

Financial Statements of

**BC LIQUOR
DISTRIBUTION BRANCH**

And Independent Auditor's Report thereon

For the year ended March 31, 2024



KPMG LLP

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INDEPENDENT AUDITORS REPORT

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

Opinion

We have audited the accompanying financial statements of British Columbia Liquor Distribution Branch, which comprise:

- the statement of income and comprehensive income for the year then ended
- the statement of due to the Province of British Columbia for the year then ended
- the statement of financial position for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of material accounting policies

(hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2024, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “*Auditor’s Responsibilities for the Audit of the Financial Statements*” section of our auditor’s report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We 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 our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company 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.
- 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 we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
May 15, 2024

BC LIQUOR DISTRIBUTION BRANCH

Statement of Income and Comprehensive Income
(in thousands of dollars)

For the year ended March 31, 2024, with comparative information for 2023

	Note	2024	2023
Revenue	4	\$ 3,939,482	\$ 3,873,632
Cost of sales		(2,237,005)	(2,163,411)
Gross profit		1,702,477	1,710,221
Expenses:			
Administration	5, 11, 15	(550,153)	(513,784)
Marketing	5	(11,015)	(7,930)
Transportation	5	(1,078)	(1,159)
		(562,246)	(522,873)
Profit before other income and finance costs		1,140,231	1,187,348
Other income		14,676	17,871
Finance costs	11	(6,754)	(6,920)
Total Income and comprehensive income		\$ 1,148,153	\$ 1,198,299

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, 2024, with comparative information for 2023

	Note	2024	2023
Balance, beginning of year		\$ 71,098	\$ 42,107
Total income and comprehensive income		1,148,153	1,198,299
Net payments to the Province of British Columbia	13	(1,104,177)	(1,169,308)
Balance, end of year		\$ 115,074	\$ 71,098

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, 2024, with comparative information for 2023


	Note	2024	2023
Assets			
Current:			
Cash		\$ 34,976	\$ 9,978
Accounts receivable	6	24,676	20,226
Prepaid expenses and deposits	7	6,393	11,090
Inventories	8	239,636	233,078
		305,681	274,372
Non-current:			
Prepaid expenses and deposits	7	5,330	1,247
Intangible assets	9	9	3,514
Property and equipment	10	85,550	86,572
Right-of-use assets	11	210,419	219,414
		301,308	310,747
Total assets		\$ 606,989	\$ 585,119
Liabilities			
Current:			
Accounts payable and accrued liabilities	12, 15	\$ 206,847	\$ 223,840
Current portion of lease liabilities	11	46,553	43,680
Due to the Province of British Columbia	13	115,074	71,098
		368,474	338,618
Non-current:			
Non-current portion of lease liabilities	11	186,478	198,718
Other long-term liabilities	14	52,037	47,783
		238,515	246,501
Total liabilities		\$ 606,989	\$ 585,119

Commitments and contingencies 16,17

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

Approved for issue on May 15, 2024 by:


R. Blain Lawson
General Manager and Chief Executive Officer


Elena Perlova, CPA, CGA.
Acting Chief Financial Officer

BC LIQUOR DISTRIBUTION BRANCH

Statement of Cash Flows
(in thousands of dollars)

