Government Assets on implementing the sale of beer, cider and wine in grocery stores. Up to 450 grocery stores across the province will be allowed to sell beer and cider with up to 300 also selling wine. LCBO is the wholesaler to those authorized stores. Following a competitive process that began in September 2015, the first 60 grocery stores were authorized by the AGCO to sell beer in late 2015, with cider added in June 2016.

Subsequent competitive allocations of the opportunity to sell beer and cider or beer, wine and cider took place; one in 2016 and two in 2017. In addition, up to 70 existing winery retail stores located next to grocery stores were given the opportunity to move inside grocery stores and offer an expanded selection of products. Ontario wine not produced by the owners of such outlets will be purchased from the LCBO. Grocers that sign agreements with winery retail stores to have an outlet operated within their store received an authorization to sell beer and cider purchased from the LCBO.

As of April 2018, there were 362 grocery stores authorized to sell beer, beer and cider or beer, cider and wine. All authorized grocers purchase all beer, wine and cider for sale in grocery stores from the LCBO at a wholesale discount determined through the applicable competitive process.

Collective Bargaining

In June 2017, LCBO and the OPSEU Liquor Board Employees Division ("LBED") reached a tentative memorandum of agreement to renew the collective agreement that expired on March 31, 2017. The new collective agreement was ratified by LCBO bargaining employees on July 19, 2017, followed by ratification by the LCBO's Board of Directors and the Province by a way of an order in council on July 26, 2017.

YOUR LCBO

Financial Overview

LCBO SALES BY COUNTRY OF ORIGIN

In fiscal 2018, excluding sales through private ordering and grocers, the LCBO sold products from 82 different countries.

SPIRITS

#1. Canada
$1,155,103,962
(66,484,636 Litres)

#5. Ireland
$102,374,504
(3,028,330 Litres)

#2. United Kingdom
$295,871,727
(7,325,519 Litres)

#7. Sweden
$74,393,964
(2,400,504 Litres)

Ontario
$655,214,639
(44,197,966 Litres)

#9. Latvia
$26,779,104
(860,451 Litres)

#3. United States
$287,250,078
(17,421,420 Litres)

#10. Germany
$25,608,187
(938,505 Litres)

#6. Mexico
$82,325,787
(1,950,557 Litres)

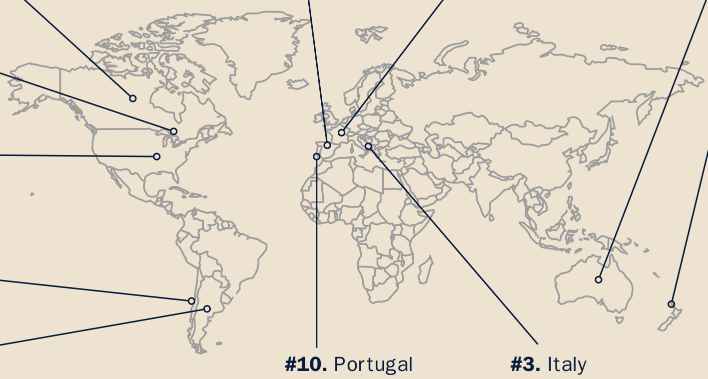
#4. France
$183,923,451
(4,964,249 Litres)

#8. Italy
$40,417,232
(1,279,120 Litres)

Other
$154,290,217
(5,786,679 Litres)

TOTAL
$2,428,338,213
(112,439,967 Litres)

WINE



#1. Canada
$529,808,324
(50,376,518 Litres)

Ontario
$522,420,619
(49,770,774 Litres)

#2. United States
$379,722,000
(20,718,416 Litres)

#3. Italy
$365,679,537
(24,229,088 Litres)

#4. France
$215,924,513
(9,956,779 Litres)

#5. Australia
$182,037,436
(11,904,990 Litres)

#6. Chile
$114,005,957
(9,898,784 Litres)

#7. New Zealand
$84,829,156
(4,085,587 Litres)

#8. Spain
$73,863,332
(4,336,690 Litres)

#9. Argentina
$70,689,035
(4,940,573 Litres)

#10. Portugal
$38,644,898
(2,865,896 Litres)

Other
$128,760,201
(14,798,509 Litres)

TOTAL
$2,183,964,388
(158,111,829 Litres)

BEER

#1. Canada
$565,104,207
(127,939,416 Litres)

Ontario
$519,090,139
(118,197,723 Litres)

#2. Netherlands
$121,059,888
(25,498,970 Litres)

#3. Mexico
$103,600,959
(20,449,208 Litres)

#4. United States
$99,271,797
(22,732,197 Litres)

#5. Belgium
$81,194,034
(15,788,164 Litres)

#6. Germany
$39,025,556
(9,973,397 Litres)

#7. Poland
$22,674,833
(6,190,714 Litres)

#8. Ireland
$22,378,585
(4,443,284 Litres)

#9. United Kingdom
$21,888,249
(4,498,162 Litres)

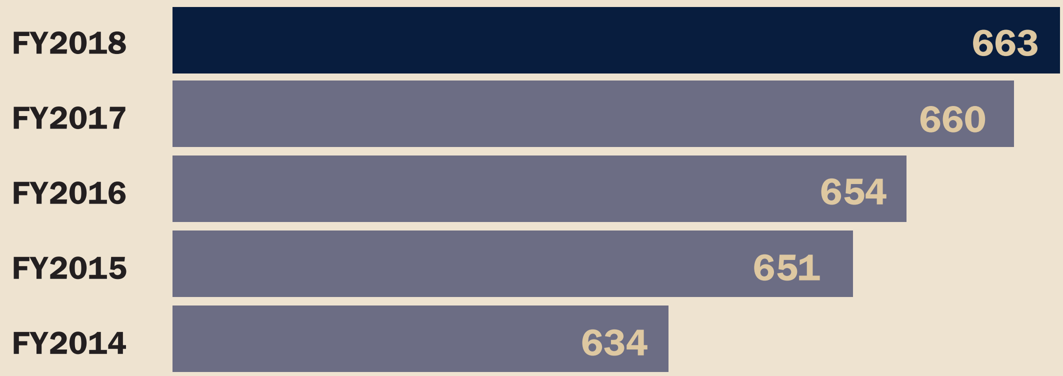
#10. Denmark
$15,402,888
(3,761,853 Litres)

