2022-23

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 2022-23 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,

Carmine Nigro, Chair

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HIGHLIGHTS

BY THE NUMBERS:

- **Record dividend of $2.58 billion to the Government of Ontario to support critical services like healthcare, education, and infrastructure**
- **Operated a network of 685 retail stores selling alcoholic beverages, increasing access, convenience, and choice**
- **Wholesaler to 449 grocery stores and serviced 389 LCBO Convenience Outlets**
- **Same-Day Pickup service locations almost doubled as we reached a total of 373 stores**
- **More than 1.1 billion litres of beverage alcohol products sold in Ontario during FY2023, with an estimated value in excess of $10.0 billion**
- **Over $14.6 million in charitable donations supporting the health and well-being of Ontario's diverse communities**

The LCBO meets consumers where, when, and how they want to shop. As it looks toward the future, the LCBO remains focused on its transformative journey to modernize digital and in-store channels. In FY2023, the LCBO delivered on that promise while encountering new opportunities and challenges.

FINANCIAL OVERVIEW

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

- Dividends transferred to the Ontario Government: $2.58 billion
- Revenue: $7.41 billion
- Net Income: $2.46 billion

RETAIL OVERVIEW

FY2023 was a reset year – a quick return to pre-pandemic normal that resulted in rapid shifts in consumer behaviours. The LCBO remained agile in response to change, continuing to provide a variety of choices for every customer, including a return to in-person experiences and tastings, with a focus on responding to the demand for local Ontario wineries, breweries, and distilleries.

- 685 LCBO stores serving communities across Ontario
- LCBO continued to improve convenience and customer online experience by almost doubling the number of locations offering Same-Day Pickup by 176 stores. More than half of the retail network now offers this expanded eCommerce option
- Sales through the licensee channel increased by almost 60 per cent to a record $598 million following the lifting of COVID-19 restrictions

- Retail sales at physical stores and via online options for home consumers remained the largest channel but receded 2.9 per cent to $5.87 billion

SUSTAINABILITY & SOCIAL IMPACT

The LCBO continues to focus on its Spirit of Sustainability social impact platform which focuses on three areas - Good People, Good Planet, and Good Partnerships - each with clear, enterprise-wide goals that allow us to measure our impact and ensure our efforts are pushing the industry and province forward.

Meaningful community investment with over $14.6 million raised for 18 impact partners to support building communities where everyone has equitable access to the essential resources they need to live happy, healthy lives, including:

  - Women's College Hospital Foundation to fund research and programs that provide treatment to women and groups that have been economically and socially marginalized
  - BlackNorth Initiative, supporting their inaugural Excellence Gala, an evening celebrating Black Excellence in Canada and Community Champion Award, awarded to Black Tech Hub
  - Independent Wine Education Guild (IWEG) to fund 20 new scholarships through the *Spirit of Inclusion* initiative to support diverse women who are beginning or continuing their education in IWEG's beverage alcohol programs
  - Tree Canada, resulting in the planting of over 97,000 trees across Ontario - compensating for over 2,560 tonnes of paper and estimated to sequester over 18,000 tonnes of CO_2 in their lifetime
  - Ontario's four regional children's hospitals: Children's Health Foundation, Children's Hospital of Eastern Ontario (CHEO) Foundation, McMaster Children's Hospital Foundation, and SickKids Foundation, to support the health and well-being of children and families across the province
  - Campfire Circle (formerly Camp Ooch & Camp Trillium), which provides in-hospital, community and overnight camp programs for children that foster resilience, well-being, and lifelong connections

- 3,454 Ontario local beverage alcohol products offered that generated over $2 billion in revenue
- 93 per cent of customers are confident in their ability to find local, Ontario products at the LCBO
- 397 extra-light and light beverage alcohol products offered at LCBO retail stores and online; 750 low-sugar beverage alcohol products offered; 23 non-alcoholic products offered
- 754,981 tests in the LCBO's world-class quality assurance laboratory on 31,064 product samples
- 88 per cent of Retail Service Centre waste was diverted from landfills

MESSAGE FROM THE CHAIR

This is my fourth year as Chair of the Board and I continue to be astonished by the LCBO's ability to deliver best-in-class customer experiences. In a year where we saw a rapid return to normal, the LCBO remains focused on its transformative journey to modernize digital and in-store channels. We delivered on that promise while encountering new opportunities and challenges.

I meet regularly with our President & CEO, George Soleas. We discuss how the Board can support the leadership team to continue to propel the LCBO forward in a customer-centric manner. I always leave these conversations with a sense of confidence in the LCBO's ability to be agile in providing a variety of choices for every customer. Ninety-five years in business has provided us with incredible learning opportunities, risk management protocols, cutting-edge sustainability measures, and most of all, a passion to deliver the very best to Ontario, and a focus on delivering progressively stronger dividends that help keep critical provincial priorities moving.

The leadership team is a key component of this commitment. With respect to the Board, I want to thank all Members for their continued commitment to the ongoing success of our organization. This fiscal year, we strengthened our team even further with the addition of Mina Mawani as a Member of our Governance Committee. She has more than 15 years of leadership experience with a background in governance, stakeholder relations, and fundraising. Currently, Mina is the CEO of Dixon Hall, a multi-service agency that serves more than 10,000 people annually, impacting the lives of the most vulnerable and at-risk members of the community. She also received the RBC Top 25 Canadian Immigrant Award.

Our *Spirit of Sustainability* platform continued to make a positive impact this year. As part of our commitment to supporting Ontario's environmental needs, the LCBO's Tree Canada partnership reached an exciting milestone of over 97,000 new trees planted across the province. Our Lightweight Glass Program, an initiative started a decade ago to minimize our impact on the environment, saved 25 tonnes of greenhouse gas emissions this year. These are meaningful, tangible outcomes that contribute to a more sustainable path for the province and its people.

We also continue to be a world leader in promoting responsible consumption and choices for Ontarians. In FY2023, 397 extra-light and light beverage alcohol products were offered, as well as 23 alcohol-free products. Our popular LCBO Food & Drink magazine also continues to offer a variety of options, including mocktails to inspire home entertaining for every taste.

As we head into yet another interesting year, I look forward to working collaboratively alongside the Board, and LCBO senior leadership to provide oversight, as we continue to navigate and support the ever-evolving beverage alcohol marketplace. We will deliver customer-centric service, drive digital and technological innovation, support our local industry and businesses, and proactively lead change toward an even brighter future.

Carmine Nigro, Chair

MESSAGE FROM THE PRESIDENT & CEO

What an incredible year of change. FY2023 evolved differently than what anyone could have predicted as the province moved swiftly and safely out of restrictions. We gathered. We shared meals. We celebrated. I continue to be inspired by the resilience of the people of our province, our partners, and our LCBO employees - the heart of our organization.

The quick return to normal resulted in rapid shifts in consumer behaviours. In this year of change, the LCBO was able to deliver on its mandates and transferred a record dividend to the government, helping to fund key local and provincial services and programs.

The LCBO remains in a strong position to weather economic uncertainty. We can draw on our rich learnings through more than 95 years of history. With so many lessons learned, we are able to mitigate risks as we continue to evolve as an organization to continue delivering the convenience, choice, and continued modernization our customers expect from us.

Throughout FY2023, the LCBO continued to implement our multi-year transformative business and technology system upgrades to rebuild and strengthen our foundations. This was supported by change management to create agility and value throughout the organization. These upgrades, including our IT systems, were crucial to ensuring efficiency so we can continue to deliver billions in dividends back to the province and create an even more seamless experience for our B2B and B2C customers through our online channels. A key to the success of this ongoing modernization and reimagined customer experience is our ability to deliver incredible products to our customers while working closely with our partners. Together, we navigate supply chain issues and meet demands for new, innovative, and value-based products - all while delivering an elevated in-store and online experience for Ontarians. We recognize that our wholesale partners are customers as well as we prepare to scale through centralizing our wholesale services to make it easier and more seamless to do business with the LCBO.

We also remain committed to creating a positive impact. As a purpose-led organization, the LCBO's *Spirit of Sustainability* platform is the cornerstone of our commitment. Our three pillars - *Good People*, *Good Planet,* and *Good Partnerships*, each have clear, enterprise-wide goals that allow us to measure our impact and ensure our efforts are pushing the industry and province forward.

When it comes to sustainability, I firmly believe that any commitments we make must be impactful and realistic. We work alongside our partners to set these goals. And once we meet our targets, we move the goalposts, pushing each other to expect more.

The LCBO's *Spirit of Inclusion* initiative continues to be a driving force in creating a more equitable future for the Ontario beverage alcohol industry. This year, we were fortunate to gain a new Impact Partner, the Independent Wine Education Guild (IWEG). The program will fund 20 new scholarships to support diverse women who are beginning or continuing their education in IWEG's beverage alcohol programs. This included institutions such as Niagara College, George Brown College, and Brock University, near the heart of Ontario's Niagara Wine Region. Equitable representation benefits us all, and I'm excited to see these programs expand and flourish as we look toward a future without systemic barriers, where diverse women can thrive.

The LCBO also continues to see a strong demand for local products. We work closely with Ontario producers to tell the story of their products, and to help connect Ontarians with the best this province has to offer. I know our strategy is working - in fact, 93 per cent of customers are confident in their ability to find Ontario-based beverage alcohol products at the LCBO.

When it comes to convenience and choice, we continue to push ourselves in every area. This means everything from elevated gifting options during the holiday season to the expansion of Same-Day Pickup to an additional 176 stores. Our popular Vintages releases are now available online the day before they are available in-store so everyone can have access to this incredible selection of products.

As we look forward to another exciting year, we are well poised for the possibilities ahead. We will lead the change and draw on our organization's incredible history. We will continue to accelerate the growth of our eCommerce and in-store experience to meet evolving customer preferences. We will work hand in hand with our partners to support Ontario and deliver the strong dividends that help keep our province moving. Our greatest opportunities are yet to come.

Dr. George Soleas
President & CEO

CORPORATE STRUCTURE & GOVERNANCE

MISSION STATEMENT

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

The LCBO is a Crown agency reporting to the Minister of Finance.

The LCBO is overseen by 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 of Ontario or the Minister of Finance. Members are appointed for a term of up to five (5) years and terms can be renewed. There are generally seven (7) 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 communication programs to inform stakeholders of significant business developments and;
- ensuring that the LCBO performs its regulatory role in a fair and impartial manner.

ETHICS AND BUSINESS CONDUCT

The LCBO Board 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.

BOARD MEMBERS (AT MARCH 31, 2023)

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: $5,425
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 36 years. With over 35 years' experience 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 a distinguished author and lecturer. 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: $4,625
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: $5,300
Per Diem Remuneration Rate: $200

David Colfer
Member, Audit Committee, and 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: $6,900
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: $9,400
Per Diem Remuneration Rate: $200

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

Claudia Hepburn has spent her career building innovative organizations to develop human capital. She is the CEO of Windmill Microlending, a national charity that empowers skilled immigrants to achieve their economic potential through affordable loans and support. 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.

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

Dr. Dragan Matovic
Member, Audit Committee
Appointed January 2020 for a three-year term, renewed January 2023 for a three-year term.

Dragan Matovic is the Chairman and CEO of Halex Capital Inc. and has more than 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 System 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: $7,312
Per Diem Remuneration Rate: $200

Mina Mawani
Member, Governance Committee
Appointed January 2023 for a three-year term.

Mina Mawani has more than 15 years of leadership experience in the private, public and non-profit sectors. Currently, Mina is the CEO of Dixon Hall, a multi-service agency in downtown East Toronto that serves more than 10,000 people annually, impacting the lives of the most vulnerable and at-risk members of the community. Mina was named one of Canada's Top 100 Most Powerful Women in 2019 by the Women's Executive Network (WXN). She also received the RBC Top 25 Canadian Immigrant Award and the ICCC Humanitarian of the Year Award.

