

BC Liquor Distribution Branch

2022/23

Annual Service Plan Report

August 2023



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General Manager and CEO's Accountability Statement



The BC Liquor Distribution Branch 2022/23 Annual Service Plan Report compares the organization's actual results to the expected results identified in the 2022/23 - 2024/25 Service Plan published in 2022. I am accountable for those results as reported.

A handwritten signature in black ink, appearing to read "R. Blain Lawson".

R. Blain Lawson
General Manager and Chief Executive Officer
August 11, 2023

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Letter from the General Manager and CEO

The BC Liquor Distribution Branch (LDB) experienced a busy year in 2022/23, including the completion of several exciting projects aimed at improving service to our wholesale and retail customers and supporting industry stakeholders.

One of the more significant achievements of 2022/23 was the launch of the non-medical cannabis direct delivery program, which enabled eligible, small-scale producers to begin direct delivering their products to licensed cannabis retail stores across the province. The program aims to contribute to the elimination of the illicit cannabis market, support Indigenous and small-scale producer participation in the legal market, and increase legal market competitiveness for Indigenous and small-scale producers in B.C. It also demonstrates government's commitment to supporting the growth of a vibrant cannabis industry in British Columbia.

The year wasn't without its challenges. From August 5 to 30, 2022, the LDB's liquor and cannabis distribution centres were closed due to job action by the B.C. General Employees' Union (BCGEU). In the weeks following job action, the LDB worked hard to resume normal service levels for liquor and cannabis wholesale customers as quickly as possible.

The LDB exceeded its 2022/23 revenue target by \$32 million, contributing \$1,198.3 million net income to Government to help fund vital public services that support the citizens and communities of British Columbia. While we saw decreased sales of both liquor and non-medical cannabis over last year, carefully managed operating expenses helped to offset decreased sales and enable us to sustain net returns to the Province.

The lower-than-targeted sales result may indicate a possible shift in consumer behaviour, especially as concerns regarding inflation and potential economic slowdown persist. As we look to future years, the LDB will continue to monitor consumer buying trends and identify potential adjustments to align to customer preferences while making responsible purchasing decisions. Additionally, supply chain disruptions and labour shortages may impact the LDB's ability to ensure timely product delivery; the LDB will continue to monitor ongoing and emerging supply chain disruptions and labour trends and will proactively develop mitigating plans to reduce potential impacts to customers and meet their needs.

The LDB continued to advance recommendations put forward by the Business Technical Advisory Panel (BTAP) by identifying and undertaking operational and efficiency improvements at our Delta Distribution Centre.

The LDB demonstrated its continued commitment to the communities in which it operates by facilitating fundraising campaigns in its retail stores. Thanks to the generosity of BCLIQUOR stores' and BC Cannabis Stores' customers, and the dedication of our employees, I am proud to say that in 2022 we raised \$1,201,461 for Food Banks BC in support of local food banks across the province, and \$396,032 for the Canadian Red Cross to support emergency response efforts for various national and international environmental and humanitarian crises. In 2022, we also developed and launched our first organization-wide impact campaign in support of

the 2SLGBTQIA+ community. The 'Do You Proud' campaign was rolled out across all LDB worksites and included employee and customer-facing messaging about the LDB's commitment to celebrating Pride and taking steps to support diversity and inclusion. As part of the campaign, we also raised \$25,285 for QMUNITY, B.C.'s queer resource centre.

In March of 2023, the LDB was recognized as one of B.C.'s Top Employers for the 15th consecutive year.

As we continue to adapt to a changing operating landscape, we look forward to identifying opportunities for continuous improvement across our various lines of business to ensure we achieve our commitment to providing excellent customer service and value for British Columbians.



R. Blain Lawson
General Manager and Chief Executive Officer
August 11, 2023

Purpose of the Annual Service Plan Report

This Annual Service Plan Report has been developed 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, a Minister Responsible for a government organization is required to make public a report on the actual results of that organization's performance related to the forecasted targets stated in the service plan for the reported year.

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 BC Liquor Distribution Branch's 2022/23 – 2024/25 Service Plan and the actual results reported on in this annual report.

Purpose of the Organization

In British Columbia, the LDB is one of two branches of government that provide oversight for the beverage alcohol and non-medical cannabis industries; the other is the Liquor and Cannabis Regulation Branch (LCRB). The LDB is responsible for the wholesale distribution and retail sale of beverage alcohol and non-medical 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 LCRB licenses private liquor stores, restaurants, pubs and manufacturers, and enforces regulations under the [Liquor Control and Licensing Act](#).

The [Cannabis Distribution Act](#) (CDA) establishes a government wholesale distribution model for non-medical cannabis, public cannabis retail stores, and a public-run e-commerce retail channel. The LCRB licenses private cannabis stores and enforces some aspects of the regulation under the [Cannabis Control and Licensing Act](#).

Accountable to the Minister of Public Safety and Solicitor General, the LDB:

- Has a General Manager and Chief Executive Officer who is responsible for administering the LDA and the CDA, subject to direction from the Minister of Public Safety and Solicitor General;
- Oversees a province-wide mixed public-private retail and public wholesale beverage alcohol and non-medical cannabis business model;
- Distributes liquor products through two distribution centres located in Delta and Kamloops, and non-medical cannabis products through a distribution centre located in Richmond;

- Provides online ordering systems for wholesale customers of beverage alcohol and non-medical cannabis;
- Operates 198 BCLIQUOR stores (BCL) and 37 BC Cannabis Stores (BCCS);
- Operates an e-commerce retail channel for non-medical cannabis under the BCCS brand; and,
- Employs approximately 5,600 full- and part-time staff.

As part of B.C.'s mixed public-private retail and public wholesale beverage alcohol and non-medical cannabis business model, the LDB is committed to focusing on customer needs, which includes providing an expansive product selection and exceptional customer 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 that end.

The LDB is committed to government's goals of making life better for people in B.C., improving services, and ensuring a sustainable province for future generations. The revenue generated by the LDB helps fund essential public services like health care, education, and community programming.

The LDB will continue to help government advance lasting and meaningful reconciliation, for example by supporting Indigenous Nations' participation in the cannabis industry through the cannabis direct delivery program and B.C. Indigenous Cannabis Product program, which promote greater visibility of Indigenous cannabis producers and their products to both wholesale and retail customers.

Operating Environment

Shift in consumer trends

While the LDB was able to sustain net returns in 2022/23, the LDB recorded lower-than-targeted sales this fiscal year. This may indicate a possible shift in consumer behaviour, especially as consumers consider concerns regarding inflation, a potential economic slowdown, and the impacts of alcohol consumption on health and safety.

Business Technical Advisory Panel

In late 2017, the Ministry of Attorney General appointed a panel of liquor industry stakeholders to advise on possible law and policy reforms for government to improve efficiency and outcomes for business and government in relation to government responsibilities, regulations and oversight roles that intersect with the activities of B.C.'s private liquor businesses.

In April 2018, BTAP presented its initial report containing 24 liquor policy recommendations to government. Since then, the LDB has continued to consult and engage with BTAP and with cross-industry and government working groups, and contributed by performing critical social, policy, financial, legal, trade and stakeholder analysis, implementing solutions, and adjusting its operations to support changes where required. In 2022/23, the LDB continued to realize operational and efficiency improvements at the liquor distribution centre designed to optimize space and decrease the end-to-end lead time for the distribution of non-stocked wholesale product (NSWP) stock keeping units (SKUs). In addition, the LDB also engaged on several other BTAP priority initiatives led by the LCRB or Ministry of Agriculture and Food related to licensees and manufacturers.

Continued establishment of B.C.'s cannabis industry

The LDB continued to work collaboratively with its government counterparts, such as the LCRB and the Cannabis Secretariat, to support government's ongoing commitment to establishing a vibrant and sustainable cannabis industry.

The launch of the LDB's direct delivery program enabled more small-scale and Indigenous cannabis producers to participate in B.C.'s legal cannabis market. As of fiscal year end, there were 59 cultivators and 40 licensed processors participating in the program, and 973 products available for sale under the program.

LDB Cannabis Retail Operations continued to open new BCCS throughout the province, opening four new stores: two stores in Burnaby, one store in North Vancouver, and one store Langley.

Job action

From August 5 to 30, 2022, the LDB's liquor and cannabis distribution centres experienced job action by the B.C. General Employees' Union (BCGEU), resulting in a closure of its two liquor

distribution centres, its cannabis distribution centre, and its liquor and cannabis customer service centres. While the impacts of job action on our wholesale and retail customers were widespread, the LDB worked hard to return to normal service levels for liquor and cannabis wholesale customers as quickly as possible.

Economic Statement

After rebounding rapidly in 2021, British Columbia's economy saw slower yet strong growth in 2022. B.C.'s real GDP growth of 3.6 per cent last year was the fourth highest among provinces (tied with Ontario) and grew at the same pace as the national average, following growth of 6.2 per cent in 2021. Growth in B.C.'s real GDP was mostly supported by service-producing industries such as transportation and warehousing, accommodation and food services, and professional, scientific and technical services. Goods-producing industries also experienced growth led by construction.

While B.C.'s recovery broadened in 2022, it remained uneven as sectors such as transportation and warehousing; accommodation and food services; and arts, entertainment and recreation have yet to fully recover to pre-pandemic levels. B.C.'s labour market continued to grow in 2022, with employment growth of 3.2 per cent and an average unemployment rate of 4.6 per cent, while wages and salaries increased by 10.8 per cent. Consumer spending on goods grew slowly after a rapid expansion at the beginning of the recovery and nominal retail sales posted overall growth of 3.1 per cent. Last year, prices rose dramatically as strong demand for goods and services was met with lingering supply-chain challenges and high prices for global commodities following Russia's invasion of Ukraine.

In 2022, B.C.'s inflation rate averaged 6.9 per cent, the fastest annual rate since 1982, and up from 2.8 per cent in 2021. B.C. housing starts totalled 46,721 units in 2022, down 1.9 per cent compared to the previous year. Despite the decline, housing starts in 2022 were the second highest on record. Home sales fell sharply in 2022 as they adjusted to higher mortgage rates not seen since 2008. B.C. MLS home sales decreased by 35.2 per cent in 2022 compared to 2021. Meanwhile the MLS average home sale price rose by 7.4 per cent in 2022 because of strength early in the year, despite monthly declines in 9 of the last 10 months of the year.

