



2020-21



NEWFOUNDLAND
LABRADOR
LIQUOR CORPORATION

ANNUAL REPORT

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BOARD MEMBERS

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Chairperson

Victoria Belbin
Vice Chairperson

Geoffrey Davis
Director

Glenn Mifflin
Director

Donna Rideout
Director

Paul Smith
Director

Sharon Sparkes
Director

MESSAGE FROM THE CHAIRPERSON



I am pleased to present the Annual Report for fiscal year 2020-21 on behalf of the Board of Directors of the Newfoundland and Labrador Liquor Corporation (NLC), which is a Category two entity under the provisions of the Transparency and Accountability Act. The Board of Directors is accountable for the contents and results provided herein.

The past fiscal year marked the first of NLC's 2020-2023 Business Plan. This Annual Report outlines the results and highlights from 2020-2021 and a series of objectives and measurable indicators for the upcoming fiscal year.

NLC returned a dividend of \$195.0 million in fiscal year 2020-21 to the Corporation's shareholder, the Government of Newfoundland and Labrador. Total net earnings for the year were \$200.6 million. To put this in context, this is the highest net earnings in NLC history, and the second highest dividend to Government. Given the uncertainties and the unprecedented nature of this past fiscal year and the response of our organization and people to serve customers at the height of the COVID-19 pandemic, I

am particularly proud of our results. Our people showed initiative and innovation to adjust operations, while keeping customers and staff safe throughout the pandemic.

I would like to congratulate Bruce Keating, President and CEO, and the entire NLC team for the results achieved during this challenging year.

I would also like to thank the Government of Newfoundland and Labrador for its support, including the Minister Responsible for the Newfoundland and Labrador Liquor Corporation, the Honourable Siobhan Coady.

I look forward to a successful year ahead as we move into the second year of our 2020-2023 Business Plan.

Sincerely,

A handwritten signature in black ink, appearing to read 'Fraser Edison', with a horizontal line underneath.

Fraser Edison
Chairperson

MESSAGE FROM THE PRESIDENT AND CEO



I am so pleased to be writing this message at the end of my first full year as President and CEO. What I have come to understand is that NLC is a business that truly puts our customers and the people of the Province first, and our people are guided by a simple philosophy – to earn trust in everything that we do every time out – whether it be with customers, suppliers, retailers, government representatives and ministers, or how we deal with each other.

The pandemic has presented unprecedented challenges to all parts of our business. In the face of those challenges, our team has stepped up with a level of commitment that has been inspiring, and with a dedication to serving and earning the trust of our customers and partners that has been a joy to observe.

The fact that we can report earnings of \$200.6 million, the highest in NLC's history, and a dividend to Government of \$195 million, the second highest, is a testament to the performance of every NLC team member across the Corporation. It is often said that difficult times bring out the best in people. We have seen that to be true, time after

time in the past year, and I know I speak on behalf of our Board and leadership team in expressing my sincere thanks. Thank you!

I would like to extend my thanks, as well, to our talented and supportive Board of Directors. Their experience and wise counsel during this difficult time has been appreciated by me and our leadership team.

As we look forward, I accept and embrace that NLC is more than a liquor retailer and wholesaler to our customers. We have a critical role to play in regulating the beverage alcohol industry in the Province, in developing the cannabis industry and shrinking the illicit cannabis market, and in being an important producer of alcoholic beverages through our Rock Spirits division. But NLC is also an intrinsic part of the Province and has the footprint, scale and profile to have an increasingly positive impact on consumers, communities, other stakeholders, the environment and the broader Province in which we operate.

This year, we have made progress and further commitments on social responsibility, community impact, environmental sustainability, corporate governance and the relationship with and support we give to our employees. These topics are important to our customers, colleagues and partners, but they are also essential for the long-term success of NLC.

Despite the challenges we have faced this year, I am confident that the Corporation is in a strong place. And getting stronger. Every member of the NLC team remains focused on earning trust in everything we do, every time out. By focusing on being deserving of the trust placed in us, and building on the foundations we have strengthened through the pandemic, we will in turn continue to deliver value for the people of this Province.

A handwritten signature in black ink, appearing to read 'Bruce Keating', written in a cursive style.

Bruce Keating
President and CEO

OVERVIEW

NLC operates with the expectation that it will generate a dividend for the Government of Newfoundland and Labrador to be reinvested for the benefit of the people of the Province, and returns its profits to Government to help fund key public services. Over the coming years, NLC's strategy focuses upon five themes:

- Grow the business
- Operational excellence
- Exceptional stakeholder experience
- Public trust
- A compelling workplace

While striving toward these accomplishments, the organization will maintain a strict commitment to its corporate responsibility mandate.

NLC's vision is to provide safe, convenient access to alcohol and cannabis products, while its mission is to be a best practice, socially responsible regulator, retailer and wholesaler of beverage alcohol and cannabis, delivering value to the Province through the efforts of outstanding employees.

As a Category two entity, oversight of NLC is provided by a Board of Directors appointed by the Lieutenant Governor in Council, normally for a term of three years. The Board consists of a Chairperson, the President and CEO and other members as appointed. The President and CEO of NLC is responsible for the everyday

management and other duties as assigned by the Board. The President and CEO holds a non-voting position on the Board, reports directly to the Board and is appointed by the Lieutenant Governor in Council.

The mandate of NLC is to manage and oversee the importation, sale and distribution of beverage alcohol within the Province of Newfoundland and Labrador. In addition to its traditional beverage alcohol mandate, on November 23, 2017, the Government of Newfoundland and Labrador authorized NLC to regulate the possession, sale and delivery of cannabis. Included in these new responsibilities was the authority to regulate the industry, list products, set prices and to be an online retailer of cannabis in the Province. NLC takes a leading role in protecting the public interest by promoting socially responsible distribution, sale and consumption of beverage alcohol and cannabis.

NLC's head office and blending/bottling operation (Rock Spirits) are located at 90 Kenmount Road and its distribution centre is located at 300 East White Hills Road in St. John's, Newfoundland and Labrador. NLC Liquor Stores are located throughout the Province. NLC provides employment to 598 employees, 356 of which are female and 242 of which are male.

NLC's gross expenditures in fiscal year 2020-21 were \$168.5 million with revenue of \$363.8 million.