Total Annual Remuneration: $1,600
Per Diem Remuneration Rate: $200

Kathleen Novak
Chair, Audit Committee and member, Technology Committee
Appointed March 2020 for a three-year term, renewed March 2023 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. Kathleen 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: $8,374
Per Diem Remuneration Rate: $200

Khamini (Kandy) Samsundar
Member, HRCC
Appointed January 2020 for a three-year term, renewed January 2023 for a three-year term.

Khamini Samsundar has more than 30 years of experience in banking and is currently a Senior Manager for 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, Race Relations Board of Canada and Duffins Creek Non-Profit Housing. She is also the founder of the Canadian Caribbean Cultural Association of Durham and recipient of many prestigious awards such as Queen's Diamond Jubilee Medal and the Black Impact Award for Education.

Total Annual Remuneration: $4,300
Per Diem Remuneration Rate: $200

FORMER BOARD MEMBERS (AT MARCH 31, 2023)

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.
Term ended September 2022.

Total Annual Remuneration: $7,100
Per Diem Remuneration Rate: $200

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

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

Total Remuneration for all Board Members in FY2023: $68,836

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.

SENIOR LEADERSHIP TEAM (AT MARCH 31, 2023)

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*
Barb Keenan, *chief people officer*
Nick Nanos, *chief supply chain officer*
Vanda Provato, *chief marketing & digital officer*
John Summers, *chief retail officer*
Rosslyn Young, *chief legal officer*

ACCOUNTABILITY

The LCBO is committed to transparency and is accountable to its stakeholders in several ways:

- Our Annual Report, which is required to be tabled in the Provincial Legislature, 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 appointed by Orders-in-Council.
- Compliance with Management Board of Cabinet's Agency & Appointments Directive.
- Compliance with the LCBO Code of Business Conduct.

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.

The LCBO remains focused on what matters most – delivering value to the people of Ontario. In FY2023, we delivered a record dividend of $2.58 billion to the government to support critical infrastructure and community services, and charitable donations reached $14.6 million to support the health and well-being of Ontario's diverse communities.

This year brought many changes as the province saw a quick return to normal and recovery from the COVID-19 pandemic. These shifts brought both challenges and opportunities. As a customer-centric retailer and wholesaler, the LCBO understands the economic landscape that Ontarians are facing. This includes inflation, economic uncertainty, and the high cost of living. In changing times, the LCBO remains agile and provides a variety of choices for every customer, including a return to in-person experiences and tastings, with a focus on responding to customer preferences, and promoting local Ontario wineries, breweries, and distilleries.

The LCBO continues to make strides in delivering a best-in-class experience, no matter how, when, or where customers shop with us. This includes our efforts across product selection, rewards, personalized offerings, and prioritizing innovation and investing in resources to continually enhance the shopping experience for our customers. FY2023 brought the wide expansion of our popular Same-Day Pickup service to a total of 373 stores. Same-Day Pickup provides the easy and seamless shopping that customers have come to expect from the LCBO.

eCommerce initiatives continue to be a key priority as we modernize our IT infrastructure for the benefit of our customers and partners. The thriving shared alcohol beverage retail marketplace including licensees, LCBO Convenience Outlets (LCOs, and previously called agency stores), The Beer Store (TBS) and grocery outlets also continue to be important wholesale customers of the LCBO, providing even more options for the benefit of Ontarians. Since the launch of the grocery program, the LCBO has been working closely with new and existing grocery customers to optimize the program and increase operational efficiencies. The modernization of our IT systems and infrastructure will continue to enhance this for grocers and other wholesale partners.

Throughout our modernization, our *Spirit of Sustainability* platform continues to focus and deliver on three pillars: *Good People, Good Planet, and Good Partnerships.* Each pillar has enterprise-wide goals that allow us to measure our impact and ensure our efforts are pushing the industry and province forward. Our FY2023 customer survey highlighted that 82 per cent of respondents agree the LCBO makes a positive difference in Ontario communities through its fundraising and charitable partnerships. These initiatives are outlined in detail below.

As the beverage alcohol market continues to evolve, the LCBO is expected to adapt quickly as both a retailer and wholesaler. 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 world continues to evolve, our historical success in delivering these returns and being agile position the LCBO for continued success in the years 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

The LCBO has developed measurable commitments through the Spirit of Sustainability surrounding three pillars: Good People, Good Planet, and Good Partnerships.

- *GOOD PEOPLE: The LCBO is committed to improving the well-being of customers, employees, and communities across Ontario.*
- *GOOD PLANET: The LCBO is committed to minimizing its impact on the environment.*
- *GOOD PARTNERSHIPS: The LCBO is committed to improving the sustainability of the industry through leadership and partnerships.*

As part of our commitment to enhance industry diversity, the Spirit of Sustainability's signature program - the Spirit of Inclusion initiative - creates opportunities for diverse women to enter, advance, and thrive in the beverage alcohol industry.

GOOD PEOPLE

Moderation Mandate

Safety, quality, and moderation were top of mind for consumers in FY2023. Some are seeking lighter choices including lower sugar, along with low and non-alcoholic products. The LCBO offered 397 extra-light and light beverage alcohol products at retail stores and online, along with 750 low-sugar beverage alcohol products and 23 non-alcoholic products. All products undertake rigorous quality testing, with the LCBO Quality Assurance Lab's standards used as a benchmark by other Canadian liquor jurisdictions and alcohol producers. Throughout the year, 754,981 quality assurance tests were performed through the Lab on 31,064 product samples.

The LCBO is also a champion of responsible retailing practices that promote the public safety of employees and customers. Through our responsible service program, our employees challenged more than 12.1 million individuals and refused more than 370,000 for failing to produce valid ID, appearing intoxicated, or attempting to purchase alcohol for a minor or an impaired individual.

Supporting Engaged Employees

The LCBO is committed to building a purpose-driven, inclusive, corporate culture where employees feel connected to the mission and values of our organization, and physically and mentally supported and empowered to achieve and exceed their goals. With the ever-changing environment, particularly with the impact of the COVID-19 pandemic, it is imperative that the LCBO continues to place an emphasis on mental health and well-being by focusing on stigma reduction and access to meaningful resources. By continuing to integrate Diversity, Equity & Inclusion (DEI) principles into our DNA, we are working together to foster a safe, inclusive, and accessible work environment for all employees.

Thriving Communities

The LCBO continues to strategically select charitable partners that drive meaningful community impact across the province. During FY2023, we provided $14,627,608 in charitable donations supporting the health and well-being of Ontario's diverse communities. The LCBO is also a proud partner and signatory of the BlackNorth Initiative CEO Pledge and in FY2023, supported BlackNorth's Inaugural Excellence Gala by engaging our partners and providing a $30,000 donation. A portion of the donation supported the Community Champion Award, an award given to Black-led community organizations that have demonstrated a strong commitment to the communities they serve.

The recipient was BlackTECH Hub - a community of over 10,000+ Black professionals whose mandate is to fight unemployment and underemployment through the delivery of capability development programs in tech, leadership, entrepreneurship, youth programs, diversity, equity, and inclusion programs.

The LCBO also has a continued partnership with CEE: Centre for Young Black Professionals. In FY2023, we provided resources and expertise to support the creation of CEE's first-ever impact report. The 10-year, comprehensive report highlights CEE's efforts to date and direction for the future. It also showcases how CEE has been successful in their mission to create a society and economy in which Black youth achieve financial prosperity and high quality of life for themselves and their families to contribute to the advancement of Canada.

Supporting Indigenous Communities

In the continued spirit of reconciliation, the LCBO supports Indigenous communities across the province through a variety of initiatives and partnerships. This includes supporting Habitat for Humanity's Indigenous Youth Skills Training Projects, designed to engage Indigenous youth and women on Habitat builds – helping them build safe and affordable homes. We also celebrated

National Indigenous History Month by highlighting mural artwork from Lynn Taylor, an artist and member of the Oneida Nation of The Thames (Turtle Clan), Mississauga. Executive leadership also took part in the 4 Seasons Truth and Reconciliation Course provided by the First Nations University of Canada.

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 FY2023, 88 per cent of retail service centre waste was diverted from landfills, an increase from 81 per cent in FY2022. Through the Ontario Deposit Return Program, which is funded by the LCBO, 75 per cent of containers were returned by customers.

The LCBO's lightweight glass program started a decade ago to minimize our impact on the environment. By setting maximum weight standards for many of the bottles the LCBO sells, we've helped reduce emissions from shipping. Since the program launched, the LCBO has reduced annual waste by more than six million kg. Our Lightweight Bottle Program continues to broaden and today, includes all glass bottles sized 1000-1500ml and 750ml glass bottles with a retail value of less than $16.00.

In FY2023, the LCBO also proudly raised over $500,000 for Tree Canada. As part of our *Good Planet* pillar, province wide tree planting events took place and engaged over 40 employees in tree planting across local communities in partnership with Tree Canada to help create a more sustainable Ontario. This resulted in the planting of over 97,000 trees across Ontario - compensating for over 2,560 tonnes of paper and estimated to sequester over 18,000 tonnes of CO_2 in their lifetime.

GOOD PARTNERSHIPS

Recognize Good Partners

Throughout the fiscal year, the LCBO continued to work with *Good Partners* to make an impact on communities across the province. Over $2 billion in revenue was generated from the sale of 3,454 Ontario local beverage alcohol products. Consumer confidence to find the local products they crave is high, with 93 per cent of customers confident in their ability to find Ontario-based beverage alcohol products at the LCBO.

Influence Industry Standards

As part of *Good Partnerships* we are committed to influencing industry standards and encouraging the beverage alcohol industry to be more environmentally and socially conscious.

The Supplier Code of Business Conduct is transparent and holds suppliers accountable to their responsibilities to our shared commitments, as well as the consequences for violations of the code. This ensures that we will not compromise on our commitment to creating a more sustainable industry and will only work with suppliers dedicated to doing the same.

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 provides bursaries and scholarships, facilitates mentorship relationships, and identifies paid co-op placements for diverse women who are looking to begin or advance their careers in the winery, brewery, and distillery fields. In FY2023, this program awarded 13 scholarships to diverse women and was the winner of the Philanthropic Leadership Award from the Retail Council of Canada, recognized as a program that demonstrates a creative response, active collaboration, and successful fulfillment of community needs. Community partners include Brock University, Niagara College, the Independent Wine Education Guild, and George Brown College.

Community Impact

Our DEI commitments aim to build communities where all individuals have equitable access to essential resources needed to live happy, healthy lives. The LCBO continues to be a strong supporter of Pride and the 2SLGBTQI+ community and is the official sponsor of Pride Toronto. For the first time, over 80+ LCBO employees, friends and family marched in support of the 2SLGBTQI+ community at the Pride Toronto Parade. In FY2023, our "Love Pairs with Everything" campaign provided customers with meaningful ways to support and celebrate. Thanks to the generosity of our customers, over $2 million was raised for organizations including Rainbow Railroad which helps 2SLGBTQI+ Afghans flee the immediate threat to their lives in their home country and provides life-saving assistance to those awaiting evacuation. The campaign also supported Casey House, a specialty hospital in Toronto that cares for people living with and at risk of HIV/AIDS, Women's College Hospital Foundation's Transition-Related Surgery (TRS) Program, and the Black Coalition for AIDS Prevention (Black CAP) which responds to the threat of HIV/AIDS in Toronto's African, Caribbean and Black communities.

STRATEGIC CHALLENGES & OPPORTUNITIES

Reimagining the Customer Experience

The LCBO is committed to delivering a customer-first experience and increasing access, convenience, and choice for Ontarians, all while offering exceptional service and product selection across all channels. Throughout the holiday season, the LCBO served 22 million customers in-store and online. FY2023 brought the largest selling day in history with $61 million in retail sales on December 22, 2022. The LCBO also expanded our Same-Day Pickup service to over 50 per cent of our LCBO stores, offering more customers the convenience and choice of ordering on lcbo.com and picking up their products in-store within two hours of ordering. The expansion rolled out to an additional 176 stores, for a total of 373 stores. We also invested in innovation and technology to support customer expectations (see below).

