BC Liquor Distribution Branch

2019/20
Annual Service Plan Report

BRITISH
COLUMBIA

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General Manager and CEO's Accountability Statement

The *BC Liquor Distribution Branch (LDB) 2019/20 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2019/20 – 2021/22 Service Plan* created in February 2019. I am accountable for those results as reported.

R. Blain Lawson
General Manager and Chief Executive Officer
June 24, 2020

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Letter from the General Manager and CEO

The fiscal year ended in a way no one could have envisioned: under a provincial state of emergency as our province, our nation and the world faced the COVID-19 pandemic head on.

The LDB proved itself as an agile organization that could be responsive in adapting on a daily basis to protect our employees and meet the needs and requirements of our customers and the Province. Our retail store teams displayed professionalism and grace as they managed those rapid changes, and our distribution centres worked hard to fulfil wholesale customer orders and accommodate extraordinary demand. Together, with support staff at our head office, we maintained the cannabis and liquor supply chains declared as essential services to ensure the continued flow of goods and services to the people of British Columbia. I'm very proud of the people I work alongside.

The LDB, through its wholesale and retail lines of business, contributed $1.107 billion to help fund B.C. government services this year, falling short of our 2019/20 revenue target of $1.120 billion. This funding will be vital in supporting families and communities impacted by COVID-19. Once again, our liquor sales saw record growth, while cannabis sales grew at a steady pace.

Edibles, topicals and vaporizers were added to our wholesale cannabis product offerings in late 2019 and were made available to 168 licensed private retailers. In the brief period since being introduced, these new products have grown in demand and now account for approximately 20 per cent of our total wholesale sales volume.

In 2019/20, our retail network of BC Cannabis Stores (BCCS) grew to 15 locations throughout the province and we continue to engage with local governments and Indigenous communities to understand and align with their bylaws and business requirements. Our online cannabis store maintained a steady growth through the majority of the fiscal year before experiencing a significant increase in transactions due to COVID-19, ensuring British Columbians have access to non-medical cannabis no matter where they live in the province.

Our BC Liquor Stores (BCLS) throughout the province are meeting increased competition from grocery stores selling liquor and manufacturers operating on-site stores and are adapting to meet market conditions. We have increased the number of stores with Cold Zone refrigeration to a total of 175 locations and are working with a market research firm to provide feedback that we will use to create store-specific action plans to improve the in-store customer experience.

Teams at our liquor distribution centres picked and shipped over 20 million cases of liquor this fiscal year, an increase of nine per cent over our previous record-setting pace last year. The transition of customers from our primary warehouse in Vancouver to the larger facility in Delta was completed in May 2019. Since then, we have maintained a 95 per cent fill rate compared to just over 80 per cent during the 2018/19 holiday season. In February 2020, we converted our Kamloops distribution centre to the same operating system and now all three distribution centres – Kamloops, Delta and the cannabis warehouse in Richmond – utilize the same system.

The LDB is being consulted and engaged on a number of the recommendations made by the Business Technical Advisory Panel (BTAP), which the provincial government continues to action. Stakeholders understand that reforms and change must be implemented at a responsible pace in order that the needs of the various sectors of the liquor industry are balanced with public safety concerns. The Government of B.C. must also ensure changes do not impact LDB's ability to generate revenue that helps to fund public health, education and community programs.

As part of the BTAP recommendations, a third-party undertook an operational assessment of our Delta facility in 2019 and assessed options to replace the current system for the order and delivery of low-volume import product. The resulting report is currently under review by the B.C. government.

As directed by our 2019/20 Mandate Letter, we continued to innovate with technology to improve customer service, protect systems and data from cyber attack, and maximize service availability. We are also adding tools that enable and empower our people to work productively in a mobile and agile environment, at home or in any LDB location. Some of these tools were called into action as employees physically distanced themselves to deal with the COVID-19 pandemic. We recognize that customers and industry stakeholders need business solutions that are available in real-time and on a multi-channel basis, which is why we continue to invest in data-driven decision making and e-commerce capabilities.

Additionally, the LDB continues to collaborate with stakeholders to reinforce our corporate social responsibility initiatives. We phased out the use of plastic check-out bags at our 197 BCLS in 2019/20. Customers embraced this change, as did municipalities concerned about the amount of plastic entering our waste stream. We have a tremendous opportunity ahead of us to start making business decisions through the lens of our social impact on stakeholders, the environment, and the communities we live and work within.

The need to continually adapt and change at the LDB has been evident and accelerating.

As we continue building a resilient business for both liquor and cannabis, one of our operational focuses for the upcoming year will be to capitalize on cost-savings realized in 2019/20 and value for the Province of British Columbia.

R. Blain Lawson
General Manager and CEO

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) licenses private liquor stores, restaurants, pubs and manufacturers, and enforces regulations under the *Liquor Control and Licensing Act*.

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

Reporting to the Attorney General, the LDB:

- Has a General Manager and CEO who is responsible for administering the LDA and the CDA, subject to direction from the Minister;
- Operates a province-wide retail and wholesale beverage alcohol business within a mixed public-private retail model;
- Operates a province-wide retail and wholesale cannabis business within a mixed public-private retail model;
- Is responsible for the importation and distribution of beverage alcohol and distribution of cannabis in B.C.;
- Has a workforce of approximately 4,800 full- and part-time employees; and,
- Operates 197 BCLS, 15 stand-alone 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 a high level of 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 the Government of B.C. in 2019/20 and expanded upon in the Mandate Letter from the Minister responsible in 2019, shaped the 2019/20 LDB Service Plan and results reported in this annual report.

The LDB is aligned with government's key priorities:

Government Priorities	LDB aligns with these priorities by:
Delivering the services people count on	• Maintaining a high level of retail and wholesale customer satisfaction (Objective 2.1) • Encouraging the responsible use of beverage alcohol and non-medical cannabis (Objective 5.1) • Minimizing the impact of operations on the environment (Objective 5.1)
A strong, sustainable economy	• Meeting financial objectives approved by government (Objective 1.1) • Maintaining operating efficiencies in a climate of constant change (Objective 4.1)

Operating Environment

Contributing to a CleanBC

As part of the new accountability framework established in CleanBC, and consistent with the *Climate Change Accountability Act*, LDB continues to ensure the organization's operations are aligned with targets and strategies for minimizing greenhouse gas emissions, including the overall impact of LDB operations on the environment.

To support its commitment to social responsibility and minimizing the impact of its operations on the environment, the LDB eliminated plastic bags from its network of 197 BCLS in 2019/20. Customers opting for a paper bag are charged an environmental fee of $0.10 per bag, which further incentivizes them to bring their own bag when shopping. The change was widely supported by customers and aligned with plastic bag distribution bylaws adopted in a growing number of municipalities.

LDB also continues to analyze ways to reduce packaging waste at its liquor distribution centers. Waste tracked in 2019/20 and diverted from landfills included mixed containers, paper, organics, electronics, Styrofoam, wood, metal, cardboard and soft plastics. BCLS in Metro Vancouver divert cardboard, certain soft plastics and organics from landfills.

Liquor policy modernization

The LDB continues to work with LCRB and other stakeholders to action recommendations put forward by the Business Technical Advisory Panel (BTAP), as the provincial government proceeds with its analysis, prioritization and actioning of items. This work is proceeding carefully as all parties weigh and consider the potential health, public safety, social, financial and labour impacts of implementation. Additional regulatory requirements are considered holistically to ensure proper prioritization for government and the industry as a whole.

As a result of the ongoing engagement with BTAP and industry stakeholders, the LDB and LCRB have been working with the B.C. government to support this important sector as it absorbs the impact of measures designed to contain COVID-19. For example, distilleries and breweries across the province whose regular operations are paused are temporarily producing alcohol-based hand sanitizer and general sanitizer for sale or donation, and the hospitality sector is temporarily selling packaged liquor with take-out and delivery meals.

Cannabis policy development

The Cannabis Operations wholesale and retail lines of business continue to develop, expand and support the Government of B.C.'s key priorities of protecting public health and safety, social responsibility and eliminating the illegal market.

As part of ongoing efforts to expand its wholesale product assortment, the LDB has continually taken steps to engage with new and small-scale producers as they receive licences, and the LDB remains committed to being as inclusive of as many licensed producers as possible. As of March 31, 2020, the LDB has purchased from 15 production facilities located in British Columbia. This represents 21 per cent of total cannabis purchases for the fiscal year.

