



**LIQUOR
DISTRIBUTION
BRANCH**

**AGREEMENT RELATING TO THE DIRECT SALE AND DELIVERY OF BRITISH COLUMBIA
MANUFACTURED PRODUCT – CRAFT DISTILLERY**

This agreement is effective the day the Manufacturer is licensed by the Liquor and Cannabis Regulation Branch to manufacture Products covered by this Agreement.

BETWEEN: HIS MAJESTY THE KING IN RIGHT OF THE PROVINCE OF
BRITISH COLUMBIA as represented by the General Manager of the
LIQUOR DISTRIBUTION BRANCH
3383 Gilmore Way
Burnaby, BC V5G 4S1
(the "LDB")

AND:

Name of Holder of Distillery Licence

Name of Distillery Establishment for which a Distillery Licence is issued

Address of Holder of Distillery Licence

Address of Distillery Establishment

(the "Manufacturer" or "you" or "your" as the context requires)

WHEREAS:

- A. The Manufacturer is licensed by the Liquor and Cannabis Regulation Branch to manufacture a specific type of liquor and is authorized by the LDB to directly sell and deliver that liquor to specific customers in the Province of British Columbia.
- B. You are classified as a Craft Distillery by the LDB.
- C. Your sale of liquor you manufacture and your accounting of such sales must be in accordance with the terms and conditions set out in this Agreement.
- D. This Agreement is authorized under Section 5 of the *Liquor Distribution Act*.

FOR GOOD AND VALUABLE CONSIDERATION, THE PARTIES AGREE AS FOLLOWS:

Definitions and Authorization

- 1. For the purposes of this Agreement any capitalized terms have the meaning set out in the Definitions found in Appendix B or as defined in the Applicable Laws unless indicated otherwise.

2. This Agreement authorizes you, as a holder of a Manufacturer Licence, to sell your Product to your Manufacturer On-site Store, Wholesale Customers and Hospitality Customers in British Columbia under the terms and conditions set out in this Agreement.
3. For greater certainty, this Agreement, while authorizing the sale of your Product to your Manufacturer On-site Store, is not applicable to any sales you make to your allowable retail customers through your Manufacturer On-site Store, including sales to Special Event Permittees.
4. As a Manufacturer, you acknowledge/warrant that:
 - a. You are licensed as a manufacturer under the Applicable Laws;
 - b. You meet and will continue to meet the criteria for a Craft Distillery as set out in Appendix C;
 - c. You are registered for sales taxes that apply to the Product that you sell. You will charge, collect and remit appropriate taxes directly to the relevant tax authorities including all federal or provincial taxes that may be collectable on any of your sales transactions. You accept liability for unpaid taxes and any related penalties or interest;
 - d. All Product will be of merchantable quality;
 - e. You will store your Product at your Licensed Establishment or Warehouse and will provide written notification of Warehouse locations as set out in the Reporting Requirements and Procedures;
 - f. All costs, risks and liabilities with respect to your Product, its sale and any sale proceeds (including losses or damages arising out of the manufacture, transport, storage, sale return/exchange, destruction or consumption of Product) are for your account; and
 - g. You are not authorized to sell any other type or kind of liquor other than Product of your Licensed Establishment, unless otherwise authorized by the LDB, Liquor and Cannabis Regulation Branch or under the Applicable Laws.

Sale and Delivery of Product

5. All Products you sell in the province must be registered with the LDB.
6. You may sell Product to Wholesale Customers and deliver such Product to them and any sale must be at the Wholesale Price. For greater certainty, you are not authorized to sell to Duty Free stores.
- 6.1 You may sell Product to your Manufacturer On-site Store on Consignment and deliver such Product to your Manufacturer On-site Store and any sale must be at the Wholesale Price.
- 6.2 You may sell Product to Hospitality Customers and deliver such Product to them and any sale must be at the Wholesale Price.
7. You must obtain from each Wholesale Customer and Hospitality Customer, full payment for all Product sold prior to transferring possession of such Product to the purchaser, unless otherwise authorized by the LDB.
8. You must obtain from your Manufacturer On-site Store, full payment that is due and owing for all Product sold on Consignment, unless otherwise authorized by the LDB.
9. You must pay the container deposit, container recycling fees and applicable taxes as described in the Reporting Requirements and Procedures.

10. All costs associated with the sale and delivery of Product to Wholesale Customers, your Manufacturer On-site Store and Hospitality Customers and the reporting of such sales, including all costs of compliance with any processing requirements, service fees or bank charges for the acceptance/use of debit or credit cards and all expenses or losses (including the acceptance of counterfeit monies) due directly or indirectly to the form of payment accepted, are for your account.

Records and Sales Report Requirements

11. You must create and retain the Records.
12. You must provide Sales Reports to the LDB.
13. You must retain the Records, Sales Reports and Excise Documents for a period of six years.
14. Should your Licensed Establishment's prior calendar year's Annual Production of Product or the combined Annual Production of all Licensed Establishments under common ownership or management exceed 50,000 litres but be less than 100,001 litres, then your Licensed Establishment will be deemed a "Transitional Craft Distillery" and in the immediately following LDB fiscal year, you must collect full mark-up on the sale of Product to Wholesale Customers, your Manufacturer On-site Store and Hospitality Customers and remit such amounts to the LDB, all in the manner specified in the transitioning rates as set out in Appendix D. The LDB, based on the transitional annual production category, will reimburse you a mark-up refund for amounts owed to you, being the difference between the mark-up reported and collected by you and the mark-up due to the LDB.

Inspection and Audit Requirements

15. You must conduct an annual inventory count on March 31 of all Product in your possession or control physically located in British Columbia no matter where situated in the province, as set out in the Reporting Requirements and Procedures. Such a count must be performed at your cost, and if specifically requested by the LDB, must be conducted by an independent third party qualified to perform such services at your cost.
16. You must submit or make the Records, Sales Reports and Excise Documents available to the LDB as we direct. Any of our authorized representatives may inspect, copy, or audit any Records, Sales Report and Excise Documents at any time.
17. In addition to the count referred to in Section 15, the LDB may at any time conduct an inspection or audit at your Licensed Establishment or Warehouse to verify inventory at the location where Product is stored or under your possession or control and to verify compliance with the Reporting Requirements and Procedures.
18. If any inspection or audit of your Licensed Establishment, Warehouse, Records, Sales Reports or Excise Documents discloses that you have acted in a manner contrary to the terms and conditions of this Agreement, you must pay us the expenses associated with the inspection or audit, and any payment assessed as due and owing as a result of your failure to comply, as determined by the LDB using reasonable audit standards.

