

Financial Statements of

**BC LIQUOR
DISTRIBUTION BRANCH**

And Independent Auditor's Report thereon

For the year ended March 31, 2023

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the British Columbia Liquor Distribution Branch have been prepared by management in accordance with International Financial Reporting Standards. 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 Office of 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.



R. Blain Lawson
General Manager and Chief Executive Officer



Claire Xu, CPA, CGA
Acting Chief Financial Officer

Burnaby, British Columbia
June 1, 2023



Independent Auditor's Report

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

Opinion

I have audited the accompanying financial statements of British Columbia Liquor Distribution Branch, which comprise the statement of financial position at March 31, 2023, and the statements of comprehensive income, due to the Province of British Columbia and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the British Columbia Liquor Distribution Branch 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.

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 British Columbia Liquor Distribution Branch 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.

Other Matter – Comparative Information

As part of my audit of the financial statements for the year ended March 31, 2023, I also audited the adjustment that were applied to restate certain comparative information presented for the year ended March 31, 2022. In my opinion, such adjustments are appropriate and have been properly applied.

Other Accompanying Information

Management is responsible for the other information accompanying the financial statements. The other information comprises the information included in the Annual Service Plan report, but does not include the financial statements and my auditor's report thereon. The Annual Service Plan Report is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information that I have obtained prior to the date of my auditor's report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained during the audit or otherwise appears to be materially misstated.

When I read Annual Service Plan Report, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance.

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

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

In preparing the financial statements, management is responsible for assessing British Columbia Liquor Distribution Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting when British Columbia Liquor Distribution Branch will continue its operations for the foreseeable future.

Auditor's Responsibilities for the Audit of Financial Statements

My objectives are to obtain reasonable assurance about whether British Columbia Liquor Distribution Branch's 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 aggregate, they could reasonably be expected to influence the economic decision 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:

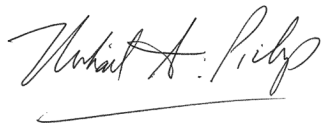
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than 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 British Columbia Liquor Distribution Branch'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 British Columbia Liquor Distribution Branch'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 British Columbia Liquor Distribution Branch 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.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



Michael A. Pickup, FCPA, FCA
Auditor General

Victoria, British Columbia, Canada
June 2, 2023

BC LIQUOR DISTRIBUTION BRANCH

Statement of Comprehensive Income
(in thousands of dollars)

For the year ended March 31, 2023, with comparative information for 2022

	Note	2023	2022 (Restated – Note 23)
Revenue	4	\$ 3,873,632	\$ 3,751,564
Cost of sales		(2,163,411)	(2,071,179)
Gross profit		1,710,221	1,680,385
Expenses:			
Administration	5, 11, 15	(513,784)	(491,816)
Marketing	5	(7,930)	(7,489)
Transportation	5	(1,159)	(1,266)
		(522,873)	(500,571)
Profit		1,187,348	1,179,814
Other income		17,871	16,665
Finance costs	11	(6,920)	(7,170)
Total comprehensive income		\$ 1,198,299	\$ 1,189,309

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

BC LIQUOR DISTRIBUTION BRANCH

Statement of Due to the Province of British Columbia
(in thousands of dollars)

For the year ended March 31, 2023, with comparative information for 2022

	Note	2023	2022
Balance, beginning of year		\$ 42,107	\$ 93,979
Total comprehensive income		1,198,299	1,189,309
Net payments to the Province of British Columbia	13	(1,169,308)	(1,241,181)
Balance, end of year		\$ 71,098	\$ 42,107

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

BC LIQUOR DISTRIBUTION BRANCH

Statement of Financial Position
(in thousands of dollars)

For the year ended March 31, 2023, with comparative information for 2022

	Note	2023	2022
Assets			
Current:			
Cash		\$ 9,978	\$ 11,426
Accounts receivable	6	20,226	15,341
Prepaid expenses and deposits	7	11,090	10,412
Inventories	8	233,078	206,633
		274,372	243,812
Non-current:			
Prepaid expenses and deposits	7	1,247	866
Intangible assets	9	3,514	13,950
Property and equipment	10	86,572	94,593
Right-of-use assets	11	219,414	205,677
		310,747	315,086
Total assets		\$ 585,119	\$ 558,898