The LDB is working to support Indigenous and small- scale cannabis producers as they enter the legal market. Online engagement with several key organizations was initiated to identify objectives, capacity and implications for existing retailers and producers. Regulatory and policy changes that would permit these producers to sell directly to consumers, in-store marketing and other changes are being examined and evaluated for consideration of government.

The LDB also continues to collaborate with partner ministries on work led by the Cannabis Legalization and Regulation Secretariat to support socially responsible economic development in the cannabis sector. LDB supports cannabis partners by sourcing cannabis from licensed suppliers across Canada and by taking steps to ensure that all retailers, private and public, have an equal access to products in high demand in order to ensure a level playing field.

Increasingly competitive marketplace

This fiscal year saw British Columbia make legislative and regulatory changes to bring wine stores operating under the 'store within a store model' into compliance with the trilateral trade deal signed by the federal government, US and Mexico in 2018. The signatory nations agreed in principle that wine stores operating within BC grocery stores would no longer be limited to offering only products made in B.C.

The full impact of this increased competition for BCLS and other retailers remains to be seen as many of the grocery stores have not yet started selling import wines, although they have been able to do so since June 2019. Wholesale sales of wine account for $1.3 billion, almost 34 per cent of all the LDB's wholesale liquor sales.

The cannabis production industry has seen tremendous expansion and contraction, as producers work to overcome regulatory requirements and try to meet forecasted output and consumer need. The sector is struggling to remain competitive with illicit producers and retailers on price point. The number of licensed retailers continues to increase and adapt to local markets and to offer new and emerging products.

Economic growth statement

British Columbia's economy was strong in 2019 with real GDP growth of 2.8 per cent compared to the year before. Labour market conditions in B.C. remained tight, highlighted by the lowest unemployment rate in the country at 4.7 per cent, unchanged in rank and level from 2018. Employment increased by 2.6 per cent on the year. Average weekly wages grew by 2.5 per cent, registering a second consecutive year of positive real wage growth, with the annual consumer price index up 2.3 per cent.

B.C. retail sales increased by 0.6 per cent in 2019, a more moderate pace compared to 2.0 per cent growth in 2018, as consumer spending was weighed down by more cautious overall consumer behaviour and declines in housing-related spending amid falling home sales year-over-year. Meanwhile, residential construction remained strong. Although the forestry sector faced significant challenges in 2019, LNG development provided some support for economic growth and job creation in the province. On the external front, global trade policy uncertainty, escalating trade tensions and commodity price declines weighed on B.C.'s export sector in 2019.

Report on Performance: Goals, Objectives, Measures and Targets

The LDB's Report on Performance describes how the organization implemented its strategies in order to meet its performance goals. It illustrates how the LDB balanced its financial obligations with the nonfinancial activities outlined in its mandate. The strategies presented are in alignment with B.C. government's expectations as outlined in the 2019/20 Mandate Letter.

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

Goal 1: Financial Performance

Objective 1.1: Meet Government's financial objectives

Key Highlights

- Continued to grow sales and effectively managed operating expenses in order to sustain net returns to province.

Performance Measure	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
1.1a Net income (in $ millions) [1]	$1,104.0	$1,120.2	1,107.2	$1,155.4	$1,195.1

[1]**Data Source**: BCLS sales data is collected from both computerized point-of-sale cash register systems and online sales systems and stored in head office databases. Sales made directly to customers by authorized representatives on

behalf of the LDB are transmitted to the LDB and stored in databases. LDB expense data is captured, stored, and reported by the LDB's financial system.

Discussion of Results

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

LDB's net income for the year was $1.1 billion, 1.2 per cent below target and 0.3 per cent higher than the previous year.

Net income was below target by $13.0 million. This was mainly due to lower-than-anticipated cannabis sales and a provision for leasing costs related to a vacant office building. The lower cannabis sales were partially offset by higher liquor sales with strong growth in all liquor categories except beer, which continued a decline that started in fiscal 2018/19.

Compared to the prior year, net income increased by $3.1 million. Fiscal 2019/20 sales were $3.8 billion and 6.9 per cent higher than the prior year. The sales increase over prior year was due to growth in both cannabis and liquor products. During the year, there was a significant increase in the number of private cannabis retail stores along with the opening of 14 more BC Cannabis Stores. For liquor, higher volumes and higher sales dollars across all product categories (except beer) contributed to the increase.

Sales changes, and the resulting impact on net income, are the result of several factors, including weather, holiday weekends, supplier promotions and the introduction of new products.

Goal 2: Customer Experience

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

Key Highlights

Liquor Retail Division

- Continued to renovate BCLS to enhance the customer experience by providing new service experiences, such as brighter, more welcoming store appearances and refrigeration.
- Provided enhanced customer service through ongoing employee training and support of a customer-centric culture across the retail store network.
- Identified and implemented innovative ways to showcase products that are of interest to B.C. consumers.

Performance Measure	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
2.1a Retail customer satisfaction[1]	86%	n/a	n/a	85%	n/a

[1] **Data Source**: The LDB contracts with professional survey companies to conduct the retail customer service surveys every other year.

Discussion of Results

The Liquor Retail Division completed 10 renovation programs at BCLS in fiscal 2019/20 to redesign store layouts, improve functionality of checkouts, add refrigeration units to allow for the purchase of cold beverages, and install tasting areas where stores could host customer events. The improvements have been well received, particularly in locations where changes to the layout resulted in wider and more spacious aisles, thus improving the shopping experience and positively impacting sales performance.

To reflect the importance on customer satisfaction, BCLS continued to focus on the fundamentals of its GREAT[1] service model, ensuring team members are always available to greet and serve customers during store peak periods, able to establish friendly rapport, quickly evaluate the customers' needs, and make the best recommendation for the customer based on a more developed product knowledge.

The retail customer service survey is conducted on a bi-annual basis; therefore, the next report will be completed in 2020/21. The LDB's retail division anticipates that the momentum from 2018/19 will continue given the GREAT service training program and the division's focus and emphasis on providing exceptional customer service.

Signature BCLS locations continue to review and broaden tasting events to meet customer demand. Additionally, large format stores introduced BCLS-led tasting programs on a weekly basis that showcase local products.

Key Highlights

Liquor Wholesale Division

- Continuously provided enhanced customer service through efficient order processing and fulfillment.
- Continued to provide enhanced customer service through employee training and to support a customer-centric culture within the warehouse team.

	Performance Measure	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
2.1b	Wholesale customer satisfaction[1]	n/a	75%	Third-party survey (see below)	85%	n/a

[1] **Data Source**: The LDB contracts with professional survey companies to conduct the wholesale customer service surveys. Survey scheduled for 2019/20 pushed to next year to avoid doubling up with third party consultant survey.

Discussion of Results

LDB completed the transition of wholesale customers from the Vancouver distribution centre to the distribution centre in Delta. Operational efficiencies were identified during the stabilization

[1] GREAT is an acronym for the customer service model followed by BCLS employees: Greet all customers; build Rapport; Evaluate customer needs by asking open-ended questions; share product and store knowledge and Action sales by providing recommendations; and Thank the customer.

process, then implemented to ensure the new systems and processes are working to benefit wholesale customers. The Delta distribution centre is meeting customer service targets through more efficient response and improved order processing times.

The same warehouse management system in use in Delta was introduced at the Kamloops Distribution Centre in February 2020 to support better integration between sites. Employees at the secondary distribution centre underwent process and systems training with the goal of enhancing customer service. Additional systems and processes may be implemented as a result of the review of LDB’s distribution system and the process for managing the distribution of low volume import products (BTAP recommendations one and three).

The Liquor Wholesale Division continues to support a customer-centric culture within the warehouse teams with enhanced training and support. Wholesale customers – BCLS, private retail liquor stores, rural agency stores, bars and restaurants – are surveyed every two years by a professional survey company to determine customer satisfaction. The results of these surveys allow the Liquor Wholesale Division to compare customer satisfaction over time and determine if a high level of satisfaction is being maintained.

The survey was not conducted in 2018/19 as the LDB was in the midst of transitioning to its new distribution centre in Delta. In 2019/20, a third-party consultant undertook an industry-wide survey as part of its work on BTAP initiatives and included that information in its report to the provincial government. Choosing not to duplicate this work, LDB plans to survey customers on service levels, delivery services, responsiveness, consistency and communications in 2020/21.

Key Highlights

Cannabis Division (Wholesale and Retail)

- Ensured safe and high-quality cannabis products and information are available to all customers.
- Continued to develop our people with the knowledge and culture to deliver an exceptional customer experience.
- Provided customers with a broad Canadian product assortment.