Product Not Accounted For

19. If the LDB determines after a review of Product inventory, Records, Sales Reports and/or Excise Documents, that you are responsible for Lost Product, you will be charged mark-up for such Lost Product. The mark-up charged will be based on the Lost Product being treated as having been sold to you at the Wholesale Price, as applicable in the Audit Period. You will also be responsible for interest on the mark-up charged, calculated at the rate equal to three percentage points above Prime, compounded monthly for the duration of the Audit Period. In addition to the mark-up plus interest, you will be charged for the container deposits and container recycling fees associated with the Lost Product, plus any applicable taxes. The LDB will issue you an invoice for these amounts, after which interest may be charged on any outstanding accounts in accordance with Applicable Laws. Such amounts may be collected by the LDB by way of set off from any amounts the LDB owes you, howsoever arising or as otherwise agreed by the parties.

Insurance and Indemnity

20. You must purchase and maintain sufficient insurance, as a reasonably prudent business operator, to cover your liabilities under this Agreement and to ensure your ability to indemnify the LDB in accordance with the terms of this Agreement. You must provide the LDB with a copy of your Certificate of Insurance upon request.
21. You must indemnify and save the LDB (including its employees, agents or contractors) harmless from all losses, damages, claims, actions, causes of actions, costs, and expenses (including legal expenses) that the LDB may suffer or be put to at any time which are in any way based upon or arise out of this Agreement including any of your acts or omissions or those of your employees, officers, directors, agents or contractors.

Non-Compliance and Termination

22. If you:
 - a. no longer are licensed by the Liquor and Cannabis Regulation Branch as a Licensed Establishment;
 - b. no longer meet the criteria set out in Appendix C and thus are not classified as a Craft Distillery;
 - c. do not provide the Sales Reports as required under this Agreement;
 - d. do not remit container deposits, container recycling fees or applicable taxes as required under this Agreement;
 - e. do not provide Records or Excise Documents, or allow an inspection or audit of your Licensed Establishment or Warehouse as required under this Agreement;
 - f. do not hold an annual inventory count as required under this Agreement; or
 - g. act in a manner contrary to any other provision of this Agreement and do not remedy such actions within 30 days of receiving notice from the LDB to rectify your actions.(each an "Event of Default") then the LDB may take one or more of the actions set out in Section 22.1.
- 22.1 On the happening of an Event of Default, or at any time thereafter, the LDB may, at its option, elect to do any one of more of the following:
 - a. by written notice to you, require that the Event of Default be remedied within a time period specified in the notice;
 - b. seek reimbursement for expenses (e.g. for NSF) the LDB incurs as a result of the Event of Default;

- c. charge interest on overdue accounts in accordance with Applicable Laws;
 - d. report your noncompliance with this Agreement to the Liquor and Cannabis Regulation Branch;
 - e. withhold your registration of any new Product;
 - f. require you to provide a letter of credit from your financial institution;
 - g. pursue any remedy or take any other action available to it at law or in equity;
 - h. suspend this Agreement thereby suspending your authorization to conduct sales in accordance with the terms of this Agreement;
 - i. terminate this Agreement thereby revoking your authorization to conduct sales in accordance with the terms of this Agreement; or
 - j. classify you as a Commercial Distillery subject to the terms and conditions of the LDB's agreement with Commercial Distilleries.
23. The LDB is not responsible for any losses you may suffer as a result of the LDB electing to take any one or more of the actions outlined in Section 22.1 including suspension and/or termination of this Agreement, made in good faith, based on the information available to the LDB at the time those actions were taken.

Information

24. You and the LDB will have access to and receive information about each other and others including information about sales to customers. The LDB is subject to provisions of the *Freedom of Information and Protection of Privacy Act*. You acknowledge that all or part of the information you are required to keep, may be information deemed to be under the control of the LDB and may be subject to the provisions of *Freedom of Information and Protection of Privacy Act* if a request is made to the LDB for such information.
25. You consent to the exchange of any information related to your storage, sale and delivery of Product with entities that may have need of this information for the operation of their own programs including but not limited to the Liquor and Cannabis Regulation Branch, and provincial Consumer Taxation Branch and will execute any further documents necessary to allow such exchange to occur.

General

26. This Agreement is governed by and is to be interpreted and construed in accordance with the laws applicable in British Columbia.
27. You must comply with the Reporting Requirements and Procedures as revised from time to time as applicable to your type of manufacturing facility.
28. You must comply with all Applicable Laws, and any other applicable laws, statutes, regulations, bylaws, orders, directives, policies and procedures of general application imposed by the LDB or its General Manager, or by any other governmental authority (federal, provincial or municipal) which affects the importation, transport, manufacture, storage, sale, delivery or consumption of liquor or in any way related to the performance of the services you provide.
29. This Agreement and its terms and conditions which authorize you to sell and deliver Product reflect current government policies applicable to your type of manufacturing facility. Government policies, however, may be changed without prior notice to you. Should such policies change, all or part of the terms and conditions in this Agreement may be revoked or unilaterally changed by the LDB to reflect the then current policies in place. You will be notified

of changes in the terms and conditions that affect your type of manufacturing facility in due course. You acknowledge that these changes may occur and agree to either adhere to any revised terms and conditions, or that this Agreement will be terminated, all without any claim against the LDB for losses such revisions or termination may cause you.

