



2018-19

ANNUAL REPORT

LCBO

LETTER OF TRANSMITTAL

The Honourable Rod Phillips, Minister of Finance

Dear Minister, I have the honour to present you with the 2018–19 Annual Report of the Liquor Control Board of Ontario. Respectfully submitted,



Carmine Nigro, Chair

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HIGHLIGHTS

BY THE NUMBERS

- Dividend of **\$2.37 billion** transferred to the Government of Ontario
- Sales across all categories, e-commerce, and wholesale drove **increase in revenue**
- Total net sales of Ontario wine, craft beer, cider and spirits hit a **record-breaking \$690 million**
- Customer donations raised a record **\$12.5 million** for charitable organizations

Never before have Ontarians had such power to choose when, where and how they want to shop. From bringing an ever-expanding selection in-store and online to creating a more engaging way to shop, the LCBO strives to meet the evolving needs of every customer. Expanded store hours, same-day pick-up, and mobile shopping offer more convenience than ever.

The LCBO is focused on improving digital and retail channels to bring convenience and choice to Ontarians so they can bring home the best products from Ontario – and the world.

FINANCIAL OVERVIEW

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

- Dividends Transferred to the Ontario Government: \$2.37 billion
- Revenue: \$6.39 billion
- Net Income: \$2.28 billion
- Total e-commerce sales: \$19.5 million
- Total mobile app commerce sales: \$2.9 million*
- Over 450,000 active mobile app users
- Grocery: Sales from the wholesale supply of beer, wine and cider to grocery stores totaled \$246.7 million

**Order amount placed via LCBO Mobile App*

RETAIL OVERVIEW

The LCBO is committed to amplifying a customer-first offering by increasing convenience and choice for Ontarians, and delivering exceptional service and product selection in-store and online.

- Number of LCBO stores serving communities across Ontario: 666
- Number of LCBO agency stores: 209
- Total number of products available in-store and online at the LCBO and through Specialty Services: 28,000+
- Over 400 online exclusives
- Wholesaler to 363 grocery stores across Ontario
- E-commerce sales increased 72 per cent year over year
- Over 1,000 next day delivery orders
- Same Day Pick Up pilot program launched in seven LCBO locations

CORPORATE SOCIAL RESPONSIBILITY

The LCBO's commitment to Ontarians extends beyond convenience and choice. The LCBO is recognized by Ontarians for actions that support responsible retailing and for promoting a culture of moderation; product quality and safety; environmental sustainability and community involvement and fundraising.

- 10 per cent increase in overall fundraising with a total of \$12,542,407
- \$2 million to MADD Canada (Mothers Against Drunk Driving)
- \$4.6 million to children's hospitals including Children's Health Foundation, McMaster Children's Hospital Foundation, SickKids Foundation, and the Children's Hospital of Eastern Ontario (CHEO) Foundation
- \$4.3 million to the United Way
- \$800,000 #TorontoStrong to support the victims of the Yonge Street van attack and the Danforth shooting tragedies
- 93 per cent waste diversion rate
- Completed the lighting retrofit of the Retail Service Centre resulting in projected 479 tons of CO2 reduction
- Partnered with taxi companies across the province and Toronto Police Services for the annual festive RIDE Program
- Total challenges for all reasons: 13.1 million
- Total refusals for all reasons: 241,510

MESSAGE FROM THE CHAIR

When I was appointed Chair of the Board of the LCBO, it was with a clear mandate to support the ongoing modernization, transformation, and evolution of the company. Working toward this mandate does not feel like work. Loving what you do is a powerful motivator and I feel fortunate that my passion for my work and the choices I have made over the years has led to joining an organization with strong leadership and a clear vision to continuously improve the customer experience. I am pleased not only by this fiscal year's record sales and dividends, but to see a laser focus on effective, efficient implementation of new measures to further increase consumer convenience and choice.

The market for beverage alcohol sales in this province is changing. Competition is increasing as the market opens, and the board feels that this can only strengthen the LCBO as we further push ourselves to be best-in-class. The LCBO Board of Directors will continue to work closely with President & CEO George Soleas and LCBO senior leadership to provide oversight as we continue to navigate and support this changing landscape.

With respect to the Board, I want to thank former Acting Board Chair Penny Lipsett, who has been serving with the Board since 2007. The Board also welcomed new member David Colfer during this Fiscal Year. Mr. Colfer has more than 25 years of experience in the Canadian retail industry, specializing in brand and product development.

Although I am at the beginning of my journey as Chair, working with the team at the LCBO has provided me with an immense pride and joy. I value relationships and appreciate the opportunity to chair an organization that shares the same commitment to partnerships with those who are passionate about this industry, who are creating jobs in local Ontario communities, and who are investing in sustainability. It is apparent and inspiring to me that the LCBO sees the value in helping to drive positive change and I look forward to working collaboratively alongside the Board to provide guidance and leadership in support of the LCBO's transformation.



Carmine Nigro
Chair

MESSAGE FROM THE PRESIDENT & CEO

I am proud to share the LCBO's 2018 - 2019 Annual Report, which outlines the incredible milestones and performance our organization accomplished this year to fulfill our mandate to the people of Ontario. Once again, we achieved our strongest financial results in history, transferring \$2.37 billion in dividends to the Ontario government.

This year also marks my third as President & CEO of the LCBO, and the market for alcohol sales in Ontario is in a time of transition. At the LCBO, we believe that healthy competition stimulates innovation, and can only serve to further enhance the customer experience through a renewed focus on providing convenience and choice. From e-comm to m-comm to the launch of same-day in-store pick-up, we are striving to go beyond our customer's expectations to deliver an unparalleled experience, regardless of when, where, or how they like to shop.

We also recognize that the success of our wholesale customers holds a mirror to our success. We are continuing to strengthen those relationships by supporting them so they can get the right product to the right customer at the right time by sharing guidance, consumer insights, and ensuring they are able to carry a variety of product choice.

Ontario producers are crafting best-in-class products, and we want to help educate our customers so they can explore all our province has to offer. Our customers are standing alongside the LCBO as we embark on this incredible exploration - with the net total sales of Ontario wine, craft beer, cider and spirits hitting a record-breaking \$690 million this year. Our in-store product consultants are constantly receiving additional training, and over 4,000 of our retail employees completed a self-study guide focusing on VQA education. We're also partnering with local wineries to bring their journey to life using digital storytelling to reach an even broader audience.

Our commitment to social responsibility extends beyond supporting local producers, and it has been at the core of our mandate for over 90 years. As part of this ongoing commitment, we've reengineered our platform to focus on the *Spirit of Sustainability*. The LCBO is working toward a more sustainable future in a meaningful and measurable way through three key aspects - good people, good planet, and good partnerships. Tying together new and existing initiatives, we're ensuring that our upcoming endeavors contribute to the central goal of infusing sustainability into everything we do.

As part of this commitment, we extended this responsibility into local communities. The LCBO enforced the safe and responsible sale of alcohol through more than 13 million challenges and refused service to more than 200,000 people. Our waste diversion rate was an astounding 93 per cent. But we didn't stop there - the places where we live and work are at the heart of what we do. Through the generous support of communities like yours, we were able to raise a record-breaking \$12.5 million in fundraising to support Ontario's regional children's hospitals and MADD Canada.

Becoming sustainable is more than a process - it's a mentality that we can always strive to make decisions that improve the well-being of everyone and everything we touch. As the alcohol market in Ontario continues to expand, it's important that we maintain that focus to ensure that convenience and choice are just two of the aspects that make the LCBO the best place for Ontarians to shop.

As we head into another transformative year, we will continue to drive innovation, drive change and raise the bar for the very best in product choice, customer service, and convenience by showing the leadership in the retail space that Ontarians have come to expect from us. At the LCBO, we like to say that the world is our shopping basket, but we never forget what is in our backyard. We hope you'll join us in experiencing the best that we have to offer.



George Soleas
President & CEO

CORPORATE STRUCTURE

MISSION STATEMENT

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

SENIOR LEADERSHIP TEAM (AT MARCH 31, 2019)

Day-to-day operations of the LCBO are overseen by the following members of senior management:

George Soleas, *President & CEO*

Jennifer Bell, *vice president, Communications & Corporate Affairs*

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

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

Julie Lane, *senior vice president, General Counsel & Corporate Secretary*

Laura Manes, *vice president, Strategy, Innovation & Enterprise Analytics*

Nick Nanos, *senior vice president, Supply Chain & Wholesale*

Jenny O'Donnell, *senior vice president, Human Resources*

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 11 times in fiscal 2018-19.

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
- Our [annual business plan](#) is posted on the LCBO website / on the 'About LCBO' section of LCBO.com
- The [memorandum](#) of understanding between the LCBO and the Minister of Finance can be read online / on the 'About LCBO' section of LCBO.com

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

BOARD MEMBERS (AT MARCH 31, 2019)

Penny Lipsett

Acting Chair

Appointed May 2007. Term renewed in 2010.

Appointed Vice Chair February 2013. Term renewed 2015 and February 2017 for a two-year term. Final term extended for a three-month term.

Served as Acting Chair from April 2017 to February 2018 and then again from August 2018 to April 2019.

James Bradbury

Member

Appointed March 2019 for a three-year term.

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

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 Canadian law firm Cassels Brock & Blackwell LLP and a member of the firm's Business Law and Government Relations groups. He has been decorated with the Government of Canada's 125th Anniversary of the Confederation of Canada Medal and the Queen's Diamond Jubilee Medal.

David Colfer

Member

Appointed February 2019 for a three-year term.

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

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 CPA, CMA.

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 has an MBA from York University, is a CPA, CA and is a member of the Institute of Corporate Directors.

WM. John Mowat

Member, Audit Committee

Appointed August 2016 for a three-year term.

Mr. Mowat is the President and CEO 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 leader and fundraiser for the Look Good Feel Better and Facing Cancer Together programs for women surviving cancer.

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."

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.

William Edmund Clark

Chair

Appointed February 2018 for a three-year term. Resigned August 30, 2018.

Michael Strople

Member, Human Resources and Compensation Committee

Appointed February 2014. Term renewed February 2016 and February 2018 for a two-year term.

Term ended: September 27, 2018.

*Board members are paid a Per Diem and reimbursed for expenses in accordance with the
Agencies and Appointments Directive*

Total Remuneration for all Board Members in FY 18/19: \$53,140

STRATEGIC PLAN OVERVIEW

As part of its commitment to outcome-based performance measures while focusing on maximizing returns to Ontario, the LCBO prepares three-year strategic plan overviews to track key mandates. The goal is to set the appropriate benchmarks to examine efficiency, effectiveness and performance while ensuring transparency in all aspects of the LCBO's business.

The LCBO is also committed to supporting the provincial government's aim to broaden options for Ontarians when shopping for beverage alcohol. The LCBO will do this by focusing its efforts on improving the experience for primary and secondary customers through both the wholesale and retail channels.

Below is a summary of forecasts and actuals for the fiscal year ended March 31, 2019 (hereafter referred to as FY2019) from the three-year strategic plan, key learnings based on these outcomes, and next steps.