Other
$53,627,421
(11,929,611 Litres)

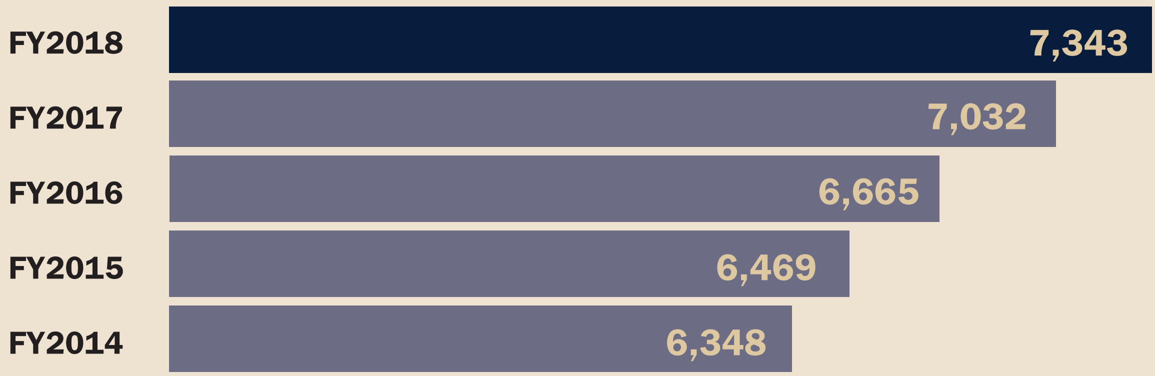
TOTAL
$1,145,228,416
(253,204,976 Litres)

KEY OPERATIONAL INDICATORS

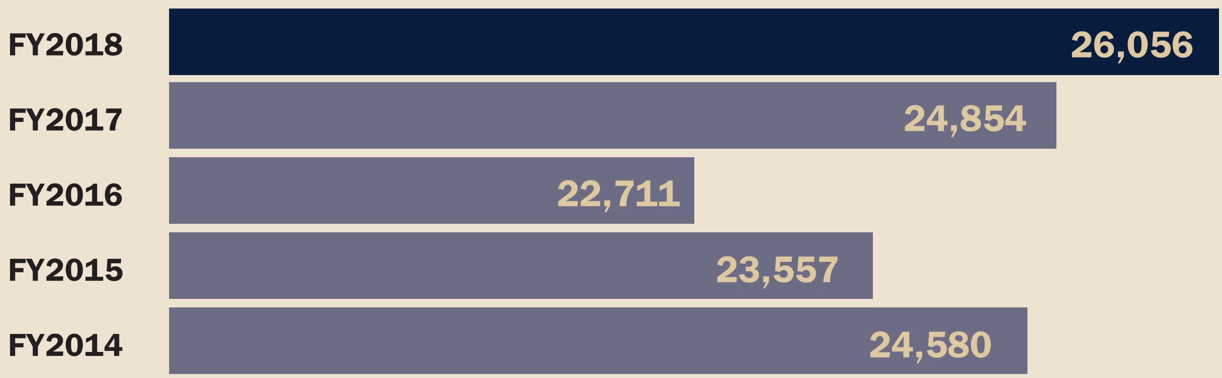
LCBO STORES*



FULL-TIME EQUIVALENT EMPLOYEES



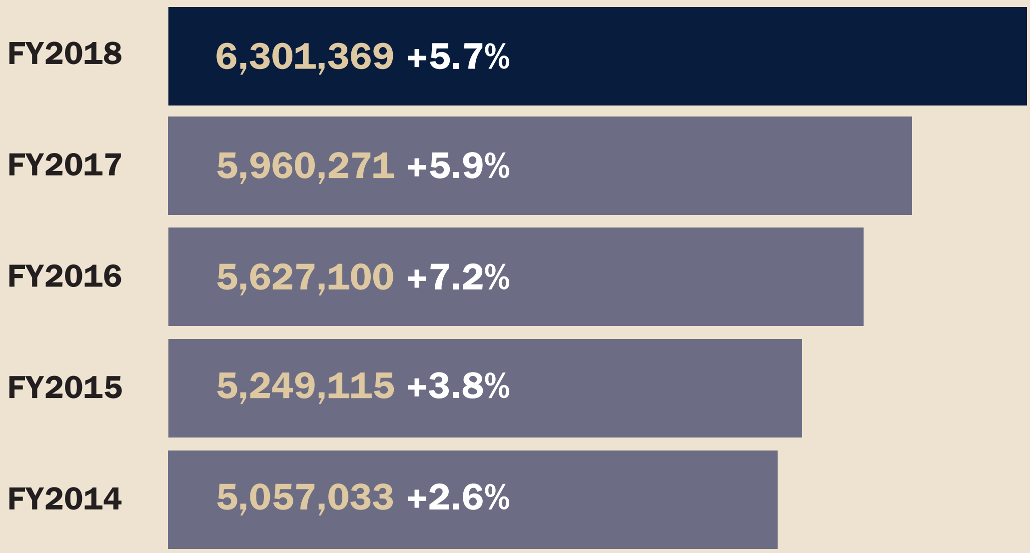
PRODUCT LISTINGS



* LCBO store count includes licensee depot locations (3 as of FY2018)

FINANCIAL INDICATORS ($ thousands)

TOTAL REVENUES*



	FY2018	FY2017	FY2016	FY2015	FY2014
Total Expenses†	**987,774**	948,916	874,351	840,282	820,839
As a percentage of total revenues	**15.7%**	15.9%	15.5%	16.0%	16.2%
Net Income‡	**2,206,524**	2,067,935	1,967,836	1,818,415	1,744,683
As a percentage of total revenues	**35.0%**	34.7%	35%	34.6%	34.5%

* 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 of the LCBO head office property.