30. Any trust funds, debts or amounts owed by you to the LDB, howsoever arising, will survive the termination of this Agreement and any other sections of this Agreement which, by their terms or nature are intended to survive the termination of this Agreement will continue in force indefinitely, even after this Agreement ends.
31. You acknowledge that should you cease to meet the criteria set out in Appendix C for classification as a Craft Distillery at any time, this Agreement is terminated at that time, but provided you are still a Licensed Establishment manufacturing Liquor, you may be classified by the LDB as a Commercial Distillery from that time onwards. From the time your status changes and thereafter, the LDB's Commercial Distillery Agreement or any replacement agreement thereto will apply to your operations. From the date of your status change you are not permitted to make direct sales and/or delivery of your Product to Wholesale Customers or Hospitality Customers other than to your Manufacturer On-site Store. You agree to pay to the LDB any mark-up owing for sales to Wholesale Customers or Hospitality Customers and for sales made after the date of your status change. If your status changes, you agree to adhere to the terms and conditions for a Commercial Distillery Agreement or any replacement agreement, all without any claim against the LDB for any losses arising from the reclassification status.
32. If any term or condition of this Agreement cannot be enforced, the provision is to be considered separate and removable from this Agreement.
33. You must not assign any of your rights under this Agreement without the LDB's prior written consent, but the LDB may assign all or any part of this Agreement without your consent.
34. A waiver of any term or breach of this Agreement is effective only if it is in writing and signed by or on behalf of, the waiving party and is not a waiver of any other term or breach.
35. This Agreement and its Appendices (Appendix A Reporting Requirements and Procedures, Appendix B Definitions, Appendix C Definition of Craft Distillery, Appendix D Overview of Reporting Requirements and Procedures on a Transitioning Craft Distillery with Annual Production Level from 50,001 to 100,001) form the entire agreement between the parties and should a conflict arise between the wording of this Agreement and the wording in the Appendices, the wording of this Agreement will take precedence.

36. Any communications related to this Agreement (including any notice provisions) may be made by prepaid mail (assuming no work stoppage by Canada Post), hand-delivered, by facsimile or e-mail as follows:

to the LDB, addressed to:

Chief Financial Officer, Finance, LDB
3383 Gilmore Way
Burnaby, BC V5G 4S1
Facsimile: (604) 775-0536
Email: regemail@bclldb.com

to the Manufacturer, addressed to:

Name _____
Position _____
Address _____
Phone _____
Facsimile _____
E-mail _____

37. Any notice mailed will be treated as if received on the fifth business day after the date of mailing. Any notice received by facsimile or e-mail, will be treated as received on the same day of sending if received before 4:00 pm, or on the next business day, if received after 4:00 pm.
38. Notwithstanding the date of execution and delivery of this Agreement, this Agreement will be effective as of the day you are licensed by the Liquor and Cannabis Regulation Branch to manufacture Products covered by this Agreement.

39. This Agreement may be entered into by a separate copy of this Agreement being executed by, or on behalf of, each party and that executed copy being delivered to the other party by a method provided for in Section 36.

Agreed to by the parties:

Province of British Columbia as represented by the Liquor Distribution Branch

Signature _____

Name _____

Title _____

Date _____

Manufacturer

Manufacturer Name _____

Authorized Signatory (1) _____

Print Name

Title _____

Date _____

Authorized Signatory (2) _____

Print Name

Title _____

Date _____

Appendix A
Craft Distillery – Reporting Requirements and Procedures

1. Introduction

The purpose of this Appendix A is to describe the Reporting Requirements and Procedures of the LDB with regard to operating a Craft Distillery in British Columbia.

The definitions in the Agreement will apply to this Appendix A unless indicated otherwise.

Any questions regarding the information in this Appendix A should be directed to:

Liquor Distribution Branch Finance
Department, Regulatory and Compliance
– Private Distributors Reporting
3383 Gilmore Way
Burnaby, BC
V5G 4S1

Or by Email: wpdr@bcldb.com
Phone: 604-252-7564

2. Craft Distillery Reporting

As a Craft Distillery, you are required to regularly report information on your sales of your Product and your annual packaged product movement. Section 2 of this Appendix A describes in detail why, when, how and what you need to report.

2.1 Why Report

The LDB requires you as Craft Distillery to report information on your sales of your Product to your customers in British Columbia in order to fulfill the LDB's reporting and revenue collection responsibilities to the Provincial Government.

The LDB and the Provincial Government use the information you provide for monitoring, reporting, and financial control purposes.

2.2 When to Report

It is important that you report your sales in a timely manner. LDB reporting is done based on Financial (Fiscal) Year calendar which is different from a calendar year:

- Fiscal year begins on April 1 and ends on March 31 of the following year,
- Each fiscal year is comprised of 12 fiscal periods,
- Each fiscal period is based on 4-5 full weeks (except last period which always ends on March 31), and
- Each fiscal week spreads from Sunday through Saturday.

A current copy of the Financial (Fiscal) Year calendar can be found here: www.bcldb.com/direct-sales-web-reporting-user-guides.

You are required to report to the LDB on your sales-related activities, including if you did not process any sales or returns in any given month. The LDB must receive all your Sales Reports no later than 5 business days following the last day of each fiscal month.

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If you plan to temporarily cease sales operations for a longer period, please email Data Management.

If you choose to report more frequently, for example weekly, or bi-weekly, please email us on your preference so we can update our schedules and know when to expect your next batch.

2.3 How to Report

Unless you have been authorized by the LDB to report in another manner, all reporting must be done online through the Internet via the LDB application used for reporting, namely the Direct Sales Web Reporting (DSWR).

DSWR is a very simple and intuitive application that uses a secured gateway built by the Provincial Government to grant business and individuals on-line access to various Provincial Government services.

LDB has developed very comprehensive user manuals for DSWR system that are available here:

www.bcldb.com/direct-sales-web-reporting-user-guides

The application can be accessed from the following page:

<http://www.bcldb.com/doing-business-ldb/direct-sales-reporting>

For any new Craft Distillery, shortly after the signing of your Agreement, you:

- will be assigned a LDB Store Number to use when reporting;
- will receive by email the full package of instructions on how to register, access, and use the DSWR application; and
- will be offered to schedule an optional web-based training session on using the DSWR reporting application.

Please note that you need to apply for a BCeID account through www.bceid.com to start reporting. The registration process may take up to 4 weeks, so please apply in advance to avoid delays.

If you are using a bookkeeping service to assist you with reporting and filing, you need to register your company as well as your representatives for BCeID first, and then grant your representatives permission to use online services on your behalf.

2.4 What to Report

2.4.1 General Rules on Sales Reporting

The rules listed below are applicable to reporting sales to all customer types. Rules specific to individual customer groups are listed in the sections 2.4.2 through 2.4.4. See Exhibit A for rules on pricing for each customer type.

