2021-22

ANNUAL REPORT

LCBO

Ontario

LETTER OF TRANSMITTAL

The Honourable Peter Bethlenfalvy, Minister of Finance:

Dear Minister, I have the honour to present you with the 2021-22 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,

Carmine Nigro, Chair

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HIGHLIGHTS

BY THE NUMBERS:

- **Dividend of $2.55 billion to the Government of Ontario to support critical services like healthcare, education and infrastructure**
- **eCommerce sales were steady at $140 million as consumers began to return to in-store shopping**
- **Charitable donations hit a record of over $16.7 million to further help local communities thrive**
- **There are now 680 LCBO stores operating in Ontario and 2,930 retail outlets selling alcoholic beverages, increasing access, convenience and choice**
- **Wholesaler to 450 grocery stores**

The LCBO took significant strides in its transformative journey to modernize the beverage alcohol marketplace. This includes investing in innovation and technology to bring our brand promise to life and support customers regardless of when, where, or how they shop with us.

FINANCIAL OVERVIEW

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

- Dividends transferred to the Ontario Government: $2.55 billion
- Revenue: $7.34 billion
- Net income: $2.54 billion
- Total eCommerce sales: $140 million
- More than 1.1 billion litres of beverage alcohol products were sold in Ontario during FY2022, with an estimated value in excess of $9.8 billion

RETAIL OVERVIEW

Throughout the challenges of the pandemic, the LCBO has remained a best-in-class, customer-centric retailer. We've kept our stores a safe place to work and provided our customers greater convenience and choice to discover a world of wine, beer, ciders and spirits.

- Number of LCBO stores serving communities across Ontario: 680

- LCBO continued to enhance its eCommerce platform in FY2022 by improving convenience and customer online experience
- LCBO launched the Aeroplan loyalty program, allowing customers to earn points when shopping at LCBO stores across the province
- The relocation of the flagship store was completed in downtown Toronto, featuring over 4,000 products and the largest Vintages wines selection in the retail network

SUSTAINABILITY & SOCIAL IMPACT

The Spirit of Sustainability continues to drive meaningful and equitable change in our communities. Our programs and partnerships support local and the province's social and environmental needs.

In FY2022, the LCBO significantly increased our total community fundraising with over $16.7 million raised to support organizations including:

  - Women's College Hospital Foundation, in support of their mission to provide equitable and compassionate healthcare to women and marginalized groups across Ontario
  - MADD Canada, supporting increased awareness on the dangers of drinking and driving along with education & awareness programs across the province
  - The United Way, a longstanding charitable partner whose focus is providing support to local Ontario communities as they rebuild after COVID-19
  - Brock University & Niagara College, our education partners for the *Spirit of Inclusion Initiative,* by supporting diverse women entering and advancing in the beverage alcohol industry through bursaries, scholarships, mentorship and paid co-op positions
  - Ontario's four children's hospitals: Children's Health Foundation, Children's Hospital of Eastern Ontario (CHEO) Foundation, McMaster Children's Hospital Foundation, and SickKids Foundation

- 2,763 Ontario products that support the local economy
- 91 percent of customers are confident in their ability to find local, Ontario products at the LCBO
- 745 extra light and light beverage alcohol products offered; 10,047 low sugar beverage alcohol products offered
- 699,170 product tests in the LCBO's world-class quality assurance laboratory
- LCBO challenged 10,527,852 individuals and 262,110 were refused services for not adhering to the Responsible Service Program
- 81 percent of warehouse waste diverted from landfill

MESSAGE FROM THE CHAIR

I’m pleased to celebrate another year as the Chair of the Board of the LCBO. When I took on this role four years ago, I could never have imagined the challenges that were ahead for the province—and the world. But I knew that no matter what the future held, the LCBO would adapt and thrive.

The continuous transformation of the LCBO is the best way to propel the modernization of the beverage alcohol industry forward. The Board is proud to play a role in this as the LCBO continues to not only respond to change but drive it in a meaningful way.

We need to remain focused on thoughtful investment in technology and innovation to ensure that we remain customer-centric and efficient, which ultimately maximizes our return to the province. Speaking of our returns to the province, in FY2022, the LCBO delivered a record-breaking dividend to Ontario. These dividends play a significant role in supporting the critical infrastructure and services that keeps our province moving, healthy, and happy.

Delivering value extends to LCBO’s enterprise-wide social impact platform. The *Spirit of Sustainability* is designed to create a more sustainable Ontario by supporting the province’s social and environmental needs. This critical work and impact continue to drive meaningful and equitable change in the communities where we live and work. In FY2022, charitable donations raised more than $16 million to support the health and well-being of Ontarians.

With respect to my fellow Board Members, I would like to acknowledge their role in ensuring we are always achieving our mandate and working in the best interests of Ontarians by being efficient, effective, and providing the best-in-class experience our customers have come to expect from the LCBO.

The Board was pleased to welcome a new board member earlier in the year. Claudia Hepburn sits on our Human Resources and Compensation Committee. She has spent her career building mission-based organizations to develop human capital and is the CEO of Windmill Microlending, a national charity that empowers skilled immigrants to achieve their economic potential. Claudia is the recipient of the Queen’s Diamond Jubilee Medal and has been named one of Canada’s Top 25 Women of Influence.

For 95 years, the LCBO has been dedicated to bringing the best products from Ontario and the world to the province. I look forward to continuing working collaboratively alongside the Board and LCBO senior leadership to provide oversight, leadership, and support transformative change so we can ensure a sustainable future for Ontario for years to come.

Carmine Nigro, Chair

MESSAGE FROM THE PRESIDENT & CEO

I'm proud to have led the LCBO through another exciting yet challenging fiscal year. Although we continued to navigate the ebbs and flows of the ongoing pandemic and global supply chain challenges, one thing remained consistent: the LCBO was able to stay on course as it continued its transformative journey to support customer choice and convenience and modernize the beverage alcohol marketplace.

I often refer to the 2022 fiscal year as one of the most transformational in the LCBO's 95-year history. The sale and redevelopment of our head office lands led to a once-in-a-lifetime opportunity to modernize our operations, culture, and ways of working. As a result, we relocated and consolidated our head office and flagship store, while transitioning our Toronto warehouse services to a new facility and supporting the modernization of our supply chain. These are generational projects in that they set up our business model and culture for success — now, and in the future.

People often ask me when LCBO's transformation will be complete. As our Board Chair pointed out, true transformation is continuous. It's never finished because the world around us is changing every day. To remain successful, we need to remain agile, nimble, and prepared to pivot with the best interest of our people and the people of Ontario at heart. With that in mind, I'm pleased to share that we delivered a record $2.55 billion back to the province this year to support what matters most.

As one of the largest retailers and wholesalers of beverage alcohol in the world, corporate social responsibility is critical to our mandate. Thanks to the incredible work of teams across the LCBO, the *Spirit of Sustainability* is embedded in everything we do. And I've never been prouder of our collective impact. Through our commitment to our people, planet and partners, we continue to drive meaningful change in our communities. This includes minimizing our impact on the environment by planting over 91,000 trees over the next three years in partnership with Tree Canada.

Sustainability also means inclusion. The LCBO's *Spirit of Inclusion* Initiative creates more opportunities for diverse women to enter, advance, and thrive in the beverage alcohol industry. And we're already making good on that promise. Through our partnerships with Brock University, Niagara College, and Vinequity, we have created scholarship, bursary and mentorship opportunities. We're also looking inwards and are committed to building and fostering an employee experience that is rooted in diversity, equity, and inclusion.

The customer remains at the centre of everything we do and in FY2022 we made great strides in delivering a best-in-class experience for our customers, no matter how, when or where they like to shop. Throughout the year, we augmented our product selection based on purchasing behaviour, providing a greater selection of convenient formats and lighter choices. We partnered with Air Canada to launch Aeroplan, Canada's leading loyalty program, which provides rewards and personalized offerings for our customers and suppliers. And we also invested in our online environment ahead of the FY2023 launch of a new website to improve customers' shopping experience.

As more consumers sought products from our own backyard, we continued to spotlight our amazing local vintners, craft brewers, craft cideries and spirit producers. In the fall we celebrated the province's notable wine regions and highlighted our large assortment of over 400 Ontario VQA wines through the *For the Love of Local* campaign. Once again, our annual campaign delivered on its objective to drive growth in purchase and awareness for local beer, wine, and spirits.

I would like to again extend my gratitude to our people, customers, partners, and communities. When I reflect on everything that we have achieved in this fiscal year alone, I am confident that we are laying the foundation for the next 95 years in support of the province and its people.

Dr. 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, 2022)

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

Dr. George Soleas, *President & CEO*
Aaron Campbell, *Chief of Staff & Vice President, Corporate Affairs, Strategy & Sustainability*
Geoff Cronin, *Chief Information Officer*
Becky Hong, *Chief Financial Officer (acting)*
Barb Keenan, *Chief People Officer*
Julie Lane*, Chief Legal Officer*
Nick Nanos, *Chief Supply Chain Officer*
Vanda Provato, *Chief Marketing & Digital Officer*
John Summers, *Chief Retail Officer*

Corporate Governance

The LCBO is a provincial government enterprise reporting to the Minister of Finance.
The LCBO is committed to transparency and is accountable to its stakeholders in several ways:

- Our Annual Report is required to be tabled in the Provincial Legislature and is available here.
- Our annual Business Plan is available here.
- The memorandum of understanding (MOU) between the LCBO and the Minister of Finance.
- LCBO financial statements are audited annually by the Office of the Auditor General of Ontario and are included in the LCBO Annual Report and posted separately online.
- Public access to records under the *Freedom of Information and Protection of Privacy Act*.
- Board members are appointed by Orders-in-Council.
- Various statutory reporting requirements under the historic *Liquor Control Act* and current *Liquor Control Board of Ontario Act, 2019* to the Minister of Finance.
- Compliance with Management Board's Agency Accountability Directives.

- Compliance with the LCBO Code of Business Conduct.

Board of Directors and Chair

The LCBO has a Board of Directors consisting of up to eleven (11) members. They are appointed by the Lieutenant-Governor, through Orders-in-Council, on the recommendation of the Premier and the Minister of Finance. Members are appointed for a term of up to five (5) years and terms can be renewed. There are generally six (6) to eight (8) regular Board meetings annually and special Board meetings if required.

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

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

ETHICS AND BUSINESS CONDUCT

The LCBO Board of Directors has adopted a Code of Business Conduct that includes policies addressing conflict of interest, confidentiality, the external activities of employees and officers, receipt of gifts and entertainment.

HEALTH AND SAFETY

The Board approves an annual Health and Safety Policy and the Chief People Officer 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 and monitoring 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 (HRCC) assists the Board of Directors with oversight and makes recommendations concerning human resources and compensation matters, including workplace health and safety, and talent management strategies and programs to ensure that the LCBO has the employee capabilities to achieve its goals.

The Technology Committee, an ad hoc committee, assists the Board of Directors with oversight of certain technology risks and related matters.

BOARD MEMBERS (AT MARCH 31, 2021)

CARMINE NIGRO
Chair
Appointed Chair in April 2019 for a three-year term. Term renewed April 2022 for a three-year term.

Carmine Nigro is an accomplished real estate development executive and entrepreneur known for his practical and solutions-focused approach to complex projects. Carmine is an active member of the community. In addition to volunteering for children's Make-A-Wish Foundation, he is a member of the Friends of the Orphans Canada organization, helping to design and build schools, hospitals and other facilities in Guatemala, the Dominican Republic and other countries. In addition, Carmine is the Chair of Ontario Place Corporation, a member of the board of directors of Invest Ontario and Runnymede Healthcare Centre and has been on the Senate of The Canadian Military Regiment, The Queens Own Rifles since 2021.

Total Annual Remuneration: $18,025
Per Diem Remuneration Rate: $350

QUINTO ANNIBALE
Vice Chair, Board, and Chair, Governance Committee
Appointed in April 2019 for a three-year term. Term renewed April 2022 for a three-year term.

Quinto Annibale is a lawyer at Loopstra Nixon LLP where he has practiced municipal, land-use planning and development law for more than 35 years. As an advocate, he has appeared before the Ontario Land Tribunal (formerly the Local Planning Appeal Tribunal and the Ontario Municipal Board) on hundreds of cases, providing advocacy and counsel for some of the most important and complex land-use planning law cases in Ontario. He is most proud to be the founder and president of the Carol Annibale Ovarian Cancer Foundation, a charity he oversees in memory of his late wife, Carol.

Total Annual Remuneration: $10,500
Per Diem Remuneration Rate: $250

James Bradbury
Member, Governance Committee
Appointed March 2019 for a three-year term. Term renewed March 2022 for a three-year term.

James Bradbury has more than 40 years of experience as an entrepreneur and business leader, and continues to use that experience consulting in business development and operations. During his career, James founded four apparel companies, operating them as President and eventually merging them with Unisync Group in 1998 and until his retirement served as chief operating officer, partner and board member. In addition, James has supported several Ontario communities as a member of the Rotary Clubs of Bracebridge, Barrie and Burlington. He has also been a member and a former board member of the Boulevard Club of Toronto for a number of years.

Total Annual Remuneration: $8,300
Per Diem Remuneration Rate: $200

Noble C. Chummar
Chair, Audit Committee
Appointed July 2014. Term renewed July 2016 for a three-year term, in September 2019 for an additional two-year term, and in September 2021 for a one-year term.

Noble Chummar is a Deputy Managing Partner at, Cassels Brock & Blackwell LLP, and a member of the firm’s Business Law and Government Relations groups. Noble also served as a senior team member and legal counsel in Toronto’s successful bid to host the 2015 Pan American Games and has been decorated by the Government of Canada with The Confederation of Canada medal and the Queen’s Diamond Jubilee medal and was decorated as Chevalier (Knight) of The National Order of Merit by the Government of France.

Total Annual Remuneration: $8,600
Per Diem Remuneration Rate: $200

David Colfer
Member, Audit Committee, and Vice Chair, Technology Committee
Appointed February 2019 for a three-year term, renewed February 2022 for a three-year term.

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

Total Annual Remuneration: $7,900
Per Diem Remuneration Rate: $200

Larry Flynn
Chair, HRCC, and member, Technology Committee
Appointed April 2020 for a one-year term, renewed in April 2021 for a three-year term.