For the year ended March 31, 2024, with comparative information for 2023

	Notes	2024	2023
Cash provided by (used in):			
Operating:			
Total income and comprehensive income		\$ 1,148,153	\$ 1,198,299
Items not involving cash:			
Depreciation and amortization	9, 10, 11	67,503	73,871
Loss (gain) on disposal of property and equipment		(91)	3,378
Finance costs	11	6,754	6,920
Accrued employee benefits		4,255	2,629
Changes in non-cash operating items:			
Non-current assets		(4,083)	(381)
Working capital		(23,304)	(49,881)
		1,199,187	1,234,835
Investing:			
Acquisition of intangible assets	9	-	(1,433)
Acquisition of property and equipment	10	(18,345)	(14,717)
Proceeds from disposal of property and equipment		82	64
		(18,263)	(16,086)
Financing:			
Payment of lease liabilities	11	(51,919)	(52,092)
Lease incentives		170	1,203
Net payments to the Province of British Columbia	13	(1,104,177)	(1,169,308)
		(1,155,926)	(1,220,197)
Increase (decrease) in cash		24,998	(1,448)
Cash, beginning of year		9,978	11,426
Cash, end of year		\$ 34,976	\$ 9,978
Supplementary information:			
Non-cash operating and finance activities:			
Addition of lease liabilities	11	\$ 35,659	\$ 56,442

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, 2024

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 are also appointed as the administrator for the wholesale distribution, the operation of retail stores, and the on-line sales system of cannabis products under the Cannabis Distribution Act.

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 May 15, 2024.

(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, 2024

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, 2024

3. Material 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.

BC LIQUOR DISTRIBUTION BRANCH

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

For the year ended March 31, 2024

3. Material 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).

BC LIQUOR DISTRIBUTION BRANCH

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

For the year ended March 31, 2024

3. Material 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 amortized 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, 2024

3. Material accounting policies (continued)

(b) Financial instruments (continued)

(iii) Derecognition

The LDB derecognizes 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 derecognizes a financial liability when its contractual obligations are discharged, or cancelled, or expire. The LDB also derecognizes 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 realize 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, 2024

3. Material 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, 2024

3. Material 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 development 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 the implementation of Software as a Service ("SaaS") solutions and maintenance of existing 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 net book 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' net book 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, 2024

3. Material 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, 2024

3. Material 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	2024	2023
Buildings	4% per annum	3 - 4% per annum
Office equipment	1% per annum	1% 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, 2024

3. Material 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, 2024

3. Material accounting policies (continued)

(h) Impairment (continued)

Measurement of ECLs is 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.

(i) financial 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 (the "cash-generating unit"), which are based on the LDB's individual stores.

(ii) non-financial assets

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
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For the year ended March 31, 2024

3. Material 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 trusted 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 where 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, 2024

3. Material accounting policies (continued)

(m) Changes in accounting standards

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

- *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.

(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, 2024 and have not been 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 regarding liabilities with covenants, and the deferral of the effective date of the 2020 amendments to no earlier than January 1, 2024. This amendment is effective for the annual reporting period April 1, 2024. These amendments are not expected to have a significant impact on the LDB’s financial statements.

BC LIQUOR DISTRIBUTION BRANCH

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

For the year ended March 31, 2024

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.

	2024	2023
Retail customers	\$ 1,687,548	\$ 1,670,875
Licensee retail stores and independent wine stores	1,713,006	1,667,075
Hospitality customers	400,635	399,372
Agency stores	102,949	104,782
Other customers	35,344	31,528
Total sales	\$ 3,939,482	\$ 3,873,632

BC LIQUOR DISTRIBUTION BRANCH

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

For the year ended March 31, 2024

5. Operating expenses

The LDB's operating expenses are comprised of:

	2024	2023
Administration costs	\$ 550,153	\$ 513,784
Marketing	11,015	7,930
Transportation	1,078	1,159
	\$ 562,246	\$ 522,873
Salaries, wages and benefits	\$ 350,788	\$ 316,536
Depreciation and amortization	67,503	73,871
Bank charges	41,848	41,391
Other administrative expenses	26,859	24,884
Rents and property taxes	19,698	17,708
Data processing	15,566	13,162
Professional services	13,644	13,025
Marketing	11,015	7,930
Repairs and maintenance	10,327	9,155
Loss prevention	3,920	4,052
Transportation	1,078	1,159
Total operating expenses	\$ 562,246	\$ 522,873

6. Accounts receivable

	2024	2023
Trade accounts receivable and other items	\$ 27,430	\$ 21,586
Provision for doubtful accounts	(2,754)	(1,360)
Accounts receivable	\$ 24,676	\$ 20,226

Receivables past invoice due date but not impaired are \$4 million (2023 - \$3.7 million). During the year the LDB expensed \$1.6 million (2023 - \$0.2 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, 2024

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, 2024, the LDB has recorded \$8.6 million (2023 - \$9.4 million) of prepaid wine futures for delivery in fiscal years 2025 and 2026.