On the external front, B.C.'s international merchandise exports grew by 20.4 per cent, boosted by strong commodity prices in the first half of 2022.

Report on Performance: Goals, Objectives, and Results

Goal 1: Grow LDB’s financial performance

Objective 1.1: Meet Government’s financial objectives

The LDB is committed to optimizing its performance to deliver its expected financial results to the Province of B.C. LDB’s revenue contributions to the Province help support public services that British Columbians rely on every day.

Key results

- Exceeded fiscal 2022/23 net income target by \$32.0 million.
- Maintained an operating expense ratio below 14% of sales.

Summary of progress made in 2022/23

The LDB efficiently managed its operating expenses in order to sustain net returns to the Province.

Performance measure and related discussion

Performance Measure	2021/22 Actual	2022/23 Target	2022/23 Actual
1.1a Net income (in \$ millions) ¹	1,189.3	1,166.3	1,198.3

Data source: BCL and BCCS sales data is collected from both computerized point-of-sale 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 annually by the Office of the Auditor General. LDB expense data is captured, stored, and reported by the LDB’s financial system.

¹PM 1.1a targets for 2023/24 and 2024/25 were stated in the 2022/23 service plan as \$1,197.9 million and \$1,225.5 million, respectively. For forward-looking planning information, including current targets for 2023/24 – 2025/26, please see the latest service plan on the [BC Budget website](#).

Net income refers to the contribution made by the LDB to the Province through sales of beverage alcohol and non-medical cannabis and serves as a significant source of revenue for the provincial government. LDB’s net income for the year was \$1,198 million, exceeding the target by \$32.0 million (2.7 per cent). Compared to the prior year, net income increased by \$9.0 million (0.8 per cent).

Despite lower-than-targeted sales, net income improved largely due to reductions in operating expenses. This decrease in sales can be attributed to lower volumes in both liquor and non-medical cannabis, as well as delayed openings of BCCS. However, operating expenses were lower than planned due to increased employment vacancies, reduced amortization resulting from fewer BCCS openings, fewer pallet purchases for warehouses, and delayed spending on consulting services. The decrease in both operating expenses and overall sales allowed the LDB to realize an operating expense ratio of 13.7 per cent of sales. Operating expenses are expected to increase due to wage rate increases as per the collective agreement and spending on delayed projects.

Goal 2: Maintain focus on customer experience

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

As the province’s sole wholesale distributor of beverage alcohol and non-medical cannabis and the public retailer of these products, the LDB commits to providing best-in-class service to meet the needs of British Columbians, demonstrating its value and reliability to stakeholders.

BCLIQUOR retail division key results

- Met retail customer satisfaction target with 86% of customers expressing overall satisfaction with BCL.
- Completed exterior signage upgrades at 33 of 198 retail locations to reflect the new, modernized brand look and feel and provide a more consistent brand experience across online, in-store, and advertising.
- Launched a new service training program for all stores, including content related to conducting best in class customer service skills.
- Completed five major store renovations to enhance the shopping experience for customers and improve service.

Summary of progress made in 2022/23

BCL continued to deliver high-levels of overall customer satisfaction by continuing to implement its brand modernization strategy online (e.g., digital marketing, social media, website, e-newsletter) and in-store through ongoing store renovations. BCL’s digital channels and advertising mediums have continued to gain momentum and popularity. For example, BCL’s Instagram page follower count grew by 80 per cent over the fiscal period. BCL’s digital channels provide customers with modern vehicles to stay up-to-date with the latest information and engage with BCL by asking questions, providing feedback, and interacting with BCL in a personalized manner. BCL also continued implementing its GREAT (Greet, Rapport, Evaluate, Action, Thank) customer service training program and provided customized employee training for new and existing employees.

Performance measure and related discussion

Performance Measure	2020/21 Actual	2022/23 Target	2022/23 Actual
2.1a Retail customer satisfaction ^{1,2}	88%	86%	86%

Data source: The LDB contracts with professional survey companies bi-annually to conduct the retail customer service surveys. This PM is a measurement of the proportion of respondents who expressed an overall satisfaction with BCL.

¹PM 2.1a targets for 2023/24 and 2024/25 were stated in the 2022/23 service plan as n/a and 87%, respectively. For forward-looking planning information, including current targets for 2023/24 – 2025/26, please see the latest service plan on the [BC Budget website](#).

²2020/21 actuals are being restated as no survey took place for the 2021/22.

A number of factors supported BCL in meeting its retail customer satisfaction goal of 86 per cent in fiscal 2022/23. BCL increased training through its GREAT customer service training program and established a new, complementary program for all associates which includes content on delivering high quality customer service. In addition, BCL focused on increasing formal product knowledge certification for staff. Thirty-three stores were upgraded with the modernized BCL branding to enhance the customer experience, and new products and promotions were provided, in alignment with customer demand.

Liquor wholesale division key results

- Exceeded the target of 95% on-time delivery, outside of the job action period.
- Converted 85% of high volume, non-stocked wholesale products (NSWP) to LDB stocked in-warehouse items. This conversion aimed to enhance the customer experience by shortening the end-to-end lead times of those NSWP converted to LDB stocked in-warehouse.
- Fostered a customer-centric culture among distribution centre employees through comprehensive training initiatives and demonstrated a commitment to employee growth and professional development by enhancing awareness of available learning opportunities.

Summary of progress made in 2022/23

Following BCGEU job action that occurred from August 15 to 30, 2022, and that closed LDB liquor and cannabis distribution centres, normal service levels for all products was restored within 10 weeks. During that time, the liquor wholesale division worked to alleviate the backlog created and provided daily operational updates to keep customers informed.

Through the implementation of a SKU optimization model, LDB's liquor wholesale division was able to better utilize space in the distribution centre. This led to an increase of LDB-stocked products, aligning closely to customer preference and driving higher customer satisfaction. Additionally, the optimized inventory management resulted in reduced delivery lead time and improved order fulfillment, improving the availability of desired products. These positive changes in product availability and fulfillment contributed to an overall improvement in product mix, further increasing customer satisfaction.

The employee professional development program, My Peak Performance, was rolled out to leaders at the Kamloops distribution centre, and focused on fostering a growth mindset, goal planning and coaching conversations. This program's goal to develop strong leaders and building engagement within the teams will lead to better customer-focused decisions and the building of a succession planning model to aid in long-term planning.

Performance measure and related discussion

Performance Measure	2020/21 Actual	2022/23 Target	2022/23 Actual
2.1b Wholesale customer satisfaction ^{1,2}	68%	73%	64%

Data source: The LDB engages with Business Research and Diagnostics in the Ministries of the Attorney General and Public Safety and Solicitor General to conduct bi-annual wholesale customer service surveys.

¹PM 2.1b targets for 2023/24 and 2024/25 were stated in the 2022/23 service plan as n/a and 78%, respectively. This performance measure was replaced in the latest service plan. For more details on forward-looking planning, information, including performance measures for 2023/24 – 2025/26, please see the latest service plan on the [BC Budget website](#).

²2020/21 actual is being restated as no survey took place for the 2021/22 fiscal year.

The liquor wholesale division of the LDB conducts a bi-annual customer service survey with the assistance of an inter-ministerial research team. The survey was distributed to all liquor wholesale customers, aiming to gather their feedback on liquor wholesale customer service. The survey was conducted between January 9 and February 3, 2023, and received a response rate of 23 percent. Wholesale customer satisfaction for 2022/23 was 64 per cent, which was nine per cent lower than target.

A key factor in the lower survey results was the job action that took place in August 2022, which had considerable impact on liquor wholesale operations. Feedback received from respondents indicated dissatisfaction related to the job action which coincided with the peak, summer volume season. The impact of job action on operations resulted in a substantial increase in sales following the restart of liquor distribution services. Specifically, the liquor wholesale division received a 30 per cent increase in sales (approximately 500,000 cases) in the four weeks that followed compared to the same period in the previous year. To address the backlog and resume normal service levels following the job action, all available labour options were utilized (e.g., overtime, auxiliaries) and the distribution centres operated 24 hours a day, seven days a week.

The wholesale customer satisfaction survey revealed additional areas for improvement. Customers emphasized the need for enhanced end-to-end order visibility, seeking real-time updates through improved communication throughout the fulfillment process. They also expressed a desire for improving the online ordering experience, with streamlined navigation, simplified checkout, and comprehensive product information. Moreover, they expressed their concern over lead times for back-ordered products. In fiscal year 2022/23, the LDB made progress on development of a roadmap designed to address current system limitations and to address the feedback received in the survey. Addressing these areas will greatly improve customer satisfaction. For example, implementing transparent order tracking and effective communication methods will provide customers with confidence and clarity. Similarly, enhancing the online ordering experience with intuitive navigation and comprehensive product information will simplify the purchasing process for customers.

Cannabis division key results (wholesale and retail)

- Enhanced the navigation of products and product categories on the website for both wholesale and BCCannabisStores.com customers. This improvement aimed to provide a more user-friendly and intuitive browsing experience.
- Implemented a cannabis direct delivery program to support the participation of BC Indigenous and small-scale cultivators in the legal cannabis market. This program also aimed to enhance the product assortment available to customers.
- Added 973 registered, direct-delivery products from 59 eligible cultivators and 40 licensed producers to the wholesale assortment.
- Rolled out robust merchandising guidelines, including improved product price tags, to create a consistent, informative, and overall enhanced customer shopping experience across all BCCS.

Summary of progress made in 2022/23

In August 2022, the LDB launched a cannabis direct delivery program, allowing eligible cultivators and producers to deliver their products directly to retailers. To further support the B.C. cannabis industry, the cannabis division began publishing and distributing the [BC Cannabis Wholesale Quarterly Sales Report](#) to industry stakeholders. These reports provide valuable sales information that stakeholders can use to identify market trends and opportunities.