NLC MISSION

TO BE A BEST PRACTICE, SOCIALLY RESPONSIBLE REGULATOR, RETAILER AND WHOLESALER OF BEVERAGE ALCOHOL AND CANNABIS, DELIVERING VALUE TO THE PROVINCE THROUGH THE EFFORTS OF OUTSTANDING EMPLOYEES.

HIGHLIGHTS AND PARTNERSHIPS

During the 2020-21 fiscal year, NLC followed through on commitments set out in its 2020-2023 Business Plan through the efforts of its people and partnerships with industry, Government, community groups and law enforcement.

NLC's partnerships with industry representatives in both beverage alcohol and cannabis have fostered a number of important achievements in fiscal year 2020-21. Since the legalization of cannabis, NLC has been committed to monitoring and evaluating the industry and making adjustments as required, protecting and enhancing its viability. Such adjustments in fiscal year 2020-21 included an increase in the commission structure to Tier 1 and Tier 2 Licensed Cannabis Retailers, assisting in the long-term viability of those retailers who have invested significant resources into the success of their operations. This decision was made after careful consideration and one-on-one consultations with Licensed Cannabis Retailers. NLC continues to increase access points of cannabis throughout the Province by licensing five new locations in fiscal year 2020-21 and announcing an additional request for proposals to add new retailers to further its commitment to ensure access to a safe and secure supply of cannabis.

In addition to its work with Licensed Cannabis Retailers, NLC also now has 19 Licensed Producers supplying the Province, including local growers Argentia Gold Corporation and BeeHigh Vital Elements Inc. Through its

Merchandising team, NLC will continue to look for new and exciting items across all product categories. Late in fiscal year 2020-21, NLC also announced its plans to warehouse and distribute cannabis from its distribution centre at East White Hills Road. This initiative, planned for October 2021, will ensure additional oversight of the industry and enhanced service delivery for Licensed Producers, Licensed Cannabis Retailers and consumers, further disrupting the illicit market.

To further its commitment to ensure access to a safe and secure supply of cannabis, NLC continued its efforts to disrupt the illicit market with the support of its partners. Canada Post Inspectors, the Royal Canadian Mounted Police (RCMP) and the Royal Newfoundland Constabulary (RNC) have been vital in these efforts. In fiscal year 2020-21, NLC seized approximately \$1.7 million worth of illegal product and will continue its interdiction initiatives in fiscal 2021-22 and beyond. NLC estimates that it has captured approximately 37% of the illicit market. Given the number of options to purchase illegally and the sophistication of illicit websites, NLC recognized the importance of educating the public on the legality of products available and their associated vendors. To ensure customers understand the difference between legal and illegal cannabis, NLC's Marketing Team worked with its media partners to develop and launch a multimedia campaign entitled "It's only legal if you see this logo." The campaign, combined with



**It's only legal
if you see this logo!**

find an approved retailer or shop online at

ShopCannabisNL.com

PLEASE USE RESPONSIBLY 19+



the announcement of several seizures of contraband cannabis, generated significant interest in the subject, resulting in substantial and impactful media coverage. NLC will continue these efforts in fiscal year 2021-22.

In fiscal year 2020-21, NLC's beverage alcohol sales increased 3.4% over the previous year, to \$272.8 million, including a 46.1% increase in ready-to-drink (RTD) products and a 5.5% increase in sales of spirits. While sales were down 2.5% through corporate Liquor Stores due to reduced customer traffic caused by the pandemic, Liquor Express locations experienced an increase of 30.1% in sales vs. the previous year. In addition, commissions on the sale of beer through Brewers' Agents increased 11.3% for a total of \$70.3 million in fiscal year 2020-21.

In an effort to continue to focus public attention on the risks of impaired operation of recreational vehicles, NLC collaborated with the RCMP on a "Don't Drink and Ride" campaign, using a combination of traditional and digital advertising messaging and media. This campaign will continue in fiscal year 2021-22, along with a cooperative campaign with the RCMP regarding safe use of all-terrain vehicles.

In fiscal year 2020-21, NLC's Board of Directors and Executive team embarked on efforts to strengthen corporate governance of the Corporation. This included the activation of a Governance and Human Resources Committee, initiating a full review of corporate by-laws, a review and update of the Corporation's code of conduct, a new whistleblower policy, new terms of reference for the Audit Committees and overall strengthening of corporate governance.

In the final weeks of fiscal year 2019-20, NLC initiated its response to the COVID-19 pandemic. Enhanced cleaning protocols, physical distancing measures, decreased store capacity and ultimately the closing of

stores to in-person shopping, with a shift to online and phone ordering and pick-up would carry through into the 2020-21 fiscal year. Following the direction provided by the Office of the Chief Medical Officer of Health, NLC allowed employees to work from home where possible, and repurposed one of its production lines at Rock Spirits to produce hand sanitizer for frontline workers. The production of hand sanitizer continued in fiscal year 2020-21, with cases distributed throughout the Province and finally available for sale to wholesale customers and to the public. As cases of the virus continued to remain relatively low in the Province and restrictions eased, NLC stores and offices returned to regular business, with enhanced health protocols remaining in place. NLC's response during the pandemic received significant media exposure and positive feedback from customers and the public. In February 2021, with an identified cluster of cases in the St. John's metro region, NLC again shifted quickly to implement initiatives to assist in stopping the spread of the virus. Despite the interruption, the organization continued to deliver on its commitments.

LINES OF BUSINESS

NLC has retail locations throughout the Province, as well as a corporate office, manufacturing plant (Rock Spirits) and distribution centre in St. John's, with a total workforce of 598 employees. Liquor Store and satellite store locations account for 68% of employees, corporate office accounts for 17%, while 15% are employed at Rock Spirits and the distribution centre.

Within NLC's corporate office, employees are responsible for duties pertaining to lines of business associated with both beverage alcohol and cannabis, while the sale of cannabis in physical locations is performed by independent Licensed Cannabis Retailers. Online sales are conducted through NLC's e-Commerce enabled cannabis website, ShopCannabisNL.com.