REMITTANCES TO THE VARIOUS LEVELS OF GOVERNMENT

($ thousands)

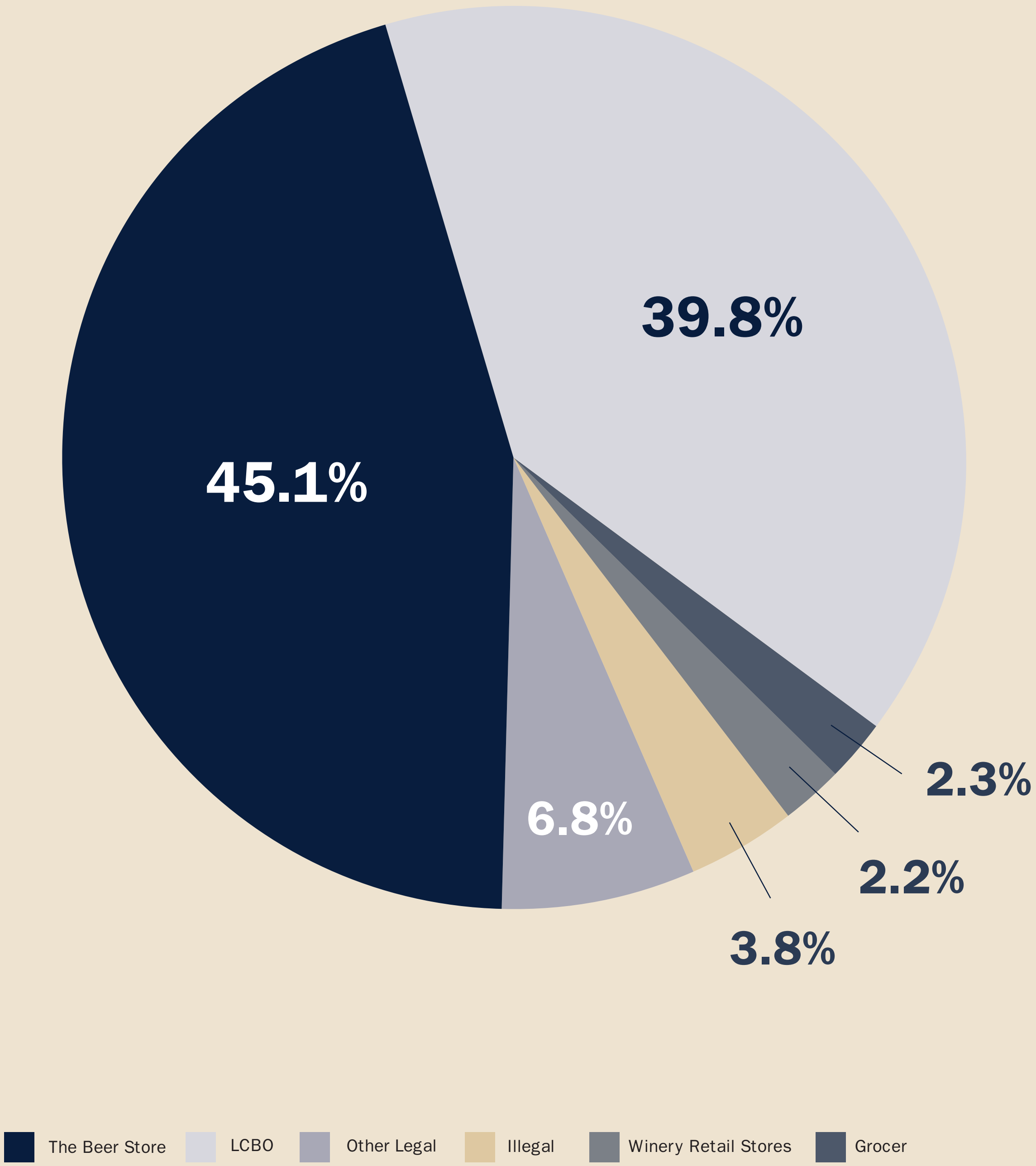
TREASURER OF ONTARIO	FY2018	FY2017	FY2016	FY2015	FY2014
Remitted by the Liquor Control Board:					
on account of profits	2,120,000	2,060,000	1,935,000	1,805,000	1,740,000
Trillium Trust transfer - sale of Head Office		246,215			
Remitted by the Alcohol and Gaming Commission:					
on account of licence fees and permits	11,570	9,983	9,193	8,891	9,030
Remitted by the Ministry of Revenue:					
Beer, wine and spirits tax[1]	607,000	589,000	582,000	560,000	557,000
TOTAL	**2,738,570**	**2,905,198**	**2,526,193**	**2,373,891**	**2,306,030**

RECEIVER GENERAL FOR CANADA	FY2018	FY2017	FY2016	FY2015	FY2014
Remitted by the Liquor Control Board:					
Excise taxes and customs duties	404,661	393,924	382,415	368,605	362,936
Goods and Services Tax (GST)/Harmonized Sales Tax (HST)	546,287	503,462	485,135	453,933	437,246
Remitted by others:					
Excise taxes, GST/HST and other duties/taxes	492,304	498,012	497,460	479,671	475,263
GST/HST remitted on sales through agency stores	17,577	17,043	16,421	15,312	14,926
TOTAL	**1,460,830**	**1,412,441**	**1,381,431**	**1,317,521**	**1,290,371**

ONTARIO MUNICIPALITIES	FY2018	FY2017	FY2016	FY2015	FY2014
Remitted by the Liquor Control Board:					
Realty taxes[2]	32,147	33,276	31,488	28,443	26,191
TOTAL REMITTANCES	**4,231,547**	**4,350,916**	**3,939,113**	**3,719,855**	**3,622,592**

1. The beer, wine and spirits tax figure of $607 million is an interim number for FY2018. The FY2017 number has been restated to actual as per 2018 Ontario Budget.
2. Includes property taxes on leased properties.