Enhancing IT Infrastructure

The LCBO is working to rebuild and strengthen the foundations of our IT infrastructure, systems, processes, and program management to create flexibility and agility to support our business model, increase efficiency, and enable business transformation.

Economic Challenges & Uncertainty

Many COVID-19 restrictions were safely lifted in FY2023. The return to pre-pandemic normal was faster than many had anticipated and impacted consumption habits, with strong recoveries in the licensee and duty free channels, while year-over-year performance remained non-comparable. The MD&A below outlines these challenges and opportunities along with supply chain challenges, geopolitical tensions, and the impact of extraordinarily high rates of price inflation.

DELIVERING RETURNS TO THE PEOPLE OF ONTARIO

($ billions)	FY2023 Actual	FY2023 Plan	FY2022 Actual	Y/Y Change
Net Sales	$7.41	$7.56	$7.34	+0.9%
Net Income	$2.46	$2.58	$2.54	-3.4%

FY2023 net sales increased 0.9 per cent year-over-year but were lower than plan. Net income decreased due to lower margins resulting from the higher cost of sales, the continuing impacts of global supply chain constraints on freight charges and increased price inflation. Please see the MD&A below for more details.

LOCAL ONTARIO PRODUCERS

($ millions)	FY2023 Actual	FY2023 Plan	FY2022 Actual	Y/Y Change
VQA Wine	$168.7	$180.5	$179.9	-6.2%
Craft Beer	$153.4	$185.8	$178.0	-13.8%
Craft Cider	$17.6	$17.9	$17.7	-0.4%
Small Distillers	$25.2	$24.8	$23.2	8.7%

Ontario consumers continue to seek out local products and the LCBO is proud to showcase the province's outstanding products. In FY2023, small distillers outperformed plan and prior year results, while other categories fell short. This is likely reflective of various factors including shifts back to on-premise consumption, a decline in overall consumption, and consumers buying directly from Ontario Distillery, Winery and Brewery on-sites stores, which experienced a rebound in retail sales.

EXCELLENCE IN OPERATING EFFICIENCY

	FY2023 Actual	FY2023 Plan	FY2022 Actual	Y/Y Change
Inventory Turns	6.6	7.2	7.4	-0.8
Total Expenses as % of Revenue [1]	16.1%	16.1%	15.7%	+37 bps

[1] *Total Expenses refer to all selling, general and administrative (SG&A) expenses as per the Statement of Income and Other Comprehensive Income. Revenue is equal to net sales (gross sales less discounts and taxes) plus gift card breakage income.*

Total inventory turns in FY2023 were 0.8 times slower than the previous year's 7.4 times, which also lagged pre-pandemic levels. A combination of factors has contributed to the lower rate. Please see the MD&A below for further information.

EXCELLENCE IN CUSTOMER EXPERIENCE

The LCBO values our customers and is committed to providing a remarkable customer experience. In FY2021, we introduced performance indicators which track our customer satisfaction scores and overall Brand Health. The LCBO continues to track and monitor these indicators and saw relative stability in FY2023:

	FY2023 Actual	FY2022 Actual	Y/Y Change
Brand Health: Customer Satisfaction	82%	83%	-1.2%
Retail NPS**	94	90	+4

***Retail NPS tracking started on July 15, 2021*

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATIONS

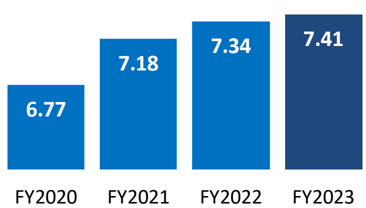
The LCBO is a government business enterprise. In the fiscal year ended March 31, 2023 (hereafter referred to as FY2023) it operated a network of 685 retail stores, an eCommerce platform, and special-order services offering more than 34,000 spirits, wine and beer products to consumers and licensed establishments. The business also serviced 389 LCBO Convenience Outlets (LCOs) and 449 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 FY2023, with an estimated value in excess of $10.0 billion[1]. The LCBO, including direct delivery to licensees[2], accounted for more than half of the volume sales in the province and an estimated 72 per cent of the value sales.

Financial Highlights

Revenue
$ billions

$7.41

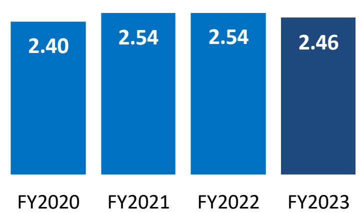
+0.9% vs LY



Net Income
$ billions

$2.46

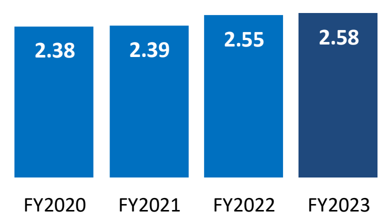
-3.4% vs LY



Dividend
$ billions

$2.58

+1.2% vs LY



Operational Highlights

- The LCBO added six new stores to its retail network during the year and closed one as part of a consolidation, now totalling 685 locations[3]. Nine stores, including the consolidated store, were either relocated or underwent major renovations in FY2023.
- LCBO continued to improve convenience and customer online experience by almost doubling the number of locations offering Same-Day Pickup service by 176 stores. More than half of the retail network now offer this expanded eCommerce option.
- Pricing changes during FY2023 included the annual inflation indexing of minimum retail prices, LCBO in-store and out-of-store beer cost of service charges, and excise rates.

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[1] Not including illegal alcohol sales, homemade products and sales from brew and wine pubs. Value sales do not include sales taxes.
[2] Spirits and wines only – sales to licensees directly by distilleries and wineries are made on behalf of the LCBO.
[3] Location count includes one depot which also serves licensee customers.

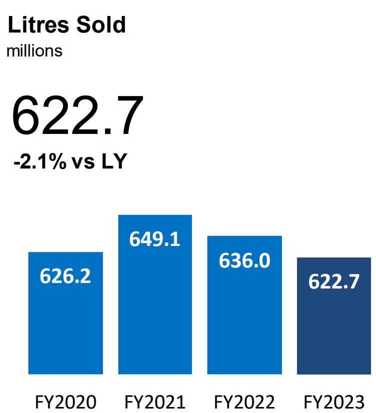
External environment

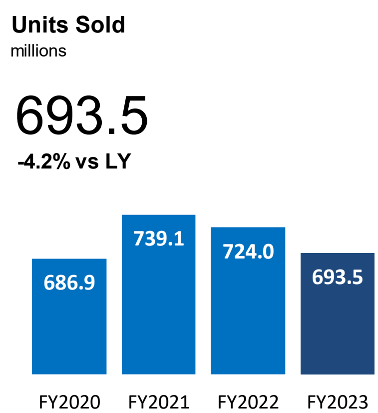
After two years of COVID-19 pandemic influenced results, LCBO financial performance normalized towards pre-pandemic trend in FY2023. With the lifting of restrictions, elevated off-premise beverage alcohol consumption at home shifted back to on-premise at bars, restaurants and venues.

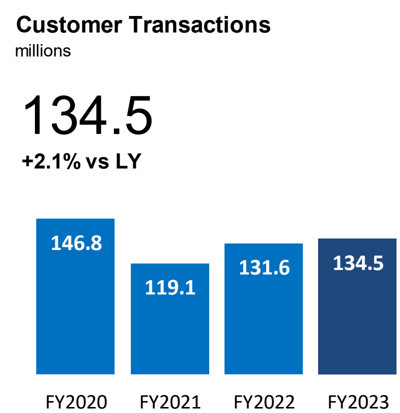
Ontario's economy continued its recovery for a second straight year from the lows of 2020, albeit at a slower pace during 2022. Increased economic activity during the year benefitted from the lifting of global pandemic restrictions, but was limited by persisting supply chain challenges, geopolitical tensions and extraordinarily high rates of price inflation which constrained consumer and business confidence.

There were overall improvements in provincial employment as well as increased outbound and inbound travel. Strong retail sector performance, partially influenced by high price inflation, was supported mainly by accumulated household savings. Consumer sentiment, however, progressively declined throughout the year with increasing impacts of price inflation and Bank of Canada's raising of interest rates to address inflation. While the higher rates assisted in moderating the overheated housing market, they contributed to higher debt levels.

The LCBO successfully navigated the challenges of the past year and unfolding uncertainty with a steady commitment to meeting the needs of our retail and wholesale customers and industry partners. Sales reached a record, holding ahead of pandemic influenced levels, as the organization continued to operate with agility and customer-centricity, investing in sustainability and technological infrastructure to better serve the people of Ontario.

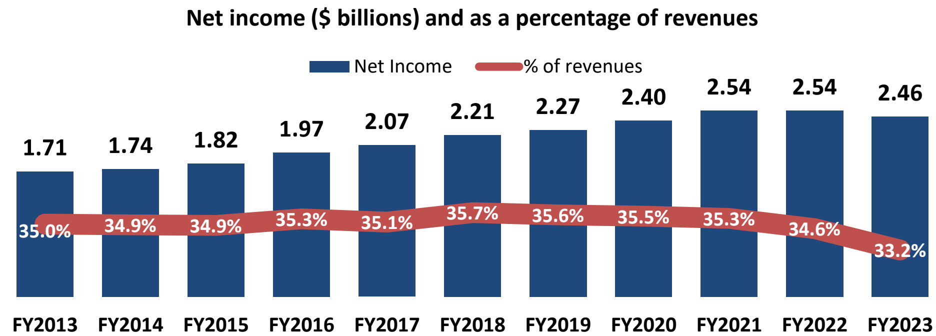






Net income[4]

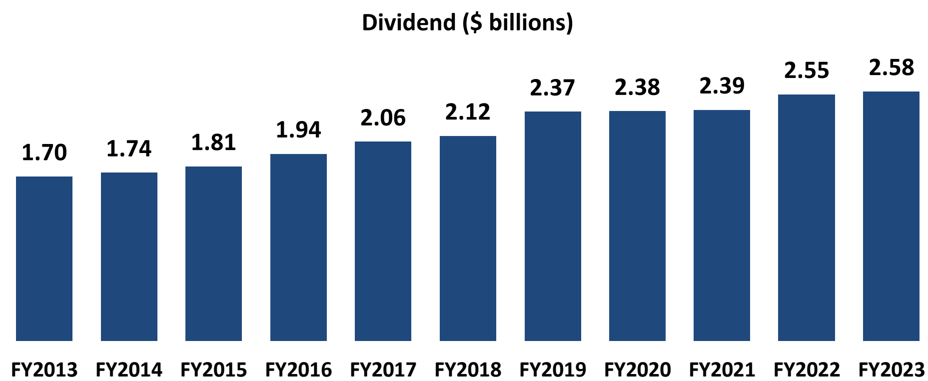
After a record $2.54 billion in FY2022, net income declined by 3.4 per cent to $2.46 billion in FY2023. This represented 33.2 per cent of revenues, which was 146 basis points lower than the previous year.



Higher cost of sales, primarily driven from the continuing impacts of global supply chain constraints on freight charges and increased price inflation, led to lower margins. The sales shift away from the retail channel to licensees as the latter rebounded, also had an unfavourable impact on gross margin performance. The net income decline of $86.0 million in FY2023 was attributed to the lower gross margin during the year and higher expenses. Net income over the last ten years, however, has risen by almost three-quarters of a billion dollars or 43.6 per cent.

Dividend

Over the last decade, the LCBO has transferred almost $22 billion in dividends to the Ontario government, with $2.58 billion in FY2023.