Larry Flynn is the President of 2 Vice Advice Inc. and the O'Flynn Group of Companies Inc. Previously, he was the Senior Vice President, Gaming, of the Ontario Lottery and Gaming Corporation (OLG), a role that he held for 14 years until his retirement in April 2015. He is also a Chartered Director (C.Dir.) and has completed management programs at Wilfrid Laurier University, Dalhousie University, Ivey School of Business and the University of Nevada.

Total Annual Remuneration: $13,700
Per Diem Remuneration Rate: $200

Claudia Hepburn
Member, HRCC
Appointed October 2021 for a three-year term.

Claudia Hepburn has spent her career building mission-based organizations to develop human capital. She is currently CEO of Windmill Microlending, a national charity that empowers skilled immigrants to achieve their economic potential through affordable loans and supports. She serves on the board of SickKids Foundation, on the C.D. Howe Institute's Human Capital Council and is an advisor of Impression Ventures and Gotcare. Claudia is a recipient of the Queen's Diamond Jubilee Medal and has been named one of Canada's Top 25 Women of Influence.

Per Diem Remuneration Rate: $200

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

Dragan Matovic is the Chairman and CEO of Halex Capital Inc. and has over 25 years of experience in several industries including real-estate development, tourism, green energy, environmental remediation, software, and consumer services. He previously served as a Director of the Canadian Tourism Commission and Chair of the Business Leadership Council of Niagara, a Director of the Niagara Health Systems and as a Governor of Niagara College. Dragan was the Founder and Chairman of the Niagara Falls Convention Centre and the Tourism Partnership of Niagara.

Total Annual Remuneration: $6,483
Per Diem Remuneration Rate: $200

Kathleen Novak
Member, Governance Committee and member, Technology Committee
Appointed March 2020 for a three-year term.

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

Total Annual Remuneration: $6,780
Per Diem Remuneration Rate: $200

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

Khamini Samsundar has over 30 years of experience in banking in International Trade Finance at CIBC. She has 20 years of teaching experience and has worked to enhance the learning abilities of students within the multicultural community. With a passion to serve and give back to the community, Khamini has held various positions in business and charitable organizations across Ontario, such as Rouge Valley Hospital, United Way, Duffins Creek Non-Profit Housing, and the Canadian Race Relations Foundation. She is also the founder of the Canadian Caribbean Cultural Association of Durham and is a recipient of the Queen's Diamond Jubilee Medar.

Total Annual Remuneration: $6,400
Per Diem Remuneration Rate: $200

FORMER BOARD MEMBERS (AT MARCH 31, 2022)

Peter AP Zakarow
Chair, Technology Committee
Appointed June 2021 for a three-year term. Resigned in March 2022.

Total Annual Remuneration: $3,800
Per Diem Remuneration Rate: $200

Total Remuneration for all Board Members in FY2022: $90,488

STRATEGIC PLAN OVERVIEW

As part of a commitment to outcome and output-based performance measures, the LCBO prepares strategic plans to track and monitor key mandates. This creates enterprise-wide accountability for the execution of these mandates and our strategic objectives.

In FY2022, the LCBO took significant strides to continue to modernize the beverage alcohol marketplace. This included the completion of transformational projects to enhance the customer and employee experience for years to come. At the same time, the LCBO laid the foundation to rebuild and strengthen our IT infrastructure to enable agility and responsiveness that improves customers' experience across all sales channels.

Our social impact platform, the *Spirit of Sustainability,* continues to drive meaningful change by supporting the province's social and environmental needs, and ultimately, creating a more sustainable Ontario. Our Diversity, Inclusion, Belonging, and Equity commitments aim to build communities where all individuals have equitable access to essential resources needed to live happy, healthy lives. The LCBO's *Spirit of Inclusion* initiative creates opportunities for diverse women to enter, advance and thrive in the beverage alcohol industry. In FY2022, we became a signatory of the BlackNorth Initiative (BNI) CEO Pledge. The LCBO also raised a record of over $16.7 million in charitable donations, through our generous customers and incredible employees to support communities across Ontario.

During the fiscal year, COVID-19 still had a significant impact on people and businesses. The LCBO remained committed to wellness by continuing to create a safe place to work and shop for our employees and customers. The alcohol marketplace began a gradual normalization as sales and customer buying patterns showed glimpses of pre-pandemic results. Normalcy, however, was interrupted by multiple variant COVID-19 waves and consequential lifting and re-implementing of restriction measures. Sales to licensee customers rebounded towards the end of the fiscal — and though still significantly trailing pre-pandemic levels — they continue to recover. The return of social and sporting events also supported results, and the LCBO experienced another record sales year in FY2022. Being responsive to customer preferences and buying behaviours remained a priority throughout the fiscal year.

Economic factors continued to have a ripple effect across the province, including global supply chain disruption from COVID-19, rising oil and gas prices, labour shortages and costs, and inflationary pressures. Proactive planning and collaboration with our industry partners allowed us to anticipate and respond to a changing business environment, while being able to provide customers with the selection and service they've come to expect from the LCBO.

Ontario's beverage alcohol marketplace continued to be a crucial sector of the provincial economy throughout FY2022. As always, the LCBO remained focused on delivering returns to the people of Ontario and meeting the performance indicators set out in our business plan. As the return to normalcy continues, global economic challenges and uncertainty remain at the forefront. Retailers, including the LCBO, will continue to need to plan for multiple scenarios and remain agile to successfully navigate the year ahead.

ASSESSMENT OF STRATEGIC PROGRESS

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

HELP SHAPE A SUSTAINABLE ONTARIO

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

GOOD PEOPLE

Safe and Informed Consumption

Throughout FY2022, the LCBO remained committed to quality and safety. The LCBO Lab's standards are used as a benchmark by other Canadian liquor jurisdictions and alcohol producers. The Lab performed 699,170 quality assurance tests and sampled 27,929 products in FY2022.

Moderation Mandate

Under the moderation mandate, the LCBO continued to offer innovative products that allowed customers to discover lower sugar, lower calorie, lower in alcohol and alcohol-free options. We are proud to offer 745 extra light and light beverage alcohol products, 10,047 low sugar beverage alcohol products and continue to expand our non-alcoholic selections.

As part of our commitment to safe and informed consumption, we championed responsible retailing practices that promote the safety of employees and customers. Through our Responsible Service Program, our employees challenged more than 10.5 million individuals and refused more than 260,000 for failing to produce valid ID, appearing intoxicated or attempting to purchase alcohol for a minor or an impaired individual. To drive home the responsibility message even further, four strikingly unique Muskoka chairs were installed at four LCBO locations in Ontario cottage country as part of a new drinking and driving awareness campaign.

Engaged Employees

At the heart of our business is the 11,000 outstanding LCBO employees who care about their jobs and the communities in which they live and work. Our goal is to build a purpose-driven, inclusive, safe, healthy, and accountable culture where every employee feels valued, respected, and heard. As part of our commitment to Diversity, Inclusion, Belonging and Equity, the LCBO provides ongoing training and education to employees. Throughout FY2022, a greater emphasis was placed on mental health and well-being by providing access to meaningful resources and fostering a culture focused on stigma reduction. We also have an extensive network of 680 stores which provides a powerful platform for registered charities fundraising for initiatives that improve the lives of countless Ontarians. Through the commitment of our employees and the generosity of our customers, we're able to contribute to real impact in our communities and this year, our engaged employees drove record-breaking in-store fundraising results.

Thriving Communities

We strategically select charitable partners with a strong track record of driving meaningful community impact across the province. By ensuring our charitable partnerships strengthen our *Spirit of Sustainability* commitments, we raised more than $16.7 million in FY2022 to support the health and well-being of Ontario's diverse communities. In May 2021, the LCBO became a signatory of the BlackNorth Initiative (BNI) CEO Pledge. As part of our continued efforts to champion diversity, we are committing our organization to specific actions and targets designed to create opportunities for racialized individuals through the support of BNI. In June 2021, the LCBO announced its fundraising campaign to support the 2SLGBTQ+ community. Our partnership with Women's College Hospital continued in March 2022 with the LCBO's Equity Campaign on *International Women's Day* to support their mission to revolutionize healthcare and provide equitable access for women and marginalized groups. Our FY2022 customer survey highlights 81 percent of respondents agree the LCBO makes a positive difference in Ontario communities through its fundraising and charitable partnerships.

GOOD PLANET

Waste, Energy Reduction & Responsible Supply Chain

As part of our *Good Planet* commitment to minimize our impacts on the environment, it is essential we advance practices that reduce the energy used and waste generated by LCBO business operations. In FY2022, 81 percent of retail service centre waste was diverted from landfills, and 75 percent of containers were returned by customers through the Ontario Deposit Return Program. Through our *Good Partner* reBOOT, we are continuing to recycle hard plastics used at the store level across all LCBO retail locations and have transitioned away from plastic to offer chalk-based gift cards. In addition, 25.09 tonnes of greenhouse gas emissions were saved through the Lightweight Glass Policy and lighter freight loads.

GOOD PARTNERSHIPS

Influence Industry Standards

The LCBO empowers the beverage alcohol industry to promote inclusive social and environmental practices and share knowledge to advance sustainability. Our updated Supplier Code of Business Conduct reflects our commitment to improve the sustainability of Ontario and the alcohol industry by setting standards and leading by example. It outlines the expectations of every supplier who wishes to maintain a business relationship with the LCBO, holding our suppliers accountable to best practice standards. The LCBO also ensures all suppliers adhere to its refreshed product branding guidelines. Products must meet the applicable regulatory requirements for product labelling, composition, and advertising. The LCBO also reviews and evaluates products to ensure they do not cause harm or offense to customers and communities.

Recognize Good Partners

In FY2022, we worked with various Good Partners to make a difference for communities across Ontario. The sale of 2,763 local Ontario products generated $1.33 billion in revenue. Ontario Wine Country Boutiques are in 20 select LCBO stores and feature an elevated experience and extensive assortment of Ontario VQA wines including store-exclusive products, niche, and seasonal items. Ontario is also the only wine region with a dedicated annual marketing campaign which runs from mid-September to mid-October in all LCBO stores and is supported through activities driving customers to discover Ontario wines. Throughout the year we were supported by many other Good Partners implementing initiatives and programs, all with a common mission to create a more sustainable, diverse, and inclusive Ontario.

Enhance Industry Diversity

The LCBO's *Spirit of Inclusion* initiative creates opportunities for diverse women to enter, advance, and thrive in the beverage alcohol industry. Together with our impact partners, the program will provide bursaries and scholarships, facilitate mentorship relationships, and identify paid co-op placements for diverse women who are looking to begin or advance their careers in the winery, brewery, and distillery fields. Our partners include Brock University, Niagara College and Vinequity. Our FY2022 customer survey highlights that 81 percent of respondents believe the LCBO is taking action to increase diversity and representation within the alcohol industry, further proof of the early impact of this strategy.

STRATEGIC CHALLENGES & OPPORTUNITIES

Head Office & Warehouse Facility Relocation

Relocation to the newly constructed LCBO head office was completed in FY2022, bringing with it a smaller footprint and an opportunity for modernization and new ways of collaboration. Part of this project included the transition of its previously on-site Toronto warehouse to a third-party facility. It also included the completion of the new flagship store, which features more than 4,000 different products and provides a place to test new customer innovations.

Enhancing Wholesale & Retail Channels

As restrictions eased and customers adjusted to a new normal, they continued to shop both in-store and online, enjoying the convenience of online shopping and the flexibility of in-store pick up and home delivery options. The LCBO also supported 394 LCBO Convenience Outlets (LCOs) and 450 grocery stores across the province of Ontario. In FY2022, the LCBO lowered wholesale alcohol prices in support of bars, restaurants (and other businesses with a license to operate liquor consumption premises) which were impacted throughout the pandemic. The LCBO also continued to strengthen its eCommerce platform in order to provide greater convenience to Ontarians. In addition, we partnered with Air Canada to launch a new loyalty program with Aeroplan, which provides rewards and personalized offerings for our customers and suppliers.

DELIVERING RETURNS TO THE PEOPLE OF ONTARIO

($ billions)	FY2022 Actual	FY2022 Plan	FY2021 Actual	Y/Y Change
Net Sales	$7.34	$7.10	$7.18	+2.2%
Net Income	$2.54	$2.44	$2.54	+0.2%

FY2022 net sales exceeded plan and there was a 2.2 percent year-over-year increase. Net income also slightly exceeded plan and was stable compared to FY2021. Retail sales at physical stores and online remained the largest channels representing 82.4 percent of total sales, down 55 basis points from the previous year.

SUPPORT FOR LOCAL ONTARIO PRODUCERS

($ millions)	FY2022 Actual	FY2022 Plan	FY2021 Actual	Y/Y Change
VQA Wine	$179.9	$174.5	$184.3	-2.4%
Craft Beer	$178.0	$187.3	$184.3	-3.4%
Craft Cider	$17.7	$24.6	$23.4	-24.3%
Small Distillers	$23.2	$25.8	$23.0	+0.6%

The LCBO understands that Ontarians value products from local vintners, craft brewers, craft cideries, and artisanal spirits producers. In response to the continued demand for local products, the LCBO is proud to showcase Ontario's outstanding products, through collaborative efforts and an extensive product assortment in store and online. In FY2022, VQA wine actuals exceeded plan, while craft beer fell below. Craft cider fell significantly below plan numbers, and small distiller sales fell slightly below plan. Sales of Ontario craft cider have slowed because of increased competition and customer demand for coolers and seltzers.

EXCELLENCE IN OPERATING EFFICIENCY

	FY2022 Actual	FY2022 Plan	FY2021 Actual	Y/Y Change
Inventory Turns	7.4	7.6	7.4	0
Total Expenses[1] as % of Revenue	15.7%	16.6%	15.5%	+25 bps

Inventory turns were unchanged from FY2021 but fell slightly below plan. The global supply chain issues affecting the retail industry continue to impact the LCBO, along with evolving consumer preferences. The LCBO is in the process of continuous transformation to not only be a best-in-class retailer, but to mitigate these issues through investments in its supply chain and retail service centres, undergoing regular process reviews and redesigns, and upgrading IT systems to improve functionality and service levels.

