

BC Liquor Distribution Branch

2021/22 Annual Service Plan Report

August 2022



For more information on the BC Liquor Distribution Branch contact:

3383 Gilmore Way

Burnaby, B.C. V5G 4S1

604-252-7400

communications@bcldb.com

Or visit our website at

www.bcldb.com

Published by the BC Liquor Distribution Branch

General Manager and CEO's Accountability Statement



The *BC Liquor Distribution Branch 2021/22 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2021/22 – 2023/24 Service Plan* created in April 2021. I am accountable for those results as reported.

A handwritten signature in black ink, appearing to read "R. Blain Lawson". The signature is stylized and written in a cursive-like font.

R. Blain Lawson
General Manager and Chief Executive Officer
July 26, 2022

Table of Contents

General Manager and CEO’s Accountability Statement	3
Letter from the General Manager and CEO.....	5
Purpose of the Annual Service Plan Report.....	7
Purpose of the Organization.....	7
Strategic Direction	8
Operating Environment.....	8
Report on Performance: Goals, Objectives, Measures and Targets.....	9
Financial Report.....	23
Discussion of Results.....	23
Financial Summary	26
Appendix A: Additional Information.....	34
Appendix B: BC Liquor Stores Operating Results.....	35
Appendix C: Auditor’s Report and Audited Financial Statements.....	36

Letter from the General Manager and CEO

The year 2021 marked 100 years of liquor service by B.C.'s government and another challenging year driven by waves of the COVID-19 pandemic, ongoing supply chain constraints and extreme weather-related events that not only disrupted vital distribution routes, but also the lives and livelihoods of many British Columbians. Through challenges brought on by external factors, the LDB responded with agility to keep the supply of liquor and cannabis moving throughout the province.

In 2021/22, B.C.'s Liquor Distribution Branch (LDB) exceeded its 2021/22 revenue target and contributed \$1,189 million of net income to help fund vital public services relied on by citizens and communities province wide.

The year-over-year \$220.4 million increase in liquor and cannabis sales indicated continued growth in both sectors, with cannabis sales seeing a significant 28.8 per cent surge over the prior year. The LDB supported the growth by shipping 24 million cases of liquor from its distribution centres, wholesaling cannabis to an additional 98 licensed cannabis stores that opened in 2021/22, opening eight new BC Cannabis Stores (BCCS), and modernizing 10 liquor stores with the BCLIQUOR (BCL) brand and shopping experience as renovation and maintenance cycles came due.

By volume, beer sold the most litres; however, the refreshment beverage category saw the greatest lift in sales as it continues to gain market share. The LDB's positive net income contribution to the province in its first full year following the change to wholesale pricing for hospitality customers can be attributed to shifts in consumer purchasing patterns through the pandemic, combine with lower operating expenses than budgeted. Enabling the hospitality sector to purchase liquor products at wholesale price has aided in its pandemic recovery.

In our cannabis division, consumer preference for dried flower, pre-rolls, and extracts and concentrates remained steady, accounting for 91.5 per cent of all cannabis sales. Better value-for-dollar, large format offerings remained popular among customers. The continued decline of the average wholesale price per gram of dried flower also improved competitiveness of legal cannabis compared to the illicit market. The LDB is monitoring the financial impact of declining wholesale price of dried flower as the cannabis marketplace continues to evolve and mature.

The LDB continued to collaborate with stakeholders on Business Technical Advisory Panel (BTAP) recommendations by undertaking critical social, policy, and financial analysis to support final decisions on those recommendations and, implementing changes in alignment with direction provided. A process change made this fiscal year resulted in more non-stocked wholesale liquor products (NSWP) available to wholesale customers than years prior. Additionally, the LDB began initial work to implement a new Product Information Management System and planned the implementation of various advanced Warehouse Management System capabilities which, when operationalized, will increase business efficiencies and support an enhanced wholesale customer experience.

To support government's priority of strengthening Indigenous relations in B.C., the Cannabis Wholesale division and BCCS began participating in the B.C. Indigenous Cannabis Products

(BCICP) program by highlighting cannabis products from B.C.-based Indigenous producers online and in stores. The LDB was also engaged in developing a direct-to-cannabis-stores distribution model in support of small producers in B.C., including those that are Indigenous-owned, a project on pace to be operationalized in the next fiscal year.

The unprecedented events of 2021/22 prompted a record number of customer donation appeals in partnership with Food Banks BC and the Red Cross, including humanitarian relief for Ukraine. Thanks to the generosity of our BCL and BCCS customers and the dedication of our team members, I am proud that the LDB collected over \$4.4 million for local charities and internal humanitarian causes.

The LDB is committed to building a resilient business and working with the Ministry of Finance to prioritize cost control, customer service and value for British Columbians.

R. Blain Lawson



General Manager and Chief Executive Officer
July 26, 2022

Purpose of the Annual Service Plan Report

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

Purpose of the Organization

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

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

Reporting to the Minister of Finance, the LDB:

- Has a General Manager and CEO who is responsible for administering the LDA and the CDA, subject to direction from the Minister;
- Operates a province-wide retail and wholesale beverage alcohol business within a mixed public-private retail model;
- Operates a province-wide retail and wholesale cannabis business within a mixed public-private retail model;
- Is responsible for the importation and distribution of beverage alcohol and distribution of cannabis in B.C.;
- Has a workforce of approximately 5,000 full- and part-time employees; and,
- Operates 198 BCLIQUOR stores (BCL), 33 B.C. Cannabis Stores (BCCS), an online BCCS, a head office, three call centres (two external facing, one internal facing) and three distribution centres.

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

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

Strategic Direction

The strategic direction set by Government in 2020 and expanded upon in the [2021-22 Mandate Letter](#) from the Minister Responsible shaped the goals, objectives, performance measures, and financial plan outlined in the [2021/22 LDB Service Plan](#) as well as actual results reported on in this annual report.

Operating Environment

Economic Growth Statement

British Columbia's economic recovery strengthened in 2021. B.C.'s real GDP growth of 6.2 per cent was the second highest among provinces (behind Prince Edward Island), following a contraction of 3.4 per cent in 2020. Growth in B.C.'s real GDP was mostly driven by service-producing industries such as real estate, rental and leasing, healthcare and social assistance, and professional, scientific and technical services. Goods-producing industries also experienced growth with gains in most sectors, led by mining, quarrying and oil and gas extraction. While B.C.'s recovery broadened in 2021, it remained uneven as sectors such as accommodation and food services, and arts, entertainment and recreation have yet to fully recover to pre-pandemic levels. B.C.'s labour market strengthened in 2021, with employment growth of 6.6 per cent while wages and salaries increased by 11.3 per cent. Consumer spending on goods remained at elevated levels and nominal retail sales posted overall growth of 12.6 per cent. Meanwhile, inflation grew throughout the year and increased by 2.8 per cent on an annual basis, largely due to supply-chain disruptions, resilient demand for goods and services, and high energy prices. Residential construction activity reached a record high in 2021, with housing starts increasing by 25.6 per cent. At the same time, home sales also reached a record high in 2021 while the average home sale price saw double-digit increases. On the external front, B.C.'s international merchandise exports grew by 36.0 per cent, reflecting a combination of the recovery in global demand and higher commodity prices amid impacts from the B.C. floods and landslides in November 2021.

Wholesale liquor

Fiscal 2021/22 was not without its challenges. It was an unprecedented year of service and supply chain disruptions caused by waves of the COVID-19 pandemic, international conflict, and extreme weather events. Our liquor distribution centres overcame these challenges and shipped 24 million cases to keep the supply of beverage alcohol moving and meet the needs of wholesale customers. The LDB responded to the escalation of the Russia-Ukraine conflict by suspending the importation and sale of products made in Russia.

The LDB continued to consult and engage with BTAP on various liquor policy recommendations. Since BTAP's report to government was made in [April 2018](#), the LDB has engaged with cross-industry and -government working groups, contributed by performing critical social, policy, financial, legal, trade and stakeholder analysis, implementing solutions, and adjusting its operations to support changes where required. In addition, the LDB is also engaged

on several other priority initiatives currently being led by the LCRB or the Ministry of Agriculture and Food.

Competitive retail marketplace

In June 2021, the government made a permanent policy change permitting liquor retail stores to electively operate from 7 a.m. to 11 p.m. daily, a change from the authorized hours of 9 a.m. to 11 p.m. daily established and in effect prior to April 2020. BCL will monitor and continually evaluate individual store hours to meet the needs of customers and optimize labour costs to bring value to British Columbians.

Cannabis marketplace

As the sole wholesale distributor for the province, the LDB more than doubled its wholesale product assortment (from 1,062 Stock Keeping Units (SKUs) last year to 2,163 SKUs this year), growing in pace with offerings from licensed producers and fostering its relationships with federally licensed suppliers, particularly B.C. micro cultivators, including those that are Indigenous-owned.

In 2021/22, the LDB opened eight BCCS in the province. By year end, the LDB was wholesale distributing cannabis products to 403 private cannabis retailers, 33 government-run BCCS, and one public online store at BCCannabisStores.com.

Report on Performance: Goals, Objectives, Measures and Targets

Goal 1: Grow LDB’s Financial Performance

Objective 1.1: Meet Government’s financial objectives

Key Highlights

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

Performance Measure	2020/21 Actuals	2021/22 Target	2021/22 Actuals	2022/23 Target ¹	2023/24 Target ²
1.1a Net income (in \$ millions)	1,160.9	1,099.0	1,189.3	1,103.0	1,145.6

Data source: BCL and BCCS sales data is collected from both computerized point-of-sales cash register systems and on-line 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 financial statements are audited by the Office of the Auditor General, annually. LDB expense data is captured, stored, and reported by the LDB’s financial system.

^{1,2} The target was recently updated in the [2022/23 – 2024/25 LDB Service Plan](#).

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 by the BC Auditor General and is a significant contributor to Provincial Government revenues.

LDB's net income for the year was \$1,189 million, 8.2 per cent above target and 2.4 per cent higher than the previous year. Net income was above target by \$90.3 million. This was due to a combination of higher sales and lower than planned expenses. The target was based on the marketplace shifting back to pre-pandemic levels trending earlier in the year and did not anticipate the Omicron COVID-19 wave that saw retail sales increase when indoor dining at restaurants was temporarily suspended.

