Liquor Distribution Branch

Financial Statements
March 31, 2012 and 2011
(in thousands of dollars)

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INDEPENDENT AUDITOR'S REPORT

To the Minister of Energy and Mines, Province of British Columbia

Report on the Financial Statements

I have audited the accompanying financial statements of the British Columbia Liquor Distribution Branch, which comprise the statements of financial position as at March 31, 2012, March 31, 2011, and April 1, 2010, and the statements of comprehensive income, advance due from (to) Province of British Columbia and cash flows for the periods ended March 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In my view, the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the British Columbia Liquor Distribution Branch as at March 31, 2012, March 31, 2011, and April 1, 2010, and the results of its operations and its cash flows for the periods ended March 31, 2012 and 2011, in accordance with International Financial Reporting Standards.

Victoria, British Columbia
May 31, 2012

John Doyle, MAcc, CA
Auditor General

Liquor Distribution Branch

Statements of Comprehensive Income

For the years ended March 31, 2012 and 2011

(in thousands of dollars)

Year ended March 31,	**Note**	**2012**	**2011**
Sales	4	2,889,869	2,810,145
Less commissions and discounts	22	(187,583)	(179,749)
Net sales		2,702,286	2,630,396
Cost of sales	22	(1,510,744)	(1,469,819)
Gross profit		1,191,542	1,160,577
Administration expenses	5,13,22	(275,681)	(268,506)
Transportation expenses	5	(10,777)	(9,489)
Marketing expenses	5	(4,533)	(3,534)
Net operating income		900,551	879,048
Finance expenses		(16)	(47)
Other income		10,610	11,269
Net income and comprehensive income		911,145	890,270

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

Liquor Distribution Branch

Statements of Due From (To) Province of British Columbia

For the years ended March 31, 2012 and 2011

(in thousands of dollars)

Year Ended March 31,	**2012**	**2011**
Balance beginning of year	11,458	(11,649)
Net income and comprehensive income	(911,145)	(890,270)
Payments to the Province of British Columbia	908,587	913,377
Balance end of year	8,900	11,458

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

Liquor Distribution Branch

Statements of Financial Position

As at March 31, 2012 and 2011, and April 1, 2010

(in thousands of dollars)

		March 31		April 1
As at	**Note**	**2012**	**2011**	**2010**
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	6	62,984	57,626	59,397
Intangible assets	7	2,471	2,884	2,785
Prepaid expenses - long term	8	8,697	3,377	2,090
		74,152	63,887	64,272
CURRENT ASSETS				
Due from Province of British Columbia	9,22	8,900	11,458	-
Inventories	10	81,815	83,021	89,974
Prepaid expenses	8	2,348	4,979	4,294
Accounts receivable	11	5,582	5,013	5,307
Cash		17,362	-	6,724
		116,007	104,471	106,299
TOTAL ASSETS		190,159	168,358	170,571
LIABILITIES				
NON-CURRENT LIABILITIES				
Other long-term liabilities	12,13,14,22	22,292	19,521	20,738
		22,292	19,521	20,738
CURRENT LIABILITIES				
Due to Province of British Columbia	9,22	-	-	11,649
Accounts payable and accrued liabilities	14,15,22	167,867	141,684	138,184
Bank indebtedness		-	7,153	-
		167,867	148,837	149,833
TOTAL LIABILITIES		190,159	168,358	170,571

Approved for issue on May 30, 2012 by:

Jay Chambers
General Manager

Roger M. Bissoondatt, CA, CMA
Chief Financial Officer

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

Liquor Distribution Branch

Statements of Cash Flows

For the years ended March 31, 2012 and 2011

(in thousands of dollars)

Year Ended March 31,	Note	2012	2011
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Cash receipts from customers		2,701,717	2,630,692
Cash payments to the Province of British Columbia		(908,587)	(913,377)
Cash paid to suppliers and employees		(1,759,981)	(1,729,670)
Cash receipts from other income		10,501	11,248
Interest paid on capital lease and loans		(16)	(47)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		43,634	(1,154)
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	6	(18,619)	(11,554)
Acquistion of intangible assets	7	(403)	(784)
Proceeds from disposal of property and equipment		108	50
CASH FLOWS (USED IN) INVESTING ACTIVITIES		(18,914)	(12,288)
CASH FLOWS (USED IN) FINANCING ACTIVITIES			
Payments on capital leases		(47)	(74)
Payments on tenant improvement loans		(158)	(361)
CASH FLOWS (USED IN) FINANCING ACTIVITIES		(205)	(435)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		24,515	(13,877)
(BANK INDEBTEDNESS) CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		(7,153)	6,724
CASH AND CASH EQUIVALENTS (BANK INDEBTEDNESS) - END OF YEAR		17,362	(7,153)