Performance measures and related discussion

Performance Measure	2020/21 Baseline	2021/22 Actual	2022/23 Target	2022/23 Actual
2.1c Retail customer satisfaction ^{1,2,5}	86%	93%	90%	94%
2.1d Wholesale customer satisfaction ^{3,4,5}	71%	70%	85%	73%

¹Data source: BCCS placed free-standing customer survey tablets in nine stores on a three-month rotational basis.

²PM 2.1c targets for 2023/24 and 2024/25 were stated in the 2022/23 service plan as 90% and 90%, respectively.

³Data source: Private cannabis retailers participated in an online survey.

⁴PM 2.1d targets for 2023/24 and 2024/25 were stated in the 2022/23 service plan as 85% and 85%, respectively.

⁵These performance measures were replaced in the latest service plan. For more details on forward-looking planning, information, including performance measures for 2023/24 – 2025/26, please see the latest service plan on the [BC Budget website](#).

Throughout 2022/23, a total of 22,731 customer satisfaction survey responses were collected across nine BCCS locations, representing an increase in response rate of nearly 50 per cent compared to the previous fiscal. The results showed an overall customer satisfaction score of 94 per cent, which is a one percentage point improvement from the year prior and exceeded the target of 90 per cent. The results indicate a slight enhancement in BCCS' customer service and product assortment.

LDB's cannabis wholesale division conducts an annual online survey to collect feedback from its wholesale customers regarding their satisfaction with customer service. The survey took place in July 2022 and had a participation rate of 21 per cent, representing 95 out of 450 cannabis wholesale customers.

While the target for wholesale customer satisfaction was set at 85 per cent, the actual result achieved was 73 per cent. It is worth noting this is an improvement compared to the previous year, where satisfaction stood at 70 per cent. Survey respondents expressed an increased satisfaction of issues resolution by the Customer Care Center (CCC), as well as a high-level of satisfaction in the completeness and accuracy of delivered orders. Additionally, in 2022/23 the LDB implemented a more efficient product returns process that shortened the wholesale customer crediting experience by as much as 10 days, contributing to greater, overall customer satisfaction.

However, it is important to acknowledge that there are still areas requiring attention. Certain areas persist as barriers to achieving the desired wholesale customer satisfaction rate of 85 per cent, such as pricing and markup, and the functionality of the wholesale ordering website. To mitigate customers' dissatisfaction resulting from the latter, the LDB implemented enhanced internal processes to better enable the inclusion of comprehensive and quality product descriptions on the website to serve licensed producers and wholesale customers alike.

Goal 3: Improve workplace quality and employee excellence

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

The LDB is dedicated to establishing an inclusive and balanced work environment that promotes quality of work, health and well-being, and a commitment to public service through a wide range of employee development and engagement initiatives.

Key results

- Achieved enrolment of more than half of 300+ eligible supervisory employees in an in-house leadership coaching development program.
- Delivered respectful workplace behaviour training to 1,760 employees, achieving a 30% increase in the completion rate compared to the previous year.
- Recognized 670 employees for 5+ years of public service, with 280 receiving recognition for over 25 years of service at the Public Service Agency (PSA)'s Long Service Awards.
- Demonstrated commitment to diversity and inclusion by launching the 'Do You Proud' campaign during Pride 2022, highlighting employees across the organization and conducting learning sessions for 54 senior leaders.

- Enhanced and modernized IT infrastructure as part of a multi-year Modern Workplace Program (MWP), enabling improved communication, collaboration, and connectivity for over 1,300 employees, along with access to technology, tools and applications.

Summary of progress made in 2022/23

LDB worked to foster an engaging work environment by providing leadership training and education in respectful workplace behaviour, recognizing employee accomplishments, and providing employees with updated technology and tools. In addition to this, the LDB made important steps towards reconciliation and advanced its Indigenous-focused strategy of building inclusivity, diversity and historical and cultural awareness through collaboration with Indigenous leaders, organizing meaningful learning events and effectively communicating expectations to employees. Moreover, fundraising initiatives were undertaken to support community charities with employees contributing \$172,000 in donations.

Performance measure and related discussion

Performance Measure	2019/20 Actual	2021/22 Target	2021/22 Actual
3.1a Employee engagement ^{1,2}	70	71	63

Data source: Work Environment Survey (WES) conducted by BC Stats for the LDB. The WES is conducted bi-annually. This PM is a measurement of respondents’ overall level engagement on a 100-point scale.

¹PM 3.1a targets for 2023/24 and 2024/25 were stated in the 2022/23 service plan as 71 and n/a, respectively. This performance measure was replaced in the latest service plan. For more details on forward-looking planning, information, including performance measures for 2023/24 – 2025/26, please see the latest service plan on the [BC Budget website](#).

²2019/20 actual is being restated as no survey took place for the 2020/21 fiscal year.

The Work Environment Survey (WES) was conducted over a six-week period, ending in May 2022, with participation from 58 per cent of the LDB’s workforce. The employee engagement score of 63 for 2021/22 (unavailable at the time of publishing the 2021/22 annual report), short of the target of 71 and a downturn of seven points from 2019/20, was significantly influenced by the areas measured in the WES related to pay and benefits, job satisfaction, empowerment, and recognition.

The LDB undertook many initiatives to address the shortcomings identified by the WES.. For example, in 2022/23, the LDB aligned its compensation structure with the 19th BCGEU Main Agreement, ratified in October 2022. To address low survey scores in job satisfaction and empowerment, the LDB increased professional development opportunities and focused on leadership development. Additionally, the LDB placed increased emphasis on meaningful employee recognition to acknowledge dedication to service, accomplishments, and milestones across the organization. Over 15 employee engagement events and activities throughout 2022/23 were organized, including celebrations for Lunar New Year, Pride, Persian New Year, Diwali, Pink Shirt Day, International Women’s Day, Black History Month, and Asian Heritage Month in recognition of cultural diversity and societal inclusion.

Goal 4: Increase business effectiveness

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

The LDB is committed to continually improving its operations in order to best position itself to respond to changing market conditions.

BCL retail division key results

- Surpassed the 2022/23 target for BCL sales per square foot for a total of \$1,491.
- Completed team training and implemented a new, real-time assortment planning tool to improve decision-making accuracy and efficiencies.
- Launched a new service training program for all stores, highlighting opportunities to increase sales.
- 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.

Summary of progress made in 2022/23

BCL's approach to improving operating efficiencies focused on equipping store associates with product knowledge and selling skills, as well as improving both assortment and demand planning. Store associates across all stores were provided with updated training related to selling behaviours. Store associates also successfully completed various product knowledge certifications with more than 100 employees completing the Level 2 WSET training in Wine or Spirits. Twenty 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. In addition, a key change included the implementation of the Assortment Planning Tool (APT), a proprietary tool which helps BCL provide the right product in the right location for customers.

Performance measure and related discussion

Performance Measure	2017/18 Baseline	2021/22 Actual	2022/23 Target	2022/23 Actual
4.1a BCL sales per square foot ¹	\$1,402	\$1,488	\$1,455	\$1,491

Data source: BCL sales data is collected from point-of-sales cash register systems and store in Head Office databases.
¹PM 4.1a targets for 2023/24 and 2024/25 were stated in the 2022/23 service plan as \$1,477 and \$1,483, respectively. For forward-looking planning information, including current targets for 2023/24 – 2025/26, please see the latest service plan on the [BC Budget website](#).

Sales per square foot measures how well BCL converts its floor space into sales and reflects a commitment to operational efficiency, cost consciousness, accountability, and service. In 2022/23, BCL sales per square foot were above target due to an increase in price per unit and an increase in hospitality sales. The increase in sales to hospitality customers resulted from the

lifting of COVID-19 pandemic restrictions as well as higher tourism traffic in several regions of the province.

Another key contributing factor to surpassing the target was the launch of the updated GREAT customer service training program which includes enhanced content for associates across all stores focused on selling behaviours, highlighting opportunities to increase sales.

Surpassing the target can also be attributed to the implementation of Flash Sales, a new merchandising program. Flash Sales are focused on offering customers top selling products at promotional prices for a short period of time. These sales are aligned with customer demand and strategically designed to drive excitement and customer traffic into stores.

Additionally, the strong sales per square foot results were supported by right sizing analysis which was completed in the top 50 BCL stores. This included implementing changes to product assortments that reflect the current consumer sales trends and applying the correct amount of shelf space for products based on the value and volume of each product subcategory.

Liquor wholesale division key results

- Increased on-hand inventory at LDB distribution centres by converting NSWP to stocked product.
- Implemented a quality assurance program at the wholesale customer centre to enhance vendor and customer interactions and communication.
- Continued to prioritize the modernization of technology systems and business processes, utilizing cost-effective technologies to improve service quality and strengthen relationships with customers, suppliers, and employees.

Summary of progress made in 2022/23

The liquor wholesale division made significant progress in enhancing operational efficiencies to effectively respond to disruptions and improve agility. The reduction in end-to-end lead time for NSWP distribution resulted in reduced labour hours required for onboarding and offboarding NSWP. Improving processes to efficiently offboard low-volume NSWP SKUs has enhanced supplier communication and relationships. Emphasizing operational key performance indicators, such as on-time delivery of goods, has contributed to better communication with logistics partners and the establishment of a robust customer service network, ensuring resilient operations.

Performance measures and related discussion

Performance Measure	2017/18 Baseline	2021/22 Actual	2022/23 Target	2022/23 Actual
4.1b Distribution centre labour cost per case shipped ^{1,2,5}	\$1.99	\$1.93	\$1.89	\$2.18
4.1c Distribution centre order fill rate ^{3,4,5}	89%	93%	95%	94%

¹Data source: Orders and shipments processed by LDB liquor distribution centres are captured and stored by computer applications designed for this purpose. This PM is calculated by dividing liquor distribution centre labour expenses by total case shipments.

²PM 4.1b targets for 2023/24 and 2024/25 were stated in the 2022/23 service plan as \$1.86 and \$1.86, respectively.

³Date source: Orders and shipments processed by LDB liquor distribution centres are captured and stored by computer applications designed for this purpose. This PM is the percentage of each order filled completely by LDB liquor distribution centres and is calculated by dividing the number of ordered items that are filled completely by the total number of items ordered.