Liabilities

Current:			
Accounts payable and accrued liabilities	12, 15	\$ 223,840	\$ 241,712
Current portion of lease liabilities	11	43,680	44,154
Due to the Province of British Columbia	13	71,098	42,107
		338,618	327,973
Non-current:			
Non-current portion of lease liabilities	11	198,718	185,771
Other long-term liabilities	14, 15	47,783	45,154
		246,501	230,925
Total liabilities		\$ 585,119	\$ 558,898


Commitments and contingencies 16,17

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

Approved for issue on June 1, 2023 by:



R. Blain Lawson
General Manager and Chief Executive Officer



Claire Xu, CPA, CGA
Acting Chief Financial Officer

BC LIQUOR DISTRIBUTION BRANCH

Statement of Cash Flows
(in thousands of dollars)

For the year ended March 31, 2023, with comparative information for 2022

	Notes	2023	2022
Cash provided by (used in):			
Operating:			
Total comprehensive income		\$ 1,198,299	\$ 1,189,309
Items not involving cash:			
Depreciation and amortization	9, 10, 11	73,871	82,536
Loss on disposal of property and equipment		3,378	1,281
Finance costs	11	6,920	7,170
Accrued employee benefits		2,629	7,532
Changes in non-cash operating items:			
Non-current assets		(381)	532
Working capital	6, 7, 8, 12	(49,881)	24,321
		1,234,835	1,312,681
Investing:			
Acquisition of intangible assets	9	(1,433)	(2,265)
Acquisition of property and equipment	10	(14,717)	(21,014)
Proceeds from disposal of property and equipment		64	56
		(16,086)	(23,223)
Financing:			
Payment of lease liabilities	11	(52,092)	(50,150)
Lease incentives		1,203	1,018
Net payments to the Province of British Columbia	13	(1,169,308)	(1,241,181)
		(1,220,197)	(1,290,313)
Decrease in cash		(1,448)	(855)
Cash, beginning of year		11,426	12,281
Cash, end of year		\$ 9,978	\$ 11,426
Supplementary information:			
Non-cash operating and finance activities:			
Addition of store lease liabilities	11	\$ 56,442	\$ 39,737

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

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

1. Description of operations

The British Columbia Liquor Distribution Branch (“the LDB”) is one of two branches of the Province of British Columbia (“the Province”) responsible for the beverage alcohol and cannabis industry in British Columbia and reports to the Ministry of Public Safety and Solicitor General effective April 1, 2023 (previously reporting to the Ministry of Finance).

The LDB obtains its authority for liquor operations from the British Columbia Liquor Distribution Act (“the Act”). As stated in Section 2 of the Act, the LDB 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 General Manager and Chief Executive Officer of the LDB was also appointed the administrator under the Cannabis Distribution Act for the wholesale distribution, the operation of retail stores, and the on-line sales system of cannabis products.

The LDB is reported in the public accounts on a modified equity basis, in a manner similar to a commercial Crown corporation. The LDB does not reflect any equity on its statement of financial position as all income is owned and payable to the Province of British Columbia.

The LDB is exempt from Canadian federal and British Columbia provincial income taxes.

2. Basis of accounting

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These financial statements were authorized for issuance by those charged with governance on June 1, 2023.

(b) Basis of measurement

The financial statements have been prepared on a 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 LDB’s functional currency. All financial information has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting judgments, estimates and assumptions that could materially affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results could differ from those estimates.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

2. Basis of accounting (continued)

(d) Use of estimates and judgments (continued)

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, judgment 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 LDB, should it later be determined that a different choice would be more appropriate. Management considers the following to be areas of judgment and estimation for the LDB due to greater complexity and/or being particularly subject to the exercise of judgment:

(i) Property and equipment and intangible assets

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

(ii) Leases and right-of-use assets - renewals

Management exercises judgment in determining the appropriate lease term on a lease-by-lease basis. Management considers all facts and circumstances that create an economic incentive to exercise a renewal option or to not exercise a termination option including investments in major leaseholds, store performances, past business practice and the length of time remaining before the option is exercisable. The periods covered by renewal options are only included in the lease term if management is reasonably certain to renew. Management considers reasonably certain to be a high threshold. Changes in the economic environment or changes in the retail industry may impact management's assessment of lease terms, and any changes in management's estimate of lease terms may have a material impact on the LDB's statement of financial position and statement of comprehensive income.