NLC's lines of business include the following:

- **Retail Beverage Alcohol Sales**
- **Wholesale Beverage Alcohol Sales**
- **Cannabis Sales**
- **Production of Beverage Alcohol**
- **Regulatory Services**

RETAIL BEVERAGE ALCOHOL SALES

The most visible component of NLC's operations to many is the retail sale of beverage alcohol through its 24 Liquor Store locations and 5 Satellite Store locations. Currently, these are located as follows:

St. John's (8 stores, 2 satellites)	Grand Falls-Windsor
Mount Pearl (2 stores, 1 satellite)	Happy Valley-Goose Bay
Clareville (1 store, 1 satellite)	Labrador City
Corner Brook (1 store, 1 satellite)	Marystown
Bay Roberts	Paradise
Carbonear	Placentia
Conception Bay South	Port aux Basques
Gander	Stephenville

Liquor Store outlets are responsible for 59.4% of NLC's beverage alcohol sales and carry an extensive selection of spirits, wine, beer and RTD alcoholic beverages, sourced from within the Province, Canada and around the world. Liquor Store staff members are all direct employees of NLC. All aspects of store design, sales, marketing and merchandising fall under NLC jurisdiction.

WHOLESALE BEVERAGE ALCOHOL SALES

NLC's Wholesale operations supply 140 privately owned Liquor Express locations and over 1,400 licensees. Liquor Express accounts for 36.5% of NLC's annual sales revenues while licensees account for 2.2%. It is worth noting that the Liquor Express figure has increased significantly since the beginning of the COVID-19 pandemic, as restrictions first initiated in fiscal year 2019-20 carried through to this past year, resulting in a shift in how and where beverage alcohol customers are served.

Liquor Express stores are located primarily in rural areas and involve arrangements whereby a private business entity, which competes with other retailers for the right to sell beverage alcohol, is successful in the Request For Proposals process, and receives a commission from NLC on its product sales. Licensees include bars, lounges and restaurants that are licensed by NLC Regulatory Services to purchase beverage alcohol that is resold to customers.

CANNABIS SALES

NLC is responsible for the regulation, product selection, price setting and online retailing of cannabis in the Province. NLC's Merchandising division ensures a stable and reliable supply of safe and secure product is available in the Province. This division researches consumer trends in the cannabis industry and enters into supply agreements with Licensed Producers throughout Canada to offer a wide selection of products to meet consumer demand in Newfoundland and Labrador.

Sales of cannabis in physical locations is conducted through Licensed Cannabis Retailers, which are privately-owned entities that have entered into licensing agreements with NLC. There are currently 30 such locations throughout the Province (visit <https://shopcannabisnl.com/apps/store-locator> for current locations).

Although NLC-licensed retailers are located throughout the Province, NLC also provides customer access to products online at [ShopCannabisNL.com](https://shopcannabisnl.com). This e-Commerce enabled website allows shoppers to access delivery of products directly from Licensed Producers through a common carrier. It also provides valuable information and resources to ensure consumers have access to the educational tools necessary for responsible use and possession of cannabis.

PRODUCTION OF BEVERAGE ALCOHOL

Rock Spirits is NLC's manufacturing operation, and consists of a blending and bottling/canning plant which employs 45 people. NLC has developed formulations for various spirits and RTD products, owns the rights to certain brands, and blends and packages product at its facility in St. John's. These products are sold in Newfoundland and Labrador and are marketed to other liquor jurisdictions in Canada and the northeast United States. NLC also blends, bottles, cans and distributes spirits and RTDs on behalf of other suppliers. NLC's manufacturing plant offers both high speed bottling as well as the ability to support the intricate bottling and canning required of niche brands. In fiscal year 2020-21, it introduced a new canning line to take advantage of the growing trend in RTD beverages and craft brewing.

NLC has secured new contracts and maintains current relationships through exceptional customer service and diligent investments in its manufacturing operations.

Rock Spirits owns, produces and markets the following brands:

Screech Rum	George Street Spiced Rum
Old Sam Rum	Newfoundlander's Rum
Shiver Vodka & Gin	Ragged Rock Rum
London Dock Rum	Screech Punch Ready-to-Drink Beverage
Cabot Tower Rum	

Rock Spirits bottles and cans the following brands on a contractual basis:

Iceberg Vodka, Rum & Gin	Newfoundland Distillery Company Vodka, Gin, Rum & Aquavit
Crystal Head Vodka	
Golden Wedding Whisky	Jumping Bean Rum
Signal Hill Whisky	Good Good You Whisky
Liquormen's Ol' Dirty Whisky	Lamb's Sociale Ready-to-Drink Beverage
Smugglers Cove Rum	



REGULATORY SERVICES

Regulatory Services is responsible for enforcing legislation and regulation of all licensed establishments in the Province in accordance with the **Liquor Corporation Act, Liquor Control Act and Regulations, Cannabis Control Act and Regulations**, and the **Smoke Free Environmental Act**. Regulatory Services is actively involved in the design and implementation of NLC's Social Responsibility programs that promote social responsibility in all areas of business within the Corporation and with its stakeholders.

There are two divisions within Regulatory Services: Licensing and Regulatory Administration which oversees all licensing and administrative matters; and Regulatory Compliance and Enforcement which ensures compliance with governing legislation.

Licensing and Regulatory Administration issues and maintains all liquor licenses in the Province. With the responsibility to license and control the distribution and sale of cannabis added to its mandate in fiscal year 2017-18, NLC's Licensing and Regulatory Administration department is also responsible for issuing and maintaining the licenses of Licensed Cannabis Retailers and authorizations of Licensed Producers in Newfoundland and Labrador. The division is accountable for the development, implementation and maintenance

of licensing and compliance policies and procedures, as well as advising and providing information to the Province in regards to governing legislation.

Regulatory Compliance and Enforcement seeks to educate all interested and vested parties in the relevant laws and regulations promoting voluntary compliance. Where voluntary compliance is not achieved this department is responsible to take steps to ensure violations are addressed and ultimately public safety is protected. NLC's Regulatory Compliance and Enforcement department works closely with its partners in law enforcement and with Canada Post Inspectors to disrupt the illicit cannabis market, furthering the Corporation's mandate to provide a safe and secure supply of cannabis within the Province.