⁴PM 4.1c targets for 2023/24 and 2024/25 were stated in the 2022/23 service plan as 95% and 95%, respectively.

⁵These performance measures were replaced in the latest service plan. For more details on forward-looking planning, information, including performance measures for 2023/24 – 2025/26, please see the latest service plan on the [BC Budget website](#).

The LDB’s liquor distribution centres faced challenges in achieving the targeted labour cost per case shipped. These challenges were influenced by several factors, including a labour shortage that led to insufficient access to auxiliary staff and left the warehouses operating short of a full complement by approximately 75 employees, unforeseen employee absences, and the August 2022 job action which resulted in a backlog of orders needing 10 weeks of overtime to clear. These factors resulted in higher labour costs due to the need for overtime hours. Additionally, the negotiated wages and benefits in the 19th BCGEU Main Agreement increased labour costs.

Despite these challenges, the liquor wholesale division exceeded its expected productivity levels, as measured by cases moved per hour worked. This demonstrates its commitment to efficiency and dedication to maintaining productivity even during difficult periods. The disruptions caused by the job action and the subsequent recovery period also impacted the order fill rate, making it challenging to maintain sufficient inventory levels and meet customer demand. However, outside of these periods, the liquor wholesale division consistently met the order fill rate target.

Cannabis division key results (wholesale and retail)

- Improved the defective product returns process to enhance the experience for retailers and distribution centre employees.
- Operationalized four additional BCCS locations, bringing the total to 37 by the end of the fiscal year.
- Implemented a Product Information Management (PIM) system which helped improve the cannabis division’s ability to track, sort, analyze, and manage its product assortment more effectively.

Summary of progress made in 2022/23

The cannabis division continued to improve operating efficiencies in a number of ways, including updating the return process for defective products, operationalizing additional BCCS locations, and implementing a new system to improve product information management. In addition to this, the cannabis division established a robust evaluation process to assess licensed producers' compliance with the cannabis distribution centre's requirements and standards. This process has enabled the cannabis division to receive and process products more efficiently, maintain optimal inventory levels, and foster improved relationships with suppliers.

Performance measures and related discussion

Performance Measure	2019/20 Baseline	2021/22 Actual	2022/23 Target	2022/23 Actual
4.1d BCCS sales per square foot ^{1,3}	\$781	\$789	\$800	\$841
4.1e BCCS.com order fill rate ^{2,4,6}	99.7%	99.8%	99.0%	99.6%
4.1f Wholesale (B2B) order fill rate ^{2,5,6}	98.9%	99.3%	99.0%	99.9%

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

²Data source: Orders and shipments processed by the Richmond Distribution Centre are captured and stored by computer applications designed for this purpose.

³PM 4.1d targets for 2023/24 and 2024/25 were stated in the 2022/23 service plan as \$800 and \$800, respectively.

⁴PM 4.1e targets for 2023/24 and 2024/25 were stated in the 2022/23 service plan as 99.0% and 99.0%, respectively.

⁵PM 4.1f targets for 2023/24 and 2024/25 were stated in the 2022/23 service plan as 99.0% and 99.0%, respectively.

⁶These performance measures were replaced in the latest service plan. For more details on forward-looking planning, information, including performance measures for 2023/24 – 2025/26, please see the latest service plan on the BC Budget website.

BCCS achieved a 6.5 per cent increase in sales per square foot compared to the year prior, with sales rising from \$789 to \$841 per square foot. This success can be attributed to the strategic addition of store locations in major high-volume markets, the growth observed in larger population markets, and the consistent financial performance of existing locations.

To sustain and improve order fill rates in BCCannabisStores.com and the wholesale business-to-business areas, the cannabis distribution centre implemented robust inventory controls, including regular inventory cycle counts. These measures, along with a reduction in inventory on-hand, have significantly improved product availability. As a result, the cannabis distribution centre has exceeded its fill rate targets, ensuring that customers receive their desired products in a timely manner.

Goal 5: Support corporate social responsibility

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

The LDB proactively supports government’s mandate of prioritizing public health and safety, keeping beverage alcohol and non-medical cannabis out of the hands of minors, encouraging responsible consumption, and increasing awareness of the risks associated with consuming these products.

BCL retail division key results

- Reached 98% store compliance with ID checking requirements through continual reinforcement and staff education.
- Attained 70% customer awareness of LDB corporate social responsibility programs through continued campaigns, programs, and promotion through various channels (e.g., signage, online).
- Partnered with local charities such as BC Food Banks and QMUNITY to support local causes.
- Supported key Red Cross donation appeals, such as Hurricane Fiona, and continued to support BCL's annual Dry Grad and Share-a-Bear programs.

Summary of progress made in 2022/23

In addition to the key results above, digital and social media channels were leveraged to promote social responsibility programs and partnerships were made with suppliers to ensure social responsibility guidelines were followed on all supplier promotional materials which BCL approves. Additionally, BCL continued to advertise and promote the responsible use of alcohol with a different messaging focus and creative in-store each month. Furthermore, BCL updated all customer-facing materials and brochures to align with the new low-risk alcohol drinking guidelines that were introduced.

Performance measures and related discussion

Performance Measure	2020/21 Baseline	2021/22 Actual	2022/23 Target	2022/23 Actual
5.1a Store compliance with ID-checking requirements ^{1,2}	100%	100%	100%	98%
5.1b Customer awareness of LDB corporate social responsibility programs ^{3,4}	76%	n/a	80%	70%

¹Data source: The LCRB administers an ID compliance checking program and provides the results of BCL compliance to the LDB.

²PM 5.1a targets for 2023/24 and 2024/25 were stated in the 2022/23 service plan as 100% and 100%, respectively. This performance measure was replaced in the latest service plan. For more details on forward-looking planning, information, including performance measures for 2023/24 – 2025/26, please see the latest service plan on the [BC Budget website](#).

³Data source: The LDB contracts with professional survey companies bi-annually to conduct the retail customer surveys.

⁴PM 5.1b targets for 2023/24 and 2024/25 were stated in the 2022/23 service plan as n/a and 80%, respectively. This performance measure was revised in the latest service plan. For more details on forward-looking planning, information, including performance measures for 2023/24 – 2025/26, please see the latest service plan on the [BC Budget website](#).

Throughout 2022/23, the LCRB performed 50 ID-compliance checks across BCL's network of 198 stores. BCL reached 98 per cent store compliance with ID checking requirements, which was slightly under the target of 100 per cent due to a single contravention notice received at one store. To improve on this result, the liquor retail team has stepped up training and reinforcement through daily reminders of the ID-checking policy to all associates at shift start times.

BCL's customer awareness of LDB corporate social responsibility reached 70 per cent, below the set target of 80 per cent. This is a trend that has continued from fiscal 2020/21 when customer awareness decreased to 76 per cent due to factors related to the pandemic, including less trips and time spent in-store which was shown in transaction quantity and velocity, and research. With customers spending less time at BCL stores, they have decreased opportunities for exposure to the corporate social responsibility materials on display. BCL has implemented an enhanced approach to measuring social responsibility message penetration and is embarking on a project to refresh and improve its social responsibility materials in-store to increase awareness.

Cannabis retail division key results

- Developed and deployed 24 distinct digital messages promoting responsible consumption. These messages were displayed in BCCS locations, on the BCCannabisStores.com e-commerce retail website, and across various social media channels.
- Generated over 270,000 impressions (views) on Facebook over a four-month period through a targeted 'Don't Drive High' campaign featuring 16 unique messages.
- Leveraged digital and online signage at over 70 hospitality establishments in Metro Vancouver and on Vancouver Island to amplify the 'Don't Drive High' winter campaign, resulting in 895,000 impressions (views).

Summary of progress made in 2022/23

The cannabis division maintained a strong focus on reinforcing the importance of verifying identification for customers entering its stores. It has become a standard operating procedure for all BCCS locations to ask any customer who appears under the age of 30 to present two pieces of identification; whether at the door upon entering or at check-out prior to transacting a purchase. This proactive approach ensures compliance and promotes responsible sales practices throughout the retail network.

Performance measure and related discussion

Performance Measure	2020/21 Baseline	2021/22 Actual	2022/23 Target	2022/23 Actual
5.1c Store compliance with ID-checking requirements ¹	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.

²PM 5.1c targets for 2023/24 and 2024/25 were stated in the 2022/23 service plan as 100% and 100%, respectively. This performance measure was replaced in the latest service plan. For more details on forward-looking planning, information, including performance measures for 2023/24 – 2025/26, please see the latest service plan on the [BC Budget website](#).

The cannabis division achieved 100 per cent compliance with ID-checking, demonstrating its strong commitment to social responsibility and preventing the sale of cannabis to minors. To effectively reinforce this policy, BCCS strategically allocated resources at the entrances of its stores during peak traffic periods to conduct thorough ID-checks, ensuring minors are not able to make purchases at any BCCS locations.

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

Aligned to government’s priority of protecting B.C.’s environment, the LDB is committed to reducing the environmental footprint its business has in communities it serves, province-wide.

Key results

- Conducted a physical waste audit at the Delta and Richmond Distribution Centres, head office, and two retail locations to identify gaps and improve processes.
- Expanded its fleet to add three zero emission vehicles and retired aging, gasoline powered vehicles.
- Organized multiple in-person events to coincide with Earth Day and Waste Reduction Week to educate and engage employees in the LDB’s organizational practices, inclusive of the CleanBC Roadmap to 2030.

Summary of progress made in 2022/23

In fiscal 2022/23, the LDB more closely engaged with its external, contracted waste and recycling service providers to shift to more timely reporting of its waste diversion rates. This reporting was made easier to analyze and track by the LDB through the use of the Clean Government Reporting Tool, which aligns with the CleanBC plan. By the end of 2022/23, the LDB was receiving monthly waste diversion reports for all of its worksites not serviced by their landlord or local waste management provider with the aim of identifying and building data-driven improvement plans, specific to each line of business.