1. You are required to report sales of Product by your Craft Distillery to your Wholesale Customers, Manufacturer On-site Stores and Hospitality Customers as authorized by this Agreement.
2. Do not report your sales to the BC Government Liquor Stores and LDB Distribution Centres.
3. Do not report your sales outside of British Columbia. You must however keep all the records related to all sales and dispositions of your Product for annual filing of the Packaged Product Movement Summary attached as Exhibit B and possible audit.
4. Do not report sales to Ship Chandlers as they are treated as export shipments out of British

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Columbia.

5. Product is to be transferred from the Craft Distillery to your Manufacturer On-site Store on Consignment. You must report your sales of Product sold from your Manufacturer On-site Store to the retail customer at the Wholesale Price. These sales must be reported using your Craft Distillery store number. See Section 2.4.2 for further explanations on how to report sales to your Manufacturer On-site Store.
6. When transferring Product to your Craft Distillery lounge or special event areas operated under endorsements to your Manufacturer's Licence, report the transfer as a sale to your Manufacturer's On-site Store at the Wholesale Price using your Craft Distillery store number. Do not report your sales made to a retail customer from those endorsements. See Section **2.4.2** for further explanations on how to report sales to your Manufacturer On-site Store.
7. You may use Product for sampling, donations and/or to provide to employees even if you do not have a Manufacturer On-site Store. If you have a Manufacturer On-site Store, all Product used for any of these purposes must be reported as a sale to your Manufacturer On-site Store using your Craft Distillery store number. If you don't have a Manufacturer On-site Store, all Product used for any of those purposes must be reported as a sale using your Craft Distillery store number. See Section 2.4.2 for further explanations on how to report sales to your Manufacturer On-site Store.
8. Product used for donations must be reported as a sale to your Manufacturer On-site Store, using your Craft Distillery store number. See Section 2.4.2 for further explanations on how to report sales to your Manufacturer On-site Store.
9. You may only sell Product to Special Event Permittees if you have a Manufacturer On-site Store. Product sold to Special Event Permittees must be reported as a sale to your Manufacturer On-site Store, using your Craft Distillery store number. See Section 2.4.2 for further explanations on how to report sales to your Manufacturer On-site Store.
10. You may only sell Product at farmers markets if you have a Manufacturer On-site Store. Product sold at farmers markets must be reported as a sale to your Manufacturer On-site Store using your Craft Distillery store number. See Section 2.4.2 for further explanations on how to report sales to your Manufacturer On-site Store.
11. Your Product SKUs must be registered and the Wholesale Prices must be established by the LDB before you can start selling your Product. You should not process any sales until the pricing is complete.
12. All sales must be reported in selling units as per LDB Product registration. If Product is registered and priced as a 2-bottle gift set then for each unit sold, the quantity reported must be '1' and price per unit must be per a 2-pack set.
13. The container recycling fee is included in the Wholesale Price and the LDB Established Retail Price.
14. You must collect and remit a container deposit on all your sales to Wholesale Customers, your Manufacturer On-site Store, and Hospitality Customers as per the rate schedule established by the container stewardship organizations effective on the date of transaction. Please see the Container Deposit Schedule currently in effect: www.bcldb.com/direct-sales-web-reporting-user-guides. The LDB will transfer the container deposit to the container stewardship organization on your behalf.
15. At the end of each month, you will be invoiced by the LDB for container deposits, recycling fees

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Craft Distillery – Reporting Requirements and Procedures and applicable taxes based on sales you reported and container type and unit configuration registered in the LDB system. You must pay the LDB immediately on receipt of such invoice.

16. The reporting is done by creating sales documents and compiling these sales documents into a batch before submission. You can include documents from prior periods into a batch; for example, you can correct errors or report missing transactions from prior periods, however you cannot report transactions for future dates.
17. Please refer to Exhibit A for the taxes and price applicable to each customer type.

Please refer to the following sections for reporting requirements on sales to specific types of customers.

2.4.2 Reporting Sales from and Returns to your Manufacturer On-site Store

1. You must report to the LDB all sales of Product from and returns of Product to your Manufacturer On-site Store and these sales and returns must be reported using your Craft Distillery store number.
2. Report as sales to your Manufacturer On-site Store the following:
 - Product sold through your Manufacturer On-site Store to retail customers;
 - Product sold at farmers markets to retail customers,
 - Product you have used for donations, sampling, or to provide Product to employees; and
 - Product sold to Special Event Permittees.
3. Your Distillery must have registered for and received a PST (Provincial Sales Tax) registration number to be able to sell Products from your endorsement areas.
4. If the sale price of a Product within a reporting period had not changed, you can report net sales (sales net of returns) for the period by the Product SKU on a single sales document. Alternatively, you can report each sale and return transaction individually as you process them.
5. The following information is required for online reporting for your Manufacturer On-site Store:
 - **Store Number** – enter your reporting store number.
 - **Document Type** – identify if this is a sale or return.
 - **Transaction Date** – the date when the original sale occurred (system pricing in effect according to date).
If you report all **net** (value of sales less returns) sales on a single document, you can use the last day of the reporting month as a transaction date. The date defines the price being in effect for all transactions reported on this document.
 - **Invoice Reference Number** – a reference number that uniquely identifies the sale or return document.
 - **Original invoice number** – only for returns – a reference number that was used in the original sale of the Product.
 - **LDB Payment Type** – ‘cash’.
 - **Customer Number** – use your reporting store number. For example, if you report your sales as a store number 999, select a customer number ‘999’ to report your sales from your Manufacturer On-site Store.
 - **Customer Type** - (e.g. Licensee Retail Store, Rural Licensee Retail Store etc.) based on the reason the Product is being returned – for information in Exhibit A.

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- **Payment Method** – ‘cash’.
- **SKU** – an identification number that will provide information to the system of the Product being sold or returned.
- **Price** – Wholesale Price per selling unit excluding taxes.
- **Quantity** – quantity sold in selling units.
- **Container Deposits** – container deposits you collected. Please note that the LDB reporting system will calculate the deposit amount owed but you may want to compare it with the amount you collected to identify any errors.
- **Return Reason Code** – code which identifies the reason the Product is being returned – for information purposes only.