Performance Measures		2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
2.1c	Retail customer satisfaction[1]	n/a	82%	n//a	85%	87%
2.1d	Wholesale customer satisfaction[2]	n/a	82%	n/a	85%	87%

[1] Data Source: The LDB plans to partner with professional survey companies to conduct annual retail customer service surveys.
[2] Data Source: The LDB plans to partner with professional survey companies to conduct annual wholesale customer service surveys.

Discussion of Results

BCCS in-store and digital product assortment grew significantly with over 250 new products added to its offering in 2019/20, as edible products entered the market. Online merchandising has focussed on product collections and highlighting a variety of brands and products to customers via banners on the homepage and throughout the www.bccannabisstores.com site.

When featured, most brands and products had a sales lift of in excess of 60 per cent over previous average weekly sales. The result is that new cannabis consumers have been able to explore different product types and learn what works best for them. Traffic saw a significant boost when edible products became available for sale, jumping 77 per cent week over week and continuing to trend higher. The website had drawn 1,433,482 visitors by the end of fiscal 2019/20; a significant portion of the traffic increase was from first-time customers.

BCCS hired and trained more than 150 people during the latter half of the fiscal year when 70 per cent of bricks and mortar stores were officially opened. Also, during this period, cannabis consultants received product knowledge and social responsibility training for a new wave of legal products including edibles and vaporizers. A 'train the trainer' program was implemented, allowing managers to cascade product knowledge training at the store level and better link sales to the store environment. Online training was introduced to permit cannabis consultants and Cannabis Customer Call Centre team members to learn remotely.

BCCS had planned to carry out the first wave of customer satisfaction surveys in fiscal 2019/20, but these efforts were delayed due to the slower than expected roll out of stores. Retail Operations will carry out surveys and analyze feedback from customers in 2020/21.

The Cannabis Wholesale Division serviced 168 private retailers and 15 government stores this fiscal year, consistently reviewing initiatives and prioritizing to ensure a high level of service was maintained. Demand for new categories of products legalized in late December initially exceeded available supply; the depth and breadth of available products steadily increased as licensed producers ramped up production to meet demand.

The division led other provincial jurisdictions in assortment of these new classes, securing 116 different offerings and shipping $9.0 million worth of product between late December 2019 and the end of March 2020. The division also implemented a number of new processes and guidelines to improve product freshness and reduce the age of inventory shipped from the distribution center to customers.

Goal 3: Workplace Quality and Employee Excellence

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

Key Highlights

- Enhanced employee professional growth and engagement through the implementation of a new approach to performance development across the organization.
- Developed and delivered leadership training to all lines of business.
- Extended internal training portfolio and implemented new, collaborative online tools.

- Continued to carry out surveys to ensure LDB provides a safe, healthy and harassment free workplace.

Performance Measure	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
3.1 Employee engagement	n/a	71%	n/a	n/a	71%

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

Discussion of Results

My Peak Performance Plan (MyP3) is an employee-created development plan that promotes a growth-centric culture by empowering individuals to take ownership of their learning journey and personal development. This initiative allows the LDB to support the personal growth of its people and increase their level of engagement. After a successful implementation in 2018 across BCLS, the success of MyP3 was demonstrated by a 79 per cent increase in internal promotions year over year. MyP3 was launched to almost 700 employees at the head office in 2019/20 and will be extended to employees of BCCS and distribution centres in the coming fiscal year.

LDB equipped 177 leaders to enhance employees’ experience and engagement through customized training on coaching. Managers and other leaders across BCLS have been equipped with tools to enhance communication, strengthen personal connections and foster a sense of ownership within their team. In addition, a customized three-part coaching course was created for and delivered to supervisors at the Delta Distribution Center.

New courses are being developed every year to increase accessibility and engagement through a new learning management system. Five online modules focussing on cannabis product knowledge now support Cannabis Operations, and a new collaborative tool equips employees with best practices for SharePoint users.

LDB measures employee engagement bi-annually by asking employees (all regular and auxiliary employees covered by the *Public Service Act)* about their work environment through the Work Environment Survey (WES). This year’s WES was distributed from February to April 2020; results are currently being processed by B.C Stats and a new engagement score will be presented in May/June 2020.

Goal 4: Business Effectiveness

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

Key Highlights

Liquor Retail Division

- Continued to improve assortment and demand planning tools by implementing technology to provide the right product in the right location for consumers.
- Utilized training programs to better equip store employees with product knowledge, in order to provide quality service to customers.
- Continued with long-term efforts to update BCLS retail systems to improve efficiency and provide a customer-centric retail experience.

Performance Measure		2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
4.1a	BCLS sales per square foot	$1,417	$1,446	$1,445	$1,466	$1,487

Data Source: BCLS sales data is collected from computerized point-of-sale cash register systems and stored in head office databases.

Discussion of Results

Across the retail sector, stores are challenged with trying to anticipate demand for promoted products or those trending higher in popularity. BCLS added a reserve function to its auto-replenishment system in2019/20 to provide stores with the ability to reserve or maintain a specific quantity of any product within their assortment that may be in higher consumer demand. The program ensures the most popular product in each location is replenished efficiently.

Product education for employees is delivered by Wine & Spirit Education Trust (WSET), an internationally recognized curriculum that supports BCLS sales associates in providing excellent customer service. This year the WSET Level 2 product knowledge program was updated to include a service delivery and selling component to further support employees with the right knowledge to assist customers in identifying the product that best suits their needs.

BCLS actual sales per square foot for fiscal 2019/20 experienced a healthy increase of 2.0 per cent from the previous year due in large part to the continued modernization of various store locations and continued efforts to enhance the customer experience. BCLS benefited from the sudden increase of consumer demand for alcoholic beverages when the Province declared a state of emergency due to the COVID-19 pandemic.

Key Highlights

Liquor Wholesale Division

- Successfully transitioned the LDB’s distribution operations from the current Vancouver Distribution Centre to the new Delta Distribution Centre by mid 2019.

- Implemented new warehouse management software at the warehouses in Delta and Kamloops to improve our wholesale customers' experience.
- Continued to modernize the systems and processes, including the use of current and cost-effective technology, with the goal of improving service and relationships with customers, suppliers and employees.
- Built plans for improved productivity and start to reduce labour cost per case once successfully in the Delta Distribution Centre.

	Performance Measures	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
4.1b	Distribution Centre labour cost per case shipped	$2.29	$2.10	$2.26	$1.90	$1.75
4.1c	Distribution Centre order fill rate	83%	93%	95%	95%	95%

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

Discussion of Results

Labour costs decreased as efficiencies are realized as the result of moving the Vancouver Distribution Centre to Delta. While gains are being met, several factors resulted in the overall labour cost target not being met for 2019/20. Most significantly, LDB was operating three distribution centres for a two-month period during the move to Delta. The transition of the Kamloops Distribution Centre to a new warehouse management system in February 2020 required additional support staff, resulting in extra labour costs. Finally, additional labour hours were required in March 2020 as Liquor Wholesale worked to manage unprecedented sales while staffing levels were impacted by COVID-19.

The value was also impacted by year-end accruals for earned vacation and retirement benefits. Continuing initiatives to measure and improve the productivity of the Delta Distribution Centre will further result in costs being reduced for 2020/21.

LDB has been partnering with retailers and vendors to improve forecasting and planning and to solve inventory and space shortages to ensure product can be supplied to meet the needs of customers. LDB achieved a 95% order fill rate for 2019/20, two percent above the target level. The future targets balance the effective management of inventory and the minimization of product stock-outs and reflect additional warehouse space to hold and distribute product.

Key Highlights

Cannabis Division (Wholesale and Retail)

- Optimized BCCS product assortment and merchandising (both in-store and digital).
- Introduced wholesale supply planning initiatives to ensure continued sourcing of quality product to meet customer demand.
- Continue to monitor in-class fulfillment at the Richmond Distribution Centre for continuous improvement.

Performance Measures	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
4.1d BCCS sales per square foot [1]	n/a	$1,655	$781	$1,688	$1,700
4.1e BCCS.com order fill rate[3]	98%	98.5%	99.71	98.5%	99%
4.1f BCCS.com on-time shipping[4]	98%	98.5%	100%	98.5%	99%
4.1g Wholesale (B2B) order fill rate[5]	95%	96%	98.87	97%	98%
4.1h Wholesale (B2B) on-time shipping[6]	95%	96%	100%	97%	99%

[1] **Data Source**: BCCS sales data is collected from computerized point-of-sale cash register systems and stored in head office databases. As the majority of stores opened during 2019/20, this measure is calculated by annualizing the partial year sales.
[3,4,5,6] **Data Source**: Orders and shipments processed by the Richmond Distribution Centre are captured and stored by computer applications designed for this purpose.