Since 2010, the LDB has been measuring its greenhouse gas emissions and purchasing BC-based carbon offsets in order to become carbon neutral on an annual basis. In 2022, the LDB purchased approximately \$94,000 in carbon offsets. This amount is 8.6 per cent higher than

2021 and is attributed in part to an increase in paper use as head office employees returned to office and an increase in building heating and cooling due to weather events and COVID-19-related air circulation safety strategies in the first half of 2022. The LDB reduced its mobile diesel emissions by 11 per cent.

Performance measure(s) and related discussion

Performance Measure	2019/20 Baseline	2021/22 Actual	2022/23 Target	2022/23 Actual
5.2a Waste diversion rate at LDB liquor distribution centres (DDC, KDC) and BCL ^{1,4}	80%	90%	93%	88%
5.2b Waste diversion rate at LDB cannabis distribution centre and BCCS ^{2,4}	67%	94%	88%	84%
5.2c Waste diversion rate of LDB Head Office and Burnaby dry goods distribution centre ^{3,4}	79%	87%	81%	89%

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 contracted waste and recycling providers. Excluded are BCL and BCCS which have waste services overseen and provided by a property manager.

¹PM 5.2a targets for 2023/24 and 2024/25 were stated in the 2022/23 service plan as 93% and 94%, respectively.

²PM 5.2b targets for 2023/24 and 2024/25 were stated in the 2022/23 service plan as 89% and 91%, respectively.

³PM 5.2c targets for 2023/24 and 2024/25 were stated in the 2022/23 service plan as 82% and 87%, respectively.

⁴ These performance measure were replaced in the latest service plan. For more details on forward-looking planning, information, including performance measures for 2023/24 – 2025/26, please see the latest service plan on the [BC Budget website](#).

In 2022/23, the LDB continued its waste collection and processing of recyclables at worksites supported by contracted, external waste and recycling service providers. Materials collected and diverted from landfill include cardboard, wood, mixed containers, organics, paper (includes mixed paper), electronics, Styrofoam, metal, and clear soft plastics (shrink wrap).

The waste diversion result at head office and Burnaby dry goods distribution centre of 89 per cent, surpassing the prior year and 2022/23 target, can be attributed to the success of in-person and virtual employee education and an overall, greater focus placed on waste reduction awareness throughout the year.

The decline in overall waste diversion from liquor and cannabis operations compared to prior year is the result of a slower than projected recycling program deployment for BCL and BCCS and additional non-recyclable waste, such as plastic-coated materials, soiled cardboard, and cleaning supplies. It is expected that these figures will improve in fiscal year 2023/24 as the LDB continues to implement additional recycling streams and employee education across all LDB worksites.

Financial Report

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

Discussion of Results

In fiscal 2022/23, the LDB's net income and contribution to the Government of B.C. amounted to \$1,198 million. This represented an increase of \$9.0 million or 0.8 per cent compared to the previous year. Notably, this was the fifth consecutive year LDB increased its contribution to government.

As the economy recovered from the impact of COVID-19 and pandemic restrictions were gradually lifted, the province experienced a resurgence of large gatherings, such as concerts and sporting events. Additionally, consumers shifted back to dining out, leading to increased sales in the hospitality sector but a decrease in sales at private liquor stores and BCL.

During fiscal 2022/23, some liquor product categories experienced higher-than-historical increases in average price per litre, which offset the decline in sales volumes.

The liquor supply chain was recovering from COVID-19 related disruptions when the LDB's distribution centres experienced a two-week job action in August 2022. While the LDB worked diligently to recover from the related impacts, this event resulted in operational challenges for the LDB, with warehouses rescheduling cancelled supplier deliveries and shipping delayed orders well into the fall of 2022.

Regarding cannabis operations, the LDB continued expanding the BCCS chain, opening four new stores during the fiscal year, primarily in the Lower Mainland. By the end of fiscal 2022/23, the BCCS chain exceeded \$250 million in sales since the start of legalization in October 2018. In August 2022, the LDB implemented a cannabis direct delivery program to facilitate the participation of Indigenous and small-scale producers in the legal cannabis market. The net income of LDB Cannabis Operations, before head office expense allocations, amounted to \$31.8 million and is included in the total LDB net income of \$1,198 million.

Capital

Global supply chain and labour challenges had an impact on the LDB's capital expenditures. For fiscal 2022/23, the total capital expenditures were \$16.1 million, which was \$23.8 million lower than planned and \$6.2 million lower than the previous year. Looking ahead, the LDB will reduce capitalized expenditures for systems as it shifts its focus towards cloud and software-as-a-service (SaaS) solutions.

The spending of \$6.9 million included laptops and tools for connectivity, furniture, fixtures, and mobile equipment. Investments in retail stores continued with \$9.2 million spent on tenant improvements and the establishment of new BCCS. However, the number of BCCS store openings was lower than anticipated, resulting in reduced capital expenditures.

Financial Summary

(\$m)	2021/22 Actual	2022/23 Budget	2022/23 Actual	2022/23 Variance
Revenues¹				
Revenue	3,751.6	4,560.9	3,873.6	n/a
Cost of Sales	2,071.2	2,825.5	2,163.4	n/a
Gross Margin	1,680.4	1,735.4	1,710.2	(25.2)
Expenses				
Operating Expenses – Employment	292.8	323.2	316.5	(6.7)
Operating Expenses – Amortization	82.5	78.2	73.9	(4.3)
Operating Expenses – Administration	56.4	104.6	60.3	(44.3)
Operating Expenses – Bank Charges	40.5	41.6	41.4	(0.2)
Operating Expenses – Facilities ²	28.4	29.4	30.8	1.4
Operating Expenses - Lease Financing	7.2	7.3	6.9	(0.4)
Total Expenses	507.8	584.3	529.8	(54.5)
Other Income	16.7	15.2	17.9	2.7
Net Income	1,189.3	1,166.3	1,198.3	32.0
Gross Profit ¹ (%)	44.8%	38.0%	44.2%	n/a
Total Expenses to Revenue ¹ (%)	13.5%	12.8%	13.7%	n/a
Net Income to Revenue ¹ (%)	31.7%	25.6%	30.9%	n/a
Capital	22.3	39.9	16.1	(23.8)
Debt³	229.9	212.8	242.4	29.6
Retained Earnings	-	-	-	-

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

Note 1: During the year, certain revenue transactions relating to revenue and cost of sales which had been previously recorded on a gross basis were corrected and reported on a net basis. Accordingly, the prior year sales and cost of sales have been restated. The budget has not been restated and is not comparable to actual results.

Note 2: Facilities costs consist of month-to-month leases, common area maintenance, property taxes, utilities, repairs and maintenance.

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

Variance and Trend Analysis

British Columbia beverage alcohol and cannabis marketplace

The LDB operates in a mixed private/public retail model where consumers can purchase products from many different places. As of March 31, 2023, there were 1,974 locations where beverage alcohol could be purchased and 511 locations selling non-medical cannabis.

Beverage alcohol sales in the province saw a volume decrease of 2.1 per cent compared to the previous year. In terms of sales volumes, the beer category still holds the highest position, followed by refreshment beverages, wine, and spirits. Among these categories, spirits saw a volume increase of 1.7 per cent, while all others declined in comparison to the prior year. Notably, the refreshment beverage category saw its first year of decline in fiscal 2022/23. These shifts can be attributed to various factors, including product availability (supply chain disruptions), changes in consumer preferences (with a growing interest in spirits), weather patterns (as hotter or colder weather affects beer and refreshment sales), and easing of COVID-19 restrictions (leading to an increased dining out), and consumer confidence (influencing the demand for value-priced products). Sales through BCL stores and LDB wholesale operations account for 55 per cent of litres sold in the province.

Provincial cannabis sales reached 106,477-kilogram equivalent, reflecting a significant increase of 26.3 per cent compared to the previous year. This growth indicates the continued expansion of the cannabis industry. Sales through BCCS stores, LDB ecommerce and wholesale operations account for 99 per cent of cannabis gram equivalent sold in the province.

As sales shift between product categories with different mark-up rates and between LDB wholesale and retail channels, it impacts the LDB's gross margin and its contribution to government.

Table 1: Provincial Sales by Major Category in Litres (000s)/Gram Equivalent (000s)

For the five fiscal years ended March 31, 2023

	2018/19	2019/20	2020/21	2021/22	2022/23	Change vs. Previous Year (2022/23 vs. 2021/22)	
						Change	%
Liquor							
Spirits	27,374	28,411	29,835	30,427	30,955	528	1.7
Wine	76,005	78,525	79,758	77,345	73,194	(4,151)	(5.4)
Refreshment	56,343	65,860	85,170	88,764	85,116	(3,648)	(4.1)
Beer	293,267	284,224	270,542	269,811	267,083	(2,728)	(1.0)
Other	244	276	368	495	482	(13)	(2.6)
Total Liquor (litres)	453,233	457,296	465,673	466,842	456,830	(10,012)	(2.1)
Cannabis							
Flower	1,741	12,692	33,706	44,821	46,044	1,223	2.7
Pre-roll	154	2,353	8,066	15,459	19,772	4,313	27.9
Extracts & Concentrates ¹	187	2,066	5,405	11,623	26,994	15,371	132.2
Other ¹	1	495	6,794	12,409	13,667	1258	10.1
Total Cannabis (gram equivalent)	2,083	17,606	53,971	84,312	106,477	22,165	26.3

Data Source: LDB Oracle Financial System.

Note 1: Gram equivalents have been restated to correct for conversion rates on liquid cannabis products.

LDB Revenue¹

In fiscal year 2022/23, LDB revenue amounted to \$3,873.6 million, and compared to the previous year, overall sales increased by \$1220 million (3.3 per cent), driven by strong growth in both beverage alcohol and cannabis. The spirits, wine and beer categories continue to be the primary revenue drivers for the LDB.

¹During the year, certain revenue transactions relating to revenue and cost of sales which had been previously recorded on a gross basis were corrected and reported on a net basis. Accordingly, the certain prior year sales and cost of sales have been restated.

Beverage alcohol

LDB beverage alcohol revenue reached \$3,388.1 million in fiscal 2022/23, showing an increase of \$58.0 million (1.7 per cent) compared to prior year. The increase was due to higher prices driven by inflation.

