BC Liquor Distribution Branch

2020/21
Annual Service Plan Report

BRITISH
COLUMBIA

For more information on the BC Liquor Distribution Branch contact:

3383 Gilmore Way

Burnaby, B.C. V5G 4S1

604-252-7400

communications@bcldb.com

Or visit our website at

www.bcldb.com

Published by the BC Liquor Distribution Branch

General Manager and CEO's Accountability Statement

The *BC Liquor Distribution Branch 2020/21 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2020/21 – 2022/23 Service Plan* created in February 2020. I am accountable for those results as reported.

R. Blain Lawson
General Manager and Chief Executive Officer
July 26, 2021

Table of Contents

Letter from the General Manager and CEO

Very few could have predicted that by the end of this fiscal year the province would still be under a record-setting state of emergency as the global COVID-19 pandemic raged on.

This year was characterized by resiliency; B.C.'s Liquor Distribution Branch (LDB) adapted its day-to-day operations to align with the provincial health orders in order to prioritize the safety and wellbeing of employees, customers and those most vulnerable. Together, our retail stores, distribution centres, and head office went above and beyond to meet unprecedented demand during this challenging time. As the province relaxed and tightened restrictions with each pandemic wave, the LDB demonstrated agility and endurance to keep the safe supply of liquor and cannabis moving to communities and to the people of British Columbia.

Through its wholesale and retail lines of business, the LDB exceeded its 2020/21 revenue target and contributed $1.16 billion to help fund important services to British Columbians this year. Expenditures were impacted by the necessity of purchasing critical protective equipment and supplies distributed throughout the business to support the safety of employees and customers, but offset by the reduction of travel, aspects of training, and professional fees.

Despite the hardship felt by the hospitality sector necessitated by province-wide restrictions impacting non-essential travel and indoor dining, liquor sales saw record growth and cannabis sales continue to grow at a steady pace. Our liquor distribution centres picked and shipped nearly 24 million cases of liquor in 2020/21, reflecting an increase of 15 per cent over last year's record-setting pace. This fiscal marks its fifth consecutive year of record-breaking productivity in cases shipped by our liquor distribution centres.

Cannabis sales grew 140 per cent as more retailers entered the market, and assortment and supply from licensed producers improved across all categories. The LDB opened 10 BC Cannabis Stores (BCCS) within the fiscal year, totalling 25 government-run cannabis stores throughout the province.

Our BC Liquor Stores (BCLS) responded to the new trading environment by launching social media marketing and continuing its renovation plan for select stores throughout the province. BCLS completed nine major store renovations this fiscal year and earned perfect scores at 55 of the 143 BCLS reviewed by a third-party mystery shopper service engaged to evaluate key service standards and overall store presentation. Collectively, BCLS evaluated by the mystery shopper program received a customer satisfaction score of 82 per cent.

The LDB supported the provincial government's coordinated pandemic response by enacting a number of temporary policy changes to aid stakeholders impacted by the pandemic. The LDB expedited the recommendation made by the Business Technical Advisory Panel (BTAP) permitting hospitality customers to purchase liquor products at wholesale price, a policy change which was then made a permanent in February 2021.

The readiness of our technology systems was put to the test as we mobilized our people to work productively from remote locations to support physical distancing, on the recommendation of the Provincial Health Officer. The LDB adapted 95 per cent of its employee training to an online delivery model and supported online collaboration and flow of information to ensure business continuity through the pandemic.

The LDB continues to collaborate with stakeholders to reinforce our corporate social responsibility initiatives of environmental sustainability, responsible consumption, and keeping cannabis and liquor away from minors. We are committed to balancing business decisions with our social impact on stakeholders, the environment, and the people of British Columbia, especially those most vulnerable.

The LDB will continue building a resilient business and working with the Ministry of Finance to prioritize cost control, customer service and value for the Province of British Columbia.

R. Blain Lawson

General Manager and Chief Executive Officer
July 26, 2021

Purpose of the Annual Service Plan Report

The Annual Service Plan Report 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 Crown Corporation's Board is required to report on the actual results of the Crown's 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) within the Ministry of Public Safety and Solicitor General (PSSG) 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 Minister of Finance, 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 4,800 full- and part-time employees; and,
- Operates 198 B.C. Liquor Stores (BCLS), 25 stand-alone B.C. Cannabis Stores (BCCS), an online BCCS, a head office, three call centers (two external facing, one internal facing) and three distribution centers.

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 responsive service.

The LDB and LCRB have a shared mandate to encourage the responsible consumption of beverage alcohol and cannabis and work closely together to coordinate policies and programs to this end.

Strategic Direction

The strategic direction set by Government in 2017, and expanded upon in the 2020 Mandate Letter from the Minister Responsible, shaped the goals, objectives, performance measures and financial plan outlined in the 2020/2021 LDB Service Plan and actual results reported on in this annual report.

The global COVID-19 pandemic resulted in many shifts in priorities, structures and operations across the public sector as a whole, including the LDB. Any changes to the LDB's goals, objectives, performance measures or financial plan to align with the strategic direction established by Government in late 2020 are presented in the 2021/2022 LDB Service Plan.

Operating Environment

Economic Growth Statement

British Columbia's economy declined in 2020, as the negative impacts from the COVID-19 pandemic pushed economies all over the world into deep recessions. B.C.'s real GDP contraction of 3.8 per cent was the fourth smallest among provinces (behind Prince Edward Island, Nova Scotia, and New Brunswick). The decline in B.C.'s real GDP was almost entirely driven by service-producing industries, while goods-producing industries had modest declines. Output in the arts, entertainment and recreation, accommodation and food services and transportation were some of the main drivers of the decrease in the service sector. In B.C.'s goods producing sector declines in manufacturing and natural resources were partially offset by increases in the construction sector. Employment in B.C. decreased by 6.6 per cent in 2020. However, wages and salaries remained relatively stable compared to 2019 as low-wage workers accounted for the majority of job losses. Retail trade increased by 1.3 per cent in 2020, while consumer prices increased by 0.8 per cent. Residential construction activity slowed but remained relatively strong, with housing starts declining in 2020 after experiencing all-time highs in 2019. In contrast, after declining for three consecutive years home sales reached record levels in late 2020. On the external front, global international trade experienced significant disruptions as the pandemic unfolded. B.C.'s international merchandise exports contracted in 2020 reflecting a combination of weaker global demand and lower commodity prices.

Business Technical Advisory Panel

The LDB has been consulting and engaging with BTAP since it delivered its report to government in April 2018. In late March 2020, the BTAP advisory committee appealed to government and LDB for relief measures to help sectors severely impacted by the COVID-19 pandemic. In response, and along with LCRB, LDB introduced regulatory and policy changes on a temporary basis, the most significant of which allows hospitality customers to purchase product at the wholesale price. The impacts of this change, which was made permanent in February 2021, will be reviewed in 2022.

Additional emergency measures led or implemented by LDB included authorizing Rural Agency Stores (now under the authorization of LCRB) to operate with extended hours and temporarily authorizing liquor manufacturers to deliver products directly to individual consumers from their registered off-site storage facilities, in addition to their on-site stores.

Of the 24 total BTAP recommendations active in 2020/21, there were seven which the LDB led, reviewed and was accountable for, including:

- Recommendations 1 and 3: Non-Stocked Wholesale Product alternative distribution and third-party review of the LDB distribution centre;
- Recommendation 2: allowing Brewers Distributors Limited (BDL) to deliver other products manufactured by the companies that own BDL;
- Recommendation 11: allow Licensee Retail Stores and other private retailers to sell to hospitality licensees and Special Event Permit holders;
- Recommendation 17: Direct-to-consumer (DTC) sales, such that manufacturers, particularly craft producers, may sell their products to customers in other provinces.
- Recommendation 20: allow craft distilleries to produce refreshment beverages and to sell products directly to duty free stores.

LDB is also engaged on several other remaining recommendations currently being led by the LCRB or the Crown Agencies Secretariat.

Competitive retail marketplace

In July 2020, the Provincial government introduced a regulatory change allowing Independent Wine Stores (IWS) to apply for conversion to Licensed Retail Stores (LRS) without requiring them to relocate so that they are at least one kilometer away from another retail store, private or public. The change, which was recommended by BTAP, has resulted in increased competition for BCLS in some communities. the Greater Vancouver area, where the majority of the IWS licensees were located. BCLS in affected areas are working to respond to ensure they meet the needs of customers and remain competitive in this environment.

Temporary authorizations introduced during the pandemic to provide relief to the hospitality sector – such as permitting LRSs and other service providers to deliver sealed liquor products to customers and allowing restaurants and pubs to sell packaged liquor along with take-out meals – also provided consumers with additional options and increased competition for BCLS.

Warehouse relocation

Over the past year, operational and efficiency improvements have been introduced at the Delta Distribution Centre (DDC) to address the concerns identified in the BTAP report and recommendations made by Deloitte, which conducted a review in 2019 of the distribution practices and management of non-stocked wholesale product (NSWP). Enhanced collaboration with third party carriers has resulted in improved on time deliveries and receiving processes at the DDC so that NSWP orders are fulfilled more quickly.

LDB is working with Deloitte to assess the extent to which the recommendations are still valid in today's operating environment. Findings from the refreshed review will be shared with government and used to help inform future LDB and government decisions.

Legalization of cannabis

Cannabis product supply and assortment broadened across all categories, including edibles, topicals and extracts, which were legalized in 2019. As the sole wholesale distributor for the province, the LDB expanded its wholesale product selection, keeping pace with the growing number of offerings from licensed producers and expanded its relationships with more producers to improve selection for the benefit of customers. The broadening of product assortments and increased supply has improved the LDB's competitiveness compared to that of the illicit market.

LDB Cannabis Retail Operations continued to open new BCCS throughout the province, working with local governments and municipalities to align with their bylaws and business requirements. By fiscal year end, the people of British Columbia were being serviced by 305 private cannabis retailers, 25 government-run BCCS, and one public online store at BCCannabisStores.com. As the cannabis retail market continues to mature and the illicit market converts to the legal market, we anticipate that our sales will continue to increase.