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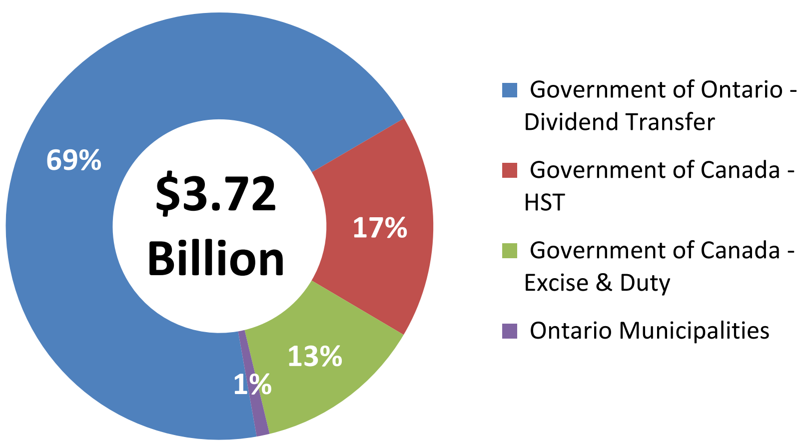
[4] *FY2017 net income has been normalized to exclude the gain from the sale of the LCBO head office property. Revenue in FY2018 has been restated to reflect the adoption of IFRS 15, which reduced revenue but not net income. Net Income in FY2019 has been restated to reflect the adoption of IFRS 16.*

Payments to government

The LCBO paid $3.72 billion to all levels of government in FY2023. The dividend – excluding excise, duty and all sales and municipal taxes, was remitted at the provincial level and accounted for 69 per cent of the total. The Canadian government received $1.10 billion in the form of excise, duty and sales taxes. Realty and leased property taxes paid to Ontario municipalities by the LCBO totalled almost $37 million.

($ millions)		FY2023
Total payments	**$**	**3,720**
Government of Ontario - Dividend Transfer		2,580
Government of Canada - HST		629
Government of Canada - Excise & Duty		474
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), licensed grocers, and authorized duty free operators. In addition, the LCBO has authorized retailers in smaller Ontario communities to sell beverage alcohol products in conjunction with their 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. The LCBO is the exclusive wholesaler to licensed grocers who sell imported and domestic beer, cider, and wine. These are recognized as LCBO sales.

Number of outlets

As of March 31, 2023, there were 2,935 retail outlets selling alcoholic beverages in Ontario.

Number of outlets	FY2022	FY2023	Change
LCBO	680	685	+5
LCO	394	389	-5
Grocer*	450	449	-1
WRS	532	526	-6
TBS	420	422	+2
BRS	367	373	+6
DRS	71	75	+4
Land Border Point Duty free	10	10	0
Airport Duty free	6	6	0
Total	**2,930**	**2,935**	**+5**

*Grocer included 69 wine boutiques in FY2023 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 FY2023, the total spirits market in Ontario, including spirits-based ready-to-drink coolers and seltzers (RTDs), grew by 2.3 per cent to 185.1 million litres, with the LCBO[6] accounting for 99.6 per cent of the share. RTDs, which comprised of almost 62 per cent of total Ontario spirits volume, accounted for almost all of the growth.

Total wine sales in the province, including cider and wine coolers, declined 4.7 per cent in volume to 189.1 million litres during the year. LCBO overall share advanced by 70 basis points to 85.8 per cent of total wine volumes, despite a 3.9 per cent decline in sales. WRS sales were down ten per cent. Overall cider sales retreated 3.9 per cent during the year to 18.6 million litres.

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

[6] *LCBO market share numbers include direct delivery to licensees for spirits and wine.*

Beer volume sales (excluding LCBO and TBS reciprocal sales) were flat during the year, up 0.1 per cent to 760.2 million litres. Both LCBO and TBS lost share from lower sales during the year, while local BRS added 186 basis points, primarily from a rebound in direct delivery to licensee sales. The respective volume shares for TBS, LCBO and BRS (including direct delivery to licensees) in FY2023, are 61.6 per cent, 31.3 per cent and 7.1 per cent.

Revenue[7]

LCBO revenue totalled $7.41 billion in FY2023, a growth of $64.5 million, or 0.9 per cent over the previous year.

LCBO Channel sales

The LCBO sells beverage alcohol to its customers through a variety of sales channels. Conditions and restrictions relating to the COVID-19 pandemic resulted in a considerable rise in off-premise consumption at home two years ago. Performance has almost completely normalized to pre-pandemic channel trends in FY2023, with strong recoveries in the licensee and duty free channels, while year-over-year results remained non-comparable.

Channel ($ millions)	Share	FY2023		vs. FY2022
Home Consumer - Retail	79.4%	$	5,874	-2.9%
Licensee	8.1%	$	598	59.8%
Grocer	5.5%	$	410	-1.3%
LCBO Convenience Outlets	3.4%	$	252	-3.3%
The Beer Store	3.1%	$	229	6.6%
Duty free	0.3%	$	26	96.2%
Other*	0.2%	$	16	18.0%
Total	**100%**	**$**	**7,405**	**0.9%**

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

Beverage alcohol purchased by licensed establishments, such as bars, restaurants and venues, has re-occupied the second-largest share of LCBO sales in FY2023, following the severe curtailment of on-premise consumption during the first two years of the COVID-19 pandemic. Sales through the licensee channel increased by almost 60 per cent to a record $598 million, despite changes to licensee pricing that came into effect January 2022. Lifting of restrictive measures primarily benefitted the channel's rebound and share advancement of 298 basis points to 8.1 per cent of LCBO sales.

The lifting of travel restrictions and an increase in outbound travel have supported the rebound of duty free sales to operators at airports and land border points in FY2023, almost doubling the

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

previous year's $13 million. The channel has not yet fully recovered, with the total sales being only two-thirds of the channel's pre-pandemic level.

Retail sales at physical stores and via online options for home consumers receded 2.9 per cent to $5.87 billion. While considerably still the largest channel, retail's share declined by more than 300 basis points to 79.4 per cent of total LCBO sales.

The grocer channel, one of the fastest growing channels over the last few years (owing to location expansion), also experienced normalizing results from elevated sales performances during the pandemic period. The re-shifting to on-premise consumption contributed to grocer sales falling 1.3 per cent in FY2023 and the channel shedding 12 basis points. Sales to grocers totalled $410 million during the year, the third largest share of LCBO sales at 5.5 per cent.

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 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, as buying patterns continued to normalize for the second straight year, sales through the channel declined 3.3 per cent to $252 million, and retreated 15 basis points to 3.4 per cent of total LCBO sales.

At one time LCBO's third largest sales channel, TBS now ranks fifth with 3.1 per cent of total sales. Production shifts of previously imported beer brands to domestic have reduced purchases by TBS for licensees while the expansions of the grocer and convenience outlet channels have shifted imported beer sales away from TBS in recent years and influenced the share decline. In FY2023, however, sales to TBS were up $14.3 million or 6.6 per cent to $229 million benefitting from on-premise recovery.

LCBO Category sales

Spirits[8] added 52 basis points during FY2023 and remained the largest product category by value with $2.73 billion in sales. The category grew 2.3 per cent, or $62.0 million, from the previous year and represented 37.1 per cent of LCBO's merchandising product sales. Tequila, with the highest absolute increase and up by more than 25 per cent, accounted for two-thirds of spirits growth during the year. In excess of $925 million, total whiskies led spirits sales, with Canadian whisky accounting for more than half of those sales. Vodka, at $650 million is another top-ranking spirits category set.

[8] *Excluding Specialty Services and ready-to-drink (RTD) and cooler products.*

Wine and Vintages[9] posted a decline of 3.1 per cent, or $71.6 million, over FY2022. Shifting consumer preferences and normalizing sales, including through the grocer channel, continued to influence a return to pre-pandemic global trends for wine. Softer performances were experienced across all regional types, with New World and Ontario wines being the most impacted. Declines in FY2023 were mostly visible in red wines sales, especially from California, Ontario, Italy, France and Spain, while performances through more premium products remained steady. Wine and Vintages remained the second-largest LCBO category at 30.9 per cent of total net sales, despite losing 125 basis points during the year to $2.28 billion.

Beer[10] performance continues to be tempered by increased preference for spirits-based coolers and seltzers, as well as reduced wholesale to TBS due to production shifts of key beer brands and malt-based coolers from imported to domestic. Grocer channel sales normalization also contributed to the category's decline of 1 per cent, or $14.1 million, to $1.46 billion in FY2023. Softer performances in craft beer, coolers and ciders more than offset gains in mainstream beer during the year. As a percentage of total LCBO sales, beer represented 19.7 per cent, a decline of 38 basis points from the previous year.

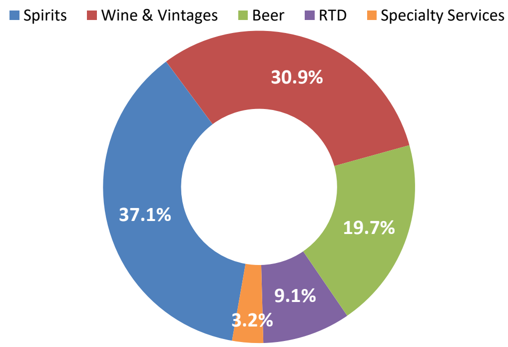
Ready-to-drink (RTD) or spirits-based coolers has been one of the fastest growing and most popular product categories in recent years. Consumer preferences for these beverages have resulted in a shift away from some of the more established alcoholic drink types through innovation with exciting flavours, low sugar and low alcohol by volume (ABV) options. In FY2023, sales grew 6.8 per cent, or $42.8 million, to $673.1 million. RTDs' share advanced by 50 basis points to 9.1 per cent of LCBO's merchandising alcoholic sales.

With traditionally more than 80 per cent of its annual sales to licensees and TBS, Specialty Services sales were severely constrained at the start of the pandemic, but have continued to rebound over the last two years. Up 23.9 per cent, or $45.8 million, to $237.0 million in FY2023, Specialty Services share of total annual sales advanced 60 basis points to 3.2 per cent. Production shifts of previously imported beer brands to domestic have resulted in the category's sales to TBS being approximately half of the value from a few years ago. By product type, wine accounted for more than 70 per cent of Specialty Services sales in FY2023.

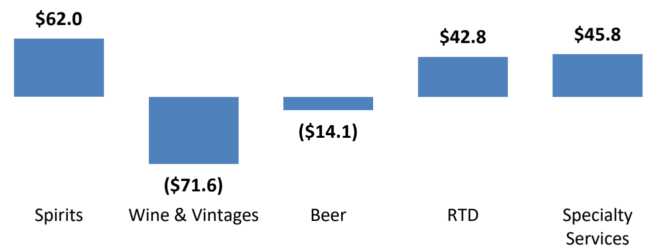
[9] *Excluding Specialty Services and ciders but including coolers.*

[10] *Excluding Specialty Services and including ciders and coolers.*

FY2023 Sales Share by Category



Category sales growth Yr/Yr ($ millions)



Operating results

In FY2023, every $1 in revenues (including Other Income) was broken out in the following manner:

Product cost*	$0.51
Income from operations	$0.33
Selling, general and administrative expenses	$0.16

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

Margins

LCBO gross margin totalled $3.62 billion in FY2023, representing a decline of 1.8 per cent compared to FY2022. As a percentage of revenue, gross margin retreated 135 basis points to 48.9 per cent. Despite increased net sales in FY2023, global supply chain constraints influenced higher freight charges, resulting in even higher cost of sales.