For more information on NLC and its operations, visit nliquor.com, nliquorcorp.com and ShopCannabisNL.com



STRATEGIC THEME 1:

GROW THE BUSINESS

NLC delivers on its financial obligations to the Government of Newfoundland and Labrador by generating earnings through strategic investment and responsible fiscal management, expanding its current customer base and developing the cannabis market. Achievement in this area will be driven through a focus on customer service, convenient access, appealing products and promotions, and more effective distribution and retailing channels. Furthermore, NLC will continue to expand the contribution of Rock Spirits through increased export of its products while attracting additional contract-bottling and canning opportunities.

GOAL

By April 1, 2023, NLC will have grown the business.

Fiscal Year 2021 Objective – By April 3, 2021, NLC will have grown the dividend and expanded the customer base.

INDICATORS:

- Reached sales targets of \$333.5 million
- Achieved dividend of \$187.0 million
- Achieved earnings from operations of \$168.7 million

INDICATOR	20/21 ACTUAL
Reached sales targets of \$333.5 million	\$363.8 million

Sales for the year ending April 3, 2021 were \$363.8 million, \$30.3 million higher than the sales target. This growth was primarily driven by Liquor Express sales, as well as gains across several product categories.

Liquor Express stores accounted for the majority of the increased sales. During the first and fourth quarters, NLC Liquor Stores shifted to telephone and online ordering, with in-store pick-up, while Liquor Express stores remained open to the public.

Spirits sales volume was higher than anticipated and increased during the year, driven primarily by growth in large format sizes.

Wine sales volume was higher than anticipated, driven primarily by growth in large format sizes and premium products.

RTD sales continue to grow each year due to innovation in the category. Sales volume was 39% higher than anticipated during fiscal year 2020-21.

While beer sales in NLC Liquor Stores declined by 16.4% mainly due to customer access during the pandemic, sales to Liquor Express outlets grew by 22.3% and commissions from sales in Brewers' Agents increased by 11.3% during the year.

Cannabis online sales were lower than anticipated during fiscal 2020-21, but higher than the previous year by \$0.3 million. Cannabis sales by Licensed Cannabis Retailers were higher than expected during the year as the industry continues to grow and evolve.

INDICATOR	20/21 ACTUAL
Achieved dividend of \$187.0 million	\$195.0 million

The dividend to the Provincial Government was \$195.0 million, which exceeded the target for fiscal 2020-21. The increased dividend of \$8.0 million related to higher than expected earnings during the fiscal year. The dividend for the 2020-21 fiscal year was \$26.5 million higher than the prior year.

INDICATOR	20/21 ACTUAL
Achieved earnings from operations of \$168.7 million	\$195.2 million

Earnings from operations were \$195.2 million, which was \$26.5 million higher than anticipated. This is due to higher beverage alcohol sales and commissions during the year, along with a focus on minimizing costs and reducing discretionary spending where possible.

Cannabis sales and commissions continue to grow over prior year, contributing to the earnings from operations being ahead of target.

Objective – By April 2, 2022, NLC will have grown the dividend and expanded the customer base.

- Reached sales targets of \$383.6 million
- Achieved dividend of \$210.0 million
- Achieved net earnings of \$191.5 million

SALES BY PRODUCT CATEGORY (MILLIONS OF DOLLARS)

	2020-21 Actual	2020-21 Target	Variance	% Variance	2019-20 Actual	2019-20 Target	Variance	% Variance
Spirits	137.5	127.0	10.5	8.3%	129.6	126.5	3.1	2.5%
Wine	77.3	75.9	1.4	1.8%	78.8	79.5	(0.7)	-0.9%
RTD	31.9	23.3	8.6	36.9%	21.8	20.4	1.4	6.9%
Beer	32.7	38.6	(5.9)	-15.3%	38.3	38.0	0.3	0.8%

SPIRITS SALES

(in thousands of litres)

	2021	2020	2019	2018	2017	2016	2015
Rum	1,593	1,602	1,606	1,711	1,762	1,824	1,893
Rye Whisky	878	861	807	837	836	826	813
Vodka	706	606	589	597	590	590	589
Liqueurs	363	307	311	326	329	356	368
Scotch - other Whisky	79	79	119	123	119	137	129
Gin	91	90	84	72	64	62	61
Tequila	26	23	20	19	19	19	19
Brandy	18	17	17	17	17	17	18
Cognac	3	3	3	3	4	3	4
Miscellaneous	3	3	1	1	1	1	-
	3,760	3,591	3,557	3,706	3,741	3,835	3,894

WINE SALES

(in thousands of litres)

	2021	2020	2019	2018	2017	2016	2015
Table Wine	3,898	4,001	3,998	4,188	4,104	4,047	3,852
Sparkling & Champagne	318	285	284	294	290	296	285
Fortified Wine	53	53	54	59	61	65	70
Low Alcohol Wine	8	10	14	16	10	5	6
	4,277	4,349	4,350	4,557	4,465	4,413	4,213

READY TO DRINK (RTD) & CIDER SALES

(in thousands of litres)

	2021	2020	2019	2018	2017	2016	2015
Refreshment Beverages	3,460	2,276	2,041	1,888	1,789	1,817	1,771
Cider	452	377	371	362	312	300	249
	3,912	2,653	2,412	2,250	2,101	2,117	2,020

BEER SALES

(in thousands of litres)

	2021	2020	2019	2018	2017	2016	2015
Local Beer	2,808	3,509	3,524	3,559	3,570	3,698	3,681
Imported Beer	2,192	2,541	2,630	2,779	2,871	3,017	2,476
Low Alcohol Beer	15	22	32	40	61	94	101
	5,015	6,072	6,186	6,378	6,502	6,809	6,258

STRATEGIC THEME 2:

**OPERATIONAL
EXCELLENCE**

NLC continues to improve operational excellence by working with key stakeholders and partners at all levels of the organization to innovate and increase efficiency and effectiveness. Essential to this is leveraging technology to increase efficiency and workplace safety, to generate and protect data, and to provide solutions that enhance the customer experience.

GOAL

By April 1, 2023, NLC will have improved operational excellence.

Fiscal Year 2021 Objective – By April 3, 2021, NLC will have improved operational efficiency through intelligent application of technology.

