BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

The 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.

Jay Chambers
General Manager

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

Vancouver, British Columbia
June 11, 2008

Report of the Auditor General of British Columbia

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

I have audited the balance sheet of the *British Columbia Liquor Distribution Branch* as at March 31, 2008 and the statements of operations, advance due from Province of British Columbia and cash flows for the year then ended. These financial statements are the responsibility of the Branch's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *British Columbia Liquor Distribution Branch* as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Victoria, British Columbia
May 23, 2008

John Doyle, MBA, CA
Auditor General

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

As at March 31,	**2008**	**2007**
ASSETS		
CURRENT ASSETS		
Cash	--	5,120
Accounts receivable	6,544	4,779
Inventories	83,301	72,786
Prepaid expenses (note 3)	7,532	5,709
Due from Province of British Columbia	34,976	29,208
	132,353	117,602
CAPITAL ASSETS (note 4)	50,976	43,120
	183,329	160,722
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness	22,647	--
Accounts payable and accrued liabilities	157,952	157,327
Current portion of deferred tenant allowances (note 6)	119	69
Current portion of tenant improvement loans (note 7)	601	705
Current portion of capital lease (note 8)	200	461
	181,519	158,562
LONG TERM LIABILITIES		
Deferred tenant allowances (note 6)	613	283
Tenant improvement loans (note 7)	1,017	1,618
Obligation under capital lease (note 8)	180	259
	183,329	160,722

Commitments and contingent items (notes 9 & 10)

Approved by:

General Manager

Executive Director, Finance

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

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

Year Ended March 31,	2008	2007
		Restated (note 13)
Sales (note 5)	2,679,466	2,509,125
Less commissions & discounts	179,960	142,124
	2,499,506	2,367,001
Cost of merchandise sold	1,396,466	1,276,167
Gross margin	1,103,040	1,090,834
Operating expenses (schedule)	256,058	256,302
	846,982	834,532
Other income	10,234	5,754
Net income	857,216	840,286

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

Year Ended March 31,	2008	2007
Balance beginning of year	29,208	41,807
Net Income	(857,216)	(840,286)
Payments to Province of British Columbia	862,985	827,687
Balance end of year	34,976	29,208

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

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

Year Ended March 31,	**2008**	**2007**
CASH FLOWS FROM OPERATING ACTIVITIES		Restated (note 13)
Cash receipts from customers	2,417,851	2,309,467
Cash payments to Provincial Treasury	(862,985)	(827,687)
Cash paid to suppliers and employees	(1,574,421)	(1,446,499)
Cash receipts from other income	10,045	5,629
Interest paid on capital lease and loans	(232)	(337)
CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES	(9,742)	40,572
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of capital assets excluding capital projects	(17,431)	(16,950)
Acquisition of capital project assets	(217)	(5,546)
Proceeds from disposal of capital assets	192	126
CASH FLOWS (USED IN) INVESTING ACTIVITIES	(17,456)	(22,370)
CASH FLOWS FROM FINANCING ACTIVITIES		
Deferred tenant allowances	477	107
Payment on capital lease	(341)	(263)
Tenant improvement loans	(705)	(1,164)
CASH FLOWS (USED IN) FINANCING ACTIVITIES	(569)	(1,320)
NET (DECREASE) INCREASE IN CASH	(27,767)	16,882
CASH (BANK INDEBTEDNESS) BEGINNING OF YEAR	5,120	(11,762)
(BANK INDEBTEDNESS) CASH END OF YEAR	(22,647)	5,120

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

BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH
SCHEDULE OF OPERATING EXPENSES
(in $000s)

Year Ended March 31,	2008	2007
Salaries, wages and benefits (note 11)	151,396	144,753
Rents	30,944	30,557
Bank charges	16,255	14,095
Amortization	9,790	7,703
Freight to stores	7,976	7,187
Repairs and maintenance	7,295	6,153
Other operating expenses	6,343	4,898
Professional services	4,988	6,450
Merchandising	4,024	3,329
Data processing	3,929	3,229
Telephone	3,262	3,479
Light, water and fuel	2,626	2,624
Stationery and supplies	2,456	2,957
Loss prevention	2,322	2,331
Warehouse equipment costs	1,234	1,287
Travel	986	956
Interest on long term liabilities	232	337
Beverage container costs	-	13,977
	256,058	256,302

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

1. PURPOSE OF THE BRANCH

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Significant accounting policies are as follows:

Inventories

The stores inventories are valued at cost on a first in first out basis, with cost comprising of supplier invoiced value, freight, duties and taxes. With the implementation of the Wholesale Order Management System in the current year, the warehouse inventories changed from the first in first out basis to a weighted average cost comprising of supplier invoiced value, freight, duties and taxes. The change in policy had no significant impact on the value of the inventory.