Report on Performance

Goal 1: Grow LDB's Financial Performance

Objective 1: Meet Government's financial objectives

Key Highlights

- Grew sales and effectively managed operating expenses in order to sustain net returns to the Province.

Performance Measure	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target[1]	2022/23 Target[2]
1.1a Net income (in $ millions)	1,107.2	1,133.5	1,160.9	1,152.0	1,173.1

Data source: BCLS and BCCS sales data is collected from both computerized point-of-sale cash register systems and on-line sales systems and stored in Head Offfice 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.

[1, 2] The targets were recently updated in the 2021/22 – 2023/24 LDB Service Plan.

Discussion of Results

Net income is the contribution made to the Province by the LDB from beverage alcohol and cannabis sales – a significant contribution to provincial government revenues. LDB's financial statements are audited by the B.C. Auditor General.

LDB's net income for the year was $1.2 billion, 2.4 per cent ($27.4 million) above target and 4.9 per cent higher than the previous year. This was due to a combination of higher sales and lower than planned expenses.

LDB sales in fiscal year 2020/21 were $4.1 billion - $42.0 million or 1.0 per cent higher than target. Higher sales were the result of increased beverage alcohol sales driven by a combination of volume growth and a shift in product mix towards spirits as people stayed home as a result of public health restrictions stemming from the COVID-19 pandemic. There was also lower amortization due to fewer BCCS openings than planned and delayed spending in consulting, training and travel-related programs.

As the LDB continued operations through the COVID-19 pandemic, several temporary and permanent initiatives were implemented to support both customers and industry. In February 2021, liquor licensees (hospitality) were permanently allowed to purchase alcohol at a wholesale price instead of at BCLS retail prices. The target for fiscal year 2021/22 is lower in the 2021/22 – 2023/24 LDB Service Plan, recognizing the combined effect of wholesale pricing for hospitality customers and gradual shifts in the market back to pre-pandemic levels as COVID-19 restrictions ease and the hospitality sector beings to re-open.

Targets for fiscal years 2021/22 and 2022/23 reflected sale trends, product mix, and inflation observed in the LDB's current operational environment and future projected industry outlook for liquor and cannabis at the time of the 2020 Service Plan.

Sales changes – and the resulting impact on net income – are the result of a number of factors, including the global COVID-19 pandemic, weather, holiday weekends, supplier promotions, changes in sales mix and the introduction of new products.

Goal 2: Maintain Focus on Customer Experience

Objective 2.1: Maintain a high level of retail and wholesale customer satisfaction

Key Highlights

Liquor Retail Division

- Completed nine major renovations and additional improvement projects to enhance the shopping experience for customers and improve service.
- Continued to coach teams and improve service and responsiveness among BCLS employees and track improvements through the Mystery Shopper program.
- Increased customer satisfaction with support from additional service touchpoints on social media channels.
- Implemented a workplace specific COVID-19 Safety Plan aligned to public health and WorkSafeBC requirements and guidelines.

Performance Measure	Baseline	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target
2.1a Retail customer satisfaction	83%	n/a	85%	88%	n/a	86%

Data source: The LDB contracts with professional survey companies to conduct the retail customer service surveys every two years.

Discussion of results:

BCLS renovation program proceeded as planned with nine major renovations completed in fiscal year 2020/21. Store updates will improve customer flow, add tasting and events space, and allow for greater selection of refrigerated products. Updated colors and décor create a more inviting experience and renewed planograms help store teams showcase and target products specific to each store's market.

Mystery Shoppers are customers hired by a third party to 'shop' in stores and observe how employees engage with customers take note of 27 key service standards and overall store presentation. Throughout the pandemic stores with sales volume exceeding $3 million (a total of

143 stores) were visited each quarter and evaluated, scoring a collective 82 per cent; 55 stores received perfect scores.

BCLS provided customers the opportunity to ask questions and find products or promotions more efficiently by launching social media channels such as Instagram and Facebook. Customer satisfaction surpassed target rates as a result of these and other changes to the customer experience.

Key Highlights

Liquor Wholesale Division

- Continuously provided enhanced customer service to BCLS, private retail liquor stores, rural agency stores, bars and restaurants through efficient order processing and fulfillment, and plan to further enhance with the introduction of an improved order management system and ecommerce platform.
- Supported a customer-centric culture within the warehouse team and continue to provide employee-training opportunities.
- Implemented a workplace specific COVID-19 Safety Plan aligned to public health and WorkSafeBC requirements and guidelines.

Performance Measure	Baseline	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target[1]
2.1b Wholseale customer satisfaction	68%	Deloitte survey	75%	68%	n/a	80%

Data source: The LDB contracts with professional survey companies to conduct the wholesale customer service surveys.
[1] The target was recently updated in the 2021/22 – 2023/24 LDB Service Plan.

Discussion of results:

In 2020/21, the survey results were lower than forecasted and consistent with the baseline from previous surveys. The response rate for the survey was 23.62% of the total e-mailed population of wholesale customers. The result reflected the themes around enhanced end-to-end order visibility, an improved online experience and shorter lead-time for back order product. These will be the strategic area of focus in the medium term as we look to improve the order management system and ecommerce site.

Key Highlights

Cannabis Division

- Completed the first Wholesale Customer Service Satisfaction Survey of private retailers.
- Supported the addition of 127 new private retailers to our wholesale business.

- Increased the assortment of products to 1,062 from 99 licensed suppliers (compared to 591 products from 50 licensed suppliers the fiscal year prior) in order to maintain a broad assortment of high-quality, competitively priced cannabis products.
- Enhanced retail customer service by providing new online and in-store experiences, such as improved website engagement and the addition of ordering tablets in stores.
- Implemented a workplace specific COVID-19 Safety Plan aligned to public health and WorkSafeBC requirements and guidelines.

Performance Measures	Baseline	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target
2.1c Retail customer satisfaction[1]	82%	n/a	85%	86%	87%	90%
2.1d Wholesale customer satisfaction[2]	82%	n/a	85%	71%	87%	90%

[1] Data source: BCCS placed customer survey tablets in five stores as a pilot project.
[2] Data source: Private cannabis retailers participated in an online survey.

Discussion of results:

In fiscal 2020/21, the Cannabis Wholesale department began servicing and supplying an additional 127 licensed private cannabis retail stores and ten BCCS, bringing the number of retailers serviced to 305 private and 25 public BCCS. All are supplied centrally from the cannabis distribution centre.

Wholesale product flower assortment and consistent inventory in stock improved throughout the year. The supply of products in new categories, such as edibles, beverages and vapes broadened and stock reliability in these categories improved considerably throughout the year, which enabled more consistent access to products for customers. The average price per gram of dried flower declined by 24 per cent year over year driven by larger format offerings, making legal products more competitive with the illicit market.

Wholesale Distribution improved customer experience by realigning delivery routes within cities and regions and implementing better inventory management by product potency. Licensed private cannabis retailers registered their feedback in online survey of customer satisfaction for the first time this fiscal year; the survey will be repeated annually in order to track the impact of improvements over time.

BCCS had initially developed a customer survey approach utilizing tablets on free standing lecterns to collect feedback and rate satisfaction, however pandemic-related protocols curtailed their consistent use this year. Overall, the feedback collected over a span of seven months, based on over 5,000 responses, was positive, and resulted in a score of 86 per cent satisfaction. In future years, the customer survey tablets will be rotated through five different stores every quarter.

Goal 3: Improve Workplace Quality and Employee Excellence

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

Key highlights:

- Enhanced employee skills through in-house development and training programs.
- Implemented foundational leadership training across the business, including training to support leaders through COVID-19.
- Provided a safe, healthy and harassment-free workplace through LDB's respectful workplace training and engagement programs focussing on diversity and inclusion.
- Enhanced employee experience and engagement initiatives through virtually accessible activities and charitable campaigns.

Performance Measure	Baseline	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target
3.1a Employee engagement	69	70	n/a	n/a	71	n/a

Data source: Work Environment Survey (WES) conducted by BC Stats for the LDB. The WES is conducted every two years.

Discussion of results:

In response to the global pandemic, the LDB adapted 95 per cent of its training to online delivery, ensuring that employee learning needs were still being met during the pandemic. A *Learn@Home* program was launched that provided opportunities for store employees to conduct their online training from home if they preferred. A custom workshop called *Leading Remote Teams* was created to provide leaders with practical strategies to enhance working relationships and interactions with their teams while working remotely. Several new courses and programs were introduced to improve engagement, enhance employee skills and support leadership development throughout the organization**.** A new *Train-the-Trainer* course was also delivered to nearly 100 store and distribution centre trainers, providing them with the skills to train new employees in their area, while maintaining required health and safety protocols.

The LDB prides itself in being an inclusive and supportive workplace that encourages cultural and societal diversity. During the fiscal year over 740 people completed the *Our Values@Work* training, focussing on the value of respect and policies on bullying and harassment with the goal of creating and maintaining a workplace that's safe and free of harassment.

Virtual activities were hosted to raise awareness and commemorate Mental Health Month, National Indigenous Peoples Day, LGBTQ Pride, Lunar New Year, Black History Month, the Moose Hide Campaign, and International Women's Day. Employees also participated in and supported a number of charitable campaigns, raising over $146,000 for the Provincial Employees Community Services Fund.

Goal 4: Increase Business Effectiveness

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

Key Highlights

Liquor Retail Division

- Continued to implement assortment and demand planning tools to support selection of optimal products for store specific customer demographic.
- Updated systems to reflect increased competition and improve efficiency.
- Supported over 100 employees in completing their Level 2 training via the Wine and Spirit Education Trust (WSET), in order to use increased product knowledge to provide better service to customers.
- Implemented a workplace specific COVID-19 Safety Plan aligned to public health and WorkSafeBC requirements and guidelines.