Discussion of Results

The introduction of new legal categories of product late in the third quarter (Q3) resulted in higher in-store sales and digital traffic. The decrease in sales per square foot from the forecast in the 2019/20 Service Plan is the result of projecting sales in markets where there was limited historical data. Targets included in the 2019/20 Service Plan have been revised based on reported sales in BCCSs that opened in the latter half of the year.

The Cannabis Wholesale Division’s strategy is to be a preferred provincial partner for licenced producers in order to effectively source products and maintain inventory to meet customer demand. The division created a category manager position to further enhance assortment planning and ensure the unique needs of private cannabis retailers are met within the overall assortment.

Based on the feedback from private retailers, the selection of small batch, premium products from B.C. producers was increased. Demand planners are taking advantage of historical data to identify trends and improve product forecasting and are collaborating closely with licensed producers in order to maximize the inventory allocations of high-demand products for the B.C. market.

Fiscal 2019/20 saw significant volume increases in the Richmond Distribution Centre as a majority of retailers came online halfway through the year; volume shipped to wholesale customers more than doubled in the final quarter. Correspondingly, new carriers were procured to support a wider network of stores throughout the province and new freight lanes and multi-drop routes introduced to improve customer service and reduce freight costs.

All shipments to retailers are shipped on time weekly, based on each store’s schedule, while online customer orders are shipped on time within 48 hours (during business days) of receiving the orders. The distribution centre carried out a full review of shipping costs and worked to implement a significant reduction in shipping rates for private retailers by March 2020.

Reconfiguration of the racking at the distribution centre got underway in February 2020, with the goal of increasing overall warehouse capacity and allowing for the creation of a space that will be air conditioned, to store products that require temperature control. Going forward, Cannabis

Operations plans to track efficiency in terms of labour cost per case, much the same way Liquor Wholesale measures efficiency and service.

Goal 5: Corporate Social Responsibility

Objective 5.1: Encourage the responsible use of beverage alcohol and non-medical cannabis and minimize the impact of operations on the environment

Key Highlights

Liquor Retail Division

- Prevented sales to minors or intoxicated persons in BCLS through staff education and enforcement of ID-checking requirements.
- Encouraged the responsible use of beverage alcohol through the display of promotional material and signage at BCLS.
- Promoted awareness of responsible use by continuing co-operative programs with suppliers and other stakeholders and partners.

Performance Measures		2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
5.1a	Store compliance with ID-checking requirements [1]	100%	100%	100%	100%	100%
5.1b	Customer awareness of LDB Corporate Social Responsibility Programs[2]	96%	n/a	n/a	90%	n/a

[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 2019/20, 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 in collaboration with stakeholders and community partners. Every two years, a customer survey is conducted to measure customer recall of these materials to ensure that BCLS develops impactful and relevant messaging for our customers. Setting a continuous target of 90 per cent represents the high value that the LDB places on this goal. As the survey is conducted bi-annually, and the next survey results will be available for 2020/21.

Liquor Wholesale Division

- Reduced the impact of operations on the environment by decreasing waste, increasing recycling rates and achieving carbon neutrality on an annual basis.
- Continued promoting waste diversion and recycling programs at head office and the primary liquor distribution centre through employee training and awareness campaigns.

Performance Measure		2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
5.1c	Waste diversion rate at head office and Metro Vancouver Distribution Centre	80%	85%	81%	85%	85%

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

Discussion of Results

In 2019/20, the LDB continued to track waste diversion at head office and its primary liquor distribution centre. During 2019, the LDB moved its head office from Broadway and Rupert to a LEED Platinum certified building in Burnaby while the Vancouver Distribution Centre moved to a newer and larger facility in Delta. The performance measure above captures waste diversion from all four sites during this transitional year.

The LDB measures its waste diversion rate every year through measured weights reported by its contracted waste and recycling service provider. The results provide an accurate view of the weight of material diverted from the landfill through composting and recycling as a percentage of the total weight of waste material generated. Materials diverted from landfill and tracked in 2019/20 included mixed containers, paper, food scraps, electronics, Styrofoam, wood, metal, cardboard and soft plastics.

The waste diversion target for 2019/2020 was 85 per cent. The actual waste diversion rate for 2019/2020 was 81 per cent, which represents a small increase over 2018/2019. Continued transition between sites likely contributed to the LDB falling short of its target for 2019/2020.

In order to support efforts to meet future targets, a waste audit was conducted at head office this fiscal year to inform the development of staff engagement campaigns around waste reduction and recycling behaviours, and a revision to existing signage at waste stations.

Carbon Neutrality

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

Cannabis Division (Wholesale and Retail)

- Prevented sales to minors in BCCS through staff education and enforcement of ID-checking requirements.

- Encouraged the responsible use of non-medical cannabis through the display of social responsibility material and signage at bricks and mortar and online BCCS.

Performance Measures		2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
5.1d	Store compliance with ID-checking requirements [1]	n/a	100%	100%	100%	100%
5.1e	Customer awareness of LDB Corporate Social Responsibility Programs[2]	n/a	92%	n/a	95%	95%

[1] **Data Source**: It is assumed that like liquor, LCRB will be administering an ID compliance checking program in cannabis stores and will provide the results of BCCS compliance to the LDB.
[2] **Data Source**: The LDB plans to partner with professional survey companies to conduct retail customer service surveys.

Discussion of Results

Social responsibility remains the key priority for all levels of government with respect to 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 at the door before entering.

BCCS consistently promotes awareness of consuming cannabis responsibly through dedicated in-store signage and dedicated space on the e-commerce website. Social responsibility is further reinforced through blog posts and shared information via the online store and social media.

Given the rapid growth in store openings in the latter part of the year, and plans to refresh social responsibility campaigns, it was determined to delay surveying customers until the COVID-19 response translates into a new normal.

Financial Report

Discussion of Results

For 2019/20, the LDB’s net income and contribution to the Government of B.C. was $1.1 billion. This was an increase of $3.1 million or 0.3 per cent compared to the previous year, however $13.0 million or 1.2 per cent lower than budgeted.

On April 1, 2019 the LDB adopted IFRS 16 Leases which replaced the previous lease accounting requirements and introduced significant changes to lessee accounting. LDB has chosen the modified retrospective approach of IFRS 16 and, consequently, the financial information for 2018/19 has not been restated. The LDB completed its liquor warehouse relocation project this year, closed its Vancouver distribution centre in August 2019, and upgraded the warehouse management system at the Kamloops distribution centre in February 2020. In total, LDB spent $52.6 million over the life of the project, with $45.3 million in capital spending. Capital spending was $11.8 million under the original budget of $57.1 million.

Cannabis Operations continued to evolve with the implementation of edibles in December 2019, the introduction of 14 more BCCS, and an increase in the number of private retail stores and E-commerce customers. Unfortunately, the industry has seen market corrections as some companies started to experience financial difficulties and had to restructure. The cannabis division lost $5.3 million this fiscal year, which is included in the LDB net income of $1.1 billion.

On March 11, 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a global pandemic. In B.C., the impact was widespread with many businesses temporarily closing and consumers stocking up on essential items. In both liquor and cannabis, LDB had temporary sales increases to private liquor retailers and at BCLS and BCCS which partially offset the decline in liquor sales resulting from restaurant and bar closures. It is unknown at this time how long the public health guidance regarding physical distancing requirements will be in effect and what impacts this will have on businesses and consumer behavior.

For information on BCLS operating results, please see Appendix B. In order to avoid double counting, all internal transactions between retail stores and the wholesale divisions have been eliminated from LDB's financial results.

Highlights

Sales

Provincial sales for fiscal 2019/20 were $3.8 billion, $186.7 million or 4.6 per cent below budget. Compared to prior year, overall sales increased 6.9 per cent with strong growth in both liquor and cannabis.

Liquor sales were $3.7 billion in fiscal 2019/20 and increased by 3.6 per cent, or $129.9 million, compared to prior year. Sales were led by healthy growth in the refreshment, wine, and spirit categories.