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

EXCELLENCE IN CUSTOMER EXPERIENCE

The LCBO values our customers and is committed to providing a remarkable customer experience. Our people are welcoming, responsible, outgoing, creative and connected; they are the ambassadors of our brand. In FY2021, we introduced performance indicators which track our customer satisfaction scores and overall Brand Health, and are monitoring these new indicators:

	FY2022 Actual	FY2021 Actual	Y/Y Change
Brand Health: Customer Satisfaction	83%	86%	-3.5%
Retail NPS**	90	79	11pts
eCommerce NPS	24	20	4pts

***Retail Net Promoter Score tracking started on July 15, 2021*

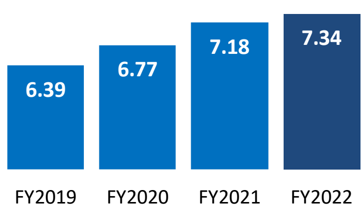
MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATIONS

The LCBO is a government business enterprise. In the fiscal year ended March 31, 2022 (hereafter referred to as FY2022), it operated a network of 680 retail stores, an eCommerce platform, and special-order services, offering more than 34,000 spirits, wine and beer products to consumers and licensed establishments. The business also supported 394 LCBO Convenience Outlets (LCOs) and 450 grocery stores across the province of Ontario. The LCBO estimates more than 1.1 billion litres of beverage alcohol products were sold in Ontario during FY2022, with an estimated value in excess of $9.8 billion[2]. The LCBO accounted for approximately half of the volume sales in the province and an estimated 72 percent of the value sales.

Financial Highlights

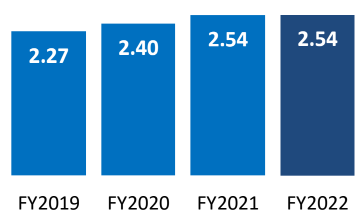
Revenue
$ billions

$7.34
+2.2% vs LY



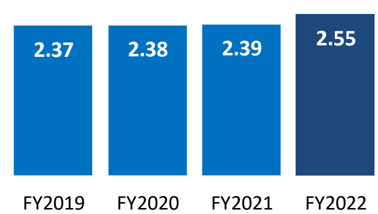
Net Income
$ billions

$2.54
+0.2% vs LY



Dividend
$ billions

$2.55
+6.7% vs LY



Net Income in FY2019 has been restated to reflect the adoption of IFRS 16.

Operational Highlights

- LCBO operated as an essential service in the second year of the COVID-19 pandemic with continued focus on ensuring the health and safety of its customers and employees. While safety restrictions remained in place, there was some relaxing of the previous year's modified store operating hours and in-store capacity limits.
- The LCBO added six new stores to its retail network during the year and closed three stores, now totalling 680 locations[3]. Seven other stores were either relocated or underwent major renovations in FY2022, including the head office flagship store in downtown Toronto.

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[2] *Not including illegal alcohol sales, homemade products and sales from brew and wine pubs. Value sales do not include sales taxes*

[3] *Location count includes one depot which also serves licensee customers.*

- Relocation to the newly constructed LCBO head office was completed in FY2022, along with the transition of its previously on-site Toronto warehousing to a third-party facility.
- Customer demand for online ordering options increased during the pandemic. LCBO continued to enhance its eCommerce platform in FY2022 by improving convenience and customer online experience, expanding same-day pickup to 197 locations and reintroducing a home delivery option. With vaccinations and pandemic confidence, consumers began to return to in-store shopping and online sales softened by two percent to $140 million.
- Pricing changes during FY2022 included the annual inflation indexing of minimum retail prices, LCBO in-store and out-of-store beer cost of service charges, and excise rates, updates to the cost of service differentials on imported spirits, wines and coolers, and a reduction in licensee pricing in January 2022, effectively increasing discounts for licensed establishments.

External environment

The COVID-19 pandemic influenced LCBO financial performance for a second successive year. The Ontario economy rebounded, but full recovery to pre-pandemic levels was interrupted by multiple variant waves and consequential lifting and re-implementing of restriction measures.

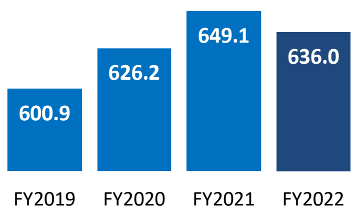
There were overall improvements in provincial employment levels, consumer confidence and retail sector performance. The housing market remained competitive with overheated prices. However, new constraints became prevalent during the course of the year. Global supply chain disruptions, high price inflation and rising oil and gas prices were among the main challenges adding to full economic recovery.

In another transformative year, the LCBO remained committed to navigating the uncertain economic environment and safely satisfying consumers ever-changing needs. FY2022 was another record sales year, surpassing even the previous year pandemic-elevated levels. Supportive conditions included the return of sporting and live social gathering events, early summer weather and increased vaccination confidence. Local staycations and accumulated household savings further contributed to the favourable sales performance.

The LCBO's commitment to its wholesale business partners remained evident as the organization coordinated with Ministry of Finance to lower licensee pricing. This measure will provide a boost to licensed establishments who were severely impacted throughout the pandemic.

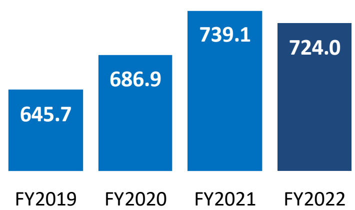
Litres Sold
millions

636.0
-2.0% vs LY



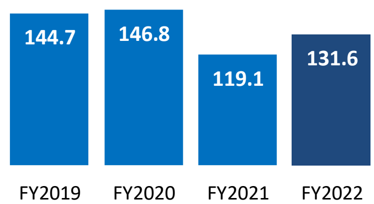
Units Sold
millions

724.0
-2.0% vs LY



Customer Transactions
millions

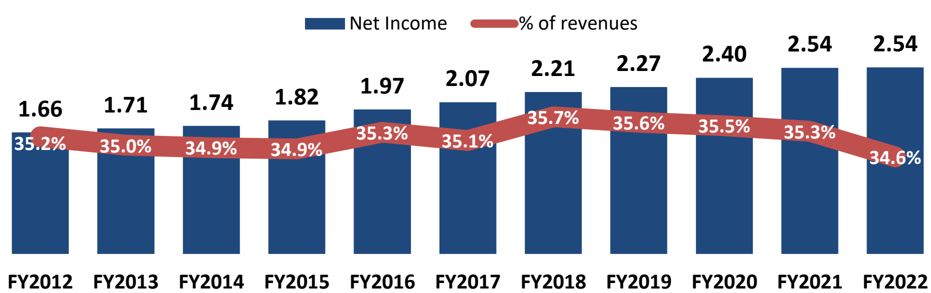
131.6
+10.6% vs LY



Net income[4]

Net income reached a record $2.54 billion in FY2022, growth of $4.9 million over the previous year. This represented 34.6 percent of revenues, which was 69 basis points lower than FY2021.

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



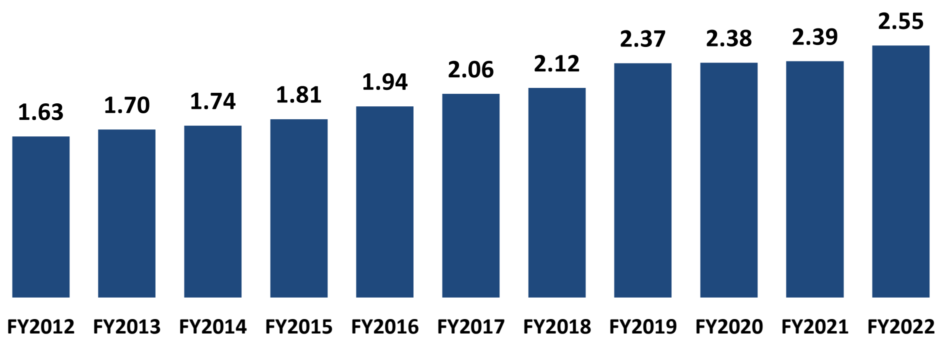
Sales growth, improved margins and expense control have contributed to net income growth of $885.1 million, or 53.4 percent, from a decade ago.

Dividend

The LCBO transferred $2.55 billion in dividends to the Ontario government in FY2022. This was $160 million more than in FY2021 and marked the 28th straight year of increased transfers.

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

Dividend ($ billions)



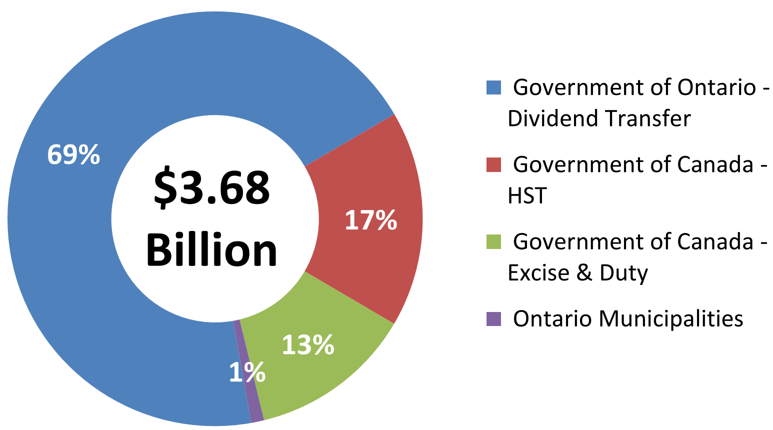
Over the last decade, the LCBO has transferred more than $21 billion in dividends to the Ontario government. The dividend in FY2022 was $920 million, or 56.4 percent, higher than the amount transferred in FY2012.

Payments to government

The LCBO paid $3.68 billion to all levels of government in FY2022. The dividend – excluding excise, duty and all sales and municipal taxes, was remitted at the provincial level and accounted for 69 percent of the total. The Canadian government received $1.09 billion in the form of excise, duty and sales taxes. Realty and leased property taxes paid to Ontario municipalities by the LCBO totalled more than $37 million.

($ millions)		FY2022
Total payments	**$**	**3,676**
Government of Ontario - Dividend Transfer		2,550
Government of Canada - HST		620
Government of Canada - Excise & Duty		469
Ontario Municipalities		37

LCBO payments to government



Ontario beverage alcohol 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), Winery Retail Stores (WRS), Brewery Retail Stores (BRS), Distillery Retail Stores (DRS), and duty free operators. In addition, the LCBO has authorized retailers in smaller Ontario communities to act as agents on its behalf and sell beverage alcohol products in conjunction with other goods. These LCBO Convenience Outlets (LCOs, and previously called agency stores) sell spirits, wine and imported beer purchased from the LCBO and domestic beer purchased from TBS (for LCOs in southern Ontario) 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, 2022, there were 2,930 retail outlets selling alcoholic beverages in Ontario. In the last five years, the number of outlets has increased by more than 740, primarily from grocer, LCO, BRS and DRS locations.

Number of outlets	FY2021	FY2022	Change
LCBO	677	680	+3
LCO	399	394	-5
Grocer*	450	450	0
WRS	531	532	+1
TBS	433	420	-13
BRS	355	367	+12
DRS	63	71	+8
Land Border Point Duty free	10	10	0
Airport Duty free	6	6	0
Total	**2,924**	**2,930**	**+6**

*Grocer included 69 wine boutiques in FY2022 which are WRS locations situated within a grocery store, also selling beer and cider. These locations are excluded from the WRS count.

Market share[5]

In FY2022, the total spirits market in Ontario, including spirits-based ready-to-drink coolers and seltzers (RTDs), grew by nine percent to 181 million litres, with the LCBO accounting for 99.5 percent of the share. RTDs, which comprised of 61 percent of total Ontario spirits volume, accounted for 94.5 percent of the growth.

Total wine sales in the province, including cider and wine coolers, declined five percent in volume to 198.4 million litres during the year. LCBO overall share advanced by 88 basis points to 83.5 percent of total wine volumes, despite a four percent decline in sales. WRS sales, including direct delivery to licensees, were down 10.3 percent. Overall cider sales retreated 3.2 percent during the year to 19.3 million litres.

Beer volume sales (excluding LCBO and TBS reciprocal sales) declined during the year, by 3.3 percent to 759 million litres. Both LCBO and TBS lost share from lower sales during the year, while BRS added 48 basis points, primarily from a marginal rebound in direct delivery to licensee sales. The respective volume shares for TBS, LCBO and BRS (including direct delivery to licensees) in FY2022, are 62.5 percent, 32.2 percent and 5.3 percent.

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

Revenue[6]

LCBO revenue totalled $7.34 billion in FY2022, a growth of $158.1 million, or 2.2 percent over the previous year.

LCBO Channel sales

The LCBO sells beverage alcohol to its customers through a variety of sales channels. Restrictions relating to the COVID-19 pandemic resulted in a considerable shift to off-premise consumption at home last year, but patterns began to slowly normalize in FY2022. Retail sales at physical stores and via online options for home consumers remain the largest channel representing 82.4 percent of total sales, down 55 basis points from the previous year. Sales through this channel were up 1.5 percent during the year and surpassed six billion dollars for the first time on record.

Channel ($ millions)	Share	FY2022		vs. FY2021
Home Consumer - Retail	82.4%	$	6,049	1.5%
Grocer	5.7%	$	415	-14.6%
Licensee	5.1%	$	374	120.4%
LCBO Convenience Outlets	3.5%	$	261	-11.3%
The Beer Store	2.9%	$	215	-18.5%
Duty free	0.2%	$	13	859.8%
Other*	0.2%	$	14	40.9%
Total	**100%**	**$**	**7,341**	**2.2%**

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

Beverage alcohol purchased by licensed establishments, such as bars, restaurants and venues, traditionally the second-largest share of LCBO sales, was constrained well below normal levels for the second straight year. On-premise consumption was severely limited in FY2021, with the channel losing more than $400 million in sales. During FY2022, health and safety restrictions continued to limit the operations of licensed establishments, even as sales regained $200 million during the year.

The grocer channel, one of the faster growing channels over the last few years, reached full allotment of planned authorizations in FY2021. During the first year of the pandemic, the channel simultaneously benefitted as consumers shifted to off-premise consumption and experienced significant growth. As consumer behaviour somewhat normalized during FY2022, this channel recorded a decline of 14.6 percent to $415 million, but nevertheless, maintained the second largest share of LCBO sales for the second consecutive year.

Sales to LCOs, an extension of the LCBO retail channel through authorized independent local retailers serving smaller communities across Ontario, exhibited similar performances to the

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

grocer channel. Boosted by additional outlets and the shift to off-premise consumption during the first year of the pandemic, LCO sales almost doubled. However, in FY2022, as buying patterns somewhat normalized, sales through the channel declined 11.3 percent to $261 million and accounted for 3.5 percent of total LCBO sales.