LDB sales in fiscal 2021/22 were \$4,355 million, which was \$125.4 million or 3.0 percent higher than target. Higher sales were the result of higher priced beverage alcohol products partially due to inflation which offset volume decreases. The loosening of COVID-19 pandemic restrictions during the year resulted in increased sales to the hospitality sector as it re-opened. Similar to the prior year, operating expenses were lower than target due to lower amortization with fewer BCCS openings than planned, and delayed spending in consulting, training and travel related programs.

As the COVID-19 pandemic continued through the year, the LDB maintained enhanced cleaning procedures and ensured safety protocols were in place to align with public health guidelines. Employees who were able to work remotely continued to do so, supported by investment in information technology equipment and resources.

Targets for fiscal 2022/23 and fiscal 2023/24 reflected sale trends, product mix, and inflation observed in the LDB's current operational environment and future projected industry outlook for liquor and cannabis at the time of the [2022/2023 – 2024/25 Service Plan](#).

Sales changes – and the resulting impact on net income – are the result of a number of factors, including continuing impacts of the COVID-19 pandemic, global supply chain challenges, extreme weather-related events, holidays coinciding with weekends, supplier promotions, changes in sales mix, and the introduction of new products.

Goal 2: Maintain Focus on Customer Experience

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

Liquor Retail Division

Key Highlights

- Completed 10 major renovations and one relocation to enhance the shopping experience for customers and improve service.
- Continued to coach teams and improve service and responsiveness among BCL employees and track improvements through the Mystery Shopper program.
- Increased customer satisfaction with support from additional service touchpoints on social media channels.

Performance Measure	2016/17 Baseline	2020/21 Actuals	2021/22 Target	2021/22 Actuals	2022/23 Target	2023/24 Target
2.1a Retail customer satisfaction	83%	88%	n/a	n/a	86%	n/a

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

Discussion of Results

The 88 per cent result of 2020/21 was reflective of operating in a challenging environment brought on by the global COVID-19 pandemic. As retail operating environment normalizes from the COVID-19 pandemic, the LDB expects customer satisfaction to rebound to pre-pandemic levels. While there was no survey this year, the LDB continued its initiatives with the aim of meeting its 2022/23 target for BCL customer satisfaction.

Ten major renovations to BCL stores were completed in 2021/22 that saw improvements made to customer flow, the addition of designated tasting counterspace and event-hosting spaces, and a greater selection of refrigerated product offerings. Additionally, renovated liquor stores received signage, branding, and décor reflective of the modernized BCL identity, aimed at sustaining market share in a competitive marketplace. Renewed planograms helped store teams showcase and target products specific to each store’s market, furthering a tailored shopping experience.

The LDB relocated its liquor store in Sechelt to a space that increased its footprint by nearly 50 per cent compared to its previous lease location. Its larger size and higher visibility location at a shopping centre located on shíshálh Nation territory better serves the growing Sechelt market.

BCL’s Mystery Shopper program, the practice of hiring a third-party to ‘shop’ in stores to evaluate the stores’ performance on 27 key service standards, continued in 2021/22. In total, 143 stores were ‘mystery shopped,’ and achieved a collective score of 82 per cent, with 56 stores receiving perfect scores (an increase compared to the previous year). Results from the Mystery Shopper program are used to make incremental improvements to key service standards and overall store presentation throughout the year, attributes that contribute to customer satisfaction that is measured bi-annually.

BCL continued to leverage its social media Instagram and Facebook presence to communicate responsible consumption, special product releases, sales and promotions, and share engaging content with customers, as well as via the BCLiquorStores.com website and other advertising channels, such as search engine ads and radio. Since launching its social media channels in 2020, BCL has refined its social media program to provide a seamless and enhanced customer experience both in-store and online.

Liquor Wholesale Division

Key Highlights

- Continuously provided enhanced customer service to BCL, private liquor stores, rural liquor stores, bars and restaurants through efficient order processing and fulfillment.

- Supported a customer-centric culture within the warehouse team and continued to provide employee-training opportunities.
- Executed response plans to the transportation disruptions caused by extreme weather-related events to mitigate impacts to the supply chain.
- Increased inventory available of non-stocked wholesale products (NSWP) at the Delta Distribution Centre.

Performance Measure	2016/17 Baseline	2020/21 Actuals	2021/22 Target	2021/22 Actuals	2022/23 Target ¹	2023/24 Target
2.1b Wholesale customer satisfaction	68%	68%	n/a	n/a	85%	n/a

Data source: The LDB contracts with professional survey companies bi-annually to conduct the wholesale customer service surveys.

¹ The target was recently updated in the [2022/23 – 2024/25 LDB Service Plan](#).

Discussion of Results

Wholesale Operations overcame major transportation and distribution disruptions caused by extreme weather-related events (wildfires and floods) to ship 24 million cases, an increase over the prior year. Despite the challenging operating environment, the LDB made good progress in measuring and improving wholesale customer service levels of goods ready to ship on-time, goods delivered on-time, and order accuracy.

The implementation of a new warehouse listing process enabled the on-boarding of more NSWP, improving the overall availability and flow of NSWP from LDB’s primary liquor distribution centre to customers.

Important discovery work is underway for a new Product Information Management System that, when implemented, is expected to improve customer satisfaction levels by enhancing product information availability, and the online ordering experience which are important to wholesale customers.

While there is no survey until 2022/23, customer-focused work underway as described in this section is expected to continue to improve customer experience in alignment with the targets highlighted in the table above.

Cannabis Division

Key Highlights

- Completed the second Wholesale Customer Service Satisfaction Survey of private retailers.
- Supported the addition of 98 new private retailers to our wholesale business, totaling 403 private retailers serviced by fiscal year end.
- Expanded product assortment to 2,163 from 130 licensed suppliers (compared to 1,062 products from 99 licensed suppliers the prior year).
- Onboarded 147 products from 36 B.C. micro cultivators to product assortment.

- Enhanced retail shopping experience by improving information included on price tags, updating education panels to reflect growing product assortment, and establishing merchandising guidelines for all BCCS locations for consistency.
- Implemented a digital display content management system to optimize utilization and distribution of in-store social responsibility and marketing messaging.

Performance Measures	2019/20 Baseline ³	2020/21 Actuals	2021/22 Target	2021/22 Actuals	2022/23 Target ⁴	2023/24 Target ⁵
2.1c Retail customer satisfaction ¹	82%	86%	87%	93%	90%	90%
2.1d Wholesale customer satisfaction ²	82%	71%	87%	70%	90%	90%

¹ Data source: BCCS placed customer survey tablets in five stores as a pilot project. Tablets were rotated throughout the chain.

² Data source: Private cannabis retailers participated in an online survey.

³ Based on 2019/20 target.

^{4,5} The target was recently updated in the [2022/23 – 2024/25 LDB Service Plan](#).

Discussion of Results

BCCS rotated five free-standing lectern tablets through nine different retail locations to collect customer feedback and rate customer satisfaction. Despite continued pandemic-related protocols that limited their consistent use, 14,002 responses were collected, an increase of approximately 180 per cent of over 5,000 responses the prior year. Customers were presented with the opportunity to answer one of five randomized, satisfaction-centric questions related to quality of service received, product assortment availability, or their likelihood of recommending the store to someone. The overall, aggregated score of 93 per cent in customer satisfaction surpassed the target of 87 per cent.

In 2021/22, Cannabis Wholesale Operations onboarded 98 private retail stores (of 101 newly licensed private stores by the LCRB in the same year), bringing the total number of retailers serviced to 403 privately-owned and 33 government-run stores across B.C. at the end of 2021/22, all from LDB’s cannabis distribution centre in Richmond.

Of the nearly 104 per cent increase in product assortment, Cannabis Wholesale Operations added 147 products from 36 licensed B.C. micro cultivators in support of local and small producers entering the market. Additionally, the launch of the B.C. Indigenous Cannabis Product (BCICP) program saw increased marketing of B.C.-based Indigenous products and producers on the wholesale ordering platform, in all BCCS and participating private cannabis stores. The decline of the average wholesale price per gram of dried flower by 16.5 per cent from the prior year to \$4.00 per gram was driven by the increase of large format offerings and producer price reductions, which continues to improve the competitiveness of legal products compared to the illicit market. Since legalization in 2018/19, the average wholesale price per gram of dried flower has decreased from \$6.39 to \$4.00, representing an overall reduction of 37.4 per cent.

Cannabis Wholesale Operations experienced significant supply chain and distribution challenges caused by extreme weather-related floods in B.C. when transportation routes were washed out,

isolating the distribution centre located in the Lower Mainland from the rest of the province, and negatively impacting wholesale customer satisfaction. The result of 70 per cent wholesale customer satisfaction fell short of meeting its target of 87 per cent. The LDB utilized primary and secondary carriers to service wholesale customers in all shipping zones. The Richmond Distribution Centre (RDC) saw throughput increase by 60 per cent year over year, from just over one million cases shipped in 2020/21 to 1.6 million cases shipped in 2021/22. Order accuracy steadily improved from 97.4 per cent to over 99.1 per cent by fiscal year-end, to end on a 98.6 per cent average for the year, as a result of improved investigative processes of the distribution team and correcting route causes to minimize shipping errors.

The Cannabis External Sales Data program was launched to support transparency of weekly sales and inventory reports of their products at no cost to licensed producers and improve their ability to manage their production forecasts. Twenty licensed producers are currently enrolled in the paid reports service of the program to purchase B.C.-wide cannabis wholesale data for competitive analysis and market trend research purposes.

Goal 3: Improve Workplace Quality and Employee Excellence

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

Key Highlights

- Continued fostering a safe, healthy and harassment-free workplace through LDB’s respectful workplace training and engagement programs focussing on diversity, inclusion, as well as Indigenous learning.
- Enhanced employee skills through in-house development and training programs.
- Implemented foundational leadership training focused on communication, conflict resolution, and coaching skills development in the context of COVID-19.
- Enhanced employee experience and engagement initiatives through in-person and virtually accessible activities and charitable campaigns.
- Increased overall employee flexibility and accessibility through LDB’s Modern Workplace Program and other internal programs.