2018 SHARE OF ONTARIO BEVERAGE ALCOHOL MARKET BY VOLUME SOLD



VOLUME SALES (thousands of litres)

LCBO SALES	FY2018	GROWTH	FY2017	FY2016	FY2015	FY2014
Domestic Spirits	30,646	0.8%	30,416	31,842	31,044	31,179
Imported Spirits	34,511	4.4%	33,055	27,826	27,023	26,436
Total Spirits	**65,157**	**2.7%**	**63,471**	**59,668**	**58,067**	**57,615**
Domestic Wine	58,880	4.4%	56,403	53,227	48,308	44,312
Imported Wine	115,808	2.5%	113,035	111,481	108,135	104,771
Total Wine	**174,688**	**3.1%**	**169,438**	**164,708**	**156,443**	**149,084**
Domestic Beer	146,539	9.9%	133,282	123,572	115,038	111,801
Imported Beer	152,872	-2.5%	156,826	150,714	140,477	135,687
Total Beer	**299,410**	**3.2%**	**290,108**	**274,286**	**255,514**	**247,488**
Domestic Coolers	37,101	10.5%	33,572	26,173	24,173	25,183
Imported Coolers	12,407	14.6%	10,827	14,307	8,416	7,075
Total Coolers	**49,508**	**11.5%**	**44,399**	**40,480**	**33,588**	**32,258**
TOTAL DOMESTIC	**273,167**	**7.7%**	**253,673**	**234,814**	**218,563**	**212,475**
TOTAL IMPORTED	**315,597**	**0.6%**	**313,743**	**304,328**	**285,050**	**273,970**
TOTAL LCBO	**588,764**	**3.8%**	**567,416**	**539,142**	**503,613**	**486,445**

OTHER SALES	FY2018	GROWTH	FY2017	FY2016	FY2015	FY2014
Ontario winery stores	26,986	2.1%	26,435	26,147	24,355	22,867
The Beer Store & brewer on-site stores	565,282	-4.3%	590,884	601,838	592,818	605,819

Note: the FY2018 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. LCBO beer sales figures include LCBO sales to TBS of LCBO's total beer sales in litres, 82,778,883 were to TBS. Prior year figures are restated annually to reflect change in product hierarchy.

VALUE SALES ($ thousands)

LCBO SALES	FY2018	GROWTH	FY2017	FY2016	FY2015	FY2014
Domestic Spirits	963,460	3.0%	935,672	948,814	913,343	909,848
Imported Spirits	1,213,161	7.8%	1,125,026	1,014,676	955,676	911,102
Total Spirits	**2,176,621**	**5.6%**	**2,060,698**	**1,963,490**	**1,869,019**	**1,820,951**
Domestic Wine	634,396	7.1%	592,200	552,962	505,113	466,130
Imported Wine	1,800,588	5.7%	1,703,068	1,641,358	1,566,310	1,495,128
Total Wine	**2,434,984**	**6.1%**	**2,295,268**	**2,194,320**	**2,071,424**	**1,961,258**
Domestic Beer	646,281	13.0%	571,998	518,554	471,001	443,267
Imported Beer	716,839	0.0%	716,939	670,267	617,020	595,612
Total Beer	**1,363,119**	**5.8%**	**1,288,937**	**1,188,821**	**1,088,020**	**1,038,879**
Domestic Coolers	199,411	9.0%	183,015	144,040	133,649	138,850
Imported Coolers	72,070	13.5%	63,507	80,884	54,635	41,358
Total Coolers	**271,481**	**10.1%**	**246,522**	**224,924**	**188,283**	**180,209**
TOTAL DOMESTIC	**2,443,548**	**7.0%**	**2,282,885**	**2,164,369**	**2,023,105**	**1,958,096**
TOTAL IMPORTED	**3,802,658**	**5.4%**	**3,608,540**	**3,407,186**	**3,193,641**	**3,043,201**
Non-Liquor and Other	**(3,146)**	**395.0%**	**(636)**	**(2,089)**	**(2,657)**	**(3,522)**
TOTAL LCBO	**6,243,060**	**6.0%**	**5,890,789**	**5,569,466**	**5,214,089**	**4,997,774**

OTHER SALES	FY2018	GROWTH	FY2017	FY2016	FY2015	FY2014
Ontario winery stores	328,805	3.9%	316,312	303,552	281,873	256,421
The Beer Store & brewer on-site stores	2,303,643	-2.3%	2,357,534	2,354,137	2,287,357	2,270,299

Note: the FY2018 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. LCBO beer sales figures include LCBO sales to TBS; of LCBO's total beer sales, $387,458,215 were to TBS. Prior year figures are restated annually to reflect change in product hierarchy.

PRODUCT LISTINGS

26,000+

Product listings in FY2018

	FY2018	FY2017	FY2016	FY2015	FY2014
Domestic					
Spirits	574	508	469	469	458
Wine	577	579	554	574	565
Beer	1,246	1,038	692	573	626
Imported					
Spirits	1,099	980	815	762	797
Wine	1,134	1,121	1,156	1,170	1,167
Beer	383	387	391	390	393
Total regular listings	**5,013**	**4,613**	**4,077**	**3,938**	**4,006**
VINTAGES wines and spirits	5,079	4,972	5,361	5,468	5,949
Duty-free listings	234	269	273	252	264
Consignment warehouse & private ordering	15,730	15,000	13,000	13,899	14,361
Total product listings	**26,056**	**24,854**	**22,711**	**23,557**	**24,580**

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.

