The BC Liquor Distribution Branch

2018/19
ANNUAL SERVICE PLAN REPORT

July 2019

BRITISH
COLUMBIA

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General Manager and CEO's Accountability Statement

The *BC Liquor Distribution Branch 2018/19 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2018/19- - 2020/21 Service Plan* created in February 2018. I am accountable for those results as reported.

R. Blain Lawson
General Manager and Chief Executive Officer

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General Manager and CEO's Report Letter

The BC Liquor Distribution Branch (LDB) is coming off a history making year where we set records for liquor sales, added cannabis to our line of business, and moved both our head office and primary liquor distribution centre. As directed by the 2018/19 Mandate Letter, we continued to upgrade technology in order to improve customer service and efficiency, and continued to collaborate with stakeholders to reinforce our corporate social responsibility initiatives.

The LDB did not meet 2018/19 revenue targets, and contributed $1.104 billion to help fund Government services this year. That contribution represents a shortfall of $2 million, due in large part to the upfront costs associated with adding the wholesale distribution and retail sale of non-medical cannabis (cannabis) to our business. Our liquor sales saw record growth despite facing unexpected product shortages that negatively disrupted our wholesale and retail customers. In order to continue building a resilient business for both liquor and cannabis, one of our operational focuses for the upcoming year will be to capitalize on cost-savings and value for the Province.

We accomplished the significant task of launching a wholesale distribution operation and retail system for cannabis in 2018/19. Our business was ready for customers by the time cannabis was legal to possess and purchase on October 17, 2018, offering responsible online sales and opening a BC Cannabis Store (BCCS) in Kamloops. We built this business while also meeting government's priorities of ensuring public safety and keeping cannabis out of the hands of young people. The Cannabis Operations division is now supplying over 25 licensed cannabis retailers with cannabis.

The relocation of our liquor distribution warehouse from Vancouver to a larger facility in Delta was largely completed in 2018/19, and will position our Liquor Wholesale Operations to better serve our customers, including BC Liquor Stores (BCLS), for decades to come. The transition was not without challenges and teams continue to adopt new processes, operationalize new equipment and technology and adapt to a new building. Moving operations – and several metric tonnes of product – involved the coordination of hundreds of suppliers, over 10,000 customers, and 600+ employees.

A good portion of the past year was also spent planning and preparing for the relocation of our Head Office, a move that brought 700 people from three sites under one roof. The new site at 3383 Gilmore Way in Burnaby provides more room for our expanding responsibilities and more space for collaboration opportunities to support our growing businesses.

Many of the business systems we needed to introduce our new line of business in cannabis were leveraged from our current liquor wholesale and retail operations, with the exception of a cloud-based e-commerce platform for online sales which is completely transaction based and required no upfront investment. We are also replacing our corporate records management system, which is end-of-life and no longer supported by the vendor, with an online enterprise collaboration tool that will be more reliable and permit business areas to better manage their records. The migration of business areas and their records will continue through the remainder of the fiscal year.

The LDB is being consulted and engaged on a number of the recommendations made by the Business Technical Advisory Panel (BTAP), which the Provincial government has begun to action. In 2019/20 we will be participating in a third-party review of our liquor distribution practices, as well as exploring the feasibility of interprovincial direct to consumer sales of wine, beer and spirits.

The LDB spent 2018/19 strengthening its operations for the long-term and will be adding to this foundation over the coming year to sustain future growth and success. Every decision we make as a business is underpinned by the social responsibility we have to our communities, to prevent minors from accessing liquor and cannabis, and to prioritize the health and safety of our customers.

Purpose of the Annual Service Plan Report

The Annual Service Plan Report (ASPR) is designed to meet the requirements of the *Budget Transparency and Accountability Act* (BTAA), which sets out the legislative framework for planning, reporting and accountability for Government organizations. Under the BTAA, the LDB is required to report on the actual results of its performance related to the forecasted targets documented in the previous year's Service Plan.

Purpose of the Organization

In British Columbia, the LDB is one of two branches of Government responsible for the wholesale distribution and retail sale of beverage alcohol and cannabis. The *Liquor Distribution Act* (LDA) gives the LDB the sole right to purchase beverage alcohol both within B.C. and from outside the province, in accordance with the federal *Importation of Intoxicating Liquors Act*. The Liquor and Cannabis Regulation Branch (LCRB) licenses private liquor stores, restaurants, pubs and manufacturers, and enforces regulations under the *Liquor Control and Licensing Act*.

The *Cannabis Distribution Act* (CDA) establishes a government wholesale cannabis distribution model, public cannabis retail stores, and an online government sales channel. The LDB's General Manager has been appointed as the administrator of the CDA. The LCRB licenses private cannabis stores and enforces some aspects of the regulations under the *Cannabis Control and Licensing Act*.

Reporting to the Attorney General, the LDB:

- Has a General Manager and CEO who is responsible for administering the LDA and the CDA, subject to direction from the Minister;
- Operates a province-wide, retail and wholesale beverage alcohol business, within a mixed public-private retail model;
- Operates a province-wide, retail and wholesale cannabis business within a mixed public-private retail model;
- Is responsible for the importation and distribution of beverage alcohol and distribution of cannabis in B.C.;
- Has a workforce of approximately 4,600 full- and part-time employees [1]; and,
- Operates 197 BCLS, one stand-alone BCCS, an online BCCS, a Head Office, three wholesale customer centres and three distribution centres.

As part of B.C.'s mixed-model retail system for liquor and cannabis, the LDB is committed to providing customers with an enhanced shopping environment, an expansive product selection and a high level of service.

The LDB and LCRB have a shared responsibility to encourage the responsible consumption of beverage alcohol and cannabis and work closely together to coordinate policies and programs to this end. Visit "Who We Are" for more information about the LDB.

[1] The number of LDB employees as of March 2019.

For information on the LDB's corporate governance structure and an organizational overview, see Appendix A.

Strategic Direction

The strategic direction set by Government in 2017 and expanded upon in the Mandate Letter from the Minister Responsible in 2018 shaped the 2018/19 Service Plan and the results reported in this ASPR.

The following table highlights the key goals, objectives or strategies that support the key priorities of Government identified in the 2018/19 LDB Service Plan:

Government Priorities	LDB Aligns with These Priorities By:
Delivering the services people count on	• Meeting financial objectives approved by Government (Objective 1.1) • Maintaining a high level of retail and wholesale customer satisfaction (Objective 2.1) • Encouraging the responsible use of beverage alcohol and minimizing the impact of operations on the environment (Objective 5.1)

Operating Environment

Legalization of Cannabis

This year marked the introduction of a new line of business to the LDB. With the legalization of cannabis in Canada, the Province appointed the LDB to be the wholesale distributor of cannabis and to establish government cannabis stores under the BCCS brand. On October 17, 2018, the day of legalization, LDB opened the province's first BCCS in Kamloops and launched its online store. Since then the LDB has been working with local governments to establish more government retail stores in B.C.

The LDB also operationalized its distribution centre in Richmond to serve private and public cannabis retailers. By the end of the 2018/19 fiscal year, LDB had signed 42 supply agreements with federally licensed cannabis producers to ensure there was adequate supply to meet the needs of private and public retailers. The addition of the cannabis line of business was and continues to be a significant change to the LDB's operations.

Business Technical Advisory Panel

In April 2018, Government received the BTAP Report and Recommendations related to liquor policy. This panel, chaired by Mark Hicken, the appointed Liquor Policy Advisor, engaged with various liquor industry stakeholders. The report presented 24 recommendations aimed at improving efficiency and business relations between the Government and B.C.'s liquor industry with respect to liquor regulation and policy. Government and LDB continue to analyze and implement recommendations while identifying the impact to LDB's business.