Performance Measure	Baseline	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target
4.1a BCLS sales per square foot[1]	$1,402	$1,445	$1,426	$1,424	$1,450	$1,470

Data source: BCLS sales data is collected from computerized point-of-sale cash register systems and stored in Head Office databases.

Discussion of results:

Sales per square foot were below target due to economic conditions related to the pandemic, lower sales to hospitality operators, reduced operating hours and travel restrictions. However, it is anticipated that BCLS sales per square foot will steadily increase over the next few years as a result of the continuing optimization of individual store operating hours, store renovations and upgrades, continuing application of various marketing strategies like the newly launched social media platforms, and the ongoing focus on enhancing the customer experience by the consistent application of the GREAT service model (Greet, Rapport, Evaluate, Action, Thank).

Stores continue to use a bridge buying tool to ensure the ordering of higher gross margin products is maximized. A new Assortment Tool was also developed to track product distribution and inventory, to better maintain stock levels and improve efficiency.

BCLS continued to utilize training programs to better equip store employees with product knowledge, with the goal of providing good customer service. Over the last fiscal year, more than 100 employees completed the Level 2 WSET training in Wine or Spirits, bringing the total number of employees who have received the training to over 700 provincially. In fiscal year 2020/21 BCLS launched the Level 2 Beer Cicerone Certification Program to increase knowledge in this important category and provide customers shopping for craft and other types of beer with improved service.

Key Highlights

Liquor Wholesale Division

- Stabilization of systems, enhanced training of team members and the reduction in bottle picks has resulted in increased efficiencies across the operation and led to a reduction in the cost per case.
- Non-stocked wholesale products (NSWP) average lead time reduced by 33 per cent.
- Redeveloped KPI dashboard to measure and monitor performance and aid operational decision making.
- Continue to modernize the Wholesale Division's systems and processes, including the use of current and cost-effective technology, to improve service and relationships with customers, suppliers and employees.
- Continue vendor collaborative forecasting, planning and replenishment to facilitate a high service level, including early communication of stock outs to customers.

Performance Measures	Baseline	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target[3]	2022/23 Target[4]
4.1b Distribution Centre labour cost per case shipped[1]	$1.99	$2.15	$1.90	$1.80	$1.75	$1.75
4.1c Distribution Centre order fill rate[2]	89%	95%	95%	95%	96%	97%

[1, 2] Data source: Orders and shipments processed by the LDB Distribuion Centres are captured and stored by computer application designed for this purpose.
[3, 4] The targets were recently updated in the 2021/22 – 2023/24 LDB Service Plan.

Discussion of results:

Since moving to the Delta Distribution centre and the implementation of a new warehouse management systems in the Delta and Kamloops DCs, improved efficiencies are being realized. Improved technology, additional training, a reduction in bottle picks and changes in category mix contributed to improved labour costs. The LDB will continue to implement improvements to further enhance productivity and efficiencies.

Regarding the distribution centre order fill rate, LDB has been partnering with retailers and vendors to improve forecasting and planning, and to better inform our customers when vendor constraints occur, LDB has achieved a target of a 95 per cent order fill rate for 2020/21. The LDB expects that future targets will maintain at 95 per cent, which reflects the balance between the effective management of available inventory and the reality of product stock-outs within the vendor's supply chain.

Key Highlights

Cannabis Division (Wholesale and Retail)

- Successfully opened an additional 10 BCCS by March 31, 2021.
- Completed required process, systems and infrastructure updates to enable the distribution and sale of new product classes (beverages, edibles, extracts and concentrates).
- Increased the sale of legal cannabis and optimized financial performance by opening BCCS in 9 new markets, improving wholesale product assortment to private retailers, and facilitating training for all BCCS store employees (LDB's Cannabis Product Knowledge course and B.C.'s Selling it Right course).
- Implemented a workplace specific COVID-19 Safety Plan aligned to public health and WorkSafeBC requirements and guidelines.

Performance Measures	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target[4]	2022/23 Target[5]
4.1d BCCS sales per square foot[1]	$781	$2,013	$709	$2,010	$2,100
4.1e BCCS.com order fill rate[2]	99.71%	98.5%	99.81%	99%	99%
4.1f Wholesale (B2B) order fill rate[3]	98.87%	97%	99.54%	98%	99%

[1] Data source: BCCS sales data is collected from computerized point-of-sale cash register systems and stored in Head Office databases.
[2, 3] Data source: Orders and shipments processed by the Richmond Distribution Centre are captured and stored by computer applications designed for this purpose.
[4, 5] The targets were recently updated in the 2021/22 – 2023/24 LDB Service Plan.

Discussion of results:

BCCS sales per square foot were lower than target due to pandemic-related delays in opening new stores later than planned, impacting the overall number of selling days, and a shift in consumer preference for large format sized products that offered better value for their dollar. The reduction in wholesale cost of dried cannabis flower further impacted retail margins but increased BCCS' competitiveness compared to the illicit market.

The Cannabis Division continued making headway on establishing and refining its business processes and infrastructure to support the growing legal cannabis market as efficiently as possible. Wholesale Distribution lowered freight costs per case by 66 per cent by realigning transportation routes to optimize delivery to retail stores within the same cities and regions and supported a 200 per cent increase in outbound shipments. Important system work completed supported product information and inventory management efficiencies. Routine inventory cycle counts contributed to accurate product availability and high business-to-customer and business-to-business order fill rates. The Cannabis Division identified a more efficient process for product returns which improved online customer experience and satisfaction.

The introduction of new product categories that have different storage and handling requirements, as well as weight parameters, required the RDC to modify internal operations and utilize multiple carriers to ensure the shelf stability of edibles and concentrates. As the industry matures and product categories broaden with assortment and selection, the management of receiving, storing and shipping requirements are expected to continue to evolve.

Goal 5: Corporate Social Responsibility

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

Key Highlights

Liquor Retail Division

- Prevented sales to minors or intoxicated persons in BCLS through staff education and enforcement of ID-checking requirements, particularly through challenges brought on by the COVID-19 pandemic (masks, etc.)
- Promoted awareness of responsible use by continuing co-operative programs with suppliers and other stakeholders and partners.
- Partnered with new charities such as BC Food Banks to support key local causes.
- Encouraged the responsible use of beverage alcohol through the display of monthly promotional material and signage at BCLS.

Performance Measures	Baseline	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 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%	76%	n/a	90%

[1] Data source: The Liquor and Cannabis Regulation Branch (LCRB) administers an identification (ID) compliance checking program and provides the results of BCLS compliance to the LDB.
[2] Data source: The LDB contracts with professional survey companies to conduct retail customer surveys.

Discussion of results

BCLS continue to ensure the enforcement of the identification (ID) checking program through ongoing employee training and awareness and supporting marketing signage at the checkouts. A continuous target of 100 per cent has been set to reflect the critical importance to the LDB of preventing sales to minors. For 2020/21, BCLS again reached the goal of 100 per cent compliance and will continue to strive to maintain these levels moving forward.

With respect to the LDB's corporate social responsibility programs, BCLS promotes awareness of the risks associated with alcohol misuse through in-store campaigns, promotional posters and collaborating with stakeholders and community partners. Every two years, a customer survey is conducted to measure customer recall of these in-store materials to ensure that BCLS develops impactful and relevant messaging for our customers. For fiscal year 2020/21, the messaging recall level was at 76 per cent; while short of the target of 90 per cent, it is still considered extremely high in terms of industry standards for retention of messaging and promotional information.

The decrease from the previous year is not surprising as customer behaviours have changed dramatically since the start of the COVID-19 pandemic. Research studies have shown that customers are spending less time browsing and less time in stores overall, and thus have less time to observe in-store messaging. In fiscal year 2020/21 BCLS noted customers visited the store less often but made larger value purchases as they sought to minimize their exposure to others. Additionally, important COVID-19 signage located throughout the stores has diverted customer attention from regular messaging. BCLS will continue to monitor messaging in-store and strive to meet the 90 per cent target in future years.

Key Highlights

Cannabis Division (Wholesale and Retail)

- Prevented sales to minors in BCCS through staff education and enforcement of ID-checking requirements at the entrance of all BCCS locations.
- Encouraged the responsible use of non-medical cannabis through the display of social responsibility material and signage at bricks and mortar, online BCCS, and on social media.

Performance Measure	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target
5.1c Store compliance with ID-checking requirements	100%	100%	100%	100%	100%

Discussion of results

Social responsibility remains the key priority for all levels of government with respect to the legalization of cannabis products. BCCS is committed to ensuring that the ID-checking program is enforced to prevent sales to minors through ongoing employee training and awareness. All customers who enter bricks and mortar stores must present identification to an employee upon entering.

In fiscal 2020/21, stores began consistently promoting awareness of consuming cannabis responsibly on social media with monthly campaigns, in addition to continuing dedicated in-store signage and dedicated space on the ecommerce website. Social responsibility is further reinforced through blog posts and shared information via the online store.

Objective 5.2: Minimize the impact of LDB operations on the environment

Key Highlights

Liquor Division (Retail and Wholesale)

- Increased to 93 per cent the proportion of waste generated by liquor distribution centres and BCLS that is diverted to the recycling stream.
- Continued to work with waste service providers to create opportunities to track diversion of waste and create additional efficiencies.

Performance Measure	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target
5.2a Waste diversion rate at LDB liquor distribution centres (DDC, KDC) and BCLS	80%	91%	93%	92%	93%

Data source: Diversion rates for DDC, KDC, and Metro Vancouver BCLS are determined based on measured weights reported by a contracted waste and recycling service provider. Rates for BCLS outside of Metro Vancouver are determined by estimate weights provided by a contracted waste and recycling service provider.

Discussion of results

As in previous years, the LDB tracked waste diversion from Metro Vancouver distribution centre in Delta, the distribution centre in Kamloops and BCLS (where data was available).