2.4.3 Reporting Sales and Returns to/from Hospitality Customers and Wholesale Customers

You must report to the LDB all sales and returns of Products to Hospitality Customers and Wholesale Customers. For such sales:

1. The customer’s Liquor and Cannabis Regulation Branch (“LCRB”) issued licence number must be valid and customer must be eligible to purchase alcohol for resale on the date of the sale.
2. The customer must have registered for and received a PST (Provincial Sales Tax) registration number.
3. Each individual sale or return must be reported on a separate document, indicating the customer’s LCRB licence number.
4. The reporting must be completed using the Wholesale Price and tax rate effective on the date of the sale.
5. The following information is required for online reporting for Hospitality Customer and Wholesale Customer sales/returns:

- **Store number** – enter your reporting store number.
- **Document type** – identify if this is a sale or return.
- **Transaction date** – the date when the original sale occurred (system pricing in effect according to date).
- **Invoice reference number** – a reference number that uniquely identifies the sale or return document.
- **Original invoice number** – only for returns – a reference number that was used in the original sale of the Product.
- **Customer number** – the customer’s licence number assigned by the LCRB.
- **Customer type** – (e.g. Hospitality Customer, Licensee Retail Store, Rural Licensee Store, etc.) based on the information in Exhibit A.
- **Payment method** – ‘cash’.
- **SKU** – an identification number that will provide information to the system of the Product being sold or returned.
- **Selling Price** – Wholesale Price effective on the date of the transaction.
- **Quantity** – sold, in selling units.
- **Container Deposits** – container deposits you collected. Please note that the LDB reporting system will calculate the deposit amount owed based on the sales reported but you may

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want to compare with the amount you collected to identify any errors.

Return Reason Code – code which identifies the reason the Product is being returned, if applicable.

3. Reporting of Packaged Product Movement

3.1 Purpose

As a Craft Distillery, you are required to report, on an annual basis, the movement of your Product in the province. The Packaged Product Movement Summary form is attached as Exhibit B to these Reporting Requirements and Procedures. This report is used by the LDB to ensure that your Product is duly accounted for. Any unaccounted Product will be dealt with further in the explanation below.

3.2 Report Completion

3.2.1 Generally

- **For the Period** – The annual period covered is April 1 to the following March 31. Enter the appropriate year. If your Distillery is a new manufacturer, the reporting period is from the date you began your operations to March 31.
- **Unit of Measure** – Litres.

3.2.2 For each Type of Product you report, you need to complete the following details:

Opening inventory – Packaged Product

Report the total litres of Product you store in any of your Warehouses (including any inventory stored in your Manufacturer On-site Store) and in any Warehouses which store your Product located in the province as at the beginning of business on April 1 (the start of your 12 month reporting period).

Total Additions

- **Total Packaged Production:** Report the total litres of Product produced at your Licensed Establishment during the 12 months ending March 31.
- **Packaged Product Returns:** Report the total litres of Product your customers returned to you. For the subsequent disposition of the returned Product, include these movements of your inventory in the appropriate columns of the Packaged Product Movement Summary (for example: include it in the “Breakage, defective, other write-offs” column if you destroyed it or include it in “Total shipments in BC” if you resold it.)
- **Total Additions:** This is a calculated total arrived at by adding– ‘Production’, ‘Product Returns’ and ‘Product produced by others’.

Total Product Available in BC

This is a calculated total arrived at by adding ‘Opening Inventory’ and ‘Total Additions’.

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Craft Distillery – Reporting Requirements and Procedures

Total Packaged Product Shipments Out of BC

- **Shipments to Other Provinces** - Report the total litres of Product you shipped outside of British Columbia but within Canada. For example: You would include any shipments you made to another province in this total. Ensure you include the litres you physically shipped to other Canadian provinces during the 12 month reporting period which may not necessarily be the same as the volume you sold during the same time period (as is the case when Product is held in other provinces on a consigned basis).
- **Shipments Out of Canada** - Report the total litres of Product you physically shipped out of Canada during the 12 months covered by the Packaged Product Movement Summary.

Note: Any sales made in British Columbia to Ship Chandlers during the 12 months covered by the Packaged Product Movement Summary should be included in the 'Shipments Out of Canada' column.

Total Packaged Product Available in BC

This is calculated by deducting the volume reported as 'Shipments to Other Provinces' and 'Shipments Out of Canada' from the volume reported as 'Total Packaged Product Available'.

Total Shipments in BC (BC Sales)

Report the total litres of Product you physically shipped in BC including LDB distribution and to Wholesale/Hospitality Customers (including any Product you used for sampling, donations or provided to employees) during the 12 months covered by the Packaged Product Movement Summary.

Total Packaged Product Deductions

Report any Product you "wrote off" either by destroying or through "breakage" or inventory count adjustments. You must complete the individual sub-column as appropriate.

- **LDB Exempted Deductions:** If an unusual event occurs at the manufacturing facility or its Warehouses which results in the loss of Product, such as a major forklift accident in the Warehouse or shelving collapsed, the LDB will consider exempting these deductions from mark-up. However, each exemption must be approved by the LDB in writing.
- **CRA Claimed Deductions:** If you reported any of the destroyed Product to the Canada Revenue Agency (CRA) to claim back the excise duties you paid, you must separately report the volume in this field.
- **Other Breakage, Adjustments & Write-offs:** Report the total litres of Other Breakage, Adjustments & Write-offs not included in Total Shipments in BC (BC Sales).
- **Total Deductions:** This is a calculated sum of LDB Exempt Deductions, CRA Claimed Deductions, and Other Breakage, Adjustments & Write-offs.

Closing Inventory

- **Calculated:** This is calculated by deducting the 'Total shipments in BC (BC Sales)' and 'Total Other Deductions' from the 'Total Product Available in BC' column of the Packaged Product Movement Summary.
- **Physical:** You are required to physically count the inventory of packaged Product on March 31 of each year you have on hand in your Licensed Establishment including your Manufacturer On-site Store. The inventory that you physically counted (converted to litres) should be reported in the 'Closing Inventory – Physical' column of the Product Movement Summary report.

Appendix A

Craft Distillery – Reporting Requirements and Procedures

Ensure you retain the inventory count sheets which record the inventory physically counted on March 31 along with the Craft Distillery's inventory records.

Difference

This is calculated by deducting the 'Closing Inventory - Calculated' total from the 'Closing Inventory - Physical' total reported on the Packaged Product Movement Summary.

LDB Shrinkage Allowance Calculation

The shrinkage allowance takes into account an acceptable volume of Product that may be consumed or written-off in BC due to normal manufacturing and warehousing activities. By allowing this, a manufacturer does not have to fully document each instance of breakage/destruction which may occur. The rate depends on the annual production volume of the manufacturer. The current rate of the LDB shrinkage allowance is 0.50% of 'Total Calculated Packaged Product Moved in BC' for the annual production.