ASSESSMENT OF STRATEGIC PROGRESS

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

HELP SHAPE A MORE SUSTAINABLE ONTARIO

The LCBO is focused on the health and well-being of our customers, employees and local communities. This includes being a best-in-class leader of responsible retailing, product quality, environmental sustainability and community involvement.

Responsible Retailing

In FY2019 the LCBO challenged 13.1 million people, a year-over-year decrease of -5.8 per cent. As a result, a total of 241,510 people were refused service, a -5.7 per cent decrease. Eighty two per cent of refusals were due to age. The LCBO focuses on employee training and meaningful challenges and refusals versus setting formal targets that may increase the risk of profiling, however, a number of trends were noted during the fiscal year. The reduction in the annual total number of refusals of service may be attributed to increased promotion of the LCBO's responsible retailing programs, such as Check 25 and Challenge and Refusal. This may have resulted in changes in customer behaviour, as fewer people are attempting to test the system and more individuals have their IDs ready at checkout. The LCBO also noted a decrease in the number of people who appear intoxicated attempting to make a purchase.

Community Involvement and Fundraising

Fundraising efforts hit a record high of \$12.5 million, a 10 per cent year-over-year increase. This can be attributed to strategized campaigns to create an experience that injected positivity and joy into charitable giving. Two special appeal campaigns in support of Toronto Strong raised \$840 thousand toward the total. The LCBO will continue to engage and train employees to drive fundraising efforts, including webinar training and incorporating all campaigns into the marketing product guide. Charitable partner relationships will continue to be strengthened to ensure the campaigns are promoted throughout partner platforms to help ensure success in future years.

Product Quality & Safety

The LCBO maintained ISO 9001 and 17025 accreditations as planned. The number of customer complaints requiring investigation during the fiscal year was 161, down 24.4 per cent over the last fiscal year. It is important to note that effective FY2019, quality assurance began tracking HelloLCBO complaints investigated separately – an additional 154 complaints received from HelloLCBO were investigated (315 complaints investigated in total).

Environmental Sustainability

As part of its commitment to a more sustainable future, the LCBO set out to reduce electricity consumption by one per cent, a target which was achieved. A combined waste diversion rate of 93 per cent and the lighting retrofit of the Durham Retail Service Centre played significant factors in achieving this goal.

MAXIMIZE RETURNS TO THE PEOPLE OF ONTARIO

	FY2019 Forecast	Y/Y Change	FY2019 Actual	Y/Y Change
Revenue	\$6.40 billion	+3.7%	\$6.39 billion	+3.5%
Net Income	\$2.26 billion	+2.5%	\$2.28 billion	+3.2%

Net income surpassed the FY2019 forecast. Steady, strong growth was experienced in sales, falling just below the forecast. Over the past 10 years, net income has risen by \$866 million, or 61.4 per cent, as a result of sales growth, improved margins and expense control.

While economic conditions were supportive to sales results as expected, it was at a moderating pace compared to previous years, which accounted for the slightly lower than expected results. The retail environment softened from lower consumer confidence in the back half of the year and cooling in the housing market. Initiatives to boost consumer convenience for alcohol products remained a priority throughout the year, with ongoing investment in LCBO retail network and the continued expansion of the grocer and e-commerce channels. Please see the MD&A below for more details.

SUPPORT FOR LOCAL ONTARIO PRODUCERS

	FY2019 Forecast	Y/Y Change	FY2019 Actual	Y/Y Change
VQA Wine	\$165.0 million	+2.4%	\$162.0 million	+0.2%
ICB Wine	\$304.5 million	-0.6%	\$305.1 million	-0.4%
Craft Beer	\$156.2 million	+22.4%	\$152.7 million	+19.6%

Craft Cider	\$16.6 million	+44.3%	\$16.3 million	+42.0%
Craft Spirits	\$14.3 million	+27.4%	\$15.7 million	+44.7%

The LCBO continues to provide support to grow the sales of local Ontario products. “Wine Country” boutiques in 20 select LCBO stores have the look and feel of a trip to wine country, and feature an assortment of the best of Ontario including store-exclusive products, niche, and ultra-premium items. Product education initiatives for wine will serve to mitigate a current trend that sees some wines sales shifting to other product categories. Ontario craft beer continues to be a leading growth area and the number of local breweries represented at the LCBO continues to expand, with strong year-over-year growth. Like craft beer, the Ontario Craft Cider category continues to be one of the fastest growing segments at the LCBO. The LCBO also includes locally-produced craft products in cider marketing and merchandising programs. Local micro-distilled spirits is a quickly developing category as an increasing number of distillers enter into the program and consumer demand for locally produced products grows stronger. The LCBO highlights these products through its Ontario Small Distillers Program, which allows small Ontario distillers to direct-deliver approved, locally produced spirits and liqueurs to select LCBO stores. This area saw the strongest overall growth of Ontario products, with a 44.7 per cent overall increase. The LCBO will examine key wins in the growth of the craft spirits category for potential application to other areas such as VQA wine and craft beer.

EXCELLENCE IN CUSTOMER EXPERIENCE

	FY2019 Forecast	Y/Y Change	FY2019 Actual	Y/Y Change
Customer Engagement Score	7.3 out of 10	+0.3	7.2 out of 10	+0.2

The Customer Engagement Score performed slightly below the forecast, though it achieved a score above the previous year. Going forward, the LCBO will be revising the way customer engagement is evaluated by introducing a new set of customer experience measures. This new approach will adapt to the changing expectations of customers across in-store and digital channels.

EXCELLENCE IN OPERATING EFFICIENCY

	FY2019 Forecast	Y/Y Change	FY2019 Actual	Y/Y Change
Inventory Turns	7.6	+0.2	7.7	+0.3
Total Expenses as % of Revenue	16.1%	+0.1%	15.8%	-0.2%

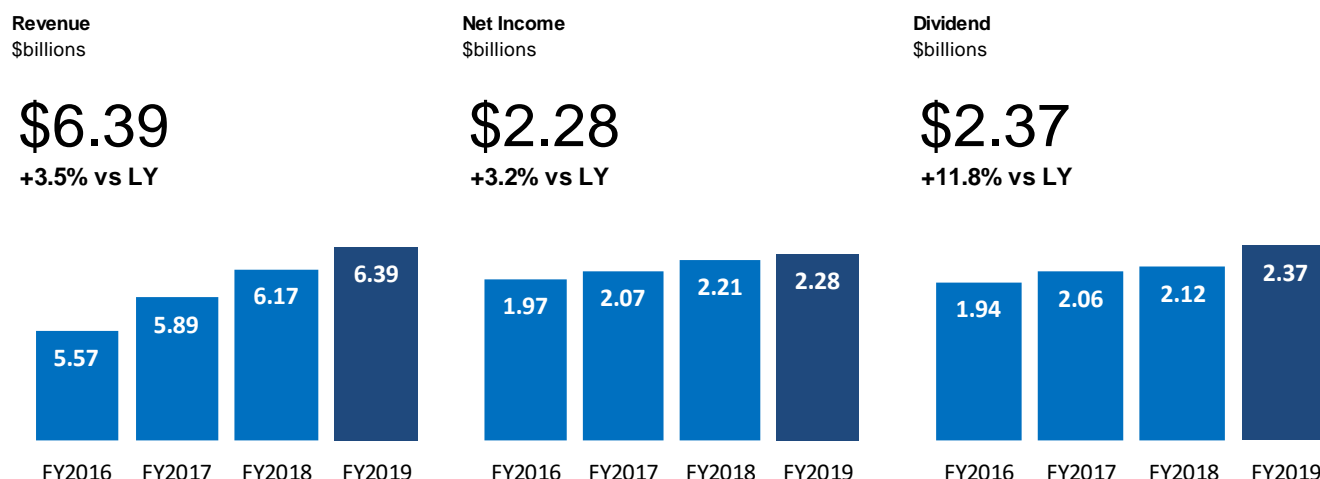
Inventory turns slightly exceeded set forecasts. The lower turns last year stemmed from the contingency inventory build prior to the settlement of the collective bargaining negotiations in FY2018. The inventory build contributed to higher inventory levels for most of the year, reducing turns, especially for spirits.

Tighter expense control and an overall faster net sales growth rate relative to operating expenses allowed for the favourable ratio, yet was slightly lower than forecast. 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. Please see the MD&A below for more details.

MANAGEMENT DISCUSSION & ANALYSIS OF OPERATIONS

The LCBO is a government business enterprise. In the fiscal year ended March 31, 2019 (hereafter referred to as FY2019) it operated a network of 666 retail stores and special-order services as well as supporting 209 agency stores and 363 grocery stores across the province of Ontario, offering more than 28,000 spirits, wine and beer products to consumers and licensed establishments. The LCBO estimates more than one billion litres of beverage alcohol products were sold in Ontario during FY2019, with an estimated retail value in excess of \$10 billion¹. The LCBO accounted for almost 47 per cent of the volume sales and approximately 64 per cent of the retail value sales.

FINANCIAL HIGHLIGHTS



FY2017 net income has been normalized to exclude the gain from the sale of the LCBO head office property.
Revenues in FY2018 and FY2019 include the impacts of IFRS 15, which reduced revenues but not net income in those years.

OPERATIONAL HIGHLIGHTS

- The LCBO added six new stores to its retail network during the year and closed three stores, now totalling 666 locations². Eight other stores were either relocated or underwent major renovations in FY2019.
- The grocery channel, established in December 2015, continued its rollout towards 450 planned locations. There were 363 active authorizations by the end of FY2019, an

¹ Not including illegal alcohol sales and homemade products.

² Location count includes three depots.

increase of 116 from the previous year. Sales to grocery stores in FY2019 grew by more than 60 per cent to \$247 million.

- The LCBO continued to enhance its e-commerce platform during the year by improving convenience and the customer online experience. One of the features introduced in FY2019 was the same day pick-up of products ordered online, with this option being piloted in seven stores towards the end of the fiscal year. FY2019 e-commerce sales rose 72 per cent to \$19.5 million, with almost 47,000 more basket checkouts than the previous fiscal year.
- The LCBO offered improved shopping convenience by extending operational hours during the year across the LCBO retail network following the Ontario government's policy change and opened select stores for the first time on Boxing Day 2018.
- Pricing changes during FY2019 followed policy changes and included the following: indexing of beer cost of service fees; a two per cent ad valorem wine mark-up increase; and pricing component changes relating to the Canada-European Union Comprehensive Economic and Trade Agreement (CETA).
- Buck-a-Beer promotions were introduced on Labour Day weekend in FY2019, with select beer products retailing for \$1 plus container deposit on promotional long holiday weekends.
- There were three more selling days relative to FY2018, but no Easter-related holiday sales build compared to two during the previous fiscal year.

EXTERNAL ENVIRONMENT

A number of factors influenced LCBO's financial performance during FY2019. Economic conditions were supportive to sales results, but at a moderating pace compared to previous years. The economy advanced at a slower pace on the back of a strengthening labour market, but the retail environment softened from lower consumer confidence in the back half of the year and cooling in the housing market.