In 2020/21, waste diversion rates for the distribution centres in Delta and Kamloops, and BCLS were determined by using ongoing weight measurements taken over the entire fiscal year in metric tonnes. In Delta, materials diverted from landfill and tracked in 2020/21 included mixed containers, paper, organics, electronics, Styrofoam, wood, metal, cardboard and soft plastics. In Kamloops, materials diverted from landfill and tracked in 2020/21 included cardboard, wood, and mixed paper. BCLS in Metro Vancouver diverted cardboard, clear soft plastics, and organics from the landfill.

The 93 per cent overall diversion rate is higher than target in part because of the quantity of heavier materials such as cardboard and wood pallets, which are more easily sorted and diverted from the waste stream. The LDB continues to face challenges in securing reliable data from property management companies of shopping centres where BCLS leases space, which makes implementation of diversion measures difficult in these cases.

The LDB is also looking at having annual reviews with waste service providers to learn how it can continue to improve its diversion rates and increase educational opportunities.

Key Highlights

Cannabis Division (Retail and Wholesale)

- Eliminated all plastic shrink wrap generated by the Richmond Distribution Centre (RDC) from entering the landfill
- Increased the waste diverted from BCCS and the distribution centre from 67 per cent to 95 per cent.

Performance Measure	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target[1]	2022/23 Target[2]
5.2b Waste diversion rate at LDB's cannabis distribution centre (RDC) and BCCS	67%	88%	95%	89%	90%

Data source: Diversio rates for the distribution centre in Richmond are determined based on measured weights reported by a contracted waste and recycling service provider. Rates for BCCS are determined by estimate weights provided by a contracted waste and recycling service provider.
[1, 2] The targets were recently updated in the 2021/22 – 2023/24 LDB Service Plan.

Discussion of results

The RDC entered into an agreement to sell used plastic shrink wrap to a third-party vendor for use in reprocessing and producing plastic products. The significant diversion helped the cannabis line of business divert 95 per cent of waste from the landfill, surpassing the fiscal target. RDC also diverts mixed containers, paper, organics, electronics, Styrofoam, wood, metal, cardboard, and soft plastics from landfill.

As with BCLS locations, LDB is challenged in diverting waste from BCCS to recycling streams, as many vendors servicing stores do not have recycling collection services or facilities to process organics. With expansion of the BCCS network of stores into Greater Vancouver, where systems support recycling of multiple outputs, future diversion rates are expected to remain stable.

The Cannabis Division can incrementally increase diversion through continued staff training and the expansion of recycling streams.

Key Highlights

Corporate

- Continued employee training through new signage at zero waste stations throughout the building and environmental messaging on electronic screens.
- Purchased carbon offsets and maintained carbon neutrality as part of BC's Carbon Neutral Government program.
- Utilized the new Clean Government Reporting tool to more easily track and review building energy.

Performance Measure	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target[1]	2022/23 Target[2]
5.2c Waste diversion rate at LDB's Head Office	79%	75%	86%	78%	80%

Data source: Diversion rates for Head Office are determined based on measured weights reported by a contracted waste and recycling service provider.
[1, 2] The targets were recently updated in the 2021/22 – 2023/24 LDB Service Plan.

Discussion of results

Waste diversion rates for the head office and Burnaby Dry Goods surpassed target with 85 per cent of all waste diverted from landfills. The Burnaby warehouse is the centralized distribution centre for support materials such as cleaning products, hand sanitizer, signage and other goods required by LDB work sites. Materials diverted from landfill and tracked in fiscal year 2020/21 included mixed containers, paper, organics, wood, metal, cardboard and soft plastics; head office diverted those materials as well as Styrofoam and electronics.

Contamination rates of waste generated by head office fell significantly as a result of improved education and awareness campaigns and better signage. Volume of waste generated dropped due to a high proportion of employees working remotely, which was also a factor in the decline of the contamination rate.

Since 2010, the LDB has been measuring its greenhouse gas (GHG) emissions and purchasing BC-based carbon offsets in order to become carbon neutral on an annual basis. Efforts made to reduce emissions and the LDB's annual emissions profiles are captured in the LDB's Carbon Neutral Action Reports.

In alignment with the CleanBC plan, aimed at reducing emissions across the provincial economy by 2030, LDB is utilizing the Clean Government Reporting tool to monitor and optimize our buildings' energy use. The information provided by our electricity and natural gas suppliers is exchanged in real time, enabling the optimizing of energy use. The tool also tracks trends and flags any potential issues that need to be addressed.

Financial Report

For the auditor's report and audited financial statements, see Appendix C. These can also be found on the LDB website at www.bcldb.com.

Discussion of Results

For the duration of fiscal year 2020/21, B.C. was under a record-breaking state of emergency due to the global COVID-19 pandemic. Similar to other industries, the pandemic impacted LDB operations and changed market dynamics and consumer behavior. During the first wave of the pandemic, there were significant sales increases in BCLSs and private liquor stores as public health orders reduced indoor dining capacity and consumers shifted to staying home. These elevated sales continued through fiscal year 2020/21 and remained at current levels as we moved into the second year of the pandemic.

For fiscal year 2020/21, the LDB's net income and contribution to government was $1.16 billion. This was an increase of $27.4 million or 2.4 per cent compared to budget and $53.7 million or 4.9 per cent above prior year. In the second full year of operations, the Cannabis Division's net income before head office expense allocations was $13.6 million and is included in the LDB net income of $1.16 billion.

Highlights

Sales

LDB sales for fiscal year 2020/21 were $4.13 billion, $42.0 million or 1.0 per cent above budget. Compared to prior year, overall sales increased 7.6 per cent or $293.3 million, with strong growth in both liquor and cannabis.

Liquor sales totalled $3.81 billion in fiscal year 2020/21 and increased by 2.7 per cent, or $101.9 million, compared to prior year. Sales were driven by an overall volume increase of 1.8 per cent led by higher sales in the refreshment and spirits categories with a combined increase of $152.5 million over prior year. This was partially offset by lower sales of $50.9 million in the beer category, which was primarily due to the impact of closures in the hospitality sector.

BCLS stores operate as customers of the wholesale divisions and apply a retail margin like any other retailer. In order to avoid double counting, all internal transactions between BCLS retail stores and the wholesale divisions have been eliminated from LDB's financial results. For information on BCLS operating results, please see Appendix B.

Fiscal year 2020/21 was the second full year of operations for the cannabis division. Cannabis sales more than doubled from the prior year, increasing $191.4 million to $327.3 million. Similar to the prior year, the majority of sales occurred in the dried flower, pre-roll and extracts and concentrates categories.

Increased cannabis sales were driven due to a combination of increased access to the legal market, with more public and private retail stores opening their doors as well as increased product selection. During the year, 10 more BCCSs opened and 127 more private retailers entered the marketplace.

Gross margin

Gross margin for the year was $1.64 billion, $9.8 million higher than budget. The gross margin increased $64.4 million, or 4.1 per cent, when compared to 2019/20 driven by higher cannabis and liquor sales. As a percentage of sales, the gross margin rate compared to the prior year declined 1.3 per cent to 39.6 per cent. Liquor products generally have a higher gross margin than cannabis. As cannabis sales increase and these lower margin products become a higher percentage of total LDB sales, the LDB gross margin rate declines. During fiscal 2020/21 the gross margin decrease was also because of hospitality being allowed to purchase at wholesale and an increase in sales to the private stores who purchase at the wholesale price.

To support industry during the pandemic, government made several policy changes impacting LDB operations. In July 2020, LDB implemented a temporary pricing model for hospitality licensees that allowed them to purchase liquor products at the wholesale price. Subsequently, government announced that this measure would be made permanent. This policy change resulted in an estimated gross margin reduction of $31.2 million in fiscal year 2020/21. The full effects of this policy change were not seen in fiscal year 2020/21, as many hospitality licensees operated a reduced capacity due to COVID-19 restrictions. As the economy recovers from the pandemic, it is expected that the impact will be more significant on LDB financial outlook.

Operating Expenses

Operating expenses, including finance costs, were $487.5 million, $19.1 million lower than budget and $11.3 million higher than fiscal year 2019/20. As a percentage of total sales, the 2020/21 expense rate was 11.8 per cent, 0.6 per cent lower than budget. The lower ratio is mainly due to a combination of higher sales and lower than planned expenses.

The majority of the LDB's operating expenses are comprised of employment, amortization, bank charges and other administrative costs. Compared to fiscal year 2019/20, the $11.3 million increase in expenses occurred mainly in the following areas:

- Employment expenses increased by $13.6 million from prior year due to a combination of wage rate increases per the collective agreement, reorganization of the information technology department and increased labour for BCLS and BCCS store operations.

  With COVID-19, many hospitality customers reduced operations in order to comply with provincial health orders. This resulted in a significant reduction in hospitality sales through BCLS; however, it was offset by increased labour required for COVID-19 cleaning and safety protocols and increased retail sales. The overall increase in BCCS employment was due to a combination of stores operating only partially through fiscal year 2019/20 and additional store openings during fiscal year 2020/21.

  Also related to COVID-19 changes in the marketplace, there was a 14.5 per cent increase in cases shipped through the LDB distribution centres. Employment costs, however, decreased by $3.8 million from prior year due to a combination of the closure of the Vancouver warehouse in the prior fiscal year (May 2019) and improved labour productivity.

Overall, employment costs were $1.6 million or 0.6% above budget mainly due to higher sales volumes and COVID-19 protocols.

- Amortization expense is comprised of:
  - depreciation on capital (fixed) assets
  - amortization on intangible assets (e.g. software, systems implementation costs)
  - amortization on leased assets

  Amortization costs increased $6.4 million from the prior year. This increase was partially due to projects that completed in fiscal year 2019/20 with a full year of amortization being expensed in the fiscal 2020/21, including the Vancouver warehouse relocation and leasehold improvements for BCCS that opened during fiscal year 2019/20. Additional BCCS that opened during fiscal year 2020/21 also contributed to the increase. Amortization related to leased right-of-use assets increased $3.7 million from prior year due to the opening of new BCCS stores and a reassessment of existing lease contracts.