(iii) Leases and right-of-use assets - discount rates

In determining the carrying amount of right-of-use assets and lease liabilities, the LDB is required to estimate the incremental borrowing rate specific to each leased asset or portfolio of leased assets if the interest rate implicit in the lease is not readily determined. Management determines the incremental borrowing rate using a base risk-free interest rate estimated by reference to the Government of Canada bond yield with an adjustment that reflects the LDB's credit rating, the security, lease term and value of the underlying leased asset, and the economic environment in which the leased asset operates. The incremental borrowing rates are subject to change due to changes in the business and macroeconomic environment.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

3. Significant accounting policies

The accounting policies below have been applied consistently to all periods presented in these financial statements unless otherwise indicated.

(a) Foreign currency translation

The LDB, 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. The resulting foreign currency gains or losses are recognized on a net basis within administrative expenses in the statement of comprehensive income.

(b) Financial instruments

(i) Recognition and initial measurement

Trade receivables and trade payables are initially recognized when they originate. All other financial assets and financial liabilities are initially recognized when the LDB becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and measurement of financial assets and financial liabilities

Financial Assets

On initial recognition, a financial asset is classified and measured at: amortized cost, fair value through other comprehensive income ("FVOCI") - debt instrument, FVOCI - equity instrument, or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the LDB changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows;
 - its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
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BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Classification and measurement of financial assets and financial liabilities (continued)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition, the LDB may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized costs or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

For the purposes of assessing whether contractual cash flows are solely payments of principal and interest, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the LDB considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows such that this would not meet this condition.

In making this assessment, the LDB considers:

- contingent events that would change the amount or timing of cash flows;
 - terms that may adjust the contractual coupon rate, including variable-rate features;
 - prepayment and extension features;
 - terms that limit the LDB's claim to cash flows from specified assets (e.g., non-recourse features).
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BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Classification and measurement of financial assets and financial liabilities (continued)

A prepayment feature is consistent with the payments solely of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

The following accounting policies apply to subsequent measurement of financial assets:

- Financial assets at FVTPL: these assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
- Financial assets at amortized cost: these assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
- Debt investments at FVOCI: these assets are subsequently measured at fair value. Interest income calculated using the effective interest method and impairment are recognized in profit or loss. Other net gains are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Derecognition

The LDB derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the LDB neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The LDB derecognises a financial liability when its contractual obligations are discharged, or cancelled, or expire. The LDB also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the LDB currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(c) Property and equipment

Property and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are 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 LDB 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.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

3. Significant accounting policies (continued)

(c) Property and equipment (continued)

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.

(d) Intangible assets

Acquired intangible assets

Where purchased 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 for which the LDB has control are capitalized on the basis of the costs incurred to acquire and bring them into use.

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

Internally generated intangible assets

Direct costs associated with the production of identifiable and unique internally generated software products controlled by the LDB that will generate economic benefits exceeding costs beyond one year are capitalized. Direct costs include software development employment costs including those of contractors used.

Development expenditures incurred are capitalized only if the following can be demonstrated:

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

Development expenditures that do not meet these criteria are recognized as an expense as incurred.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

3. Significant accounting policies (continued)

(d) Intangible assets (continued)

Assets that are under construction over a period of time and not available for use, are carried at cost, less any impairment loss, in a construction in progress account until put into use. When completed and ready for intended use these assets are amortized on the same basis as other acquired intangible assets.

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

(e) Depreciation and amortization 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:

Asset	Rate
Buildings and building improvements	2.5 - 5% per annum
Leasehold improvements	Shorter of term of lease or estimated useful lives
Furniture, fixtures, vehicles and equipment	10 - 25% per annum
Information systems	25% per annum
Intangible assets - 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 are recognized in the statement of comprehensive income.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

3. Significant accounting policies (continued)

(f) Leases and right-of-use assets

At the inception of a contract, the LDB assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset the LDB assess whether:

- the contract involves the use of an identified asset. This may be specified explicitly or implicitly and, should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the LDB has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- the LDB has the right to direct the use of the asset. The LDB has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases, where the decision about how and for what purpose the asset is used is predetermined, the LDB has the right to direct the use of the asset if either:
 - the LDB has the right to operate the asset; or
 - the LDB designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassignment of a contract that contains a lease component, the LDB allocates the consideration of the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which LDB is a lessee, the LDB has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

As a lessee, the LDB recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located where a contractual obligation exists, less any lease incentives received.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

3. Significant accounting policies (continued)

(f) Leases and right-of-use assets (continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Incremental borrowing rate	2023	2022
Buildings	3 - 4% per annum	1 - 4% per annum
Office equipment	1% per annum	3% per annum

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the LDB's incremental borrowing rate. Generally, the LDB uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the LDB is reasonably certain to exercise, lease payments in an optional renewal period if the LDB is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the LDB is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the LDB's estimate of the amount expected to be payable under a residual value guarantee, or if the LDB changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

3. Significant accounting policies (continued)

(f) Leases and right-of-use assets (continued)

Short-term leases and leases of low-value assets

The LDB has applied the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, which includes computer equipment. The LDB recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(g) Inventories

The LDB'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 of cost of purchase to bring inventories to an LDB distribution centre and includes supplier invoiced value, freight, duties, and non-recoverable taxes. Net realizable value represents the estimated selling price for inventories less the estimated costs to sell.

Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence or damage. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down previously recorded is reversed.

(h) Impairment

The LDB recognizes loss allowances for expected credit loss ('ECL') on financial assets measured at amortized cost and contract assets. The financial assets at amortized cost consist of accounts receivable.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the LDB considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the LDB's historical experience and informed credit assessment, which includes forward-looking information.

Allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

The LDB assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The LDB considers a financial asset to be in default when the debtor is unlikely to pay its credit obligations to the LDB in full.

Lifetime ECLs are the those amounts that result from all possible default events over the expected life of a financial instrument.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

3. Significant accounting policies (continued)

(h) Impairment (continued)

Measurement of ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the LDB expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the LDB assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data: significant financial difficulty of the debtor; a breach of contract such as a default; or being more than 30 days past due.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

If the LDB has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof, the gross carrying amount of the financial asset is written off.

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 (the "cash-generating unit"), which are based on the LDB'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.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

3. Significant accounting policies (continued)

(i) Employee benefit plans

The LDB and its employees contribute to the Public Service Pension Plan in accordance with the Public Service Pension Plans Act. Defined contribution plan accounting is applied to the jointly trustee 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 based on the allocation of liability from the Province.

(j) Provisions

Provisions are recognized if, as a result of a past event, the LDB 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. The unwinding of the discount is recognized as a finance cost.

(k) Revenue recognition

Revenue is measured based on the consideration to which LDB expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. For direct delivery programs whereby LDB accounts for the transactions as an agent, the revenue represents only the net margin charged on direct delivery sales. The LDB recognizes revenue when performance obligations are satisfied. Revenue from the sale of goods are measured at the amount that reflects the best estimate of the consideration expected to receive in exchange for those goods.

Revenue is stated net of discounts, commission, estimated returns and excludes provincial sales tax, federal goods and services tax, container recycling fees and container deposits.

(l) Other income

Revenue that 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.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

3. Significant accounting policies (continued)

(m) Changes in accounting standards

(i) *New standards, interpretations, and amendments adopted by the LDB*

These standards had no material impact to the LDB.

- *IAS 16 (Property, plant and equipment) amendment*

Proceeds before intended use - The amendments prohibit an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the entity is preparing the asset for its intended use. Instead, a company will recognize such sale proceeds and related cost in profit or loss. Effective for the annual reporting period beginning April 1, 2022.

- *IAS 37 (Provisions, contingent liabilities and contingent assets) amendment*

Onerous contracts - The amendment is to clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. Effective for contracts for which an entity has not yet fulfilled all its obligations for the annual reporting period beginning April 1, 2022.

(ii) *New IFRS standards, amendments and interpretations to existing standards that are relevant to the LDB but are not yet effective*

The following are new standards that are effective for the annual period beginning after April 1, 2023 and have not been early adopted.