Performance Measure	2017/18 Baseline	2020/21 Actuals	2021/22 Target	2021/22 Actuals¹	2022/23 Target	2023/24 Target
3.1a Employee Engagement	69%	n/a	71%	n/a	n/a	71%

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

¹ Unavailable at time of publication.

Discussion of Results

For the 14th consecutive year, the LDB was recognized as one of B.C.’s Top Employers in 2022. This designation recognizes industry-leading employers that create exceptional places to work and is a testament to the LDB’s initiatives aimed at supporting a high-quality workplace such as

charitable giving opportunities, community involvement and employee engagement activities, to name a few.

Throughout the second year of the COVID-19 pandemic, the LDB continued its practice of workplace safety and communicable disease prevention across the organization and all worksites. For employees primarily based at its Head Office, it meant enhancing technology that allowed for improved engagement, accessibility, and flexibility through multiple waves of COVID-19. Leadership Anywhere, Anytime, a learning curriculum developed in response to employee feedback for techniques to foster connection, accountability, adaptability, and coaching skills was delivered to leaders. The objective of this curriculum is to continuously improve executive- and supervisory-level management foundational drivers and it supports empowerment and professional development metrics measured in the bi-annual WES. A new, self-directed, online learning library was launched to support all employees' development of leadership skills, such as planning, scheduling and delegation, and soft skills, including emotional intelligence and active listening.

The enduring impact of COVID-19 in 2021/22 necessitated a creative shift in the delivery of employee engagement and learning activities to sustain participation momentum. These activities included observing Lunar New Year, Black History Month, Asian Heritage Month, Persian New Year, Diwali, Bandi Chhor Divas, International Women's Day, and LGBTQ2S+ Pride in recognition of cultural and society diversity; employee appreciation during Public Service Week; and Pink Shirt Day aimed at raising awareness of the importance of valuing diversity and inclusion and supporting a bullying- and harassment-free workplace. Aligned to the LDB's core value of recognizing its people as its greatest asset, employees also received mental health education throughout Mental Health Month.

To honour Indigenous peoples and support greater employee awareness of the importance of reconciliation, learning and engagement activities were activated to observe the Moose Hide Campaign, National Indigenous Peoples' Day, Orange Shirt Day, and National Day for Truth and Reconciliation. Indigenous relations behavioural competencies were also developed and implemented as part of the LDB's recruitment and hiring process.

The engagement of LDB employees in charitable contributions for the benefit of British Columbians in an unprecedented year raised over \$175,000 for the Provincial Employees Community Services Fund (PECSF).

Goal 4: Increase Business Effectiveness

Objective 4.1: Improve operating efficiencies in a market of constant change

Liquor Retail Division

Key Highlights

- Continued to implement assortment and demand planning tools to support selection of optimal products for store-specific customer demographic.
- Continued to update systems to reflect increased competition and improve efficiency.

- Supported over 100 employees in completing their Level 2 Wine and Spirit Education Trust (WSET) training in order to use increased product knowledge to better serve customers.

Performance Measure	2017/18 Baseline	2020/21 Actuals	2021/22 Target	2021/22 Actuals	2022/23 Target ¹	2023/24 Target ²
4.1a BCLS sales per square foot	\$1,402	\$1,424	\$1,450	\$1,488	\$1,470	\$1,488

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

^{1,2} The target was recently updated in the [2022/23 – 2024/25 LDB Service Plan](#).

Discussion of Results

Sales per square foot were above target due to an overall increase in price per unit and unit sales. The extreme weather-related events of floods and a heat dome of 2021 in B.C., and the third COVID-19 pandemic wave that temporarily suspended indoor dining, had a positive impact on BCL counter sales.

In 2021/22, more than 120 employees completed Level 2 WSET training in Wine or Spirits, an increase of 20 per cent compared to previous year, bringing the total number of employees with Level 2 WSET training to over 800 province wide. Sixty eight employees completed BCL’s Level 2 Beer Cicerone Certification Program, an educational curriculum to increase product knowledge in this growing category and enable employees to provide customers with improved service.

Liquor Wholesale Division

Key Highlights

- Implemented SKU optimization model to improve distribution space utilization.
- Enhanced key performance indicator (KPI) dashboard to measure and monitor performance and aid operational decision-making.
- Continued to improve service levels to customer base through increased on-hand inventory when available, improved forecasting and communications with vendors and customers.
- Continued to modernize technology systems and business processes, including the use of current and cost-effective technology, to improve service and relationships with customers, suppliers and employees.

Performance Measure	2017/18 Baseline	2020/21 Actuals	2021/22 Target	2021/22 Actuals	2022/23 Target ¹	2023/24 Target ²
4.1b Distribution Centre labour cost per case shipped	\$1.99	\$1.80	\$1.75	\$1.93	\$1.75	\$1.70
4.1c Distribution Centre order fill rate	89%	95%	95%	93%	95%	95%

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

^{1,2} The target was recently updated in the [2022/23 – 2024/25 LDB Service Plan](#).

Discussion of Results

Distribution centre operational costs and order fill rate were impacted by the enduring impacts to the global supply chain created by the pandemic and an unprecedented year of weather-related events that created transportation constraints. As expected, the labour cost per case exceeded the target of \$1.75, but below \$1.96 that was forecasted in the [2022/23 – 2024/25 LDB Service Plan](#) that took into consideration challenges experienced earlier in the fiscal year. The order fill rate of 93 per cent was only slightly short of meeting the target of 95 per cent, demonstrating the LDB’s ability to effectively manage in-stock inventory and customer expectations when faced with significant adversity caused by external supply shortages and transportation constraints.

Cannabis Division (Wholesale and Retail)

Key Highlights

- Successfully opened eight BCCS in five markets, expanding the BCCS network to a total of 33 locations province wide.
- Concluded exploratory work to support a cannabis direct delivery-to-retailers program for small scale-nurseries and cultivators, including those owned by Indigenous nations.
- Optimized demand planning processes and improved inventory fill rates across all product categories by aligning order book to cannabis categories instead of licensed producers.
- Implemented monthly tracking of aged inventory across the RDC and BCCS to minimize stale-dated products that negatively impact profitability.

Performance Measure	2019/20 Baseline	2020/21 Actuals	2021/22 Target	2021/22 Actuals	2022/23 Target	2023/24 Target
4.1d BCCS sales per square foot ^{1,4}	\$781	\$709	\$800	\$789	\$825	\$825
4.1e BCCS.com order fill rate ²	98%	99.8%	99%	99.8%	99%	99%
4.1f Wholesale (B2B) order fill rate ^{3,5}	98%	99.5%	99%	99.3%	99%	99%

¹ Data source: BCCS sales data is collected from computerized point-of-sale cash register systems and stored in Head Office databases.

^{2,3} Data source: Orders and shipment processed by the Richmond Distribution Centre are captured and stored by computer applications designed for this purpose.

^{4,5} The targets for 2022/23 and 2023/24 were recently updated in the [2022/23 – 2024/25 LDB Service Plan](#).

Discussion of Results

BCCS sales per square foot improved compared to the prior year but fell slightly short of reaching the target. The roll-out of eight new stores in higher density markets experienced pandemic-related construction constraints and delays and opened later than planned. Supply chain challenges as a result of extreme weather-related events, the continued trend in consumer preference for large format products, and the decline of the average price per gram of dried

cannabis flower have contributed to slightly lower retail margins. To counter the impacts of external factors, BCCS focused on financial performance by managing controllable costs.

The Richmond Distribution Centre exceeded the target wholesale order fill rate, while lowering operational costs. Despite the increased throughput as a result of additional products and suppliers, and unprecedented distribution challenges caused by extreme weather-related events, the labour cost per case for fiscal 2021/22 was reduced by 30 per cent to \$3.25 and freight cost per case was reduced by 35 per cent to \$3.25. Overall, distribution expenses came in at 3.3 per cent of sales.

Cannabis Operations completed the necessary exploratory work to develop a distribution model that enables eligible nurseries and small-scale cultivators producing up to 3,000 kilograms or less of cannabis annually to deliver direct to retailers, in support of government’s foundational principle of creating a strong sustainable B.C. economy. Work undertaken over this past year included a feasibility study of the significant changes to cannabis supply chain and LDB operational dependencies. The resulting proposed direct delivery model was shared with industry stakeholders in July 2021 and is on-track for implementation by the committed timeline of September 2022.

Goal 5: Corporate Social Responsibility

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

Liquor Retail Division

Key Highlights

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

Performance Measures	2016/17 Baseline	2020/21 Actuals	2021/22 Target	2021/22 Actuals	2022/23 Target	2023/24 Target
5.1a Store compliance with ID-checking requirements ¹	96%	100%	100%	100%	100%	100%
5.1b Customer awareness of LDB Corporate Social Responsibility Programs ^{2,3}	89%	76%	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 BCL compliance to the LDB.

² Data source: The LDB contracts with professional survey companies to conduct bi-annual retail customer surveys.

³ The target for 2022/23 was recently updated in the [2022/23 – 2024/25 LDB Service Plan](#).

Discussion of Results

BCL continued to ensure the enforcement of the 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 of preventing sales to minors. For 2021/22, BCL again reached the goal of 100 per cent compliance and will continue to strive to maintain these levels moving forward.

In addition to annual charitable campaigns for the benefit of communities at a local level, such as Dry Grad, Share-a-Bear and others, BCL supported a record number of donation campaigns by partnering with Food Banks BC and the Red Cross. Through the generosity of BCL's customers and the support of store employees, BCL collected \$4.2 million for these causes in fiscal 2021/22.

With respect to the LDB's corporate social responsibility programs, BCL promotes awareness of the risks associated with alcohol misuse through in-store and online campaigns, promotional posters and collaborating with stakeholders and community partners. Every two years, a customer survey is conducted to measure customer recall of these in-store materials to ensure that BCL develops impactful and relevant messaging for our customers. The target for 2022/23 was adjusted to 80 per cent to account for changes in customer shopping behaviour, such as spending less time browsing in-store and making less frequent shopping trips. As the retail operating environment normalizes from the COVID-19 pandemic, customer recall of in-store social responsibility campaigns is expected to improve from the baseline established in 2020/21.