INDICATORS:

- Improved inventory turns to 4.8
- Decreased costs as a percentage of sales by 0.5%
- Completed 90% of Information Technology initiatives as per plan

INDICATOR	20/21 ACTUAL
Improved core inventory turns to 4.8	5.2

Improving inventory turns without restricting sales growth is key to increasing efficiency and profitability. As inventory turns improve, efficiencies are gained, freeing up cash for dividend payments.

During fiscal 2020-21, NLC continued to focus on improvements to inventory turnover. Sales increases positively impacted inventory turnover. In addition, supply chain challenges as a result of COVID-19 reduced inventory during certain periods of the year, which improved inventory turnover as the sales were not negatively impacted. This resulted in inventory turns of 5.2, which exceeded NLC's goal of 4.8. Total inventory decreased by \$1.1 million in fiscal year 2020-21 compared to the previous year.

INDICATOR	20/21 ACTUAL
Decreased costs as a percentage of sales by 0.5%	Decreased by 0.6%

Costs decreased as a percentage of sales by 0.6%, which is 0.1% ahead of target. This is primarily due to the strong sales during fiscal 2020-21. Sales growth was achieved without a significant increase in costs due to the focus on minimizing costs where possible.

INDICATOR	20/21 ACTUAL
Completed 90% of Information Technology (IT) initiatives as per plan	75%

IT completed 75% of planned initiatives primarily due to capacity being allocated to unplanned initiatives. IT completed 35 unplanned projects in fiscal year 2020-21, with 13 specifically related to shifting the business to adjust due to the impact of COVID-19, while the others related to changes in business, security and automation.

Objective – By April 2, 2022, NLC will have improved operational efficiency through intelligent application of technology.

- Achieved Inventory turns of 5.0
- Improved cases per worked hours by 2.0%
- Decreased costs as a percentage of sales by 0.3%
- Completed 90% of Information Technology initiatives as per plan

STRATEGIC THEME 3:

**EXCEPTIONAL
STAKEHOLDER
EXPERIENCE**

NLC builds collaborative and productive relationships with stakeholders so that needs are well understood and products, programs, policies and services align with expectations. Furthermore, NLC will ensure products and services are readily available to promote greater stakeholder engagement. NLC will continue to build strategic alliances with key partners in the pursuit of delivering on its mandate. The commitment to exceptional customer experience extends to stakeholders from across NLC's broad spectrum of responsibilities arising from multiple lines of business.

GOAL

By April 1, 2023, NLC will have provided exceptional stakeholder experience.

Fiscal Year 2021 Objective - By April 3, 2021, NLC will have increased access to core products and services.

INDICATORS:

- Customer satisfaction score of at least 95%

INDICATOR	20/21 ACTUAL
Customer satisfaction score of at least 95%	97%

NLC's receipt-based customer satisfaction survey provides valuable insight and information that is used to improve overall customer experience. Liquor Store Managers monitor survey results on a regular basis and make changes to improve customer service where required. NLC has made it a priority to ensure customers' concerns are addressed as soon as possible – in-store, via email, phone and through social media inquiries. Customers have several outlets with which to provide feedback, with in-store staff and head office personnel working closely on matters of customer complaint escalation.

NLC's continued commitment to expand the knowledge of its frontline staff provides Liquor Stores with a highly skilled, well educated workforce, which contributes to the customer experience and satisfaction scores.

Objective - By April 2, 2022, NLC will have improved stakeholder engagement.

- Achieved customer satisfaction score of at least 95%
- Renovated seven NLC Corporate Stores
- Increased number of Licensed Cannabis Retailers by 10
- Implemented cannabis central warehousing



STRATEGIC THEME 4:
PUBLIC TRUST

As a Crown Corporation, particularly one that provides regulatory oversight and promotes social responsibility of controlled substances, public confidence in NLC's operations is paramount. Gaining the public's trust as well as that of its shareholder requires a focus on sound governance practices, transparency and accountability. NLC has integrated practices that promote these elements directly into its operations. Beyond this, NLC protects the public through proactive education and collaborative efforts to enforce compliance with laws and regulations to ensure beverage alcohol and cannabis products are distributed and sold responsibly. NLC establishes and leverages partnerships with organizations and entities across the Province to further promote social responsibility and NLC's positive impact on the communities it serves.

GOAL

By April 1, 2023, NLC will have improved public trust.

Fiscal Year 2021 Objective – By April 3, 2021, NLC will have improved governance practices across the organization and improved stakeholder communication and engagement.

INDICATORS:

- 9.0% of transactions challenged through NLC's challenge and refusals policy
- 90% of licensed establishments inspected
- 10 collaborative enforcement operations involving NLC and partner organizations

INDICATOR	20/21 ACTUAL
9.0% of transactions challenged through NLC's challenge and refusals policy	9.3%

The Corporation monitors its challenge and refusals rate, defined as the percentage of transactions at Liquor Stores during which customers are asked to show identification. NLC's Check 25 program mandates that Liquor Store and Liquor Express staff check identification of customers who look 25 years of age or younger to ensure they are of legal age to purchase beverage alcohol. In fiscal year 2020-21 NLC exceeded its target by challenging and/or refusing 9.3% of all sales transactions.

INDICATOR	20/21 ACTUAL
90% of licensed establishments inspected	94% of Licensed establishments inspected

NLC's Regulatory Enforcement and Compliance team inspected 94% of its licensed establishments throughout fiscal year 2020-21. This was achieved despite COVID-19 restrictions, as Inspectors worked with the Department of Health and Community Services to promote and enforce Special Measures Health Orders throughout the Province. Inspectors were well equipped with personal protective equipment and received positive feedback and response from the public for their efforts.

INDICATOR	20/21 ACTUAL
10 collaborative enforcement operations involving NLC and partner organizations	17





NLC collaborated on partnership campaigns with RCMP, Citizens Crime Prevention, MADD NL and the Safety Council of Newfoundland and Labrador regarding all-terrain vehicle safety operations. It continued working with partners such as Safety NL through NLC's Responsible Choices program, which has now been incorporated into its Driver Training Program.