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

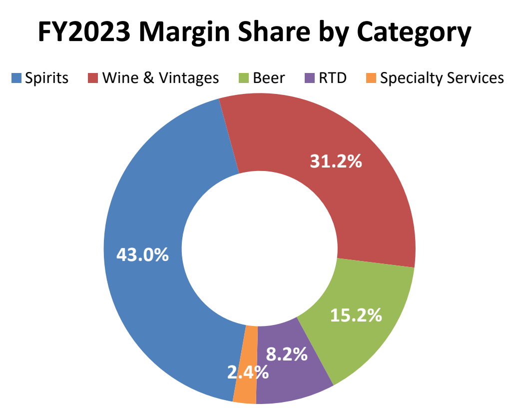
Spirits	$0.59
Wine & Vintages	$0.51
Beer	$0.39
RTD	$0.46
Specialty Services	$0.38

Spirits (excluding RTDs) accounted for 43.0 per cent, or $1.61 billion, of total gross margin in FY2023. Spirits margin rose a modest 1.3 per cent from FY2022, adding 60 basis points to its share of total margin.

Wine and Vintages share of total LCBO gross margin in FY2023 was 31.2 per cent, 110 basis points lower than the previous year. The category recorded a margin decline of 3.5 per cent during the year to $1.17 billion.

Beer (including ciders) gross margin also declined during the year, down 1.3 per cent to $567.9 million. Its share of total margin was 15.2 per cent, a retreat of 19 basis points from FY2022. RTD gross margin, at $309.0 million, increased 5.5 per cent from FY2022, adding 43 basis points to its 8.2 per cent share of total margin.

Specialty Services contributed $90.0 million to gross margin, an increase of 11.5 per cent from the previous year. The category regained some share with 25 basis points, to 2.4 per cent of total gross margin.



Selling, general and administrative expenses[11]

LCBO total expenses increased by $37.8 million, or 3.3 per cent, in FY2023 compared to the previous year.

Operating expenses represented 75.5 per cent of the total and increased by 3.1 per cent during the year. Retail store expenses, the largest share at 62.8 per cent of operating expenses, rose 2.4 per cent versus the previous year mainly on collective bargaining salary obligations.

[11] *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.*

Administrative expenses, representing 28.1 per cent of operating expenses, increased by 7 per cent during the year. This growth reflected head office occupancy, distribution and retail support for the store network and various other overheads. HR administrative programs and risk and insurance expenses also contributed to the rise in administrative expenses.

Supply Chain and Wholesale expenses decreased by 4.7 per cent after experiencing higher costs from the transition to a new third-party warehousing company the previous year. In FY2023, lower IT related warehouse expenses and property taxes offset a marginal increase in wholesale distribution costs.

Merchandising and Marketing expenses were relatively flat as increased supplier chargebacks and reduced supplier-partnership promotional launches helped offset other higher promotional material costs.

Operating Expenses ($ millions)		FY2023	vs. FY2022
Retail Stores	$	564	2.4%
Administrative	$	252	7.0%
Supply Chain and Wholesale	$	52	-4.7%
Merchandising and Marketing	$	30	0.6%
Total	**$**	**898**	**3.1%**

Non-operating expenses, accounting for the remaining 24.5 per cent of total expenses, rose 3.8 per cent from FY2022. Depreciation, including right-of-use assets, representing more than 57.4 per cent of these expenses, increased by 1.8 per cent for the year.

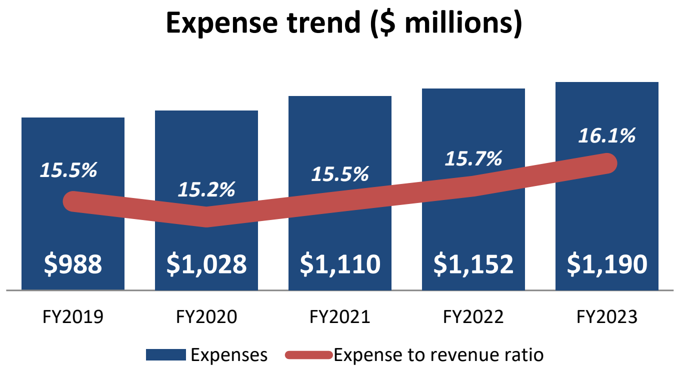
Expenses related to environmental initiatives, comprising mainly of LCBO Ontario stewardship obligations and service fees to TBS for the Ontario Deposit Return Program, were down from lower unit sales during the year. Debit and credit card charges, however, were up 5.5 per cent, from a combination of increased sales and penetration rates.

Non-Operating Expenses ($ millions)		FY2023	vs. FY2022
Depreciation, amortization and impairment	$	73	2.2%
Depreciation - right-of-use assets	$	95	1.4%
Environmental Initiatives	$	56	-1.8%
Debit/Credit Charges	$	59	5.5%
Other Expenses*	$	9	196.1%
Total	**$**	**292**	**3.8%**

* 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 16.1 per cent in FY2023, 37 basis points higher than the previous fiscal year. Despite expense control efforts in recent years, ongoing technological upgrades for all levels of the organization, higher labour and occupancy costs required to keep pace with increasing sales levels, all combined to drive higher expense growth.



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

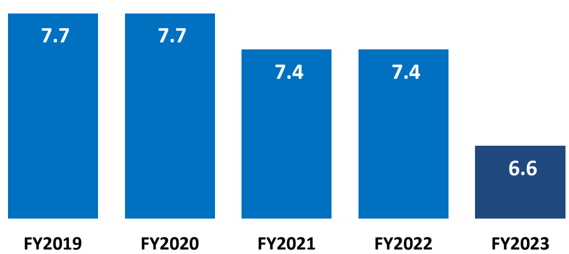
Inventory

Inventory management is one of the most important aspects of LCBO's operations, requiring constant planning and monitoring. A key performance metric identified to ensure continuous improvement is inventory turns. Uncontrollable global conditions over the last few years have dictated necessary strategic measures to maintain organizational competitiveness and ensure customer satisfaction, while simultaneously having significant unfavourable impacts on inventory turns ratios.

Total inventory turns in FY2023 were 0.8 times slower than the previous year's 7.4 times, which also lagged pre-pandemic levels. A combination of factors has contributed to the lower rate. Uncertainties relating to continued global supply chain challenges, 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 amid these uncertainties have contributed to unfavourable inventory turn performances, as has production shifts from import to domestic of high-turnover beer and malt-based products.

By category, slower turns were observed in all product types with the largest year-over-year variances appearing in wine and beer. These two categories were further impacted by reduced shipments to grocers as channel normalization continued.

Total Inventory Turns



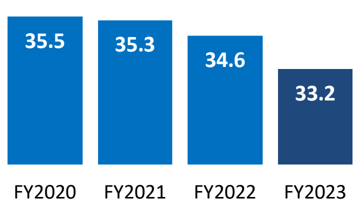
Key Performance Indicators

Financial Ratios

Net Income Ratio
percentage of revenue

33.2%

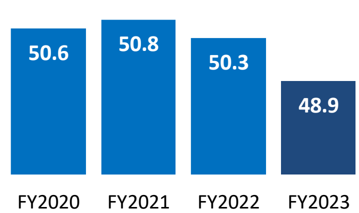
-146bps vs LY



Gross Margin Ratio
percentage of revenue

48.9%

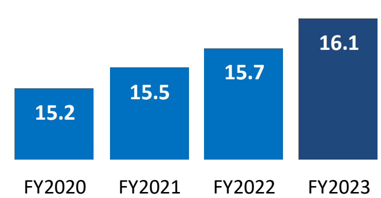
-135bps vs LY



SG&A Expense Ratio
percentage of revenue

16.1%

+37bps vs LY



In FY2023, net income was 33.2 per cent of revenue, 146 basis points less than last year's ratio. Gross margin ratio retreated by 135 basis points to 48.9 per cent, while selling, general and administrative expenses as a percentage of revenue rose 37 basis points to 16.1 per cent.

Productivity ratios

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

Retail productivity

	FY2019	FY2020	FY2021	FY2022	FY2023
Retail sales per transaction	$ 36.80	$ 38.08	$ 50.48	$46.98	$45.63
Unit sales per hour paid	43.5	45.5	44.5	44.2	42.6
Salaries & Benefits as a percentage of retail sales	7.1%	6.9%	6.8%	6.9%	7.0%
Total retail expenses as a percentage of retail sales	9.1%	9.0%	8.9%	8.9%	9.2%

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.

With the normalization of off-premise sales to LCBO home consumers, retail productivity ratios have accordingly begun to normalize. Elevated retail sales towards the end of FY2020 and through the following two years significantly outpaced growth in retail expenses, hours paid and in-store transaction volumes, to favourably influence a number of productivity metrics. In FY2023, however, the reverse trend of some of these drivers, relative to retail sales growth, resulted in mostly unfavourable year-over-year comparisons, though in-line with pre-pandemic levels. As consumer in-store visits continue to improve, average basket purchases have remained above the normal pre-pandemic trend.

Distribution productivity

	FY2019	FY2020	FY2021	FY2022	FY2023
LCBO Warehouse cases throughput per hour paid	38.7	37.7	37.0	37.4	37.5
Warehouse salaries & benefits per case throughput*	$ 0.99	$ 1.05	$ 1.10	$1.29	$1.30
Warehouse cost per case throughput*	$ 1.21	$ 1.26	$ 1.33	$1.65	$1.63

*Includes both LCBO & Trillium warehouses for FY2022 and onwards.

Distribution productivity ratios marginally improved in FY2023, even as collective agreement obligations and overtime pay contributed to LCBO labour cost rising during the year. Despite the year-over-year improvement, the ratios remain unfavourable compared to historical trends. The additional costs associated with the new third-party warehousing facility, labour-intensive eCommerce bottle pick volumes, and higher labour and overall warehouse costs to support the increased store shipments and consumer demand, continue to influence the trend of these ratios in recent years.

Capital expenditures

Capital expenditures (capex) totalled $73.4 million in FY2023, with Store Development and Real Estate (SD&RE) accounting for most of the investment. Of the $54.8 million SD&RE spend, $45.3 million was allocated to LCBO retail network expansion and improvement. Major investments in this area included six new stores and nine that were either relocated or underwent extensive renovations. The remaining SD&RE expenditure was attributed to completion costs for the LCBO head office relocation, warehouse logistics improvements and design related costs for leasehold structures.

Information Technology projects accounted for the second-largest portion of capex, totalling $13.1 million in FY2023, followed by Supply Chain and Wholesale with $4.4 million. Software upgrades across the retail network and the replacement of the Durham warehouse roof 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 purchases of security equipment and machinery.

Capex ($ millions)	FY2023	
Store Development and Real Estate	$	54.8
Information Technology	$	13.1
Supply Chain and Wholesale	$	4.4
Other	$	1.1
Total Capital Expenditures	**$**	**73.4**

Enterprise risk management

The LCBO has an established Enterprise Risk Management (ERM) program 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 risk management 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 continued economic uncertainty and declining consumer sentiment, ongoing geopolitical tensions and global supply chain challenges 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.

- **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 are continually upgraded to ensure the LCBO can maintain a strong security posture and remain resilient.

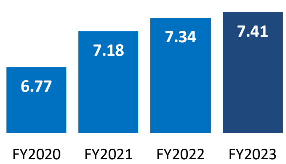
- **Information Technology Debt**: The LCBO's ability to drive efficiency, sustain increased growth in various business channels such as eCommerce, and enrich the customer experience, among other business driven initiatives is dependent upon its systems and infrastructure. The LCBO has a complex underlying IT infrastructure to drive its business which requires ongoing investments, with FY2023 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 a multi-year plan to guide the future direction required to support continued growth and business development.

- **Talent, Succession Management and Compensation Competitiveness**: The LCBO, similar to other public sector entities, is impacted by measures introduced by the Ontario government to constrain compensation growth. As a result, LCBO's compensation is not always competitive with the market that we source talent. In the current tight labour market, this negatively impacts recruitment of strong candidates needed to fill key roles. To address this risk, the LCBO has robust leadership development programs in place as well as regular assessments to identify top talent that builds leadership bench strength. Our compelling Employee Value Proposition and purpose-driven mandate are also important to attract the right candidates seeking challenging opportunities. A Talent Acquisition Centre of Expertise was also established that has modernizing recruitment strategies and technology.