There was no survey this year.

Cannabis Retail Division

Key Highlights

- Prevented sales to minors in BCCS through staff education and enforcement of ID-checking requirements at the entrance of all BCCS locations.
- Outfitted eight new BCCS with updated educational panels on consumption to reflect the full, current product assortment.
- Added 18 new, animated social responsibility and responsible consumption campaigns to supplement the existing 36 campaigns digitally displayed in store and online.
- Encouraged the responsible use of non-medical cannabis through the display of social responsibility material and signage in-store, online, and on social media.
- Partnered with charities such as Food Banks BC to support local causes.
- Supported key Red Cross donation appeals such as BC wildfires and floods, India COVID-19 relief and Ukraine humanitarian crisis.

Performance Measure	2019/20 Baseline	2020/21 Actuals	2021/22 Target	2021/22 Actuals	2022/23 Target	2023/24 Target
5.1c Store compliance with ID-checking requirements	n/a	100%	100%	100%	100%	100%

Data source: Compliance is self-reported by BCCS. For future years, it is expected that similar to liquor, LCRB will be administering an ID compliance checking program in cannabis stores and will provide the results of BCCS compliance to the LDB.

Discussion of Results

Social responsibility remains the key priority for all levels of government with respect to the legalization of cannabis products. All customers who enter BCCS and appear under the age of 30 must present two pieces of identification to an employee upon entering. This continued enforcement of preventing sales to minors through ID-checking of customers at the door and employee training contributed to BCCS' 100 per cent compliance, while an age gate prevents minors from browsing its online store at BCCannabisStores.com. BCCS is also committed to adhering to and strictly enforcing the 30-gram personal possession limit that is law.

The implementation of a new digital display content management system enabled BCCS greater creative control to publish engaging social responsibility messaging in stores. An additional 18 campaigns were developed to supplement the existing 36 and included a variety of responsible consumption themes, such as risks associated with impaired driving and recreational activities, sharing of inhalant devices in the context of COVID-19, and mixing cannabis with alcohol.

This year BCCS has supported a record number of donation campaigns by partnering with Food Banks BC and the Red Cross. Through the generosity of BCCS's customers and the support of store employees, BCCS contributed towards the \$4.4 million total collected across the LDB for these causes in fiscal 2021/22.

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

Key Highlights

- Increased Head Office and Burnaby dry goods warehouse waste diversion rate to 87 per cent and decreased waste contamination as a result of increased employee education.
- Regularly monitored waste service providers diversion reports for analysis and opportunities to identify improvements and efficiencies.
- Continued employee training and education at all LDB work sites by utilizing various communication channels, including signage at waste stations, digital display screens in employee-only areas, employee newsletters and at virtual staff events.
- Purchased carbon offsets and maintained carbon neutrality as part of BC's Carbon Neutral Government program.
- Continued to utilize the Clean Government Reporting tool to track and review building energy use, fleet fuel and paper supplies.

Performance Measures	2019/20 Baseline	2020/21 Actuals	2021/22 Target	2021/22 Actuals	2022/23 Target	2023/24 Target
5.2a Waste diversion rate at LDB’s liquor distribution centres (DDC, KDC) and BCL	80%	93%	92%	90%	93%	93%
5.2b Waste diversion rate at LDB’s cannabis distribution centre and BCCS ¹	67%	95%	88%	94%	88%	89%
5.2c Waste diversion rate of LDB’s Head Office and Burnaby dry goods distribution centre ²	79%	86%	80%	87%	81%	82%

Data source: Diversion rates for the Delta Distribution Centre, Kamloops Distribution Centre, Richmond Distribution Centre, Head Office, and Metro Vancouver BCL are determined based on measured weights reported by contracted waste and recycling service providers. Rates for BCL outside of Metro Vancouver and BCCS are determined by estimated weights provided by a contracted waste and recycling service providers.

^{1,2} The target for 2022/23 was recently updated in the [2022/23 – 2024/25 LDB Service Plan](#).

Discussion of Results

As in previous years, a variety of materials were tracked and diverted, where supported by waste collection and recycling providers, from landfill in 2021/22 across LDB’s operations and work sites:

- Delta Distribution Centre (DDC) – mixed containers, organics, paper, electronics, Styrofoam, metal, cardboard, clear soft plastics.
- Kamloops Distribution Centre (KDC) – cardboard, wood, clear soft plastics, and mixed paper.
- BCL – cardboard, clear soft plastics, and organics and paper.
- Cannabis distribution centre (RDC) – mixed containers, paper, organics, electronics, Styrofoam, wood, metal, cardboard, and soft plastics.
- BCCS – cardboard, clear soft plastics, and organics and paper.
- Head Office – mixed containers, paper, organics, wood, metal, cardboard, soft plastics, Styrofoam, and electronics.
- Burnaby dry goods warehouse (centralized distribution location for materials such as cleaning products, hand sanitizer, merchandising signage, retail display shelving, and other goods required by other LDB work sites) – mixed containers, paper, organics, wood, metal, cardboard, and soft plastics.

The decline in overall diversion rate of liquor (DDC, KDC, and BCL) and cannabis (RDC and BCCS) operations compared to the prior year was in part due to the addition of unrecyclable waste generated from the use and disposal of supplies throughout the pandemic, such as compromised plexiglass barriers, floor decals and other signage reaching end-of-life, and single-use face masks and gloves.

The LDB continued to work with property management companies of shopping centres where BCL leases space to improve collection of reliable data for analysis needed to develop effective strategies and solutions. Additionally, as contracted waste collection and recycling service

providers permit with the pandemic transitioning to an endemic, the LDB is committed to conducting annual reviews and physical work site audits to identify areas of improvement and employee education that positively impact diversion rates.

Waste diversion rates for Head Office and Burnaby Dry Goods surpassed the previous year, achieving 87 per cent of all waste diverted from landfills. The combination of the high proportion of employees working remotely due to the enduring pandemic and the knowledge and awareness of those who remained working from Head Office contributed to the overall decline of waste contamination.

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

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

Financial Report

For the auditor's report and audited financial statements, [see Appendix C](#). These can also be found on the LDB website www.bclldb.com.

Discussion of Results

For 2021/22, the LDB's net income and contribution to government was \$1,189 million. This was an increase of \$90.3 million or 8.2 percent compared to budget and \$28.4 million or 2.4 percent above prior year. In the third full year of operations, Cannabis Operation's net income before Head Office expense allocations was \$22.4 million and is included in the LDB net income of \$1,189 million.

Sales

LDB sales for fiscal 2021/22 were \$4,355 million, \$125.4 million or 3.0 per cent above budget. Compared to prior year, overall sales increased 5.3 percent or \$220.4 million with strong growth in both liquor and cannabis.

Liquor sales were \$3,934 million in fiscal 2021/22 and increased by 3.3 per cent, or \$126.2 million, compared to prior year. Sales were driven by higher prices in all categories partially due to inflation as overall volumes only increased 0.3 per cent.

BCLIQUOR stores (BCL) operate as customers of Wholesale Operations and apply a retail margin like any other retailer. In order to avoid double counting, all internal transactions between BCL and Wholesale Operations have been eliminated from LDB's financial results. For information on BCL operating results before Head Office expenses, please see Appendix B.

Cannabis sales were \$421.4 million and grew 28.8 per cent or \$94.2 million from the prior year. The increase in sales was driven by additional private cannabis stores and BC Cannabis Stores (BCCS) operating during the year, as well as increased product selection. During the year, eight more BCCS opened and 101 more private retailers entered the marketplace. Similar to the prior year, the majority of sales are in the dried flower, pre-rolls, and extracts and concentrates categories.

Gross margin

Gross margin for the year was \$1,680 million, \$41.7 million higher than budget. The gross margin increased \$45.0 million, or 2.7 per cent, when compared to 2020/21 driven by higher cannabis and liquor sales. As a percentage of sales, the gross margin rate compared to the prior year declined 1.0 per cent to 38.6 per cent. Liquor products generally have a higher gross margin than cannabis. As cannabis sales increase, the LDB gross margin rate declines as lower margin products increase as a proportion of total LDB sales. Some of the gross margin decrease was also because in the prior year hospitality licensees purchased liquor at the retail price until July 2020, when they changed to the wholesale pricing model.

Operating Expenses

Operating expenses, including finance costs, were \$507.7 million, \$43.9 million lower than budget and \$20.2 million higher than fiscal 2020/21. As a percentage of sales, the 2021/22 expense rate was 11.7 per cent, 1.3 per cent lower than budget.

The majority of the LDB's operating expenses are comprised of labour, amortization, bank charges, and other administrative costs. Compared to fiscal 2020/21, the \$20.2 million increase in expenses occurred mainly due to higher employment costs. Further explanations of changes in operating expenses are detailed below:

- Employment expenses increased by \$21.6 million from prior year due to a combination of wage rate increases per the collective agreement, increased number of BCCS, and increased hours for liquor operations in the distribution centres and BCL.

Compared to budget, employment costs were \$12.0 million or 3.9 per cent below budget mainly due to unopened BCCS and the number of unfilled vacancies.

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

Amortization decreased \$3.9 million from the prior year. This decrease was due to capital assets and systems which became fully amortized during the year. Amortization related to leased right-of-use assets decreased \$1.7 million from prior year due to a reassessment of existing lease contracts.

Amortization was \$3.5 million below budget due to delayed capital spending on projects and fewer BCCS opening than planned.

- Bank Charges increased by \$2.6 million compared to prior fiscal 2020/21 due to a combination of higher sales and reduced used of cash. Compared to budget, bank charges had a favorable variance of \$0.2 million.
- Other administrative costs include data processing, building expenses, repairs and maintenance, professional services, and merchandising. Administrative costs were comparable to prior year and were \$28.3 million below budget. Spending was below budget on professional fees by \$16.7 million due to project delays, training and travel by \$3.4 million due to COVID-19, and data processing by \$2.8 million due to a correction for a prior year over-accrual.