RESPONSIBILITY FOR FINANCIAL REPORTING

Ontario Cannabis Retail Corporation

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 Ontario Cannabis Retail Corporation (OCRC) have been prepared in accordance with International Financial Reporting Standards and include amounts that are based on management's best estimates and judgement.

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 has been established and will independently evaluate the effectiveness of internal controls on an ongoing basis and will report its findings to management and the Finance & Governance Committee of the Board.

The Board of Directors, through the Finance & Governance Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Finance & Governance Committee, composed of four Members who are not employees/officers of the OCRC, 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 Finance & Governance 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 the management:

Nancy Kennedy
President & Chief Operating Officer

Carol Lyons

Carol Lyons
Controller and Treasurer
June 28, 2018

INDEPENDENT AUDITOR'S REPORT

To the Ontario Cannabis
Retail Corporation

I have audited the accompanying financial statements of the Ontario Cannabis Retail Corporation, which comprise the statement of financial position as at March 31, 2018, and the statement of loss and comprehensive loss, statement of deficit and statement of cash flows for the period from December 12, 2017 to March 31, 2018, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Cannabis Retail Corporation as at March 31, 2018, and its financial performance and its cash flows for the period from December 12, 2017 to March 31, 2018, in accordance with International Financial Reporting Standards.

Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General
Toronto, Ontario June 28, 2018

Ontario Cannabis Retail Corporation Financial Statements & Notes*

STATEMENT OF LOSS AND COMPREHENSIVE LOSS (Canadian dollars)

	NOTE	For the period December 12, 2017 to March 31, 2018 (Note 1)
Revenue	3	-
Administrative expenses	4	6,805,248
Finance income	5	(14,238)
Finance costs	5	15,894
Net loss and comprehensive loss		6,806,904

See accompanying notes to the financial statements.

STATEMENT OF FINANCIAL POSITION (Canadian dollars)

	NOTE	March 31, 2018
Assets		
Current assets		
Cash	6	24,953,119
Trade and other receivables	7	1,170,002
Prepaid expenses	8	1,275,645
		27,398,766
Non-current assets		
Prepaid services	8	200,000
Property, plant and equipment	9	2,338,522
		2,538,522
Total assets		29,937,288
Liabilities and deficit		
Current liabilities		
Trade and other payables and provisions	10	11,728,298
Non-current liabilities		
Borrowings	12	25,015,894
Total liabilities		36,744,192
Deficit		
Accumulated loss		6,806,904
Total deficit		6,806,904
Total liabilities and deficit		29,937,288

See accompanying notes to the financial statements.

Approved by:

Chair, Board of Directors

Board Member, Chair, Finance & Governance Committee

STATEMENT OF CHANGES IN DEFICIT
(Canadian dollars)

	For the period December 12, 2017 to March 31, 2018 (Note 1)	
	Accumulated loss	Total Deficit
Balance at beginning of period	-	-
Net loss	6,806,904	6,806,904
Balance at March 31, 2018	6,806,904	6,806,904

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS
(Canadian dollars)

	For the period December 12, 2017 to March 31, 2018 (Note 1)
Operating activities:	
Net loss	(6,806,904)
Adjustments for:	
Depreciation	2,719
Interest on borrowings	15,894
Change in non-cash balances related to operations:	
Trade and other receivables	(1,170,002)
Prepaid expenses	(1,475,645)
Trade and other payables and provisions	11,728,298
Net cash provided by operating activities	2,294,360
Investing activities:	
Purchase of property, plant and equipment	(2,341,241)
Net cash used in investing activities	(2,341,241)
Financing activities:	
Proceeds from borrowings	25,000,000
Net cash provided by financing activities	25,000,000
Net increase in cash	24,953,119
Cash, end of year	24,953,119

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate and General Information

1.1 The Corporation and its operations
The Ontario Cannabis Retail Corporation (“OCRC”, “the Corporation”) is a corporation without share capital incorporated under the *Ontario Cannabis Retail Corporation Act*, S.O. 2017, Chapter 26, Schedule 2 (“the Act”).

OCRC is a government business enterprise with the exclusive right to sell non-medical cannabis in the Province of Ontario (“Province”) when it is legalized in Canada. As an Ontario Crown corporation, OCRC is exempt from income taxes. Per the legislation under the Act, OCRC will transfer most of its earnings to the Province in the form of a dividend.

OCRC’s head office is located at 1 Yonge Street, 18th Floor, Toronto, Ontario, Canada, M5E 1E5.

1.2 Legalization of cannabis
In April 2017, the federal government introduced legislation to legalize and regulate non-medical cannabis in Canada. The proposed federal Cannabis Act will create rules for producing, possessing and selling non-medical cannabis across Canada. On June 21, 2018, legislation to enact the Cannabis Act received Royal Assent. The provisions of the Cannabis Act come into force on a day or days to be fixed by order of the Governor in Council. On June 20, 2018, the Federal Government announced that the Cannabis Act would come into force on October 17, 2018.

OCRC was established on December 12, 2017 as an agent of the Crown. In Ontario, the Act authorizes OCRC to buy, possess and sell non-medical cannabis and related products. The Corporation’s fiscal year begins on April 1 in each year and ends on March 31 in the following year; consequently, these financial statements are for the period commencing December 12, 2017 and ending March 31, 2018.

During the period ending March 31, 2018, OCRC was engaged in set-up activities. Retail operations are expected to commence in the fall of 2018 with the opening of retail stores and commencement of online sales across the Province. OCRC will open additional retail stores by 2020.

2. Basis of Presentation and Significant Accounting Judgments and Policies

2.1 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 audited financial statements were approved by the Board of Directors and authorized for issue on June 28, 2018.

2.2 Basis of presentation
These financial statements have been prepared on the historical cost basis.

2.3 Functional and presentation currency
The financial statements are presented in Canadian dollars (“C$”), OCRC’s functional currency.