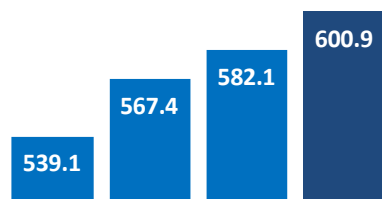
Initiatives to boost consumer convenience for alcohol products remained a priority throughout the year, with ongoing investment in LCBO retail network and the continued expansion of the grocer and e-commerce channels. These initiatives supported sales growth for the year.

Favourable spring and summer weather and the FIFA World Cup positively contributed to sales performance during the first half of the year. However, an unusually cold October and harsh winter weather compared to the previous year constrained sales growth.

Volume Sold
millions of litres

600.9

+3.2% vs LY

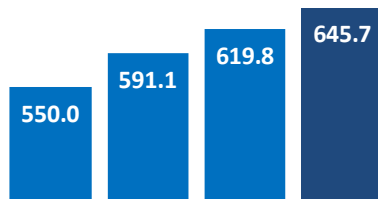


FY2016 FY2017 FY2018 FY2019

Units Sold
millions of units

645.7

+4.2% vs LY

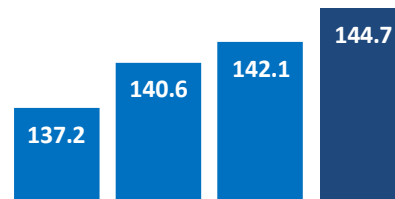


FY2016 FY2017 FY2018 FY2019

Customer Transactions
millions of transactions

144.7

+1.8% vs LY



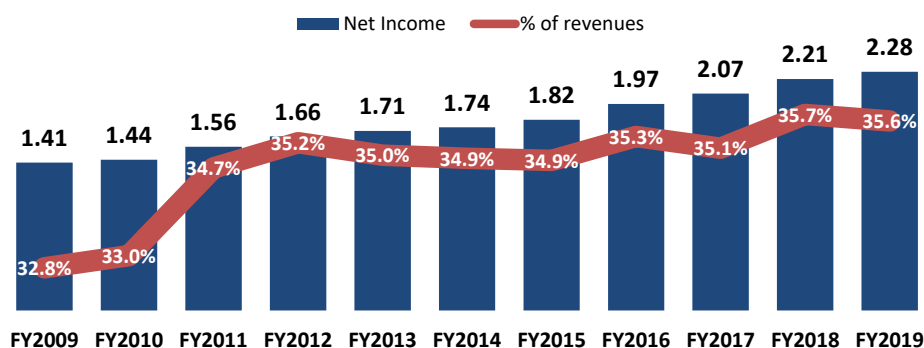
FY2016 FY2017 FY2018 FY2019

Volume and Unit Sold in FY2018 and FY2019 include the impacts of IFRS 15, which reduced volume and unit sales in those years.

NET INCOME³

Net income reached a record \$2.28 billion in FY2019, an additional \$69.6 million from the previous year. It represented 35.6 per cent of revenues, which was 10 basis points lower than FY2018.

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



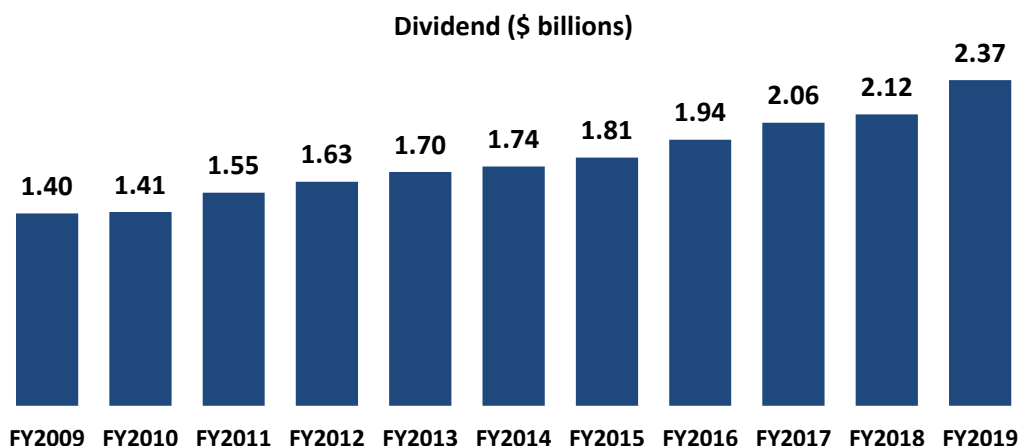
* FY2017 net income has been normalized to exclude the gain from the sale of the LCBO head office property.

Over the past 10 years, net income has risen by \$866 million, or 61.4 per cent, as a result of sales growth, improved margins and expense control.

³ Net Sales and Revenue figures for FY2018 and FY2019 reflect the impact of IFRS 15, which reduced revenues but not net income.

DIVIDEND

The LCBO transferred \$2.37 billion in dividends to the Ontario government in FY2019, excluding taxes. This was \$250 million more than in FY2018 and marked the 25th straight year of increased transfers.



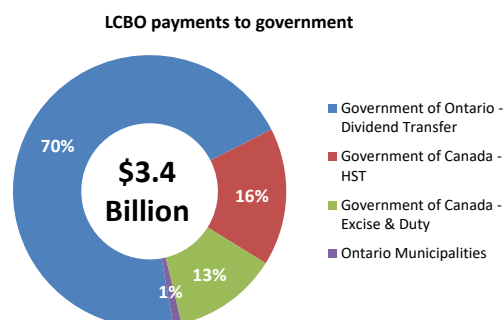
The dividend has grown by 69 per cent since FY2009, reflecting an additional \$970 million. Cumulatively, the Ontario government has received over \$18 billion in dividend transfers from the LCBO for the past decade.

PAYMENTS TO GOVERNMENT

The LCBO paid \$3.4 billion to all levels of government in FY2019. The dividend – excluding excise, duty and all sales and municipal taxes, was remitted at the provincial level and accounted for 70 per cent of the total. The Canadian government received \$969 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 \$33 million.

(\$ millions)	FY2019	
Total payments	\$	3,372
Government of Ontario - Dividend Transfer	2,370	70%
Government of Canada - HST	552	16%
Government of Canada - Excise & Duty	417	13%
Ontario Municipalities	33	1%

Note: HST collected by the LCBO is remitted to the Canadian government where a portion of approximately \$339.5 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, which are recognized as LCBO sales.

Number of Outlets

As of March 31, 2019, there were 2,489 retail outlets selling alcoholic beverages in Ontario. In the last five years, the number of outlets has increased by almost 600, primarily from grocery and on-site brewery and distillery locations.

Number of outlets	FY2018	FY2019	Change
LCBO	663	666	+3
LCBO Agency	210	209	-1
Grocer*	247	363	+116
Ontario Winery Retail	470	454	-16
The Beer Store	450	450	0
On-site Brewery Retail	244	291	+47
On-site Distillery Retail	33	41	+8
Land Border Point Duty free	10	10	0
Airport Duty free	5	5	0
Total	2,332	2,489	+157

*Grocer included 68 wine boutiques in FY2019 (57 in FY2018) which are Ontario Winery Retail locations situated within a grocery store, also selling beer and cider.

Market Share

In FY2019, the total spirits market in Ontario (including spirits ready-to-drink and coolers) grew by 7.6 per cent or 8.6 million litres, to almost 122 million litres, with the LCBO accounting for most of the share.

Total wine sales in the province (including cider and wine coolers) saw a decline of 1.7 per cent in volume or 3.4 million litres during the year, to approximately 198 million litres. LCBO share contracted 29 basis points to 83 per cent of total wine volumes, despite advancing its share through the grocer channel by 78 basis points. Winery retail stores, including direct delivery to licensees, account for the remaining 17 per cent of the provincial wine volume market.

Beer volume sales (excluding LCBO and The Beer Store reciprocal sales) also declined during the year, by 0.7 per cent or 5.6 million litres, to 775 million litres. While The Beer Store still accounts for almost two-thirds of the province's total beer volume sales at 63 per cent of the market, its share eroded 310 basis points from 66 per cent last year. Beer sales through the grocer channel were responsible for 80 per cent of LCBO's volume market share gain of 270 basis points to 31 per cent of the beer market. On-site brewery stores accounted for the remaining six per cent, advancing its share by 40 basis points during the year.

NET SALES⁴

LCBO net sales totalled \$6.39 billion in FY2019, growth of \$217 million, or 3.5 per cent over the previous year.

Channel sales

The LCBO sells beverage alcohol to its customers through a variety of sales channels. Retail sales via brick and mortar stores and online to home consumers represented 78.6 per cent of total LCBO sales in FY2019, a decline of 68 basis points from the previous year. However, sales through the retail channel increased 2.6 per cent, topping \$5.0 billion during the year.

Channel (\$ millions)	Share	FY2019	vs. FY2018
Home Consumer - Retail	78.6%	\$ 5,023	2.6%
Licensee	9.0%	\$ 577	1.7%
The Beer Store	5.7%	\$ 367	-5.3%
Grocer	3.9%	\$ 247	60.8%
Agency Stores	1.9%	\$ 123	1.6%
Duty free	0.6%	\$ 36	4.8%
Other*	0.3%	\$ 18	18.3%
Total	100%	\$ 6,392	3.5%

*Other includes revenues from winery and distillery direct, sales to other provinces and unredeemed gift card recognition.

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 slower rate than to home consumers during the year, at 1.7 per cent to \$577 million in FY2019. This channel also saw a decline in share, 16 basis points less than in FY2018, at 9.0 per cent of total LCBO sales.

LCBO sales to TBS, the third-largest LCBO sales channel, declined 5.3 per cent in FY2019. Continued expansion of the grocer channel and a production shift of a previously imported beer brand to domestic, partially contributed to the decline. At \$367 million in sales, the channel accounts for 5.7 per cent of LCBO sales, 54 basis points less than the previous year.

⁴ Net sales are equal to gross sales less discounts and taxes.

The grocer channel, as expected, continues to see strong growth and market share expansion. In FY2019, with almost 116 more active authorizations from the previous year, sales grew by 60.8 per cent to \$247 million. The channel added 137 basis points to its share of LCBO sales, now accounting for 3.9 per cent of the total sales.

Sales to agency stores, an extension of the LCBO retail channel through authorized independent local retailers serving smaller communities across Ontario, increased 1.6 per cent to \$123 million during the year. This channel lost four basis points from last year, representing 1.9 per cent of total LCBO sales.

Duty free operators at airports and land border points represented 0.6 per cent of LCBO sales in FY2019. Sales through this channel grew 4.8 per cent to almost \$36 million.

Category sales

Spirits, including ready-to-drink and cooler products, maintained the largest portion of LCBO product sales in FY2019 at \$2.5 billion, or 39.0 per cent, of total sales. With a 4.3 per cent increase in sales, the category share rose for the second successive year, adding 32 basis points.