NLC continued its partnerships with law enforcement officials with Canada Post, RCMP, RNC, Canada Border Services, Ontario Provincial Police, Canadian Intelligence Services and others, as it embarked on successfully disrupting organized crime and the contraband cannabis market. In fiscal year 2020-21, NLC worked with its partners to investigate 27 files, resulting in seizures of 148 kg of cannabis products with an estimated market value of \$1.7 million. Since legalization of cannabis, NLC has seized approximately \$4.7 million worth of contraband cannabis, and estimates that it has captured 37% of the illicit market. This assists greatly with providing public safety through disruption of networks operating in neighborhoods and joint teams' execution of search warrants and arrests. Public messaging with respect to the edibles and the manner in which they are packaged within the illicit market brought public awareness to the forefront.

In partnership with these and other community organizations, NLC will continue to forge ahead with a new Corporate Responsibility plan in fiscal year 2021-22.

Objective – By April 2, 2022, NLC will have improved compliance and public education.

- Collaborated on 10 enforcement initiatives
- Published four Quarterly Performance releases and Cannabis Industry Insights Report
- Updated corporate by-laws and applicable Terms of Reference (Audit and Governance and Human Resources Committees) and Code of Conduct
- Implemented Whistleblower Policy
- Inspected 90% of licensed establishments
- Challenged 9.0% of transactions through NLC's challenge and refusals policy
- Developed new Corporate Responsibility Plan

STRATEGIC THEME 5:

A COMPELLING WORKPLACE

NLC’s corporate success is driven by the efforts and success of its people. Consequently NLC is establishing a compelling workplace that provides individuals with the opportunity to contribute and to grow professionally; provides the tools and skills needed to succeed; creates a culture that embraces diversity, inclusion and belonging; and provides a safe, respectful workspace. A high performing organization requires strong coaching, measurement and recognition of performance, and exceptional two-way communication between management and staff. NLC strives to implement progressive and creative policies and practices that promote a workplace whereby individual satisfaction and achievement are clearly reflected in the results of the organization.

GOAL

By April 1, 2023, NLC will have become a compelling workplace.

Fiscal Year 2021 Objective – By April 3, 2021, NLC will have aligned Human Resources policies to reflect company values and strategic priorities.

INDICATORS:

- Voluntary turnover rate of less than 4%
- Average absenteeism rate of less than 9 days per year
- At least 10 diversity, inclusion and belonging awareness initiatives

INDICATOR	20/21 ACTUAL
Voluntary turnover rate of less than 4%	3.97%

During fiscal year 2020-21 NLC met its goal with a 3.97% turnover rate - defined as permanent employees who voluntarily left the organization, excluding retirements. Efforts in the retention of staff include increased communication and engagement, increased development opportunities, employee recognition and various employee safety and wellness initiatives.

Employee engagement and commitment to fulfilling NLC’s mandate was never more evident than in the organization’s response to the COVID-19 pandemic. Management and staff, in consultation with union representatives, made numerous adjustments in operational and safety protocols to meet the needs of its customers and the public – these adjustments were completed in a timely, orderly and safe manner that reflects the respectful and collaborative relationships within the organization.

The Board’s Governance and Human Resources Committee was reactivated, in part, to provide greater focus on creating a Compelling Workplace. NLC’s Human Resources division hired an additional person to focus on initiatives promoting a Compelling Workplace including revitalization of the Management Readiness Program, performance management, employee engagement and various diversity, inclusion and belonging initiatives.

NLC’s Code of Conduct was also revised to accurately reflect and reinforce company values and strategic priorities.

INDICATOR	20/21 ACTUAL
Average absenteeism rate of less than 9 days per year	5.5 days



NLC exceeded the goal of average absenteeism rate of less than nine days per year. While NLC attendance management practices helped drive this success, the organization's response to COVID-19 also contributed through the numerous safety protocols. These include, but are not limited to mask wearing, having staff work from home where possible and enhanced cleaning and safety protocols in the workplace.

A review of Occupational Health and Safety (OH&S) practices and policies was started and will be used to guide OH&S priorities for the future.

INDICATOR	20/21 ACTUAL
At least 10 diversity, inclusion and belonging awareness initiatives	11

NLC recognizes the value that diversity brings to the organization and is committed to raising its profile within the workplace. This effort is spearheaded by the Diversity, Inclusion and Belonging Committee (DIBC), which implemented 11 initiatives to raise awareness of issues related to diversity, inclusion and belonging.

Highlights of these initiatives include: recognizing Pride Week in all locations and raising the Pride flag at Head Office; Bell Let's Talk Day encouraging all staff to

complete and display Bell Let's Talk bubbles with positive mental health messages; Pink Shirt Day promoting kindness throughout the organization, and education in the form of videos and webinars on topics such as unconscious bias, Indigenous awareness, transgender awareness and allyship. The DIBC is also reaching out to various stakeholders to solicit their input as NLC works to create an environment that truly reflects the diversity of the communities in which it operates.

Objective - By April 2, 2022, NLC will have improved employee safety, health and wellness and will have aligned employee skills with strategic priorities.

- Achieved voluntary turnover rate of less than 4%
- Achieved average absenteeism rate of less than 8.5 days per year
- Implemented at least 10 diversity, inclusion and belonging awareness initiatives



OPPORTUNITIES AND
CHALLENGES

NLC's 2020-2023 Business Plan, presented in the House of Assembly on December 31, 2020, provided the direction for this past fiscal year, and will continue to do so over the next two fiscal years.

Economic uncertainty, as well as demographic challenges related to an aging and declining population continue to be potential barriers to success for NLC and all retailers in Newfoundland and Labrador. This challenge was exacerbated this past fiscal year as the Province and the world encountered the COVID-19 pandemic. From the pandemic's influence on the operations of licensees and other industry stakeholders to shifting trends in customer behavior and even effects on the global supply chain, it is too early to understand its full impact. It continues to be a challenge that demands a heightened level of flexibility to adapt and adjust. The Corporation's people and partners illustrated their ability to rise to this challenge in fiscal 2020-21, creating opportunities that ultimately led to the organization's success in delivering on its commitments.

In the face of economic uncertainty, NLC will support Government's economic policy and reform that is necessary for provincial sustainability and prosperity. NLC believes its focus on innovation through technology and creativity will remain an opportunity that will ensure it follows through on its commitment to Government and the people of Newfoundland and Labrador. While technology continues to be an important opportunity, it comes with some challenges in terms of presenting a degree of risk. With NLC's focus on e-Commerce continuing to evolve throughout the duration of its Business Plan, NLC will ensure it is prepared to deal with issues such as privacy, ransomware and other cyber security risks.