  Amortization was $6.3 million below budget due to delayed capital spending on projects and fewer BCCS opening than planned.

- Bank charges – increased by $3.2 million compared to prior fiscal year 2019/20 due to a combination of higher sales and reduced used of cash by retail customers due to COVID-19.

  Compared to budget, bank charges had an unfavorable variance of $2.7 million due to the same reasons mentioned above.

- Other administrative costs include data processing, building expenses, repairs and maintenance, professional services, and merchandising. Administrative costs decreased $11.9 million from prior year and were $12.4 million below budget. Due to COVID-19, LDB pivoted quickly to move the majority of head office employees to working remotely and implemented cleaning and safety protocols, protective barriers and Plexiglas® at head office and all store and warehouse locations. These unbudgeted costs were offset by reductions in professional fees, training, travel and merchandising, reflecting changes in the fiscal plan.

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

Capital

Capital expenditures for fiscal 2020/21 totalled $21.9 million, $49.9 million less than planned. Capital projects were impacted by COVID-19 as priorities shifted toward maintaining operations during pandemic. Capital spending focused on technology and tools for connectivity to enable working remotely, cybersecurity, information technology investments and ongoing equipment replacement. Investments continued for retail stores, with $7.0 million spent on BCLS tenant improvements and $8.3 million spent for new BCCS tenant improvements.

Financial Summary

($ millions)	2019/20 Actual	2020/21 Budget	2020/21 Actual	2020/21 Variance
Sales	3,841.4	4,092.7	4,134.7	42.0
Cost of Sales	2,270.3	2,467.1	2,499.3	32.2
Gross Margin	1,571.1	1,625.6	1,635.4	9.8
Operating Expenses – Employment	257.7	269.7	271.3	1.6
Operating Expenses – Amortization	79.5	92.2	85.9	(6.3)
Operating Expenses – Administration[1]	69.4	69.8	57.4	(12.4)
Operating Expenses – Bank Charges	34.6	35.1	37.8	2.7
Operating Expenses – Facilities[2]	27.5	28.5	27.6	(0.9)
Operating Expenses – Lease Financing	7.5	11.3	7.5	(3.8)
Total Expenses	476.2	506.6	487.5	(19.1)
Other Income	12.3	14.5	13.0	(1.5)
Net Income	1,107.2	1,133.5	1,160.9	27.4
Gross Profit (%)	40.9%	39.7%	39.6%	(0.1%)
Total Expenses to Sales (%)	12.4%	12.4%	11.8%	(0.6%)
Net Income to Sales (%)	28.8%	27.7%	28.1%	0.4%
Capital	36.4	71.8	21.9	(49.9)
Debt[3]	209.7	273.2	232.9	40.3
Retained Earnings	-	-	-	-

The above financial information was prepared based on International Financial Reporting Standards.
Note 1: Administration costs include data processing, professional services, marketing, transportation, loss prevention
Note 2: Facilities costs consist of common area maintenance, property taxes, utilities, repairs and maintenance. Fiscal 2019/20 has been restated to include utilities, repairs and maintenance for comparability.
Note 3: LDB does not have any loans. Debt consists of lease liabilities as at March 31.

Variance and Trend Analysis

Liquor

During fiscal year 2020/21, the retail customer count at BCLS decreased 3.9 per cent to 35.8 million from the 37.3 million customers in the prior year. The decreased customer count was due a combination of COVID-19 related store closures and reduced hours during the first wave of the pandemic and a change in purchasing pattern whereby customers visited stores less frequently but purchased more products per visit. BCLS had seven fewer selling days than the prior year.

The average retail customer transaction value at BCLS increased 6.8 per cent, from $38.06 to $40.64. The higher average transaction value indicates that BCLS customers on average are spending slightly more per visit.

The LDB holds inventory on average for 28 days with an annual inventory turn rate of 13. The inventory turn rate is comparable to previous year.

Cannabis

LDB continued its rollout of BCCS during fiscal year 2020/21, opening 10 new stores throughout the province. At March 31, 2021 there were 25 BCCS and 305 private stores in operation.

In fiscal year 2020/21, there were 1.1 million transactions through BCCS and ecommerce, a 92.7% increase compared to the 632,000 transactions over the prior year. The average retail transaction value in fiscal year 2020/21 was $62.78, an increase of 9.5% compared the average transaction value of $57.31 in the prior year. This increase is partially due to customer preference towards large format sized products. Consistent with BCLS', customers may be visiting BCCS stores less frequently and making larger purchases per visit due to the COVID-19 pandemic.

In the early days of the pandemic, the ecommerce channel had a temporary increase in sales as customers opted for purchasing products online. Sales have gradually returned to pre-pandemic levels as more brick-and-mortar stores opened. Generally, average transaction values for online purchases are higher than for BCCS transactions.

The LDB continues to focus on being competitive with the illicit market and to encourage purchases from the legal market.

For fiscal year 2020/21, the warehouse inventory turned over six times, indicating that inventory was held on average for 60 days.

Product Categories

LDB sales of $4.13 billion increased $293.2 million from the previous year and was driven by a combination of increases in spirits, refreshments, and cannabis. A higher average price per litre on beverage alcohol sales and an increased number of public and private cannabis stores contributed to the growth in sales.

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

For the five fiscal years ended March 31

						Change vs. Previous Year (2020/21 vs. 2019/20)	
	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**$**	**%**
Liquor							
Spirits	832,180	872,570	900,050	946,463	999,108	52,645	5.6
Wine	1,154,041	1,212,673	1,222,571	1,271,831	1,271,892	61	0.0
Refreshment	196,485	221,548	266,819	320,940	420,812	99,872	31.1
Beer	1,146,431	1,188,762	1,183,682	1,163,549	1,112,658	(50,891)	(4.4)
Other	2,395	2,454	2,499	2,720	2,925	205	7.5
Total Liquor	**3,331,532**	**3,498,007**	**3,575,621**	**3,705,503**	**3,807,395**	**101,892**	**2.7**
Cannabis	n/a	n/a	17,992	135,923	327,278	191,355	140.8
Total Sales	**3,331,532**	**3,498,007**	**3,593,613**	**3,841,426**	**4,134,673**	**293,247**	**7.6**

Beverage alcohol sales increased by $101.9 million or 2.7 per cent compared to the previous year. All categories showed growth except for beer, which declined by $50.9 million or 4.4 per cent. A significant portion of beer is normally sold through hospitality licensees which were negatively impacted by COVID-19 operating restrictions. The spirits, wine and beer categories 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 31.1 per cent, or $99.9 million over the prior year.

Since fiscal year 2016/17, the refreshment category has grown an average of 21.2 per cent annually while spirits averaged 4.7 per cent growth, wine averaged 2.5 per cent growth, and the beer category had a small decline of 0.7 per cent on average. Overall beverage alcohol sales have grown an average of 3.4 per cent annually.

In fiscal year 2020/21, the sales mix continued to shift towards refreshment beverages, with this category contributing 11.1 per cent of all liquor sales, up from the 8.7 per cent from the prior year. Beer sales decreased 4.4 per cent in the current year, accounting for 29.2 per cent of sales. Wine sales were flat to prior year and the category share decreased 0.9 per cent to 33.4 per cent. Spirit sales increased 5.6 per cent and accounted for 26.2 per cent of liquor sales, an increase of 0.7 per cent in the sales mix.

Cannabis sales increased $191.4 million to $327.3 million during the second year of operations. Dried flowers, pre-rolls, extracts and concentrates contribute 92.9 per cent of all cannabis sales. In fiscal 2020/21, cannabis sales account for 7.9% of LDB sales compared to liquor which accounts for 92.1%. In fiscal 2019/20, cannabis sales were only 3.5% of LDB sales. 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 refreshment beverages, wine, and spirits. Consistent with the sales dollar increase, the refreshment beverage category also experienced the highest volume increase. For the first time, the volume of refreshment beverages sold in fiscal year 2020/21 exceeded the volume of wine sold. For all categories (except wine), the 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

						Change vs Previous Year (2020/21 vs. 2019/20)	
	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**Change**	**%**
Liquor							
Spirits	26,478	27,029	27,374	28,411	29,835	1,424	5.0
Wine	75,871	77,408	76,005	78,525	79,758	1,233	1.6
Refreshment	43,364	48,633	56,343	65,860	85,170	19,310	29.3
Beer	293,986	298,751	293,267	284,224	270,542	(13,682)	(4.8)
Other	206	231	244	276	368	92	33.3
Total Liquor (litres)	**439,905**	**452,052**	**453,233**	**457,296**	**465,673**	**8,377**	**1.8**
Cannabis (kilograms)	n/a	n/a	**2,083**	**17,618**	**54,266**	**36,648**	**208.0**

Data Source: LDB Oracle Financial System.

In litres of beverage alcohol, there was a volume increase of 1.8 per cent over the previous year. Increases in the refreshment category were partially offset by decreases in the beer category, reflecting changing consumer preferences. The refreshment beverage category had the largest volume increase at 29.3 per cent, followed by spirits at 5.0 per cent, wine at 1.6 per cent, and beer declined by 4.8 per cent when compared to last year.

Total kilograms of cannabis sold increased to 54,266 kilograms as cannabis operations continued to grow.

Customer Sales

Starting in March 2020, there was significant market disruption as licensed establishments such as restaurants, pubs and bars closed or reduced operations in response to COVID-19 public health restrictions and customers stockpiled cannabis and beverage alcohol in anticipation of sheltering in place by staying at or close-to home. Changes in behavior continued to have a significant impact on the fiscal year 2020/21 financial results as the province continues to navigate through the pandemic.