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

Capital

Capital expenditures for fiscal 2021/22 totalled \$22.3 million, \$31.7 million less than planned. Capital spending focused on laptops and tools for connectivity to enable working from home, cybersecurity, information technology investments to replace aging systems, and ongoing

equipment replacement. Investments continued on retail stores with \$8.9 million spent on BCL tenant improvements and \$5.8 million spent for new BCCS stores. Capital spending was delayed in some areas due to supply chain issues like backlog on the availability of laptops and due to labour shortages, which meant systems replacements progressed at a slower pace than planned. There were also fewer BCCS opened than planned which also resulted in lower capital expenditures.

Financial Summary

\$millions	2020/21 Actual	2021/22 Budget	2021/22 Actual	2021/22 Variance
Sales	4,134.7	4,229.6	4,355.1	125.5
Cost of Sales	2,499.3	2,590.9	2,674.7	83.8
Gross Margin	1,635.4	1,638.7	1,680.4	41.7
Operating Expenses – Employment	271.3	304.8	292.8	(12.0)
Operating Expenses – Amortization	86.4	86.0	82.5	(3.5)
Operating Expenses – Administration	56.9	81.8	56.4	(25.4)
Operating Expenses – Bank Charges	37.8	40.6	40.5	(0.1)
Operating Expenses – Facilities ¹	27.6	30.4	28.4	(2.0)
Operating Expenses - Lease Financing	7.5	8.0	7.2	(0.8)
Total Expenses²	487.5	551.6	507.8	(43.8)
Other Income	13.0	11.9	16.7	4.8
Net Income	1,160.9	1,099.0	1,189.3	90.3
Gross Profit (%)	39.6%	38.7%	38.6%	(0.1%)
Total Expenses to Sales (%)	11.8%	13.0%	11.7%	(1.3%)
Net Income to sales (%)	28.1%	26.0%	27.3%	1.3%
Capital	21.9	54.0	22.3	(31.7)
Debt³	232.9	228.1	229.9	4.2
Retained Earnings	-	-	-	-

The above financial information was prepared based on International Financial Reporting Standards.

Note 1: Facilities costs consist of common area maintenance, property taxes, utilities, repairs and maintenance.

Note 2: Fiscal 2020/21 expenses have been reclassified to be consistent with fiscal 2021/22 presentation.

Note 3: LDB does not have any loans. Debt consists of lease liabilities as at March 31.

Variance and Trend Analysis

Liquor

As of March 31, 2022, there were over 1,800 locations where consumers could purchase beverage alcohol.

During 2021/22, the retail customer count at BCL increased 1.6 per cent to 36.4 million from the 35.8 million customers in the prior year. The increased customer count was due to a combination of easing COVID-19 related restrictions (store closures and reduced hours) and increased selling days. BCL had seven more selling days than the prior year when the beginning of the COVID-19 pandemic necessitated a temporary reduction of store hours to six days a week for some locations, the reallocation of staff to support customer service and operational needs, and to allow employees time to adjust to pandemic-related changes.

The average retail customer transaction value at BCL decreased 4.8 per cent, from \$40.64 to \$38.60. The lower average transaction value and higher customer count indicates that BCL customers on average are spending slightly less per visit but are visiting more frequently.

The LDB holds wholesale and retail inventory on average for 26 days with an annual inventory turn rate of 14. The inventory turn rate is one more day than previous year.

Cannabis

LDB continued its rollout of BCCS stores during fiscal 2021/22 opening eight new stores throughout the province. Private retail stores also continued to open with 101 new stores compared to the prior year. At March 31, 2022 there were 439 brick-and-mortar stores in the province where consumers can purchase non-medical cannabis comprising of 33 BCCS and 406 private stores.

In fiscal 2021/22, there were 1.7 million transactions through BCCS and its e-commerce channel at BCCannabisStores.com, a 45.5 per cent increase compared to the 1.1 million transactions in the prior year. The average retail transaction value in fiscal 2021/22 was \$57.11, a decrease of 8.0% compared the average transaction value of \$62.05 in the prior year. This decrease is due to increased competition and reflects the declining price per gram. Generally, average transaction values for on-line purchases are higher than for BCCS counter transactions.

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

For fiscal 2021/22, the wholesale and retail inventory turned over seven times, indicating that inventory was held on average for 49 days. In comparison, fiscal 2020/21 wholesale and retail inventory turned six times, with inventory being held on average for 63 days.

Product Categories

LDB sales of \$4,355 million increased \$220.4 million from the previous year and was driven by an increase in beverage alcohol sales of \$126.2 million and non-medical cannabis sales of \$94.2 million. Higher prices were partially due to inflation on beverage alcohol sales and an increased number of public and private cannabis stores contributed to the growth in sales.

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

For the five fiscal years ended March 31, 2022

	2017/18	2018/19	2019/20	2020/21	2021/22	Change vs. Previous Year (2021/22 vs. 2020/21)	
						\$	%
Liquor							
Spirits	872,570	900,050	946,463	999,108	1,044,448	45,340	4.5
Wine	1,212,673	1,222,571	1,271,831	1,271,892	1,305,125	33,233	2.6
Refreshment	221,548	266,819	320,940	420,812	450,194	29,382	7.0
Beer	1,188,762	1,183,682	1,163,549	1,112,658	1,129,976	17,318	1.6
Other	2,454	2,499	2,720	2,925	3,864	939	32.1
Total Liquor	3,498,007	3,575,621	3,705,503	3,807,395	3,933,607	126,212	3.3
Cannabis							
Flower	n/a	13,308	88,035	171,713	190,137	18,242	10.7
Pre-roll	n/a	1,528	20,562	56,390	91,880	35,490	62.9
Extracts & Concentrates	n/a	2,665	23,923	75,929	103,709	27,780	36.6
Other	n/a	491	3,403	23,246	35,723	12,477	53.7
Total Cannabis	n/a	17,992	135,923	327,278	421,449	94,171	28.8
Total Sales	3,498,007	3,593,613	3,841,426	4,134,673	4,355,056	220,383	5.3

Beverage alcohol sales increased by \$126.2 million or 3.3 per cent compared to the previous year. All categories showed growth with spirits having that largest increase of \$45.3 million or 4.5 per cent. The spirits, wine and beer categories continue to be the primary areas of revenue for the LDB.

Since fiscal 2017/18, the refreshment category has grown an average of 19.7 per cent annually while spirits averaged 4.6 per cent, wine averaged 1.9 per cent, and the beer category had a decline of 1.2 per cent on average. Overall beverage alcohol sales have grown an average of 3.0 per cent annually.

Consistent with prior year trends, the refreshment category had the highest growth, increasing by 7.0 per cent, or \$29.4 million over the prior year. In fiscal 2021/22, the refreshment beverage category contributed 11.5 per cent of all liquor sales, almost doubling from fiscal 2017/18 when it was 6.3% of total liquor sales. Beer sales increased 1.6 per cent in the current year, accounting for 28.7 per cent of liquor sales. Wine sales were up 2.6 per cent compared to prior year and the category share decreased 0.2 per cent to 33.2 per cent. Spirit sales increased 4.5 per cent and accounted for 26.6 percent of liquor sales, an increase of 0.4 per cent in the sales mix.

In litres, the beer category still has the highest sales volumes followed by refreshment beverages, wine, and spirits. By percentage increase compared to prior year, similar to the sales dollar increase, the refreshment beverage category had the highest volume increase. For all categories, the sales dollar increase was higher than volume increase, indicating that higher prices were driving the LDB sales increase and not increased consumption.

Cannabis sales increased \$94.2 million to \$421.4 million during the third year of operations. Dried flowers, pre-rolls, and extracts and concentrates contributed to 91.5 per cent of all cannabis sales. In fiscal 2021/22, cannabis sales account for 9.7 per cent of LDB sales compared to liquor which accounts for 90.3 per cent. The LDB has different mark-up rates on products, and as shifts occur between product categories, this impacts the LDB gross margin.

Table 2: Sales by Major Category in Litres (000s)/Gram Equivalent (000s)

For the five fiscal years ended March 31, 2022

						Change vs. Previous Year (2021/22 vs. 2020/21)	
	2017/18	2018/19	2019/20	2020/21	2021/22	Change	%
Liquor							
Spirits	27,029	27,374	28,411	29,835	30,427	592	2.0
Wine	77,408	76,005	78,525	79,758	77,345	(2,413)	(3.0)
Refreshment	48,633	56,343	65,860	85,170	88,764	3,594	4.2
Beer	298,751	293,267	284,224	270,542	269,811	(731)	(0.3)
Other	231	244	276	368	495	127	34.5
Total Liquor (litres)	452,052	453,233	457,296	465,673	466,842	1,169	0.3
Cannabis							
Flower	n/a	1,741	12,692	33,706	44,821	11,115	33.0
Pre-roll	n/a	154	2,353	8,066	15,459	7,393	91.7
Extracts & Concentrates	n/a	187	2,076	5,422	11,636	6,214	114.6
Other	n/a	1	497	7,072	12,889	5,817	82.3
Total Cannabis (gram equivalent)	n/a	2,083	17,618	54,266	84,805	30,539	56.3

Data Source: LDB Oracle Financial System.

As outlined in Table 2 above, there was a volume increase of 0.3 per cent over the previous year for liquor sales. Increases in the refreshment category were partially offset by decreases in the

wine and beer categories, reflecting changing consumer preferences. The refreshment beverage category had the largest volume increase at 4.2 per cent, followed by spirits at 2.0 per cent, and wine declined 3.0 per cent followed by beer at 0.3 per cent when compared to last year.

Total kilograms of cannabis sold increased to 84,805 kilograms as Cannabis Operations continues to grow.

Customer Sales

During fiscal 2021/22, the liquor marketplace continued to change, reflecting shifts in customer behavior as COVID-19 restrictions were relaxed and consumers started to dine out. Hospitality licensees operated under a reduced capacity throughout the prior year and most of fiscal 2021/22. As COVID-19 restrictions were gradually relaxed during fiscal 2021/22 and hospitality licensees resumed more ‘normalized’ operations, there was a 61.8 per cent increase in sales to the hospitality sector. Hospitality licensee sales represented 10.5 per cent of LDB sales in fiscal 2021/22 and reflect the gradual recovery of the sector.

