BRITISH COLUMBIA
LIQUOR DISTRIBUTION BRANCH
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
MARCH 31, 2005

Management's Responsibility for Financial Reporting

The financial statements of the British Columbia Liquor Distribution Branch have been prepared by management in accordance with Canadian generally accepted accounting principles. Any financial information contained elsewhere in the annual report has been reviewed to ensure consistency with the financial statements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized, and financial records are properly maintained to facilitate the preparation of financial statements in a timely manner.

The Auditor General of British Columbia has performed an independent audit of the financial statements of the Liquor Distribution Branch. The Auditor's Report outlines the scope of this independent audit and expresses an opinion on the financial statements of the Liquor Distribution Branch.

Jay Chambers
General Manager

Roger M. Bissoondatt, CA, CMA
Executive Director, Finance

Vancouver, British Columbia

May 25, 2005

Report of the Auditor General of British Columbia

To the Minister of Public Safety and Solicitor General,
Province of British Columbia

I have audited the balance sheet of the *British Columbia Liquor Distribution Branch* as at March 31, 2005 and the statements of operations, advance due from Province of British Columbia and cash flows for the year then ended. These financial statements are the responsibility of the Branch's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *British Columbia Liquor Distribution Branch* as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Wayne Strelioff

Victoria, British Columbia
May 25, 2005

Wayne Strelioff, FCA
Auditor General

Audited Financial Statements

BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH
BALANCE SHEET
(in $000s)

March 31,	2005	2004
ASSETS		
CURRENT ASSETS		
Accounts receivable	**9,466**	5,022
Inventories	**68,630**	69,408
Prepaid expenses	**3,325**	1,844
Due from Province of British Columbia	**54,356**	44,062
	135,777	120,336
CAPITAL ASSETS (note 3)	**17,549**	23,813
	153,326	144,149
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness	**8,561**	10,043
Accounts payable and accrued liabilities	**137,718**	119,175
Current portion of restructuring costs (note 5)	**1,183**	7,668
Current portion of tenant improvement loans (note 6)	**972**	1,078
Current portion of capital lease (note 7)	**355**	321
	148,789	138,285
LONG TERM LIABILITIES		
Tenant improvement loans (note 6)	**3,554**	4,526
Obligation under capital lease (note 7)	**983**	1,338
	153,326	144,149

Commitments and Contingent items (notes 8 & 9)

Approved by:

General Manager

Executive Director, Finance

The accompanying notes and supplementary schedule are an integral part of these financial statements.

BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH
STATEMENT OF OPERATIONS
(in $000s)

Year Ended March 31,	**2005**	2004
Sales (note 4)	**2,148,383**	1,998,223
Less: commissions & discounts	**91,287**	69,463
	2,057,096	1,928,760
Cost of merchandise sold	**1,048,602**	992,225
Gross margin	**1,008,494**	936,535
Operating expenses (schedule)	**240,045**	215,276
	768,449	721,259
Other income	**10,145**	5,451
Net income	**778,594**	726,710

BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH
STATEMENT OF ADVANCE DUE FROM PROVINCE OF BRITISH COLUMBIA
(in $000s)

Year Ended March 31,	**2005**	2004
Balance beginning of year	**44,062**	30,338
Net income	**(778,594)**	(726,710)
Payments to Province of British Columbia	**788,888**	740,434
Balance end of year	**54,356**	44,062

The accompanying notes and supplementary schedule are an integral part of these financial statements.

BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH
STATEMENT OF CASH FLOWS
(in $000s)

Year Ended March 31,	**2005**	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	**2,052,652**	1,928,978
Cash payments to Provincial Treasury	**(788,888)**	(740,434)
Cash paid to suppliers and employees	**(1,260,610)**	(1,198,122)
Cash receipts from other income	**9,994**	5,348
Interest paid on capital lease and loans	**(610)**	(807)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	**12,538**	(5,037)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of capital assets excluding capital projects	**(6,976)**	(1,170)
Acquisition of capital project assets	**(2,832)**	(95)
Proceeds from disposal of capital assets	**151**	103
CASH FLOWS (USED IN) INVESTING ACTIVITIES	**(9,657)**	(1,162)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on capital lease	**(321)**	(290)
Tenant improvement loans	**(1,078)**	(1,580)
CASH FLOWS (USED IN) FINANCING ACTIVITIES	**(1,399)**	(1,870)
NET INCREASE (DECREASE) IN CASH	**1,482**	(8,069)
(BANK INDEBTEDNESS) BEGINNING OF YEAR	**(10,043)**	(1,974)
(BANK INDEBTEDNESS) END OF YEAR	**(8,561)**	(10,043)