- *IAS 1 (Presentation of financial statements) amendment*

The amendment issued in 2020 affects only the presentation of liabilities in the statement of financial position as current or non-current. There are no changes to the amount or timing of recognition of any asset, liability income or expense, or the information that the entities disclose about those items. The amendment was to be effective for annual reporting periods beginning on or after January 1, 2023; however, the IASB has proposed further amendments to IAS 1 and the deferral of the effective date of the 2020 amendments to no earlier than January 1, 2024. Due to these ongoing developments, the LDB is unable to determine the impact on the financial statements in the period of initial application.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

3. Significant accounting policies (continued)

(m) Changes in accounting standards (continued)

(ii) *New IFRS standards, amendments and interpretations to existing standards that are relevant to the LDB but are not yet effective (continued)*

- *IAS 8 Accounting Policies, Changes to Accounting Estimates and Errors amendments*

These amendments introduce a new definition of ‘accounting estimates’. The amendments are designed to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. In the amendment, accounting estimates are defined as “monetary amounts in financial statements that are subject to measurement uncertainty”. This amendment is effective for the annual reporting period beginning April 1, 2023. These amendments are not expected to have a significant impact on the LDB’s financial statements.

4. Revenue

Total sales of liquor and cannabis include sales to various customers including retail customers, licensed establishments, licensee retail stores, and agency stores. These amounts do not include subsequent resale by hospitality establishments, licensee retail stores, and agency stores.

	2023	2022
		(Restated – Note 23)
Retail customers	\$ 1,670,875	\$ 1,713,823
Licensee retail stores and independent wine stores	1,667,075	1,623,392
Hospitality customers	399,372	288,380
Agency stores	104,782	103,837
Other customers	31,528	22,132
Total sales	\$ 3,873,632	\$ 3,751,564

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

5. Operating expenses

The LDB's operating expenses are comprised of:

	2023	2022
Administration costs	\$ 513,784	\$ 491,816
Marketing	7,930	7,489
Transportation	1,159	1,266
	<hr/>	<hr/>
	\$ 522,873	\$ 500,571
Salaries, wages and benefits	\$ 316,536	\$ 292,815
Depreciation and amortization	73,871	82,536
Bank charges	41,391	40,464
Other administrative expenses	24,884	27,061
Rents and property taxes	17,708	15,832
Data processing	13,162	8,431
Professional services	13,025	11,968
Repairs and maintenance	9,155	8,740
Marketing	7,930	7,489
Loss prevention	4,052	3,969
Transportation	1,159	1,266
Total operating expenses	<hr/>	<hr/>
	\$ 522,873	\$ 500,571

6. Accounts receivable

	2023	2022
Trade accounts receivable and other items	\$ 21,586	\$ 16,895
Provision for doubtful accounts	(1,360)	(1,554)
Accounts receivable	<hr/>	<hr/>
	\$ 20,226	\$ 15,341

Receivables past due but not impaired are \$3.7 million (2022 - \$2.7 million). During the year the LDB expensed \$0.2 million (2022 - \$0.7 million) as bad debts expense.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

7. Prepaid expenses and deposits

Prepaid expenses and deposits include insurance, software maintenance, and cash paid pertaining to wine to be received in subsequent periods. The LDB purchases select wine products up to three years in advance to secure future delivery of these products as part of its ongoing business practices. 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, 2023, the LDB has recorded \$9.4 million (2022 - \$8.4 million) of prepaid wine futures for delivery in fiscal years 2024 to 2025.

	2023	2022
Non-refundable wine futures	\$ 9,441	\$ 8,427
Other prepaid expenses	2,896	2,851
	12,337	11,278
Less: long term portion	(1,247)	(866)
Current portion	\$ 11,090	\$ 10,412

8. Inventories

	2023	2022
Store inventory	\$ 92,373	\$ 84,712
Warehouse inventory	140,705	121,921
Total inventory	\$ 233,078	\$ 206,633

During the year, inventories that were recognized as cost of sales amounted to \$2.8 billion (2022 - \$2.7 billion).