The increase in liquor sales from the hospitality sector resulted in the sales to private liquor stores decreasing from 40.8 per cent to 38.1 per cent and BCL sales decreasing from 42.3 per cent to 41.4 per cent.

For cannabis sales, the sales mix continues to reflect the significant increase in private retail stores entering the market during the year. During fiscal 2021/22, there was an increase of 101 licensed private retail stores in the province with 403 licensed private stores as of March 31, 2022.

Table 3: Provincial Sales by Customer based on Dollar Sales

For the five years ended March 31, 2022

(As a percentage of total dollar sales)

Liquor	2017/18	2018/19	2019/20	2020/21	2021/22
BCLS counter customers	41.8	41.0	41.0	42.3	41.4
Licensee retail stores ¹	32.4	33.3	34.2	40.8	38.1
Licensed establishments	17.1	16.7	15.6	6.7	10.5
Other customers ²	6.0	6.3	6.5	7.2	7.2
Agency Stores	2.7	2.7	2.7	3.0	2.8
Total Liquor Sales (%)	100.0	100.0	100.0	100.0	100.0
Cannabis					
BCCS retail customers	n/a	78.3	23.8	19.5	20.3
Private cannabis retail stores	n/a	21.7	76.2	80.5	79.7
Total Cannabis Sales (%)	n/a	100.0	100.0	100.0	100.0

Data Source: LDB’s Oracle Financial System.

Note 1: Includes Independent Wine Store licensees.

Note 2: Includes B.C. manufacturer on-site stores

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

For the five years ended March 31, 2022

(As a percentage of total litre/kilogram sales)

Liquor (total litre sales)	2017/18	2018/19	2019/20	2020/21	2021/22
BCLS counter customers	32.7	32.2	32.4	32.8	32.2
Licensee retail stores ¹	41.5	42.2	43.1	50.6	47.4
Licensed Establishments	18.1	17.7	16.4	7.7	11.6
Other customers ²	3.6	3.6	3.3	4.4	4.6
Rural Agency Stores	4.1	4.3	4.8	4.5	4.2
Total Liquor Sales (%)	100.0	100.0	100.0	100.0	100.0
Cannabis (total kilogram sales)					
BCCS retail customers	n/a	74.8	19.7	15.4	15.6
Private cannabis retail stores	n/a	25.2	80.3	84.6	84.4
Total Cannabis Sales (%)	n/a	100.0	100.0	100.0	100.0

Data Source: LDB's Oracle Financial System.

Note 1: Includes Independent Wine Store licensees.

Note 2: Includes B.C. manufacturer on-site stores

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

For the five years ended March 31, 2022

	2017/18	2018/19	2019/20	2020/21	2021/22
BCLS counter customers	2.1	0.1	3.5	6.2	1.2
Licensee Retail Stores ¹	6.7	5.1	6.4	22.6	(3.6)
Licensed Establishments	6.3	0.6	(3.0)	(56.1)	61.8
Other customers ²	13.3	6.6	7.7	13.1	3.6
Agency Stores	5.5	2.7	3.1	13.0	(3.3)
Total Liquor Sales (%)	5.0	2.2	3.6	2.7	3.3
BCCS retail customers	n/a	n/a	129.4	96.6	34.0
Private cannabis stores	n/a	n/a	2,552.4	154.6	27.5
Total Cannabis Sales (%)	n/a	n/a	655.5	140.8	28.8

Data Source: LDB's Oracle Financial System.

Note 1: Includes Independent Wine Store licensees.

Note 2: Includes B.C. manufacturer on-site stores

Compared to fiscal 2020/21, there was sales growth in all customer categories except for licensed retail stores and rural agency stores. As mentioned earlier, as retail customers stayed home in fiscal 2020/21, there were increased purchases in all retail store outlets. As COVID-19 restrictions eased during fiscal 2021/22, there is a shift back toward pre-pandemic sales patterns.

Remittances to Government agencies

The LDB paid \$1,649 million to various government agencies during fiscal 2021/22.

Table 6: Remittances to Government Agencies

(in \$000s)

	2017/18	2018/19	2019/20	2020/21	2021/22
FEDERAL GOVERNMENT					
Custom Duties and Excise Tax	177,287	169,851	177,374	200,462	196,627
GST	74,927	73,079	80,137	85,336	88,641
Total	252,214	242,930	257,511	285,798	285,268
PROVINCIAL GOVERNMENT					
LDB Net Income	1,119,557	1,104,035	1,107,170	1,160,916	1,189,309
Provincial Sales Tax	146,539	148,441	151,302	171,702	172,212
Liquor Control and Licensing	428	427	428	426	429
Total	1,266,524	1,252,903	1,258,900	1,333,044	1,361,950
MUNICIPAL GOVERNMENT					
Property Taxes	1,045	1,135	998	770	1,499
Business Licenses	38	43	60	69	108
Total	1,083	1,178	1,058	839	1,607
Total Remittances	1,519,821	1,497,011	1,517,469	1,619,681	1,648,825

Risks and Uncertainties

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

Similar to many other industries, the economic outlook for the beverage alcohol and cannabis sector is unclear. Supply chain disruptions and labour shortages due in part to COVID-19 could last well into 2022/23. The Russia-Ukraine conflict may result in additional supply chain disruptions as well as increased product costs. The continuing risk of new COVID-19 variants impacting the economy, industry and staff returning to office add more uncertainty. The LDB will continue to follow orders issued by the Provincial Health Officer and make adjustments where necessary.

Statistic Canada reported that “in March 2022, Canadian consumer prices increased 6.7 per cent year over year. This was the largest increase since January 1991 (+6.9%).” Inflation and future interest rate increases may impact consumer spending patterns. Changes in product mix impacts LDB margins as each product category has different margins.

Future government policy changes could also have implications for the LDB’s business.

As the liquor industry changes into the new ‘normal’ post-COVID-19, the LDB will continue to focus on business efficiencies and adapting to the needs of its wholesale and retail customers. In retail operations, future investments include e-commerce for BCL to allow customers better convenience in their shopping experience. In Wholesale Operations, pricing processes and systems continued to be reviewed and streamlined to gain efficiencies and more flexibility.

As the legal cannabis industry passes its third year of operations and continues to mature, the LDB will focus on developing efficient distribution operations to support both wholesale and retail customers. With the pending implementation of direct delivery for small producers, this will ensure small producers have access to the marketplace.

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

The LDB continues to take proactive cybersecurity measures to neutralize potential risk of ransomware cyberattacks that are on the rise in frequency and magnitude worldwide.

Appendix A: Additional Information

Organizational Overview

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

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

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

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

Corporate Governance

The *Liquor Distribution Act* (LDA) gives the LDB the sole right to purchase beverage alcohol both within B.C. and from outside the province, in accordance with the federal *Importation of Intoxicating Liquors Act*. The *Cannabis Distribution Act* (CDA) establishes a government wholesale cannabis distribution model, public cannabis retail stores, and an online government sales channel.

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

- Operates a province-wide, retail and wholesale beverage alcohol business, within a mixed public-private retail model;
- Operates a province-wide, retail and wholesale non-medical cannabis business within a mixed public-private retail model;
- Has a workforce of approximately 5,000 full- and part-time employees.

Contact Information

P: 604-252-7400

E: communications@bcldb.com

Website: www.bcldb.com

Appendix B: BC Liquor Stores Operating Results

Table 1 reflects the BCL operating results as if it were a customer of Wholesale Operations, like any other private store operator. For 2021/22, BCL net income increased \$16.2 million from the prior year. The net income rate increased from 10.2 to 11.1 per cent of sales.

Table 1: BCL financial results

(Unaudited - in \$millions)

	2020/21	% sales	2021/22	% sales
Sales	1,623.0	100.0	1,640.0	100.0
Gross Margin	369.4	22.8	379.8	23.2
Expenses	205.4	12.7	200.6	12.3
Other Income	1.5	0.1	2.5	0.2
Net Income	165.5	10.2	181.7	11.1

BCL 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 Wholesale Operations, the costs related to these sales are also removed from the BCL results.

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

The financial results do not include any allocation of Head Office expenses.

Appendix C: Auditor's Report and Audited Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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



R. Blain Lawson
General Manager and Chief Executive Officer



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

Vancouver, British Columbia
May 18, 2022

Financial Statements of

**BC LIQUOR
DISTRIBUTION BRANCH.**

And Independent Auditor's Report thereon

For the year ended March 31, 2022



INDEPENDENT AUDITOR'S REPORT

To the Minister of Finance, Province of British Columbia

Opinion

I have audited the accompanying financial statements of British Columbia Liquor Distribution Branch, which comprise the statement of financial position at March 31, 2022, 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, 2022, 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 IFRS, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of Financial Statements

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

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

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

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

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

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

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



Stuart Newton, CPA, CA
Assistant Auditor General

Victoria, British Columbia, Canada
May 18, 2022

BC LIQUOR DISTRIBUTION BRANCH

Statement of Comprehensive Income
(in thousands of dollars)

For the year ended March 31, 2022, with comparative information for 2021

	Note	2022	2021
Revenue	4	\$ 4,355,056	\$ 4,134,673
Cost of sales		(2,674,671)	(2,499,243)
Gross profit		1,680,385	1,635,430
Expenses:			
Administration	5, 14, 15	(491,816)	(469,969)
Marketing	5	(7,489)	(6,967)
Transportation	5	(1,266)	(3,104)
		(500,571)	(480,040)
Profit		1,179,814	1,155,390
Other income		16,665	12,981
Finance costs	15	(7,170)	(7,470)
Total comprehensive income		\$ 1,189,309	\$ 1,160,901

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, 2022, with comparative information for 2021

	Note	2022	2021
Balance beginning of year		\$ 93,979	\$ 100,495
Total comprehensive income		1,189,309	1,160,901
Net payments to the Province of British Columbia	12	(1,241,181)	(1,167,417)
Balance end of year		\$ 42,107	\$ 93,979