During fiscal year 2020/21, the liquor marketplace reflected shifts in customer purchases as retail customers continued to stay home. There was a significant reduction in sales to licensed hospitality establishments – a 56.1 per cent decline compared to fiscal year 2019/20. This sales decrease to hospitality customers was due to a combination of reduced hours and reduce capacity (stemming from COVID-19 public health restrictions) and the policy change to allow hospitality customers to purchase at the LDB wholesale price. Retail customers shifted their purchases to private stores (licensee retail stores) and BCLS. This resulted in private stores increasing their market share from 34.2 per cent to 40.8 per cent and BCLS increasing their market share from 41.0 per cent to 42.3 per cent.

For cannabis sales, the sales mix continues to reflect the significant increase in private retail stores entering the market throughout the past year.

Table 3: Provincial Sales by Customer based on Dollar Sales

For the five years ended March 31

(As a percentage of total dollar sales)

Liquor	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
BCLS counter customers	43.0	41.8	41.0	41.0	42.3
Licensee retail stores[1]	31.9	32.4	33.3	34.2	40.8
Licensed establishments	16.8	17.1	16.7	15.6	6.7
Other customers[2]	5.6	6.0	6.3	6.5	7.2
Agency Stores	2.7	2.7	2.7	2.7	3.0
Total Liquor Sales (%)	100.0	100.0	100.0	100.0	100.0
Cannabis					
Retail customers	n/a	n/a	78.3	23.8	19.5
Private cannabis retail stores	n/a	n/a	21.7	76.2	80.5
Total Cannabis Sales (%)	n/a	n/a	100.0	100.0	100.0

Data Source: LDB Oracle Financial System.

Note 1: In June 2020 Independent Wine Store (IWS) licensees were allowed to convert their licence to a Licensee Retail Store (LRS) licence. IWS and LRS market share are now combined under Licensee retail stores and prior years have been restated.

Note 2: Includes manufacturers with on-site stores and grocery stores.

Table 4: Provincial Sales by Customer based on Litre/Kilogram Sales

For the five years ended March 31

(As a percentage of total litre/kilogram sales)

Liquor (total litre sales)	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
BCLS counter customers	33.6	32.7	32.2	32.4	32.8
Licensee retail stores[1]	41.0	41.5	42.2	43.1	50.6
Licensed Establishments	18.2	18.1	17.7	16.4	7.7
Other customers[2]	3.5	3.6	3.6	3.3	4.4
Agency Stores	3.7	4.1	4.3	4.8	4.5
Total Liquor Sales (%)	100.0	100.0	100.0	100.0	100.0
Cannabis (total kilogram sales)					
Retail Customers	n/a	n/a	74.8	19.7	15.4
Private cannabis retail stores	n/a	n/a	25.2	80.3	84.6
Total Cannabis Sales (%)	n/a	n/a	100.0	100.0	100.0

Data Source: LDB Oracle Financial System.

Note 1: In June 2020 Independent Wine Store (IWS) licensees were allowed to convert their licence to a Licensee Retail Store (LRS) licence. IWS and LRS market share are now combined under Licensee retail stores and prior years have been restated.

Note 2: Includes manufacturers with on-site stores and grocery stores.

Table 5: Year-over-Year Changes in Customer Sales (Based on Dollar Sales)

For the five years ended March 31

	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**
BCLS counter customers	4.0	2.1	0.1	3.5	6.2
Licensee Retail Stores[1]	6.2	6.7	5.1	6.4	22.6
Licensed Establishments	5.0	6.3	0.6	(3.0)	(56.1)
Other customers[2]	17.8	13.3	6.6	7.7	13.1
Agency Stores	3.4	5.5	2.7	3.1	13.0
Total Liquor Sales (%)	**5.5**	**5.0**	**2.2**	**3.6**	**2.7**
Cannabis retail customers	n/a	n/a	n/a	129.4	96.6
Private cannabis stores	n/a	n/a	n/a	2,552.4	154.6
Total Cannabis Sales (%)	n/a	n/a	n/a	**655.5**	**140.8**

Data Source: LDB Oracle Financial System.

Note 1: In June 2020 Independent Wine Store (IWS) licensees were allowed to convert their licence to a Licensee Retail Store (LRS) licence. IWS and LRS market share are now combined under Licensee retail stores and prior years have been restated.

Note 2: Includes manufacturers with on-site stores and grocery stores.

Compared to fiscal year 2019/20, there was sales growth in all customer categories except for licensed establishments. As mentioned earlier, as retail customers shifted to staying at home, there were increased purchases at BCLS, private retail stores, rural agency stores, grocery and all other retail outlets. The other customer category includes BC manufacturer on-site stores.

Remittances to Government agencies

The LDB paid $1.62 billion to various Government agencies during fiscal year 2020/21.

Table 6: Remittances to Government Agencies

(in $000s)

	2016/17	2017/18	2018/19	2019/20	2020/21
FEDERAL GOVERNMENT					
Custom Duties and Excise Tax	146,486	177,287	169,851	177,374	200,462
GST	73,310	74,927	73,079	80,137	85,336
Total	**219,796**	**252,214**	**242,930**	**257,511**	**285,798**
PROVINCIAL GOVERNMENT					
LDB Net Income	1,083,246	1,119,557	1,104,035	1,107,170	1,160,916
Provincial Sales Tax	146,327	146,539	148,441	151,302	171,702
Liquor Control and Licensing	424	428	427	428	426
Total	**1,229,997**	**1,266,524**	**1,252,903**	**1,258,900**	**1,333,044**
MUNICIPAL GOVERNMENT					
Property Taxes	1,019	1,045	1,135	998	770
Business Licenses	38	38	43	60	69
Total	**1,057**	**1,083**	**1,178**	**1,058**	**839**
Total Remittances	**1,450,850**	**1,519,821**	**1,497,011**	**1,517,469**	**1,619,681**

Risks and Uncertainties

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

The LDB along with the rest of the province continues to deal with the COVID-19 pandemic and operate under public health restrictions. With the roll-out of the provincial vaccine program and continued adherence to restrictions, there is cautious optimism that there will be a gradual re-opening of the economy once enough people are vaccinated. With the rise in COVID-19 variants, it is unknown if there will be a future wave and when ‘herd immunity’ will be achieved.

As the legal cannabis industry continues to mature, LDB will focus on developing efficient distribution operations to support both wholesale and retail customers. As government reviews policies to ensure small producers have access to the marketplace, these may result in changes to the current distribution model. On the retail side, the LDB will continue to open retail stores to service the needs of the community and promote safe, responsible consumption. In addition, the expansion of private stores will give consumers greater access to legal cannabis.

The LDB will continue to monitor wholesale margins for liquor and cannabis to ensure Government’s revenue targets are achieved.

Appendix A: Additional Information

Organizational Overview

The LDB is one of two branches of Government responsible for the wholesale distribution and retail sale of beverage alcohol and non-medical cannabis. While it is not a crown corporation, the LDB is required to comply within the requirements of a Crown agency in relation to its financial reporting, service plan and mandate letter.

To fulfill our responsibilities to Government and the people of B.C., the LDB:

- Generates revenue for the Government of B.C.;
- Manages the LDB's business risks;
- Ensures accountability of key business partners; and
- Develops and implements programs and services aimed at deterring the sale of non-medical and beverage alcohol to minors and those who appear intoxicated.

The LDB is proud to contribute more than $1 billion annually to the Province of B.C., helping to provide financial support for vital services such as health care and education.

Corporate Governance

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 *Cannabis Distribution Act* (CDA) establishes a government wholesale cannabis distribution model, public cannabis retail stores, and an online government sales channel.

Under the Ministry of Finance, the LDB has a General Manager and CEO who is responsible for administering the LDB and the CDA, subject to direction from the Minister. The General Manager and CEO:

- Operates a province-wide, retail and wholesale beverage alcohol business, within a mixed public-private retail model;
- Operates a province-wide, retail and wholesale non-medical cannabis business within a mixed public-private retail model;
- Has a workforce of approximately 4,800 full- and part-time employees.

Contact Information

P: 604-252-7400

E: communications@bcldb.com

Website: www.bcldb.com

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 2020/21, BCLS net income increased $9.2 million from the prior year. The net income rate decreased from 10.3 to 10.2 per cent of sales.

Table 1: BCLS financial results

(Unaudited - in $millions)

	2019/20	% sales	2020/21	% sales
Sales	1,524.7	100.0	1,623.0	100.0
Gross Margin	344.7	22.6	369.4	22.8
Expenses	192.1	12.6	205.4	12.7
Other Income	3.7	0.2	1.5	0.1
Net Income	**156.3**	**10.3**	**165.5**	**10.2**

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.

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 allocation of head office expenses.

Appendix C: Auditor's Report and Audited Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the British Columbia Liquor Distribution Branch have been prepared by management in accordance with International Financial Reporting Standards. Any financial information contained elsewhere in the annual report has been reviewed to ensure consistency with the financial statements.

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

The Office of the Auditor General of British Columbia has performed an independent audit of the financial statements of the Liquor Distribution Branch. The Auditor's Report outlines the scope of this independent audit and expresses an opinion on the financial statements of the Liquor Distribution Branch.