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

1. Purpose of the Branch

The British Columbia Liquor Distribution Branch (the Branch) is one of two branches of the Province of British Columbia (the Province) responsible for the beverage alcohol industry in British Columbia and reports to the Minister of Energy and Mines.

The Branch obtains its authority for operation from the *British Columbia Liquor Distribution Act* (the Act). As stated in Section 2 of the 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).*

The Branch is reported on a modified equity basis in the public accounts, in a manner similar to a commercial Crown corporation.

2. Basis of presentation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These are the Branch's first financial statements prepared in accordance with IFRS and IFRS 1 - *First-time Adoption of International Financial Reporting Standards.* The date of transition to IFRS is April 1, 2010.

The Branch's IFRS accounting policies are presented in note 3 and have been applied in preparing the financial statements for the year ended March 31, 2012, the comparative information and the opening statement of financial position at the date of transition.

The effects of the transition to IFRS on financial position and comprehensive income are presented in note 22.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis. The accounts have been prepared on a going concern basis.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Branch's functional currency. All financial information has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Branch's accounting policies. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In determining and applying accounting policies, judgement is often required where the choice of specific policy, assumption or account estimate to be followed could materially affect the reported results or net position of the Branch, should it later be determined that a different choice be more appropriate.

Management considers the following to be areas of significant judgement and estimation for the Branch due to greater complexity and/or particularly subject to the exercise of judgement:

i) Property and equipment
The determination of the useful economic life and residual values of property and equipment is subject to management estimation. The Branch regularly reviews all of its depreciation rates and residual values to take account of any changes in circumstances, and any changes that could affect prospective depreciation charges and asset carrying values.

ii) Employee benefits – Retiring allowances
Employees who are eligible to retire and receive pension benefits under the Public Service Pension Plan are granted full vacation entitlement for the final calendar year of service. The Branch recognizes a liability and an expense for retiring allowances when benefits are earned and not when these benefits are paid. These obligations are valued by independent actuaries.

3. Significant accounting policies

The accounting policies below have been applied consistently to all periods presented in these financial statements and in preparing the opening IFRS statement of financial position at April 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

(a) Foreign currency translation
The Branch in the normal course of business purchases product in foreign currency. Any foreign currency transactions are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Any foreign currency denominated monetary assets and liabilities are stated using the prevailing rate of exchange at the date of the statement of financial position.

(b) Financial instruments
Financial assets are recognized when the Branch has rights or other access to economic benefits. Such assets consist of cash or a contractual right to receive cash or another financial asset. The Branch derecognizes a financial asset when the contractual rights to the cash flows from the asset have expired or have been transferred and all the risks and rewards of ownership substantially are transferred.

All of the Branch's financial assets are designated as loans and receivables. The Branch initially recognizes loans and receivables and deposits on the date that they originate.

Financial liabilities are recognized when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset. Financial liabilities are derecognized when they are extinguished.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Branch has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Branch has the following categories of financial assets and financial liabilities:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Branch provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities of greater than 12 months after the statement of financial position date which are classified as non-current assets. Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any provision for impairment. Any resulting income or expense is recognized in the statement of comprehensive income. Loans and receivables include accounts receivable, cash on hand and bank deposits in transit.

i) Accounts receivable
Accounts receivable are recognized initially at the invoice amount which approximates the fair value.

A provision for impairment of trade receivables is established when there is objective evidence that the Branch will not be able to collect all amounts due according to the terms of the receivables. The carrying amount of accounts receivable is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive income. The amount of the provision is the difference between the asset's carrying value and the present value of the estimated future cash flows discounted at the original effective interest rate. Subsequent recoveries of amounts previously written off are credited to other income.

ii) Cash and cash equivalents
Cash and cash equivalents include cash on hand, bank deposits in transit, and bank overdrafts. Bank overdrafts are shown as bank indebtedness in current liabilities on the statement of financial position.