Warehouse Relocation

LDB began transitioning its operations from the Vancouver Distribution Centre to the new facility in Delta during the summer of 2018. The LDB has experienced some challenges with the transition – primarily as a result of resource constraints and process changes related to the new warehouse management system and new material handling equipment – but adjusted its plans and adopted a phased rollout approach to mitigate negative impacts on customers. All customers were transitioned to the new warehouse in early May of 2019.

Increasingly competitive marketplace

With the introduction of wholesale pricing in 2015, all liquor retailers, including BCLS, have been placed on an equal footing. This, in combination with grocery stores selling some wine products, has resulted in the BCLS chain operating in a more competitive environment. The Retail Division remains focused on remaining competitive as the marketplace continues to evolve. As part of the United States-Mexico-Canada Agreement (USMCA), which has not yet been ratified, Canada agreed to allow import wine to be sold in B.C. grocery stores. Therefore, the full impact of liquor sales in grocery stores still remains to be seen.

Report on Performance

The LDB's Report on Performance describes how the organization implemented its strategies in order to meet its performance goals. It illustrates how the LDB balanced its financial obligations with the non-financial activities outlined in its mandate. The strategies presented are in alignment with the Government's expectations as outlined in the 2018/19 Mandate Letter.

As a means of evaluating the organization's overall health and performance, the LDB executive management team engages in ongoing dialogue and reporting with the Ministry to re-examine goals, performance measures and strategies.

Goals, Objectives, Measures and Targets

Goal 1: Financial Performance

Objective 1.1: Meet financial objectives approved by Government

Key Highlights:

- Grow sales and effectively manage operating expenses in order to sustain net returns to the Province.

Performance Measure 1.1: Net Income

Performance Measure	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
Net income (in $millions)	1,083.2	1,119.6	1,106.2	1,104.0	1,120.2	1,155.4

Data Source: BCLS sales data is collected from computerized point-of-sale cash register systems and stored in Head Office databases. Sales made directly to customers by authorized representatives on behalf of the LDB are transmitted to the LDB and stored in databases. LDB financial statements are audited by the Office of the Auditor General annually. LDB expense data is captured, stored, and reported by the LDB's financial system.

Discussion:

Net income is the contribution made to the Province by the LDB from beverage alcohol and cannabis sales. LDB's net income is audited by the BC Auditor General and is a significant contributor to Government revenues.

Cannabis was legalized in Canada on October 17, 2018. During fiscal 2018/19, the LDB was appointed to be the sole wholesaler of cannabis for the province, and to operate an online sales channel and public retail stores as part of a public-private retail model. The first six months of cannabis operations had no significant financial impact to the LDB.

Provincial sales were $3.6 billion in fiscal 2018/19 and were $3.8 million (0.1 per cent) above target. Compared to fiscal 2017/18, sales were $95.6 million or 2.7 per cent higher.

Liquor sales changes – and the resulting impact on net income – are the result of a number of factors, including weather, holiday weekends, supplier promotions, changes in sales mix, and the introduction of cannabis.

Liquor sales increases are due mainly to strong performance in the spirit and refreshment beverage categories which contributed $72.8 million. Cannabis sales added $18.0 million to the overall increase of $95.6 million. Liquor sales for the year continued to shift from beer and wine towards refreshments. Refreshment beverage sales increased significantly by 20.4 per cent over prior year.

LDB's net income for the year was $1.1 billion, $2.2 million (0.2 per cent) below target and 1.4 per cent lower than the previous year. The decrease in net income was mainly due to expense increases in employment, rent, costs associated with launching the cannabis line of business, and amortization.

Compared to the 2018/19 Service Plan, future year targets have been updated to reflect the latest liquor industry trends and inclusion of the new cannabis division.

Goal 2: Customer Experience

Objective 2.1: Maintain a high level of retail liquor customer satisfaction

Key Highlights:

- Renovated 19 BCLS to add refrigeration and provide for a more welcoming store appearance, to enhance the customer's experience.
- Provided customer service training and product knowledge training to store staff.
- Continued to introduce new products to ensure the needs of customers is met consistently. Focused on market demand and trends for refreshment beverages and rosé wine, and extended overall offering of spirits, wine and beer.

Performance Measure	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
2.1 Retail customer satisfaction	83%	n/a	84%	86%	n/a	85%

Data Source: The LDB contracts with a professional survey company to conduct the retail customer service survey.

Discussion:

Every two years, BCLS customers are surveyed by a professional survey company to determine customer satisfaction. The results of the survey allow the BCLS chain to compare retail customer satisfaction over time, and determine if a high level of satisfaction is being maintained.

Setting a consistently high bar for customer satisfaction ensures BCLS maintains its customer-centric focus. In fiscal 2018/19 the chain rolled out a new customer service model; GREAT, which stands for Greet Rapport Evaluate Act Think, to emphasize the building of rapport with customers and sharing relevant product knowledge to help them find the product they are looking for. In 2018/19 LDB set a target of 84 per cent for retail liquor customer satisfaction and exceeded this target by 2 per cent, receiving a score of 86 per cent for this performance measure. The LDB's Retail division anticipates that the GREAT service training will continue to have a positive impact on customer satisfaction; therefore the 2020/21 target is set at 85 per cent, an increase from the 84 per cent target for 2018/19.

Objective 2.2: Maintain a high level of wholesale liquor customer satisfaction

Key Highlights:

- Largely completed the physical move of the distribution centre from Vancouver to Delta while providing transparent and timely communication to our customers, suppliers, employees and stakeholders.
- Installed a new warehouse management system in Delta Distribution Centre to support customer satisfaction, including training of all employees on process and systems knowledge to enhance customer service.
- Increased on hand inventory commensurate with additional space, thereby increasing in stock satisfaction in the fourth quarter of the fiscal year. Shipped almost 19 million cases and 2.6 million individual bottles.

Performance Measure		2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
2.2	Liquor Wholesale customer satisfaction	68%	n/a	n/a	n/a	75%	n/a

Data Source: The LDB contracts with a professional survey company to conduct the wholesale customer service survey.

Discussion:

LDB's Liquor Wholesale customers – BCLS, private retail liquor stores, rural agency stores, bars and restaurants – are surveyed every two years by a professional survey company to determine customer satisfaction. The results of these surveys allow the Liquor Wholesale division to compare customer satisfaction over time, and determine if a high level of satisfaction is being maintained. The 2019/20 target was revised from 80 per cent to 75 per cent to reflect the industry feedback received to date regarding the new warehouse and the new systems and processes.

The survey scheduled to be undertaken in 2018/19 was postponed to 2019/2020 due to the Vancouver Distribution Centre moving its operations to the new warehouse facility in Delta. The survey will be further postponed until summer of 2020 so as to not conflict with the 2019 survey of liquor wholesale customers undertaken by the consultant appointed by the Province in response to BTAP recommendation number one.

Goal 3: Workplace Quality and Employee Excellence

Objective 3.1: Create a work environment that encourages greater employee engagement

Key Highlights:

- Enhanced employee skills and engagement through leadership development training (Strategic Leadership Development program).
- Developed and delivered training for employees in cannabis line of business.
- Launched internal We Care employee engagement survey, to be conducted on the off years of the Workplace Engagement Survey (WES). WES is conducted every two years by BC Stats and is expected to be conducted again in fall 2019.
- Implemented new collaborative work spaces and tools for employees. For example, there are more open work spaces, meeting rooms, and an improved WebEx video conferencing platform.

Performance Measure	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
3.1 Employee engagement	n/a	69%	n/a	n/a	71%	n/a

Data Source: WES is conducted by BC Stats for the LDB. These numbers, taken from WES, are a performance measure that reflects LDB employee satisfaction and organizational commitment to the LDB. The average score of employee engagement, shown in the table above is calculated for each respondent. Then the scores from all respondents are averaged together to produce one single engagement score. This is done by summing all the scores and dividing the total points by the number of respondents.