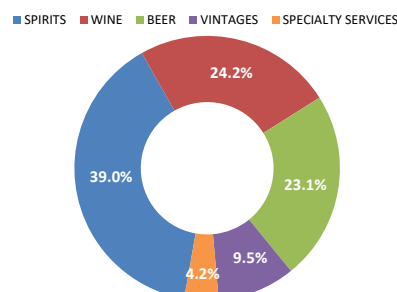
Wine (excluding VINTAGES) remained the second-largest category at 24.2 per cent of total net sales, despite losing 107 basis points. While this was the only category with a decline from the previous year, at 0.9 per cent, wine sales remained above \$1.5 billion.

VINTAGES, at \$604 million, also lost share compared to last year. With the second slowest growth after the wine category, at 2.7 per cent, Vintages represent 9.5 per cent of LCBO sales, eight basis points less than a year ago.

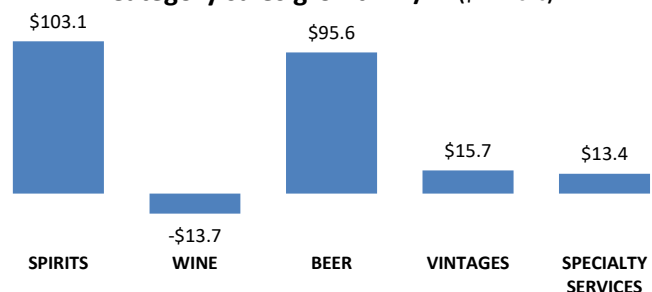
Beer had the strongest growth in FY2019 at 7.0 per cent. The category continues to benefit from more active grocer authorizations, approaching \$1.5 billion in sales and expanded its share by 75 basis points to 23.1 per cent of total sales.

Specialty Services, accounting for 4.2 per cent of LCBO sales, outpaced the previous year by 5.3 per cent and gained seven basis points of total LCBO sales share.

FY2019 Sales Share by Category



Category sales growth Yr/Yr (\$ millions)



OPERATING RESULTS

In FY2019, every \$1 in revenue was broken out in the following manner:

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

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

Margins

LCBO gross margin totalled \$3.2 billion in FY2019, representing an improvement of 3.6 per cent compared to FY2018. As a percentage of revenues, gross margin remained the same as last year at 50.8 per cent.

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

Spirits	\$0.58
Wine	\$0.54
VINTAGES	\$0.48
Beer	\$0.40
Specialty Services	\$0.37

Spirits accounted for 44.5 per cent, or more than \$1.4 billion, of total gross margin in FY2019. Spirits margin rose 4.1 per cent from FY2018, adding 11 basis points to its share of total margin.

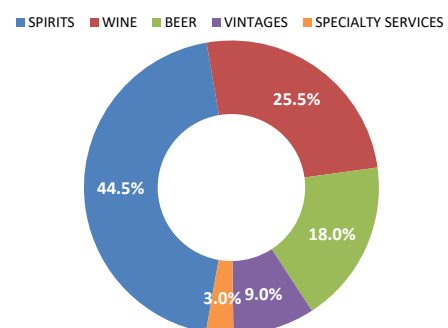
Wine share declined to 25.5 per cent of total LCBO gross margin during FY2019, 79 basis points lower than last year. This category posted the slowest margin growth of 0.7 per cent during the year to \$830 million.

Gross margin from beer had the strongest growth of 8.2 per cent and the largest share gain of 73 basis points to 18.0 per cent. Beer category margin totalled \$585 million dollar during FY2019.

VINTAGES gross margin, at \$292 million, increased 2.3 per cent from FY2018, but contracted 14 basis points to 9.0 per cent of total margin.

Specialty Services contributed \$97 million to gross margin. Growth registered at 6.7 per cent from the previous year, as the share advanced eight basis points.

FY2019 Margin Share by Category



Selling, General and Administrative Expenses

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

LCBO total expenses increased by \$25.8 million, or 2.6 per cent, in FY2019 compared to the previous year.

Operating expenses represented 83 per cent of the total and increased by 4.2 per cent during the year. Retail store expenses, the largest share at 68 per cent of operating expense, rose 2.5 per cent versus the previous year, with salaries and benefits and rent primarily driving the variance.

Administrative expenses accounted for the second-largest portion of operating expenses and the highest increase from the previous year, at 17.2 per cent. Information Technology projects, applications and support services contributed to higher administrative costs. These were reflected through increased spending on ongoing platform services, which include a warehouse modernization project, the implementation of an order management system, and continued business-to-business delivery expansion within wholesale channel. Human Resources projects and programs also drove administrative expense increases with investment in a human capital management system and continued investment on workplace wellness and safety.

Supply Chain expenses were marginally above FY2018, while Merchandising and Marketing declined. Reduced spending on thematic programs, category management and VINTAGES drove the favourable variance to the previous fiscal year.

Operating Expenses	FY2019	vs. FY2018
Retail Stores	\$ 574	2.5%
Administrative	\$ 186	17.2%
Supply Chain	\$ 43	1.8%
Merchandising & Marketing	\$ 38	-18.4%
Total	\$ 841	4.2%

Non-operating expenses, accounting for the remaining 17 per cent of total expenses, declined 4.4 per cent from FY2018. Depreciation, amortization and impairment, representing more than a third of these expenses, fell 4.2 per cent for the year.

Expenses related to environmental initiatives, comprising mainly of LCBO Ontario stewardship obligations and service fees to TBS for the Ontario Deposit Return Program, outpaced the previous year. Higher sales and container redemption rates drove the unfavourable variances relating to environmental initiatives. Debit and credit card charges were above last year's charges, in line with the higher level of sales registered in FY2019.

One of the main drivers of the non-operating expense favourable variance was the employee benefit obligation (EBO), which is an estimate by an independent, objective actuary based on a number of factors including discount rate, health trend rates, benefit indexation and retirement assumptions. The assumptions are updated annually which results in actuarial gains and losses. In FY2019, EBO was \$9.0 million, or 62 per cent, lower than the previous year mainly due to assumption changes in salary scale, indexation rates and experience.

Non-Operating Expenses	FY2019	vs. FY2018
Depreciation, amortization and impairment	\$ 67	-4.2%
Environmental Initiatives	\$ 49	5.2%
Debit/Credit Charges	\$ 45	6.2%
Other Expenses*	\$ 8	-56.2%
Total	\$ 169	-4.4%

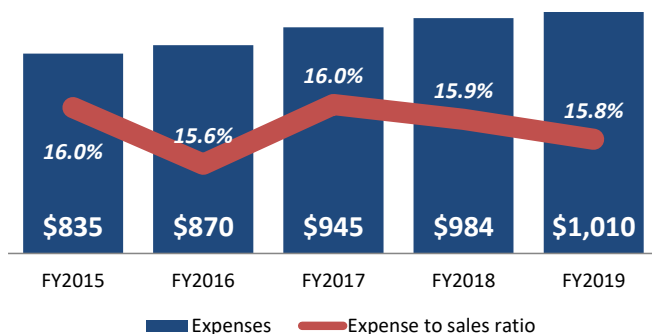
* Other expenses include gift card program expenses and employee benefit obligations.

Expense to Sales Ratio

The ratio of expense to sales was 15.8 per cent in FY2019, a 10 basis point improvement over the previous fiscal year. Strong expense control and an overall faster net sales growth rate relative to operating expenses contributed to the favourable ratio.

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

Expense trend (\$ millions)

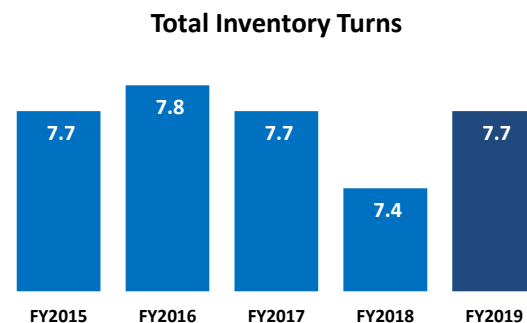


Inventory

Total inventory turns normalized at 7.7 in FY2019 compared to 7.4 in the previous year. The lower turns last year stemmed from the contingency inventory build prior to the settlement of the collective bargaining negotiations in FY2018. The inventory build contributed to higher inventory levels for most of the year, reducing turns, especially for spirits.

In FY2019, spirits turns returned to 8.6 to match FY2017, after dropping to 7.8 last year. Holding larger quantities of domestic spirit products in the second half of FY2018 to improve service levels also lowered the category turns in FY2018.

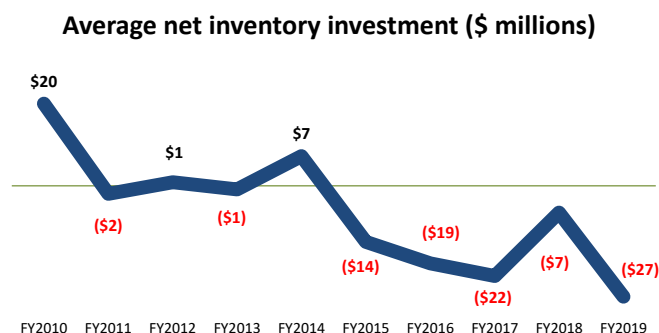
Wine turns dropped from 6.5 to 6.4 in FY2019. Soft sales performances of Ontario and New World wines, particularly in the second half of the year, led to high levels of inventory on hand. Despite efforts to adjust the higher inventory levels, long lead times, especially for New World wines, made it difficult to adapt quickly.



Beer turns improved by 0.2 to 14.9 in FY2019. Robust sales and supplier delays resulted in lower levels of inventory on hand for several periods during the year.

VINTAGES turns remained unchanged at 3.7.

Average net inventory investment⁵ during FY2019 was negative \$27.3 million. In the last decade, LCBO net investment in inventory has fallen by almost \$55 million, highlighting continuous improvement in sales, inventory, and cash flow management.



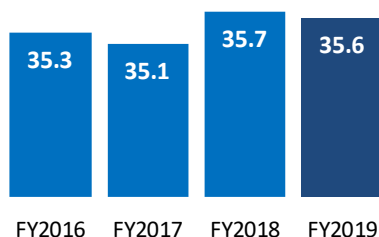
⁵ Average net inventory investment refers to the amount of unpaid, but includes prepaid liquor inventory, as well as goods-in-transit, averaged over LCBO's 13 fiscal reporting periods.

KEY PERFORMANCE INDICATORS

Financial Ratios

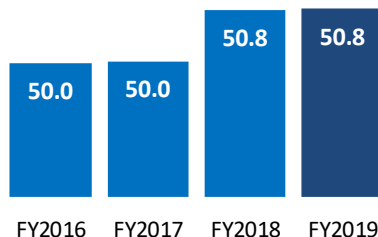
Net Income Ratio
percentage of revenue

35.6%
-10bp vs LY



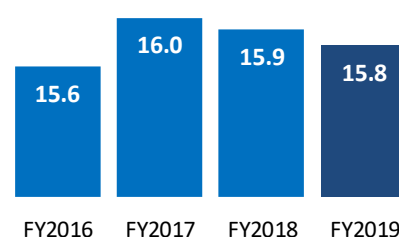
Gross Margin Ratio
percentage of revenue

50.8%
0bp vs LY



SG&A Expense Ratio
percentage of revenue

15.8%
-10bp vs LY



FY2017 net income has been normalized to exclude the gain from the sale of the LCBO head office property.
Revenues in FY2018 and FY2019 include the impacts of IFRS 15, which reduced revenues but not net income in those years.