Financial liabilities held at amortized cost

Financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using effective interest method and include accounts payable, tenant improvement loans, and bank indebtedness. Any resulting income or expense is recognized in the statement of comprehensive income.

i) Accounts payable
Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the payment is due within one year or less and non-current liabilities if the payment is due more than one year from the statement of financial position date.

ii) Bank indebtedness
Bank indebtedness is shown in current liabilities and included within cash and cash equivalents on the statement of cash flows as it forms an integral part of the Branch's cash management.

(c) Property and equipment
Property and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Branch and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

i) Construction in process
Construction in process is carried at cost less any impairment loss. Cost includes professional fees, materials, direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. When these assets are ready for their intended use, they are transferred into the appropriate category. At this point, depreciation commences on the same basis as the other property and equipment.

ii) Assets held under finance leases
Assets held under finance leases which result in the Branch bearing substantially all the risks and rewards incidental to ownership are capitalized as property and equipment. Finance lease assets are initially recognized at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, then depreciated over the lower of the lease term or their useful lives. The capital element of future obligations under the leases is included as a liability in the statement of financial position classified, as appropriate, as current or non-current. The interest element of the lease obligations is charged to the statement of comprehensive income over the period of the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each financial period.

(d) Intangible assets

Where computer software is not an integral part of a related item of property and equipment, the software is capitalized as an intangible asset.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring them into use. Direct costs associated with the production of identifiable and unique internally generated software products controlled by the Branch that will probably generate economic benefits exceeding costs beyond one year are capitalized. Direct costs include software development employment costs including those to contractors used.

Costs associated with maintaining computer software programs are recognized as an expense as incurred.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Intangible assets acquired by the Branch have finite lives and are measured at cost less accumulated amortization and accumulated impairment losses.

(e) Depreciation of non-financial assets

No depreciation is provided on land or assets in the course of construction. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	2.5 - 5% per annum
Leasehold improvements	a minimum of 10% per annum or a rate sufficient to amortize the cost over the remaining life of the respective lease
Furniture, fixtures, vehicles and equipment	10 - 25% per annum
Information systems	25% per annum
Computer software development costs	25% per annum

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and would be recognized in the statement of comprehensive income.

(f) Leases

When assets are financed by leasing agreements that transfer substantially all of the risks and rewards of ownership to the Branch (finance leases), the assets are treated as if they had been purchased outright, and the corresponding liability to the leasing company is included as an obligation under finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

All other leases are operating leases and the costs are recorded on a straight-line basis over the lease term. The value of any lease incentive received to take on an operating lease (for example, rent-free periods and tenant allowances) is recognized as deferred income and is recognized over the life of the lease.

(g) Inventories
The Branch's inventories are valued at the lower of cost and net realizable value. Inventories are determined on a weighted average cost basis. Cost of inventories comprises all cost of purchase to bring inventories to a Branch distribution centre and include supplier invoiced value, freight, duties and taxes. Net realizable value represents the estimated selling price for inventories less the costs to sell.

(h) Impairment of assets
Assets that are subject to depreciation and amortization are reviewed at each statement of financial position date to determine whether there is any indication that assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs), which are based on the Branch's individual stores.

Non-financial assets that suffered an impairment loss are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. This reversal would be recognized immediately in the statement of comprehensive income.

(i) Employee benefit plans

The Branch and its employees contribute to the Public Service Pension Plan in accordance with the *Public Section Pension Plan Act*. Defined contribution plan accounting is applied to the multi-employer defined benefit pension plan because sufficient information is not available to apply defined benefit accounting. Accordingly, contributions are expensed as they become payable. Employees are also entitled to specific retirement benefits as provided for under collective agreements and terms of employment. These benefits are accounted for as an expense and a liability in the period incurred.

(j) Provisions

Provisions are recognized if, as a result of a past event, the Branch has a legal or constructive obligation upon which a reliable estimate can be made, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are calculated on a discounted basis where the effect is material to the original undiscounted provision. The carrying amount of the provision increases in each period to reflect the passage of time and the unwinding of the discount and the movement is recognized in the statement of comprehensive income within net finance costs.