Discussion:

The LDB measures employee engagement every two years by asking employees (all regular and auxiliary employees covered by the *Public Service Act)* about their work environment through the WES. The survey consists of 70 questions covering a wide range of workplace topics that include day-to-day work, physical environment, development and performance etc. The results of this survey provide a useful snapshot of employee engagement across the LDB and are directly related to the objective of "creating a work environment that encourages greater employee engagement". LDB's internal We Care survey measures employee engagement using a smaller subset of questions from the WES. The We Care Survey will be conducted every other year.

The LDB continued to see overwhelming widespread organizational changes throughout the year. Leaders implemented strategies and plans to increase change awareness and assist employees with these ongoing changes. LDB's Q4 launch of the internal engagement survey assisted with understanding current state challenges to better impact the increase of the targeted WES score of 71 per cent.

Goal 4: Business Effectiveness

Objective 4.1: Maintain BC Liquor Stores operating efficiencies in a climate of constant change

Key Highlights:

- Began analyzing business improvement processes to reduce costs and improve customer services (i.e. analysis on whether fax machines are still required for stores).
- Refined demand planning technology and tools in order to better tailor product assortment and selection to target customer segments.
- Implemented operational tools and processes to improve efficiency of store operations. For example, BCLS implemented a bridge-buy analytics dashboard to assist stores to be more strategic in their purchasing behavior.

Performance Measure	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
4.1 BCLS sales per square foot	$1,380	$1,402	$1,409	$1,417	$1,446	$1,466

Data Source: BCLS sales data is collected from a computerized point-of-sale cash register system and stored in LDB's Data Warehouse.

Discussion:

This BCLS performance indicator is based on the annual dollar sales of all stores divided by the total of all stores' square footage. This measures how well BCLS converts floor space and is linked to how efficiently the BCLS chain is operating.

The increase in sales per square feet in 2018/19 is a result of modernization efforts, which have included changes to marketing initiatives, assortment/space planning and the installation of refrigeration units at a number of stores. These changes, as well as the implementation of the GREAT service model mentioned earlier, are reflected in the steady upward increase expected in sales per square foot over the next few years. In the 2018/19 fiscal year the Cloverdale BCLS relocated to a larger store, which resulted in an increase in total square footage; targets in the 2019 Service Plan were revised to reflect the additional space.

Objective 4.2: Maintain Liquor Wholesale Division’s operating efficiencies in a climate of constant change

Key Highlights:

- Completed the physical move of the distribution centre from Vancouver to Delta and implemented a new warehouse management system in Delta to support customer satisfaction and improve efficiencies. Conversion of Kamloops to new warehouse management system is expected to be complete by spring 2020.
- Shipped a record of almost 19 million cases and 2.6 million individual bottles, while introducing system changes and relocating the distribution centre.
- Managed a significant volume of new products, specifically refreshment beverages amid unprecedented customer demand.

Performance Measure	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
4.1b Distribution Centre labour cost per case shipped	$1.86	$1.99	$2.10	$2.29	$2.10	$1.90
4.1c Distribution Centre order fill rate	91%	89%	90%	83%	93%	95%

Data Source: Orders and shipments processed by the LDB Distribution Centres are captured and stored by computer applications designed for this purpose.

- 4.1b This performance measure is calculated by dividing Distribution Centre labour expenses by total case shipments and therefore serves as a useful measure of operating efficiency.
- 4.1 c This performance measure is the percentage of each order filled completely by the LDB Distribution Centres and is calculated by dividing the number of ordered items that are filled completely by the total number of items ordered.

Discussion:

Since April 2015, there has been a 30 per cent increase in new customers with much smaller and more labour intensive orders, impacting the Distribution Centre’s labour cost per case shipped. This is due to the split between the LDB’s Retail and Wholesale divisions and the fact that all private liquor stores, rural agency stores and many hospitality customers now order directly from the warehouse. With the move of the warehouse facility to Delta in 2019, the LDB will be better positioned to provide quality and timely service to wholesale customers.

The targets and actual results for labour cost per case increased in 2018/19 as a result of incurring higher than planned overtime as LDB ran three distribution centres, in Vancouver, Delta and Kamloops from mid 2018 through mid 2019 to support our longer than planned transition, and to fulfill the increase in orders. We expect this to stabilize as we discontinue operations in the Vancouver warehouse in summer 2019, with the result that cost per case will decrease beginning in late 2019/20.

The 2018/19 order fill rate of 83 per cent reflects the severe shortage of refreshment beverage product throughout the summer, additional challenges in spirits and wine caused by a combination of capacity challenges at both the LDB warehouses and agent warehouses in the fall of 2018, and by inventory imbalances as the Delta DC went live. Since opening and stabilizing at the new warehouse in Delta, Liquor Wholesale has doubled the on hand inventory, thereby significantly improving the in stock level. Setting a target of between 93 and 95 per cent in the future strikes the right balance between the effective management of inventory and the minimization of product stock-outs, and reflects additional warehouse space to hold and distribute product.

Goal 5: Corporate Social Responsibility

Objective 5.1: Encourage the responsible use of beverage alcohol and cannabis

Key Highlights:

- Developed employee training and policies for two-ID checking upon entry to BCCS to prevent sales of cannabis to minors.
- Prominently display social responsibility material on the online BCCS's landing page and throughout the e-commerce platform.
- Prevented sales to minors or intoxicated persons in BCLS through staff education and enforcement of ID-checking requirements.
- Encouraged the responsible use of alcohol consumption through the display of promotional material and signage at BCLS.

Performance Measure – BCLS	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
5.1a Store compliance with ID-checking requirements [1]	96%	100%	100%	100%	100%	100%
5.1b Customer awareness of LDB Corporate Social Responsibility Programs[2]	89%	n/a	90%	96%	n/a	90%

[1] **Data Source**: The LCRB administers an ID compliance checking program and provides the results of BCLS compliance to the LDB.
[2] **Data Source**: The LDB contracts with a professional survey company to conduct the retail customer survey.

Discussion:

Every two years, BCLS retail customers are surveyed by a professional survey company to gauge customer recall of promotional posters and other in-store materials related to the LDB's corporate social responsibility programs. The results of this survey provide a useful indicator of how well the LDB is achieving its objective of encouraging the responsible use of beverage alcohol.

BCLS continue to ensure the enforcement of the ID-checking program to prevent sales to minors and intoxicated persons, through on-going employee training and awareness. A continuous target of 100 per cent has been set to reflect the critical importance to the LDB of preventing sales to minors. In 2018/19 a target of 100 per cent was set for store compliance with ID-checking requirements and in 2018/19, based on compliance data from LCRB, LDB achieved 100 per cent for this performance measure.

With respect to the LDB's corporate social responsibility programs, the LDB encourages the responsible use of beverage alcohol through partnerships, promotional posters and other materials available and displayed in stores. Every two years, the LDB conducts a customer survey to measure customer recall of these materials to ensure the LDB develops impactful and relevant messaging. Setting a high target of 90 per cent for customer awareness of social responsibility programs represents the high value that the LDB places on this goal. In 2018/19 LDB set a target of 90 per cent for customer awareness of LDB corporate social responsibility programs and exceeded these targets by 6 per cent, by receiving a score of 96 per cent for this performance measure.

Cannabis Division:

With regards to wholesale and retail sales of cannabis, the LDB is making social responsibility a key priority, in alignment with the federal and provincial governments. In-store corporate social responsibility materials and signage will encourage the responsible use of cannabis. BC Cannabis Stores plans to partner with a professional survey company to measure customer recall of these materials, to ensure that in-store campaigns and messaging are impactful and relevant.

Objective 5.2: Minimize the impact of operations on the environment

Key Highlights:

- Continued to reduce the impact of operations on the environment by decreasing waste, increasing recycling rates and achieving carbon neutrality on an annual basis.
- Continued promoting waste diversion and recycling programs at Head Office and Vancouver Distribution Centre through employee training and awareness campaigns.