In FY2019, net income was 35.6 per cent of revenue, 10 basis points less than last year's ratio. Gross margin ratio remained unchanged at 50.8 per cent while selling, general and administrative expenses as a percentage of revenue improved by 10 basis points to 15.8 per cent.

Productivity ratios

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

Retail productivity highlights

	FY2015	FY2016	FY2017	FY2018	FY2019
Retail sales per transaction	\$ 34.18	\$ 34.38	\$ 35.29	\$ 36.64	\$ 36.80
Unit sales per hour paid	42.1	43.0	42.7	42.4	43.5
Salaries & Benefits as a percentage of retail sales	7.1%	7.0%	7.1%	7.1%	7.1%
Total retail expenses as a percentage of retail sales	10.9%	10.9%	11.0%	10.8%	10.8%

Retail productivity ratios were somewhat favourable compared to last year. Retail sales per transaction continued its upward trend as consumers spent \$0.16 more per store purchase than they did in FY2018. Product sales mix, mark-up changes and consumer trading up

contributed to the increase. Unit sales per hour paid also improved, as unit sales growth outpaced the rise in retail labour cost. Salaries and benefits and total retail expenses as percentages of retail sales were unchanged comparing to the prior year.

Supply Chain productivity highlights

	FY2015	FY2016	FY2017	FY2018	FY2019
Warehouse cases throughput per hour paid	35	38	39	39	39
Warehouse salaries & benefits per case throughput	\$ 1.02	\$ 0.98	\$ 0.95	\$ 0.97	\$ 0.99
Warehouse cost per case throughput	\$ 1.26	\$ 1.20	\$ 1.22	\$ 1.22	\$ 1.24

The full fiscal year impacts of two changes that occurred in FY2018 led to Supply Chain productivity ratios being mixed in FY2019. Implementation of collective bargaining agreement terms resulted in higher salaries and benefits, and the shift of a major beer brand from import to domestic, led to lost volume sales to TBS, thus lower cases handled through that channel. Warehouse cases throughput per hour paid remained unchanged in FY2019, while a 2.8 per cent rise in salaries and benefits contributed to a two per cent increase in overall warehouse expenses during the year. Overall cases handled increased at a slower rate of 0.6 per cent, resulting in a \$0.02 increase in warehouse salaries and benefits and total cost per case throughput ratios.

CAPITAL EXPENDITURES

Capital expenditures (capex) totalled \$77.8 million in FY2019, with the majority of investment allocated to LCBO retail network expansion and improvement. Major investments included in the \$43 million spent through Store Development and Real Estate, comprised of six new stores and eight relocated and expanded locations.

Information Technology projects accounted for the second-largest portion of capex, totalling \$27 million in FY2019. 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 store device modernization initiative, which will improve employee and customer experience across all stores in the retail store network.

<i>(\$ millions)</i>	FY2019
Store Development and Real Estate	\$ 43.3
Information Technology	\$ 27.0
Supply Chain	\$ 7.0
Other	\$ 0.5
Total Capital Expenditures	\$ 77.8

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. The LCBO uses processes to mitigate risks throughout the organization. It is dedicated to maturing the ERM program and optimizing its ability to meet its objectives.

The LCBO ERM program consists of a risk framework, an ERM assessment process, continuous monitoring of key risks and semi-annual reporting to the Board of Directors. The LCBO Board, through its Audit Committee, provides oversight for the risk management program. The CEO has ultimate accountability for risk management. Risks are reviewed regularly, and actions are taken to mitigate risks to acceptable levels. The primary objectives of the ERM program are:

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

The LCBO strives to grow revenues for its shareholder while also investing in innovations to improve customer experience and upholding its commitment to social responsibility. LCBO operations and technology must continue to run the day-to-day business while adapting to marketplace evolution. This influences the risk landscape for the LCBO. Following is a summary of the key risks facing the LCBO.

LCBO's top three enterprise risks are:

1. Government policy and legislative change
2. Competition
3. Labour related risk

Government policy and legislative change

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

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

Competition

Over the past several years, the LCBO has faced increased competition as a result of the expansion of the sale of beer, cider and wine in some grocery stores.

Further, the government announced the intent to expand the sales of beer, cider and wine into additional private outlets. This decision will continue to drive the transformation of the LCBO's business model. Grocery stores and big box stores have a competitive advantage as they are able to provide a one-stop shopping experience for customers who want to buy food, household necessities and beverage alcohol at the same time. Corner stores benefit from a large, easily accessible store network. To mitigate these challenges, the LCBO will focus on achieving a highly engaging, integrated customer experience while providing unparalleled product choice. It will emphasize its own points of differentiation through a number of key initiatives:

- Increasing integration between online and retail channels to make the LCBO a more convenient and engaging place to shop;
- Continuing to enhance product assortment with products from Ontario and around the world;
- Investing in technology-enabled frontline staff tools and training programs including product expertise, customer service, and responsible retailing;
- Introducing new content through our online and print communications to help Ontarians learn about the LCBO's products and how they can responsibly enjoy them; and,
- Optimizing the retail store network to ensure stores are the right size, the right format and in the right locations.

The LCBO will also focus on its role as a wholesaler and provide a seamless service experience to wholesale customers by providing channel-specific services that improve efficiency and smooth operations for its B2B customers, making it as easy as possible to grow their business with the LCBO.

Labour related risk

The Ontario Public Service Employees' Union (Liquor Board Employees' Division) represents over 8,000 LCBO employees for collective bargaining and labour relations. The quality of this relationship, the degree of employee engagement and the rates and conditions established through collective bargaining directly correlate to the efficiency and performance of the LCBO. The LCBO must also anticipate issues that affect the bargaining unit employees and proactively engage both internal and external stakeholders.

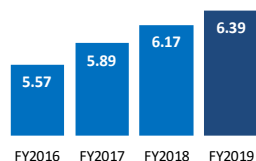
To mitigate these challenges, the LCBO works hard to maintain a collaborative, shared-interest based working relationship with OPSEU. Additionally, LCBO is developing a Labour Relations centre that provides expertise to the business and focuses on cost-effective resolutions.

The LCBO will continue to manage its risks and leverage opportunities. It is committed to the continuous advancement of the ERM program to protect and support the achievement of LCBO's objectives.

FINANCIAL HIGHLIGHTS AT A GLANCE

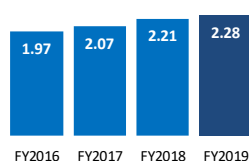
Revenue
\$billions

\$6.39
+3.5% vs LY



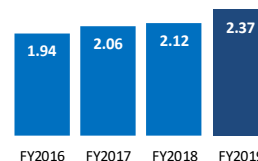
Net Income
\$billions

\$2.28
+3.2% vs LY



Dividend
\$billions

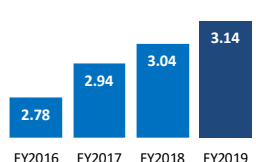
\$2.37
+11.8% vs LY



FY2017 net income has been normalized to exclude the gain from the sale of the LCBO head office property.
Revenues in FY2018 and FY2019 include the impacts of IFRS 15, which reduced revenues but not net income in those years.

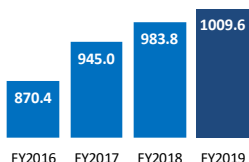
Cost of Sales
\$billions

\$3.14
+3.5% vs LY



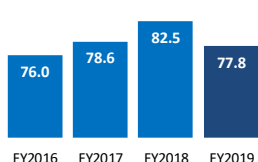
Expenses
\$millions

\$1009.6
+2.6% vs LY



CapEx
\$millions

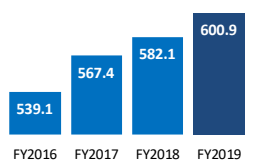
\$77.8
-5.7% vs LY



Cost of Sales in FY2018 and FY2019 include the impacts of IFRS 15, which reduced the sales cost in those years.

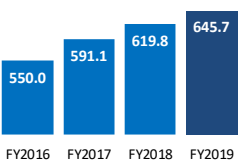
Volume Sold
millions of litres

600.9
+3.2% vs LY



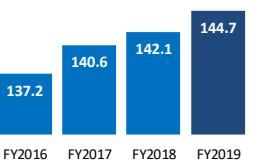
Units Sold
millions of units

645.7
+4.2% vs LY



Customer Transactions
millions of transactions

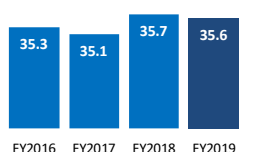
144.7
+1.8% vs LY



Volume and Unit Sold in FY2018 and FY2019 include the impacts of IFRS 15, which reduced volume and unit sales in those years.

Net Income Ratio
percentage of revenue

35.6%
-10bp vs LY



Gross Margin Ratio
percentage of revenue

50.8%
0bp vs LY



SG&A Expense Ratio
percentage of revenue

15.8%
-10bp vs LY



FY2017 net income has been normalized to exclude the gain from the sale of the LCBO head office property.
Revenues in FY2018 and FY2019 include the impacts of IFRS 15, which reduced revenues but not net income in those years.

RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

On behalf of management:



George Soleas
President & Chief Executive Officer



Kent Harris
Senior Vice President, Finance & Administration, and Chief Financial Officer
June 27, 2019



INDEPENDENT AUDITOR'S REPORT

To the Liquor Control Board of Ontario

Opinion

I have audited the financial statements of the Liquor Control Board of Ontario (the LCBO), which comprise the statement of financial position as at March 31, 2019, and the statements of income and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the LCBO as at March 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the LCBO in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the LCBO's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the LCBO either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the LCBO's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

Toronto, Ontario
June 27, 2019



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

FINANCIAL STATEMENTS & NOTES

For the Year Ended March 31, 2019

Statement of Financial Position*(thousands of Canadian dollars)*

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

See accompanying notes to the financial statements.

Approved By:



Carmine Nigro, Chair, Board of Directors



Cheryl Hooper, Board Member, Chair, Audit Committee

Statement of Income and Other Comprehensive Income

(thousands of Canadian dollars)

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

See accompanying notes to the financial statements.

⁶ Certain prior year figures have been restated due to the adoption of new accounting standards (refer to Note 2.1).

Statement of Changes in Equity

(thousands of Canadian dollars)

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

LIQUOR CONTROL BOARD OF ONTARIO

Statement of Cash Flows

(thousands of Canadian dollars)

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

Notes to Financial Statements

For the years ended March 31, 2019 and 2018

(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 27, 2019.

2. Adoption of new and amended standards and interpretations

2.1 Accounting standards and amendments adopted in the current year

The IASB has issued the following relevant standards and amendments that have been applied in preparing LCBO's March 31, 2019 financial statements as their effective dates fall in the current financial reporting period.

IFRS 9 Financial Instruments

Previous standards and interpretations:

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

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

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

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

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

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

Previous standards and interpretations:

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

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

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

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

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

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

Annual Improvement – 2014-2016 Cycle

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

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

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

The interpretation is effective for annual periods beginning on or after January 1, 2018. The implementation of this interpretation did not have an impact to LCBO.