Fiscal 2019/20 was the first full year of operations for the Cannabis division. Cannabis sales were $135.9 million with most sales in flower, extracts/concentrates, and pre-rolls. Edibles were legalized in December 2019, and this is anticipated to be a very strong category as more products become available.

Gross margin for the year was $1.6 billion, an increase of $73.0 million, or 4.9 per cent, when compared to 2018/19. As a percentage of sales, the gross margin rate declined slightly from 41.7 per cent to 40.9 per cent when compared to the prior year. The decline was mainly due to a change in product mix with increased cannabis products that generally carry a lower margin.

Operating Expenses

Operating expenses, including financing costs, were $476.2 million, $1.4 million higher than budget but $64.6 million higher than fiscal 2018/19. As a percentage of sales, the 2019/20 expense rate was 12.4 per cent, 0.6 per cent higher than budget. The higher ratio is mainly due to lower than budgeted cannabis sales without expenses decreasing at a similar rate.

The majority of the LDB's operating expenses are comprised of employment, amortization, bank charges, and other administrative costs. Compared to fiscal 2018/19, the $64.6 million increase in expenses occurred mainly in the following areas:

- Employment expenses – increased by $36.7 million due to a combination of wage rate increases per the collective agreement and additional labour hours for operations including staffing for new BCCS locations.
- Amortization (non-lease related) – increased by $9.5 million due to the completion of several projects in the prior year with a full year of amortization being expensed in the fiscal 2019/20.
- Amortization (leases) – in fiscal 2018/19 rent expenses for stores, office and warehouse space were included in the category of 'rents and property taxes'. With the change in lease standard on April 1, 2019, lease expenses in fiscal 2019/20 are now included under the categories of 'amortization' and 'finance costs' and prior year expenses were not restated. There was a net increase of $41.5 million during the year. The increase was due to a combination of the new accounting policy, more BCCS stores and the new Burnaby head office.
- Lease provision – the LDB's previous head office has been vacant since April 2019. The LDB has recognized $5.8 million as a provision based upon the discounted value of future cash payments.

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

Capital

Capital expenditures for fiscal 2019/20 totalled $36.4 million, a decrease of $24.3 million over the previous year. The majority of spending ($23.3 million) was for the cannabis division – for tenant improvements at new BCCS stores, system improvements and ongoing operational requirements. Other capital expenditures of $11.7 million related to the Kamloops distribution centre warehouse systems upgrade, tenant improvements for BCLS, information technology investments and ongoing equipment replacement.

Financial Summary

$ millions	2018/19 Actual	2019/20 Budget	2019/20 Actual	2019/20 Variance
Sales	3,593.6	4,028.1	3,841.4	(186.7)
Cost of Sales	2,095.5	2,451.3	2,270.4	(180.9)
Gross Margin	1,498.1	1,576.8	1,571.0	(5.8)
Operating Expenses - Employment	221.0	245.7	257.7	12.0
Operating Expenses – Rent/Property Taxes[2]	59.5	64.0	15.0	(49.0)
Operating Expenses – Administration[2]	131.2	165.1	196.0	30.9
Profit	1,086.4	1,114.3	1,102.4	(11.9)
Other Income	17.6	18.2	12.3	(5.9)
Finance costs[2]	0	0	7.5	7.5
Net Income	1,104.0	1,120.2	1,107.2	(13.0)
Gross Profit (%)	41.7%	39.1%	40.9%	1.8%
Operating Expenses and Finance Costs to Sales (%)	11.5%	11.8%	12.4%	0.6%
Net Income to sales (%)	30.7%	27.8%	28.8%	1.0%
Inventory Turnover	13	-	13	-
Capital	59.7	68.6	36.4	(32.2)
Debt	-	-	209.7	209.7
Retained Earnings	-	-	-	-

Note 1: The above financial information was prepared based on the FY19/20 audited financial statements.
Note 2: In fiscal 2019/20, LDB changed its accounting standards for leases. Lease expenses that were included under the category of rent/property taxes in fiscal 2018/19 are now included in the categories of amortization and finance costs. The amortization category includes depreciation and amortization on lease assets, intangible and tangible assets. The liability for these leases at March 31, 2020 is reflected under the debt category.

Variance and Trend Analysis

Liquor

During 2019/20, the retail customer count at BCLS increased 0.5 per cent to 37.0 million from the 36.8 million customers in the prior year. The increased customer count was due to a combination of competitive pricing, improved product selection and stockpiling due to the Public Health Officer's guidance to stay at home due to COVID-19.

The average retail customer transaction value at BCLS, including taxes, increased 2.0 per cent, from $36.57 to $37.29. The higher average transaction value indicates that BCLS customers on average are spending slightly more per visit.

Cannabis

LDB continued its rollout of BCCS stores during fiscal 2019/20, opening 14 new stores throughout the province. As of March 31, 2020, 15 BCCS and 178 private stores were licensed, with 168 private stores in operation.

In fiscal 2019/20, there were 642,000 transactions through BCCS and the e-commerce platform, a significant increase compared to the 212,000 transactions in the first six months of operation in fiscal 2018/19. The average retail transaction value in fiscal 2019/20, including taxes, was $57.31, a decrease of $17.07 compared to the average transaction value of $74.38 in the prior year. This decrease is partially due to a change in consumer purchasing patterns, where in fiscal 2018/19, legalization was new, and consumers were trying out different product types.

Additionally, there were fewer brick-and-mortar retail stores in fiscal 2018/19 so consumers purchased online through the E-commerce platform. Generally, average transaction values for on-line purchases are higher than for BCCS transactions.

The LDB remains focused on being competitive with the illicit market and keeping cannabis out of the hands of minors.

Product Categories

LDB sales of $3.8 billion increased 6.9 per cent compared to the previous year and was driven by a combination of volume growth in spirits, wine and refreshments, higher average selling prices and growth in the expanded cannabis product lines.

Liquor sales increased by $129.9 million or 3.6 percent compared to the previous year. All categories showed growth except beer, which declined by $20.1 million or 1.7 per cent. Spirits, wine and beer continue to be the primary areas of revenue for the LDB. Consistent with prior year trends, the refreshment category had the highest growth, increasing by 20.3 per cent, or $54.1 million.

Overall, beverage alcohol sales have grown an average of 4.3 per cent annually. Since fiscal 2015/16, the refreshment category has grown an average of 19.5 per cent annually while the beer category has grown an average of 1.1 per cent annually.

Table 1: Sales by Major Category ($000s)
For the five fiscal years ended March 31, 2020

						Change vs. Previous Year (2019/20 vs. 2018/19)	
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**$**	**%**
Liquor							
Spirits	786,803	832,180	872,570	900,050	946,463	46,413	5.2
Wine	1,074,860	1,154,041	1,212,673	1,222,571	1,271,831	49,260	4.0
Refreshment	180,366	196,485	221,548	266,819	320,940	54,121	20.3
Beer	1,112,911	1,146,431	1,188,762	1,183,682	1,163,549	(20,133)	(1.7)
Other	2,099	2,395	2,454	2,499	2,720	221	8.8
Total Liquor	3,157,039	3,331,532	3,498,007	3,575,621	3,705,503	129,882	3.6
Cannabis	n/a	n/a	n/a	17,992	135,923	117,931	655.5
Total Sales	**3,157,039**	**3,331,532**	**3,498,007**	**3,593,613**	**3,841,426**	**247,813**	**6.9**

Table 2: Sales by Major Category in Litres/Kilograms (000s)
For the five fiscal years ended March 31, 2020

						Change vs Previous Year (2019/20 vs. 2018/19)	
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**Change**	**%**
Liquor							
Spirits	25,810	26,478	27,029	27,374	28,411	1,037	3.8
Wine	73,805	75,871	77,408	76,005	78,525	2,520	3.3
Refreshment	40,300	43,364	48,633	56,343	65,860	9,517	16.9
Beer	292,574	293,986	298,751	293,267	284,224	(9,043)	(3.1)
Other	156	206	231	244	276	32	13.1
Total Liquor (litres)	**432,645**	**439,905**	**452,052**	**453,233**	**457,296**	**4,063**	**0.9**
Cannabis (kilograms)	**n/a**	**n/a**	**n/a**	**2,083**	**17,618**	**15,535**	**745.8**

Data Source: LDB Oracle Financial System

In fiscal 2019/20, sales mix continued to shift towards refreshment beverages as that category contributed 8.7 per cent of all LDB sales, up from the 7.5 per cent of the prior year. The beer category decreased 1.7 per cent in the current year, accounting for 31.4 per cent of LDB sales. The wine category increased by 4.0 per cent with a category share of 34.3 per cent of LDB sales. The spirit category increased 5.2 per cent compared to prior year where it was flat. The LDB gross margin is impacted as product mix changes since the mark up rates differ by product categories. The LDB has different mark-up rates on products.