Self-Assessment Calculation

This portion of the Product Movement Summary calculates the 'Total Deductions Subject to LDB Mark-up'. If the amount is positive, you owe the LDB for product losses calculated in accordance with section 19 of this Agreement.

Other

With the submission of your Packaged Product Movement Summary report, you must provide the LDB a listing of all the Warehouses located in British Columbia where you stored any of your Product as at March 31.

3.3 Report Submission

The completed Packaged Product Movement Summary form and your listing of Warehouse locations must be sent to the LDB by June 30 to the attention of following address:

BC Liquor Distribution Branch
Attention: Finance Department – Regulatory and Compliance
3383 Gilmore Way
Burnaby, BC V5G 4S1

or Email to: regulatory.reports@bcldb.com

The LDB performs regular audits of Packaged Product Movement Summary reports submitted by manufacturers. If you are selected for an audit, the LDB will normally contact you in advance and make arrangements for the audit.

4. Annual Production Reporting

You are required to report total Annual Production or the combined Annual Production of all Licensed Distilleries under common ownership or management of Product to LDB in litres immediately following the calendar year for which the Annual Production is to be reported.

The completed Annual Production report in Exhibit C must be sent to the LDB by January 31 to the attention of the following address:

BC Liquor Distribution Branch
Attention: Finance Department – Regulatory and
Compliance 3383 Gilmore Way
Burnaby, BC V5G 4S1

Appendix A

Craft Distillery – Reporting Requirements and Procedures
or Email to: regulatory.reports@bcldb.com

5. Payment for Beverage Container Deposits and Container Recycling Fees to LDB

In accordance with the provincial Ministry of Environment's *Recycling Regulation*, most containers which hold "ready-to-serve" beverages are subject to a refundable container deposit. The *Recycling Regulation* also requires manufacturers or their agents to be part of an approved stewardship plan that ensures containers are collected and recycled.

In British Columbia, there are two stewardship agencies that manage beverage container stewardship plans on behalf of the industry. Encorp Pacific Ltd. ("Encorp") is the stewardship agency for all non-refillable containers except cans. Brewers Distributor Limited ("BDL") is the stewardship agency for cans and refillable bottles. Each of these two agencies operates a collection and recycling system and determines the amount of the container recycling fees ("CRFs") that are required to pay for the costs of their systems. In the normal course of business, Encorp and BDL review the CRFs and make adjustments as necessary.

In order to streamline the administration of the two stewardship plans, the LDB has agreed to consolidate the collection of container deposits and CRFs on Product sales and remit them to Encorp and BDL for funding of their stewardship plans. This relieves manufacturers from the burden of making individual payments to the two stewardship agencies. This does not apply to refillable bottles as BDL collects container deposits and CRFs directly from the manufacturers of these containers.

When you sell beverage alcohol, you must collect CRFs (included in the LDB Established Retail Price), and container deposits on your packaged Product sales.

Please see the Container Deposit Schedule currently in effect: www.bcldb.com/direct-sales-web-reporting-user-guides. Encorp and BDL change the CRF fees from time to time and when they do, the LDB will update the schedule with the new rates.

In order to provide these funds to Encorp and/or BDL, each month the **LDB will invoice your Licensed Establishment** for the CRFs (plus applicable taxes) and container deposits based on your Sales Reports.

You are **required by this Agreement to pay the invoices** in a timely manner according to the payment terms stated on the LDB invoice. Failure to do so will result in suspension or termination of your Agreement.

6. Craft Distillery Records

1. As a manufacturer producing and handling Product in British Columbia, you are also required to maintain adequate business records that clearly demonstrate your ability to account for all the Product you handle.
2. At a minimum, the records you maintain and retain need to be sufficient so that any reasonable third party reviewing your records can determine the following regarding your Product (spirits):
 - The amount you currently store anywhere in British Columbia, including identifying the specific Warehouses. As a manufacturer, you are required to physically count your inventory at the close of business on March 31 each year. Also, you are required to retain your physical count sheets that clearly identify the Product you counted at each of your Warehouses.
 - The amount you produced in your Licensed Establishment.
 - The amount a third party bottled on your behalf.

Appendix A

Craft Distillery – Reporting Requirements and Procedures

- Your records need to be sufficient so that you can reasonably demonstrate that your entire Product is produced using 100% BC agricultural inputs.
 - The amount you used for donations, sampling, or provided to employees.
 - The amount you disposed of for quality control purposes, breakage or general destruction.
 - The amount that you shipped out of British Columbia including sufficient documentation to clearly evidence that this Product physically left British Columbia.
 - The amount that you sold to your authorized customers in British Columbia.
3. All the records referred to above must be retained at your Licensed Establishment office(s) in British Columbia unless otherwise authorized by the LDB. These records must be kept for a period of not less than six years following the end of each calendar year.
 4. You must cooperate with any authorized representative of the LDB who conducts an inspection or audit, including making all your records available, allowing access to any premise wherein your Product is stored, and signing a Consent Form allowing for 3rd party verification of records, if requested by the LDB.
 5. If the inspection or audit referred to above discloses a breach of the Agreement, you must pay the costs and expenses of the inspection or audit and any payments assessed as due and owing, as determined by the LDB using reasonable audit standards.
 6. Please note that your Craft Distillery is solely responsible for collection and remittance of all provincial and federal taxes, levies and fees imposed by the current provincial, municipal, federal or other regulations unless the terms of the Agreement state otherwise.

Appendix A
Craft Distillery – Reporting Requirements and Procedures

Exhibit A – Customer Types and Pricing

The Table below provides the applicable customer types, pricing and tax to be collected on your sales, reported and remitted to the LDB.