Performance Measure	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
5.2 Waste diversion rate at Head Office and Vancouver Distribution Centre	80%	79%	85%	80%	85%	85%

Data Source: Waste diversion rates represent the weight of material diverted from the landfill through composting and recycling as a percentage of the total weight of waste material generated. Rates will be determined based on measured weights reported by a contracted waste and recycling service provider.

Discussion:

The LDB measures its waste diversion rate at Head Office and Vancouver Distribution Centre every year through measured weights reported by its contracted waste and recycling service provider. The results provide an accurate view of the weight of material diverted from the landfill through composting and recycling as a percentage of the total weight of waste material generated.

While just short of our 2018/19 target, actuals were impeded by the transition of our Vancouver Distribution Centre to a new facility in Delta and the parallel operation of both facilities during the transition period. The LDB also moved to a new head office location in March 2019 and, while the modernized space is expected to support future waste diversion targets, our 2018/19 actuals reflect the increased waste produced as part of the move and transition period.

As part of the move to a modernized head office building and new distribution centre, the LDB is making improvements to its recycling programs. For example, we have expanded the contract with our waste and recycling service provider to include on-site recycling for electronics at head office. However, the LDB will maintain its target of 85 per cent since improvements in the head office and new distribution centre may be off-set by the expansion of this measure to include BCCS and the Richmond Distribution Centre in fiscal 2019/20.

Financial Report

Highlights

In 2018, the LDB was appointed to be the Administrator under the CDA which resulted in creating a new operating division. Under the Act, the LDB is responsible for the wholesale distribution of cannabis and operating public retail stores as well as an on-line e-commerce platform. The Cannabis division commenced operations on October 17, 2018. At the end of fiscal 2018/19 the Cannabis division has one BCCS operating in Kamloops, manages an on-line BCCS, and operates a provincial wholesale distribution warehouse supporting both public-private retail stores.

The LDB operates separate Liquor Retail and Liquor Wholesale divisions. In summer 2018, the Liquor Wholesale division began moving distribution operations to the new warehouse located in Delta. The transition was completed early May 2019. At March 31, 2019 the LDB was operating three liquor warehouses resulting in higher than average liquor inventory on-hand.

As separate liquor divisions, BCLS are a customer of the Liquor Wholesale division and operate under a retail margin like any other retailer. For information on BCLS operating results, please see Appendix A. In order to avoid double counting, all transactions between BCLS and the Liquor Wholesale division have been eliminated from the LDB financial results.

A third significant initiative undertaken during 2019 was the move of the LDB head office from Vancouver to Burnaby. The move centralized all liquor and cannabis administrative functions into one location, encouraging increased collaboration and efficiencies.

For 2018/19, the LDB's net income and contribution to government was $1.1 billion. This was a decrease of $15.5 million compared to the previous year, and $2.2 million lower than budgeted. This includes start-up costs of $4.8 million and an operating loss by the cannabis division of $5.6 million.

Sales

LDB sales for fiscal 2018/19 were $3.6 billion, $3.8 million (0.1 per cent) above budget.

Provincial liquor sales were $3.6 billion in fiscal 2018/19 and increased by 2.2 per cent, or $77.6 million, compared to prior year. Sales were led by healthy growth in the refreshment and spirit categories.

For the six months of operations, cannabis sales totaled $18.0 million with 2,084 kilogram equivalent of product sold.

Gross margin for the year was $1.5 billion, an increase of $30.7 million, or 2.1 per cent, when compared to 2017/18. As a percentage of sales, the gross margin rate declined slightly from 41.9 per cent to 41.7 per cent when compared to the prior year. The decline was mainly due to a change in product mix and the introduction of cannabis products which generally carry a lower margin.

Operating Expenses

Operating expenses were $411.7 million, $13.4 million higher than budget and $51.6 million higher than in fiscal 2017/18. As a percentage of sales, the expense rate was 11.5 per cent, 1.2 per cent higher than prior year rate at 10.3 per cent. The higher ratio is mainly due to the addition of the cannabis division and the related start-up costs.

The majority of the LDB's operating expenses are comprised of employment, rent, bank charges, professional services, depreciation and amortization.

The largest increases in expenses occurred in the following areas:

- Employment expenses increased by $17.3 million due to a combination of negotiated rate increases, overtime and labour hours required to support projects and operations.
- Rent expenses increased by $7.0 million due to rent renewals, relocations, additional warehouse costs, and property taxes.
- Professional services increased $3.9 million due to additional resources and consulting services required to support cannabis operations and the move to the new head office
- Amortization increased by $9.8 million due to the completion of several projects. These included tenant improvements for leased locations; equipment and systems for new warehouses, head office and the cannabis retail store; and an on-line sales system.

The LDB continues to monitor its expenses as a percentage of sales by carefully managing its discretionary and staffing expenses in all areas of operations.

Capital

As a result of the significant initiatives during the year, capital expenditures for fiscal 2018/19 totalled $59.7 million, an increase of $12.0 million over the previous year. The majority of spending ($26.3 million) was related to implementation of cannabis operations, and included new information systems, tenant improvements, store fixtures and equipment. Costs related to operationalizing the Delta Distribution Centre totalled $16.6 million and on-going LDB operational capital spending was $16.8 million.

Financial Results Summary Table

$millions	2017/18 Actual[1]	2018/19 Budget	2018/19 Actual	2018/19 Variance
Sales	3,498.0	3,589.8	3,593.6	3.8
Cost of Sales	2,030.6	2,094.4	2,095.5	1.1
Gross Profit	1,467.4	1,495.4	1,498.1	2.7
Operating Expenses - Employment	203.8	210.8	221.0	10.2
Operating Expenses - Rent	52.5	55.4	59.5	4.1
Operating Expenses - Administration	103.7	132.0	131.2	(0.8)
Profit	1,107.3	1,097.2	1,086.4	(10.8)
Comprehensive Income	1,119.6	1,106.2	1,104.0	(2.2)
Gross Margin (%)	41.9%	41.7%	41.7%	0.0%
Operating Expenses to Sales (%)	10.3%	11.1%	11.5%	0.4%
Net Income to sales (%)	31.9%	30.8%	30.7%	-0.1%
Inventory Turnover	17	-	13	-
Capital[2]	47.7	83.2	59.7	23.5
Debt	0	0	0	0
Retained Earnings	0	0	0	0

Note 1: The above financial information was prepared based on the FY18/19 audited financial statements.
Note 2: The capital budget was updated from the previous budget amount of $60.3 million, included in the 2018/19 – 2020/21 Service Plan, for cannabis implementation.

Variance and Trend Analysis

Liquor

During 2018/19, the retail customer count at BCLS decreased 4.2 per cent to 36.8 million from the 38.5 million customers in the prior year. The decreased customer count was due to a combination of increased competition and stores under renovation.

The average retail customer transaction value at BCLS increased 0.5 per cent, from $36.37 to $36.57. The higher average transaction value indicates that while there are fewer visits, BCLS customers on average are spending slightly more per visit.

The LDB holds inventory on average for 27 days with an annual inventory turn rate of 13. The inventory turn rate has decreased from the 17 of the previous year, indicating that it takes seven more days to sell through the on-hand inventory. The LDB will be carrying higher on-hand inventory due to the transition to the new warehouse in Delta.

Cannabis

Supply shortages and slower than anticipated provincial and municipal approvals resulted in the B.C. cannabis industry evolving at a slower than expected rate. The challenges faced in B.C. are consistent in other jurisdictions in Canada. Statistics Canada estimates that in Canada, cannabis-related expenditures in the fourth quarter of 2018 were $2.2 billion, with 65 per cent illegal and 35 per cent legal.