In litres of beverage alcohol, there was a small volume increase of 0.9 per cent over the previous year. Beer still has the highest sales volumes followed by wines, refreshment beverages and spirits. Consistent with the sales dollar increase, the refreshment beverage category also had the highest volume increase. For all categories, sales dollar increase was higher than volume increase, indicating that the products sold were at higher price points compared to the prior year.

Cannabis sales increased $117.9 million during the first full year of operations as more private and public retail store opened.

Total cannabis sold increased to 17,618 kilograms as cannabis operations continues to grow.

Customer Sales

Customer sales experienced a significant disruption in March 2020, as licensed liquor establishments (restaurants and bars) closed or reduced operations in response to COVID-19 public health direction and physical distancing requirements. This resulted in customers stockpiling cannabis and beverage alcohol in anticipation of staying at home. Although this change in behavior did not have a significant impact on the fiscal 2019/20 financial results, the LDB is monitoring the situation and will adjust operations in keeping with provincial government direction.

In 2019/20, the liquor marketplace saw continued increased competition as licensed retail stores took more market share from BCLS and increased their percentage of the overall provincial sales by 0.8 per cent.

For cannabis sales, the reversal in sales mix reflects the significant increase of private retail stores entering the market during the year. Cannabis sales are expected to continue growing as more private and public retail stores open.

Table 3: Provincial Sales by Customer based on Dollar Sales
For the five years ended March 31, 2020
(As a percentage of total dollar sales)

Liquor	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
BCLS counter customers	43.7	43.0	41.8	41.0	41.0
Licensee retail stores	30.6	30.8	31.4	32.3	33.1
Licensed establishments	16.9	16.8	17.1	16.7	15.6
Other customers	6.1	6.7	7.0	7.3	7.6
Agency Stores	2.8	2.7	2.7	2.7	2.7
Total Liquor Sales (%)	100.0	100.0	100.0	100.0	100.0
Cannabis					
Retail customers	n/a	n/a	n/a	78.3	23.8
Private cannabis retail stores	n/a	n/a	n/a	21.7	76.2
Total Cannabis Sales (%)	**n/a**	**n/a**	**n/a**	**100.0**	**100.0**

Data Source: LDB Oracle Financial System

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

For the five years ended March 31, 2020
(As a percentage of total litre/kilogram sales)

Liquor (total litre sales)	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
BCLS counter customers	34.4	33.6	32.7	32.2	32.4
Licensee retail stores	39.9	40.5	41.0	41.7	42.4
Licensed Establishments	18.3	18.2	18.1	17.7	16.4
Other customers	3.4	4.0	4.1	4.1	4.0
Agency Stores	4.0	3.7	4.1	4.3	4.8
Total Liquor Sales (%)	100.0	100.0	100.0	100.0	100.0
Cannabis (total kilogram sales)					
Retail Customers	n/a	n/a	n/a	74.8	19.7
Private cannabis retail stores	n/a	n/a	n/a	25.2	80.3
Total Cannabis Sales (%)	**n/a**	**n/a**	**n/a**	**100.0**	**100.0**

Data Source: LDB Oracle Financial System

Table 5: Year-over-Year Changes in Customer Sales Based on Dollar Sales
For the five years ended March 31, 2020

	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
BCLS counter customers	14.8	4.0	2.1	0.1	3.5
Licensee Retail Stores	5.6	6.4	6.9	5.2	6.1
Licensed Establishments	7.5	5.0	6.3	0.6	(3.0)
Other customers	6.4	14.9	16.2	5.1	8.6
Agency Stores	1.9	3.4	5.5	2.7	3.1
Total Liquor Sales (%)	9.7	5.5	5.0	2.2	3.6
Cannabis retail customers	n/a	n/a	n/a	n/a	129.4
Private cannabis stores	n/a	n/a	n/a	n/a	2,552.4
Total Cannabis Sales (%)	**n/a**	**n/a**	**n/a**	**n/a**	**655.5**

Data Source: LDB Oracle Financial System

Compared to fiscal 2018/19 there was sales growth in all customer categories except for licensed establishments, many of which were temporarily closed in the later part of March due to COVID-19, a factor that contributed to the decrease in sales.

The largest increase on a percentage basis was in the licensed retail stores and ‘other customer’ category. With the COVID-19 state of emergency, consumers changed their consumption patterns and stayed home where possible. This shifted sales from licensed establishments to BCLS and licensed retail stores. The other customer category was led by the increased number of B.C. manufacturer on-site stores.

Remittances to Government agencies

The LDB paid $1.5 billion to various provincial government agencies during fiscal 2019/20. Due to the timing of remittance payments, 12 excise tax payments occurred in the 2019/20 fiscal year.

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

	2015/16	2016/17	2017/18	2018/19	2019/20
FEDERAL GOVERNMENT					
Custom Duties and Excise Tax	157,656	146,486	177,287	169,851	177,374
GST	68,636	73,310	74,927	73,079	80,137
Total	**226,292**	**219,796**	**252,214**	**242,930**	**257,511**
PROVINCIAL GOVERNMENT					
LDB Net Income	1,031,271	1,083,246	1,119,557	1,104,035	1,107,170
Provincial Sales Tax	137,565	146,327	146,539	148,441	151,302
Liquor Control and Licensing	422	424	428	427	428
Total	**1,169,258**	**1,229,997**	**1,266,524**	**1,252,903**	**1,258,900**
MUNICIPAL GOVERNMENT					
Property Taxes	912	1,019	1,045	1,135	998
Business Licenses	36	38	38	43	60
Total	**948**	**1,057**	**1,083**	**1,178**	**1,058**
Total Remittances	**1,396,498**	**1,450,850**	**1,519,821**	**1,497,011**	**1,517,469**

Risks and Uncertainties

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

In April 2018, BTAP presented the provincial government with a report containing 24 recommendations focused on improving efficiency and business relations between government and the liquor industry. The Government of B.C. has already addressed several of the recommendations and is in the process of assessing those remaining. This may result in changes to LDB liquor operations.

Wine in grocery stores is another area of change in the upcoming year. As of November 1, 2019, wine from the U.S. and other countries is permitted on grocery store shelves. Most wines currently in grocery stores are VQA or land-based winery products, which means no mark-up is retained by the LDB. Having imported wine on grocery store shelves could reduce LDB's net income by reducing BCLS market share and will likely negatively impact B.C. wineries. The full impact of this change remains to be seen.

As the legal cannabis industry continues to mature, LDB will focus on developing efficient distribution operations to support both wholesale and retail customers. As the B.C. government reviews policies to ensure small producers have access to the marketplace, these may result in changes to the current distribution model.

B.C.'s economy is facing high level of uncertainty as the province continues to deal with COVID-19. Depending on future public health guidance and government decisions, this may impact LDB operations. The LDB will continue to monitor wholesale margins for liquor and cannabis to ensure government's revenue targets are protected.

Major Capital Projects

Major Capital Projects (over $50 million)	Year of Completion	Project Cost to March 31, 2020 ($m)	Estimated Cost to Complete	Anticipated Total Cost ($m)
Warehouse relocation	2020	45.3	0	45.3
The relocation of the primary liquor distribution warehouse from Vancouver to a larger facility in Delta began in September 2018 and was completed in May 2019. Moving operations – and several metric tonnes of product – involved the coordination of hundreds of suppliers, over 10,000 customers, and more than 600 employees.				