Financial and operational highlights at a glance

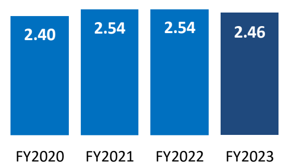
Revenue
$ billions

$7.41
+0.9% vs LY



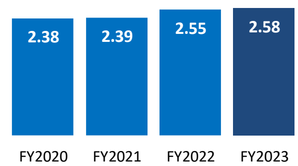
Net Income
$ billions

$2.46
-3.4% vs LY



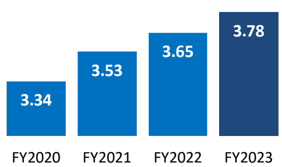
Dividend
$ billions

$2.58
+1.2% vs LY



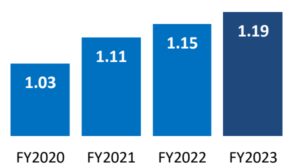
Cost of Sales
$ billions

$3.78
+3.6% vs LY



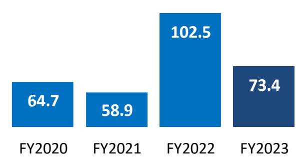
Expenses
$ billions

$1.19
+3.3% vs LY



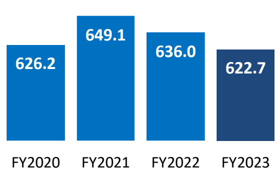
CapEx
$ millions

$73.4
-28.4% vs LY



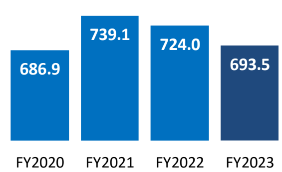
Litres Sold
millions

622.7
-2.1% vs LY



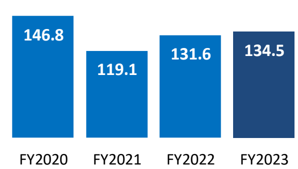
Units Sold
millions

693.5
-4.2% vs LY



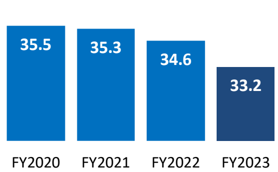
Customer Transactions
millions

134.5
+2.1% vs LY



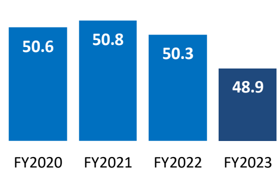
Net Income Ratio
percentage of revenue

33.2%
-146bps vs LY



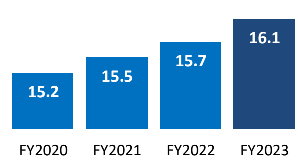
Gross Margin Ratio
percentage of revenue

48.9%
-135bps vs LY



SG&A Expense Ratio
percentage of revenue

16.1%
+37bps vs LY



RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

On behalf of management:

George Soleas
President & Chief Executive Officer

Becky Hong
Chief Financial Officer

June 20, 2023

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, 2023, 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, 2023, 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 20, 2023

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

FINANCIAL STATEMENTS AND NOTES

For the Year Ended March 31, 2023

LIQUOR CONTROL BOARD OF ONTARIO
Statement of Financial Position

(thousands of Canadian dollars)

	Note	March 31 2023	March 31 2022
ASSETS			
Current Assets			
Cash and cash equivalents	5	364,523	559,437
Trade and other receivables	6, 24	86,900	87,181
Inventories	7	640,526	656,306
Prepaid expenses	8	29,761	24,844
Total Current Assets		1,121,710	1,327,768
Right-of-use assets	11	662,948	678,429
Property, plant and equipment and intangible assets	9	430,360	429,479
Total Assets		**2,215,018**	**2,435,676**
LIABILITIES & EQUITY			
Current Liabilities			
Trade and other payables	10, 12	832,158	909,381
Provisions	4(v)	2,925	2,046
Current portion of non-pension employee benefits	13	13,800	14,042
Current portion of lease liabilities	11	97,809	94,844
Current portion of borrowings	14	16,089	8,313
Total Current Liabilities		962,781	1,028,626
Non-pension employee benefits	13	105,649	101,273
Lease liabilities	11	681,943	700,696
Borrowings	14	24,149	38,835
Total Liabilities		**1,774,522**	**1,869,430**
Equity			
Retained earnings		444,906	567,649
Accumulated other comprehensive loss	13	(4,410)	(1,403)
Total Equity		440,496	566,246
Total Liabilities and Equity		**2,215,018**	**2,435,676**

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 2023	March 31 2022
Revenue	18	7,405,158	7,340,628
Cost of sales	7	(3,781,983)	(3,649,938)
Gross margin		3,623,175	3,690,690
Other income	19	42,006	34,202
Selling, general and administrative expenses	20	(1,190,264)	(1,152,477)
Income from operations		2,474,917	2,572,415
Finance income	22	14,952	1,875
Finance costs	11, 13, 14, 22	(32,612)	(31,006)
Net income		**2,457,257**	**2,543,284**
Other comprehensive gain/(loss)			
Items that will not be reclassified to profit or loss:			
Actuarial gain/(loss) on non-pension employee benefits	13	(3,007)	4,356
Total other comprehensive gain/(loss)		(3,007)	4,356
Total comprehensive income		**2,454,250**	**2,547,640**

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, 2022		567,649	(1,403)	566,246
Net income		2,457,257	-	2,457,257
Other comprehensive loss	13	-	(3,007)	(3,007)
Dividend paid to province	23	(2,580,000)	-	(2,580,000)
Balance at March 31, 2023		444,906	(4,410)	440,496
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

LIQUOR CONTROL BOARD OF ONTARIO
Statement of Cash Flows

(thousands of Canadian dollars)

For the year ended	March 31 2023	March 31 2022
Operating activities:		
Net income	2,457,257	2,543,284
Depreciation, amortization and impairment	72,464	70,905
Depreciation – right-of-use assets	95,078	93,730
Gain on sale and disposal of property, plant and equipment and intangible assets	(243)	(2,149)
Interest expense on borrowings	1,403	101
Interest paid on borrowings	(770)	-
Interest expense on lease liabilities	26,768	27,259
Interest paid on lease liabilities	(24,357)	(23,131)
Non-pension employee benefit expenses	16,198	6,906
Non-pension employee benefit payments	(15,071)	(14,672)
	171,470	158,949
Change in non-cash balances related to operations:		
Trade and other receivables	281	(588)
Inventories	15,780	(73,183)
Prepaid expenses	(4,917)	1,912
Trade and other payables	(77,223)	129,675
Provisions	879	(200)
	(65,200)	57,616
Net cash provided by operating activities	2,563,527	2,759,849
Investing activities:		
Purchase of property, plant and equipment and intangible assets	(73,440)	(102,398)
Proceeds from sale of property, plant and equipment and intangible assets	338	3,012
Net cash used in investing activities	(73,102)	(99,386)
Financing activities:		
Dividend paid to the Province of Ontario	(2,580,000)	(2,550,000)
Principal portion of lease payments	(99,225)	(89,934)
Lease Incentives received	1,429	60
Proceeds from borrowings	-	42,411
Principal portion of borrowings repayment	(7,543)	-
Net cash used in financing activities	(2,685,339)	(2,597,463)
Increase/(decrease) in cash	(194,914)	63,000
Cash and cash equivalents, beginning of year	559,437	496,437
Cash and cash equivalents, end of year	364,523	559,437

1. General information and statement of compliance

1.1 General information

The Liquor Control Board of Ontario (“LCBO”) is a corporation without share capital continued under the *Liquor Control Board of Ontario Act, 2019, S.O. 2019, c. 15, Sched. 21.* LCBO is a government enterprise responsible for regulating the production, importation, distribution, and sale of alcoholic beverages in the Province of Ontario (“Province”).

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

LCBO’s head office is located at 100 Queens Quay East, Toronto, ON, M5E 0C7.

1.2 Statement of compliance

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

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

The audited financial statements were approved by the Board of Directors and authorized for issue on June 20, 2023.

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, 2023 financial statements as their effective dates fall in the current financial reporting period.

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

The amendments 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.

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

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* did not have an impact to LCBO.

Property, Plant and Equipment – Amendments to IAS 16

The amendments 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 amendments 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* did not 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.

- 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.

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

The amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 9 *Financial Instruments*, IFRS 16 *Leases* and IAS 41 *Agriculture* did not have an impact to LCBO.

2.2 Accounting standards and amendments not yet effective

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

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

The amendments are effective for annual periods beginning on or after January 1, 2023. LCBO is in the process of assessing the disclosure impact from the amendment.

Disclosure of Accounting Policies – Amendment to IAS 8

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

The amendments are to be applied prospectively for annual periods beginning on or after January 1, 2023. The amendments 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

2.2 Accounting standards and amendments not yet effective (continued)

beginning on or after January 1, 2024. The amendments are not expected to have an impact to LCBO.

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

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

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

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

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

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

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 (ECL). LCBO applies the simplified

3.2 Trade and other receivables (continued)

approach, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

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

3.3 Inventories

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

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

3.4 Property, plant and equipment

Major capital expenditures with a useful life beyond the current year are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition, construction or development of the asset and incurred to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

3.4 Property, plant and equipment (continued)

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

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

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

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

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

3.5 Intangible assets

i. **Acquired intangible assets**

Acquired intangible assets, such as software, are measured initially at cost and are amortized on a straight-line basis over their estimated useful lives. The estimated useful lives and depreciation method are reviewed at the end of each reporting period.

The estimated useful lives for intangible assets are as follows:

Computer software	4 years

The resulting disclosures are presented in Note 9.

3.5 Intangible assets (continued)

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

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

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

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

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

3.6 Impairment of assets

LCBO reviews the carrying amounts of its right-of-use assets, property, plant and equipment and intangible assets to determine whether there is any indication of an impairment loss. An indication exists when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable 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

3.6 Impairment of assets (continued)

asset or CGU for prior periods. Any impairment charge or reversal is recognized in the Statement of income and other comprehensive income in the year in which it occurs. The resulting disclosures are presented in Notes 9, 11 and 20.

3.7 Trade and other payables

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

3.8 Provisions

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

3.9 Borrowings

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

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

3.10 Borrowing costs

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

3.11 Financial instruments

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

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

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

i. **Amortized cost**

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

ii. **Fair value through other comprehensive income**

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

iii. **Fair value through profit or loss**

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

3.11 Financial instruments (continued)

Derivative financial instruments are classified as FVTPL. Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at fair value, with changes recognized in profit and loss. The resulting disclosures are presented in Note 16.

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

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

3.12 Revenue recognition

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

i. **Aeroplan®**

The Aeroplan® program is split into two distinct components:

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

3.12 Revenue recognition (continued)

LCBO. The LCBO recognizes revenue from the direct delivery programs as the agent in the transaction, with cost of goods sold netted against gross revenues.

iii. **Gift Card breakage income**

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

3.13 Other income

i. **Services rendered**

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

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

In 2006, the Province entered into an agreement with Brewers Retail Inc., 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

3.13 Other income (continued)

rate. The breakage income is recognized based on redemption patterns and is included in other income.

iii. **Domestic airline revenue**
LCBO has a process to facilitate the sale of alcohol from Ontario suppliers to airlines, who in turn sell the alcohol on their flights. LCBO charges airlines a mark-up on products removed from the Customs Bonded Warehouse/Excise Warehouse for in-flight sales on flights departing from Ontario with a Canadian destination. The resulting disclosures are presented in Note 19.

3.14 Vendor allowances

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

3.15 Employee benefits

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

ii. **Pension benefit costs**
LCBO provides defined pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund ("PSPF") and the Ontario Public Service Employees' Union Pension Fund ("OPSEU Pension Fund"). The Province, which is the sole sponsor of the PSPF and a joint sponsor

3.15 Employee benefits (continued)

of the OPSEU Pension Fund, determines LCBO's annual contribution to the funds. As the sponsors are responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of LCBO.