	2024	2023
Non-refundable deposit of wine futures	\$ 8,611	\$ 9,441
Other prepaid expenses	3,112	2,896
	11,723	12,337
Less: long term portion	(5,330)	(1,247)
Current portion	\$ 6,393	\$ 11,090

8. Inventories

	2024	2023
Store inventory	\$ 94,117	\$ 92,373
Warehouse inventory	145,519	140,705
Total inventory	\$ 239,636	\$ 233,078

During the year, inventories that were recognized as cost of sales amounted to \$2.2 billion (2023 - \$2.2 billion).

BC LIQUOR DISTRIBUTION BRANCH

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

For the year ended March 31, 2024

9. Intangible assets

	Software development	Development in process	Total
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 development-in-progress	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
March 31, 2024			
Opening net book value	\$ 3,514	\$ -	\$ 3,514
Amortization charge	(3,505)	-	(3,505)
	\$ 9	\$ -	\$ 9
Cost	\$ 94,712	\$ -	\$ 94,712
Accumulated amortization	(94,703)	-	(94,703)
Net book value	\$ 9	\$ -	\$ 9

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2024

10. Property and equipment

	Land & land improvements	Buildings & building improvements	Leasehold improvements	Furniture fixtures vehicles and equipment	Information systems	Construction in process (CIP)	Total
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
March 31, 2024							
Opening net book value	\$ 628	\$ 1,058	\$ 63,148	\$ 12,129	\$ 7,023	\$ 2,586	\$ 86,572
Additions	273	404	979	4,654	3,931	8,104	18,345
CIP capitalization	-	-	4,751	714	-	(5,465)	-
Disposals (cost)	-	-	(15,533)	(5,296)	(3,325)	-	(24,154)
Disposals (accumulated depreciation)	-	-	15,533	5,273	3,325	-	24,131
Depreciation charge	(5)	(101)	(11,468)	(4,581)	(3,189)	-	(19,344)
	\$ 896	\$ 1,361	\$ 57,410	\$ 12,893	\$ 7,765	\$ 5,225	\$ 85,550
Cost	\$ 920	\$ 7,090	\$ 159,628	\$ 70,313	\$ 50,655	\$ 5,225	\$ 293,831
Accumulated depreciation	(24)	(5,729)	(102,218)	(57,420)	(42,890)	-	(208,281)
Net book value	\$ 896	\$ 1,361	\$ 57,410	\$ 12,893	\$ 7,765	\$ 5,225	\$ 85,550

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
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For the year ended March 31, 2024

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, 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 depreciation	(174,121)	(1,037)	(175,158)
Net book value	\$ 218,141	\$ 1,273	\$ 219,414
March 31, 2024			
Opening net book value	\$ 218,141	\$ 1,273	\$ 219,414
Additions	35,659	-	35,659
Disposals (cost)	(1,651)	-	(1,651)
Disposals (accumulated depreciation)	1,651	-	1,651
Depreciation charge	(44,381)	(273)	(44,654)
	\$ 209,419	\$ 1,000	\$ 210,419
Cost	\$ 420,452	\$ 2,310	\$ 422,762
Accumulated amortization	(211,033)	(1,310)	(212,343)
Net book value	\$ 209,419	\$ 1,000	\$ 210,419

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
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For the year ended March 31, 2024

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. The lease ended in July 2023.