Financial Statements of

BC LIQUOR DISTRIBUTION BRANCH

An Independent Auditors Report thereon

For the year ended March 31, 2020

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

R. Blain Lawson
General Manager and Chief Executive Officer

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

Vancouver, British Columbia
May 12, 2020

OFFICE OF THE
Auditor General
of British Columbia

INDEPENDENT AUDITOR'S REPORT

To the Minister of Attorney General, Province of British Columbia

Opinion

I have audited the accompanying financial statements of British Columbia Liquor Distribution Branch, which comprise the statement of financial position at March 31, 2020, 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, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of British Columbia Liquor Distribution Branch in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other Accompanying Information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of Financial Statements

My objectives are to obtain reasonable assurance about whether British Columbia Liquor Distribution Branch's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decision of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of British Columbia Liquor Distribution Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on British Columbia Liquor Distribution Branch's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the

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related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause British Columbia Liquor Distribution Branch to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Russ Jones, FCPA, FCA
Auditor General (Acting)

Russ Jones

Victoria, British Columbia, Canada
May 12, 2020

OFFICE OF THE
Auditor General
of British Columbia

BC LIQUOR DISTRIBUTION BRANCH

Statement of Comprehensive Income
(in thousands of dollars)

For the year ended March 31, 2020, with comparative information for 2019

	Note	2020	2019
Revenue	4	$ 3,841,426	$ 3,593,613
Cost of sales		(2,270,351)	(2,095,527)
Gross profit		1,571,075	1,498,086
Expenses:			
Administration	5, 14, 15	(459,456)	(402,377)
Marketing	5	(6,429)	(6,665)
Transportation	5	(2,812)	(2,647)
		(468,697)	(411,689)
Profit		1,102,378	1,086,397
Other income		12,338	17,638
Finance costs	15	(7,546)	-
Total comprehensive income		$ 1,107,170	$ 1,104,035

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, 2020, with comparative information for 2019

	Note	2020	2019
Balance beginning of year		$ (154,068)	$ (54,875)
Total comprehensive income		(1,107,170)	(1,104,035)
Net payments to the Province of British Columbia	12	1,160,743	1,004,842
Balance end of year		$ (100,495)	$ (154,068)

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, 2020, with comparative information for 2019

	Note	2020	2019
Assets			
Current:			
Cash		$ 5,929	$ 25,169
Accounts receivable	6	15,806	21,178
Prepaid expenses and deposits	7	7,258	10,592
Inventories	8	184,320	208,099
		213,313	265,038
Non-current assets:			
Prepaid expenses and deposits	7	4,120	4,468
Intangible assets	9	48,162	54,075
Property and equipment	10	300,267	86,080
		352,549	144,623
Total assets		$ 565,862	$ 409,661
Liabilities			
Current:			
Accounts payable and accrued liabilities	11, 14	$ 208,358	$ 220,408
Current portion of lease liabilities	15	37,051	-
Due to Province of British Columbia	12	100,495	154,068
		345,904	374,476
Non-current liabilities:			
Lease liabilities	15	185,030	-
Other long-term liabilities	13, 14	34,928	35,185
		219,958	35,185
Total liabilities		$ 565,862	$ 409,661

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

Approved for issue on May 12, 2020 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, 2020, with comparative information for 2019

	Notes	2020	2019
Cash provided by (used in):			
Operating:			
Total comprehensive income		$ 1,107,170	$ 1,104,035
Items not involving cash:			
Depreciation and amortization		79,500	28,452
Loss on disposal of property and equipment		197	75
Rent and lease amortization		-	2,050
Finance costs	15	7,546	-
Right-of-use asset provision	15	5,817	-
Accrued employee benefits		5,058	(162)
Change in non-cash operating items:			
Non-current assets		348	(2,944)
Working capital	6, 7, 8	20,435	(71,083)
		1,226,071	1,060,423
Investing:			
Acquisition of intangible assets	9	(12,075)	(27,299)
Acquisition of property and equipment	10	(25,862)	(32,444)
Proceeds from disposal of property and equipment		94	37
		(37,843)	(59,706)
Financing:			
Payment of lease labilities	15	(46,725)	-
Net payments to the Province of British Columbia	12	(1,160,743)	(1,004,842)
		(1,207,468)	(1,004,842)
Decrease in cash		(19,240)	(4,125)
Cash, beginning of year		25,169	29,294
Cash, end of year		$ 5,929	$ 25,169

Supplementary information:

	2020	2019
Non-cash operating and financing activities:		
IFRS 16 Leases opening right-of-use asset recognized	$ 235,706	$ -
IFRS 16 Leases opening obligation recognized	(235,706)	-
Additions to property and equipment	20,239	-

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

1. Description of operations

The British Columbia Liquor Distribution Branch ("the LDB") is one of two branches of the Province of British Columbia ("the Province") responsible for the beverage alcohol and cannabis industry in British Columbia and reports to the Ministry of the Attorney General.

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

The General Manager and Chief Executive Officer of the LDB was appointed the administrator under the Cannabis Distribution Act for the wholesale distribution, the operation of retail stores and the on-line sales system.

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

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

2. Basis of accounting

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These financial statements were authorized for issuance by those charged with governance on May 12, 2020.

This is the first set of financial statements in which IFRS 16, *Leases* has been applied. The related changes to significant accounting policies are described in Note 3(m).

(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.

(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.

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

<u>Financial Assets</u>

On initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income (“FVOCI”) – debt instrument, FVOCI – equity instrument, or 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.

3. Significant accounting policies (continued)

(b) Financial instruments

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

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.

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.

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

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

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.

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.

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

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

- 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.

(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.

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Derecognition (continued)

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.

(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.

3. Significant accounting policies (continued)

(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.

(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

The LDB has applied IFRS 16 *Leases* using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*. The impact as a result of the adoption of IFRS 16 on April 1, 2019 is disclosed in note 3(m).

Policy applicable from April 1, 2019

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.

This policy is applied to contracts entered into or changed on or after April 1, 2019.

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.

3. Significant accounting policies (continued)

(f) Leases (continued)

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.

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.

3. Significant accounting policies (continued)

(f) Leases (continued)

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.

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.

Policy applicable under IAS 17 before April 1, 2019

For contracts entered into before April 1, 2019, the LDB determined whether the arrangement was or contained a lease based on the assessment of whether fulfilment of the arrangement was dependent on the use of a specific asset or assets and whether the arrangement had conveyed a right to use the asset.

In the comparative period, as a lessee, the LDB classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initial at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent.

Subsequently, the assets were accounted for and in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognized in the LDB's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

(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.

3. Significant accounting policies (continued)

(g) Inventories (continued)

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.

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 amortised 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.

3. Significant accounting policies (continued)

(h) Impairment (continued)

Loss allowances for financial assets measured at amortised 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.

(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.

3. Significant accounting policies (continued)

(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.

(m) Changes in accounting standards

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

IFRS 16 *Leases*

The LDB adopted IFRS 16 effective April 1, 2019. As a result, the LDB has changed its accounting policy for lease contracts as detailed below.

The LDB applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at April 1, 2019. The details of the changes in accounting policies are disclosed below.

Previously, the LDB determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease.* Under IFRS 16, the LDB assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 3(f).

3. Significant accounting policies (continued)

(m) Changes in accounting standards

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

On transition to IFRS 16, the LDB elected to apply the practical expedient to grandfather the assessment of which transactions are leases and applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after April 1, 2019.

As a lessee, the LDB leases various retail, office, and warehouse property. The LDB previously classified leases as operating or finance leases based on an assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the LDB. Under IFRS 16, the LDB recognizes right-of-use assets and lease liabilities for all leases – i.e. these leases are on-balance sheet.

Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the LDB's implied incremental borrowing rate as at April 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

LDB used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Excluded initial direct costs from measuring the right-of-use assets at the date of initial application.
- Applied the recognition exemption for short-term leases of 12 months or less. The practical expedient for excluding leases for which the lease term ends within 12 months of the date of initial application was not elected by the LDB;
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(Tabular amounts in thousands of dollars)

3. Significant accounting policies (continued)

(m) Changes in accounting standards (continued)

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

Leases previously classified as finance leases

As at April 1, 2019, the LDB did not have any leases that were classified as finance leases under IAS 17.

Impacts on financial statements

On transition to IFRS 16, the LDB recognized $235,706 of right-of-use assets and $235,706 of lease liabilities.

When measuring lease liabilities, the LDB discounted lease payments using its incremental borrowing rate at April 1, 2019. The weighted-average rate applied is 3.9%.

		Amount
Operating lease commitment at March 31, 2019	$	271,806
Discounted using the incremental borrowing rate at April 1, 2019		(36,100)
Lease liabilities recognized at April 1, 2019	$	235,706

(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, 2020 and have not been early adopted. These standards and interpretations are not expected to have a significant impact on the LDB's financial statements.

- Amendments to References to Conceptual Framework on IFRS Standards,
- Definition of Material (Amendments to IAS 1 and IAS 8)

(Tabular amounts in thousands of dollars)

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.