LDB sales channels include sales through BCL stores, LDB wholesale operations, and direct delivery from BC manufacturers and third-party warehouses. Retail sales through BCL stores remain the largest sales channel and represent 46.4 per cent of total LDB sales. This was a decrease of 2.5 per cent from the prior year due to the lifting of COVID-19 restrictions and changes in customer behaviour.

During 2022/23, the customer count at BCL decreased by 4.3 per cent, from 36.4 million customers in the prior year to 34.9 million. This decline can be attributed to customers dining out more frequently and increased competition. The average retail customer transaction value at BCL also decreased 1.0 per cent, from \$38.60 to \$38.20. This lower average transaction value, combined with a decrease in customer count, indicates that BCL customers are spending slightly less per visit and are visiting less frequently on average. See appendix B for information on BCL operating results before head office expenses.

Hospitality licensees were able to operate at full capacity throughout the fiscal year resulting in significantly higher sales. Hospitality licensee purchases accounted for 11.8 per cent of total LDB revenue in fiscal year 2022/23 compared to 8.7 percent in the previous year.

The increase in hospitality sales also reduced sales to private liquor (licenses retail) stores. Licensee retail store purchases accounted for 37.8 per cent of LDB revenue, a 0.9 per cent decrease from the prior year.

Cannabis

LDB cannabis revenue reached \$485.6 million in fiscal year 2022/23, representing an increase of \$64.0 million (15.2 per cent) compared to the prior year. This growth was attributed to the opening of new retail stores and an expanded product selection. Dried flowers, pre-rolls, and extracts and concentrates accounted for 91.3 per cent of all cannabis sales. Notably, the extracts and concentrate category experienced the highest increase of \$54.7 million (52.8 per cent), while the flower category saw a decrease of \$11.8 million (6.2 per cent) compared to the prior year, possibly indicating shifting consumer preferences.

In fiscal year 2022/23, there were 2.1 million transactions through BCCS and e-commerce sales, marking a 24.9 per cent increase compared to the 1.7 million transactions in the prior year. The average retail transaction value in fiscal year 2022/23 was \$53.16, a decrease of 6.9 per cent compared the average transaction value of \$57.11 in the prior year. This decrease can be attributed to increased competition and reflects the industry-wide declining price per gram. The LDB remains focused on being competitive with the illicit market and encouraging purchases from the legal market.

Operating Expenses

The LDB maintains diligent expense management by monitoring its discretionary and staffing expenses across all operational areas.

Total operating expenses, including finance costs, amounted to \$529.8 million in fiscal year 2022/23. This figure was \$54.5 million lower than the budget but \$22.0 million higher than the expenses incurred in fiscal year 2021/22. The expense rate for 2022/23 stood at 13.7 per cent of revenue, slightly higher than the 13.5 percentage rate of the prior year.

The majority of the LDB's operating expenses consist of labour, amortization, bank charges, and other administrative costs. The \$22.0 million increase in expenses compared to fiscal year 2021/22 was primarily driven by higher employment costs. Employment expenses increased by \$23.7 million from the prior year, mainly due to wage rate increases as per the collective agreement. However, employment costs were \$6.7 million (2.1 per cent) below the planned amount due to fewer BCCS openings and unfilled vacancies.

Amortization expenses decreased by \$8.6 million from the prior year, resulting from assets that became fully amortized during the prior and current fiscal years.

Administrative costs were \$3.9 million higher than the prior year but \$44.3 million below the budget. The increase was largely driven by higher data processing costs, accounting for most of the difference compared to the previous year. The lower spending compared to the budget was mainly due to a decrease in professional fees by \$30.6 million, resulting from project delays caused by challenges in talent acquisition, as well as a reduction of \$5.4 million in pallet purchases.

Remittances to Government agencies

During fiscal year 2022/23, the LDB paid \$1,655 million to various government agencies.

Table 2: Remittances to Government Agencies (\$000s)

	2018/19	2019/20	2020/21	2021/22	2022/23
Federal Government					
Custom Duties and Excise Tax	169,851	177,374	200,462	196,627	199,814
GST	73,079	80,137	85,336	88,641	88,313
Total	242,930	257,511	285,798	285,268	288,127
Provincial Government					
LDB Net Income	1,104,035	1,107,170	1,160,916	1,189,309	1,198,299
Provincial Sales Tax	148,441	151,302	171,702	172,212	167,008
Liquor Control and Licensing	427	428	426	429	480
Total	1,252,903	1,258,900	1,333,044	1,361,950	1,365,787
Municipal Government					
Property Taxes	1,135	998	770	1,499	1,471
Business Licenses	43	60	69	108	97
Total	1,178	1,058	839	1,607	1,568
Total Remittances	1,497,011	1,517,469	1,619,681	1,648,825	1,655,482

Risks and Uncertainties

The LDB proactively monitors the evolving landscape of cannabis and liquor, aiming to address policy changes, market dynamics, and associated risks.

There is significant uncertainty surrounding economic forecasts. Key factors influencing the LDB include consumer behaviour, especially as concerns regarding inflation and potential economic slowdown persist. According to Statistics Canada, in March 2023, the Canadian Consumer Price Index increased by 4.3 per cent year over year, which marked the smallest increase since August 2021 (+4.1 percent). As consumers become more price-conscious, they are likely to prioritize products that offer value for money. Additionally, supply chain disruptions and labour shortages may impact the LDB's ability to ensure timely product delivery.

There are other risks beyond the LDB's control, such as climate change, global supply-chain challenges, and future pandemics. These risks, along with emerging ones such as shifts in

consumer consumption patterns to low- or non-alcoholic substitutes or lower consumption overall, undergo regular review, and steps are taken to mitigate their impact.

The LDB has established an Enterprise Risk Management (ERM) framework that adheres to internationally recognized standards and aligns with Provincial ERM requirements. Risk mitigations are reviewed on a quarterly basis and action is taken where needed. The LDB is committed to integrating risk management practices into its organizational processes, continually expanding its risk management capabilities.

Appendix A: Progress on Mandate Letter Priorities

The following is a summary of progress made on priorities as stated in the 2021/22 Mandate Letter from the Minister Responsible.

2021/22 Mandate Letter Priority	Status as of March 31, 2023
<p>Continue to work with government and Business Technical Advisory Panel (BTAP) members to evaluate and implement permanent and temporary policy and regulatory changes to support sectors impacted by the COVID-19 pandemic.</p>	<ul style="list-style-type: none"> In response to the COVID-19 pandemic and in consultation with BTAP, government introduced a number of both temporary and permanent policy reforms to support the liquor manufacturing and hospitality industries.
<p>Continue to identify and deliver greater benefits to consumers and industry by implementing the approved recommendations from the BTAP report received by government on April 30, 2018, and by finding efficiencies at LDB liquor distribution centres.</p>	<ul style="list-style-type: none"> As of March 2023, over half of the BTAP recommendations have been implemented; the LDB continues to work with government and industry to review priorities.

2021/22 Mandate Letter Priority	Status as of March 31, 2023
<p>Continue to establish LDB Cannabis Operations' wholesale and retail lines of business and support government's key priorities of protecting public health and safety, promoting social responsibility and eliminating the illicit market.</p>	<ul style="list-style-type: none"> • Developed and launched direct delivery program to enable eligible small-scale and Indigenous licensed cannabis producers to directly deliver their products to licensed cannabis retail stores in B.C. See Goal 2, Objective 2.1 for more information. • Opened four BC Cannabis Stores. See Goal 4, Objective 4.1 for more information. • Continued to onboard new private licensed cannabis retail stores that opened in the province to the BC Cannabis Wholesale platform. There are approximately 500 private licensed cannabis stores on the platform. • Maintained a monthly calendar of social responsibility campaigns focused on educating customers about the importance of responsible consumption. Campaigns featured strategic messaging about keeping cannabis away from youth, the risks of drug impaired driving, safe consumption practices and fire safety. Social responsibility campaign materials are displayed in prominent, high-traffic areas in all BCCS and are promoted via BCCS' digital channels (website and social media). See Goal 5, Objective 5.1 for more information. • Developed and executed a social responsibility campaign aimed at educating customers on the risks of drug impaired driving. The campaign was launched in 2022 in partnership with the Policing and Security Branch. See Goal 5, Objective 5.1 for more information.

2021/22 Mandate Letter Priority	Status as of March 31, 2023
<p>In collaboration with stakeholders, continue to reinforce BC Liquor Stores' focus on corporate social responsibility by promoting awareness of the risks associated with alcohol misuse.</p>	<ul style="list-style-type: none"> • Maintained a monthly calendar of social responsibility campaigns focused on educating customers about the importance of moderation and responsible consumption practices. Campaigns featured strategic messaging about the risks associated with underage drinking, drinking and driving, binge-drinking, Fetal Alcohol Spectrum Disorder, and alcohol consumption and summer/winter activities. See Goal 5, Objective 5.1 for more information. • Social responsibility campaign materials are displayed in prominent, high-traffic areas in all BCL stores and are promoted via BCL's digital channels (website and social media). See Goal 5, Objective 5.1 for more information.
<p>Optimize the LDB's financial performance and sustain net returns to the Province of British Columbia in accordance with government policy, Treasury Board directives and the appropriate legislation and regulation.</p>	<ul style="list-style-type: none"> • The LDB exceeded its 2022/23 revenue target by \$32.0 million, contributing \$1,198.3 million of net income to help fund vital public services. See Goal 1, Objective 1.1 for more information. • The LDB lines of business continued to achieve set objectives to support sales growth and increase efficiencies. Key highlights and discussion of results are included in the "Report on Performance" sections of this annual report.

Appendix B: Subsidiaries and Operating Segments

Table 1 provides an overview of BCL’s operating results, considering it as a customer of LDB Wholesale Operations, similar to other private store operators. To avoid double counting, all internal transactions between BCL and LDB Wholesale Operations have been excluded from LDB’s financial results. In the fiscal year 2022/23, BCL’s net income decreased by \$14.4 million compared to the prior year. The net income rate declined by 50 basis points, reaching 10.6 per cent of sales.