2.4 Accounting standards and amendments not yet effective
The IASB has issued the following standards and amendments that are not applicable to OCRC and that become effective for OCRC subsequent to March 31, 2018:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards*: amendments delete short-term exemptions.
- IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures:* amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. In addition, amendments clarify that long-term interests in an associate or joint venture, to which the equity method is not applied, are accounted for using IFRS 9.
- IFRS 2 *Classification and Measurement of Share-based Payment Transactions:* amendments clarify how to account for certain types of share-based payment transactions.
- IFRS 4 *Insurance Contracts:* amendments, regarding the interaction of IFRS 4 Insurance Contracts and IFRS 9 Financial Instruments, provide two options for entities that issue insurance contracts within the scope of IFRS 4.
- IAS 40 *Transfers of Investment Property:* amendments clarify that transfers of investment property require a reassessment of whether the property continues to meet the definition of investment property.
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration:* amendments clarify the exchange rate to be used in transactions that involve consideration paid or received in advance in foreign currency.
- IFRS 17 *Insurance Contracts:* requires entities to account for all insurance contracts in a consistent manner. Insurance obligations will be accounted for using current values, instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements.
- IFRIC 23 *Uncertainty over Income Tax Treatments:* amendments specify how to reflect uncertainty in accounting for income taxes.

2.5 Revenue and cost of sales
OCRC has early applied IFRS 15 *Revenue from Contracts with Customers* in these financial statements.

Revenue is recognized when the Corporation satisfies a performance obligation by transferring control of a promised good or service to a customer. Revenue is measured as the amount of consideration that the Corporation expects to be entitled to in exchange for transferring the good or service to the customer, excluding taxes.

Cost of sales includes the cost of inventories expensed during the period and other costs incurred to fulfill performance obligations to customers.

2.6 Finance income and finance costs
Finance income comprises interest income on cash balances. Finance costs consist of interest expense on borrowings and lease liabilities.

Interest income and expense are calculated using the effective interest method.

2.7 Cash and cash equivalents
Cash and cash equivalents are recognized initially at fair value plus transaction costs and subsequently measured at amortized cost.

Cash equivalents are highly liquid investments with original maturity dates of 90 days or less from the date of acquisition.

2.8 Trade and other receivables
Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost less an allowance for impairment, if any.

At the end of each reporting period, OCRC estimates the amount of lifetime expected credit losses on its trade and other receivables and reduces the carrying amount of account receivables. Lifetime expected credit losses are the losses that may result from all possible default events. OCRC estimates the amount of expected credit losses based on individual accounts, taking into consideration customer credit worthiness, current economic trends, past experience and forecasts of future economic conditions. The recognized impairment loss (or gain) is the amount of the expected credit losses (or reversals) that is required to adjust the loss allowance to the amount of lifetime expected credit losses at the reporting date.

2.9 Prepaid expenses
Cash outlays for goods and services that are to be received in future periods are recognized as prepaid expenses. Expenses are recognized in net income or loss when the goods and services are received.

2.10 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 income statement 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.

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 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 OCRC, 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 as expense as incurred.

Annually OCRC reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication of an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine any impairment loss. Where the asset does not generate cash flows that are independent from other assets, OCRC estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. 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 loss is recognized as expense in the period in which it occurs.

The estimated useful lives of property, plant and equipment are as follows:

Leasehold improvements	5 to 10 years, or lease term, if shorter
Machinery and equipment	4 to 10 years
Computer hardware	4 years

2.11 Trade and other payables and provisions
Trade and other payables are initially measured at fair value less transaction costs and are subsequently measured at amortized cost.

Short-term employee benefits are benefits that are expected to be wholly settled within twelve months of the annual reporting period in which they are earned by employees. Short-term employee benefits are expensed and a provision is recognized when employees render service.

2.12 Lease liabilities
OCRC has early applied IFRS 16 *Leases* in these financial statements.

Except for short-term leases and leases of low-value assets, OCRC recognizes a lease liability on the lease commencement date, unless the lease term is twelve months or less or the underlying asset has a low value. The initial amount of the lease liability comprises the present value of the lease payments during the lease term. The lease term is the non-cancellable period for which OCRC has the right to use the asset, including extension or termination option periods that OCRC is reasonably certain to exercise.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lease payments are discounted using the Corporation's incremental borrowing rate. Subsequently, the lease liability is measured by increasing the liability to reflect interest and decreasing the liability to reflect payments. The lease liability is remeasured to reflect reassessment or modification or to reflect in-substance fixed lease payments.

Short-term leases and leases of low-value assets are accounted for by recognizing the lease payments on a straight-line basis over the lease term.

2.13 Borrowings
Borrowings are financial liabilities with original maturity dates greater than one year. They are initially measured at fair value less transaction costs and subsequently measured at amortized cost, using the effective interest method.

Borrowing costs directly attributable to the acquisition or construction of a qualifying asset are recognized in the cost of the qualifying asset. Qualifying assets are those that require a substantial period of time to prepare for their intended use.

2.14 Post-employment and other long-term employee benefits
<u>Employee pension benefits</u>
OCRC's contributions to defined benefit pension plans are accounted for on a defined contribution basis with OCRC's contribution recognized as expense in the period the contributions become payable.

<u>Other long-term employee benefits</u>
Other long-term employee benefits are employee benefits that are not expected to be wholly settled within twelve months of the annual reporting period in which they are earned by employees.

Other long-term employee benefit liabilities are actuarially determined using the Projected Unit Credit Method and management's best estimate. The annual benefit cost is the sum of the service cost and one year's interest cost plus remeasurements of the defined benefit obligation. Actuarial gains and losses due to remeasurements of the defined benefit liabilities are recognized in administrative expenses in the period in which they occur.