Sales to TBS has fallen from its previous place as the third-largest LCBO sales channel, registering significant declines during the past two years. Production shifts of previously imported beer brands to domestic, reduced sales flowing through TBS to licensees and expansions of the grocer and convenience outlet channels have all impacted sales to TBS. In FY2022, sales further declined by 18.5 percent to $215 million during the year, representing 2.9 percent of total LCBO sales.

Travel restrictions and staycations resulted in a loss of almost all duty free sales to operators at airports and land border points in FY2021. As restrictions began to be lifted and outbound travel gradually picked-up, duty free sales managed to reach $13 million in FY2022, a third of the channel's pre-pandemic level.

LCBO Category sales

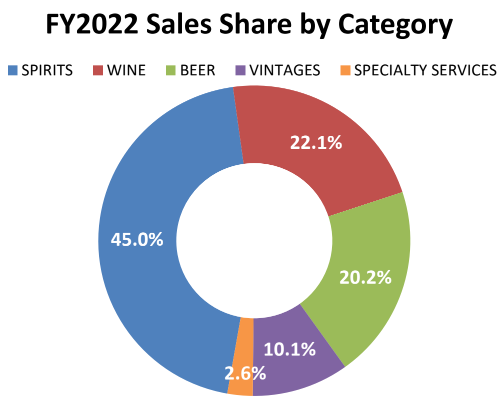
Spirits, including ready-to-drink (RTD) and cooler products, maintained the largest share of LCBO product sales in FY2022, topping three billion dollars for the second successive year, and cumulatively adding over half a billion dollars in sales in the last two years. The category grew by 6.6 percent, or $205.0 million, over the previous year and advanced its share of total LCBO sales by 191 basis points. RTDs, accounting for almost 42 percent of the growth, propelled the category's performance, which accounted for 45.0 percent of total sales or $3.30 billion.

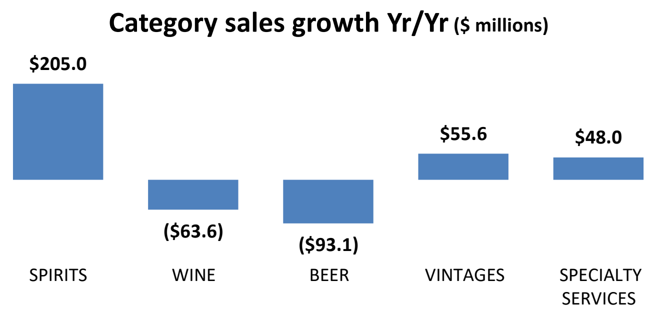
Wine (excluding VINTAGES) posted a decline of 3.8 percent, or $63.6 million over FY2021, as normalizing sales resulted in softer performances in New World and Ontario wines and sales through the grocer channel. Wine remained the second-largest LCBO category at 22.1 percent of total net sales, despite losing 136 basis points during the year to $1.62 billion.

VINTAGES reached $736.6 million, registering growth of 8.2 percent, or $55.6 million more than last year. The category's share improved by 43 basis points to 10.1 percent of annual LCBO sales. Double digit increases in European wines and essentials contributed to more than half of the favourable results during the year.

Beer performance, including ciders, continues to be tempered by increased preference for coolers and seltzers, as well as reduced wholesale to TBS due to production shifts of key beer brands from imported to domestic. Normalizing sales through the grocer channel also affected results as the category, which was down 5.9 percent, or $93.1 million, to $1.48 billion during FY2022. As a percentage of total LCBO sales, beer represented 20.2 percent, a decline of 173 basis points from the previous year.

With typically more than eighty percent of its annual sales to licensees and TBS, Specialty Services has been challenged in the last two years. There was a modest rebound in FY2022, following a significant decline in the previous year. Specialty Services sales totalled $191.2 million, an increase of 33.5 percent or $48.0 million, which propelled a share advance of 61 basis points to 2.6 percent of total annual sales.





Operating results

In FY2022, 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 $3.69 billion in FY2022, representing an improvement of 1.1 percent compared to FY2021. As a percentage of revenues, gross margin retreated 57 basis points to 50.3 percent.

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

Spirits	$0.57
Wine	$0.53
VINTAGES	$0.48
Beer	$0.39
Specialty Services	$0.42

Spirits accounted for 50.1 percent, or close to $1.9 billion, of total gross margin in FY2022. Spirits margin rose 5.6 percent from FY2021, adding 181 basis points to its share of total margin.

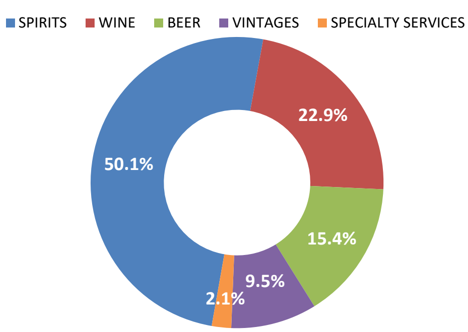
Wine share of total LCBO gross margin in FY2022 was 22.9 percent, 154 basis points lower than last year. The category recorded a margin decline of 4.7 percent during the year to $857.3 million.

Beer gross margin also declined during the year, down 5.9 percent to $577.8 million. Its share of total margin was 15.4 percent, a retreat of 126 basis points from FY2021.

VINTAGES gross margin, at $355.5 million, increased 7.8 percent from FY2021, adding 53 basis points to its 9.5 percent share of total margin.

Specialty Services contributed $80.7 million to gross margin, an increase of 28.9 percent from the previous year. The category regained some share with 45 basis points, to 2.1 percent of total gross margin.

FY2022 Margin Share by Category



Selling, general and administrative expenses[7]

LCBO total expenses increased by $42.6 million, or 3.8 percent, in FY2022 compared to the previous year.

Operating expenses represented 75.6 percent of the total and increased by 4.1 percent during the year. Retail store expenses, the largest share at 63 percent of operating expenses, rose 3.2 percent versus the previous year, with labour costs to support higher sales driving the variance.

Administrative expenses, representing 28 percent of operating expenses, increased by 8.1 percent during the year. Information Technology operations and business technology solutions, drove much of the higher administrative costs. These were reflected through increased spending on consulting and data processing server upgrades and maintenance, which supported the entire organization, including retail and wholesale services. eCommerce labour costs to support ongoing improvements to the platform for which there was additional service demand during the year, also contributed to the rise in administrative expenses.

Supply Chain and Wholesale expenses were mainly driven by costs to transition to the new third-party warehousing, while Merchandising and Marketing expenses benefitted from increased chargebacks on supplier-partnership promotional launches and reduced spending on advertising and social media.

Operating Expenses ($ millions)		**FY2022**	**vs. FY2021**
Retail Stores	$	551	3.2%
Administrative	$	242	8.1%
Supply Chain and Wholesale	$	48	3.2%
Merchandising and Marketing	$	30	-6.9%
Total	**$**	**871**	**4.1%**

Non-operating expenses, accounting for the remaining 24.4 percent of total expenses, rose three percent from FY2021. Depreciation (including right-of-use assets), amortization and impairment, representing more than 58 percent of these expenses, increased by 6.4 percent for the year.

Expenses related to environmental initiatives, comprising mainly of LCBO Ontario stewardship obligations and service fees to TBS for the Ontario Deposit Return Program, outpaced the previous year, while debit and credit card charges were also above last year’s levels, from continued higher sales and penetration rates. Other non-operating expenses benefitted from a favourable actuarial valuation on employee benefit obligations at the end of the year.

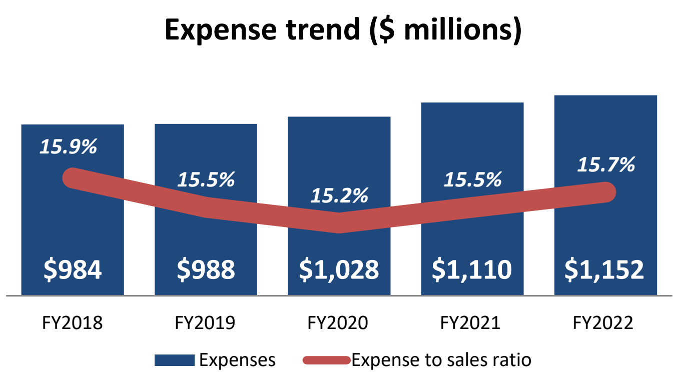
[7] *In this section, total expenses refer to all selling, general and administrative (SG&A) expenses as per the Statement of Income and Other Comprehensive Income.*

Non-Operating Expenses ($ millions)	FY2022		vs. FY2021
Depreciation, amortization and impairment	$	71	0.0%
Depreciation - right-of-use assets	$	94	11.9%
Environmental Initiatives	$	57	5.7%
Debit/Credit Charges	$	56	10.1%
Other Expenses*	$	3	-77.2%
Total	**$**	**281**	**3.0%**

* Other expenses include non-pension employee benefits costs, gift card program expenses and bank fees.

Expense to revenue ratio

The ratio of expense to revenue was 15.7 percent in FY2022, 25 basis points higher than the previous fiscal year. Despite tighter expense control in recent years, increased outlay on measures during the pandemic relating to health and safety for employees and customers, continued spending on eCommerce enhancements, ongoing technological upgrades for levels of the organization, and higher labour costs required to keep pace with elevated sales levels, drove higher expense growth in FY2022.



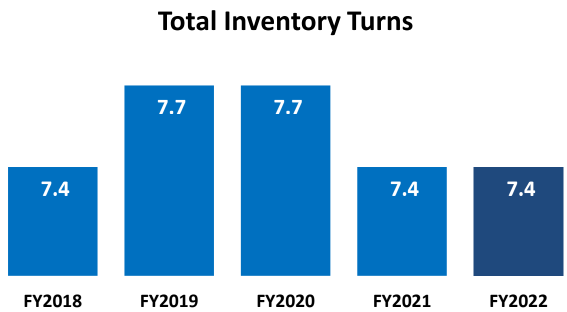
FY2019 expenses and expense to sales ratio have been restated to reflect the adoption of IFRS 16.

Inventory

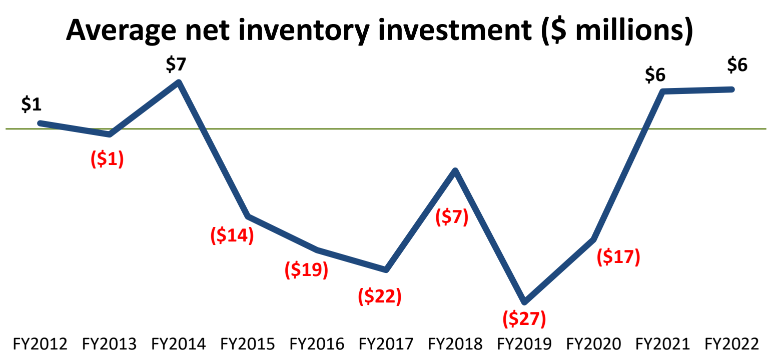
Total inventory turns in FY2022 were comparable to the previous year at 7.4 times. Despite the level being unchanged, it still lagged pre-pandemic performance, with a combination of factors contributing to the slower rate.

Uncertainties regarding global supply chain issues, the path of the COVID-19 pandemic and evolving consumer preferences amid channel performance normalization have all impacted turnover rates. LCBO's strategic and precautionary decisions to improve in-stock positions to satisfy consumer demand during these uncertainties have contributed to lower turnover rates, as has beer production shifts from import to domestic.

By category, there were minor improvements in turnover rates for Spirits and VINTAGES. Wine and Beer, which had overall sales declines and experienced more normalized results, including reduced shipments to grocers, reflected slower inventory turns during the year.



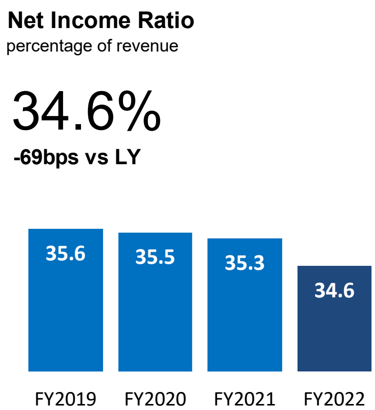
Average net inventory investment[8] during FY2022 was $6.2 million. In the last decade, LCBO's annual net investment in inventory has averaged negative $8.8 million, highlighting continuous improvement in sales, inventory, and cash flow management.

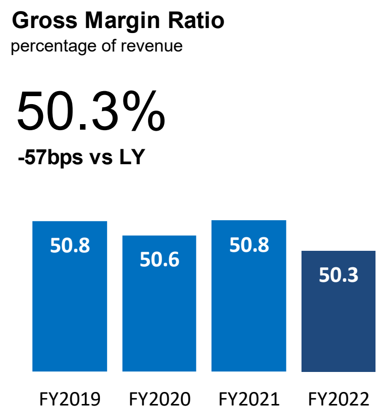


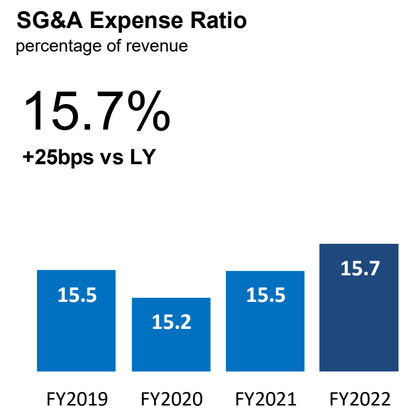
[8] *Average net inventory investment refers to the amount of unpaid, but includes prepaid liquor inventory, as well as goods-in-transit, averaged over LCBO's 13 fiscal reporting periods.*

Key Performance Indicators

Financial Ratios







Expenses in FY2019 have been restated to reflect the adoption of IFRS 16.

In FY2022, net income was 34.6 percent of revenue, 69 basis points less than last year's ratio. Gross margin ratio retreated by 57 basis points to 50.3 percent, while selling, general and administrative expenses as a percentage of revenue rose 25 basis points to 15.7 percent.

Productivity ratios

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

Retail productivity

	FY2018	FY2019	FY2020	FY2021	FY2022
Retail sales per transaction	$ 36.64	$ 36.80	$ 38.08	$ 50.48	$ 46.98
Unit sales per hour paid	42.4	43.5	45.5	44.5	44.2
Salaries & Benefits as a percentage of retail sales	7.1%	7.1%	6.9%	6.8%	6.9%
Total retail expenses as a percentage of retail sales	10.8%	9.1%	9.0%	8.9%	8.9%

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

Consumers' reactions during the first year of the pandemic and increased off-premise consumption led to extraordinary retail performances in FY2021. As behaviours and channel performances began to normalize in FY2022, retail productivity ratios accordingly adjusted. The backdrop of the previous year's elevated sales and lower transactions (less visits but larger baskets), however incomparable, has resulted in seemingly unfavourable retail productivity ratios for FY2022. A softer pace of sales growth and pickup in consumer in-store visits resulted in lower retail sales per transaction, although still above pre-pandemic levels. Higher costs to support the still elevated sales and normalization of unit sales also adversely affected retail productivity ratios for FY2022.