2.2 Accounting standards and amendments not yet effective

The following relevant standards and amendments issued by the IASB have not been applied in preparing LCBO's March 31, 2019 financial statements as their effective dates fall in periods beginning subsequent to the current financial reporting period.

IFRS 16 Leases

Previous standards and interpretations:

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

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

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

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

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

IAS 19 Employee Benefits

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

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

3. Significant Accounting Policies

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

3.1 Cash & Cash Equivalents

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

LCBO's investment policy restricts short-term investments to highly liquid, high-grade money market instruments such as federal/provincial treasury bills, bankers' acceptances and term deposits. The resulting disclosures are presented in Note 5.

3.2 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost less the lifetime expected credit loss. LCBO applies the simplified approach, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

The lifetime expected credit losses is estimated using a provision matrix based on LCBO's historical loss rates of its historical credit loss experience for different customer segments. The historical losses are adjusted as appropriate to reflect current conditions and estimates of future economic conditions. The loss is recognized as selling, general and administrative expenses in the Statement of income and other comprehensive income. The resulting disclosures are presented in Note 6.

3.3 Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined by the weighted average cost or landed cost method. Landed cost includes the supplier quote, rebate, excise, import duties and inbound freight. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of inventories comprises all cost of purchase net of vendor allowances and includes other direct costs, such as transportation and direct warehouse handling costs that are incurred to bring inventories to their present location and condition. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable. The resulting disclosures are presented in Note 7.

3.4 Property, plant and equipment

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

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

3.4 Property, plant and equipment (continued)

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

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

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

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

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

3.5 Intangible assets

i. Acquired intangible assets

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

The estimated useful lives for intangible assets are as follows:

Computer software	4 years
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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.

3.5 Intangible assets (continued)

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

3.6 Impairment of property, plant and equipment and intangible assets

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

3.7 Trade and other payables

Trade and other payables are classified as other financial liabilities and are generally short term in nature and due within one year of the Statement of financial position date. Trade payables are non-interest-bearing and are initially measured at fair value and subsequently remeasured at amortized cost. The resulting disclosures are presented in Note 10.

3.8 Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation. The resulting disclosures are presented in Note 13.

3.9 Financial instruments

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

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

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

3.9 Financial instruments (continued)

i. Amortized cost

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

ii. Fair value through other comprehensive income

This measurement category applies to financial instruments in which assets are held for collection of contractual cash flows and for selling the financial assets. LCBO does not hold any financial assets under this measurement category.

iii. Fair value through profit or loss

Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. Financial assets classified as fair value through profit or loss are measured at fair value with changes in fair value recorded in profit or loss and presented net with other gains/(losses) in the period in which they arise.

Derivative financial instruments are classified as FVTPL. Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at fair value, with changes recognized in profit and loss.

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

Financial instruments measured at fair value must be classified according to a three-level hierarchy based on the type of inputs used to make the measurements. This hierarchy is as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than the Level 1 quoted prices that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market inputs (unobservable inputs).

3.10 Revenue recognition

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

i. **Air Miles®**

The Air Miles® program is split into two distinct components:

- (1) Base – LCBO pays LoyaltyOne a fee for each base Air Miles® issued to customers. LCBO acts as an agent for LoyaltyOne in this arrangement, therefore the associated costs of the base miles are accounted for as a reduction to revenue in the Statement of income and other comprehensive income.
- (2) Bonus – LCBO charges vendors a fee whose products are participating in the bonus Air Miles® program. LCBO also pays LoyaltyOne a fee for each bonus Air Miles® issued to customers. The associated income net of costs of the bonus program is accounted for as a reduction to cost of sales in the Statement of income and other comprehensive income.

ii. **Direct Delivery**

The LCBO has established programs whereby Ontario wineries and small Ontario distillers may obtain approval to deliver products directly to licensees on behalf of the LCBO. The LCBO recognizes revenue from the direct delivery programs as the agent in the transaction, with cost of goods sold netted against gross revenues.

iii. **Gift Card breakage income**

LCBO recognizes a contract liability upon the sale of gift cards. LCBO expects to be entitled to a breakage amount in the contract liability as not all customers redeem the full amount of gift cards. Therefore, the LCBO recognizes the breakage amount as revenue in proportion to the pattern of gift card redemption. LCBO estimates the breakage rate based on historical redemption data. The guidance for variable consideration is followed when estimating the amount of breakage. The resulting disclosures are presented in Note 12.

3.11 Other income

i. **Services rendered**

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

3.11 Other income (continued)

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

In 2006, the Province entered into an agreement with Brewers Retail Inc., operating as The Beer Store (TBS) for management of a province-wide container deposit return program (“the program”) on wine, liquor and non-common beer containers sold through LCBO, Winery, on-site Microbrewery and Distillery Retail Stores. Brewers Retail Inc. was appointed the exclusive service provider for a period of five years effective 2007. In 2015, the Province extended the contract with Brewers Retail Inc. as part of the Master Framework Agreement which ends on September 30, 2025.

Under the program, LCBO collects a deposit of 10 or 20 cents on wine, liquor and most beer containers. LCBO reimburses Brewers Retail Inc. for deposits it pays to customers who return containers to locations it operates, plus a service fee. The net amounts are included in trade and other payables in the Statement of financial position. The service fees paid to Brewers Retail Inc. are included in selling, general and administrative expenses as part of environmental initiatives expenses.

LCBO recognizes a refund liability upon the receipt of container deposits. LCBO expects to be entitled to a breakage amount in the refund liability as not all customers return the container for their deposit. LCBO estimates its ODRP container redemption rate based on historical redemption data and determines the breakage rate. The breakage income is recognized based on redemption patterns, and is included in other income.

iii. Domestic Airline Revenue

LCBO has a process to facilitate the sale of alcohol from Ontario Suppliers to Airlines, who in turn sell the alcohol on their flights. LCBO charges airlines a mark-up on products removed from the Customs Bonded Warehouse/Excise Warehouse for in-flight sales on flights departing from Ontario with a Canadian destination.

3.12 Vendor allowances

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

3.13 Employee benefits

i. Short-term employee benefits

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

3.13 Employee benefits (continued)

ii. Pension Benefit Costs

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

LCBO's contributions to both plans are accounted for on a defined contribution basis with LCBO's contribution charged to the Statement of income and other comprehensive income in the period the contributions become payable. The resulting disclosures are presented in Note 14.

iii. Non-pension employee benefits

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

The liability of the CSP, ECTB, LTIP, NVSL and Service Awards was actuarially determined by using the Projected Unit Credit Method and management's best estimate. The WCB liability was actuarially determined by calculating the present value of the projected future payments. The annual benefit cost is the sum of the service cost and one year's interest cost plus remeasurements of the defined benefit obligation. LCBO recognizes all actuarial gains and losses due to remeasurements of the net defined benefit liability arising from the CSP and ECTB benefits immediately in other comprehensive income, and reports them in accumulated other comprehensive income in the Statement of financial position, as these benefits are accrued over an employee's years of service. Any actuarial gains and losses due to remeasurements of the net defined benefit liability arising from the LTIP, WCB, NVSL and Service Awards benefits are recognized in the Statement of income and other comprehensive income in the period in which they arise, as these benefits are defined as Other Long-Term Employee Benefits which do not have remeasurements that can be recognized in Other comprehensive income. The resulting disclosures are presented in Note 14.

3.14 Finance income

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

3.15 Finance costs

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

3.16 Leasing

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

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

3.17 Foreign currencies

Transactions in currencies other than LCBO's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. Items denominated in foreign currencies, comprised of US, Euro and AUD bank accounts and liabilities are translated at the prevailing rates at the end of each reporting period. Exchange gains and losses are recognized immediately in the Statement of income and other comprehensive income.

3.18 Ontario Cannabis Retail Corporation ("OCRC")

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

4. Use of estimates and judgments

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

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

i. Non-pension employee benefits

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

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

4. Use of estimates and judgments (continued)

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 13.

vi. ODRP container deposit breakage income

LCBO has determined that not all deposits paid by customers for the ODRP containers will be redeemed. Estimates have been made for the breakage rate on ODRP containers based on past history. The estimated ODRP container deposit breakage is included in other income in the period when the likelihood of redemption is considered to be remote.

vii. Gift Card breakage income

LCBO has determined that not all gift cards purchased will be redeemed in full by customers. Estimates have been made for the breakage rate on gift cards based on past history and industry trends. For the year ended March 31, 2019, LCBO estimated the breakage rate to remain at 2 per cent based on historical data.

5. Cash and Cash Equivalents

Cash and cash equivalents include both cash on hand and in transit and short term investments (such as term deposits, treasury bills and bankers' acceptances), as follows:

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

6. Trade and Other Receivables

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

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

LCBO trade and other receivables do not contain significant financing component due to their short term nature and as a result are recognized at transaction price. The receivables are held within a business model to collect all the contractual cash flows and therefore measured subsequently at amortized cost. The carrying amount of trade and other receivables is reduced through the use of a loss allowance for expected credit losses.

The relevant disclosures on LCBO's impairment policies and the calculation of the loss allowances are provided in Note 16.

7. Inventories

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

8. Prepaid Expenses and Other Assets

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

9. Property, Plant & Equipment and Intangible Assets

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

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

Property, plant & equipment and intangible assets continuity for the year ended March 31, 2019

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

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

Property, plant & equipment and intangible assets continuity for the year ended March 31, 2018

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

10. Trade and Other Payables

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

Trade payables consist of amounts outstanding for purchases of alcohol products, freight and federal taxes. Accruals and other payables include amounts relating to harmonized sales tax, unredeemed gift cards, ODRP container deposits collected and other miscellaneous accruals and purchases. Due to their short-term nature, LCBO considers trade and other payable to be the same as their fair value.

11. Operating Lease Arrangement

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

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

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

12. Gift Cards

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

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

13. Provisions

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

Provisions continuity for the year ended March 31, 2019

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

Provisions continuity for the year ended March 31, 2018

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

All provisions are classified as current. The employee benefits provision includes vacation entitlements earned by employees and performance bonus payments expected to be paid in the following year.

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

14. Employee Benefits

a. Pension plan

For the year ended March 31, 2019, the expense was \$34.4 million (2018 – \$31.7 million) and is included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

b. Non-pension employee benefits

The non-pension employee benefits obligation (“benefit obligation”) include accruals for contractual severance payments (“CSP”), executive compensation time banking (“ECTB”), benefits extended to employees on long-term income protection (“LTIP”), unfunded workers compensation obligation (“WCB”), non-vesting sick leave plan (“NVSL”) and service awards.