(k) Revenue recognition

Reported revenue represents the fair value of consideration received or receivable in exchange for goods and services provided to third parties in the course of ordinary activities. Revenue is recognized when the risks and rewards of ownership are substantially transferred.

Revenue excludes harmonized sales tax and container recycling fees and is stated net of returns.

(l) Other income

Revenue which is ancillary to the sales of beverage alcohol is recognized as other income. Other income includes revenue from beverage container handling fees, border point collections, and customs clearing administrative fees.

(m) Recent accounting developments

Standards, amendments and interpretations of existing standards not yet adopted by the Branch:

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended March 31, 2012, and have not been applied in preparing these financial statements. None of these is relevant to the Branch except for:

IFRS 9 - Financial Instruments – becomes mandatory for financial statements beginning January 2015 and impacts the classification and measurement of financial assets. The Branch has evaluated the impact of this new standard for adoption on April 1, 2015 and does not expect any significant impact on its financial statements.

(Tabular amounts in thousands of dollars)

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.

	2012	2011
	$	$
Retail customers	1,185,716	1,164,502
Licensee retail stores	993,861	952,713
Licensed establishments	475,046	465,075
Agency stores	235,246	227,855
	2,889,869	2,810,145

5. Operating expenses

The Branch's operating expenses comprise of:

	2012	2011
	$	$
Salaries, wages and benefits	164,314	159,800
Rents	37,026	36,002
Bank charges	21,927	20,308
Other administrative expenses	15,960	16,074
Depreciation and amortization	14,079	13,977
Transportation	10,777	9,489
Repairs and maintenance	7,524	6,698
Data processing	6,663	4,914
Professional services	5,023	7,689
Marketing	4,533	3,534
Loss prevention	3,165	3,044
	290,991	281,529

(Tabular amounts in thousands of dollars)

6. Property and equipment

	Land & land improvements	Buildings & building improvements	Leasehold improvements	Furniture, fixtures, vehicles & equipment	Assets under finance leases	Information systems	Construction in process	Total
April 1,2010								
Cost	1,068	20,256	55,670	29,857	3,900	85,078	8,036	203,865
Accumulated depreciation	-	(17,966)	(27,278)	(20,579)	(3,755)	(74,890)	-	(144,468)
Net book value	1,068	2,290	28,392	9,278	145	10,188	8,036	59,397
March 31, 2011								
Opening net book value	1,068	2,290	28,392	9,278	145	10,188	8,036	59,397
Additions	-	84	4,295	3,509	-	4,500	(834)	11,554
Disposals (cost)	-	-	(6,673)	(3,443)	-	(13,897)	-	(24,013)
Disposals (accumulated depreciation)	-	-	6,662	3,422	-	13,895	-	23,979
Depreciation charge	-	(225)	(4,267)	(3,856)	(68)	(4,875)	-	(13,291)
Closing net book value	1,068	2,149	28,409	8,910	77	9,811	7,202	57,626
March 31, 2011								
Cost	1,068	20,340	53,292	29,923	3,900	75,681	7,202	191,406
Accumulated depreciation	-	(18,191)	(24,883)	(21,013)	(3,823)	(65,870)	-	(133,780)
Net book value	1,068	2,149	28,409	8,910	77	9,811	7,202	57,626
March 31, 2012								
Opening net book value	1,068	2,149	28,409	8,910	77	9,811	7,202	57,626
Additions	5	1,107	6,181	2,810	-	1,958	6,558	18,619
Disposals (cost)	-	(4)	-	(791)	-	(553)	-	(1,348)
Disposals (accumulated depreciation)	-	4	-	791	-	553	-	1,348
Depreciation charge	(1)	(138)	(4,745)	(3,758)	(65)	(4,554)	-	(13,261)
Closing net book value	1,072	3,118	29,845	7,962	12	7,215	13,760	62,984
March 31, 2012								
Cost	1,073	21,443	59,473	31,942	3,900	77,086	13,760	208,677
Accumulated depreciation	(1)	(18,325)	(29,628)	(23,980)	(3,888)	(69,871)	-	(145,693)
Net book value	1,072	3,118	29,845	7,962	12	7,215	13,760	62,984

Change in Accounting Estimates

During the year ended March 31, 2012, the Branch reviewed the residual value and the useful life of buildings, furniture, fixtures, equipment and vehicles, resulting in an increase in the expected useful lives of these assets.