Customer Type	Code in DSWR	Pricing	TAX
Manufacturer On-site Store	MOS	Wholesale Price	GST
Hospitality	LIC	Wholesale Price	GST
Licensee Retail Store	LRS	Wholesale Price	GST
Rural Licensee Retail Store	RLRS	Wholesale Price	GST
Grocery Licensee	GRC	Wholesale Price	GST

Exhibit B – Packaged Product Movement Summary

Packaged Product Movement Summary
 Name of Craft Distillery:

Packaged Product Movement Summary - BC Craft Distillery Manufacturer
 For the Period: April 1, 2017 to March 31, 2018

Type of Packaged Product	Total Additions		Total Packaged Product Available		Total Packaged Product Shipped out of B.C.		Total Packaged Product Available in B.C.	Total Packaged Product Deductions				Closing Inventory - Packaged Product		
	Opening Inventory - Packaged Product	Total Packaged Production	Total Additions	Packaged Product Returns	Shipped to Other Provinces	Shipped to B.C.		Total Packaged Product Available in B.C. (B.C. Sales)	LDB Exempted Deductions (Note a)	CRA Claimed Deductions (Note b)	Other Breaks, Adjustments & Write-offs	Total Packaged Product Reductions	Calculated	Physical (Note c)
Column Reference	A	1	2	B = 1+2	D	E	F = C+D+E	3	4	5	6	H = 4+5+6	J	K = J-I
Packaged Spirits														

Notes:

a. **LDB exempted deductions (column 3):** If an unusual event occurs with the manufacturer's facility, it is warranted that results in the loss of packaged product such as a major fire, flood, or other catastrophic event. In the warehouse or shipping collapse, the LDB will consider exempting these deductions from mark-up. However, each exemption must be approved by the LDB in writing.

b. **CRA claimed deductions (column 4):** If you reported any of the destroyed P-packaged Product to the Canada Revenue Agency (CRA) to claim back the excise duties you paid, you must separately report the volume in this field.

c. **Physical (column J):** Please enter the physical inventory count as of March 31 for all Packaged Product in the Province of BC. This includes Packaged Product inventory at your manufacturing facility, on-site store and any warehouses which store your Packaged Product. You are required to complete a physical inventory count on March 31 of each year.

d. **Difference (column K):** If column K is negative, this means there is an error in the schedule. The LDB does not provide a markup benefit for such errors. If Column K is positive, we recommend that you review the schedule for possible errors. If no error is found, this means there is some unaccounted movement of Packaged Product and LDB markup will be charged on the unaccounted Packaged Product.

Prepared by:
 Name:
 Date:

LDB Shrinkage Allowance Calculation		Spirits (L/100)
Total Packaged Product Available in B.C. - Include the balance of Column F		
Less:	Closing inventory - include the closing balance as at March 31 per Column J	
Less:	LDB exempted deductions (Note a)	
Less:	CRA claimed deductions - destructivedefective (Note b)	
Equals:	Total Calculated Packaged Product moved in B.C.	0.98%
Multiply by:	LDB Allowance Rate	
Equals:	LDB Shrinkage Allowance	0.00
Self-Assessment Calc		
Total other deductions - include the balance of Column H		
Plus:	Inventory difference - include Column K balance only if positive (Note d)	
Equals:	Total	Spirits (L/100)
Less:	LDB Shrinkage Allowance - calculated above	
Less:	LDB exempted deductions (Note a)	
Less:	CRA claimed deductions - destructivedefective (Note b)	
Total deductions subject to markup		

Revised: E-Tables for 12 months ending March 31, 2017

Appendix A

Craft Distillery – Reporting Requirements and Procedures

Exhibit C – Annual Production Report

Craft Distillery _____

For the year ending December 31, _____

	A		B		C
Month	Bulk Spirits Transferred to Licensed Users (LAA)	+	Total Litres Bottled (Total from Monthly Production Report)	=	Total Finished Product (Liters)
January					
February					
March					
April					
May					
June					
July					
August					
September					
October					
November					
December					
Total Annual Production of Product					

Appendix A
 Craft Distillery – Reporting Requirements and Procedures

Exhibit D - Monthly Production Report

Craft Distillery _____

For the month ending _____, year _____

	BCLDB SKU #	Container Size	Case Configuration	Cases Bottled In Month	Total Litres Bottled
Example	123456	.750 L	12 x .750 L	50	50 x 12 x .750 = 450 L
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
19					
20					
Total Litres	(Please input number in column B of the Annual Production Report in the corresponding month)				

Appendix B
Craft Distillery - Definitions

In this Agreement:

- a) "Agreement" means this agreement and the attached Appendices;
- b) "Annual Production" means the total litres of Product manufactured by a Licensed Manufacturer in any calendar year as further described in Appendix C;
- c) "Applicable Laws" means *the Liquor Distribution Act, Liquor Control and Licensing Act, the Financial Administration Act and the Excise Act, 2001* (Canada) and any regulations under those statutes and includes any amendment or replacement of those statutes and regulations from time to time;
- d) "Audit Period" means the time period, as determined in accordance with such LDB audit policy and/or procedures as may be in effect from time to time, the reporting for which is under review when the LDB conducts an examination or verification of Product inventory, Records, Sales Reports and/or Excise Documents;
- e) "Consignment" means an arrangement whereby you transfer possession of Product to your Manufacturer On-site Store with payment at the Wholesale Price due and owing upon sale of Product from the Manufacturer On-site Store to a retail consumer unless otherwise authorized by the LDB;
- f) "Event of Default" means any of the events set out in Section 22 of the Agreement;
- g) "Excise Documents" means any documents required under the *Excise Act, 2001* (Canada) or its Regulations;
- h) "Hospitality Customer" means:
 - i. a caterer being a person holding a caterer's licence or a licensee whose licence contains a catering endorsement, issued under the Applicable Laws,
 - ii. any business which operates an establishment which has been issued a liquor primary licence, a liquor primary club licence, a food primary licence or similar licence issued under Applicable Laws, and
 - iii. any holder of a Manufacturer Licence for its business conducted under a lounge or special event endorsement issued under the Applicable Laws;
- i) "Licensed Establishment" means your place or premises within which is any area where Liquor is manufactured or served;
- j) "Liquor" means spirits as defined in the Applicable Laws;
- k) "Lost Product" means Product:
 - i. which was under your possession or control,
 - ii. which is in excess of the allowable shrinkage set for your manufacturing facility type as set out in the Reporting Requirements and Procedures, and
 - iii. which cannot be accounted for by you;
- l) "Manufacturer Licence" means a distillery licence issued under Applicable Laws;
- m) "Manufacturer On-site Store" means your on-site retail store that you are allowed to operate as a result of an endorsement on your Manufacturer Licence;
- n) "Prime" means the prime lending rate of the principal banker of His Majesty the King in Right of the Province of British Columbia;
- o) "Product" means the Liquor manufactured by you at your Licensed Establishment, to its final, finished, saleable state intended for consumption, whether in bulk or packaged form,