Distribution productivity

	FY2018	FY2019	FY2020	FY2021	FY2022
LCBO Warehouse cases throughput per hour paid	39.0	38.7	37.7	37.0	37.4
Warehouse salaries & benefits per case throughput	$ 0.97	$ 0.99	$ 1.05	$ 1.10	$1.29
Warehouse cost per case throughput	$ 1.22	$ 1.21	$ 1.26	$ 1.33	$1.65

FY2022 warehouse cost, salaries & benefits include both LCBO & 3PL warehouses.

Distribution productivity ratios were mostly unfavourable in FY2022, primarily from the additional costs in transitioning to the new third-party warehousing facility. Other factors that influenced the ratios were directly related to the elevated sales levels throughout the pandemic. These included the labour-intensive eCommerce bottle pick volume, and higher labour and overall warehouse costs to support the increased store shipments and consumer demand.

Capital expenditures

Capital expenditures (capex) totalled $102.5 million in FY2022, with Store Development and Real Estate (SD&RE) accounting for a majority of the investment, totalling $91.8 million. During the year LCBO completed the head office relocation project, and continued its retail network expansion and improvement program with construction of six new stores, two relocations and five expansions.

Information Technology projects accounted for the second-largest portion of capex, totalling $8.7 million in FY2022, followed by Supply Chain and Wholesale with $1.6 million. The Durham warehouse roof replacement and eCommerce renewal initiative were among the major projects in these areas. Other overall organizational spending during the year included technical and infrastructural initiatives such as wireless, control and network upgrades to LCBO systems, and maintenance and renovation projects with spending on store refrigeration and emergency and security equipment purchases.

Capex ($ millions)	FY2022
Store Development and Real Estate	$ 91.8
Information Technology	$ 8.7
Supply Chain and Wholesale	$ 1.6
Other	$ 0.4
Total Capital Expenditures	**$ 102.5**

Enterprise risk management

The LCBO has an established Enterprise Risk Management (ERM) program in place that aligns with Ontario Public Sector requirements and internationally recognized ERM Standards. Having a consistent approach to identify and assess risks on an ongoing basis allows the LCBO to address the impact both internal and external factors may have on overall organizational performance and business objectives. The LCBO continues to enhance and embed risk management practices across all organizational processes. Risk mitigations are monitored on an ongoing basis and management takes additional actions for the management of risks where needed.

A standing risk oversight committee, made up of senior leadership, reviews risks quarterly, and the LCBO Board of Directors reviews risk information bi-annually. Risks are assessed on three dimensions: likelihood, impact, and the speed with which the risk would impact the organization when realized. The LCBO uses a 5-point scale for all three metrics. The highest level of risk impact is catastrophic. The LCBO currently does not have any risks in that category.

Certain risks discussed in the section titled *External environment,* include the COVID-19 pandemic, climate change, economic conditions, and government policy and legislative change, are external and not within the LCBO's control. However, the impact of these risks, as well as new emerging risks, are regularly assessed with steps taken to manage the impact on the LCBO.

The LCBO's exposure to risks is monitored quarterly by the risk oversight committee to ensure that appropriate mitigations are in place. The three most significant risks and actions taken to mitigate them are discussed below.

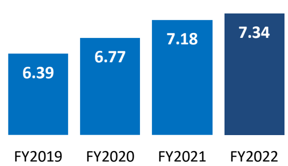
- **Supply Chain Disruption**: Operational impacts stemming from the ongoing pandemic and the Ukraine-Russia crisis, as discussed in the section titled *Inventory*, continue to impact the global supply chain and distribution networks. The supply and demand for ocean freight continued to be strained, vendors experienced supply chain disruptions and raw material shortages that impacted LCBO's supplies, and increasing weather events have all required a strategic focus on strong partnerships and tighter inventory management to ensure the LCBO had sufficient inventory on hand to fulfill demand.
- **Cyber Disruption**: As the global cyber threat landscape continues to evolve and accelerate with rapid technology driven change, the LCBO remains on alert and proactive in investing in its defensive capabilities. In addition to targeted mitigations and increased detection monitoring, response plans and breach protocols continue to be upgraded to ensure the LCBO can maintain a strong security posture.
- **Information Technology Debt**: The LCBO's ability to operate effectively and sustain increased growth in various business channels such as eCommerce and other business driven initiatives is dependent upon its systems and infrastructure. The LCBO has a complex underlying IT infrastructure to drive its business which requires ongoing

investments, with FY2022 spending discussed in the section titled *Capital expenditures*. Integration into the existing infrastructure is a complex multi-year project due to legacy technology and disparate platforms, resulting in change management and human capital challenges. To address and manage the technology risks, the LCBO has developed a roadmap which outlines various technology strategies and architecture to guide the future direction required to support continued growth and business development.

Financial and operational highlights at a glance

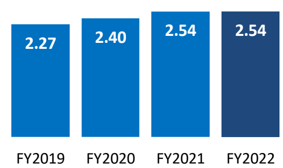
Revenue
$ billions

$7.34
+2.2% vs LY



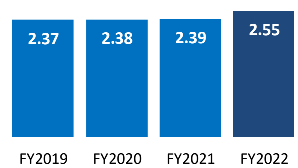
Net Income
$ billions

$2.54
+0.2% vs LY



Dividend
$ billions

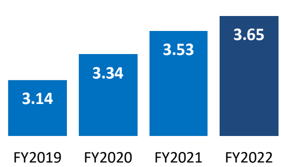
$2.55
+6.7% vs LY



Net Income in FY2019 has been restated to reflect the adoption of IFRS 16.

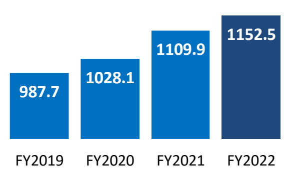
Cost of Sales
$ billions

$3.65
+3.4% vs LY



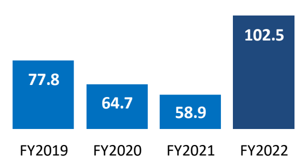
Expenses
$ millions

$1152.5
+3.8% vs LY



CapEx
$ millions

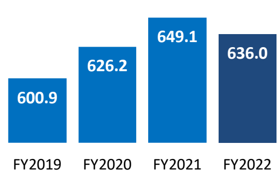
$102.5
+74.0% vs LY



Expenses in FY2019 have been restated to reflect the adoption of IFRS 16.

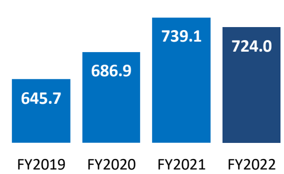
Litres Sold
millions

636.0
-2.0% vs LY



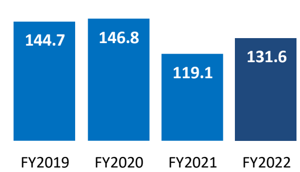
Units Sold
millions

724.0
-2.0% vs LY



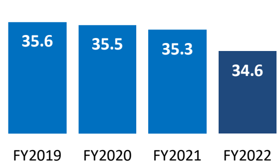
Customer Transactions
millions

131.6
+10.6% vs LY



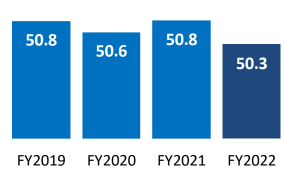
Net Income Ratio
percentage of revenue

34.6%
-69bps vs LY



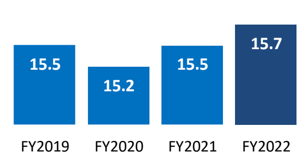
Gross Margin Ratio
percentage of revenue

50.3%
-57bps vs LY



SG&A Expense Ratio
percentage of revenue

15.7%
+25bps vs LY



Expenses in FY2019 have been restated to reflect the adoption of IFRS 16.

RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

On behalf of management:

George Soleas
President & Chief Executive Officer

Becky Hong
Acting Chief Financial Officer

June 23, 2022

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

INDEPENDENT AUDITOR'S REPORT

To the Liquor Control Board of Ontario

Opinion

I have audited the financial statements of the Liquor Control Board of Ontario (the LCBO), which comprise the statement of financial position as at March 31, 2022, 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, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Toronto, Ontario
June 23, 2022

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

FINANCIAL STATEMENTS AND NOTES

For the Year Ended March 31, 2022

LIQUOR CONTROL BOARD OF ONTARIO

Statement of Financial Position

(thousands of Canadian dollars)

	Note	March 31 2022	March 31 2021
ASSETS			
Current Assets			
Cash and cash equivalents	5	559,437	496,437
Trade and other receivables	6, 24	87,181	86,593
Inventories	7	656,306	583,123
Prepaid expenses	8	24,844	26,756
Total Current Assets		1,327,768	1,192,909
Right-of-use assets	11	678,429	601,179
Property, plant and equipment and intangible assets	9	429,479	398,756
Total Assets		**2,435,676**	**2,192,844**
LIABILITIES & EQUITY			
Current Liabilities			
Trade and other payables	10, 12	909,381	779,706
Provisions	4(v)	2,046	2,246
Current portion of non-pension employee benefits	13	14,042	15,728
Current portion of lease liabilities	11	94,844	87,442
Current portion of borrowings	14	8,313	-
Total Current Liabilities		1,028,626	885,122
Non-pension employee benefits	13	101,273	111,709
Lease liabilities	11	700,696	622,863
Borrowings	14	38,835	4,544
Total Liabilities		**1,869,430**	**1,624,238**
Equity			
Retained earnings		567,649	574,365
Accumulated other comprehensive loss	13	(1,403)	(5,759)
Total Equity		566,246	568,606
Total Liabilities and Equity		**2,435,676**	**2,192,844**

See accompanying notes to the financial statements.

Approved By:

Chair, Board of Directors

Board Member, Chair, Audit Committee

LIQUOR CONTROL BOARD OF ONTARIO

Statement of Income and Other Comprehensive Income

(thousands of Canadian dollars)

For the year ended	Note	March 31 2022	March 31 2021
Revenue	18	7,340,628	7,182,507
Cost of sales	7	(3,649,938)	(3,530,382)
Gross margin		3,690,690	3,652,125
Other income	19	34,202	23,601
Selling, general and administrative expenses	20	(1,152,477)	(1,109,852)
Income from operations		2,572,415	2,565,874
Finance income	22	1,875	1,605
Finance costs	11, 13, 14, 22	(31,006)	(29,084)
Net income		**2,543,284**	**2,538,395**
Other comprehensive gain/(loss)			
Items that will not be reclassified to profit or loss:			
Actuarial gain/(loss) on non-pension employee benefits	13	4,356	2,795
Total other comprehensive gain/(loss)		4,356	2,795
Total comprehensive income		**2,547,640**	**2,541,190**

See accompanying notes to the financial statements.

LIQUOR CONTROL BOARD OF ONTARIO

Statement of Changes in Equity

(thousands of Canadian dollars)

	Note	Retained Earnings	Accumulated other comprehensive gain/(loss)	Total Equity
Balance at April 1, 2021		574,365	(5,759)	568,606
Net income		2,543,284	-	2,543,284
Other comprehensive gain	13	-	4,356	4,356
Dividend paid to province	23	(2,550,000)	-	(2,550,000)
Balance at March 31, 2022		567,649	(1,403)	566,246
Balance at April 1, 2020		425,970	(8,554)	417,416
Net income		2,538,395	-	2,538,395
Other comprehensive gain	13	-	2,795	2,795
Dividend paid to province	23	(2,390,000)	-	(2,390,000)
Balance at March 31, 2021		574,365	(5,759)	568,606

LIQUOR CONTROL BOARD OF ONTARIO

Statement of Cash Flows

(thousands of Canadian dollars)

For the year ended	March 31 2022	March 31 2021
Operating activities:		
Net income	2,543,284	2,538,395
Depreciation, amortization and impairment	70,905	70,890
Depreciation – right-of-use assets	93,730	83,785
Loss/(gain) on sale and disposal of property, plant and equipment and intangible assets	(2,149)	58
Interest expense on borrowings	101	-
Interest expense on lease liabilities	27,259	24,243
Interest paid on lease liabilities	(23,131)	(22,384)
Non-pension employee benefit expenses	6,906	15,912
Non-pension employee benefit payments	(14,672)	(15,546)
	158,949	156,958
Change in non-cash balances related to operations:		
Trade and other receivables	(588)	4,560
Inventories	(73,183)	(59,305)
Prepaid expenses	1,912	(6,690)
Trade and other payables	129,675	20,899
Provisions	(200)	(1,093)
	57,616	(41,629)
Net cash provided by operating activities	2,759,849	2,653,724
Investing activities:		
Purchase of property, plant and equipment and intangible assets	(102,398)	(58,909)
Proceeds from sale of property, plant and equipment and intangible assets	3,012	100
Net cash used in investing activities	(99,386)	(58,809)
Financing activities:		
Dividend paid to the Province of Ontario	(2,550,000)	(2,390,000)
Principal portion of lease payments	(89,934)	(80,508)
Lease Incentives received	60	378
Proceeds from borrowings	42,411	4,530
Net cash used in financing activities	(2,597,463)	(2,465,600)
Increase/(decrease) in cash	63,000	129,315
Cash and cash equivalents, beginning of year	496,437	367,122
Cash and cash equivalents, end of year	559,437	496,437

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 100 Queens Quay East, Toronto, ON, M5E 0C7.

1.2 Statement of compliance

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

The financial statements are presented in Canadian dollars ("C$"), LCBO's functional currency.

The audited financial statements were approved by the Board of Directors and authorized for issue on June 23, 2022.

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, 2022 financial statements as their effective dates fall in the current financial reporting period.

COVID-19-Related Rent Concessions beyond June 30, 2021 – Amendments to IFRS 16

In May 2020, the IASB issued COVID-19-related Rent Concessions – amendment to IFRS 16 Leases. As a result of the COVID-19 pandemic, lessors were compelled to grant rent concessions to affected lessees. These concessions took a variety of forms, including deferral of lease payments and payment holidays. Previously under IFRS 16 *Leases*, rent concessions often met the definition of a lease modification, unless they were anticipated in the original lease agreement.