The assets affected by the change in estimated useful life include: buildings up to 40 years (2011 – 13 years); building improvements up to 20 years (2011 – 13 years); and vehicles and equipment up to 4 to 10 years (2011 – 4 years).

The effect of the increase in the expected useful lives on depreciation expense in current and future periods are as follows:

		$
Year ending March 31	2012	339
	2013	296
	2014	198
	2015	154

(Tabular amounts in thousands of dollars)

Vehicle leases

The Branch leases various vehicles under finance lease agreements with terms of 4 years.

Vehicles and leasehold improvements include the following amounts where the Branch is a lessee under a finance lease:

	March 31, 2012	March 31, 2011	April 1, 2010
	$	$	$
Cost - capitalized in finance leases	3,900	3,900	3,900
Accumulated depreciation	(3,888)	(3,823)	(3,755)
	12	77	145

Commitments

The Branch has entered into commitments prior to the year-end for store renovations for a total of $645 thousand (2011 - $59 thousand) due in 2013.

7. Intangible assets

	Intangible assets	Construction in process	Total
April 1, 2010			
Cost	3,243	1,098	4,341
Accumulated amortization	(1,556)	-	(1,556)
Net book value	1,687	1,098	2,785
March 31, 2011			
Opening net book value	1,687	1,098	2,785
Additions	784	-	784
Assets put into use	164	(164)	-
Disposals (cost)	-	-	-
Disposals (accumulated amortization)	-	-	-
Amortization charge	(685)	-	(685)
Closing net book value	1,950	934	2,884
March 31, 2011			
Cost	4,191	934	5,125
Accumulated amortization	(2,241)	-	(2,241)
Net book value	1,950	934	2,884
March 31, 2012			
Opening net book value	1,950	934	2,884
Additions	403	-	403
Disposals (cost)	-	-	-
Disposals (accumulated amortization)	-	-	-
Amortization charge	(816)	-	(816)
Closing net book value	1,537	934	2,471
March 31, 2012			
Cost	4,594	934	5,528
Accumulated amortization	(3,057)	-	(3,057)
Net book value	1,537	934	2,471

(Tabular amounts in thousands of dollars)

The Branch has entered into commitments prior to the year-end for software development for a total of $97 thousand due in 2013.

8. Prepaid expenses

Prepaid expenses include insurance, software maintenance, and wine futures. The Branch, as part of its on-going business practices, purchases select products to secure delivery of these products up to three years in advance. These products are normally purchased in foreign currency and are translated to Canadian dollars at the spot exchange rate in effect at the transaction date. At March 31, 2012, the Branch has recorded $9.1 million (March 31, 2011 - $6.3 million; April 1, 2010 - $5.6 million) of prepaid wine futures for delivery in fiscal years 2013 and 2014.

		March 31, 2012	March 31, 2011	April 1, 2010
		$	$	$
Wine futures		9,146	6,306	5,556
Other prepaids		1,899	2,050	828
		11,045	8,356	6,384
	Long-term portion	(8,697)	(3,377)	(2,090)
	Current portion	2,348	4,979	4,294

9. Due to/from Province of British Columbia

The Branch uses the Province of British Columbia's financial and banking systems to process and record its transactions. The amount due to/from the Province of British Columbia represents the accumulated net financial transactions with the Province.

10. Inventories

	March 31, 2012	March 31, 2011	April 1, 2010
	$	$	$
Store inventory	51,998	55,678	59,099
Warehouse inventory	29,817	27,343	30,875
	81,815	83,021	89,974

During the year inventories that were recognized as cost of sales amounted to $1.5 billion (2011 - $1.5 billion).

Change in Accounting Policy

Under previous GAAP, the cost of store inventories was measured using a first-in, first-out basis formula. Under IFRS, the Branch changed the inventory valuation method for the stores to a weighted average cost basis. This change had no material impact to the valuation of the store inventory.