The accompanying notes and supplementary schedule are an integral part of these financial statements.

BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH
STATEMENT OF CASH FLOWS
(in $000s)

Year Ended March 31,	**2005**	2004
Salaries, wages and benefits (note 5)	**141,772**	119,686
Rents	**26,124**	25,128
Professional services	**4,138**	4,162
Repairs and maintenance	**4,865**	4,615
Freight to stores	**5,393**	4,810
Amortization	**16,037**	14,929
Light, water and fuel	**4,098**	4,094
Beverage container costs	**9,786**	12,599
Other operating expenses	**1,972**	3,167
Stationery and supplies	**2,989**	3,017
Merchandising	**2,341**	2,187
Bank charges	**10,076**	6,923
Data processing	**3,137**	3,009
Telephone	**3,980**	4,067
Travel	**649**	384
Loss prevention	**1,151**	1,020
Warehouse equipment costs	**927**	672
Interest on long term liabilities	**610**	807
	240,045	215,276

BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2005
(Tabular amounts in $000s)

1. PURPOSE OF THE BRANCH

The British Columbia Liquor Distribution Branch (Branch) obtains its authority for operation from the *British Columbia Liquor Distribution Act (Act)*. As stated in Section 2 of this *Act*, the Branch has the exclusive right to purchase liquor for resale and reuse in the Province in accordance with the provisions of the *Importation of Intoxicating Liquors Act (Canada)*.

2. SIGNIFICANT ACCOUNTING POLICIES

As prescribed by Section 30(3)(b) of the *Act*, the financial statements of the Branch are prepared in accordance with Canadian generally accepted accounting principles.

Significant accounting policies are as follows:

Inventories

Inventories are valued at cost on a first in first out basis, with cost comprising of supplier invoiced value, freight, duties and taxes.

Capital Assets

Capital assets are stated at cost and are amortized on a straight line basis as follows:

Buildings
7.5 per cent per annum.

Leasehold improvements
A minimum of 10 per cent per annum or a rate sufficient to amortize the cost over the remaining life of the respective lease.

Furniture, fixtures, vehicles and equipment
25 per cent per annum.

Retail Management System
All costs of development, construction and other costs associated with the development of the Retail Management System have been capitalized and are amortized at 25 per cent per annum.

Capital projects
All costs of development for capital projects are capitalized. At the point in time when the project is substantially completed, it is amortized at 25 per cent per annum.

Leases

Assets recorded under capital leases are amortized on a straight-line basis over the term of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

March 31, 2005
(Tabular amounts in $000s)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related Party Transactions

The Branch is related through common ownership to all Province of British Columbia ministries, agencies and Crown corporations. Transactions with these entities, as well as other transactions in which Provincial Government intervention is a component, are generally considered to be in the normal course of operations and are recorded at the exchange amount, unless disclosed separately in these financial statements.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

3. CAPITAL ASSETS

	2005			2004
	Cost	Accumulated Amortization	**Net Book Value**	Net Book Value
Land	1,073	-	**1,073**	1,073
Buildings	17,994	16,195	**1,799**	2,242
Tenant improvements	20,937	15,034	**5,903**	4,362
Furniture, fixtures, vehicles & equipment	28,244	24,641	**3,603**	1,788
Office furnishings under capital lease	3,627	2,902	**725**	967
Retail Management System	44,878	43,434	**1,444**	11,985
Capital projects	4,899	1,897	**3,002**	1,090
Capital projects under development	-	-	**-**	306
	121,652	104,103	**17,549**	23,813

4. SALES

Total sales reported include sales to retail customers, licensed establishments, licensee retail stores and agency stores. These amounts do not include subsequent resale by licensed establishments, licensee retail stores and agency stores.