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, 2022, with comparative information for 2021

	Note	2022	2021
Assets			
Current:			
Cash		\$ 11,426	\$ 12,281
Accounts receivable	6	15,341	17,746
Prepaid expenses and deposits	7	10,412	9,106
Inventories	8	206,633	230,061
		243,812	269,194
Non-current assets:			
Prepaid expenses and deposits	7	866	1,398
Intangible assets	9	13,950	28,278
Property and equipment	10	300,270	307,705
		315,086	337,381
Total assets		\$ 558,898	\$ 606,575


Liabilities

Current:			
Accounts payable and accrued liabilities	11, 14	\$ 241,712	\$ 242,038
Current portion of lease liabilities	15	44,154	41,267
Due to the Province of British Columbia	12	42,107	93,979
		327,973	377,284
Non-current liabilities:			
Lease liabilities	15	185,771	191,669
Other long-term liabilities	13, 14	45,154	37,622
		230,925	229,291
Total liabilities		\$ 558,898	\$ 606,575

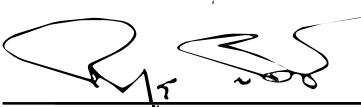
Commitments and contingencies 16,17

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

Approved for issue on May 18, 2022 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, 2022, with comparative information for 2021

	Notes	2022	2021
Cash provided by (used in):			
Operating:			
Total comprehensive income		\$ 1,189,309	\$ 1,160,901
Items not involving cash:			
Depreciation and amortization		82,536	86,436
Loss (gain) on disposal of property and equipment		1,281	(4)
Finance costs	15	7,170	7,470
Accrued employee benefits		7,532	2,694
Changes in non-cash operating items:			
Non-current assets		532	2,722
Working capital	6, 7, 8, 11	24,321	(16,242)
		1,312,681	1,243,977
Investing:			
Acquisition of intangible assets	9	(2,265)	(738)
Acquisition of property and equipment	10	(19,996)	(21,240)
Proceeds from disposal of property and equipment		56	45
		(22,205)	(21,933)
Financing:			
Payment of lease liabilities	15	(50,150)	(48,275)
Net payments to the Province of British Columbia	12	(1,241,181)	(1,167,417)
		(1,291,331)	(1,215,692)
(Decrease) increase in cash		(855)	6,352
Cash, beginning of year		12,281	5,929
Cash, end of year		\$ 11,426	\$ 12,281
Supplementary information:			
Non-cash operating and finance activities:			
Addition of store lease liabilities		\$ 39,737	\$ 64,677

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

BC LIQUOR DISTRIBUTION BRANCH

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

For the year ended March 31, 2022

1. Description of operations

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

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

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

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

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

2. Basis of accounting

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These financial statements were authorized for issuance by those charged with governance on May 18, 2022.

(b) Basis of measurement

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

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the LDB’s functional currency. All financial information has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that could materially affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results could differ from those estimates.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2022

2. Basis of accounting (continued)

(d) Use of estimates and judgments (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. In determining and applying accounting policies, judgment is often required where the choice of specific policy, assumption or account estimate to be followed could materially affect the reported results or net position of the LDB, should it later be determined that a different choice would be more appropriate. Management considers the following to be areas of judgment and estimation for the LDB due to greater complexity and/or being particularly subject to the exercise of judgment:

(i) Property and equipment and intangible assets

The determination of the useful economic life of property and equipment and intangible assets is subject to management estimation. The LDB regularly reviews all of its depreciation and amortization rates and residual values to take account of any changes in circumstances or that could affect prospective depreciation, amortization charges, and asset carrying values.

(ii) Leases - renewals

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

(iii) Leases - discount rates

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

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2022

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

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

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

Financial Assets

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

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

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

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

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2022

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

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

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

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

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition, the LDB may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized costs or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

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

In making this assessment, the LDB considers:

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

BC LIQUOR DISTRIBUTION BRANCH

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

For the year ended March 31, 2022

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

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

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

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

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

Financial liabilities

Financial liabilities are classified as measured at 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.

BC LIQUOR DISTRIBUTION BRANCH

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

For the year ended March 31, 2022

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Derecognition

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

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

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

(iv) Offsetting

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

(c) Property and equipment

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

BC LIQUOR DISTRIBUTION BRANCH

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

For the year ended March 31, 2022

3. Significant accounting policies (continued)

(c) Property and equipment (continued)

Construction in process is carried at cost less any impairment loss. Cost includes professional fees, materials, direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When these assets are ready for their intended use, they are transferred into the appropriate category. At this point, depreciation commences on the same basis as the other property and equipment.

(d) Intangible assets

Acquired intangible assets

Where purchased computer software is not an integral part of a related item of property and equipment, the software is capitalized as an intangible asset. Acquired computer software licenses for which the LDB has control are capitalized on the basis of the costs incurred to acquire and bring them into use.

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

Internally generated intangible assets

Direct costs associated with the production of identifiable and unique internally generated software products controlled by the LDB that will generate economic benefits exceeding costs beyond one year are capitalized. Direct costs include software development employment costs including those of contractors used.

Development expenditures incurred are capitalized only if the following can be demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale as intended by management;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development expenditures that do not meet these criteria are recognized as an expense as incurred.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2022

3. Significant accounting policies (continued)

(d) Intangible assets (continued)

Assets that are under construction over a period of time and not available for use, are carried at cost, less any impairment loss, in a construction in progress account until put into use. When completed and ready for intended use these assets are amortized on the same basis as other acquired intangible assets.

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

(e) Depreciation and amortization of non-financial assets

No depreciation is provided on land or assets in the course of construction. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their 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.

BC LIQUOR DISTRIBUTION BRANCH

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

For the year ended March 31, 2022

3. Significant accounting policies (continued)

(f) Leases

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

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

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

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

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2022

3. Significant accounting policies (continued)

(f) Leases (continued)

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

Incremental borrowing rate	2022	2021
Buildings	1 - 4% per annum	3-4% per annum
Office equipment	3% per annum	3% per annum

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

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

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

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

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

BC LIQUOR DISTRIBUTION BRANCH

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

For the year ended March 31, 2022

3. Significant accounting policies (continued)

(f) Leases (continued)

Short-term leases and leases of low-value assets

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

(g) Inventories

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

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

(h) Impairment

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

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

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

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

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

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2022

3. Significant accounting policies (continued)

(h) Impairment (continued)

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

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

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

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

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

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

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

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

BC LIQUOR DISTRIBUTION BRANCH

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

For the year ended March 31, 2022

3. Significant accounting policies (continued)

(i) Employee benefit plans

The LDB and its employees contribute to the Public Service Pension Plan in accordance with the Public Service Pension Plans Act. Defined contribution plan accounting is applied to the jointly trustee pension plan because sufficient information is not available to apply defined benefit accounting. Accordingly, contributions are expensed as they become payable. Employees are also entitled to specific retirement benefits as provided for under collective agreements and terms of employment. These benefits are accounted for as an expense and a liability in the period incurred based on the allocation of liability from the Province.

(j) Provisions

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

(k) Revenue recognition

Revenue is measured based on the consideration to which LDB expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The LDB recognizes revenue when performance obligations are satisfied. Revenue from the sale of goods are measured at the amount that reflects the best estimate of the consideration expected to receive in exchange for those goods.

Revenue is stated net of discounts, commission, estimated returns and excludes provincial sales tax, federal goods and services tax, container recycling fees and container deposits.

(l) Other income

Revenue that is ancillary to the sales of beverage alcohol is recognized as other income. Other income includes revenue from beverage container handling fees, border point collections and customs clearing administrative fees.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2022

3. Significant accounting policies (continued)

(m) Changes in accounting standards

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

There are no standards, interpretations or amendments of existing standards that were effective for the year ended March 31, 2022 that have had a significant impact on the Branch.

(i) *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 April 1, 2023 and have not been early adopted. These standards and interpretations are not expected to have a significant impact on the LDB's financial statements.

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

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

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

BC LIQUOR DISTRIBUTION BRANCH

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

For the year ended March 31, 2022

3. Significant accounting policies (continued)

(m) Changes in accounting standards (continued)

(ii)(Continued)

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

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

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

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

4. Revenue

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

	2022	2021
Retail customers	\$ 1,713,628	\$ 1,673,422
Licensee retail stores and independent wine stores	1,835,008	1,818,479
Hospitality customers	412,098	254,625
Other customers	283,491	273,526
Agency stores	110,831	114,621
Total sales	\$ 4,355,056	\$ 4,134,673

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2022

5. Operating expenses

The LDB's operating expenses are comprised of:

	2022	2021
Administration costs	\$ 491,816	\$ 469,969
Marketing	7,489	6,967
Transportation	1,266	3,104
	<u>\$ 500,571</u>	<u>\$ 480,040</u>
Salaries, wages and benefits	\$ 292,815	\$ 271,262
Depreciation and amortization	82,536	86,436
Bank charges	40,464	37,833
Other administrative expenses	27,061	21,117
Rents and property taxes	15,832	13,276
Professional services	11,968	8,980
Repairs and maintenance	8,740	10,994
Data processing	8,431	16,428
Marketing	7,489	6,967
Loss prevention	3,969	3,643
Transportation	1,266	3,104
Total operating expenses	<u>\$ 500,571</u>	<u>\$ 480,040</u>

6. Accounts receivable

	2022	2021
Trade accounts receivable and other items	\$ 16,895	\$ 19,057
Provision for doubtful accounts	(1,554)	(1,311)
Accounts receivable and other items - net	<u>\$ 15,341</u>	<u>\$ 17,746</u>

Receivables past due but not impaired are \$2.7 million (2021 - \$3.0 million). During the year the LDB expensed \$0.7 million (2021 - \$0.2 million) as bad debts expense.

BC LIQUOR DISTRIBUTION BRANCH

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

For the year ended March 31, 2022

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, 2022, the LDB has recorded \$8.4 million (2021 - \$7.5 million) of prepaid wine futures for delivery in fiscal years 2023 to 2024.