Table 1: BCL financial results

(Unaudited - in \$millions)

	2021/22	% sales	2022/23	% sales
Sales	1,640.0	100.0	1,582.7	100.0
Gross Margin	379.8	23.2	373.6	23.6
Expenses	200.6	12.3	208.7	13.2
Other Income	2.5	0.2	2.4	0.2
Net Income	181.7	11.1	167.3	10.6

BCL sales include all customer transactions, including counter customers and private stores that occur in the stores. However, sales and the associated gross margin from licensed establishments (hospitality customers) are excluded from the BCL results since those sales are attributed to LDB Wholesale Operations. Consequently, the costs related to these hospitality sales are also removed from the BCL results.

The gross margin reflects the retail markup applied to the wholesale price of product transferred from LDB Wholesale Operations to BCL.

It is important to note that the financial results presented do not include any allocation of head office expenses.

Appendix C: Auditor's Report and Audited Financial Statements

Financial Statements of

**BC LIQUOR
DISTRIBUTION BRANCH**

And Independent Auditor's Report thereon

For the year ended March 31, 2023

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



Claire Xu, CPA, CGA
Acting Chief Financial Officer

Burnaby, British Columbia
June 1, 2023



Independent Auditor's Report

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

Opinion

I have audited the accompanying financial statements of British Columbia Liquor Distribution Branch, which comprise the statement of financial position at March 31, 2023, 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 the British Columbia Liquor Distribution Branch as at March 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 the 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 Matter – Comparative Information

As part of my audit of the financial statements for the year ended March 31, 2023, I also audited the adjustment that were applied to restate certain comparative information presented for the year ended March 31, 2022. In my opinion, such adjustments are appropriate and have been properly applied.

Other Accompanying Information

Management is responsible for the other information accompanying the financial statements. 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 me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information 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 Annual Service Plan Report, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance.

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

Those charged with governance are responsible for the oversight of the financial reporting process. Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, 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:

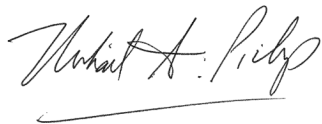
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 the 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.



Michael A. Pickup, FCPA, FCA
Auditor General

Victoria, British Columbia, Canada
June 2, 2023

BC LIQUOR DISTRIBUTION BRANCH

Statement of Comprehensive Income
(in thousands of dollars)

For the year ended March 31, 2023, with comparative information for 2022

	Note	2023	2022 (Restated – Note 23)
Revenue	4	\$ 3,873,632	\$ 3,751,564
Cost of sales		(2,163,411)	(2,071,179)
Gross profit		1,710,221	1,680,385
Expenses:			
Administration	5, 11, 15	(513,784)	(491,816)
Marketing	5	(7,930)	(7,489)
Transportation	5	(1,159)	(1,266)
		(522,873)	(500,571)
Profit		1,187,348	1,179,814
Other income		17,871	16,665
Finance costs	11	(6,920)	(7,170)
Total comprehensive income		\$ 1,198,299	\$ 1,189,309

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, 2023, with comparative information for 2022

	Note	2023	2022
Balance, beginning of year		\$ 42,107	\$ 93,979
Total comprehensive income		1,198,299	1,189,309
Net payments to the Province of British Columbia	13	(1,169,308)	(1,241,181)
Balance, end of year		\$ 71,098	\$ 42,107

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, 2023, with comparative information for 2022

	Note	2023	2022
Assets			
Current:			
Cash		\$ 9,978	\$ 11,426
Accounts receivable	6	20,226	15,341
Prepaid expenses and deposits	7	11,090	10,412
Inventories	8	233,078	206,633
		274,372	243,812
Non-current:			
Prepaid expenses and deposits	7	1,247	866
Intangible assets	9	3,514	13,950
Property and equipment	10	86,572	94,593
Right-of-use assets	11	219,414	205,677
		310,747	315,086
Total assets		\$ 585,119	\$ 558,898


Liabilities

Current:			
Accounts payable and accrued liabilities	12, 15	\$ 223,840	\$ 241,712
Current portion of lease liabilities	11	43,680	44,154
Due to the Province of British Columbia	13	71,098	42,107
		338,618	327,973
Non-current:			
Non-current portion of lease liabilities	11	198,718	185,771
Other long-term liabilities	14, 15	47,783	45,154
		246,501	230,925
Total liabilities		\$ 585,119	\$ 558,898


Commitments and contingencies 16,17

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

Approved for issue on June 1, 2023 by:



R. Blain Lawson
General Manager and Chief Executive Officer



Claire Xu, CPA, CGA.
Acting Chief Financial Officer

BC LIQUOR DISTRIBUTION BRANCH

Statement of Cash Flows
(in thousands of dollars)

For the year ended March 31, 2023, with comparative information for 2022

	Notes	2023	2022
Cash provided by (used in):			
Operating:			
Total comprehensive income		\$ 1,198,299	\$ 1,189,309
Items not involving cash:			
Depreciation and amortization	9, 10, 11	73,871	82,536
Loss on disposal of property and equipment		3,378	1,281
Finance costs	11	6,920	7,170
Accrued employee benefits		2,629	7,532
Changes in non-cash operating items:			
Non-current assets		(381)	532
Working capital	6, 7, 8, 12	(49,881)	24,321
		1,234,835	1,312,681
Investing:			
Acquisition of intangible assets	9	(1,433)	(2,265)
Acquisition of property and equipment	10	(14,717)	(21,014)
Proceeds from disposal of property and equipment		64	56
		(16,086)	(23,223)
Financing:			
Payment of lease liabilities	11	(52,092)	(50,150)
Lease incentives		1,203	1,018
Net payments to the Province of British Columbia	13	(1,169,308)	(1,241,181)
		(1,220,197)	(1,290,313)
Decrease in cash		(1,448)	(855)
Cash, beginning of year		11,426	12,281
Cash, end of year		\$ 9,978	\$ 11,426
Supplementary information:			
Non-cash operating and finance activities:			
Addition of store lease liabilities	11	\$ 56,442	\$ 39,737

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, 2023

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 Public Safety and Solicitor General effective April 1, 2023 (previously reporting 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 also appointed the administrator under the Cannabis Distribution Act for the wholesale distribution, the operation of retail stores, and the on-line sales system of cannabis products.

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 statement of financial position 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 June 1, 2023.

(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 judgments, 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, 2023

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 and right-of-use assets - 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 and right-of-use assets - 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, 2023

3. Significant accounting policies

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

(a) Foreign currency translation

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

(b) Financial instruments

(i) Recognition and initial measurement

Trade receivables 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, 2023

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, 2023

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, 2023

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, 2023

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, 2023

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, 2023

3. Significant accounting policies (continued)

(f) Leases and right-of-use assets

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 where a contractual obligation exists, 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, 2023

3. Significant accounting policies (continued)

(f) Leases and right-of-use assets (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	2023	2022
Buildings	3 - 4% per annum	1 - 4% per annum
Office equipment	1% 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, 2023

3. Significant accounting policies (continued)

(f) Leases and right-of-use assets (continued)

Short-term leases and leases of low-value assets

The LDB has applied the practical expedient 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, 2023

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, 2023

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. For direct delivery programs whereby LDB accounts for the transactions as an agent, the revenue represents only the net margin charged on direct delivery sales. 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, 2023

3. Significant accounting policies (continued)

(m) Changes in accounting standards

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

These standards had no material impact to the LDB.

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

Proceeds before intended use - The amendments prohibit an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the entity 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 the annual reporting period beginning April 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 the annual reporting period beginning April 1, 2022.

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

The following are new standards that are effective for the annual period beginning after April 1, 2023 and have not been early adopted.

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

The amendment issued in 2020 affects only the presentation of liabilities in the statement of financial position as current or non-current. There are no changes to the amount or timing of recognition of any asset, liability income or expense, or the information that the entities disclose about those items. The amendment was to be effective for annual reporting periods beginning on or after January 1, 2023; however, the IASB has proposed further amendments to IAS 1 and the deferral of the effective date of the 2020 amendments to no earlier than January 1, 2024. Due to these ongoing developments, the LDB is unable to determine the impact on the financial statements in the period of initial application.

BC LIQUOR DISTRIBUTION BRANCH

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

For the year ended March 31, 2023

3. Significant accounting policies (continued)

(m) Changes in accounting standards (continued)

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

- *IAS 8 Accounting Policies, Changes to Accounting Estimates and Errors amendments*

These amendments introduce a new definition of ‘accounting estimates’. The amendments are designed to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. In the amendment, accounting estimates are defined as “monetary amounts in financial statements that are subject to measurement uncertainty”. This amendment is effective for the annual reporting period beginning April 1, 2023. These amendments are not expected to have a significant impact on the LDB’s financial statements.

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.

	2023	2022
		(Restated – Note 23)
Retail customers	\$ 1,670,875	\$ 1,713,823
Licensee retail stores and independent wine stores	1,667,075	1,623,392
Hospitality customers	399,372	288,380
Agency stores	104,782	103,837
Other customers	31,528	22,132
Total sales	\$ 3,873,632	\$ 3,751,564

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

5. Operating expenses

The LDB's operating expenses are comprised of:

	2023	2022
Administration costs	\$ 513,784	\$ 491,816
Marketing	7,930	7,489
Transportation	1,159	1,266
	<hr/>	<hr/>
	\$ 522,873	\$ 500,571
Salaries, wages and benefits	\$ 316,536	\$ 292,815
Depreciation and amortization	73,871	82,536
Bank charges	41,391	40,464
Other administrative expenses	24,884	27,061
Rents and property taxes	17,708	15,832
Data processing	13,162	8,431
Professional services	13,025	11,968
Repairs and maintenance	9,155	8,740
Marketing	7,930	7,489
Loss prevention	4,052	3,969
Transportation	1,159	1,266
Total operating expenses	<hr/>	<hr/>
	\$ 522,873	\$ 500,571

6. Accounts receivable

	2023	2022
Trade accounts receivable and other items	\$ 21,586	\$ 16,895
Provision for doubtful accounts	(1,360)	(1,554)
Accounts receivable	<hr/>	<hr/>
	\$ 20,226	\$ 15,341

Receivables past due but not impaired are \$3.7 million (2022 - \$2.7 million). During the year the LDB expensed \$0.2 million (2022 - \$0.7 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, 2023

7. Prepaid expenses and deposits

Prepaid expenses and deposits include insurance, software maintenance, and cash paid pertaining to wine to be received in subsequent periods. The LDB purchases select wine 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, 2023, the LDB has recorded \$9.4 million (2022 - \$8.4 million) of prepaid wine futures for delivery in fiscal years 2024 to 2025.