R. Blain Lawson	Roger M. Bissoondatt, FCPA, FCA, FCMA, C.Dir
General Manager and Chief Executive Officer	Chief Financial Officer

Vancouver, British Columbia
May 12, 2021

Financial Statements of

BC LIQUOR DISTRIBUTION BRANCH

An Independent Auditors Report thereon

For the year ended March 31, 2021

OFFICE OF THE
Auditor General
of British Columbia

INDEPENDENT AUDITOR'S REPORT

To the Minister of Finance, 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, 2021, 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, 2021, 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

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, FCPA, FCA
Deputy Auditor General

Russ Jones

Victoria, British Columbia, Canada
May 12, 2021

BC LIQUOR DISTRIBUTION BRANCH

Statement of Comprehensive Income
(in thousands of dollars)

For the year ended March 31, 2021, with comparative information for 2020

	Note	2021	2020
Revenue	4	$ 4,134,673	$ 3,841,426
Cost of sales		(2,499,243)	(2,270,351)
Gross profit		1,635,430	1,571,075
Expenses:			
Administration	5, 14, 15	(469,969)	(459,456)
Marketing	5	(6,967)	(6,429)
Transportation	5	(3,104)	(2,812)
		(480,040)	(468,697)
Profit		1,155,390	1,102,378
Other income		12,981	12,338
Finance costs	15	(7,470)	(7,546)
Total comprehensive income		$ 1,160,901	$ 1,107,170

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

BC LIQUOR DISTRIBUTION BRANCH
Statement of Due to the Province of British Columbia
(in thousands of dollars)

For the year ended March 31, 2021, with comparative information for 2020

	Note	2021	2020
Balance beginning of year		$ (100,495)	$ (154,068)
Total comprehensive income		(1,160,901)	(1,107,170)
Net payments to the Province of British Columbia	12	1,167,417	1,160,743
Balance end of year		$ (93,979)	$ (100,495)

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

BC LIQUOR DISTRIBUTION BRANCH

Statement of Financial Position
(in thousands of dollars)

For the year ended March 31, 2021, with comparative information for 2020

	Note	2021	2020
Assets			
Current:			
Cash		$ 12,281	$ 5,929
Accounts receivable	6	17,746	15,806
Prepaid expenses and deposits	7	9,106	7,258
Inventories	8	230,061	184,320
		269,194	213,313
Non-current assets:			
Prepaid expenses and deposits	7	1,398	4,120
Intangible assets	9	28,278	48,162
Property and equipment	10	318,992	300,267
		348,668	352,549
Total assets		$ 617,862	$ 565,862
Liabilities			
Current:			
Accounts payable and accrued liabilities	11, 14	$ 243,206	$ 209,525
Current portion of lease liabilities	15	41,267	35,884
Due to Province of British Columbia	12	93,979	100,495
		378,452	345,904
Non-current liabilities:			
Lease liabilities	15	191,669	173,820
Other long-term liabilities	13, 14	47,741	46,138
		239,410	219,958
Total liabilities		$ 617,862	$ 565,862

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

Approved for issue on May 12, 2021 by:

R. Blain Lawson
General Manager and Chief Executive Officer

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

BC LIQUOR DISTRIBUTION BRANCH

Statement of Cash Flows
(in thousands of dollars)

For the year ended March 31, 2021, with comparative information for 2020

	Notes	2021	2020
Cash provided by (used in):			
Operating:			
Total comprehensive income		$ 1,160,901	$ 1,107,170
Items not involving cash:			
Depreciation and amortization		85,919	79,500
(Gain) Loss on disposal of property and equipment		(4)	197
Finance costs	15	7,470	7,546
Right-of-use asset provision	15	-	5,817
Accrued employee benefits		2,694	5,058
Changes in non-cash operating items:			
Non-current assets		2,722	348
Working capital	6, 7, 8	(15,846)	20,435
		1,243,856	1,226,071
Investing:			
Acquisition of intangible assets	9	(738)	(12,075)
Acquisition of property and equipment	10	(21,119)	(25,862)
Proceeds from disposal of property and equipment		45	94
		(21,812)	(37,843)
Financing:			
Payment of lease liabilities	15	(48,275)	(46,725)
Net payments to the Province of British Columbia	12	(1,167,417)	(1,160,743)
		(1,215,692)	(1,207,468)
Increase in cash		6,352	(19,240)
Cash, beginning of year		5,929	25,169
Cash, end of year		$ 12,281	$ 5,929
Supplementary information:			
Non-cash operating and finance activities:			
Addition of store lease liabilities		$ 64,038	$ 13,176

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 Finance.

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

The General Manager and Chief Executive Officer of the LDB was 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 12, 2021.

(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.

2. Basis of accounting (continued)

(d) Use of estimates and judgments (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. In determining and applying accounting policies, judgment is often required where the choice of specific policy, assumption or account estimate to be followed could materially affect the reported results or net position of the LDB, should it later be determined that a different choice would be more appropriate. Management considers the following to be areas of 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 or that could affect prospective depreciation, amortization charges, and asset carrying values.

(ii) Leases - renewals

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

2. Basis of accounting (continued)

(d) Use of estimates and judgments (continued)

(iii) Leases - discount rates

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

3. Significant accounting policies

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

(a) Foreign currency translation

The LDB in the normal course of business purchases product in foreign currency. Any foreign currency transactions are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Any foreign currency denominated monetary assets and liabilities are stated using the prevailing rate of exchange at the date of the statement of financial position. The resulting foreign currency gains or losses are recognized on a net basis within administrative expenses in the statement of comprehensive income.

(b) Financial instruments

(i) Recognition and initial measurement

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

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

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

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

Financial Assets

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

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

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

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

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

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

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.

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

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

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

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

In making this assessment, the LDB considers:

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

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

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

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

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

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

Financial liabilities

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

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Derecognition

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

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

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

(iv) Offsetting

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

(c) Property and equipment

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

3. Significant accounting policies (continued)

(c) Property and equipment (continued)

(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.

(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 for which the LDB has control 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.

3. Significant accounting policies (continued)

(e) Depreciation and amortization of non-financial assets

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

Asset	Rate
Buildings and building improvements	2.5 - 5% per annum
Leasehold improvements	Shorter of term of lease or estimated useful lives
Furniture, fixtures, vehicles and equipment	10 - 25% per annum
Information systems	25% per annum
Intangible assets - computer software development costs	25% per annum

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

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

3. Significant accounting policies (continued)

(f) Leases

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

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

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

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

Leasehold incentives, where the LDB controls the respective assets, that have been received or become receivable are deferred and amortized over the lease term as a tenant allowance (note 13).

3. Significant accounting policies (continued)

(f) Leases (continued)

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

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

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

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

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

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

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

3. Significant accounting policies (continued)

(f) Leases (continued)

Short-term leases and lease of low-value assets

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

(g) Inventories

The LDB's inventories are valued at the lower of cost and net realizable value. Inventories are determined on a weighted average cost basis. Cost of inventories comprises of cost of purchase to bring inventories to an LDB distribution centre and includes supplier invoiced value, freight, duties, and non-recoverable taxes. Net realizable value represents the estimated selling price for inventories less the estimated costs to sell.

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

(h) Impairment

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

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

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

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

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

3. Significant accounting policies (continued)

(h) Impairment (continued)

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

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

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

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

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

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

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

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

3. Significant accounting policies (continued)

(i) Employee benefit plans

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

(j) Provisions

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

(k) Revenue recognition

Revenue is measured based on the consideration to which LDB expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. 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.

3. Significant accounting policies (continued)

(m) Changes in accounting standards

(i) New standards, interpretations, and amendments adopted by LDB, these standards had no material impact to the LDB.

- *IAS 1 (Presentation of financial statements) and IAS 8 (accounting policies, changes in accounting estimates and errors) amendment*

  Definition of Material - This objective of this amendment was to refine the definition of materiality and clarify its characteristics.

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

The following are new standards that are effective for annual periods beginning after April 1, 2021 and have not been early adopted. These standards and interpretations are not expected to have a significant impact on the LDB's financial statements.

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

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

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

  Classification of liabilities as current or non-current - The amendment affects only the presentation of liabilities in the statement of financial position - not the amount or timing of recognition of any asset, liability income or expense, or the information that the entities disclose about those items. Effective for annual periods on or after January 1, 2023.

  - clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
  - clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
  - make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

(Tabular amounts in thousands of dollars)

3. Significant accounting policies (continued)

(m) Changes in accounting standards (continued)

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

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

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

4. Revenue

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

	2021	2020
Retail customers	$ 1,673,422	$ 1,546,983
Licensee retail stores	1,775,344	1,329,212
Hospitality customers	254,625	579,882
Other customers	316,661	283,886
Agency stores	114,621	101,463
Total sales	$ 4,134,673	$ 3,841,426

(Tabular amounts in thousands of dollars)

5. Operating expenses

The LDB's operating expenses are comprised of:

	Note	2021	2020
Administration costs		$ 469,969	$ 459,456
Marketing		6,967	6,429
Transportation		3,104	2,812
		$ 480,040	$ 468,697
Salaries, wages and benefits		$ 271,262	$ 257,676
Depreciation and amortization		85,919	79,500
Bank charges		37,833	34,594
Other administrative expenses		21,634	27,386
Data processing		16,428	12,067
Rents and property taxes		13,276	15,001
Repairs and maintenance		10,994	9,863
Professional services		8,980	14,343
Marketing		6,967	6,429
Loss prevention		3,643	3,209
Transportation		3,104	2,812
Right-of-use asset provision	15	-	5,817
Total operating expenses		$ 480,040	$ 468,697

6. Accounts receivable

	2021	2020
Trade accounts receivable and other items	$ 19,057	$ 16,877
Provision for doubtful accounts	(1,311)	(1,071)
Accounts receivable and other items - net	$ 17,746	$ 15,806

Receivables past due but not impaired are \$3.0 million (2020 - \$3.3 million). During the year the LDB expensed \$0.2 million (2020 - \$1.1 million) as bad debts expense.

(Tabular amounts in thousands of dollars)

7. Prepaid expenses and deposits

Prepaid expenses and deposits 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, 2021, the LDB has recorded $7.5 million (2020 - $8.9 million) of prepaid wine futures for delivery in fiscal years 2022 to 2023.

	2021	2020
Non-refundable wine futures	$ 7,467	$ 8,917
Other prepaid expenses	3,037	2,461
	10,504	11,378
Less: long term portion	(1,398)	(4,120)
Current portion	$ 9,106	$ 7,258

8. Inventories

	2021	2020
Store inventory	$ 80,539	$ 77,218
Warehouse inventory	149,522	107,102
Total inventory	$ 230,061	$ 184,320

During the year, inventories that were recognized as cost of sales amounted to $2.5 billion (2020 - $2.3 billion).