In the first six months of operation, there were 212,000 retail transactions through the retail store and on-line sales system with an average transaction value of $74.38 for product and accessories.

From Statistics Canada, in 2017 the average cannabis transaction was $7.43 per gram in Canada and $6.94 per gram in B.C. Statistics Canada data collected through crowdsourcing indicated that the average price paid for legal cannabis flowers was $9.70 in the fourth quarter of 2018 while the corresponding average price of illegal cannabis was $6.51. In the first quarter of 2019, Statistics Canada National Survey reported that fewer cannabis consumers indicated that they were obtaining cannabis from illegal sources compared to the prior year. The LDB pricing strategy is focused on being competitive with the illicit market and to encourage purchases from the legal market.

Managing inventory levels in an environment of product shortages and unknown customer demand is very challenging. The LDB is currently building inventory levels in anticipation of future public and private retail stores.

Product Categories

LDB sales of $3.60 billion increased 2.7 per cent compared to the previous year and was driven by a combination of volume growth in spirits and refreshments, and higher average selling prices.

Table 1: Sales by Major Category ($000s)

For the five fiscal years ended March 31, 2019

						Change vs. Previous Year (2018/19 vs. 2017/18)	
	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**$**	**%**
Liquor							
Spirits	726,108	786,803	832,180	872,570	900,050	27,480	3.1
Wine	967,132	1,074,860	1,154,041	1,212,673	1,222,571	9,898	0.8
Refreshment	151,937	180,366	196,485	221,548	266,819	45,271	20.4
Beer	1,030,616	1,112,911	1,146,431	1,188,762	1,183,682	-5,080	-0.4
Other	2,125	2,099	2,395	2,454	2,499	45	1.8
Total Liquor	2,877,918	3,157,039	3,331,532	3,498,007	3,575,621	77,614	2.2
Cannabis	n/a	n/a	n/a	n/a	17,992	n/a	n/a
Total Sales	**2,877,918**	**3,157,039**	**3,331,532**	**3,498,007**	**3,593,613**	**95,606**	**2.7**

Beverage alcohol sales increased by $77.6 million compared to the previous year. All categories showed growth except beer which declined by $5.1 million or 0.4 per cent. Spirits, wine and beer continue to be the primary areas of revenue for the LDB. Consistent with prior year trends, the refreshment category had the highest growth, increasing by 20.4 per cent, or $45.3 million. Since fiscal 2014/15, the refreshment category has grown 76 per cent, compared to the beer category which has grown 15 per cent.

In fiscal 2018/19, sales mix continued to shift towards refreshment beverages as that category contributed 7.5 per cent of all LDB sales, up from the 6.3 per cent of the prior year. The beer category decreased 0.9 per cent in the current year, accounting for 33.1 per cent of LDB sales. The wine category also decreased by 0.5 per cent with a category share of 34.2 per cent of LDB sales. The spirit category remained relatively unchanged. As the LDB has different mark-up rates on products, as shifts occur between product categories, this impacts the LDB gross margin.

In litres, the beer category still has the highest sales volumes followed by wines, refreshment beverages and spirits. Consistent with the sales dollar increase, the refreshment beverage category also had the highest volume increase. For all categories, sales dollar increase was higher than volume increase, indicating that the products sold were at higher price points compared to the prior year.

Table 2: Sales by Major Category in Litres/Kilograms (000s)
For the five fiscal years ended March 31, 2019

						Change vs Previous Year (2018/19 vs. 2017/18)	
	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**Change**	**%**
Liquor							
Spirits	24,602	25,810	26,478	27,029	27,374	345	1.3
Wine	69,302	73,805	75,871	77,408	76,005	(1,403)	(1.8)
Refreshment	35,245	40,300	43,364	48,633	56,343	7,710	15.9
Beer	283,857	292,574	293,986	298,751	293,267	(5,484)	(1.8)
Other	148	156	206	231	244	13	5.6
Total Liquor (litres)	**413,154**	**432,645**	**439,905**	**452,052**	**453,233**	**1,181**	**0.3**
Cannabis (kilograms)	n/a	n/a	n/a	n/a	**2,083**	n/a	n/a

Data Source: LDB Oracle Financial System.

For liquor, there was a small volume increase of 0.3 per cent over the previous year. Increases in the refreshment category were offset by decreases in the wine and beer category, reflecting changing consumer preferences. The refreshment beverage category had the largest volume increase at 15.9 per cent, followed by spirits at 1.3 per cent, and both wine and beer declined at 1.8 per cent when compared to last year.

Customer Sales

In 2018/19, the liquor marketplace saw increased competition as licensed retail stores took market share from BCLS and increased their percentage of the overall provincial sales by 0.9 per cent.

For cannabis sales, the sales mix reflects the fewer than anticipated private retail stores during the year. Cannabis sales are expected to grow as more private and public retail stores open.

Table 3: Provincial Sales by Customer based on Dollar Sales
For the five years ended March 31, 2019

Liquor (as a percentage of total dollar sales)	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
BCLS counter customers	41.7	43.7	43.0	41.8	41.0
Licensee retail stores	31.8	30.6	30.8	31.4	32.3
Licensed establishments	17.2	16.9	16.8	17.1	16.7
Other customers	6.3	6.1	6.7	7.0	7.3
Agency Stores	3.0	2.8	2.7	2.7	2.7
Total Liquor Sales (%)	100.0	100.0	100.0	100.0	100.0
Cannabis					
Retail customers	n/a	n/a	n/a	n/a	78.3
Private cannabis retail stores	n/a	n/a	n/a	n/a	21.7
Total Cannabis Sales (%)	n/a	n/a	n/a	n/a	100.0

Data Source: LDB Oracle Financial System.

Table 4: Provincial Sales by Customer based on Litre/Kilogram Sales
For the five years ended March 31, 2019

Liquor (as a percentage of total litre sales)	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
BCLS counter customers	32.8	34.4	33.6	32.7	32.2
Licensee retail stores	41.5	39.9	40.5	41.0	41.7
Licensed Establishments	18.6	18.3	18.2	18.1	17.7
Other customers	3.0	3.4	4.0	4.1	4.1
Agency Stores	4.1	4.0	3.7	4.1	4.3
Total Liquor Sales (%)	100.0	100.0	100.0	100.0	100.0
Cannabis (as a percentage of total kilogram sales)					
Retail Customers	n/a	n/a	n/a	n/a	74.8
Private cannabis retail stores	n/a	n/a	n/a	n/a	25.2
Total Cannabis Sales (%)	n/a	n/a	n/a	n/a	100.0

Data Source: LDB Oracle Financial System.

Table 5: Year-over-Year Changes in Liquor Customer Sales Based on Dollar Sales
For the five years ended March 31, 2019

	2014/15	2015/16	2016/17	2017/18	2018/19
BCLS counter customers	1.9	14.8	4.0	2.1	0.1
Licensee Retail Stores	6.9	5.6	6.4	6.9	5.2
Licensed Establishments	5.0	7.5	5.0	6.3	0.6
Other customers	16.4	6.4	14.9	16.2	5.1
Agency Stores	1.3	1.9	3.4	5.5	2.7
Total Sales (%)	**4.8**	**9.7**	**5.5**	**5.0**	**2.2**

Data Source: LDB Oracle Financial System.

There was sales growth in all customer categories compared to the prior year with the largest percentage increase in the licensed retail stores and 'other customer' category. This category was led by the increased number of B.C. manufacturer on-site stores. BCLS continue to adjust operations to compete in the marketplace similar to other private stores.

Remittances to Government agencies

The LDB paid $1.5 billion to various Government agencies during fiscal 2018/19. Due to the timing of remittance payments, 12 excise tax payments occurred in the 2018/19 fiscal year.