	2005	2004
Retail customers	**1,084,012**	1,078,670
Licensee retail stores	**531,361**	416,057
Licensed establishments	**414,140**	393,479
Agency stores	**118,870**	110,017
	2,148,383	1,998,223

March 31, 2005
(Tabular amounts in $000s)

5. RESTRUCTURING COSTS

Provisions for severance costs in 2003 for store and distribution centre closures were reversed in 2004 as a result of government decision to continue to operate the retail and distribution system. A balance of $1.2 million remains for Early Retirement Incentive and Voluntary Departure Program costs for departures in 2005 as a result of organization changes resulting from the collective agreement ratification in November 2003.

	2005	2004
Opening balance beginning year	**7,668**	32,353
Used during the year	**(4,147)**	(1,184)
Reversal of accrual not required	**(2,338)**	(23,501)
	1,183	7,668

6. TENANT IMPROVEMENT LOANS

As at March 31, 2005, the Branch has tenant improvements loans of $4.5 million financed through landlords. The range of interest rates is 3.3% to 20.0% with loans expiring from June 2005 to June 2014. The Principal payments due are as follows:

Year ending March 31	2006	972
	2007	871
	2008	860
	2009	701
	2010	497
	Subsequent years	625
		4,526
	Current portion	(972)
		3,554

7. OBLIGATION UNDER CAPITAL LEASE

In the fiscal year 1994, the Branch entered into a 15-year capital lease, expiring in the fiscal year 2009, for certain of its head office tenant improvements and office furnishings. The following is a schedule of future minimum lease payments under the capital lease expiring July 31, 2008, together with the balance of the obligation under capital lease:

Year ending March 31	2006	475
	2007	475
	2008	475
	2009	158
		1,583
	Less: imputed interest at 10%	(245)
	current portion	(355)
		983

8. COMMITMENTS

Future commitments for operating leases for Branch premises and equipment are as follows:

Year ending March 31	2006	19,470
	2007	15,890
	2008	14,360
	2009	10,670
	2010	7,513
	Subsequent years	17,232
		85,135

9. CONTINGENT ITEMS

The Branch has authorized suppliers' agents to import and warehouse liquor for subsequent purchase by the Branch. Under this program, the Branch has a contractual obligation to purchase all inventories held by the agent should the agent opt out of the program. As at March 31, 2005, the value of agents' inventories totalled approximately $55.3 million (2004 - $54.5 million) and the future liability for related federal excise taxes is $11.4 million (2004 - $10.8 million).

The Branch is the defendant in legal actions and it is not expected that the ultimate outcome of these claims will have a material effect on the financial position of the corporation.

10. EMPLOYEE BENEFIT PLANS

The Branch and its employees contribute to the Public Service Pension Plan (The Plan). The Plan is a multi-employer defined benefits pension plan. Under joint trusteeship, unfunded liability or surplus is shared between the employers and the plan members and will be reflected in their future contributions. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of benefits.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The latest valuation as at March 31, 2002 indicated a $546 million surplus for basic pension benefits. The next valuation will be as at March 31, 2005 with results available in 2006. The actuary does not attribute portions of the surplus to individual employers. The Branch paid $7.2 million for employer contributions to the plan in fiscal 2004/05.

Employees are also entitled to specific retirement benefits as provided for under collective agreements and terms of employment. The future liability for this obligation amounts to $7,411,248 (2004 - $1,574,194), which represents future employees' retirement benefits outside of the Public Service Pension Plan. The expense adjustment recorded in the year is $6,954,027 (2004 - $234,060).

11. FINANCIAL INSTRUMENTS

The Liquor Distribution Branch's financial instruments consist of cash, accounts receivable, advances due to/from the Province of British Columbia, accounts payable and accrued liabilities, tenant improvement loans, and capital leases. Unless otherwise noted, it is management's opinion that the Branch is not exposed to significant interest, currency or credit risks arising from these financial instruments.