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

The amendments introduced an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient would treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this would result in accounting for the concessions as variable lease payments in the period in which they were granted. Entities applying the practical expedient must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognized in profit or loss arising from the rent concessions.

The amendment was intended to apply until June 30, 2021, but as the impact of the COVID-19 pandemic persisted longer than anticipated, the IASB extended the period of application of the practical expedient to June 30, 2022.

The amendments are effective for annual periods beginning on or after April 1, 2021. LCBO did not negotiate any rent concessions with lessors that would affect its lease payment obligations. The amendments to IFRS 16 *Leases* did not have an impact to LCBO.

Interest Rate Benchmark Reform (IBOR) – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

To ensure that financial statements best reflect the economic effects of IBOR reform, the IASB issued amendments to address the issues that arise during the reform of an interest rate benchmark rate, including the replacement of one benchmark rate with another one. The amendment includes the following practical expedients:

- Requires contractual changes, or changes to cashflows that are directly required by the reform, to be treated as changes to floating interest rate, equivalent to a movement in market rate interest.
- Allows most IAS 39 or IFRS 9 hedge relationships that are directly affected by IBOR reform to continue. However, additional ineffectiveness might need to be recorded.

The amendments are effective for annual periods beginning on or after January 1, 2021. The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 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, 2022 financial statements as their effective dates fall in periods beginning subsequent to the current financial reporting period.

2.2 Accounting standards and amendments not yet effective (continued)

Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37

The amendment to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* clarified that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

The amendments are effective for annual periods beginning on or after January 1, 2022. The amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* are not expected to have an impact to LCBO.

Property, Plant and Equipment – Amendment to IAS 16

The amendment to IAS 16 *Property, Plant and Equipment* clarified the accounting for the net proceeds from selling any items produced while bringing an item of Property, Plant and Equipment to the location and condition necessary for it to be capable of operating in the manner intended by management.

The amendment prohibits a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, the company will recognize such sales proceeds and related cost in profit or loss.

The amendments are effective for annual periods beginning on or after January 1, 2022. The amendments to IAS 16 *Property, Plant and Equipment* are not expected to have an impact to LCBO.

Annual Improvements to IFRS Standards 2018–2020

The following improvements were finalized in May 2020:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* – amended to allow entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent.

- IFRS 9 *Financial Instruments* – amended to clarify which fees should be included in the 10% test for derecognition of financial liabilities.

2.2 Accounting standards and amendments not yet effective (continued)

- IFRS 16 *Leases* – amended to remove any confusion about the treatment of lease incentives.

- IAS 41 *Agriculture* – amended to remove the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41.

The amendments are effective for annual periods beginning on or after January 1, 2022. The amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 9 *Financial Instruments*, IFRS 16 *Leases* and IAS 41 *Agriculture* are not expected to have an impact to LCBO.

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

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

The amendments are to be applied retrospectively in accordance with the requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual periods beginning on or after January 1, 2023. The amendments are not expected to have an impact to LCBO.

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

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

The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments to IAS 1 *Presentation of Financial Statements* and *IFRS Practice Statement 2* are not expected to have an impact to LCBO.

2.2 Accounting standards and amendments not yet effective (continued)

Disclosure of Accounting Policies – Amendment to IAS 8

The amendment to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* clarified on how companies should distinguish changes in accounting policies from changes in accounting estimates.

The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* are not expected to have an impact to LCBO.

3. Significant Accounting Policies

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

3.1 Cash and cash equivalents

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

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

3.2 Trade and other receivables

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

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

3.3 Inventories

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

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

3.4 Property, plant and equipment

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

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

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

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

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

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

3.4 Property, plant and equipment (continued)

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

The estimated useful lives for intangible assets are as follows:

Computer software	4 years

The resulting disclosures are presented in Note 9.

ii. **Internally generated intangible assets – research and development costs**

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

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

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale as intended by management;
(b) its intention to complete the intangible asset and use or sell it;
(c) its ability to use or sell the intangible asset;
(d) how the intangible asset will generate probable future economic benefits;
(e) the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset; and
(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

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 assets

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

3.7 Trade and other payables

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

3.8 Provisions

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

3.9 Borrowings

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

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

3.10 Borrowing costs

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

3.11 Financial instruments

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

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

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

3.11 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 and finance cost interest accrued from these financial assets and liabilities respectively. Cash and cash equivalents, trade receivables, trade payables, and borrowings 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. The resulting disclosures are presented in Note 16.

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: inputs other than the Level 1 quoted prices that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and
Level 3: inputs for the asset or liability that are not based on observable market inputs (unobservable inputs).

3.12 Revenue recognition

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

i. **Aeroplan®**

The Aeroplan® program is split into two distinct components:

(1) Base – LCBO pays Aeroplan Inc. a fee for each base Aeroplan point issued to customers. LCBO acts as an agent for Aeroplan Inc. in this arrangement, therefore the associated costs of the base points are accounted for as a reduction to revenue in the Statement of income and other comprehensive income.

(2) Bonus – LCBO charges vendors a fee whose products are participating in the bonus Aeroplan® program. LCBO also pays Aeroplan Inc. a fee for each bonus Aeroplan point issued to customers. The associated income net of costs of the bonus program is accounted for as a reduction to cost of sales in the Statement of income and other comprehensive income.

ii. **Direct Delivery**

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

iii. **Gift Card breakage income**

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

3.13 Other income

i. **Services rendered**

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

3.13 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 and recognizes a refund liability upon the receipt of container deposits.

LCBO reimburses Brewers Retail Inc. for deposits paid to customers who return containers to locations it operates, plus a service fee. The service fees paid to Brewers Retail Inc. are included in selling, general and administrative expenses as part of environmental initiatives expenses. The net amounts are included in trade and other payables in the Statement of financial position.

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

iii. **Domestic airline revenue**

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

3.14 Vendor allowances

LCBO receives allowances from certain suppliers whose product it purchases for resale. The allowances are received for a variety of promotional activities, including allowances received for in-store promotion of the supplier's product, advertising the launch of a new product and labeling and shelf space provided on limited time product offers. LCBO recognizes consideration received from vendors as a reduction in the price of the vendors' products and reflects it as a reduction to cost of sales when recognized in the Statement of income and other comprehensive income. Certain exceptions apply where the cash consideration received is a direct reimbursement of specific, incremental and identifiable

3.14 Vendor allowances (continued)

costs incurred by LCBO for assets or services delivered to the vendor or reimbursement of selling costs incurred to promote the vendor's product. In these particular instances, the consideration is reflected as a reduction in selling, general and administrative expenses.

3.15 Employee benefits

i. **Short-term employee benefits**

Short-term employee benefit obligations are expensed as the related service is provided. LCBO recognizes a liability and an expense for short-term benefits such as performance pay, unused vacation entitlements and other employee benefits if LCBO has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reasonably. The resulting disclosures are presented in Note 13 and Note 21.

ii. **Pension benefit costs**

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

LCBO's contributions to both plans are accounted for on a defined contribution basis with LCBO's contribution charged to the Statement of income and other comprehensive income in the period the contributions become payable. The resulting disclosures are presented in Note 13.

iii. **Non-pension employee benefits**

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

3.15 Employee Benefits (continued)

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

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

3.16 Finance income

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

3.17 Finance costs

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

3.18 Leasing

Under IFRS 16, LCBO assesses whether a contract is or contains a lease, at the inception of the contract. LCBO recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, the LCBO recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the LCBO's incremental borrowing rate, unless the implicit interest rate in the lease can be readily determined.

3.18 Leasing (continued)

Lease payments are comprised of fixed payments including in-substance fixed payments, less any lease incentives receivable. The period over which the lease payments are discounted is the reasonably certain lease term, which may include lease renewal options. The lease liability is presented as a separate line in the statement of financial position.

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

The LCBO remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate, in which cases the lease liability is remeasured by discounting the revised lease payments using the same discount rate used in initially setting up the liability (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

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

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

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and to instead account for any lease and associated non-lease components as a single arrangement. The LCBO has elected to apply this practical expedient to account for its non-

3.18 Leasing (continued)

property leases. In addition, LCBO applies the portfolio approach to account for certain equipment leases with nearly identical contractual terms. The resulting disclosures are presented in Note 11.

3.19 Foreign currencies

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

4. Use of estimates and 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.

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

4. Use of estimates and judgments (continued)

ii. Impairment of assets

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

Right-of-use assets, property, plant and equipment and intangible assets are subject to impairment and impairment reversal reviews based on whether current circumstances suggest that their recoverable amount may be less than their carrying value, or has subsequently increased. 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 and Note 11.

iii. Inventories

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

iv. Leases

LCBO leases a significant number of retail store locations and also enters into leases for non-retail locations as part of its operations (collectively "property" leases), along with non-property leases. As a practical expedient, the LCBO elected, by class of non-property lease, not to separate the non-lease and lease components, and instead account for together as a single lease component. The LCBO also applies the portfolio approach to account for certain equipment lease contracts with similar characteristics and nearly identical contractual terms. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods covered by termination options) are only included in the lease term if management determines the lease to be reasonably certain to be extended (or terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of LCBO.

(thousands of Canadian dollars)

4. Use of estimates and judgments (continued)

Judgment is also required in determining the appropriate discount rate used for measurement of lease liabilities. Generally, the interest rate implicit in LCBO's leases are not readily determinable. As such, LCBO estimates an incremental borrowing rate at the lease commencement date based on Ontario bond rates, adjusted for financing spreads, risk premiums and fees.

v. Provisions

Provisions have been made for 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, and the difference is recognized in the statement of comprehensive income at that time. Provisions for the year ended March 31, 2022 were $2.0 million (2021 – $2.2 million).

vi. ODRP container deposit breakage income

LCBO has determined that not all deposits paid by customers for the ODRP containers will be redeemed. Estimates have been made for the breakage rate on ODRP containers based on historical redemption data. The estimated ODRP container deposit breakage is included in other income on the Statement of income and comprehensive income in the period when the likelihood of redemption is considered to be remote. Additional disclosures are presented in Note 19.

vii. Gift Card breakage income

LCBO has determined that not all gift cards purchased will be redeemed in full by customers. Estimates have been made for the breakage rate on gift cards based on past history and industry trends. Additional disclosures are presented in Note 12.

5. Cash and Cash Equivalents

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

	March 31 2022	March 31 2021
Cash on hand and in transit	232,888	232,621
Short term investments	326,549	263,816
	559,437	496,437

(thousands of Canadian dollars)

6. Trade and Other Receivables

	March 31 2022	March 31 2021
Trade and other receivables	92,105	90,604
Loss allowance	(4,924)	(4,011)
	87,181	86,593

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

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

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

7. Inventories

Inventories sold during the year ended March 31, 2022 was $3,650 million (2021 – $3,530 million) and are included in cost of sales. There were no significant write-downs or reversal of previous write-downs to net realizable value during the year ended March 31, 2022 and 2021.

8. Prepaid Expenses

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

(thousands of Canadian dollars)

9. Property, Plant & Equipment and Intangible Assets

Net book value of property, plant & equipment and intangible assets	March 31 2022	March 31 2021
Land	9,756	9,898
Buildings	98,906	97,318
Machinery and equipment	51,044	48,432
Leasehold improvements	219,645	181,968
Computer equipment	14,641	16,420
Computer software	21,570	33,165
Software/Construction in progress	13,917	11,555
	429,479	398,756

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, 2022

	Land	Buildings	Machinery and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
Cost								
Balance at April 1, 2021	9,898	407,311	172,575	617,666	73,036	172,382	11,555	1,464,423
Net additions	-	11,847	12,423	66,238	4,847	5,657	1,479	102,491
(Impairment)/Reversal	-	-	-	-	-	-	883	883
Disposals/Retirements	(142)	(41,883)	(14,313)	(48,499)	(4,925)	(92,602)	-	(202,364)
Balance at March 31, 2022	9,756	377,275	170,685	635,405	72,958	85,437	13,917	1,365,433
Accumulated depreciation								
Balance at April 1, 2021	-	309,993	124,143	435,698	56,616	139,217	-	1,065,667
Depreciation for the year	-	9,497	9,436	28,317	6,598	17,251	-	71,099
Impairment/(Reversal)		122	309	230	28			689
Disposals/Retirements	-	(41,243)	(14,247)	(48,485)	(4,925)	(92,601)		(201,501)
Balance at March 31, 2022	-	278,369	119,641	415,760	58,317	63,867	-	935,954
Net book value at March 31, 2022	9,756	98,906	51,044	219,645	14,641	21,570	13,917	429,479

(thousands of Canadian dollars)

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

Property, plant & equipment and intangible assets continuity for the year ended March 31, 2021

	Land	Buildings	Machinery and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
Cost								
Balance at April 1, 2020	9,899	402,344	164,313	587,244	62,886	161,393	21,500	1,409,579
Net additions	-	5,188	10,316	30,426	11,050	10,989	(9,046)	58,923
Impairment	-	-	-	-	-	-	(899)	(899)
Disposals/Retirements	(1)	(221)	(2,054)	(4)	(900)	-	-	(3,180)
Balance at March 31, 2021	9,898	407,311	172,575	617,666	73,036	172,382	11,555	1,464,423
Accumulated depreciation								
Balance at April 1, 2020	-	300,132	116,889	410,369	50,938	120,370	-	998,698
Depreciation for the year	-	10,002	9,243	25,329	6,570	18,847	-	69,991
Disposals/Retirements	-	(141)	(1,989)	-	(892)	-	-	(3,022)
Balance at March 31, 2021	-	309,993	124,143	435,698	56,616	139,217	-	1,065,667
Net book value at March 31, 2021	9,898	97,318	48,432	181,968	16,420	33,165	11,555	398,756

10. Trade and Other Payables

	March 31 2022	March 31 2021
Trade payables	620,517	515,045
Accruals and other payables	267,017	243,805
Employee benefit accrual	21,847	20,856
	909,381	779,706

Trade payables consist of amounts outstanding for purchases of alcohol products, freight and federal taxes. Accruals and other payables include amounts relating to harmonized sales tax, unredeemed gift cards, ODRP container deposits collected and other miscellaneous accruals and purchases. The employee benefits accrual includes annual vacation entitlements and performance bonus payments expected to be paid in the following year. Due to their short-term nature, LCBO considers trade and other payable to be the same as their fair value.