2.15 Financial instruments
OCRC has early applied IFRS 9 *Financial Instruments* in these financial statements.

Financial assets and financial liabilities are recognized when OCRC becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, plus or minus transaction costs that are directly attributable to their acquisition. The measurement of financial instruments in subsequent periods and the recognition of changes in fair value depend on the category in which they are classified.

(i) Financial assets
Classification of financial assets depends on the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial asset is subsequently measured at amortized cost if both of the following conditions are met:

(a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows:

(b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All of the financial assets held by OCRC meet the conditions for subsequent measurement at amortized cost.

(ii) Financial liabilities
All financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as subsequently measured at fair value through profit or loss. Such liabilities include derivatives (other than derivatives that are financial guarantee contracts or are designated and effective hedging instruments), other liabilities held for trading, and liabilities that are designated to be measured at fair value through profit or loss. For financial liabilities subsequently measured at fair value through profit or loss, changes in fair value related to changes in own credit risk are presented separately in other comprehensive income.

All of the financial liabilities held by OCRC are measured subsequently at amortized cost.

(iii) Effective interest method
The amortized cost of a financial asset or liability and interest income or interest expense is calculated using the effective interest method.

2.16 Fair value
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities that are measured at fair value on a recurring or non-recurring basis are 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: inputs are 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).

2.17 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, 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 these financial statements are disclosed in the relevant notes to which the estimates and judgments relate.

3. Revenue and Cost of Sales
OCRC's revenue will comprise sales of cannabis products and accessories.

No revenues or costs of sales may occur until the sale of non-medical cannabis is legalized and OCRC's retail operations commence.

4. Administrative Expenses
Administration expenses include the following costs incurred during the period ended March 31, 2018 to set up OCRC:

LCBO shared services (Note 16b)	6,666,054
Employee expenses	86,379
Depreciation	2,719
Other expenses	50,096
	6,805,248

5. Finance Income and Finance Costs
Finance income and costs for the period ended March 31, 2018 include the following:

Interest income on cash	(14,238)
Interest on borrowings (Note 12)	15,894
	1,656

6. Cash
Cash as at March 31, 2018 includes interest-bearing bank accounts. OCRC did not hold any cash equivalents as at March 31, 2018.

7. Trade and Other Receivables
At March 31, 2018, trade and other receivables include the following:

Recoverable input tax credits	1,155,764
Interest receivable	14,238
	1,170,002

Expected credit losses on trade and other receivables are nil.

The fair value of trade and other receivables approximates its carrying amounts due to its short-term nature.

8. Prepaid Expenses

Prepaid expenses for the period ended March 31, 2018 include the following:

Short-term prepaid expenses	
Prepaid services	1,053,724
Prepaid warehouse lease (Note 11)	160,868
Prepaid insurance	61,053
	1,275,645
Long-term prepaid services	200,000
	1,475,645

9. Property, Plant and Equipment

The following table presents the net book value and changes in the cost and accumulated depreciation of property, plant and equipment for the period ended March 31, 2018:

	Machinery and equipment	Computer hardware	Work-in-progress	Total
Cost - additions	44,986	105,399	2,190,856	2,341,241
Accumulated depreciation	692	2,027	-	2,719
Net book value	44,294	103,372	2,190,856	**2,338,522**

10. Trade and Other Payables and Provisions

Trade and other payables and provisions consist of amounts payable to LCBO for shared service costs and amounts payable to other suppliers, as well as payroll accruals and withholdings.

At March 31, 2018, trade and other payables and provisions include the following:

Payable to LCBO	10,150,468
Accrued expenses	1,573,779
Provisions	4,051
	11,728,298

The fair value of trade and other payables and provisions approximates their carrying amounts due to their short-term nature.

11. Lease Liabilities

Expenses relating to leases of low-value assets (printers) accounted for on a straight-line basis over the lease term were $3,657 for period ending March 31, 2018.

Expenses relating to short-term leases (short-term office accommodation) accounted for on a straight-line basis over the lease term were $196,329 for the period ending March 31, 2018. Commitments for short-term leases in fiscal 2019 are $589,275.

LCBO has entered into an arrangement with a warehousing services provider on behalf of OCRC. The warehousing services provider leases a warehouse facility from a third party. LCBO and OCRC are not parties to this lease. The warehousing services provider, the third party and LCBO have agreed to assignment of the lease to LCBO in the event that a written request is made by the warehousing services provider and LCBO. As at March 31, 2018, the lease has not been assigned to LCBO.

OCRC is committed to reimburse LCBO for lease expenses related to OCRC's use of the warehouse. The commitment for these lease expenses is included in the shared services commitments disclosed in Note 16b.

12. Borrowings

On February 14, 2018, OCRC entered into a loan agreement with the Ontario Financing Authority and the Minister of Finance. Refer to Note 16. Under the agreement, for the purpose of financing OCRC's set-up and initial operations, OCRC may draw funds from the Ontario Financing Authority to a maximum principal amount of $150 million until December 31, 2019. No payments of interest or principal are required until July 1, 2020. The loan may be secured by a general security agreement, if required by the Ontario Financing Authority. The loan is at market terms.

Until December 31, 2019, the loan bears interest at a floating rate that is equal to the Province's all-in cost of funds for a one-month treasury bill, including fees and commissions, plus 52.5 basis points. This rate represents a market rate as it is available to OCRC from other market participants. Interest is accrued, compounded and reset monthly on the first business day of the month. The interest rate at March 31, 2018 is 1.785%.

At March 31, 2018, OCRC has drawn $25 million and accrued interest of $15,894. Changes in borrowings for the period ended March 31, 2018 are as follows:

Cash inflows - Draws	25,000,000
Non-cash changes - Interest expense	15,894
Total changes in borrowings	**25,015,894**

The loan is repayable in equal semi-annual payments over a ten-year term commencing July 1, 2020. The interest rate will be the Province's all-in cost of funds as at January 1, 2020 for a ten-year amortizing loan, including fees and commissions, plus 52.5 basis points. Interest will compound semi-annually.