	2020	2019
Retail customers	$ 1,546,983	$ 1,477,438
Licensee retail stores	1,329,212	1,158,562
Hospitality customers	579,882	597,814
Other customers	283,886	261,366
Agency stores	101,463	98,433
Total sales	$ 3,841,426	$ 3,593,613

5. Operating expenses

The LDB's operating expenses are comprised of:

	Note	2020	2019
Administration costs		$ 459,456	$ 402,377
Marketing		6,429	6,665
Transportation		2,812	2,647
		$ 468,697	$ 411,689
Salaries, wages and benefits		$ 257,676	$ 221,026
Depreciation and amortization		79,500	28,452
Bank charges		34,594	32,191
Other administrative expenses		27,386	23,306
Rents and property taxes		15,001	59,519
Professional services		14,343	14,185
Data processing		12,067	11,889
Repairs and maintenance		9,863	8,661
Right-of-use asset provision	15	5,817	-
Marketing		6,429	6,665
Loss prevention		3,209	3,148
Transportation		2,812	2,647
Total operating expenses		$ 468,697	$ 411,689

(Tabular amounts in thousands of dollars)

6. Accounts receivable

	2020	2019
Trade accounts receivable and other items	$ 16,877	$ 21,237
Provision for doubtful accounts	(1,071)	(59)
Accounts receivable and other items - net	$ 15,806	$ 21,178

Receivables past due but not impaired are $3.3 million (2019 - $1.7 million). During the year the LDB expensed $1.1 million (2019 - $5 thousand) as bad debts expense.

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, 2020, the LDB has recorded $8.9 million (2019 - $11.1 million) of prepaid wine futures for delivery in fiscal years 2021 to 2022.

	2020	2019
Non-refundable wine futures	$ 8,917	$ 11,070
Other prepaid expenses	2,461	3,990
	11,378	15,060
Less: long term portion	(4,120)	(4,468)
Current portion	$ 7,258	$ 10,592

8. Inventories

	2020	2019
Store inventory	$ 77,218	$ 70,094
Warehouse inventory	107,102	138,005
Total inventory	$ 184,320	$ 208,099

During the year, inventories that were recognized as cost of sales amounted to $2.3 billion (2019 - $2.1 billion).

(Tabular amounts in thousands of dollars)

9. Intangible assets

	Intangible assets	Construction in process	Total
March 31, 2019			
Opening net book value	$ 36,152	$ 4,273	$ 40,425
Additions	87	27,212	27,299
Completion of construction-in-progress	28,126	(28,085)	41
Amortization charge	(13,690)	-	(13,690)
	$ 50,675	$ 3,400	$ 54,075
Cost	$ 79,310	$ 3,400	$ 82,710
Accumulated amortization	(28,635)	-	(28,635)
Net book value	$ 50,675	$ 3,400	$ 54,075
March 31, 2020			
Opening net book value	$ 50,675	$ 3,400	$ 54,075
Additions	138	11,937	12,075
Construction-in-progress capitalization	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

(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, 2019								
Opening net book value	$ 638	$ 828	$ 28,828	$ 8,155	$ -	$ 5,777	$ 24,325	$ 68,551
Assets reclassified	-	(13)	13	-	-	-	-	
Additions	-	39	52	1,403	-	2,297	28,653	32,444
CIP capitalization	-	86	23,972	15,802	-	6,639	(46,540)	(41)
Disposals (cost)	-	-	(483)	(1926)	-	(24)	-	(2,433)
Disposals (accumulated depreciation)	-	-	378	1,920	-	23	-	2,321
Depreciation charge	(2)	(68)	(6,970)	(4,477)	-	(3,245)	-	(14,762)
	$ 636	$ 872	$ 45,790	$ 20,877	$ -	$ 11,467	$ 6,438	$ 86,080
Cost	$ 647	$ 6,255	$ 115,091	$ 61,016	$ -	$ 54,992	$ 6,438	$ 244,439
Accumulated depreciation	(11)	(5,383)	(69,301)	(40,139)	-	(43,525)	-	(158,359)
Net book value	$ 636	$ 872	$ 45,790	$ 20,877	$ -	$ 11,467	$ 6,438	$ 86,080
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 (cost)	-	-	(68)	46	-	22	-	-
Additions	-	-	10,773	3,397	12,539	2,530	16,862	46,101
CIP capitalization	-	-	14,199	2,269	-	3,142	(19,738)	(128)
Assets reclassified (accumulated depreciation)	-	-	-	7	-	(7)	-	-
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

(Tabular amounts in thousands of dollars)

11. Accounts payable and accrued liabilities

	2020	2019
Trade payables	$ 121,416	$ 130,641
Accrued liabilities	82,353	85,602
Other payables	4,589	3,844
Current portion of deferred lease liabilities	-	321
	$ 208,358	$ 220,408

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 $2.56 billion (2019 - $2.48 billion) and the total payments to the Province were $3.72 billion (2019 - $3.48 billion).

13. Other long-term liabilities

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

	2020	2019
Retirement benefit obligation (note 14(b))	$ 18,877	$ 17,353
WorkSafe BC claims accruals (note 14(c))	14,900	11,500
Long-term portion of deferred lease liabilities	-	5,315
Other	1,151	1,017
	$ 34,928	$ 35,185

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, 2019 the Plan has about 64,000 active members and approximately 50,000 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, 2017, indicated a funding surplus of $1.9 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, 2020 was $16.5 million (2019 - $14.5 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.

The results of the next valuation for March 31, 2020, will be available in early 2021.

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, with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan.

(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 $18.9 million (2019 - $17.4 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 $1.5 million (2019 - $18 thousand).

(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 $14.9 million (2019 - $11.5 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, 2020, right-of-use assets associated with office equipment have a net book value of $0.7 million.

Right-of-use asset provision

One of the properties that the LDB leases has been vacant for the year ended March 31, 2020. The LDB has been actively pursuing to sub-let this property which has a lease term that ends in 2023. A provision of the related right-of-use asset of $5.8 million has been expensed to profit and loss.

The lease liabilities are payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	$ 44,308	$ (7,257)	$ 37,051
Between one to five years	147,924	(20,766)	127,158
More than five years	64,634	(6,762)	57,872
Balance, end of year	256,866	(34,785)	222,081
Non-current lease liability	$ 212,558	$ (27,528)	$ 185,030

(Tabular amounts in thousands of dollars)

15. Lease liabilities (continued)

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

	2019
Balance, April 1	$ -
IFRS 16 adoption adjustment	235,706
Additional lease obligations	25,554
Lease payments	(46,725)
Interest expense	7,546
Balance, March 31	$ 222,081

The weighted-average incremental borrowing rate applied is 3.9%.

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 (2019 - $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 (2019 - $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

The LDB is the sole importer of beverage alcohol in the Province. The LDB, as the importer of record, has the future liability for customs duty on import beer of $0.9 million (2019 - $0.9 million) based upon the value of the agents' inventories at March 31, 2020.

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

18. Capital management

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

(Tabular amounts in thousands of dollars)

19. Related party transactions

(a) Province of British Columbia

During the year the LDB purchased nil (2019 - $7.5 million) of property and equipment from the Ministry. These assets were purchased at the exchange amount which represented the net book value at the date of acquisition.

All transactions with the Province of 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, 2020 there were 9 (2019 - 9) members on the executive committee.

	2020	2019
Salaries and short-term benefits	$ 1,468	$ 1,385
Post-employment benefits	105	96
	$ 1,573	$ 1,481

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;

(i) 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

(ii) Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

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.

20. Fair value of financial instruments (continued)

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 WorkSafeBC 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.

As at March 31, 2020, 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.

21. Financial risk factors (continued)

(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. COVID-19 Impact

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, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods, and social distancing, have caused material disruption to businesses globally and in Canada resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions; however, the success of these interventions is not currently determinable.

The current challenging economic climate may lead to adverse changes in cash flows, working capital levels which may also have a direct impact on the LDB's operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the LDB's business is not known at this time.

Appendix A: Additional Information

Corporate Governance and Organizational Overview

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

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Appendix B: BC Liquor Stores Operating Results

Table 1 reflects the BCLS operating results as if it were a customer of the Wholesale Division, like any other private store operator. For 2019/20, BCLS net income increased from 9.6 to 10.3 per cent of sales.

Table 1: BCLS financial results
(in $millions)

	2018/2019	% sales	2019/2020	% sales
Sales	1,474.2	100.0	1,524.7	100.0
Gross Margin	322.2	21.9	344.7	22.6
Expenses	184.1	12.5	192.1	12.6
Other Income	3.2	0.2	3.7	0.2
Net Income	**141.3**	**9.6**	**156.3**	**10.3**

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 head office expenses.