It is important to protect and continue to grow NLC's dividend to Government for continued investment in programs and services that support the population in areas such as education, healthcare and infrastructure.

While doing so, NLC has increased its focus and commitment to corporate responsibility, ensuring it continues to invest in the communities it serves. In order to nurture public trust through corporate responsibility, NLC recognizes an opportunity to broaden its outreach and impact – from a social responsibility and educational standpoint, and with respect to environmental sustainability and other matters of concern within its communities. It will share its expertise to enhance and grow current and new partnerships to this end.

Cannabis continues to represent an opportunity and a challenge to NLC. As this remains a new and evolving industry, NLC will continue to make adjustments as required to ensure it follows through on its commitment to provide access to a safe and secure supply of cannabis. NLC recently announced plans to warehouse and distribute cannabis from its Distribution Centre at East White Hills Road in St. John's. This will ensure NLC provides the most efficient service possible to both the business-to-business customer and consumers, and will allow it to maintain additional oversight of the industry. As NLC continues to add new suppliers and retailers, while working with its partners in law enforcement to interrupt the illicit cannabis market, it will continue to grow its presence and revenue in this industry.

NLC's new canning line at Rock Spirits, opened in fiscal 2020-21, represents an opportunity to take advantage of a growing trend in RTD beverages and craft beer. Currently producing RTDs for both Rock Spirits and Corby Spirit and Wine Ltd., NLC has the ability and expertise to work with producers who may not have such resources in-house, representing an additional revenue stream and a means by which it can further assist this growing and exciting industry.

Given that the Province has a high consumption rate per capita, it is important for NLC to look for opportunities to premiumize products – encouraging the purchase



DURING COVID-19

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of higher quality beverages, not necessarily higher volumes. Both wine and RTDs are among products that are under-indexed in terms of consumption among Newfoundlanders and Labradorians. Premium products in these categories represent an opportunity, as well as craft and local beer and spirits. The changing nature of the beverage alcohol industry combined with the Province's demographics represent both a challenge and a threat to NLC. While the general population in Newfoundland and Labrador is aging, younger generations appear to have different consumption patterns than older generations. This group, along with those immigrating to the Province, represent an opportunity for NLC to change its product mix to align with shifting patterns. NLC will continue to learn and understand emerging trends among these groups and react accordingly.

NLC recognizes the opportunities that arise from developing a workplace that is safe and welcoming of all people, and which reflects the communities it serves. To this end, NLC has identified "A Compelling Workplace" as one of its strategic pillars for its current Business Plan. This will ensure NLC remains an attractive employer to creative and innovative individuals who wish to perform at their best in an environment where they feel welcomed and valued. Retaining and attracting the very best in their fields throughout the organization will ensure it continues to take advantage of all opportunities presented, even in the face of challenge.

NLC CORPORATE

GOVERNANCE

OVERVIEW

NLC's Board of Directors provides oversight and strategic direction to NLC's executive management team, which in turn is responsible for the day-to-day activities of the Corporation. Together, the Board and the Executive make a united effort to provide best practice, socially responsible regulations, and retailing and wholesaling of beverage alcohol and cannabis to the Province, governed by a strong sense of corporate responsibility, transparency and accountability to the people of Newfoundland and Labrador.

In accordance with the **Liquor Corporation Act**, NLC is governed by a Board of Directors of up to nine persons. The independent directors are chosen and appointed for specific terms by the Government of Newfoundland and Labrador, following recommendation by the Independent Appointments Commission, an independent body established by Government to provide merit-based recommendations for appointments to approximately 160 Agencies, Boards, and Commissions. NLC's President and Chief Executive Officer and the Deputy Minister of the Department of Finance are also members of the Board, serving in a non-voting capacity.

The Board of Directors operates within a highly regulated environment. The **Liquor Corporation Act**, **Liquor Control Act and Regulations**, the **Cannabis Control Act and Regulations** and other similar legislation provide direction to the Board in guiding NLC's business affairs. The Corporation's by-laws, vision, mission statement and values further direct both the Board and management in their decision-making. The Board's strategy, three-year business plans, and annual operating plans and budgets are subject to the approval of Government. The Corporation's annual financial statements are subject to audit by the Province's Office of the Auditor General, which also has the authority to examine specific areas of NLC's operations and activities through special audits.

The Board must provide prudent fiscal direction and guidance to the management team, ensuring effective budgeting and financial management, as well as management of enterprise risks. These processes fulfill the Board's commitment to provide overall governance.

COMMITTEES OF THE BOARD

The Board's standing committees engage and support its efforts in a number of governance responsibilities. For the period April 5, 2020 to April 3, 2021, this was accomplished through the following committees:

AUDIT COMMITTEE

The Audit Committee is mandated to provide the Board advice and services in the areas of financial management and reporting, internal control, the internal and external audit process, assessing financial performance against plan, and providing oversight of NLC's enterprise risk management processes.

During the year the Committee worked closely with the Chief Financial and Information Officer, the Director of Enterprise Risk Management and the Vice President, Human Resources and Administration. These included a review of quarterly financial results, oversight of the annual year-end audit and related findings, review of quarterly enterprise risk reports, approval of the annual internal audit plan, review of findings of internal financial and operational audits, and oversight of the development of an enhanced enterprise risk management approach and framework that more closely integrates risk identification and mitigation with strategy execution and achievement of strategic objectives.

GOVERNANCE AND HUMAN RESOURCES COMMITTEE

The Governance and Human Resources Committee is mandated to assist the Board in overseeing the Corporation's approach to corporate governance to promote transparency and accountability, the strategic planning process and framework to provide a proactive approach to strategy formulation and execution, and human resource management, including a philosophy that creates a culture that aligns with NLC's vision and strategic direction.

During the year, the Committee worked closely with the Vice President, Human Resources and Administration, including a major review of Board governance practices, processes and policies, resulting in major updates to NLC’s corporate by-laws, the Terms of Reference for standing committees of the Board, and the Code of Conduct that applies to all employees and directors. The Committee also facilitated the introduction of a new Whistleblower Policy.