Table 6: Remittances to Government Agencies
(in $000s)

	2014/15	2015/16	2016/17	2017/18	2018/19
FEDERAL GOVERNMENT					
Custom Duties and Excise Tax	141,946	157,656	146,486	177,287	169,851
GST	65,264	68,636	73,310	74,927	73,079
Total	**207,210**	**226,292**	**219,796**	**252,214**	**242,930**
PROVINCIAL GOVERNMENT					
LDB Net Income	935,233	1,031,271	1,083,246	1,119,557	1,104,035
Social Services Tax	127,726	137,565	146,327	146,539	148,441
Liquor Control and Licensing	421	422	424	428	427
Total	**1,063,380**	**1,169,258**	**1,229,997**	**1,266,524**	**1,252,903**
MUNICIPAL GOVERNMENT					
Property Taxes	1,179	912	1,019	1,045	1,135
Business Licenses	33	36	38	38	43
Total	**1,212**	**948**	**1,057**	**1,083**	**1,178**
Total Remittances	**1,271,802**	**1,396,498**	**1,450,850**	**1,519,821**	**1,497,011**

Risks and Uncertainties

The LDB monitors the changing landscape of cannabis and liquor in order to pro-actively address changes in policy, marketplace, and uncertainties.

As the cannabis industry continues to evolve, the retail landscape will continue to be very dynamic and unpredictable. As more cannabis retail stores obtain licensing and municipal approval, competition will increase and consumers will have more choices on where to purchase product. As more cannabis licensed producers enter the market, supply constraints should ease allowing for a more efficient supply chain and reliability of product for retailers. When edibles are introduced into the marketplace, industry will need to be adaptable to the new regulations and changes required in the supply chain.

To support a robust retail marketplace, the LDB is working closely with municipalities and plans to open up to 30 retail stores in various communities in fiscal 2019/20. Municipal decisions impact the number and timing of when retailers can begin operations. The LDB is reviewing the potential business impacts when edibles are introduced in fall of 2019 in order to address any potential risks.

In April 2018, Liquor Policy Advisor Mark Hicken presented government with the BTAP Report which includes 24 recommendations aimed at improving efficiency and industry relations with government. The report sets out possible regulatory and policy reforms. Government is currently reviewing the recommendations and there may be future policy decisions that impact the LDB.

Wine in grocery stores is another area of change in the upcoming year. Currently, only wines produced in B.C. are allowed to be sold in grocery stores. As part of the discussions during United States-Mexico-Canada Agreement (USMCA) negotiations, Canada agreed to allow non-B.C. wine sales in B.C. grocery stores in exchange for the US to drop its trade challenge with the World Trade Organization. While the USMCA is not yet ratified, LDB is currently evaluating impacts and assessing the business changes required for import wines in grocery stores.

Major Capital Projects

Major Capital Projects (over $50 million)	Targeted Completion Date (Year)	Project Cost to March 31, 2019 ($ millions)	Estimated Cost to Complete ($ millions)	Approved Anticipated Total Capital Cost of Project ($ millions)
Warehouse relocation	2020	42.4	7.0	49.4

Warehouse relocation project

The LDB has entered into a long-term lease for a liquor warehouse facility located Delta, B.C., and completed converting all customers and operations from the Vancouver warehouse to the Delta facility in May 2019. Now that the Delta conversion is complete, the warehouse management system in the Kamloops Distribution Centre will be upgraded to the same systems in Delta. The system upgrade is expected to be complete by spring 2020. This will position the LDB to provide high-quality and timely service to liquor wholesale customers and all British Columbians, resulting in both operational and financial benefits sooner.

The capital cost outlined is funding for material handling equipment, racking and conveyors, as well as a new computerized warehouse management system for the warehouse.

Auditor’s Report

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. Blair Lawson
General Manager and Chief Executive Officer

Roger M. Bissoondatt, FCPA, FCA, FCMA
Chief Financial Officer

Vancouver, British Columbia
May 13, 2019

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Auditor General
of British Columbia

INDEPENDENT AUDITOR'S REPORT

To the Minister of Attorney 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, 2019, 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 British Columbia Liquor Distribution Branch as at March 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 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 Accompanying Information

Management is responsible for the other information. 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 us after the date of this auditor's report.

My opinion on the financial statements does not cover the other information accompanying the financial statements 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 the 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 (IFRS), 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 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

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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.

Russ Jones

Russ Jones, FCPA, FCA
Deputy Auditor General

Victoria, British Columbia, Canada
May 13, 2019

Audited Financial Statements

BC LIQUOR DISTRIBUTION BRANCH
Notes to the Financial Statements (Tabular amounts in thousands of dollars)
for the year ended March 31, 2019

Statement of Comprehensive Income
(in thousands of dollars)

For the year ended March 31, 2019, with comparative information for 2018

	Note	2019	2018
Revenue	4	$ 3,593,613	$ 3,498,007
Cost of sales		(2,095,527)	(2,030,641)
Gross profit		1,498,086	1,467,366
Expenses:			
Administration	5, 14	(402,377)	(353,381)
Marketing	5	(6,665)	(5,269)
Transportation	5	(2,647)	(1,397)
		(411,689)	(360,047)
Profit		1,086,397	1,107,319
Other income		17,638	12,238
Total comprehensive income		$ 1,104,035	$ 1,119,557

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

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

For the year ended March 31, 2019, with comparative information for 2018

	Note	2019	2018
Balance beginning of year		$ (54,875)	$ (28,510)
Total comprehensive income		(1,104,035)	(1,119,557)
Net payments to the Province of British Columbia	12	1,004,842	1,093,192
Balance end of year		$ (154,068)	$ (54,875)

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

Statement of Financial Position
(in thousands of dollars)

For the year ended March 31, 2019, with comparative information for 2018

	Note	2019	2018
Assets			
Current:			
Cash		$ 25,169	$ 29,294
Accounts receivable	6	21,178	18,350
Prepaid expenses	7	10,592	11,568
Inventories	8	208,099	121,940
		265,038	181,152
Non-current assets:			
Prepaid expenses	7	4,468	1,524
Intangible assets	9	54,075	40,425
Property and equipment	10	86,080	68,551
		144,623	110,500
Total assets		$ 409,661	$ 291,652
Liabilities			
Current:			
Accounts payable and accrued liabilities	11, 14, 15	$ 220,408	$ 203,657
Due to Province of British Columbia	12	154,068	54,875
		374,476	258,532
Non-current liabilities:			
Other long-term liabilities	13, 14, 15	35,185	33,120
Total liabilities		$ 409,661	$ 291,652

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

Approved for issue on May 13, 2019 by:

R. Blain Lawson
General Manager and Chief Executive Officer

Roger M. Bissoondatt, FCPA, FCA, FCMA
Chief Financial Officer

Statement of Cash flows (in thousands of dollars)

For the year ended March 31, 2019, with comparative information for 2018

	Notes	2019	2018
Cash provided by (used in):			
Operating:			
Total comprehensive income		$ 1,104,035	$ 1,119,557
Items not involving cash:			
Depreciation and amortization		28,452	18,696
Loss on retirement/disposal of property and equipment		75	504
Rent and lease amortization		2,050	1,093
Accrued employee benefits		(162)	1,453
Change in non-cash operating working capital:			
Non-current assets		(2,944)	(765)
Working capital	6, 7, 8	(71,083)	5,968
		1,060,423	1,146,506
Investing:			
Acquisition of intangible assets	9	(27,299)	(13,695)
Acquisition of property and equipment	10	(32,444)	(34,025)
Proceeds from disposal of property and equipment		37	29
		(59,706)	(47,691)
Financing:			
Net payments to the Province of British Columbia	12	(1,004,842)	(1,093,192)
		(1,004,842)	(1,093,192)
(Decrease) increase in cash		(4,125)	5,623
Cash, beginning of year		29,294	23,671
Cash, end of year		$ 25,169	$ 29,294

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

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 the Attorney General.