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

9. Intangible assets

	Intangible assets	Construction in process	Total
March 31, 2022			
Opening net book value	\$ 28,160	\$ 118	\$ 28,278
Additions	18	2,401	2,419
Amortization charge	(16,747)	-	(16,747)
	\$ 11,431	\$ 2,519	\$ 13,950
Cost	\$ 94,227	\$ 2,519	\$ 96,746
Accumulated amortization	(82,796)	-	(82,796)
Net book value	\$ 11,431	\$ 2,519	\$ 13,950
March 31, 2023			
Opening net book value	\$ 11,431	\$ 2,519	\$ 13,950
Additions	1	1,432	1,433
Assets reclassified	49	(49)	-
Completion of construction-in-progress (CIP)	3,902	(3,902)	-
Assets written-off	(3,417)	-	(3,417)
Amortization charge	(8,452)	-	(8,452)
	\$ 3,514	\$ -	\$ 3,514
Cost	\$ 94,712	\$ -	\$ 94,712
Accumulated amortization	(91,198)	-	(91,198)
Net book value	\$ 3,514	\$ -	\$ 3,514

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

10. Property and equipment

	Land & land improvements	Buildings & building improvements	Leasehold improvements	Furniture fixtures & vehicles & equipment	Information systems	Construction in process	Total
March 31, 2022							
Opening net book value	\$ 632	\$ 745	\$ 63,503	\$ 16,977	\$ 11,302	\$ 5,395	\$ 98,554
Additions	-	75	183	1,924	3,047	14,767	19,996
CIP capitalization	-	332	14,143	2,844	907	(18,380)	(154)
Disposals (cost)	-	-	(898)	(1,003)	(110)	-	(2,011)
Disposals (accumulated depreciation)	-	-	898	805	102	-	1,805
Depreciation charge	(2)	(80)	(10,716)	(7,205)	(5,594)	-	(23,597)
	\$ 630	\$ 1,072	\$ 67,113	\$ 14,342	\$ 9,654	\$ 1,782	\$ 94,593
Cost	\$ 647	\$ 6,609	\$ 162,067	\$ 67,297	\$ 47,971	\$ 1,782	\$ 286,373
Accumulated depreciation	(17)	(5,537)	(94,954)	(52,955)	(38,317)	-	(191,780)
Net book value	\$ 630	\$ 1,072	\$ 67,113	\$ 14,342	\$ 9,654	\$ 1,782	\$ 94,593
March 31, 2023							
Opening net book value	\$ 630	\$ 1,072	\$ 67,113	\$ 14,342	\$ 9,654	\$ 1,782	\$ 94,593
Additions	-	77	1,240	3,066	2,085	8,249	14,717
CIP capitalization	-	-	6,124	1,082	238	(7,444)	-
Disposals (cost)	-	-	-	(1,204)	(246)	-	(1,450)
Disposals (accumulated depreciation)	-	-	-	1,183	243	-	1,426
Depreciation charge	(2)	(91)	(11,329)	(6,340)	(4,952)	-	(22,714)
	\$ 628	\$ 1,058	\$ 63,148	\$ 12,129	\$ 7,022	\$ 2,587	\$ 86,572
Cost	\$ 647	\$ 6,686	\$ 169,431	\$ 70,241	\$ 50,049	\$ 2,586	\$ 299,640
Accumulated depreciation	(19)	(5,628)	(106,283)	(58,112)	(43,026)	-	(213,068)
Net book value	\$ 628	\$ 1,058	\$ 63,148	\$ 12,129	\$ 7,023	\$ 2,586	\$ 86,572

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

11. Leases and right-of-use assets

The LDB has various real estate (property) leases for retail stores, office space and warehouses. The leases have varying terms, escalation clauses, and renewal rights. The leases for retail stores, office space and warehouses typically run for a period of five to ten years. Some leases also require the LDB to make payments related to property taxes levied on the lessor and insurance payments made by the lessor. These amounts are generally determined annually.

The LDB also leases office equipment with terms of five years.