Capital Assets

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

Buildings
7.5 per cent per annum.

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

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

Information Systems
25 per cent per annum.

Leasehold improvements and capital projects
All material costs of construction and development for leasehold improvements and capital projects are treated as assets under Construction in Progress accounts. At the point in time when the project is substantially completed the costs are capitalized into their applicable categories and amortized at the asset category rate.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Leases

Assets recorded as capital leases are capitalized and amortized at the applicable asset category rate. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

Related Party Transactions

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

Revenue Recognition

Revenue is recognized when the sale of product is made to customers.

Use of Estimates

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

Changes in Accounting Policies - Financial Instruments

On April 1, 2007 the Branch adopted three new accounting standards that were issued by the CICA: Section 1530, Comprehensive Income, Section 3855 Financial Instruments – Recognition and Measurement and Section 3861, Financial Instruments – Disclosure and Presentation. The adoption of these new standards did not have any material impact on net income.

Section 1530, Comprehensive Income provides guidance in the reporting of comprehensive income and other comprehensive income. Comprehensive income comprises net income and other comprehensive income (OCI). OCI represents changes in shareholder's equity in a period arising from transactions and changes in the fair value of available-for-sale securities and the effective portion of cash flow hedging instruments. The Branch did not have any OCI transactions or opening or closing balances for accumulated other comprehensive income or loss.

Section 3855, Financial Instruments - Recognition and Measurement requires that all financial assets must be classified as held-to-maturity, loans and receivables, held-for-trading or available-for-sale and all financial liabilities must be classified as held-for-trading or other financial liabilities. Financial instruments classified as held-for-trading will be measured at fair value with changes in fair value recognized in net income. Financial assets classified as held-to-maturity or as loans and receivables and financial liabilities not classified as held-for-trading will be measured at amortized cost. This accounting policy was adopted on a prospective basis with no restatement of prior period financial statements.

The Liquor Distribution Branch has designated its Financial Instruments as follows:

Cash is classified as held for trading and measured at fair value. Accounts receivable are classified as loans and receivables and are measured at amortized cost. Bank Indebtedness, accounts payable and accrued liabilities are classified as other financial liabilities and are also measured at amortized cost.

Future Accounting Standards

In March 2007, the CICA issued Handbook Section 3031, Inventories, which has replaced Section 3030 with the same title. This revision aligns Canadian GAAP with International Financial Reporting Standards. It establishes four basic principles: inventory should be measured at the lower of cost and net realizable value; the cost of inventory includes costs directly attributable to its acquisitions as well as an appropriate portion of fixed and variable production overheads; if the units in inventory are interchangeable, their cost should be determined using either a first-in-first-out or weighted average cost formula; and write-downs of inventory to its net realizable value should be reversed if the value subsequently recovers. This section applies to interim and annual financial statements for years beginning on or after January 1, 2008. The impact of this new standard has not been determined on the financial statements.

In December 2006, the CICA has issued two new accounting standards on financial instruments: Section 3862 Financial Instruments – Disclosures, and Section 3863 Financial Instruments – Presentation, that revise and enhance the current disclosure requirements but do not change the existing presentation requirements for financial instruments. The standards are effective for fiscal years beginning on or after October 1, 2007. The new disclosures will provide additional information on the nature and extent of risks arising from financial instruments to which the Branch is exposed and how it manages those risks.

3. PREPAID EXPENSES

Prepaid expenses include wine purchases and purchasing cards. The Branch as part of their on-going business practices purchases select products in advance to secure delivery of these products up to 3 years in advance. The Branch has recorded $7.6 million of prepaid wine futures that represents $6.2 million for 2008/09 and $1.4 million for 2009/10. At year end purchasing cards, had a credit balance of $117,000, which was offset by the prepaid expenses. In addition to the prepayments, the Branch has a commitment of $50,000 for wine purchases to be delivered in 2009/10.

4. CAPITAL ASSETS

	2008			2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	1,068	--	1,068	1,068
Buildings	18,429	17,611	818	1,301
Leasehold improvements	41,523	19,918	21,605	16,291
Furniture, fixtures, vehicles & equipment	22,048	17,021	5,027	2,689
Office furnishings under capital lease	3,750	3,630	120	242
Information systems	75,098	66,143	8,955	6,398
Construction in process	13,383	–	13,383	15,131
	175,299	124,323	50,976	43,120

5. SALES

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

	2008	2007
		Restated (Note 13)
Retail customers	1,084,901	1,071,651
Licensee retail stores	864,384	755,920
Agency stores	219,280	207,683
Licensed establishments	510,901	473,871
	2,679,466	2,509,125

6. DEFERRED TENANT ALLOWANCES

Certain leasing agreements include incentives or landlord funding to be used towards expenditures such as tenant improvements or relocation expenses. The value of these benefits are recorded and amortized over the term of the lease.