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

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 balance sheet 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 13, 2019.

(b) Basis of measurement

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

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the 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 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.

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 significant 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 and residual values 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, and any changes that could affect prospective depreciation and amortization charges and asset carrying values.

(ii) Employee benefits – Retiring allowances

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

3. Significant accounting policies

The accounting policies below have been applied consistently to all periods presented in these financial statements, 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

Effective April 1, 2018, the LDB adopted IFRS 9, *Financial Instruments* (“IFRS 9”) retrospectively. Prior periods were not restated and no material changes resulted from adoption of this new standard.

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 also amends derivative financial instruments and hedge accounting. This standard replaces IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”).

The implementation of IFRS 9 did not result in any impact on the LDB’s financial instruments. The LDB also applied related amendments to IFRS 7, *Financial Instruments: Disclosures* (“IFRS 7”).

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

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the LDB's accounting policies related to financial assets and financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets and liabilities is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income ("FVOCI") – debt instrument, FVOCI – equity instrument, or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

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; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the LDB may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

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.

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

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 total comprehensive income.
- Financial assets at amortized cost: these assets are subsequently measured at amortized costs 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 total comprehensive income.
- 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.
- Equity investments at FVOCI: these assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the LDB's financial assets and liabilities as at April 1, 2018.

	Original classification Under IAS 39	New classification under IFRS 9
Financial Assets		
Cash	Loans and receivables	FVTPL
Accounts receivables	Loans and receivables	Amortized cost
Financial Liabilities		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Due to the Province of British Columbia	Other financial liabilities	Amortized cost

On adoption of IFRS 9, no changes in the carrying amounts of the financial assets or financial liabilities have been recorded.

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The financial assets at amortized cost consist of accounts receivable.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime EFLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The LDB has elected to measure loss allowances for financial assets at amortized cost at an amount equal to lifetime ECLs.

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).

On adoption of IFRS 9, there was no change to the impairment of the LDB’s financial assets.

(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.

(i) Construction in process

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

(ii) Assets held under finance leases

Refer to note 3(f).

(d) Intangible assets

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

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring them into use. Direct costs associated with the production of identifiable and unique internally generated software products controlled by the 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. Where assets are under construction over a period of time, these costs are recorded in a construction in progress account until put into use.

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

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

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

(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
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.

(f) Leases

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

The property and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

All other leases are operating leases and the costs are recorded on a straight-line basis over the lease term. The value of any lease incentive received to take on an operating lease (for example, rent-free periods and tenant allowances) is recognized as deferred income and is recognized over the life of the lease (note 3(m)).

(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 a 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.

(h) Impairment of assets

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

(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 trusteed pension plan because sufficient information is not available to apply defined benefit accounting. Accordingly, contributions are expensed as they become payable. Employees are also entitled to specific retirement benefits as provided for under collective agreements and terms of employment. These benefits are accounted for as an expense and a liability in the period incurred.

(j) Provisions

Provisions are recognized if, as a result of a past event, the 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.

(k) Revenue recognition

The LDB has initially adopted IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") from April 1, 2018. The LDB applied the requirements of the standard retrospectively with no restatement of comparative periods, due to the fact that the implementation of IFRS 15 did not result in any impact on the LDB's revenue streams.

IFRS 15 replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, and other related interpretations. IFRS 15 provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards for insurance contracts, financial instruments and lease contracts.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services.

This is achieved by applying the following five steps:

1. identify the contract with a customer;
2. identify the performance obligations in the contract;
3. determine the transaction price;
4. allocate the transaction price to the performance obligations in the contract; and
5. recognize revenue when (or as) the entity satisfies a performance obligation

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. 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.

(m) Future accounting standards

The following new IFRS standards, amendments and interpretations to existing standards have been published by the IASB and are relevant to the LDB. They are not yet effective and have not been early adopted.

(i) *IFRS 16 ' Leases'* – IFRS 16 is effective for years commencing on or after January 1, 2019, and will replace IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessees.

The LDB will recognize new assets and liabilities for all its operating leases of warehouses, stores, office buildings and equipment. The nature of expenses related to those leases will now change because the LDB will recognize a depreciation charge for right-of-use-assets and interest expense on lease liabilities. Previously, the LDB recognized operating leases on a straight-line basis over the term of the lease, and recognized assets and liabilities only to the extent that there was any timing difference between actual lease payments and the lease expense recognized.

The LDB will implement IFRS 16 from April 1, 2019 by applying the modified retrospective method, meaning that the comparative figures in the financial statements for the year ending March 31, 2019 will not be restated to show the impact of IFRS 16.

The expected impact on the adoption of IFRS 16 will be material and will result in an increase in the right-of-use asset and related lease liability. The LDB will continue to evaluate the impact of the new standard on its financial statements for the year ending March 31, 2020.

4. Sales

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.

	2019	2018
Retail customers	$ 1,477,438	$ 1,463,045
Licensee retail stores	1,158,562	1,097,773
Hospitality customers	597,814	594,362
Other customers	261,366	247,002
Agency stores	98,433	95,825
Total sales	$ 3,593,613	$ 3,498,007

5. Prepaid expenses

Prepaid expenses include insurance, software maintenance, and wine futures for cash paid pertaining to wine to be received in subsequent periods. The LDB purchases select 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, 2019, the LDB has recorded $11.1 million (2018 - $8.7 million) of prepaid wine futures for delivery in fiscal years 2020 to 2021.

	2019	2018
Non-refundable wine futures	$ 11,070	$ 8,654
Other prepaid expenses	3,990	4,438
	15,060	13,092
Less: long term portion	(4,468)	(1,524)
Current portion	$ 10,592	$ 11,568

6. Inventories

	2019	2018
Store inventory	$ 70,094	$ 71,999
Warehouse inventory	138,005	49,941

Total inventory	$ 208,099	$ 121,940

During the year, inventories that were recognized as cost of sales amounted to $2.0 billion (2018 - $2.0 billion).

7. Operating expenses

The LDB's operating expenses are comprised of:

	2019	2018
Administration costs	$ 402,377	$ 353,381
Marketing	6,665	5,269
Transportation	2,647	1,397
	$ 411,689	$ 360,047
Salaries, wages and benefits	$ 221,026	$ 203,776
Rents	59,519	52,547
Bank charges	32,191	30,334
Depreciation and amortization	28,452	18,696
Other administrative expenses	23,306	19,407
Professional services	14,185	10,292
Data processing	11,889	9,440
Repairs and maintenance	8,661	6,193
Marketing	6,665	5,269
Loss prevention	3,148	2,696
Transportation	2,647	1,397
Total operating expenses	$ 411,689	$ 360,047

8. Accounts receivable

	2019	2018
Trade accounts receivable and other items	$ 21,237	$ 18,404
Provision for doubtful accounts	(59)	(54)
Accounts receivable and other items - net	$ 21,178	$ 18,350

Receivables past due but not impaired are $1.7 million (2018 - $0.3 million). During the year the LDB expensed $5 thousand (2018 - $nil) in bad debts expense.