(Tabular amounts in thousands of dollars)

11. Accounts receivable

	March 31, 2012	March 31, 2011	April 1, 2010
	$	$	$
Trade accounts receivable and other items	6,230	5,609	5,919
Provision for doubtful accounts	(648)	(596)	(612)
Accounts receivable and other items - net	5,582	5,013	5,307

Receivables past due but not impaired are $276 thousand (March 31, 2011 - $680 thousand; April 1, 2010 - $1,035 thousand). Of the accounts receivable balance above, $190 thousand is expected to be recovered in greater than 12 months from the date of the statement of financial position.

12. Other long-term liabilities

Other long-term liabilities comprise:

	March 31, 2012	March 31, 2011	April 1, 2010
	$	$	$
Retirement benefit obligation (note 13(b))	12,961	10,132	9,900
WorkSafe BC claims accrual (note 13(c))	5,600	5,800	6,600
Long-term portion of deferred lease liabilities (note 14)	2,639	2,419	2,559
Long-term portion of obligation under capital lease	79	129	176
Other	1,013	1,041	1,503
	22,292	19,521	20,738

13. Employee's benefit plans and other employment liabilities

(a) Public Service Pension Plan

The Branch and its employees contribute to the Public Service Pension Plan (the Plan), a jointly trusteed pension plan. The Public Service Pension Board of Trustees, representing Plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer contributory pension plan. Basic pension benefits are defined. The Plan has approximately 58,000 active Plan members and approximately 36,000 retired Plan members.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of Plan funding. The actuarial valuation done for March 31, 2008 determined that the Plan needed to implement a contribution rate increase to meet funding requirements of the *Pension Benefits Standards Act*. As a result, rates for employees and employers increased by 0.15% as of April 1, 2009. The total amount paid into this pension plan by the Branch for the year ended March 31, 2012 was $11.0 million for employer contributions (2011 - $10.7 million), which was recorded in administration expenses.

(Tabular amounts in thousands of dollars)

The latest actuarial valuation as at March 31, 2011 indicated the Plan had a deficit of $275 million for basic pension benefits. Effective April 1, 2012, pension rates for employees and employers will increase by 0.4%, for a total increase of 0.8%.

The next valuation will be as at March 31, 2014 with results available in early 2015. Defined contribution pension plan accounting is applied to the Plan as there is no consistent and reliable basis for allocating the obligation, Plan assets and cost to individual entities participating in the Plan.

(b) Retirement benefits
Employees are entitled to specific non-pension retirement benefits as provided for under collective agreements and terms of employment. The future liability for this obligation amounts to $13.0 million (2011 - $10.1 million), which represents future employees' retirement benefits outside of the Plan and is included in other long-term liabilities. The amount expensed in the current year was $2.9 million (2011 - $231 thousand).

(c) WorkSafe BC outstanding claims
The Branch self-funds worker's compensation claims. The Branch recognizes a liability and an expense for claims that are in progress at the year-end. This liability of $5.6 million (2011 - $5.8 million) is valued by independent actuaries.

14. Deferred lease liabilities

	March 31, 2012	March 31, 2011	April 1, 2010
	$	$	$
Deferred lease	2,698	2,227	2,124
Deferred tenant allowances	348	432	517
Deferred tenant improvement loans	62	219	581
	3,108	2,878	3,222
Less current portion	(469)	(459)	(663)
Long-term portion	2,639	2,419	2,559

15. Accounts payable and accrued liabilities

	March 31, 2012	March 31, 2011	April 1, 2010
	$	$	$
Trade payables	88,086	73,719	72,136
Accrued liabilities	76,625	64,864	62,578
Other payables	2,637	2,595	2,733
Current portion of obligation under finance lease	50	47	74
Current portion of deferred lease liabilities	469	459	663
	167,867	141,684	138,184

(Tabular amounts in thousands of dollars)

16. Contractual commitments

The Branch leases various stores, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The lease expenditure charged to the statement of comprehensive income during the year is $28.2 million (2011 - $27.5 million).

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

	March 31, 2012	March 31, 2011	April 1, 2010
	$	$	$
Total future minimum rental payments under non-cancellable operating leases expiring:			
Not later than one year	27,857	26,521	25,435
Later than one year and not later than five years	78,472	81,145	69,976
Later than five years and not later than 25 years	20,841	26,930	25,210
	127,170	134,596	120,621

Government liquor store fees

In fiscal 2008, the Branch entered into a five year agreement with the Liquor Control and Licensing Branch (LCLB) to provide the LCLB an annual fee based on the sales in each government liquor store. For the year ended March 31, 2012, the Branch paid $420,100 (2011 - $423,100) in fees.