Year Ending March 31	2009	119
	2010	96
	2011	85
	2012	85
	2013	85
	Subsequent years	262
		732
	Current portion	(119)
	Long term	613

7. TENANT IMPROVEMENT LOANS

As at March 31, 2008, the Branch has tenant improvements loans of $1.6 million financed through landlords. The range of interest rates is 4.25% to 11.75% with loans expiring from July 2008 to June 2014. The Principal payments due are as follows:

Year Ending March 31	2009	601
	2010	436
	2011	361
	2012	158
	2013	31
	Subsequent years	31
		1,618
	Current portion	(601)
	Long term	1,017

8. OBLIGATIONS UNDER CAPITAL LEASES

In the fiscal year 1994, the Branch entered into a 15-year capital lease for certain head office tenant improvements and office furnishings. The following schedule includes the future minimum lease payments under that capital lease expiring July 31, 2008, together with the balance of the obligation under that capital lease. The schedule also includes information on additional capital leases for vehicles and operating equipment.

		Head Office	Vehicles	Equipment	Total
Year ending March 31	2009	158	31	34	223
	2010	--	22	30	52
	2011	--	24	--	24
	2012	--	25	--	25
	2013	—	27	--	27
	Subsequent years	--	52	--	52
	Total	158	181	64	403
	Imputed interest rate	10%	9%	9%	
	Interest	(3)	(14)	(6)	(23)
	Current portion	(155)	(17)	(28)	(200)
	Long term	0	150	30	180

9. COMMITMENTS

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

Year ending March 31	2009	20,769
	2010	17,843
	2011	14,970
	2012	11,808
	2013	9,782
	Subsequent years	23,062
		98,234

Government Liquor Store Fees

In the current year, the Branch entered into an agreement with the Liquor Control Licensing Board (LCLB) to provide the LCLB a fee in the amount of $1,400 per Government Liquor store, on an annual basis. This amount is subject to an adjustment relative to the number of government liquor stores in operation. The term of this agreement is for five years. For the remaining four years, the LDB is required to pay an amount of $278,000 in fees (based on 199 stores) plus $66,000 administration cost each year.

10. CONTINGENT ITEMS

The Branch has authorized suppliers' agents to import and warehouse liquor for subsequent purchase by the Branch. Under this program, the Branch has a contractual obligation to purchase all inventories held by the agent should the agent opt out of the program. As at March 31, 2008, the value of agents' inventories totalled approximately $77.8 million (2007 - $66.1 million) and the future liability for related federal excise taxes is $13.6 million (2007 - $12.9 million).

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

11. EMPLOYEES' BENEFIT PLANS

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

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The latest valuation as at March 31, 2005 indicated an unfunded liability of $767 million for basic pension benefits. The next valuation will be as at March 31, 2008 with results available in early 2009. The actuary does not attribute portions of the unfunded liability to individual employers. The Branch paid $10.1 million for employer contributions to the plan in fiscal 2007/08.

Employees are also entitled to specific retirement benefits as provided for under collective agreements and terms of employment. The future liability for this obligation amounts to $9,692,516 (2007 – $9,346,532), which represents future employees' retirement benefits outside of The Plan and is included in Accounts Payable. The expense adjustment recorded in the year is $345,984 (2007 - $2,029,872).

12. FINANCIAL INSTRUMENTS

The Branch's financial instruments include cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities.

It is management's opinion that the Branch is not exposed to significant interest, currency, liquidity or credit risks arising from these financial instruments.

13. COMPARATIVE FIGURES

The prior year financial statements have been restated to include the Land Based Winery Sales and the reclassification of the VQA Support program costs for comparative purposes to conform with the presentation in the current year's financial statements. The inclusion of the Land Based Winery Sales increased the 2006/07 sales by $74.7 million, increased cost of merchandise sold by $69.7 million, and increased commissions & discounts by $5.0 million. The reclassification of the 2006/07 expenditures for the VQA Support Program increased costs of merchandise sold by $8.8 million with a corresponding decrease in commissions & discounts for the same amount. Accordingly, the net effect of these changes in the financial statements for the prior year reflected an increase in sales of $74.7 million, a decrease in commissions & discounts of $3.8 million, and an increase in cost of merchandise sold of $78.5 million.

The cash flow statement for the prior year has been reclassified to conform with the presentation in the current year for the VQA Support Program. The actual results increase the cash receipts from customer by $8.8 million and offset by an increase in cash paid to suppliers and employees by the same amount. There was no impact on the cash flow statement for the inclusion of the Land Based Winery Sales.