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

	2024	2023
Balance, April 1	\$ 610	\$ 2,399
Lease payments	(613)	(1,838)
Finance costs	3	49
Balance, March 31	\$ -	\$ 610

(c) Amounts recognized in statement of comprehensive income

	2024	2023
Depreciation on right-of-use assets	\$ 44,654	\$ 42,705
Interest expense on lease liabilities	6,754	6,920
Rent expense related to short-term leases	388	84

(d) Amounts recognized in statement of cash flows

	2024	2023
Total cash outflow for leases	\$ 51,919	\$ 52,092

BC LIQUOR DISTRIBUTION BRANCH

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

For the year ended March 31, 2024

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

(e) Lease liabilities

Undiscounted cash flow of future lease payments

	2024	2023
Less than one year	\$ 53,101	\$ 52,017
Between one to five years	150,402	154,669
More than five years	54,163	77,768
	\$ 257,666	\$ 284,454

Lease liabilities included in the statement of financial position

	2024	2023
Current	\$ 46,553	\$ 43,680
Non-current	186,478	198,718
	\$ 233,031	\$ 242,398

The weighted-average incremental borrowing rate applied for leases that are 10 years or more is 4.0% (2023 - 3.9%). Leases that are less than 10 years use a discount rate of 3.5% (2023 - 3.0%).

12. Accounts payable and accrued liabilities

	2024	2023
Trade payables	\$ 126,363	\$ 139,417
Accrued liabilities	73,737	77,691
Other payables	6,747	6,732
	\$ 206,847	\$ 223,840

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Notes to the Financial Statements
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For the year ended March 31, 2024

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 \$3.33 billion (2023 - \$3.21 billion) and the total payments to the Province were \$4.43 billion (2023 - \$4.38 billion) for a net repayment to the Province of \$1.10 billion (2023 - \$1.17 billion).

14. Other long-term liabilities

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

	2024	2023
Retirement benefit obligation (note 15(b))	\$ 21,864	\$ 21,453
WorkSafe BC claims accruals (note 15(c))	27,800	24,500
Other	2,373	1,830
	\$ 52,037	\$ 47,783

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 trusteed 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, 2023, the plan has about 71,000 active members and approximately 55,000 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 the Financial Statements
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For the year ended March 31, 2024

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

(a) Public Service Pension Plan (continued)

The latest actuarial valuation as at March 31, 2023, indicated a funding surplus of \$4.491 million for basic pension benefits on a going concern basis.

LDB paid \$22.9 million (2023 - \$19.3 million) for employer contributions to the plan in fiscal 2024 which was recorded in administration expenses. The next valuation will be as at March 31, 2026.

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 \$21.9 million (2023 - \$21.5 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 \$0.4 million (2021 - \$0.3 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 \$27.8 million (2023 - \$24.5 million) is valued by independent actuaries.

BC LIQUOR DISTRIBUTION BRANCH

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For the year ended March 31, 2024

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 (2023 - \$0.5 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 \$1.2 million (2023 - \$1.1 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 \$0.5 million (2023 - \$1.0 million) based upon the value of the agents' inventories at March 31, 2024.

(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 the Financial Statements
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For the year ended March 31, 2024

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, 2024 there were 10 (2023 - 9) members on the executive committee.

	2024	2023
Salaries and short-term benefits	\$ 1,919	\$ 1,609
Post-employment benefits	138	101
	<u>\$ 2,057</u>	<u>\$ 1,710</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 (Level 3), 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 the Financial Statements
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For the year ended March 31, 2024

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 \$40,000,000 that is shared with other Provincial ministries and agencies. The balance drawn down as at March 31, 2024 was \$nil (2023 - \$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.

The LDB does not have any financial instruments to be disclosed with actuarial value.

(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, 2024, the cash balances are held with a major Canadian bank and therefore not exposed to significant credit risk.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
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22. Financial risk factor (continued)

(b) Liquidity risk

Liquidity risk is the risk that the LDB will not be able to meet its financial obligations as they fall 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.