(a) Right-of-use assets

	Property	Equipment	Total
March 31, 2022			
Opening net book value	\$ 208,729	\$ 422	\$ 209,151
Additions	39,719	18	39,737
Disposals (cost)	(2,151)	-	(2,151)
Disposals (accumulated depreciation)	1,132	-	1,132
Depreciation charge	(41,924)	(268)	(42,192)
	\$ 205,505	\$ 172	\$ 205,677
Cost	\$ 337,184	\$ 946	\$ 338,130
Accumulated depreciation	(131,679)	(774)	(132,453)
Net book value	\$ 205,505	\$ 172	\$ 205,677
March 31, 2023			
Opening net book value	\$ 205,505	\$ 172	\$ 205,677
Additions	55,078	1,364	56,442
Depreciation charge	(42,442)	(263)	(42,705)
	\$ 218,141	\$ 1,273	\$ 219,414
Cost	\$ 392,262	\$ 2,310	\$ 394,572
Accumulated amortization	(174,121)	(1,037)	(175,158)
Net book value	\$ 218,141	\$ 1,273	\$ 219,414

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

11. Leases and right-of-use assets (continued)

(b) Right-of-use asset provision

One of the properties that the LDB leases has been vacant and has a lease term ending in July 2023.

The provision for the right-of-use asset is as follows.

	2023	2022
Balance, April 1	\$ 2,399	\$ 4,134
Lease payments	(1,838)	(1,838)
Finance costs	49	103
Balance, March 31	\$ 610	\$ 2,399

(c) Amounts recognized in statement of comprehensive income

	2023	2022
Depreciation on right-of-use assets	\$ 42,705	\$ 42,192
Interest expense on lease liabilities	6,920	7,170
Rent expense related to short-term leases	84	26

(d) Amounts recognized in statement of cash flows

	2023	2022
Total cash outflow for leases	\$ 52,092	\$ 50,150

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

11. Leases and right-of-use assets (continued)

(e) Lease liabilities

Undiscounted cash flow of future lease payments

	2023	2022
Less than one year	\$ 52,017	\$ 50,521
Between one to five years	154,669	135,789
More than five years	77,768	71,036
	<u>\$ 284,454</u>	<u>\$ 257,346</u>

Lease liabilities included in the statement of financial position

	2023	2022
Current	\$ 43,680	\$ 44,154
Non-current	198,718	185,771
	<u>\$ 242,398</u>	<u>\$ 229,925</u>

The weighted-average incremental borrowing rate applied for leases that are 10 years or more is 3.9% (2022 - 2.6%). Leases that are less than 10 years use a discount rate of 3.0% (2022 - 1.0%).

12. Accounts payable and accrued liabilities

	2023	2022
Trade payables	\$ 139,417	\$ 157,623
Accrued liabilities	77,691	77,645
Other payables	6,732	6,444
	<u>\$ 223,840</u>	<u>\$ 241,712</u>

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

13. Due to Province of British Columbia

The LDB uses the Province's financial and banking systems to process and record its transactions. The amount due to the Province represents the accumulated net financial transactions with the Province. During the year, the total receipts from the Province were \$3.21 billion (2022 - \$3.02 billion) and the total payments to the Province were \$4.38 billion (2022 - \$4.26 billion) for a net repayment to the Province of \$1.17 billion (2022 - \$1.24 billion).

14. Other long-term liabilities

The LDB's other long-term liabilities are comprised of:

	2023	2022
Retirement benefit obligation (note 15(b))	\$ 21,453	\$ 21,127
WorkSafe BC claims accruals (note 15(c))	24,500	20,700
Other	1,830	3,327
	<u>\$ 47,783</u>	<u>\$ 45,154</u>

15. Employees' benefit plans and other employment liabilities

(a) Public Service Pension Plan

The LDB and its employees contribute to the Public Service Pension Plan, a jointly trustee pension plan. The Public Service Pension Board of Trustees, representing plan members and employers, is responsible for administering the plan, including investment of the assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. At March 31, 2022, the plan has about 68,000 active members and approximately 54,000 retired members.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plan. This rate may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

15. Employees' benefit plans and other employment liabilities (continued)

(a) Public Service Pension Plan (continued)

The latest actuarial valuation as at March 31, 2020, indicated a funding surplus of \$2.667 million for basic pension benefits on a going concern basis.

LDB paid \$19.3 million (2022 - \$18.8 million) for employer contributions to the plan in fiscal 2023 which was recorded in administration expenses and represents 2.3 per cent of the total plan contributions. LDB does not expect significant fluctuations in the future contributions to the plan.

If an employer applies to withdraw from the plan, the trustees will determine whether or not an actuarial valuation is required. If a valuation is performed and the actuary determines that contribution rates to the plan would have to increase for the remaining employers as a result of the entity's termination, LDB must pay to the plan the amount necessary for contribution rates to stay the same.

Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers 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 \$21.5 million (2022 - \$21.1 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 \$0.3 million (2021 - \$2.7 million).

(c) WorkSafe BC outstanding claims

The LDB self-funds worker's compensation claims. The LDB recognizes a liability and an expense for claims that are in progress at the year-end. This liability of \$24.5 million (2022 - \$20.7 million) is valued by independent actuaries.

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

16. Contractual commitments

(a) BC Liquor store and BC Cannabis store license fees

The LDB pays the Liquor Control and Licensing Branch an annual license fee for each LDB retail store. The BC Liquor store fee is based on annual store sales. The BC Cannabis fee is annual fixed fee. The LDB paid \$0.5 million (2022 - \$0.4 million) for license fees during the year.

(b) Payroll processing

The LDB has an agreement with the BC Public Service Agency for payroll processing. The LDB paid \$1.1 million (2022 - \$1.0 million) for processing services. The agreement expires in July 2025.

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

17. Contingent items

(a) The LDB is the sole importer of beverage alcohol in the Province. The LDB, as the importer of record, has the future liability for customs duty on import beer of \$1.0 million (2022 - \$0.7 million) based upon the value of the agents' inventories at March 31, 2023.

(b) The LDB in the normal course of operations is the defendant in various legal actions and it is not expected that the ultimate outcome of these claims will have a material effect on the financial position or operating results of the LDB.

18. Capital management

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

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

19. Related party transactions

(a) Province of British Columbia

All transactions with the Province of BC and its ministries, agencies, and Crown corporations occurred in the normal course of business and are recorded at the exchange amount, which is representative of fair value unless otherwise disclosed in these notes.

(b) Key management compensation

The LDB's executive management committee is defined as key management. At March 31, 2023 there were 9 (2022 - 9) members on the executive committee.

	2023	2022
Salaries and short-term benefits	\$ 1,609	\$ 1,519
Post-employment benefits	101	123
	<u>\$ 1,710</u>	<u>\$ 1,642</u>

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

20. Fair value of financial instruments

Fair value measurements recognized in the statement of financial position are categorized in accordance with the following levels:

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

All of the LDB's financial instruments are classified within Level 1 or Level 2, apart from the Worksafe BC liabilities, because these instruments are valued using quoted market prices or alternative pricing sources and models utilizing observable market inputs.

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

20. Fair value of financial instruments (continued)

The fair values of the LDB's financial instruments were determined to be the current assets and liabilities.

The carrying amounts for cash, accounts receivable, accounts payable and accrued liabilities and due to the Province of British Columbia approximate their fair values due to the short-term nature of these items.

21. Facilities

The LDB has access to a line of credit facility of \$25,000,000 that is shared with other Provincial ministries and agencies. The balance drawn down as at March 31, 2023 was \$nil (2022 - \$nil)

22. Financial risk factors

The LDB 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 LDB is not exposed to significant credit, liquidity or market risk arising from these instruments.

(a) Credit risk

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

Credit risk is the risk of financial loss to the LDB arising from its cash held at financial institutions and the failure of another party to meet its contractual obligations related to lease agreements, including future lease payments. See accounts receivable note 3(b) and 6 for further disclosure on credit risk.

As at March 31, 2023, the cash balances are held with a major Canadian bank and therefore not exposed to significant credit risk.

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

22. Financial risk factor (continued)

(b) Liquidity risk

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

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

(c) Market risk

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

While the majority of the LDB's transactions are in Canadian dollars, the LDB also transacts in Euros and US dollars. These transactions are in the normal course of business. The LDB's exposure to foreign currency risk could impact the accounts payable of the LDB. 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 LDB.

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

23. Restatement

During the year, the LDB determined that certain revenue transactions relating to revenue and cost of sales which had been previously recorded on a gross basis (as a principal) should be recognized and reported on a net basis (as an agent). Accordingly, the prior year comparative figures have been restated for these items resulting in the following prior year adjustments. These adjustments do not impact total comprehensive income.

	As previously presented	Adjustments	As restated
Statement of comprehensive income			
Revenue	\$ 4,355,056	\$ (603,492)	\$ 3,751,564
Cost of sales	(2,674,671)	603,492	(2,071,179)