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

As of March 31, 2019, the weighted average duration of the plans obligations are 7.0 years (2018 – 7.3 years).

i. Statement of financial position

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

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

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

ii. Statement of income and other comprehensive income

The non-pension employee benefit costs recognized in the Statement of income and other comprehensive income is as follows:

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

14. Employee Benefits (continued)

iii. Accumulated other comprehensive income

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

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

iv. Movement in the obligation

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

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

14. Employee Benefits (continued)

V. Significant assumptions

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

	WCB	LTIP	NVSL	ECTB	CSP	Service Awards
Discount Rate						
Expense	3.30%	3.30%	3.30%	3.30%	3.30%	3.30%
Disclosure	3.10%	3.10%	3.10%	3.10%	3.10%	3.10%
Salary rate increase						
• Bargaining Unit	n/a	n/a	FY19: 2.010% plus OPT Promotional Scale FY20: 2.010% plus OPT Promotional Scale FY21+: 1.400% plus OPT Promotional Scale	n/a	FY19: 2.010% plus OPT Promotional Scale FY20: 2.010% plus OPT Promotional Scale FY21+: 1.400% plus OPT Promotional Scale	2.0% per annum
• Management and Executive	n/a	n/a	FY19: 2.010% + 2% merit FY20: 2.010% + 2% merit FY21+: 1.400% + 2% merit	FY19: 2.010% + 2% merit FY20: 2.010% + 2% merit FY21+: 1.400% + 2% merit	FY19: 2.010% + 2% merit FY20: 2.010% + 2% merit FY21+: 1.400% + 2% merit	2.0% per annum
• Disabled employees	2.0% per annum	1.4% per annum	Same as above	Same as above	Same as above	2.0% per annum
Health care cost increases						
• Health & Vision	7.3% per annum in 2019 reducing to 4.5% per annum in and after 2027	7.3% per annum in 2019 reducing to 4.5% per annum in and after 2027	n/a	n/a	n/a	n/a
• Dental	n/a	5.0% per annum	n/a	n/a	n/a	n/a

14. Employee Benefits (continued)

v. Significant assumptions (continued)

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

	WCB	LTIP	NVSL	ECTB	CSP	Service Awards
Discount Rate						
Expense	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%
Disclosure	3.30%	3.30%	3.30%	3.30%	3.30%	3.30%
Salary rate increase						
• Bargaining Unit	n/a	n/a	FY18: 2.010% plus OPT Promotional Scale FY19: 2.010% plus OPT Promotional Scale FY20: 2.010% plus OPT Promotional Scale FY21+: 1.400% plus OPT Promotional Scale	n/a	FY18: 2.010% plus OPT Promotional Scale FY19: 2.010% plus OPT Promotional Scale FY20: 2.010% plus OPT Promotional Scale FY21+: 1.400% plus OPT Promotional Scale	2.0% per annum
• Management and Executive	n/a	n/a	FY18: 8.540% + 2% merit FY19: 2.010% + 2% merit FY20: 2.010% + 2% merit FY21+: 1.400% + 2% merit	FY18: 8.540% + 2% merit FY19: 2.010% + 2% merit FY20: 2.010% + 2% merit FY21+: 1.400% + 2% merit	FY18: 8.540% + 2% merit FY19: 2.010% + 2% merit FY20: 2.010% + 2% merit FY21+: 1.400% + 2% merit	2.0% per annum
• Disabled employees	2.0% per annum	1.4% per annum	Same as above	Same as above	Same as above	2.0% per annum
Health care cost increases						
• Health & Vision	7.5% per annum in 2018 reducing to 4.5% per annum in and after 2027	7.5% per annum in 2018 reducing to 4.5% per annum in and after 2027	n/a	n/a	n/a	n/a
• Dental	n/a	5.0% per annum	n/a	n/a	n/a	n/a

14. 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	(4,460)	4,781
Health care trend rate	872	(854)
Salary Scale	3,103	(2,935)
Benefit Indexation	1,485	(1,377)

Excluding the assumption that is being tested, the sensitivity analysis was conducted using the same membership data, assumptions, and methods used to determine the fiscal 2019 year-end disclosures. For the sensitivity analysis, each main assumption was increased and decreased by 0.5 per cent from the assumption used to determine the defined benefit obligation at March 31, 2019, to determine the sensitivity impact on the March 31, 2019 defined benefit obligation.

15. Contingent Liabilities

LCBO is involved in various legal actions arising out of the ordinary course and conduct of business. In view of the inherent difficulty of predicting the outcome on such matters, LCBO cannot state what the eventual outcome on such matters will be. However, based upon legal assessment and information presently available, LCBO does not believe that liabilities, if any, arising from pending litigation will have a material effect on the financial statements. Settlements, if any, concerning these contingent liabilities will be accounted for in the period in which the settlement occurs.

16. Financial Risk Management

The LCBO's Treasury policies regarding financial risk management are clearly defined and consistently applied. They are a fundamental part of the long-term strategy covering areas such as credit risk, liquidity risk and market risk (foreign exchange risk and interest rate risk). LCBO's financial risk management approach is to minimize the potential adverse effects from these risks on its financial performance. Financial risk management is carried out by LCBO, under the direction of the Board of Directors through its Governance Committee, in accordance with its Treasury Risk Management Policy. This Policy sets out the prudential framework for the identification, measurement, management and control of financial risks. Treasury operates as a centralized service and does not engage in speculative activities. Strict limits on the size and type of transaction permitted as well as authorized counterparties are set by the Board of Directors and are subject to rigorous internal controls.

16. Financial Risk Management (continued)

a. Credit Risk

Credit risk is the risk of financial loss due to a financial counter party or another third party failing to meet its financial or contractual obligations to the LCBO. It arises from cash and cash equivalents, derivative financial instruments, and outstanding trade and other receivables. The carrying amount of financial assets represents the maximum credit exposure.

i. Risk management

Cash and cash equivalents and derivative financial instruments arising from forward contracts are placed only with approved counterparties. For banks and financial institutions, only independently rated parties that meet the minimum credit rating of A are accepted. The credit ratings are regularly monitored. In the event of a downgrade in credit rating of a counterparty, no further agreements are entered until the credit ratings meet or exceed LCBO's rating requirement.

At March 31, 2019, all foreign forward contracts and cash and cash equivalents were held with regulated Canadian financial institutions that met minimum credit rating requirements.

Trade and 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.

ii. Impairment of financial assets

Financial assets subsequently measured at amortized cost are subject to the expected credit loss model. LCBO has two classes of financial asset subject to the expected credit loss model:

Cash and cash equivalent

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

Trade and other receivables

The nature of LCBO's business mitigates against credit risk exposure from retail sales due to settlement in cash and credit cards. The LCBO ECL model loss rates are based off credit risk exposure by type of counterparty, namely wholesale customers and others. The loss rates are a function of sales payment collection over a period and the corresponding loss experience within the period. The loss rates are adjusted to reflect current and forward looking information on factors that impact the credit risk of customers. LCBO identified GDP and unemployment rate as the relevant macro-economic factors that affects customers' ability to settle outstanding receivables. The impact of macro-economic factors on LCBO loss rates is negligible.

16. Financial Risk Management (continued)

b. Liquidity Risk

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

c. Market Risk

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

i. Foreign Exchange Risk

LCBO is exposed to foreign exchange risk with respect to inventory purchases denominated in currencies other than the Canadian dollar. To mitigate the impact of fluctuating foreign exchange rates on the cost of these purchases, LCBO has an established non-speculative risk management program that governs the committed and reasonably anticipated foreign currency exposures in significant currencies that must be hedged through permitted hedging instruments. For the year ended March 31, 2019, LCBO hedged its exposure in identified significant currencies (USD, EUR and AUD) through the purchase of foreign exchange forward contracts.

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

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

As at March 31, 2019, LCBO had 66 foreign exchange forward contracts (2018 – 115) and 2 spot contracts (2018 – nil) with fair value totaling \$418K (2018 - \$1.2 million).

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

16. Financial Risk Management (continued)

ii. Interest Rate Risk

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

17. Capital Management

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

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

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

18. Revenue

Virtually all revenue is from the sale of goods.

19. Other Income

The components of other income include the following:

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

20. Selling, General and Administrative Expenses by Nature

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

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

21. Employee Costs

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

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

22. Finance Income and Finance Costs

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

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

23. Related Parties

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

Province of Ontario

For the year ended March 31, 2019, LCBO transferred a total dividend of \$2.370 billion (2018 – \$2.120 billion) to the Province. LCBO also provides an annual contribution to the Province for the defined benefit plan which is discussed in Notes 3 and 14.

Ontario Cannabis Retail Corporation ("OCRC")

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

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

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

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

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

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

23. Related Parties (continued)

Stewardship Ontario

LCBO is responsible under the *Waste Diversion Act*, 2002 to pay municipalities through Stewardship Ontario, an industry funded waste diversion organization for costs associated with container waste and non-container waste recycled through municipal Blue Box systems. For the year ended March 31, 2019, LCBO contributed \$2.7 million (2018 - \$2.3 million) and these expenditures are included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

Key Management Personnel

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

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

	March 31, 2019	March 31, 2018
Salaries and short-term employee benefits	5,998	5,397
Post-employment benefits	480	413
Other long term benefits	154	115
Termination benefits	591	246
	7,223	6,171

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

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

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

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

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

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

When LCBO sells TBS common products to customers including imported beer to TBS, the container deposit is collected as part of the sale proceeds. TBS common product program deposits paid and collected are offset and included in trade and other receivables in the Statement of financial position. For the year ended March 31, 2019, \$3.3 million (2018 – \$2.9 million) is included in trade and other receivables related to the TBS common product deposits.

25. Comparative Figures

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

FINANCIAL OVERVIEW

Key operational indicators

	FY2019	FY2018	FY2017	FY2016	FY2015
LCBO stores*	666	663	660	654	651
Full-time equivalent employees	7,398	7,343	7,032	6,665	6,469
Product listings	28,376	26,056	24,854	22,711	23,557

* LCBO store count includes depots (3 as of FY2019)

Financial indicators (\$ thousands)

	FY2019	FY2018	FY2017	FY2016	FY2015
Total revenues*	6,432,247	6,231,011	5,960,271	5,627,100	5,249,115
Growth over previous year	3.2%	4.5%	5.9%	7.2%	3.8%
Total expenses**	1,014,175	987,774	948,916	874,351	840,282
As a percentage of total revenues	15.8%	15.9%	15.9%	15.5%	16.0%
Net income***	2,276,126	2,206,524	2,067,935	1,967,836	1,818,415
As a percentage of total revenues	35.4%	35.4%	34.7%	35.0%	34.6%

* Total revenues represent revenues plus other income plus finance income. FY2018 and FY2019 revenues reflect IFRS 15 adjustments.