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

iii. **Non-pension employee benefits**

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

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

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

3.16 Finance income

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

3.17 Finance costs

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

3.18 Leasing

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.
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 case the lease liability is remeasured by discounting the revised lease payments using the same discount rate used in initially setting up the liability (unless the change in lease

3.18 Leasing (continued)

payments are due to a change in a floating interest rate, in which case a revised discount rate is used); and

- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

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

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

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-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 on the dates of the transactions. Items denominated in foreign currencies, comprised of US and Euro bank accounts and liabilities are translated at the prevailing rates at the end of each reporting period. Exchange gains and losses are recognized immediately in the Statement of income and other comprehensive income.

4. Use of estimates and judgements

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

4. Use of estimates and judgements (continued)

and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

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

ii. **Impairment of assets**

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

Right-of-use assets, property, plant and equipment and intangible assets are subject to impairment and impairment reversal reviews based on whether current circumstances suggest that their recoverable amount may be less than their carrying value, or has subsequently increased. Recoverable amounts for CGUs are based on a calculation of expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance. Additional disclosures are presented in Notes 9 and 11.

iii. **Inventories**

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

4. Use of estimates and judgements (continued)

iv. Leases

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

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

v. Provisions

Provisions have been made for sales returns 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 income and other comprehensive income at that time. Provisions for the year ended March 31, 2023 were $2.9 million (2022 – $2.0 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.

(thousands of Canadian dollars)

4. Use of estimates and judgements (continued)

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 2023	**March 31 2022**
Cash on hand and in transit	255,301	232,888
Short term investments	109,222	326,549
	364,523	559,437

6. Trade and Other Receivables

	March 31 2023	**March 31 2022**
Trade and other receivables	91,567	92,105
Loss allowance	(4,667)	(4,924)
	86,900	87,181

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.

(thousands of Canadian dollars)

7. Inventories

Inventories sold during the year ended March 31, 2023 were $3,782 million (2022 – $3,650 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, 2023 and 2022.

8. Prepaid Expenses

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

9. Property, Plant & Equipment and Intangible Assets

Net book value of property, plant & equipment and intangible assets	**March 31 2023**	**March 31 2022**
Land	9,756	9,756
Buildings	108,700	98,906
Machinery and equipment	50,454	51,044
Leasehold improvements	219,132	219,645
Computer equipment	14,462	14,641
Computer software	13,467	21,570
Software/Construction in progress	14,389	13,917
	430,360	429,479

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:

(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, 2023

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

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/ Constructio n 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/Transfers	-	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)
Transfers	-	-	-	-	-	-	-	-
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)

10. Trade and Other Payables

	March 31 2023	March 31 2022
Trade payables	469,891	620,517
Accruals and other payables	340,519	267,017
Employee benefit accrual	21,748	21,847
	832,158	909,381

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, 2023

	Property[1]	Non-property[2]	Total
Cost			
Balance at April 1, 2022	1,734,246	17,355	1,751,601
Additions	74,940	4,657	79,597
Balance at March 31, 2023	1,809,186	22,012	1,831,198
Accumulated depreciation			
Balance at April 1, 2022	1,068,579	4,593	1,073,172
Depreciation for the year	91,025	4,053	95,078
Balance at March 31, 2023	1,159,604	8,646	1,168,250
Net book value at March 31, 2023	649,582	13,366	662,948

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

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

	Property[1]	Non-property[2]	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

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

(thousands of Canadian dollars)

11. Leases (continued)

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

	March 31 2023	March 31 2022
Depreciation – right-of-use assets	95,078	93,730
Interest expense on lease liabilities	26,768	27,259
Rent expense relating to short-term leases	1,425	1,178
Variable lease expenses not included in the measurement of lease liabilities	54,803	52,197

c. Lease liabilities

Maturity analysis – undiscounted cash flow		
Less than one year	123,103	118,705
One to five years	435,322	426,539
More than five years	382,905	427,635
	941,330	972,879
Lease liabilities included in the statement of financial position		
Current	97,809	94,844
Non-current	681,943	700,696
	779,752	795,540

(thousands of Canadian dollars)

12. Gift Cards

For the year ended	March 31 2023	March 31 2022
Unredeemed gift cards	67,679	64,327

Revenue generated from gift cards is recognized when gift cards are redeemed. For the fiscal year ended March 31, 2023, a total of $118.6 million (2022 – $114.2 million) gift cards were redeemed and recognized in revenue. Breakage income recognized in revenue for the year ended March 31, 2023 was $2.4 million (2022 – $2.3 million).

13. Employee Benefits

a. Pension plan

For the year ended March 31, 2023 the expense was $40.4 million (2022 – $38.3 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, 2023, the weighted average duration of the plans obligations are 7.2 years (2022 – 7.6 years).

i. Statement of financial position

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

	March 31 2023	March 31 2022
Current	13,800	14,042
Non-current	105,649	101,273
Total non-pension employee benefit obligation	119,449	115,315

(thousands of Canadian dollars)

13. Employee Benefits (continued)

The current portion represents LCBO's estimated contribution to non-pension employee benefits for fiscal 2024.

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 2023	March 31 2022
Current service cost	12,985	16,792
Past service credit	-	-
Actuarial gains on non-vesting benefits	(1,228)	(13,532)
Total costs included in expenses	11,757	3,260
Interest costs	4,441	3,646
Total costs included in finance costs	4,441	3,646
Total non-pension employee benefit expenses	16,198	6,906

iii. **Accumulated other comprehensive income**

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

	March 31 2023	March 31 2022
Opening cumulative actuarial losses recognized	(1,403)	(5,759)
Net actuarial gains/(losses) recognized	(3,007)	4,356
Closing cumulative actuarial losses recognized	(4,410)	(1,403)

(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 2023	March 31 2022
Opening benefit obligation	115,315	127,437
Current service cost	12,985	16,792
Interest on obligation	4,441	3,646
Actuarial (gains)/losses from changes in demographic assumptions	(513)	496
Actuarial (gains)/losses from changes in financial assumptions	(5,557)	(10,164)
Actuarial (gains)/losses from other	7,849	(8,220)
Benefits paid	(15,071)	(14,672)
Closing benefit obligation	119,449	115,315

(thousands of Canadian dollars)

13. Employee Benefits (continued)

v. Significant assumptions

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

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

(thousands of Canadian dollars)

13. Employee Benefits (continued)

v. Significant assumptions (continued)

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)

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	(3,730)	3,992
Health Care Trend Rate	1,649	(1,632)
Salary Scale	2,563	(2,429)
Benefit Indexation	1,409	(1,308)

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 2023 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, 2023 defined benefit obligation.

14. Borrowings

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

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

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

(thousands of Canadian dollars)

14. Borrowings (continued)

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

The table represents the changes to LCBO's borrowings:

	March 31 2023	March 31 2022
Opening Balance	47,148	4,544
Cash advanced - Draws	-	42,411
Interest capitalized	-	92
Interest expensed	1,403	101
Repayment	(8,313)	-
Closing Balance	40,238	47,148
Current	16,089	8,313
Non-current	24,149	38,835
	40,238	47,148

The fair value of borrowings at March 31, 2023 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, 2023, 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, 2023, approximately 24% (2022 – 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, 2023 related to cash and cash equivalents. Refer to Note 5 for a breakdown of cash and cash equivalents.

Trade and other receivables

LCBO's ECL model loss rates are based off credit risk exposure by type of counterparty, namely wholesale customers and others. The loss rates are a function of sales payment collection over a period and the corresponding loss experience within the period. The loss rates are adjusted to reflect current and forward-looking information on factors that impact the credit risk of customers. The impact of macro-economic factors on LCBO loss rates is negligible.

16. Financial Risk Management (continued)

b. Liquidity Risk

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

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

c. Market Risk

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

i. Foreign Exchange Risk

LCBO is exposed to foreign exchange risk with respect to inventory purchases denominated in currencies other than the Canadian dollar. To mitigate the impact of fluctuating foreign exchange rates on the cost of these purchases, LCBO has an established non-speculative risk management program that governs the committed and reasonably anticipated foreign currency exposures in significant currencies that must be economically hedged through permitted hedging instruments. For the year ended March 31, 2023, 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, 2023, LCBO had 59 foreign exchange forward contracts (2022 – 71) and 3 spot contracts (2022 – 4) with fair value totalling $0.2 million gain (2022 – $1.2 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 2023	**March 31 2022**
Home Consumers – Retail	5,874,311	6,049,336
Grocers	410,116	415,359
Licensees	598,277	374,353
LCBO Convenience Outlets	252,008	260,485
The Beer Store	228,740	214,487
Direct Wineries and Distilleries and Other	15,860	13,433
Duty Free	25,846	13,175
	7,405,158	7,340,628

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 2023	March 31 2022
ODRP container deposit breakage income	13,901	15,437
Border point levies and fees	4,291	2,180
Domestic airline revenue	1,805	1,720
Other	22,009	14,865
	42,006	34,202

20. Selling, General and Administrative Expenses by Nature

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

	March 31 2023	March 31 2022[1]
Employee costs (Note 21)	624,043	609,401
Depreciation – right-of-use assets	95,078	93,730
Occupancy costs	94,832	89,138
Depreciation, amortization and impairment	72,464	70,905
Environmental initiatives	56,039	57,064
Debit/credit charges	59,635	56,536
Maintenance & service contracts	41,716	41,173
Professional services	18,692	26,590
Advertising	6,873	9,265
Other	120,892	98,675
	1,190,264	1,152,477

[1] Certain March 31, 2022 figures have been reclassified to align with current year's presentation.

21. Employee Costs

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

	March 31 2023	March 31 2022
Salaries & wages	508,624	504,400
Short-term employee benefits	115,419	105,001
	624,043	609,401

(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 2023	March 31 2022
Finance income		
Interest and investment income	14,952	1,875
Total finance income	14,952	1,875
Finance costs		
Interest on non-pension employee benefits	4,441	3,646
Interest expense on borrowings	1,403	101
Interest expense on lease liabilities	26,768	27,259
Total finance costs	32,612	31,006

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, 2023, LCBO transferred a total dividend of $2.580 billion (2022 – $2.550 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, 2023, LCBO contributed $2.0 million (2022 – $2.2 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, 2023, the outstanding lease liability is $1.2 million (2022 – $1.7 million). Other cost incurred related to LCBO use of the facility amounted to $nil (2022 – $0.03 million). These expenditures are included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

Key Management Personnel

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

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

	March 31 2023	**March 31 2022**
Salaries and short-term employee benefits	5,602	5,070
Post-employment benefits	507	483
Other long-term benefits	151	157
Termination benefits	11	11
	6,271	5,721

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, 2023, $2.8 million (2022 – $4.4 million) is included in trade and other receivables related to the TBS common product deposits.

25. Other Matters

On November 8, 2019, the Ontario legislature passed Bill 124 also called the Protecting a Sustainable Public Sector for Future Generations Act, 2019. The Act was created to implement moderation measures in respect of compensation in Ontario’s public sector. On November 29, 2022, Bill 124 was struck down after a challenge was brought before the courts by a coalition of unions, including OPSEU/SEFPO.

The LCBO, alongside the OPS and several other agencies, agreed to a wage reopener for bargaining unit employees in the event that Bill 124 was struck down by a court of competent jurisdiction. The court's decision in late 2022 has activated the wage reopener and the LCBO is currently engaged in mediated talks with the union. The likelihood, timing or extent of any potential liability is uncertain at this time.