Other contractual commitments have been disclosed elsewhere in the notes to the financial statements.

17. Contingent items

The Branch is the sole importer of beverage alcohol in the Province. The Branch, as the importer of record, has the future liability for customs duty on import beer of $0.6 million (2011 - $0.8 million) based upon the value of the agents' inventories at March 31, 2012.

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 Branch.

18. Capital management

The Branch does not retain any equity. Net income is returned to the Province of British Columbia. The Branch has no externally imposed capital requirements.

(Tabular amounts in thousands of dollars)

19. Related party transactions

Province of British Columbia

The Branch is related through common ownership to all Province of British Columbia ministries, agencies and Crown corporations. Transactions with these entities 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.

Other related party transactions have been disclosed elsewhere in the notes to the financial statements.

Key management compensation

The Branch's executive management committee is defined as key management. At March 31, 2012, there were 8 (2011 - 8) members on the executive committee.

	2012	2011
	$	$
Salaries and short-term benefits	1,141	971
Post-employment benefits	116	99
Fees for services	138	130
	1,395	1,200

During the year, one member of the executive management committee retired and received $28 thousand in retiring allowance.

20. Financial risk factors

The Branch is exposed to the following risks related to its financial assets and liabilities:

- Credit Risk
- Liquidity Risk
- Market Risk

It is management's opinion that the Branch is not exposed to significant market, credit or liquidity risk arising from these instruments.

Credit risk

Credit risk is the risk of financial loss to the Branch due to customer inability to pay for product or a counterparty to a financial instrument failing to meet its contractual obligations. The Branch's exposure to credit risk is related only to the value of accounts receivable in its normal course of business, and the Branch manages this risk by minimizing the amount of transactions which require recovery. The Branch continually monitors and manages the collection of receivables. See accounts receivable note for further disclosure on credit risk.

Liquidity risk

Liquidity risk is the risk that the Branch will be unable to meet its financial obligations as they become due.

The Branch manages liquidity risk primarily by monitoring cash flows and by maintaining the ability to borrow funds through the Province.

Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the Branch's income or the value of its financial instruments.

While the majority of the Branch's transactions are in Canadian dollars, the Branch also transacts in Euros and US dollars. These transactions are in the normal course of business. The Branch's exposure to foreign currency risk could impact the accounts payable of the Branch. A 10% movement in the exchange rate between the Canadian dollar and the other currencies listed above would not have a material impact on the Branch.

The Branch currently does not hold any debt or equity securities and as such is not exposed to price risk. As the Branch has no significant interest-bearing assets and liabilities, the Branch's income and operating cash flows are substantially independent of changes in market interest rates.

21. Subsequent events

In February 2012, the Province announced its intention to approach the private sector with an opportunity to provide a more efficient way to warehouse and distribute liquor in British Columbia. On April 30, 2012, a Negotiated Request for Proposal was issued seeking a single company to deliver warehousing and distribution services currently being provided by the Branch. The final agreement is to be signed on or about March 1, 2013 and the transition of services to the successful company is to be completed no later than March 2013.

As part of the distribution changes, the Province has also announced its intention to sell the two warehouse properties currently used by the Branch. These properties will be sold no later than March 2015.

22. First-time adoption of IFRS

First-time adoption exemptions applied

These are the Branch's first financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended March 31, 2012, the comparative information presented in these financial statements for the year ended March 31, 2011 and in the preparation of an opening IFRS statement of financial position at April 1, 2010 (the Branch's date of transition).

IFRS 1 - *First-time Adoption of International Financial Reporting Standards*, which governs the first-time adoption of IFRS, in general requires accounting policies to be applied retrospectively to determine the opening statement of financial position at the Branch's transition date of April 1, 2010, and allows certain optional exemptions on the transition to IFRS. The elections the Branch has chosen to apply and that are considered significant to the Branch include decisions to:

- measure property and equipment at cost, being the carrying value of property and equipment immediately prior to the date of transition, with no adjustment made to fair value;

- determine whether an arrangement existing at the date of transition to IFRS contains a lease on the basis of facts and circumstances at that date (i.e. no retrospective application).