(thousands of Canadian dollars)

11. Leases

a. Right-of-use assets

Right-of-use assets continuity for the year ended March 31, 2022

	Property[9]	Non-property[10]	Total
Cost			
Balance at April 1, 2021	1,563,468	17,153	1,580,621
Additions	170,778	202	170,980
Balance at March 31, 2022	1,734,246	17,355	1,751,601
Accumulated depreciation			
Balance at April 1, 2021	978,536	906	979,442
Depreciation for the year	90,043	3,687	93,730
Balance at March 31, 2022	1,068,579	4,593	1,073,172
Net book value at March 31, 2022	665,667	12,762	678,429

9 Property leases consist of retail stores and a warehouse facility from a third party.
10 Non-property leases consist of leased machinery, IT, printers and other equipment assets.

Right-of-use assets continuity for the year ended March 31, 2021

	Property[9]	Non-property[10]	Total
Cost			
Balance at April 1, 2020	1,454,928	-	1,454,928
Additions	108,540	17,153	125,693
Balance at March 31, 2021	1,563,468	17,153	1,580,621
Accumulated depreciation			
Balance at April 1, 2020	895,657	-	895,657
Depreciation for the year	82,879	906	83,785
Balance at March 31, 2021	978,536	906	979,442
Net book value at March 31, 2021	584,932	16,247	601,179

9 Property leases consist of retail stores and a warehouse facility from a third party.
10 Non-property leases consist of leased machinery, IT, printers and other equipment assets.

(thousands of Canadian dollars)

11. Leases (continued)

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

	March 31 2022	March 31 2021
Depreciation – right-of-use assets	93,730	83,785
Interest expense on lease liabilities	27,259	24,243
Rent expense relating to short-term leases	1,178	880
Variable lease expenses not included in the measurement of lease liabilities	52,197	48,290

c. Lease liabilities

Maturity analysis – undiscounted cash flow		
Less than one year	118,705	114,486
One to five years	426,539	431,220
More than five years	427,635	459,860
	972,879	1,005,566
Lease liabilities included in the statement of financial position		
Current	94,844	87,442
Non-current	700,696	622,863
	795,540	710,305

(thousands of Canadian dollars)

12. Gift Cards

For the year ended	March 31 2022	March 31 2021
Unredeemed gift cards	64,327	58,377

Revenue generated from gift cards is recognized when gift cards are redeemed. For the fiscal year ended March 31, 2022, a total of $114.2 million (2021 – $109.4 million) gift cards were redeemed and recognized in revenue. Breakage income recognized in revenue for the year ended March 31, 2022 was $2.3 million (2021 – $2.2 million).

13. Employee Benefits

a. Pension plan

For the year ended March 31, 2022 the expense was $38.3 million (2021 – $35.4 million) and is included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

b. Non-pension employee benefits

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

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

As of March 31, 2022, the weighted average duration of the plans obligations are 7.6 years (2021 – 7.5 years).

i. Statement of financial position

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

	March 31 2022	March 31 2021
Current	14,042	15,728
Non-current	101,273	111,709
Total non-pension employee benefit obligation	115,315	127,437

(thousands of Canadian dollars)

13. Employee Benefits (continued)

The current portion represents LCBO's estimated contribution to non-pension employee benefits for fiscal 2023.

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 2022	**March 31 2021**
Current service cost	16,792	17,206
Past service credit	-	-
Actuarial gains on non-vesting benefits	(13,532)	(6,135)
Total costs included in expenses	3,260	11,071
Interest costs	3,646	4,841
Total costs included in finance costs	3,646	4,841
Total non-pension employee benefit expenses	6,906	15,912

iii. **Accumulated other comprehensive income**

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

	March 31 2022	**March 31 2021**
Opening cumulative actuarial losses recognized	(5,759)	(8,554)
Net actuarial gains/(losses) recognized	4,356	2,795
Closing cumulative actuarial losses recognized	(1,403)	(5,759)

(thousands of Canadian dollars)

13. Employee Benefits (continued)

iv. Movement in the obligation

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

	March 31 2022	March 31 2021
Opening benefit obligation	127,437	129,866
Current service cost	16,792	17,206
Interest on obligation	3,646	4,841
Actuarial (gains)/losses from changes in demographic assumptions	496	(1,380)
Actuarial (gains)/losses from changes in financial assumptions	(10,164)	7,043
Actuarial (gains)/losses from other	(8,220)	(14,593)
Benefits paid	(14,672)	(15,546)
Closing benefit obligation	115,315	127,437

(thousands of Canadian dollars)

13. Employee Benefits (continued)

v. Significant assumptions

Significant assumptions used for the year ended March 31, 2022:

	WCB	LTIP	NVSL	ECTB	CSP	Service Awards
Discount Rate						
Expense	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%
Disclosure	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%
Salary rate increase						
• Bargaining Unit	n/a	n/a	1.000% plus OPT Promotional Scale in FY22, increasing to 1.400% plus OPT Promotional Scale in FY25	n/a	1.000% plus OPT Promotional Scale in FY22, increasing to 1.400% plus OPT Promotional Scale in FY25	2.0% per annum
• Management and Executive	n/a	n/a	1.000% + 2% merit in FY22, increasing to 1.400% + 2% merit in FY25	1.000% + 2% merit in FY22, increasing to 1.400% + 2% merit in FY25	1.000% + 2% merit in FY22, increasing to 1.400% + 2% merit in FY25	2.0% per annum
• Disabled employees	2.7% per annum in 2022 and 2.0% per annum thereafter	1.4% per annum	Same as above	Same as above	Same as above	2.0% per annum
Health care cost increases						
• Health & Vision	6.5% per annum in 2022 reducing to 4.0% per annum in and after 2041	6.5% per annum in 2022 reducing to 4.0% per annum in and after 2041	n/a	n/a	n/a	n/a
• Dental	n/a	4.0% per annum	n/a	n/a	n/a	n/a

(thousands of Canadian dollars)

13. Employee Benefits (continued)

v. Significant assumptions (continued)

Significant assumptions used for the year ended March 31, 2021:

	WCB	LTIP	NVSL	ECTB	CSP	Service Awards
Discount Rate						
Expense	3.60%	3.60%	3.60%	3.60%	3.60%	3.60%
Disclosure	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%
Salary rate increase						
• Bargaining Unit	n/a	n/a	FY21+: 1.400% plus OPT Promotional Scale	n/a	FY21+: 1.400% plus OPT Promotional Scale	2.0% per annum
• Management and Executive	n/a	n/a	FY21+: 1.400% + 2% merit	FY21+: 1.400% + 2% merit	FY21+: 1.400% + 2% merit	2.0% per annum
• Disabled employees	2.0% per annum	1.4% per annum	Same as above	Same as above	Same as above	2.0% per annum
Health care cost increases						
• Health & Vision	6.6% per annum in 2021 reducing to 4.0% per annum in and after 2041	6.6% per annum in 2021 reducing to 4.0% per annum in and after 2041	n/a	n/a	n/a	n/a
• Dental	n/a	4.0% per annum	n/a	n/a	n/a	n/a

(thousands of Canadian dollars)

13. Employee Benefits (continued)

vi. Sensitivity analysis

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

	Impact on total non-pension employee benefit obligation	
Assumption	**0.5% increase in assumption**	**0.5% decrease in assumption**
Discount Rate	(3,713)	3,972
Health Care Trend Rate	849	(832)
Salary Scale	3,005	(2,839)
Benefit Indexation	1,280	(1,192)

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 2022 year-end disclosures. For the sensitivity analysis on the defined benefit obligation, each main assumption was increased and decreased by 0.5% from the assumption used to determine the sensitivity impact on the March 31, 2022 defined benefit obligation.

14. Borrowings

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

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

During fiscal 2022, LCBO drew $42.4 million on facility one, bringing the total loan balance to $47.1 million inclusive of interest as at March 31, 2022. Aggregate loan amount plus interest accrued was consolidated to a new loan “facility two” on April 5, 2022 with revised loan terms. Facility two is a non-revolving three-year term loan and bears interest at 3.26 per cent per annum, compounded semi-annually, and is repayable in equal semi-annual payments of $8.3 million commencing on October 5, 2022. The loan is unsecured and is due April 7, 2025.

(thousands of Canadian dollars)

14. Borrowings (continued)

On December 17, 2021, the new head office location was deemed fit for occupancy upon substantial completion. Included in borrowings are capitalized borrowing costs related to the construction of the new head office. As at March 31, 2022, other borrowing costs of $0.1 million incurred on the head office construction after substantial completion were expensed.

The table represents the changes to LCBO's borrowings:

	March 31 2022	March 31 2021
Opening Balance	4,544	-
Cash advanced - Draws	42,411	4,530
Interest capitalized	92	14
Interest expensed	101	-
Closing Balance	47,148	4,544
Current	8,313	-
Non-current	38,835	4,544
	47,148	4,544

The fair value of borrowings at March 31, 2022 approximates their carrying amount.

15. Contingent Liabilities

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

16. Financial Risk Management

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

a. Credit Risk

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

i. Risk management

Cash and cash equivalents and derivative financial instruments arising from forward contracts are placed only with approved counterparties. For banks and financial institutions, only independently rated parties that meet the minimum credit rating of A1 or equivalent are accepted. The credit ratings are regularly monitored. In the event of a downgrade in credit rating of a counterparty, no further agreements are entered until the credit ratings meet or exceed LCBO's rating requirement.

At March 31, 2022, all foreign forward contracts and cash and cash equivalents were held with regulated Canadian financial institutions that met minimum credit rating requirements.

16. Financial Risk Management (continued)

The nature of LCBO's business mitigates against credit risk exposure from retail sales due to settlement in cash and credit cards. Trade and other receivables arise primarily from sales invoiced to independent businesses, agents, and other debtors. As at March 31, 2022, approximately 23% (2021 – 23%) of LCBO's receivable is due from one customer whose account is in good standing. Apart from this, LCBO does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. LCBO does not consider its exposure to credit risk associated with trade and other receivables to be material.

ii. Impairment of financial assets

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

Cash and cash equivalents

There were no impairment losses recognized for March 31, 2022 related to cash and cash equivalents. Refer to Note 5 for a breakdown of cash and cash equivalents.

Trade and other receivables

LCBO's expected credit loss model loss rates are based off credit risk exposure by type of counterparty, namely wholesale customers and others. The loss rates are a function of sales payment collection over a period and the corresponding loss experience within the period. The loss rates are adjusted to reflect current and forward-looking information on factors that impact the credit risk of customers. LCBO identified GDP as the most relevant macro-economic factor that affects its customers' ability to settle outstanding receivables, and accordingly, adjusts its historical loss rates based on expected changes in GDP in its impairment model. The impact of macro-economic factors on LCBO loss rates is negligible.

16. Financial Risk Management (continued)

b. Liquidity Risk

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

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

c. Market Risk

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

i. Foreign Exchange Risk

LCBO is exposed to foreign exchange risk with respect to inventory purchases denominated in currencies other than the Canadian dollar. To mitigate the impact of fluctuating foreign exchange rates on the cost of these purchases, LCBO has an established non-speculative risk management program that governs the committed and reasonably anticipated foreign currency exposures in significant currencies that must be economically hedged through permitted hedging instruments. For the year ended March 31, 2022, LCBO hedged its exposure in identified significant currencies (USD and EUR) through the purchase of foreign exchange forward contracts.

16. Financial Risk Management (continued)

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

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

As at March 31, 2022, LCBO had 71 foreign exchange forward contracts (2021 – 58) and 4 spot contracts (2021 – nil) with fair value totaling $1.2 million loss (2021 – $1.5 million loss) classified as a level 2 fair value based on observable market data.

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

ii. Interest Rate Risk

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

(thousands of Canadian dollars)

17. Capital Management

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

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

LCBO's objectives in managing its capital are first to safeguard its ability to continue as a going concern by preserving capital and maintaining sufficient liquidity to meet future financial commitments and second to maximize the earnings of such capital. By achieving these objectives, LCBO is able to fund its future growth and provide continuous dividends to the Province.

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

18. Revenue

LCBO generates revenue from the sale of beverage alcohol to its customers. Virtually all revenue is from the sale of goods. In the table below, revenue is disaggregated by the major customer channels.

	March 31 2022	**March 31 2021**
Home Consumers – Retail	6,049,336	5,958,429
Grocers	415,359	486,464
Licensees	374,353	169,836
LCBO Convenience Outlets	260,485	293,577
The Beer Store	214,487	263,289
Direct Wineries and Distilleries and Other	13,433	9,539
Duty Free	13,175	1,373
	7,340,628	7,182,507

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

(thousands of Canadian dollars)

19. Other Income

The components of other income include the following:

	March 31 2022	March 31 2021
ODRP container deposit breakage income	15,437	14,796
Border point levies and fees	2,180	1,264
Domestic airline revenue	1,720	266
Other	14,865	7,275
	34,202	23,601

20. Selling, General and Administrative Expenses by Nature

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

	March 31 2022	March 31 2021
Employee costs (Note 21)	609,401	593,050
Depreciation – right-of-use assets	93,730	83,785
Occupancy costs	89,138	84,386
Depreciation, amortization and impairment	70,905	70,890
Environmental initiatives	57,064	53,997
Debit/credit charges	56,536	51,330
Maintenance & service contracts	41,173	39,754
Professional services	26,590	23,448
Advertising	2,356	7,236
Other	105,584	101,976
	1,152,477	1,109,852

21. Employee Costs

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

	March 31 2022	March 31 2021
Salaries & wages	504,400	484,321
Short-term employee benefits	105,001	108,729
	609,401	593,050

(thousands of Canadian dollars)

22. Finance Income and Finance Costs

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

	March 31 2022	March 31 2021
Finance income		
Interest and investment income	1,875	1,605
Total finance income	1,875	1,605
Finance costs		
Interest on non-pension employee benefits	3,646	4,841
Interest expense on borrowings	101	-
Interest expense on lease liabilities	27,259	24,243
Total finance costs	31,006	29,084

23. Related Parties

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

Province of Ontario
For the year ended March 31, 2022, LCBO transferred a total dividend of $2.550 billion (2021 – $2.390 billion) to the Province. LCBO also provides an annual contribution to the Province for the defined benefit plan which is discussed in Notes 3 and 13.

Ontario Financing Authority
OFA is an agency of the province of Ontario that manages the province's debt and borrowing program. In addition, the agency also provides financial and centralized cash management services for the government; assist crown agencies to borrow and invest money.