** 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

Revenue payments (\$ thousands)

Treasurer of Ontario	FY2019	FY2018	FY2017	FY2016	FY2015
Remitted by the Liquor Control Board:					
on account of profits	2,370,000	2,120,000	2,060,000	1,935,000	1,805,000
Trillium Trust transfer - sale of Head Office			246,215		
Remitted by the Alcohol and Gaming Commission:					
on account of licence fees and permits	14,268	11,570	9,983	9,193	8,891
Remitted by the Ministry of Revenue:					
Beer, wine and spirits tax ¹	612,000	601,000	589,000	582,000	560,000
Total	2,996,268	2,732,570	2,905,198	2,526,193	2,373,891
Receiver General for Canada	FY2019	FY2018	FY2017	FY2016	FY2015
Remitted by the Liquor Control Board:					
Excise taxes and customs duties	417,325	404,661	393,924	382,415	368,605
Goods and Services Tax (GST) / Harmonized Sales Tax (HST)	551,705	546,287	503,462	485,135	453,933
Remitted by others:					
Excise taxes, GST/HST and other duties/taxes	492,974	498,875	497,251	497,460	479,671
GST/HST remitted on sales through agency stores	17,857	17,577	17,043	16,421	15,312
Total	1,479,861	1,467,401	1,411,681	1,381,431	1,317,521
Ontario Municipalities	FY2019	FY2018	FY2017	FY2016	FY2015
Remitted by the Liquor Control Board:					
Realty taxes ²	33,294	32,147	33,276	31,488	28,443
Total revenue payments	4,509,424	4,232,117	4,350,155	3,939,113	3,719,855

¹ The beer, wine and spirits tax figure of \$612 million is an interim number for FY2019. The FY2018 number has been restated to actual as per 2019 Ontario Budget.

² Includes property taxes on leased properties.

Share of Ontario beverage alcohol market by volume sold

	2019
LCBO	46.9%
The Beer Store	45.3%
Other Legal	5.5%
Winery Retail Stores	2.3%
	100.0%

Note: Share volumes reported under Other Legal are estimates. LCBO and TBS share exclude reciprocal sales, while alcohol sales through Grocers are included in LCBO's share.

Volume sales (thousands of litres)

LCBO sales	FY2019	Growth	FY2018	FY2017	FY2016	FY2015
Domestic Spirits	29,929	-2.3%	30,632	30,416	31,842	31,044
Imported Spirits	36,189	4.8%	34,525	33,055	27,826	27,023
Total Spirits	66,118	1.5%	65,157	63,471	59,668	58,067
Domestic Wine	51,671	-1.1%	52,233	56,403	53,227	48,308
Imported Wine	112,753	-2.6%	115,754	113,035	111,481	108,135
Total Wine	164,425	-2.1%	167,987	169,438	164,708	156,443
Domestic Beer	165,412	12.9%	146,507	133,282	123,572	115,038
Imported Beer	148,458	-2.9%	152,904	156,826	150,714	140,477
Total Beer	313,870	4.8%	299,410	290,108	274,286	255,514
Domestic Coolers	42,899	16.1%	36,943	33,572	26,173	24,173
Imported Coolers	13,553	7.9%	12,565	10,827	14,307	9,416
Total Coolers	56,452	14.0%	49,508	44,399	40,480	33,588
Total Domestic	289,911	8.9%	266,315	253,673	234,814	218,563
Total Imported	310,953	-1.5%	315,748	313,743	304,328	285,050
Total LCBO	600,864	3.2%	582,063	567,416	539,142	503,613

Other sales	FY2019	Growth	FY2018	FY2017	FY2016	FY2015
Ontario winery stores	27,139	-0.8%	27,366	26,014	26,149	24,319
The Beer Store & brewer on-site stores	533,741	-4.9%	561,036	590,884	601,838	592,818

Note: The FY2019 sales figures for Ontario winery stores, The Beer Store (TBS) and brewer on-site stores are unaudited and may understate total sales due to various wineries and brewers not reporting by the time of publication, while previous years' numbers may be restated. LCBO beer sales figures include LCBO sales to TBS; of LCBO's total beer sales in litres, 77,074,718 were to TBS. TBS sales exclude sales to LCBO. For the LCBO, prior year figures are restated annually to reflect changes in product hierarchy. FY2018 and FY2019 LCBO figures reflect IFRS 15 adjustments.

Value sales (\$ thousands)

LCBO sales	FY2019	Growth	FY2018	FY2017	FY2016	FY2015
Domestic Spirits	961,191	-0.4%	964,948	935,672	948,814	913,343
Imported Spirits	1,287,258	6.2%	1,212,599	1,125,026	1,014,676	955,676
Total Spirits	2,248,449	3.3%	2,177,547	2,060,698	1,963,490	1,869,019
Domestic Wine	568,261	0.4%	566,249	592,200	552,962	505,113
Imported Wine	1,817,043	1.0%	1,799,297	1,703,068	1,641,358	1,566,310
Total Wine	2,385,304	0.8%	2,365,546	2,295,268	2,194,320	2,071,424
Domestic Beer	742,993	15.0%	646,083	571,998	518,554	471,001
Imported Beer	707,285	-1.4%	717,036	716,939	670,267	617,020
Total Beer	1,450,278	6.4%	1,363,119	1,288,937	1,188,821	1,088,020
Domestic Coolers	230,894	16.3%	198,464	183,015	144,040	133,649
Imported Coolers	79,232	8.5%	73,018	63,507	80,884	54,635
Total Coolers	310,126	14.2%	271,481	246,522	224,924	188,283
Total Domestic	2,503,339	5.4%	2,375,744	2,282,885	2,164,369	2,023,105
Total Imported	3,890,818	2.3%	3,801,950	3,608,540	3,407,186	3,193,641
Non-Liquor and Other	(4,845)	-2.9%	(4,992)	(636)	(2,089)	(2,657)
Total LCBO	6,389,312	3.5%	6,172,702	5,890,789	5,569,466	5,214,089

Other sales	FY2019	Growth	FY2018	FY2017	FY2016	FY2015
Ontario winery stores	338,399	1.7%	332,743	309,070	303,677	281,559
The Beer Store & brewer on-site stores	2,282,836	-2.2%	2,335,295	2,357,534	2,354,137	2,287,357

Note: The FY2019 sales figures for Ontario winery stores, The Beer Store (TBS) and brewer on-site stores are unaudited and may understate total sales due to various wineries and brewers not reporting by the time of publication, while previous years' numbers may be restated. LCBO beer sales figures include LCBO sales to TBS; of LCBO's total beer sales, \$366,778,854 were to TBS. TBS sales exclude sales to LCBO. For the LCBO, prior year figures are restated annually to reflect changes in product hierarchy. FY2018 and FY2019 LCBO figures reflect IFRS 15 adjustments.

Product listings

	FY2019	FY2018	FY2017	FY2016	FY2015
Domestic					
Spirits	597	574	508	469	469
Wine	605	577	579	554	574
Beer	1,294	1,246	1,038	692	573
Imported					
Spirits	930	1,099	980	815	762
Wine	1,078	1,134	1,121	1,156	1,170
Beer	376	383	387	391	390
Total regular listings	4,880	5,013	4,613	4,077	3,938
VINTAGES wines and spirits	5,257	5,079	4,972	5,361	5,468
Duty-free listings	239	234	269	273	252
Consignment warehouse and private ordering	18,000	15,730	15,000	13,000	13,899
Total product listings	28,376	26,056	24,854	22,711	23,557

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

LCBO sales by country of origin

In FY2019, excluding sales through Specialty Services and direct distillery and winery sales, the LCBO sold products from 82 different countries.

Spirits

Country	Net Sales (\$)	Litres
CANADA	\$ 1,186,732,077	72,217,171
ONTARIO	\$ 676,770,353	48,790,763
UNITED STATES	\$ 320,878,693	19,476,018
UNITED KINGDOM	\$ 308,588,834	7,215,600
FRANCE	\$ 189,398,078	5,521,878
IRELAND	\$ 111,070,974	3,212,401
MEXICO	\$ 92,609,223	2,108,847
SWEDEN	\$ 75,474,655	2,381,935
ITALY	\$ 41,555,155	1,279,781
LATVIA	\$ 28,570,247	897,059
GERMANY	\$ 26,141,539	982,300
OTHER	\$ 160,203,511	5,973,649
TOTAL	\$ 2,541,222,985	121,266,638

Wine

Country	Net Sales (\$)	Litres
CANADA	\$ 551,579,389	51,816,508
ONTARIO	\$ 545,632,190	51,267,913
UNITED STATES	\$ 385,584,244	20,392,712
ITALY	\$ 375,580,552	23,829,421
FRANCE	\$ 225,347,108	9,783,097
AUSTRALIA	\$ 175,845,322	11,388,862
CHILE	\$ 112,785,213	9,557,468
NEW ZEALAND	\$ 88,900,215	4,275,899
SPAIN	\$ 74,134,346	4,374,122
ARGENTINA	\$ 66,086,871	4,377,032
PORTUGAL	\$ 44,518,154	3,303,983
OTHER	\$ 132,691,061	14,926,790
TOTAL	\$ 2,233,052,475	158,025,895

Beer

Country	Net Sales (\$)	Litres
CANADA	\$ 736,883,341	163,609,710
ONTARIO	\$ 678,639,083	151,051,758
NETHERLANDS	\$ 134,661,941	28,287,343
MEXICO	\$ 120,650,244	23,594,283
BELGIUM	\$ 91,740,553	17,549,396
UNITED STATES	\$ 59,524,489	13,503,470
GERMANY	\$ 41,622,208	10,648,862
POLAND	\$ 26,123,527	6,949,514
IRELAND	\$ 26,035,478	5,148,969
UNITED KINGDOM	\$ 21,706,929	4,478,691
DENMARK	\$ 17,689,785	4,338,290
OTHER	\$ 62,870,948	13,823,913
TOTAL	\$ 1,339,509,442	291,932,441

Local Products – produced in Ontario

Sales exclude Specialty Services.

Volume sales (*thousands of litres*)

LCBO sales	FY2019	FY2018	Growth
Small Distillers	446	245	82.1%
VQA Wines	9,229	9,302	-0.8%
Non-VQA Wines	35,853	36,964	-3.0%
Total Wines	45,081	46,266	-2.6%
Craft Beer	26,334	22,205	18.6%
Craft Cider	2,625	1,881	39.5%
Non-Craft Cider	3,409	3,064	11.3%
Total Cider	6,034	4,945	22.0%

Value sales (*\$ thousands*)

LCBO sales	FY2019	FY2018	Growth
Small Distillers	15,673	10,833	44.7%
VQA Wines	161,982	161,583	0.2%
Non-VQA Wines	343,096	346,184	-0.9%
Total Wines	505,078	507,767	-0.5%
Craft Beer	152,638	127,588	19.6%
Craft Cider	16,292	11,473	42.0%
Non-Craft Cider	19,658	16,949	16.0%
Total Cider	35,951	28,421	26.5%

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.

Produced by LCBO Communications.

Financial information prepared by LCBO Financial Planning & Analysis Group and the Controller's Office.

French translation by LCBO French Language Services.

Ce rapport est également publié en français sous le titre; Rapport annuel de la LCBO 2018-2019.

Accessible Formats and Communication Support

Requests can be made using the following methods:

Phone:

helloLCBO/alloLCBO Contact Centre - 1-800-668-5226

Mail:

Attention LCBO Customer Service - Dept. 878
1 Yonge St, 22nd Floor, Suite 2208
Toronto Ontario
M5E 1E5

Teletype:

TTY number – 1-800-361-3291

Website/Chat:

www.hellolcbo.com

E-mail:

<https://hellolcbo.com/app/ask>
(enter the word Accessibility in the subject line)

Hours:

Monday to Friday, 8:30 a.m. to 6:00 p.m.
Saturday, 9:00 a.m. to 6:00 p.m.