In preparing its opening IFRS statement of financial position, the Branch has adjusted amounts reported previously in financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP). An explanation of how the transition from Canadian GAAP to IFRS has affected the Branch's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

(Tabular amounts in thousands of dollars)

Reconciliation of statements of financial position as at April 1, 2010 and March 31, 2011

	Note	Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
			April 1, 2010			March 31, 2011	
ASSETS							
NON-CURRENT ASSETS							
Property and equipment		59,397	-	59,397	57,626	-	57,626
Intangible assets		2,785	-	2,785	2,884	-	2,884
Prepaid expenses - long term		2,090	-	2,090	3,377	-	3,377
		64,272	-	64,272	63,887	-	63,887
CURRENT ASSETS							
Due from Province of British Columbia	iii	-	-	-	9,229	2,229	11,458
Inventories	iv	89,974	-	89,974	83,021	-	83,021
Prepaid expenses		4,294	-	4,294	4,979	-	4,979
Accounts receivable		5,307	-	5,307	5,013	-	5,013
Cash		6,724	-	6,724	-	-	-
TOTAL ASSETS		170,571	-	170,571	166,129	2,229	168,358
LIABILITIES							
NON-CURRENT LIABILITIES							
Other long-term liabilities	iii	18,831	1,907	20,738	17,509	2,012	19,521
		18,831	1,907	20,738	17,509	2,012	19,521
CURRENT LIABILITIES							
Due to Province of British Columbia	iii	13,773	(2,124)	11,649	-	-	-
Accounts payable and accrued liabilities	iii	137,967	217	138,184	141,467	217	141,684
Bank indebtedness		-	-	-	7,153	-	7,153
TOTAL LIABILITIES		170,571	-	170,571	166,129	2,229	168,358

(Tabular amounts in thousands of dollars)

Reconciliation of comprehensive income for the year ended March 31, 2011

A reconciliation between Canadian GAAP and IFRS comprehensive income for the year ended March 31, 2011 is provided below.

	Note	Previous GAAP	Effect of transition to IFRS	IFRS
Sales	i	2,820,455	(10,310)	2,810,145
Less commissions and discounts	ii	(201,543)	21,794	(179,749)
Net sales		2,618,912	11,484	2,630,396
Cost of sales	i,ii	(1,458,335)	(11,484)	(1,469,819)
Gross profit		1,160,577	-	1,160,577
Administration expenses	iii	(268,401)	(105)	(268,506)
Transportation expenses		(9,489)	-	(9,489)
Marketing expenses		(3,534)	-	(3,534)
Net operating income		879,153	(105)	879,048
Finance expenses		(47)	-	(47)
Other income		11,269	-	11,269
Net income and comprehensive income		890,375	(105)	890,270

i) Under Canadian GAAP, charges to suppliers relating to temporary price reductions were included as sales. Under IFRS, these charges are included under the cost of sales. This reclassification had no impact on net income for the year ended March 31, 2011 or on the amount due from the Province of British Columbia.

ii) Under Canadian GAAP, supplier payments relating to sales of British Columbia wines were included as sales and discounts. Under IFRS, these payments are included under the cost of sales. This reclassification had no impact on net income for the year ended March 31, 2011 or on the amount due from the Province of British Columbia.

iii) Both Canadian GAAP and IFRS require that lease payments be spread equally over the term of the lease and that any rent-free periods are also spread in such a manner. These have previously been recognized on a cash basis. As a result, other long-term liabilities increased by $1,907 thousand at April 1, 2010 and $2,012 thousand at March 31, 2011; amount due to the Province British Columbia decreased by $2,124 thousand at April 1, 2010 and amount due from the Province of British Columbia increased by $2,229 thousand at March 31, 2011. The net effect of these transition adjustments of $105 thousand was recorded to rent expense for the year ended March 31, 2011.

iv) Under Canadian GAAP, the cost of store inventories was measured using a first-in, first-out basis formula. Under IFRS, the Branch changed the inventory valuation method for the stores to a weighted average cost basis. This change had no material impact on the valuation of the store inventory.