9. Intangible assets

		Intangible assets		Construction in process		Total
March 31, 2018						
Opening net book value	$	5,592	$	27,105	$	32,697
Additions		120		13,575		13,695
Construction-in-progress capitalization		36,407		(36,407)		-
Disposals (cost)		(14,068)		-		(14,068)
Disposals (accumulated amortization)		14,068		-		14,068
Amortization charge		(5,967)		-		(5,967)
	$	36,152	$	4,273	$	40,425
Cost	$	51,097	$	4,273	$	55,370
Accumulated amortization		(14,945)		-		(14,945)
Net book value	$	36,152	$	4,273	$	40,425
March 31, 2019						
Opening net book value	$	36,152	$	4,273	$	40,425
Additions		87		27,212		27,299
Construction-in-progress capitalization		28,126		(28,085)		41
Amortization charge		(13,690)		-		(13,690)
	$	50,675	$	3,400	$	54,075
Cost	$	79,310	$	3,400	$	82,710
Accumulated amortization		(28,635)		-		(28,635)
Net book value	$	50,675	$	3,400	$	54,075

10. Property and equipment

	Land & land improvements	Buildings & building improvements	Leasehold improvements	Furniture fixtures vehicles & equipment	Information systems	Construction in process	Total
March 31, 2018							
Opening net book value	$ 640	$ 796	$ 26,645	$ 8,674	$ 7,144	$ 3,889	$ 47,788
Assets reclassified	-	(10)	(25)	35	-	-	-
Additions	-	104	69	1,835	1,457	30,560	34,025
CIP capitalization	-	-	9,174	950	-	(10,124)	-
Disposals (cost)	-	-	(2,238)	(2,415)	(44,559)	-	(49,212)
Disposals (accumulated depreciation)	-	-	1,738	2,382	44,559	-	48,679
Depreciation charge	(2)	(62)	(6535)	(3,306)	(2,824)	-	(12,729)
	$ 638	$ 828	$ 28,828	$ 8,155	$ 5,777	$ 24,325	$ 68,551
Cost	$ 647	$ 6,143	$ 91,537	$ 45,737	$ 46,080	$ 24,325	$ 214,469
Accumulated depreciation	(9)	(5,315)	(62,709)	(37,582)	(40,303)	-	(145,918)
Net book value	$ 638	$ 828	$ 28,828	$ 8,155	$ 5,777	$ 24,325	$ 68,551
March 31, 2019							
Opening net book value	$ 638	$ 828	$ 28,828	$ 8,155	$ 5,777	$ 24,325	$ 68,551
Assets reclassified	-	(13)	13	-	-	-	-
Additions	-	39	52	1,403	2,297	28,653	32,444
CIP capitalization	-	86	23,972	15,802	6,639	(46,540)	(41)
Disposals (cost)	-	-	(483)	(1926)	(24)	-	(2,433)
Disposals (accumulated depreciation)	-	-	378	1,920	23	-	2,321
Depreciation charge	(2)	(68)	(6,970)	(4,477)	(3,245)	-	(14,762)
	$ 636	$ 872	$ 45,790	$ 20,877	$ 11,467	$ 6,438	$ 86,080
Cost	$ 647	$ 6,255	$ 115,091	$ 61,016	$ 54,992	$ 6,438	$ 244,439
Accumulated depreciation	(11)	(5,383)	(69,301)	(40,139)	(43,525)	-	(158,359)
Net book value	$ 636	$ 872	$ 45,790	$ 20,877	$ 11,467	$ 6,438	$ 86,080

11. Accounts payable and accrued liabilities

	2019	2018
Trade payables	$ 130,641	$ 129,488
Accrued liabilities	85,602	70,128
Other payables	3,844	3,543
Current portion of deferred lease liabilities (note 15)	321	498
	$ 220,408	$ 203,657

12. 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 $2.48 billion (2018 - $2.44 billion) and the total payments to the Province were $3.48 billion (2018 - $3.53 billion).

13. Other long-term liabilities

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

	2019	2018
Retirement benefit obligation (note 14(b))	$ 17,353	$ 17,335
WorkSafe BC claims accruals (note 14(c))	11,500	11,000
Long-term portion of deferred lease liabilities (note 15)	5,315	3,088
Other	1,017	1,697
	$ 35,185	$ 33,120

14. 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. As at March 31, 2018 the Plan has about 62,000 active members and approximately 48,000 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.

The latest actuarial valuation as at March 31, 2017, indicated a funding surplus of $1.9 billion for basic pension benefits. The next valuation will be March 31, 2020, with results available in early 2021.

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, with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan. The total amount paid into this pension plan by the LDB for the year ended March 31, 2019 was $14.5 million (2018 - $12.8 million) for employer contributions which was recorded in administration expenses. At this time, LDB does not expect significant fluctuations in the future contributions to 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 $17.4 million (2018 - $17.3 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 $18 thousand (2018 - $0.9 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 $11.5 million (2018 - $11.0 million) is valued by independent actuaries.

15. Deferred lease liabilities

Deferred lease liabilities are as follows:

	2019	2018
Deferred rent	$ 5,636	$ 3,586
Less current portion included in accounts payable and accrued liabilities	(321)	(498)
Long term portion	$ 5,315	$ 3,088

16. Contractual commitments

(a) Leases

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

	2019	2018

Total future minimum rental payments under non-cancellable operating leases expiring:		
Not later than one year	$ 46,442	$ 37,766
Later than one year and not later than five years	190,613	92,272
Later than five years and not later than 25 years	153,038	49,254
	$ 390,093	$ 179,292

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

The minimum lease expenditures charged to the statement of comprehensive income during the year is $45.3 million (2018 - $39.7 million).

(b) BC Liquor Store fees

The LDB pays the Liquor Control and Licensing Branch an annual license fee based on the annual sales in each BC Liquor Store. The LDB paid $0.4 million (2018 - $0.4 million) for license fees during the year.

(c) Payroll processing

The LDB has an agreement with the BC Public Service Agency for payroll processing. The LDB paid $1.0 million (2018 - $1.0 million) for processing services. The agreement expires in November 2019.

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

17. Contingent items

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 $0.9 million (2018 - $0.9 million) based upon the value of the agents' inventories at March 31, 2019.

The LDB 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 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.

19. Related party transactions

(a) Province of British Columbia

During the year the LDB purchased $7.5M (2018 – nil) of property and equipment from the Ministry. These assets were purchased at the exchange amount which represented the net book value at the date of acquisition.

All transactions with the Province of B.C. 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, 2019, there were 9 (2018 - 8) members on the executive committee.

		2019		2018
Salaries and short term benefits	$	1,385	$	1,071
Post-employment benefits		96		78
	$	1,481	$	1,149

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).

The fair values of the LDB's financial instruments were determined as follows:

(a) 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.

(b) Non-current financial liabilities:

The value of the Public Service Pension Plan and WorkSafe BC liability approximate their fair values based on independent actuarial valuation. Retirement benefits are calculated based on pensionable earnings and rates provided by the Public Service Agency which approximates the fair value of the liability (Note 14).

21. 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 a tenant or other 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, 2019, the cash balances are held with a major Canadian bank and therefore not exposed to significant credit risk.

(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.

Appendix A – Additional Information

Corporate Governance and Organizational Overview

The LDB's corporate governance structure and organizational overview can be found here, including links to the LDB's Mission, Visions and Values and the LDB's Core Business Areas.

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Appendix B – BC Liquor Stores Operating Results

Table 1 reflects the BCLS operating results as if it were a customer of the Wholesale division, like any other private store operator. For 2018/19, BCLS net income increased from 9.1 to 9.6 per cent of sales.

Table 1: BCLS financial results
(in $millions)

	2017/2018	% sales	2018/2019	% sales
Sales	1,476.8	100.0	1,474.2	100.0
Gross Margin	312.5	21.2	322.2	21.9
Expenses	182.1	12.3	184.1	12.5
Other Income	3.6	0.2	3.2	0.2
Net Income	**134.0**	**9.1**	**141.3**	**9.6**

BCLS sales include all customer sales (e.g. counter customers and private stores) occurring in the stores but excludes sales and related gross margin related to licensed establishments (hospitality) customers. Since hospitality sales are attributed to the Wholesale division, the costs related to these sales are also removed from the BCLS results. In fiscal 2017-18, the methodology used in calculating the cost allocation was refined and resulted in fewer BCLS costs being attributed to the Wholesale division.

The gross margin reflects the retail mark-up added to the wholesale price of product transferred from the Wholesale division.

The financial results do not include any head office expenses.