	2022	2021
Non-refundable wine futures	\$ 8,427	\$ 7,467
Other prepaid expenses	2,851	3,037
	11,278	10,504
Less: long term portion	(866)	(1,398)
Current portion	\$ 10,412	\$ 9,106

8. Inventories

	2022	2021
Store inventory	\$ 84,712	\$ 80,539
Warehouse inventory	121,921	149,522
Total inventory	\$ 206,633	\$ 230,061

During the year, inventories that were recognized as cost of sales amounted to \$2.7 billion (2021 - \$2.5 billion).

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2022

9. Intangible assets

	Intangible assets	Construction in process	Total
March 31, 2021			
Opening net book value	\$ 37,789	\$ 10,373	\$ 48,162
Additions	13	725	738
Completion of construction-in-progress (CIP)	10,980	(10,980)	-
Amortization charge	(20,622)	-	(20,622)
	\$ 28,160	\$ 118	\$ 28,278
Cost	\$ 94,209	\$ 118	\$ 94,327
Accumulated amortization	(66,049)	-	(66,049)
Net book value	\$ 28,160	\$ 118	\$ 28,278
March 31, 2022			
Opening net book value	\$ 28,160	\$ 118	\$ 28,278
Additions	18	2,401	2,419
Amortization charge	(16,747)	-	(16,747)
	\$ 11,431	\$ 2,519	\$ 13,950
Cost	\$ 94,227	\$ 2,519	\$ 96,746
Accumulated amortization	(82,796)	-	(82,796)
Net book value	\$ 11,431	\$ 2,519	\$ 13,950

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2022

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, 2021								
Opening net book value	\$ 634	\$ 796	\$ 62,264	\$ 19,704	\$ 188,562	\$ 12,367	\$ 3,562	\$ 287,889
Assets reclassified	-	-	16	(164)	(56)	(42)	-	(246)
Additions	-	19	327	3,300	64,677	3,577	14,017	85,917
CIP capitalization	-	-	10,761	844	-	579	(12,184)	-
Disposals (cost)	-	-	-	(441)	-	(172)	-	(613)
Disposals (accumulated depreciation)	-	-	-	408	-	164	-	572
Depreciation charge	(2)	(70)	(9,865)	(6,674)	(44,032)	(5,171)	-	(65,814)
	\$ 632	\$ 745	\$ 63,503	\$ 16,977	\$ 209,151	\$ 11,302	\$ 5,395	\$ 307,705
Cost	\$ 647	\$ 6,202	\$ 148,639	\$ 63,532	\$ 300,544	\$ 44,127	\$ 5,395	\$ 569,086
Accumulated depreciation	(15)	(5,457)	(85,136)	(46,555)	(91,393)	(32,825)	-	(261,381)
Net book value	\$ 632	\$ 745	\$ 63,503	\$ 16,977	\$ 209,151	\$ 11,302	\$ 5,395	\$ 307,705
March 31, 2022								
Opening net book value	\$ 632	\$ 745	\$ 63,503	\$ 16,977	\$ 209,151	\$ 11,302	\$ 5,395	\$ 307,705
Additions	-	75	183	1,924	39,737	3,047	14,767	59,733
CIP capitalization	-	332	14,143	2,844	-	907	(18,380)	(154)
Disposals (cost)	-	-	(898)	(1,003)	(2,151)	(110)	-	(4,162)
Disposals (accumulated depreciation)	-	-	898	805	1,132	102	-	2,937
Depreciation charge	(2)	(80)	(10,716)	(7,205)	(42,192)	(5,594)	-	(65,789)
	\$ 630	\$ 1,072	\$ 67,113	\$ 14,342	\$ 205,677	\$ 9,654	\$ 1,782	\$ 300,270
Cost	\$ 647	\$ 6,609	\$ 162,067	\$ 67,297	\$ 338,130	\$ 47,971	\$ 1,782	\$ 624,503
Accumulated depreciation	(17)	(5,537)	(94,954)	(52,955)	(132,453)	(38,317)	-	(324,233)
Net book value	\$ 630	\$ 1,072	\$ 67,113	\$ 14,342	\$ 205,677	\$ 9,654	\$ 1,782	\$ 300,270

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2022

11. Accounts payable and accrued liabilities

	2022	2021
Trade payables	\$ 157,623	\$ 155,790
Accrued liabilities	77,645	80,152
Other payables	6,444	6,096
	<u>\$ 241,712</u>	<u>\$ 242,038</u>

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 \$3.02 billion (2021 - \$2.87 billion) and the total payments to the Province were \$4.26 billion (2021 - \$4.04 billion).

13. Other long-term liabilities

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

	2022	2021
Retirement benefit obligation (note 14(b))	\$ 21,127	\$ 18,466
WorkSafe BC claims accruals (note 14(c))	20,700	17,300
Other	3,327	1,856
	<u>\$ 45,154</u>	<u>\$ 37,622</u>

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 trustee pension plan. The Public Service Pension Board of Trustees, representing plan members and employers, is responsible for administering the plan, including investment of the assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. At March 31, 2021, the plan has about 68,000 active members and approximately 52,000 retired members.

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2022

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

(a) Public Service Pension Plan (continued)

Every three years, an actuarial valuation is performed to assess the financial position of the plan and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plan. This rate may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

The latest actuarial valuation as at March 31, 2020, indicated a funding surplus of \$2.7 billion for basic pension benefits on a going concern basis

The total amount paid into the plan by the LDB for the year ended March 31, 2022 was \$18.8 million (2021 - \$17.9 million) for employer contributions which was recorded in administration expenses and represents 2.2 per cent of the total plan contributions. At this time, LDB does not expect significant fluctuations in the future contributions to the plan.

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

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

(b) Retirement benefits

Employees are entitled to specific non-pension retirement benefits as provided for under collective agreements and terms of employment. The future liability for this obligation amounts to \$21.1 million (2021 - \$18.5 million), which represents future employees' retirement benefits outside of the Plan and is included in other long-term liabilities. The amount expensed in the current year was \$2.7 million (2021 - nil).

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2022

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 \$20.7 million (2021 - \$17.3 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, 2022, right-of-use assets associated with office equipment have a net book value of \$0.2 million (2021 - \$0.4 million).

Right-of-use asset provision

One of the properties that the LDB leases has been vacant and has a lease term that ends in 2023.

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

	2022	2021
Balance, April 1	\$ 4,134	\$ 5,817
Lease payments	(1,838)	(1,838)
Finance Costs	103	155
Balance, March 31	\$ 2,399	\$ 4,134

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2022

15. Lease liabilities (continued)

The lease liabilities are payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	\$ 50,521	\$ (6,367)	\$ 44,154
Between one to five years	135,789	(15,629)	120,160
More than five years	71,036	(5,425)	65,611
Balance, end of year	257,346	(27,421)	229,925
Non-current lease liability	\$ 206,825	\$ (21,054)	\$ 185,771

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

	2022	2021
Balance, April 1	\$ 232,936	\$ 209,703
Additional lease obligations	39,737	64,677
Lease adjustments	232	(639)
Lease payments	(50,150)	(48,275)
Finance Costs	7,170	7,470
Balance, March 31	\$ 229,925	\$ 232,936

The weighted-average incremental borrowing rate applied for leases that are 10 years or more is 2.6% (2021 - 3.9%). Leases that are less than 10 years use a discount rate of 1.0% (2021 - 3.1%).

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2022

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 (2021 - \$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 (2021 - \$1.0 million) for processing services. The agreement expires in July 2023.

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

17. Contingent items

(a) The LDB is the sole importer of beverage alcohol in the Province. The LDB, as the importer of record, has the future liability for customs duty on import beer of \$0.7 million (2021 - \$0.5 million) based upon the value of the agents' inventories at March 31, 2022.

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

18. Capital management

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

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2022

19. Related party transactions

(a) Province of British Columbia

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

(b) Key management compensation

The LDB's executive management committee is defined as key management. At March 31, 2022 there were 9 (2021 - 8) members on the executive committee.

	2022	2021
Salaries and short-term benefits	\$ 1,519	\$ 1,460
Post-employment benefits	123	113
	<u>\$ 1,642</u>	<u>\$ 1,573</u>

Other related party transactions have been disclosed elsewhere in the notes to the financial statements.

20. Fair value of financial instruments

Fair value measurements recognized in the statement of financial position are categorized in accordance with the following levels:

- (i) Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (ii) Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e., derived from prices); and
- (iii) Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs)

All of the LDB's financial instruments are classified within Level 1 or Level 2, apart from the Worksafe BC liabilities, because these instruments are valued using quoted market prices or alternative pricing sources and models utilizing observable market inputs.

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2022

20. Fair value of financial instruments (continued)

The fair values of the LDB's financial instruments were determined to be the current assets and liabilities.

The carrying amounts for cash, accounts receivable, accounts payable and accrued liabilities and due to the Province of British Columbia approximate their fair values due to the short-term nature of these items.

21. 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, 2022, the cash balances are held with a major Canadian bank and therefore not exposed to significant credit risk.

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2022

21. Financial risk factor (continued)

(b) Liquidity risk

Liquidity risk is the risk that the LDB will be unable to meet its financial obligations as they become due.

The LDB manages liquidity risk primarily by monitoring cash flows and by maintaining the ability to borrow funds through the Province.

(c) Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the LDB's income or the value of its financial instruments.

While the majority of the LDB's transactions are in Canadian dollars, the LDB also transacts in Euros and US dollars. These transactions are in the normal course of business. The LDB's exposure to foreign currency risk could impact the accounts payable of the LDB. A 10% movement in the exchange rate between the Canadian dollar and the other currencies listed above would not have a material impact on the LDB.

The LDB currently does not hold any debt or equity securities and as such is not exposed to interest rate risk. As the LDB has no significant interest-bearing assets and liabilities, the LDB's income and operating cash flows are substantially independent of changes in market interest rates.

22. Impact of COVID-19

There is no material impact due to COVID-19 on the results of the LDB for the year ended March 31, 2022. The situation is dynamic and the ultimate duration and magnitude of impact on the economy and any future financial effect on the businesses are not known at this time.

23. Comparative Information

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