The fair value of borrowings at March 31, 2018 approximates their carrying amount due to their recent issuance.

13. Post-Employment and Other Long-term Employee Benefits

(i) Employee pension benefits

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

For the period ended March 31, 2018, OCRC's pension contributions of $4,607 are included in administrative expenses.

(ii) Other long-term employee benefit plans

Other long-term employee benefits provided by OCRC include self-insured workers' compensation benefits. No amount has been recognized for this liability as OCRC has not incurred any workers' compensation claims.

14. Financial Risk Management

OCRC's Treasury Risk Management Policies regarding financial risk management and internal controls are being developed to set out a prudential framework for the identification, measurement, management and control of financial risks. These policies will be a fundamental part of OCRC's long-term strategy covering areas such as liquidity risk and interest risk. OCRC's financial risk management approach is to minimize the potential adverse effects from these risks on its financial performance. OCRC is exposed to the following financial risks:

(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 OCRC.

OCRC's credit risk is limited to its cash accounts. OCRC minimizes credit risk by restricting its banking and cash management to arrangements with Schedule A banks.

(b) Liquidity Risk

Liquidity risk is the risk that OCRC may not have cash available to satisfy financial liabilities as they fall due.

OCRC 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. In addition, OCRC has mitigated liquidity risk until 2020 through financing arrangements with the Ontario Financing Authority. During this period up to $150 million is available to OCRC for its set-up costs and initial operations. Refer to Note 12.

(c) 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. OCRC is exposed to interest rate risk on its cash deposited in bank accounts and on its loan liability balance owed to the Ontario Financial Authority (OFA). The OFA Loan interest rate is variable, based on the one-month Province of Ontario treasury bill rate plus OFA services charges.

A sensitivity analysis for OCRC's exposure to interest rate risk for the period ending March 31, 2018 is as follows:

	Increase/(Decrease) in net income	
Interest rate risk exposure	**0.5% increase in interest rates**	**0.5% decrease interest rates**
Cash	445	(445)
Borrowings	(4,452)	4,452

15. Capital Management

OCRC is a corporation without share capital. Its capital structure consists of cash and cash equivalents, borrowings and accumulated deficit.

OCRC's objectives in managing its capital are to preserve capital and to maintain sufficient liquidity to meet future financial commitments, including the repayment of borrowings from the Ontario Financing Authority. By achieving these objectives, OCRC is able to fund its future growth.

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

16. Related Parties

OCRC is related to the Province of Ontario and its agencies, ministries and crown corporations.

Related party transactions are measured at the amount of consideration agreed to by the related parties and include, during the period ended March 31, 2018:

- Ontario Financing Authority loan to OCRC (Refer to Note 12), and
- LCBO management and shared services to OCRC.

(a) Ontario Financing Authority

On February 14, 2018, OCRC entered into a loan agreement with the Ontario Financing Authority and the Minister of Finance to finance OCRC's set-up costs, including shared services provided by LCBO. The loan is at market terms. Refer to Note 12.

(b) LCBO

LCBO provided services, goods and other property to OCRC to support its establishment and oversee its initial operations. These services and goods are provided to OCRC on a cost basis. Transfers of property, plant and equipment are provided at LCBO's carrying amount.

For the period ended March 31, 2018, amounts charged to OCRC, net of harmonized sales tax, by LCBO were as follows:

Shared administrative services	5,945,588
Property, plant and equipment	1,536,156
Prepaid items	1,469,796
Insurance	43,165
	8,994,705

16. Related Parties (continued)
(b) LCBO (continued)

Including harmonized sales tax, the amount due to LCBO as at March 31, 2018 is $10,150,468. In addition, OCRC has accrued liabilities for goods and service received as at March 31, 2018 that will be charged by LCBO in future periods. The amounts accrued are as follows:

Shared administrative services	712,196
Property, plant and equipment	55,224
Prepaid items	777
	768,197

At March 31, 2018, commitments to LCBO related to a warehouse lease are as follows:

Fiscal 2019	$364,177
Fiscal 2020	$569,051
Fiscal 2021	$588,730

(c) Key management personnel
Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of OCRC. Key management personnel include members of the Board of Directors as well as the President and Chief Operating Officer and top senior officers of OCRC. Board members receive a per diem remuneration for attending regularly scheduled meetings and for serving on the Finance and Governance Committee and the Human Resources and Compensation Committee.

Key management personnel compensation, including directors' fees, for the period ending March 31, 2018 is comprised of per diem payments of $11,560 to members of the Board of Directors.

(d) Other
Other related party transactions include payments to the entities related to the Province of Ontario for certain employee benefits, such as workers compensation benefits amounts payable to WSIB, employer health tax payable to the Ministry of Finance and contributions to employee pensions payable to the Ontario Pension Board. The costs of these benefits are presented in administrative expenses. The amounts owing to these related parties are presented in trade and other payables and provisions.

17. Commitments for Expenditure
As at March 31, 2018, OCRC's commitments are limited to the lease arrangements disclosed in Note 11 and shared services arrangements disclosed in Note 16.

18. Contingent Liabilities
Based upon legal assessment and information presently available, OCRC has determined that it is not exposed to any contingent liabilities and no amount is recognized in these financial statements.

19. Subsequent Events
Subsequent to March 31, 2018, OCRC entered into arrangements to lease premises for four stores. The leases are for five-year terms with minimum lease payments as follows:

Fiscal 2019	$207,405
Fiscal 2020	$355,552
Fiscal 2021	$355,552
Fiscal 2022	$355,552
Fiscal 2023	$355,552
Future years	$149,121

*OCRC Financial Statements & Notes included in the LCBO FY17-18 Annual Report as required by the Liquor Control Act at the time of preparation.

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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