	2023	2022
Non-refundable wine futures	\$ 9,441	\$ 8,427
Other prepaid expenses	2,896	2,851
	12,337	11,278
Less: long term portion	(1,247)	(866)
Current portion	\$ 11,090	\$ 10,412

8. Inventories

	2023	2022
Store inventory	\$ 92,373	\$ 84,712
Warehouse inventory	140,705	121,921
Total inventory	\$ 233,078	\$ 206,633

During the year, inventories that were recognized as cost of sales amounted to \$2.8 billion (2022 - \$2.7 billion).

BC LIQUOR DISTRIBUTION BRANCH

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

For the year ended March 31, 2023

9. Intangible assets

	Intangible assets	Construction in process	Total
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
March 31, 2023			
Opening net book value	\$ 11,431	\$ 2,519	\$ 13,950
Additions	1	1,432	1,433
Assets reclassified	49	(49)	-
Completion of construction-in-progress (CIP)	3,902	(3,902)	-
Assets written-off	(3,417)	-	(3,417)
Amortization charge	(8,452)	-	(8,452)
	\$ 3,514	\$ -	\$ 3,514
Cost	\$ 94,712	\$ -	\$ 94,712
Accumulated amortization	(91,198)	-	(91,198)
Net book value	\$ 3,514	\$ -	\$ 3,514

BC LIQUOR DISTRIBUTION BRANCH

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

For the year ended March 31, 2023

10. Property and equipment

	Land & land improvements	Buildings & building improvements	Leasehold improvements	Furniture fixtures & vehicles & equipment	Information systems	Construction in process	Total
March 31, 2022							
Opening net book value	\$ 632	\$ 745	\$ 63,503	\$ 16,977	\$ 11,302	\$ 5,395	\$ 98,554
Additions	-	75	183	1,924	3,047	14,767	19,996
CIP capitalization	-	332	14,143	2,844	907	(18,380)	(154)
Disposals (cost)	-	-	(898)	(1,003)	(110)	-	(2,011)
Disposals (accumulated depreciation)	-	-	898	805	102	-	1,805
Depreciation charge	(2)	(80)	(10,716)	(7,205)	(5,594)	-	(23,597)
	\$ 630	\$ 1,072	\$ 67,113	\$ 14,342	\$ 9,654	\$ 1,782	\$ 94,593
Cost	\$ 647	\$ 6,609	\$ 162,067	\$ 67,297	\$ 47,971	\$ 1,782	\$ 286,373
Accumulated depreciation	(17)	(5,537)	(94,954)	(52,955)	(38,317)	-	(191,780)
Net book value	\$ 630	\$ 1,072	\$ 67,113	\$ 14,342	\$ 9,654	\$ 1,782	\$ 94,593
March 31, 2023							
Opening net book value	\$ 630	\$ 1,072	\$ 67,113	\$ 14,342	\$ 9,654	\$ 1,782	\$ 94,593
Additions	-	77	1,240	3,066	2,085	8,249	14,717
CIP capitalization	-	-	6,124	1,082	238	(7,444)	-
Disposals (cost)	-	-	-	(1,204)	(246)	-	(1,450)
Disposals (accumulated depreciation)	-	-	-	1,183	243	-	1,426
Depreciation charge	(2)	(91)	(11,329)	(6,340)	(4,952)	-	(22,714)
	\$ 628	\$ 1,058	\$ 63,148	\$ 12,129	\$ 7,022	\$ 2,587	\$ 86,572
Cost	\$ 647	\$ 6,686	\$ 169,431	\$ 70,241	\$ 50,049	\$ 2,586	\$ 299,640
Accumulated depreciation	(19)	(5,628)	(106,283)	(58,112)	(43,026)	-	(213,068)
Net book value	\$ 628	\$ 1,058	\$ 63,148	\$ 12,129	\$ 7,023	\$ 2,586	\$ 86,572

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

11. Leases and right-of-use assets

The LDB has various real estate (property) 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.

The LDB also leases office equipment with terms of five years.

(a) Right-of-use assets

	Property	Equipment	Total
March 31, 2022			
Opening net book value	\$ 208,729	\$ 422	\$ 209,151
Additions	39,719	18	39,737
Disposals (cost)	(2,151)	-	(2,151)
Disposals (accumulated depreciation)	1,132	-	1,132
Depreciation charge	(41,924)	(268)	(42,192)
	\$ 205,505	\$ 172	\$ 205,677
Cost	\$ 337,184	\$ 946	\$ 338,130
Accumulated depreciation	(131,679)	(774)	(132,453)
Net book value	\$ 205,505	\$ 172	\$ 205,677
March 31, 2023			
Opening net book value	\$ 205,505	\$ 172	\$ 205,677
Additions	55,078	1,364	56,442
Depreciation charge	(42,442)	(263)	(42,705)
	\$ 218,141	\$ 1,273	\$ 219,414
Cost	\$ 392,262	\$ 2,310	\$ 394,572
Accumulated amortization	(174,121)	(1,037)	(175,158)
Net book value	\$ 218,141	\$ 1,273	\$ 219,414

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

11. Leases and right-of-use assets (continued)

(b) Right-of-use asset provision

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

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

	2023	2022
Balance, April 1	\$ 2,399	\$ 4,134
Lease payments	(1,838)	(1,838)
Finance costs	49	103
Balance, March 31	\$ 610	\$ 2,399

(c) Amounts recognized in statement of comprehensive income

	2023	2022
Depreciation on right-of-use assets	\$ 42,705	\$ 42,192
Interest expense on lease liabilities	6,920	7,170
Rent expense related to short-term leases	84	26

(d) Amounts recognized in statement of cash flows

	2023	2022
Total cash outflow for leases	\$ 52,092	\$ 50,150

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

11. Leases and right-of-use assets (continued)

(e) Lease liabilities

Undiscounted cash flow of future lease payments

	2023	2022
Less than one year	\$ 52,017	\$ 50,521
Between one to five years	154,669	135,789
More than five years	77,768	71,036
	<u>\$ 284,454</u>	<u>\$ 257,346</u>

Lease liabilities included in the statement of financial position

	2023	2022
Current	\$ 43,680	\$ 44,154
Non-current	198,718	185,771
	<u>\$ 242,398</u>	<u>\$ 229,925</u>

The weighted-average incremental borrowing rate applied for leases that are 10 years or more is 3.9% (2022 - 2.6%). Leases that are less than 10 years use a discount rate of 3.0% (2022 - 1.0%).

12. Accounts payable and accrued liabilities

	2023	2022
Trade payables	\$ 139,417	\$ 157,623
Accrued liabilities	77,691	77,645
Other payables	6,732	6,444
	<u>\$ 223,840</u>	<u>\$ 241,712</u>

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

13. 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 \$3.21 billion (2022 - \$3.02 billion) and the total payments to the Province were \$4.38 billion (2022 - \$4.26 billion) for a net repayment to the Province of \$1.17 billion (2022 - \$1.24 billion).

14. Other long-term liabilities

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

	2023	2022
Retirement benefit obligation (note 15(b))	\$ 21,453	\$ 21,127
WorkSafe BC claims accruals (note 15(c))	24,500	20,700
Other	1,830	3,327
	<u>\$ 47,783</u>	<u>\$ 45,154</u>

15. 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, 2022, the plan has about 68,000 active members and approximately 54,000 retired members.

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

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

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

(a) Public Service Pension Plan (continued)

The latest actuarial valuation as at March 31, 2020, indicated a funding surplus of \$2.667 million for basic pension benefits on a going concern basis.

LDB paid \$19.3 million (2022 - \$18.8 million) for employer contributions to the plan in fiscal 2023 which was recorded in administration expenses and represents 2.3 per cent of the total plan contributions. 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 to 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 \$21.5 million (2022 - \$21.1 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 \$0.3 million (2021 - \$2.7 million).

(c) WorkSafe BC outstanding claims

The LDB self-funds worker's compensation claims. The LDB recognizes a liability and an expense for claims that are in progress at the year-end. This liability of \$24.5 million (2022 - \$20.7 million) is valued by independent actuaries.

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

16. Contractual commitments

(a) BC Liquor store and BC Cannabis store license fees

The LDB pays the Liquor Control and Licensing Branch an annual license fee for each LDB retail store. The BC Liquor store fee is based on annual store sales. The BC Cannabis fee is annual fixed fee. The LDB paid \$0.5 million (2022 - \$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 \$1.1 million (2022 - \$1.0 million) for processing services. The agreement expires in July 2025.

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 \$1.0 million (2022 - \$0.7 million) based upon the value of the agents' inventories at March 31, 2023.

(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.

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(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

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, 2023 there were 9 (2022 - 9) members on the executive committee.

	2023	2022
Salaries and short-term benefits	\$ 1,609	\$ 1,519
Post-employment benefits	101	123
	<u>\$ 1,710</u>	<u>\$ 1,642</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.

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(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

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. Facilities

The LDB has access to a line of credit facility of \$25,000,000 that is shared with other Provincial ministries and agencies. The balance drawn down as at March 31, 2023 was \$nil (2022 - \$nil)

22. 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, 2023, the cash balances are held with a major Canadian bank and therefore not exposed to significant credit risk.

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(Tabular amounts in thousands of dollars)

For the year ended March 31, 2023

22. 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.

23. Restatement

During the year, the LDB determined that certain revenue transactions relating to revenue and cost of sales which had been previously recorded on a gross basis (as a principal) should be recognized and reported on a net basis (as an agent). Accordingly, the prior year comparative figures have been restated for these items resulting in the following prior year adjustments. These adjustments do not impact total comprehensive income.

	As previously presented	Adjustments	As restated
Statement of comprehensive income			
Revenue	\$ 4,355,056	\$ (603,492)	\$ 3,751,564
Cost of sales	(2,674,671)	603,492	(2,071,179)