FINANCIAL OVERVIEW

Key operational indicators

	FY2023	FY2022	FY2021	FY2020	FY2019
LCBO stores	685	680	677	669	666
Full-time equivalent employees	7,986	7,988	7,974	7,461	7,425
Product listings	34,765	34,548	28,924	31,585	28,376

Financial indicators *($ thousands)*

	FY2023	FY2022	FY2021	FY2020	FY2019
Total revenues*	7,462,116	7,376,705	7,207,713	6,802,646	6,433,022
Growth over previous year	1.2%	2.3%	6.0%	5.7%	3.2%
Total expenses**	1,222,876	1,183,483	1,138,936	1,056,970	1,016,540
As a percentage of total revenues	16.4%	16.0%	15.8%	15.5%	15.8%
Net income	2,457,257	2,543,284	2,538,395	2,401,600	2,274,536
As a percentage of total revenues	32.9%	34.5%	35.2%	35.3%	35.4%

** 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	FY2023	FY2022	FY2021	FY2020	FY2019
Remitted by the Liquor Control Board:					
on account of profits	2,580,000	2,550,000	2,390,000	2,375,000	2,370,000
Remitted by the Alcohol and Gaming Commission:					
on account of licence fees and permits	12,793	7,677	6,547	14,760	14,268
Remitted by the Ministry of Finance:					
Beer, wine and spirits tax[1]	626,000	624,000	624,000	582,000	607,000
Total	**3,218,793**	**3,181,677**	**3,020,547**	**2,971,760**	**2,991,268**

Receiver General for Canada	FY2023	FY2022	FY2021	FY2020	FY2019
Remitted by the Liquor Control Board:					
Excise taxes and customs duties	474,255	468,863	471,421	443,565	417,325
Goods and Services Tax (GST) / Harmonized Sales Tax (HST)	629,217	620,059	612,692	581,964	551,705
Remitted by others:					
Excise taxes, GST/HST and other duties/taxes[2]	544,693	505,341	509,720	511,971	517,046
GST/HST remitted on sales through LCOs	36,411	37,636	42,425	21,264	17,857
Total	**1,684,576**	**1,631,898**	**1,636,258**	**1,558,763**	**1,503,933**

Ontario Municipalities	FY2023	FY2022	FY2021	FY2020	FY2019
Remitted by the Liquor Control Board:					
Realty taxes[3]	36,385	37,327	35,602	34,651	33,294
Total revenue payments	**4,939,753**	**4,850,902**	**4,692,407**	**4,565,175**	**4,528,496**

[1] The beer, wine and spirits tax figure of $626 million is an interim number for FY2023. The FY2022 number has been restated to actual as per Ontario's April 2023 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

	FY2023
LCBO	51.0%
The Beer Store	41.3%
Brewery/Distillery/Winery Retail Stores	7.7%

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

Volume sales *(thousands of litres)*

LCBO sales	FY2023	Growth	FY2022	FY2021	FY2020	FY2019
Domestic Spirits	32,969	0.6%	32,765	31,442	30,838	29,928
Imported Spirits	36,087	0.6%	35,856	40,148	37,696	36,189
Total Spirits	**69,056**	**0.6%**	**68,622**	**71,590**	**68,534**	**66,117**
Domestic Wine	53,340	-8.6%	58,358	61,596	53,670	51,663
Imported Wine	103,360	-3.5%	107,155	110,664	115,614	112,758
Total Wine	**156,699**	**-5.3%**	**165,513**	**172,260**	**169,283**	**164,421**
Domestic Beer	186,891	-2.4%	191,464	187,869	173,536	165,412
Imported Beer	93,409	-0.4%	93,747	117,180	147,791	148,463
Total Beer	**280,299**	**-1.7%**	**285,212**	**305,049**	**321,326**	**313,874**
Domestic Coolers	98,033	-0.5%	98,508	84,386	54,455	42,899
Imported Coolers	18,585	2.7%	18,102	15,852	12,598	13,553
Total Coolers	**116,618**	**0.0%**	**116,610**	**100,238**	**67,053**	**56,452**
Total Domestic	**371,232**	**-2.6%**	**381,095**	**365,293**	**312,498**	**289,902**
Total Imported	**251,441**	**-1.3%**	**254,862**	**283,844**	**313,699**	**310,962**
Total LCBO	**622,673**	**-2.1%**	**635,957**	**649,136**	**626,197**	**600,864**

Other sales	FY2023	Growth	FY2022	FY2021	FY2020	FY2019
Ontario winery stores	26,186	-10.1%	29,124	34,202	28,058	26,865
The Beer Store & Ontario brewery stores	522,701	1.5%	515,048	530,019	549,821	573,616
Ontario distillery stores	726	-0.9%	733	679	253	217

Note: The FY2023 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 (43.9 million litres in FY2023). TBS sales exclude sales to LCBO (147.9 million litres in FY2023) and sales on behalf of LCBO to northern LCBO Convenience Outlets (6.3 million litres in FY2023). For the LCBO, prior year figures are restated annually to reflect changes in product hierarchy.

Value sales *($ thousands)*

LCBO sales	FY2023	Growth	FY2022	FY2021	FY2020	FY2019
Domestic Spirits	1,134,204	1.7%	1,114,985	1,054,190	1,011,892	961,105
Imported Spirits	1,614,533	2.9%	1,568,739	1,541,376	1,385,122	1,287,287
Total Spirits	**2,748,737**	**2.4%**	**2,683,725**	**2,595,566**	**2,397,015**	**2,248,391**
Domestic Wine	587,832	-4.5%	615,330	650,434	590,445	568,252
Imported Wine	1,953,761	-1.2%	1,977,330	1,930,872	1,894,279	1,817,332
Total Wine	**2,541,594**	**-2.0%**	**2,592,660**	**2,581,306**	**2,484,724**	**2,385,584**
Domestic Beer	918,472	-0.4%	922,338	880,195	797,668	742,994
Imported Beer	490,090	6.7%	459,443	570,670	717,567	707,389
Total Beer	**1,408,563**	**1.9%**	**1,381,781**	**1,450,865**	**1,515,235**	**1,450,383**
Domestic Coolers	565,767	2.7%	551,133	467,200	299,988	230,894
Imported Coolers	124,808	10.7%	112,713	90,335	73,453	79,232
Total Coolers	**690,575**	**4.0%**	**663,846**	**557,535**	**373,441**	**310,126**
Total Domestic	**3,206,276**	**0.1%**	**3,203,786**	**3,052,019**	**2,699,993**	**2,503,246**
Total Imported	**4,183,193**	**1.6%**	**4,118,225**	**4,133,252**	**4,070,421**	**3,891,239**
Non-Liquor and Other	**13,269**	**18.5%**	**16,285**	**(4,996)**	**(6,923)**	**(5,173)**
Total LCBO	**7,402,738**	**0.9%**	**7,338,297**	**7,180,275**	**6,763,492**	**6,389,312**

Other sales	FY2023		FY2022	FY2021	FY2020	FY2019
Ontario winery stores	357,657	-5.6%	378,837	420,946	364,180	340,600
The Beer Store & Ontario brewery stores	2,426,144	7.1%	2,266,158	2,266,391	2,403,977	2,468,882
Ontario distillery stores	20,770	5.1%	19,761	20,700	11,284	9,662

Note: Total LCBO excludes gift card breakage income. The FY2023 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 ($228.7 million in FY2023). TBS sales exclude sales to LCBO ($419.1 million in FY2023) and sales on behalf of LCBO to northern LCBO Convenience Outlets ($16.1 million in FY2023). For the LCBO, prior year figures are restated annually to reflect changes in product hierarchy.

Product listings

	FY2023	FY2022	FY2021	FY2020	FY2019
Domestic					
Spirits	834	766	678	646	597
Wine	860	884	752	631	605
Beer	1,502	1,472	1,449	1,301	1,294
Imported					
Spirits	1,279	1,095	1,122	1,032	930
Wine	1,308	1,301	1,080	1,082	1,078
Beer	342	332	314	380	376
Total regular listings	**6,125**	**5,850**	**5,395**	**5,072**	**4,880**
VINTAGES wines and spirits	6,197	5,918	4,955	5,661	5,257
Duty-free listings	181	216	183	220	239
Consignment warehouse and private ordering	22,262	22,564	18,391	20,632	18,000
Total product listings	**34,765**	**34,548**	**28,924**	**31,585**	**28,376**

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 FY2023, excluding sales through Specialty Services, the LCBO sold products from 76 different countries.

Spirits

Country		Net Sales ($)	Litres
CANADA	$	1,721,844,307	135,463,149
ONTARIO	$	1,054,295,480	102,479,751
UNITED STATES	$	382,097,059	20,182,492
UNITED KINGDOM	$	376,825,698	7,221,193
MEXICO	$	218,782,610	3,883,327
FRANCE	$	208,757,506	3,566,513
IRELAND	$	141,304,379	3,832,092
SWEDEN	$	81,834,370	2,403,112
ITALY	$	60,832,324	1,733,714
LATVIA	$	33,146,751	959,980
GERMANY	$	24,334,518	729,320
OTHER	$	169,003,077	4,622,823
TOTAL	**$**	**3,418,762,599**	**184,597,715**

Wine

Country		Net Sales ($)	Litres
CANADA	$	577,493,695	53,005,844
ONTARIO	$	570,874,870	52,392,555
UNITED STATES	$	468,248,915	21,742,338
ITALY	$	422,383,019	23,713,425
FRANCE	$	259,192,246	9,158,439
AUSTRALIA	$	153,612,217	9,576,541
NEW ZEALAND	$	100,156,739	4,576,802
CHILE	$	97,868,325	7,699,759
SPAIN	$	81,583,019	4,930,977
ARGENTINA	$	51,323,852	3,072,872
PORTUGAL	$	50,371,563	3,477,498
OTHER	$	102,414,467	8,174,980
TOTAL	**$**	**2,364,648,059**	**149,129,473**

Beer

Country		Net Sales ($)	Litres
CANADA	$	914,944,201	185,857,117
ONTARIO	$	705,829,064	146,877,328
NETHERLANDS	$	161,091,198	29,288,730
GERMANY	$	47,953,968	10,962,691
UNITED KINGDOM	$	43,861,802	8,042,951
POLAND	$	24,538,172	5,806,318
MEXICO	$	24,174,835	3,858,022
ITALY	$	21,054,461	3,531,431
DENMARK	$	20,969,082	4,481,479
UNITED STATES	$	16,840,432	3,636,657
FRANCE	$	14,596,526	2,508,892
OTHER	$	67,921,071	12,683,912
TOTAL	**$**	**1,357,945,747**	**270,658,199**

Local Products – produced in Ontario

Sales exclude Specialty Services

Volume sales *(thousands of litres)*

LCBO sales	FY2023	FY2022	Growth
Small Distillers	**609**	**563**	**8.1%**
VQA Wines	9,438	10,412	-9.3%
Non-VQA Wines	32,711	35,508	-7.9%
Total Wines	**42,149**	**45,920**	**-8.2%**
Craft Beer	**23,897**	**28,667**	**-16.6%**
Craft Cider	2,709	2,782	-2.6%
Non-Craft Cider	7,532	8,518	-11.6%
Total Cider	**10,241**	**11,300**	**-9.4%**

Value sales *($ thousands)*

LCBO sales	FY2023	FY2022	Growth
Small Distillers	**25,205**	**23,186**	**8.7%**
VQA Wines	168,658	179,883	-6.2%
Non-VQA Wines	338,658	352,091	-3.8%
Total Wines	**507,316**	**531,974**	**-4.6%**
Craft Beer	**153,368**	**177,973**	**-13.8%**
Craft Cider	17,620	17,692	-0.4%
Non-Craft Cider	45,819	50,502	-9.3%
Total Cider	**63,439**	**68,194**	**-7.0%**

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.

Produced by LCBO Corporate Communications. Financial information prepared by LCBO Financial Planning & Analysis Group and the Controller's Office. French translation by LCBO French Language Services.

Ce rapport est également publié en français sous le titre; Rapport annuel de la LCBO 2022-2023.

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