Appendix B
Craft Distillery - Definitions

ready for purchase all of which must meet the criteria set out in Appendix C;

- p) "Records" means the records necessary for your type and size of business, as a prudent business operator, which would enable you to account for your Product, how it was produced, and how it is disposed of, including those records described in the Reporting Requirements and Procedures;
- q) "Reporting Requirements and Procedures" means the reporting requirements and procedures attached as Appendix A to this Agreement;
- r) "Sales Reports" means the reports you are required to make about your sales of Product to Wholesale Customers, your Manufacturer On-site Store, Hospitality Customers, and Special Event Permittees, as described in the Reporting Requirements and Procedures;
- s) "Special Event Permittee" means a licensee issued a special event permit under Applicable Laws;
- t) "Transitioning Craft Distillery" is a category of Craft Distillery that has Annual Production of Product as set out in Appendix C and Appendix D exceeds 50,000 litres but is less than 100,000 litres;
- u) "Warehouse" means any and all warehouses and other locations in British Columbia where your Product is stored prior to being transferred on Consignment or sold;
- v) "Wholesale Customer" means:
 - i. Licensee Retail Stores as licensed under the Applicable Laws,
 - ii. Rural Licensee Store as licensed under the Applicable Laws, and
 - iii. as a holder of a Manufacturer's Licence its business conducted under its distillery lounge or special event endorsement issued under the Applicable Laws;
- w) "Wholesale Price" means the LDB wholesale price applicable to a Wholesale Customer and to a Hospitality Customer.

Appendix C Craft Distillery - Criteria

To be a Craft Distillery in British Columbia:

- 1) All of your Product* is fermented and distilled at your Licensed Establishment using 100% BC agricultural inputs.
- 2) Your total annual production of Product is:
 - a) less than 50,001 litres per year and therefore mark-up free/no remittance. If your Licensed Establishment is under common ownership and/or common management with other distilleries with a Manufacturer Licence, the combined production of all distilleries will be used to determine compliance with the 50,000 litre production limit. In order for one to qualify for a Craft Distillery that is mark-up free/no remittance designation, all distilleries under common ownership and /or common management** must meet the criteria. Your Products must be produced utilizing traditional distilled spirit making techniques. Production of refreshment beverage products or other highly processed products are not permitted. The use of neutral grain spirits in the production of any Products is not permitted; or
 - b) greater than 50,000 litres per year but less than 100,001 litres and therefore a Transitioning Craft Distillery and mark-up/ remittance will be paid in accordance with the rates set out in Appendix D. If your Licensed Establishment is under common ownership and/or common management with other distilleries with a Manufacturer Licence, the combined production of all distilleries will be used to determine compliance with the Transitioning Craft Distillery production limit. In order for one to qualify for a Transitioning Craft Distillery, all distilleries under common ownership and /or common management** must meet the criteria. Your Products must be produced utilizing traditional distilled spirit making techniques. Production of spirit cooler products or other highly processed products are not permitted. The use of neutral grain spirits in the production of any Products is not permitted.

A distillery with a Manufacturer Licence that does not meet the above criteria will be classified as a Commercial Distillery subject to the terms and conditions of the LDB's agreement with Commercial Distilleries.

The LDB retains the right, in its sole discretion, to determine if a distillery with a Manufacturer License meets these criteria for a Craft Distillery including a Transitioning Craft Distillery.

* Product" means the Liquor manufactured by you at your Licensed Establishment to its final, finished, saleable state intended for consumption, whether in bulk or packaged form, ready for purchase, all of which must meet the criteria set out in Appendix C.

** Common ownership and/or common management, in relation to two or more licensed establishments with distillery licences means:

- Any shareholder holds 20% or more of the common shares of each distillery with a Manufacturer Licence and/or;
- The distilleries with a Manufacturer Licence business have common directors and/or officers who collectively hold 50% of the votes at any director's meetings or who share two or more senior employees who direct the distilleries with a Manufacturer Licence business and/or;
- A distillery with a Manufacturer Licence owns shares in another distillery with a Manufacturer Licence.

Appendix D
Overview of Reporting Requirements and Procedures on a Transitioning Craft Distillery
(with Annual Production level from 50,001 to 100,001)

You will be required to report your Annual Production volume of the Product for each calendar year (January 1 through December 31) by January 31 of following year. Once your Licensed Establishment's Annual Production of Product exceeds 50,000 litres per year but remains under 100,001 litres per year, your distillery will be a Transitioning Craft Distillery. Reported sales will be a subject to a mark-up, based on your Annual Production category, effective on April 1 immediately following the report of Annual Production. If your Licensed Establishment is under common ownership and/or common management with other Licensed Establishments with Manufacturer Licences, the combined production of all distilleries will be used to determine the mark-up rate. Your Licensed Establishment has to continue meeting all conditions applicable to the Craft Distillery status in order to qualify for mark-up exemption or reduced mark-up on sales of your Products.

Please note the following major changes in your sales process and reporting when your Licensed Establishment ceases to qualify to be fully mark-up exempt but still qualifies as a Transitioning Craft Distillery:

1. You must collect the full payment, including the LDB mark-up, on sales to your Wholesale Customers and Hospitality Customers;
2. You may sell to Special Event Permittees at the Wholesale Price through your Manufacturer On-site Store;
3. You must remit all proceeds of your weekly sales to Wholesale Customers and Hospitality Customers, including container deposit amounts, into your Pre-Authorized Debit account;
4. LDB will pay you the duty-paid cost of the Product on all reported sales.

LDB will reimburse you any amount owing to you which reflects the difference between the mark-up deposited by you on all reported sales and the mark-up due to the LDB. The details of the reporting requirements will be provided to you at the time you qualify as a Transitioning Craft Distillery, or at any time earlier at your request.

Mark-up rates in effect as of April 1, 2015.

Mark-up Rates for Craft Distilleries

Craft Distillery Annual Production (litres)	LDB Mark-up for Craft Distilleries
Up to 50,000	0%
50,001 - 60,000	21%
60,001 - 70,000	41%
70,001 - 80,000	62%
80,001 - 90,000	83%
90,001 - 100,000	103%

If Annual Production is over 100,000 litres then you would be a Commercial Distillery and the mark-up would be 124%.