(Tabular amounts in thousands of dollars)

9. Intangible assets

	Intangible assets	Construction in process	Total
March 31, 2020			
Opening net book value	$ 50,675	$ 3,400	$ 54,075
Additions	138	11,937	12,075
Completion of construction-in-progress	5,092	(4,964)	128
Disposals (cost)	(1,324)	-	(1,324)
Disposals (accumulated depreciation)	1,324	-	1,324
Amortization charge	(18,116)	-	(18,116)
	$ 37,789	$ 10,373	$ 48,162
Cost	$ 83,216	$ 10,373	$ 93,589
Accumulated amortization	(45,427)	-	(45,427)
Net book value	$ 37,789	$ 10,373	$ 48,162
March 31, 2021			
Opening net book value	$ 37,789	$ 10,373	$ 48,162
Additions	13	725	738
Construction-in-progress capitalization	10,980	(10,980)	-
Disposals (cost)	-	-	-
Disposals (accumulated depreciation)	-	-	-
Amortization charge	(20,622)	-	(20,622)
	$ 28,160	$ 118	$ 28,278
Cost	$ 94,209	$ 118	$ 94,327
Accumulated amortization	(66,049)	-	(66,049)
Net book value	$ 28,160	$ 118	$ 28,278

(Tabular amounts in thousands of dollars)

10. Property and equipment

	Land & land improvements	Buildings & building improvements	Leasehold improvements	Furniture fixtures vehicles & equipment	Right of use assets - property	Information systems	Construction in process	Total
March 31, 2020								
Opening net book value	$ 636	$ 872	$ 45,790	$ 20,877	$ -	$ 11,467	$ 6,438	$ 86,080
IFRS 16 Adjustment (Note 15)	-	-	-	-	235,706	-	-	235,706
Assets reclassified	-	-	(68)	53	-	15	-	-
Additions	-	-	10,773	3,397	12,539	2,530	16,862	46,101
CIP capitalization	-	-	14,199	2,269	-	3,142	(19,738)	(128)
Provision (Note 15)	-	-	-	-	(5,817)	-	-	(5,817)
Disposals (cost)	-	(72)	(3,840)	(6,803)	-	(20,512)	-	(31,227)
Disposals (accumulated depreciation)	-	67	3,840	6,519	-	20,510	-	30,936
Depreciation charge	(2)	(71)	(8,430)	(6,608)	(41,488)	(4,785)	-	(61,384)
$	634	$ 796	$ 62,264	$ 19,704	$ 200,940	$ 12,367	$ 3,562	$ 300,267
Cost	$ 647	$ 6,183	$ 136,155	$ 59,925	$ 248,245	$ 40,174	$ 3,562	$ 494,891
Accumulated depreciation	(13)	(5,387)	(73,891)	(40,221)	(47,305)	(27,807)	-	(194,624)
Net book value	$ 634	$ 796	$ 62,264	$ 19,704	$ 200,940	$ 12,367	$ 3,562	$ 300,267
March 31, 2021								
Opening net book value	$ 634	$ 796	$ 62,264	$ 19,704	$ 200,940	$ 12,367	$ 3,562	$ 300,267
Assets reclassified	-	-	137	(164)	69	(42)	-	-
Additions	-	19	966	3,300	64,038	3,577	14,017	85,917
CIP capitalization	-	-	10,761	844	-	579	(12,184)	-
Disposals (cost) -	-	-	(441)	-.	(172)	-	(613)	
Disposals (accumulated depreciation)	-	-	-	408	(3)	164	-	569
Depreciation charge	(2)	(70)	(9,865)	(6,674)	(45,366)	(5,171)	-	(67,148)
$	632	$ 745	$ 64,263	$ 16,977	$ 219,678	$ 11,302	$ 5,395	318,992
Cost	$ 647	$ 6,202	$ 148,639	$ 63,532	$ 313,043	$ 44,127	$ 5,395	$ 581,585
Accumulated depreciation	(15)	(5,457)	(85,136)	(46,555)	(92,605)	(32,825)	-	(262,593)
Net book value	$ 632	$ 745	$ 63,503	$ 16,977	$ 220,438	$ 11,302	$ 5,395	$ 318,992

(Tabular amounts in thousands of dollars)

11. Accounts payable and accrued liabilities

	2021	2020
Trade payables	$ 155,790	$ 121,416
Accrued liabilities	80,153	82,353
Other payables	6,096	4,589
Current portion of deferred tenant allowances	1,167	1,167
	$ 243,206	$ 209,525

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 $2.87 billion (2020 - $2.56 billion) and the total payments to the Province were $4.04 billion (2020 - $3.72 billion).

13. Other long-term liabilities

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

	2021	2020
Retirement benefit obligation (note 14(b))	$ 18,466	$ 18,877
WorkSafe BC claims accruals (note 14(c))	17,300	14,900
Deferred tenant allowances	10,119	11,210
Other	1,856	1,151
	$ 47,741	$ 46,138

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, 2020 the Plan has about 67,000 active members and approximately 51,000 retired members.

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

(a) Public Service Pension Plan (continued)

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, 2020, indicated a funding surplus of $2.7 billion for basic pension benefits on a going concern basis.

The total amount paid into the plan by the LDB for the year ended March 31, 2021 was $17.9 million (2020 - $16.5 million) for employer contributions which was recorded in administration expenses and represents 2.3 per cent of the total plan contributions. At this time, LDB does not expect significant fluctuations in the future contributions to the plan.

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

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

(b) Retirement benefits

Employees are entitled to specific non-pension retirement benefits as provided for under collective agreements and terms of employment. The future liability for this obligation amounts to $18.5 million (2020 - $18.9 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 nil (2020 - $1.5 million).

(Tabular amounts in thousands of dollars)

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

(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 $17.3 million (2020 - $14.9 million) is valued by independent actuaries.

15. Lease liabilities

Real estate leases

The LDB has various real estate leases for retail stores, office space and warehouses. The leases have varying terms, escalation clauses and renewal rights. The leases for retail stores, office space and warehouses typically run for a period of five to ten years.

Some leases also require the LDB to make payments related to property taxes levied on the lessor and insurance payments made by the lessor. These amounts are generally determined annually.

Other leases

The LDB leases office equipment with terms of five years. As at March 31, 2021, right-of-use assets associated with office equipment have a net book value of $0.4 million (2020 - $0.7 million).

Right-of-use asset provision

One of the properties that the LDB leases has been vacant. The LDB has been actively pursuing to sub-let this property which has a lease term that ends in 2023.

The right-of-use asset provision is as follows:

	2021	2020
Balance, April 1	$ 5,817	$ -
Onerous lease recognized	-	6,657
Lease payments	(1,838)	(919)
Interest expense	155	79
Balance, March 31	$ 4,134	$ 5,817

(Tabular amounts in thousands of dollars)

15. Lease liabilities (continued)

The lease liabilities are payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	$ 48,531	$ (7,264)	$ 41,267
Between one to five years	142,621	(17,637)	124,984
More than five years	74,519	(7,834)	66,685
Balance, end of year	265,671	(32,735)	232,936
Non-current lease liability	$ 217,140	$ (25,471)	$ 191,669

The following table details the changes in lease liability during the year as a result of financing cash flows and liability related charges:

	2021	2020
Balance, April 1	$ 209,703	$ -
IFRS 16 adoption adjustment	-	235,706
Additional lease obligations	64,038	13,176
Lease payments	(48,275)	(46,725)
Interest expense	7,470	7,546
Balance, March 31	$ 232,936	$ 209,703

The weighted-average incremental borrowing rate applied for leases that are 10 years or more is 3.9% (2020 - 3.9%). Leases that are less than 10 years use a discount rate of 3.1% (2020 - 3.1%)

16. Contractual commitments

(a) 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 (2020 - $0.4 million) for license fees during the year.

(b) Payroll processing

The LDB has an agreement with the BC Public Service Agency for payroll processing. The LDB paid $1.0 million (2020 - $1.0 million) for processing services. The agreement expires in July 2021.

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

17. Contingent items

(a) The LDB is the sole importer of beverage alcohol in the Province. The LDB, as the importer of record, has the future liability for customs duty on import beer of $0.5 million (2020 - $0.9 million) based upon the value of the agents' inventories at March 31, 2021.

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

18. Capital management

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

(Tabular amounts in thousands of dollars)

19. Related party transactions

(a) Province of British Columbia

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

(b) Key management compensation

The LDB's executive management committee is defined as key management. At March 31, 2021 there were 8 (2020 - 9) members on the executive committee.

	2021	2020
Salaries and short-term benefits	$ 1,460	$ 1,468
Post-employment benefits	113	105
	$ 1,573	$ 1,573

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).

20 Fair value of financial instruments (continued)

All of the Company's financial instruments are classified within Level 1 or Level 2, apart from the Public Service Pension Plan and Worksafe BC liabilities, because these instruments are valued using quoted market prices or alternative pricing sources and models utilizing observable market inputs. The Public Service Pension Plan and Worksafe BC liabilities are classified within Level 3 given the presence of unobservable inputs impacting the future obligations.

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 another party to meet its contractual obligations related to lease agreements, including future lease payments. See accounts receivable note 3(b) and 6 for further disclosure on credit risk.

21. Financial risk factor (continued)

(a) Credit risk (continued)

As at March 31, 2021, 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.

22. Impact of COVID-19

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian Federal and Provincial governments, enacting emergency measures to combat the spread of the virus. As a listed essential service, LDB stores remained open to serve its customers. To support the health and wellbeing of its communities, management has proactively enacted measures to reinforce physical distancing and minimize customer touchpoints at its locations. There is no material impact due to COVID-19 on the results of the LDB for the year ended March 31, 2021. The situation is dynamic and the ultimate duration and magnitude of impact on the economy and any future financial effect on the businesses are not known at this time.

23. Comparative Information

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.