Refer to Note 14 for disclosures of borrowings from the Ontario Financing Authority.

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, 2022, LCBO contributed $2.2 million (2021 – $2.7 million) and these expenditures are included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

(thousands of Canadian dollars)

23. Related Parties (continued)

Ontario Infrastructure and Lands Corporation

LCBO entered into a lease agreement with OILC to lease a facility as an interim data centre. The lease is for a five-year term. As at March 31, 2022, the outstanding lease liability is $1.7 million (2021 – $2.3 million). Other cost incurred related to LCBO use of the facility amounted to $0.03 million (2021 – $0.1 million). These expenditures are included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

Key Management Personnel

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of LCBO. Key management personnel include members of the Board of Directors, President and Chief Executive Officer, Chief Financial Officer and top senior officers. 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 2022	March 31 2021
Salaries and short-term employee benefits	5,070	4,724
Post-employment benefits	483	445
Other long-term benefits	157	148
Termination benefits	11	114
	5,721	5,431

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

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

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

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

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

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

When LCBO sells TBS common products to customers including imported beer to TBS, the container deposit is collected as part of the sale proceeds. TBS common product program deposits paid and collected are offset and included in trade and other receivables in the Statement of financial position. For the year ended March 31, 2022, $4.4 million (2021 – $2.8 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 financial statement presentation adopted for the current year.

Financial Overview

Key operational indicators

	FY2022	FY2021	FY2020	FY2019	FY2018
LCBO stores	680	677	669	666	663
Full-time equivalent employees	7,989	7,974	7,461	7,425	7,343
Product listings	34,548	28,924	31,585	28,376	26,056

Financial indicators *($ thousands)*

	FY2022	FY2021	FY2020	FY2019	FY2018
Total revenues*	7,376,705	7,207,713	6,802,646	6,433,022	6,231,010
Growth over previous year	2.3%	6.0%	5.7%	3.2%	4.5%
Total expenses**	1,183,483	1,138,936	1,056,970	1,016,540	987,774
As a percentage of total revenues	16.0%	15.8%	15.5%	15.8%	15.9%
Net income	2,543,284	2,538,395	2,401,600	2,274,536	2,206,524
As a percentage of total revenues	34.5%	35.2%	35.3%	35.4%	35.4%

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

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

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

Revenue payments *($ thousands)*

Treasurer of Ontario	FY2022	FY2021	FY2020	FY2019	FY2018
Remitted by the Liquor Control Board:					
on account of profits	2,550,000	2,390,000	2,375,000	2,370,000	2,120,000
Trillium Trust transfer - sale of Head Office					
Remitted by the Alcohol and Gaming Commission:					
on account of licence fees and permits	7,677	6,547	14,760	14,268	11,570
Remitted by the Ministry of Revenue:					
Beer, wine and spirits tax[1]	634,000	624,000	582,000	607,000	603,000
Total	**3,191,677**	**3,020,547**	**2,971,760**	**2,991,268**	**2,734,570**

Receiver General for Canada	FY2022	FY2021	FY2020	FY2019	FY2018
Remitted by the Liquor Control Board:					
Excise taxes and customs duties	468,863	471,421	443,565	417,325	404,661
Goods and Services Tax (GST) / Harmonized Sales Tax (HST)	620,059	612,692	581,964	551,705	546,287
Remitted by others:					
Excise taxes, GST/HST and other duties/taxes[2]	505,341	509,720	511,971	517,046	521,648
GST/HST remitted on sales through agency stores	37,636	42,425	21,264	17,857	17,577
Total	**1,631,898**	**1,636,258**	**1,558,763**	**1,503,933**	**1,490,174**

Ontario Municipalities	FY2022	FY2021	FY2020	FY2019	FY2018
Remitted by the Liquor Control Board:					
Realty taxes[3]	37,327	35,602	34,651	33,294	32,147
Total revenue payments	**4,860,902**	**4,692,407**	**4,565,175**	**4,528,496**	**4,256,890**

[1] The beer, wine and spirits tax figure of $634 million is an interim number for FY2022. The FY2021 number has been restated to actual as per Ontario's April 2022 Budget.

[2] Figures reflect estimates for The Beer Store, Winery Retail Stores (home consumer retail sales only) and On-site Brewery stores.

[3] Includes property taxes on leased properties.

Share of Ontario beverage alcohol market by volume sold

	FY2022
LCBO	51.9%
The Beer Store	41.7%
Brewery/Distillery/Winery Retail Stores	6.4%

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

Volume sales *(thousands of litres)*

LCBO sales	FY2022	Growth	FY2021	FY2020	FY2019	FY2018
Domestic Spirits	32,317	2.8%	31,442	30,838	29,928	30,632
Imported Spirits	40,003	-0.4%	40,148	37,696	36,189	34,525
Total Spirits	**72,320**	**1.0%**	**71,590**	**68,534**	**66,117**	**65,157**
Domestic Wine	58,223	-5.5%	61,596	53,670	51,663	52,233
Imported Wine	107,300	-3.0%	110,664	115,614	112,758	115,754
Total Wine	**165,524**	**-3.9%**	**172,260**	**169,283**	**164,421**	**167,987**
Domestic Beer	191,470	1.9%	187,869	173,536	165,412	146,507
Imported Beer	90,661	-22.6%	117,180	147,791	148,463	152,904
Total Beer	**282,130**	**-7.5%**	**305,049**	**321,326**	**313,874**	**299,410**
Domestic Coolers	98,429	16.6%	84,386	54,455	42,899	36,943
Imported Coolers	17,554	10.7%	15,852	12,598	13,553	12,565
Total Coolers	**115,983**	**15.7%**	**100,238**	**67,053**	**56,452**	**49,508**
Total Domestic	**380,439**	**4.1%**	**365,293**	**312,498**	**289,902**	**266,315**
Total Imported	**255,518**	**-10.0%**	**283,844**	**313,699**	**310,962**	**315,748**
Total LCBO	**635,957**	**-2.0%**	**649,136**	**626,197**	**600,864**	**582,063**

Other sales	FY2022	Growth	FY2021	FY2020	FY2019	FY2018
Ontario winery stores	29,124	-15.0%	34,271	27,909	26,865	27,460
The Beer Store & Ontario brewery stores	515,048	-2.8%	530,019	549,821	573,616	599,883
Ontario distillery stores	733	8.0%	679	253	217	138

Note: The FY2022 sales figures for Ontario winery stores, The Beer Store (TBS), brewery and distillery on-site stores are unaudited and may not accurately reflect total sales due to various wineries, breweries and distilleries not reporting by the time of publication, while previous years' numbers may be restated. Direct Delivery litre sales to licensees and to duty free from Ontario winery and distillery stores are excluded from those entities since they are made on behalf of the LCBO, and also excluded from LCBO sales, as per IFRS 15. LCBO beer sales figures include LCBO sales to TBS (45.5 million litres in FY2022). TBS sales exclude sales to LCBO (149.9 million litres in FY2022) and sales on behalf of LCBO to northern LCBO Convenience Outlets (6.4 million litres in FY2022). For the LCBO, prior year figures are restated annually to reflect changes in product hierarchy.

Value sales *($ thousands)*

LCBO sales	FY2022	Growth	FY2021	FY2020	FY2019	FY2018
Domestic Spirits	1,101,728	4.5%	1,054,190	1,011,892	961,105	964,948
Imported Spirits	1,621,625	5.2%	1,541,376	1,385,122	1,287,287	1,212,599
Total Spirits	**2,723,353**	**4.9%**	**2,595,566**	**2,397,015**	**2,248,391**	**2,177,547**
Domestic Wine	623,596	-4.1%	650,434	590,445	568,252	566,249
Imported Wine	1,977,058	2.4%	1,930,872	1,894,279	1,817,332	1,799,297
Total Wine	**2,600,653**	**0.7%**	**2,581,306**	**2,484,724**	**2,385,584**	**2,365,546**
Domestic Beer	922,329	4.8%	880,195	797,668	742,994	646,083
Imported Beer	442,339	-22.5%	570,670	717,567	707,389	717,036
Total Beer	**1,364,668**	**-5.9%**	**1,450,865**	**1,515,235**	**1,450,383**	**1,363,119**
Domestic Coolers	549,411	17.6%	467,200	299,988	230,894	198,464
Imported Coolers	98,907	9.5%	90,335	73,453	79,232	73,018
Total Coolers	**648,319**	**16.3%**	**557,535**	**373,441**	**310,126**	**271,481**
Total Domestic	**3,197,064**	**4.8%**	**3,052,019**	**2,699,993**	**2,503,246**	**2,375,744**
Total Imported	**4,139,929**	**0.2%**	**4,133,252**	**4,070,421**	**3,891,239**	**3,801,950**
Non-Liquor and Other	**1,304**	**126.1%**	**(4,996)**	**(6,923)**	**(5,173)**	**(4,992)**
Total LCBO	**7,338,297**	**2.2%**	**7,180,275**	**6,763,492**	**6,389,312**	**6,172,702**

Other sales	FY2022	Growth	FY2021	FY2020	FY2019	FY2018
Ontario winery stores	378,837	-10.2%	421,920	358,861	340,600	334,150
The Beer Store & Ontario brewery stores	2,266,149	0.0%	2,266,391	2,403,977	2,468,882	2,509,881
Ontario distillery stores	19,761	-4.5%	20,700	11,284	9,662	6,390

Note: Total LCBO excludes gift card breakage income. The FY2022 sales figures for Ontario winery stores, The Beer Store (TBS), brewery and distillery on-site stores are unaudited and may not accurately reflect total sales due to various wineries, breweries and distilleries not reporting by the time of publication, while previous years' numbers may be restated. Direct Delivery net sales to licensees and to duty free from Ontario winery and distillery stores are excluded from those entities since they are made on behalf of the LCBO, and only the margin portion of the net sales are included in LCBO sales, as per IFRS 15. LCBO beer sales figures include LCBO sales to TBS ($214.5 million in FY2022). TBS sales exclude sales to LCBO ($411.8 million in FY2022) and sales on behalf of LCBO to northern LCBO Convenience Outlets ($15.4 million in FY2022). For the LCBO, prior year figures are restated annually to reflect changes in product hierarchy.

Product listings

	FY2022	FY2021	FY2020	FY2019	FY2018
Domestic					
Spirits	766	678	646	597	574
Wine	884	752	631	605	577
Beer	1,472	1,449	1,301	1,294	1,246
Imported					
Spirits	1,095	1,122	1,032	930	1,099
Wine	1,301	1,080	1,082	1,078	1,134
Beer	332	314	380	376	383
Total regular listings	**5,850**	**5,395**	**5,072**	**4,880**	**5,013**
VINTAGES wines and spirits	5,918	4,955	5,661	5,257	5,079
Duty-free listings	216	183	220	239	234
Consignment warehouse and private ordering	22,564	18,391	20,632	18,000	15,730
Total product listings	**34,548**	**28,924**	**31,585**	**28,376**	**26,056**

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 FY2022, excluding sales through Specialty Services, the LCBO sold products from 81 different countries.

Spirits

Country	Net Sales ($)	Litres
CANADA	$ 1,656,151,821	131,495,026
ONTARIO	$ 1,034,331,747	101,422,529
UNITED STATES	$ 389,965,525	20,859,997
UNITED KINGDOM	$ 375,006,917	7,302,785
FRANCE	$ 222,390,087	5,670,420
MEXICO	$ 177,018,039	3,200,052
IRELAND	$ 144,441,696	3,960,442
SWEDEN	$ 80,181,934	2,395,287
ITALY	$ 56,401,944	1,600,371
LATVIA	$ 34,012,941	998,308
GERMANY	$ 23,868,603	832,957
OTHER	$ 180,473,386	5,612,536
TOTAL	**$ 3,339,912,894**	**183,928,181**

Wine

Country		Net Sales ($)	Litres
CANADA	$	614,648,046	58,139,722
ONTARIO	$	608,180,640	57,539,178
UNITED STATES	$	498,895,821	23,790,226
ITALY	$	419,574,307	24,211,866
FRANCE	$	281,319,125	10,363,164
AUSTRALIA	$	157,111,178	10,092,299
CHILE	$	97,831,983	7,985,561
NEW ZEALAND	$	94,792,674	4,490,234
SPAIN	$	86,454,862	5,344,971
ARGENTINA	$	55,060,174	3,466,413
PORTUGAL	$	49,406,911	3,467,570
OTHER	$	93,054,166	8,287,634
TOTAL	**$**	**2,448,149,247**	**159,639,661**

Beer

Country		Net Sales ($)	Litres
CANADA	$	936,500,678	194,465,152
ONTARIO	$	709,478,923	149,715,642
NETHERLANDS	$	160,235,927	31,326,669
GERMANY	$	46,471,536	11,302,575
UNITED KINGDOM	$	44,490,495	8,713,350
POLAND	$	23,699,812	5,994,762
DENMARK	$	20,014,193	4,768,200
MEXICO	$	19,500,688	3,499,540
ITALY	$	16,585,179	2,980,104
UNITED STATES	$	15,840,937	3,519,438
CZECH REPUBLIC	$	12,533,527	2,747,633
OTHER	$	53,255,860	10,316,655
TOTAL	**$**	**1,349,128,831**	**279,634,076**

Local Products – Produced in Ontario

Sales exclude Specialty Services

Volume sales *(thousands of litres)*

LCBO sales	FY2022	FY2021	Growth
Small Distillers	**563**	**555**	**1.6%**
VQA Wines	10,412	10,759	-3.2%
Non-VQA Wines	35,508	39,206	-9.4%
Total Wines	**45,920**	**49,965**	**-8.1%**
Craft Beer	**28,667**	**30,324**	**-5.5%**
Craft Cider	2,782	3,728	-25.4%
Non-Craft Cider	8,517	7,080	20.3%
Total Cider	**11,300**	**10,808**	**4.6%**

Value sales *($ thousands)*

LCBO sales	FY2022	FY2021	Growth
Small Distillers	**23,186**	**23,041**	**0.6%**
VQA Wines	179,883	184,340	-2.4%
Non-VQA Wines	352,091	381,791	-7.8%
Total Wines	**531,974**	**566,131**	**-6.0%**
Craft Beer	**177,973**	**184,320**	**-3.4%**
Craft Cider	17,692	23,371	-24.3%
Non-Craft Cider	50,502	42,056	20.1%
Total Cider	**68,194**	**65,427**	**4.2%**

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 available at www.lcbo.com under About LCBO.

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