BOARD OF DIRECTORS

The following is a summary of Board members, committees on which each serves, meetings attended by Directors with voting status and compensation earned by current members of NLC’s Board of Directors in fiscal year 2020-21.

“AS A BOARD, IT IS OUR MANDATE TO PROVIDE PRUDENT STRATEGIC AND FISCAL DIRECTION AND GUIDANCE IN A CHANGING RETAIL AND REGULATORY LANDSCAPE. TOGETHER WITH NLC’S MANAGEMENT TEAM, WE WILL ENSURE EFFECTIVE STRATEGIC DIRECTION AND CHOICES, AND BUDGETING AND FINANCIAL MANAGEMENT, AS WELL AS ROBUST OVERSIGHT OF ENTERPRISE RISKS THROUGHOUT THE CORPORATION.”

FRASER EDISON, BOARD CHAIR

DIRECTOR	MEETINGS ATTENDED*	COMPENSATION
Fraser Edison, Board Chair ^{1,2}	17	\$5,605
Victoria Belbin, Board Vice Chair ²	12	\$1,955
Geoff Davis ²	14	\$3,045
Sharon Sparkes ¹	12	\$2,102
Donna Rideout ^{1,3}	8	\$1,885
Glenn Mifflin ^{2,3}	9	\$1,885
Paul Smith (non-voting)		
Bruce Keating (non-voting)		

*Includes Board and committee meetings

¹ Audit Committee

² Governance and Human Resources Committee

³ Appointment to the Board of Directors effective July 31st, 2020

FINANCIAL STATEMENTS

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OFFICE OF THE AUDITOR GENERAL
NEWFOUNDLAND AND LABRADOR

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Newfoundland and Labrador Liquor Corporation
St. John's, Newfoundland and Labrador

Opinion

I have audited the financial statements of the Newfoundland and Labrador Liquor Corporation (the Corporation), which comprise the statement of financial position as at April 3, 2021 and the statements of comprehensive income, changes in net assets and cash flows for the period then ended, and notes to the financial statements including 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 Corporation as at April 3, 2021 and its financial performance and its cash flows for the period 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 Corporation 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 Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and my auditor's report thereon. The annual 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 will 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 identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. When I read the annual 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

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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Independent Auditor's Report (cont.)

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the 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 the aggregate, they could reasonably be expected to influence the economic decisions 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 for 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 Corporation'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 the Corporation'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 the Corporation 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.



SANDRA RUSSELL, CPA, CA
Deputy Auditor General

June 24, 2021
St. John's, Newfoundland and Labrador

Newfoundland Labrador Liquor Corporation

STATEMENT OF FINANCIAL POSITION

As at
[in thousands]

	April 3, 2021	April 4, 2020
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	38,647	26,418
Accounts receivable <i>[note 7]</i>	16,323	19,402
Inventories <i>[note 8]</i>	30,071	31,186
Prepaid expenses	943	630
Total current assets	85,984	77,636
Property, plant and equipment <i>[note 4]</i>	19,043	19,206
Intangible assets <i>[note 5]</i>	2,729	3,087
Right-of-use assets <i>[note 6]</i>	5,650	6,455
	113,406	106,384
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities <i>[note 10]</i>	35,703	34,417
Accrued vacation pay	4,277	3,483
Employee future benefits <i>[note 9]</i>	4	15
Total current liabilities	39,984	37,915
Obligations under lease liability <i>[note 15]</i>	6,087	6,854
Employee future benefits <i>[note 9]</i>	3,002	2,881
Total liabilities	49,073	47,650
Net assets	64,333	58,734
	113,406	106,384

See accompanying notes

On behalf of the Board:


Director


Director

Newfoundland Labrador Liquor Corporation

STATEMENT OF COMPREHENSIVE INCOME

Period ended
[in thousands]

	April 3, 2021 \$	April 4, 2020 \$
Sales [note 11]	278,947	268,845
Commission revenue on sale of beer	70,292	63,164
Commission revenue on sale of cannabis	14,527	10,831
	<u>363,766</u>	<u>342,840</u>
Cost of sales	118,519	114,580
Gross profit	245,247	228,260
	<u>50,018</u>	<u>49,192</u>
Administrative and operating expenses [note 12]	50,018	49,192
Earnings from operations	195,229	179,068
Other income		
Finance income	343	366
Miscellaneous income	5,027	5,839
	<u>5,370</u>	<u>6,205</u>
Comprehensive income for the period	200,599	185,273

See accompanying notes

Newfoundland Labrador Liquor Corporation

STATEMENT OF CHANGES IN NET ASSETS

Period ended
[in thousands]

	April 3, 2021 \$	April 4, 2020 \$
Balance, beginning of period	58,734	41,961
Comprehensive income for the period	200,599	185,273
Distributions to the Province of Newfoundland and Labrador	<u>(195,000)</u>	<u>(168,500)</u>
Balance, end of year	<u>64,333</u>	58,734

See accompanying notes

Newfoundland Labrador Liquor Corporation

STATEMENT OF CASH FLOWS

Period ended
[in thousands]

	April 3, 2021 \$	April 4, 2020 \$
OPERATING ACTIVITIES		
Comprehensive income for the period	200,599	185,273
Adjustments for non-cash effects		
Depreciation and amortization	4,173	4,488
Gain on disposal of property, plant and equipment	—	(6)
Increase (decrease) in accrued vacation pay	794	(30)
Increase in employee future benefits	110	67
	<u>205,676</u>	<u>189,792</u>
Changes in non-cash working capital balances		
Decrease (increase) in accounts receivable	3,079	(6,779)
Decrease in inventories	1,115	1,017
(Increase) decrease in prepaid expenses	(313)	412
Increase in accounts payable and accrued liabilities	1,286	530
Cash provided by operating activities	<u>210,843</u>	<u>184,972</u>
INVESTING ACTIVITIES		
Proceeds on disposal of property, plant and equipment	—	6
Purchase of property, plant and equipment	(1,686)	(813)
Purchase of intangible assets	(715)	(145)
Purchase of right to use assets	(446)	—
Cash used in investing activities	<u>(2,847)</u>	<u>(952)</u>
FINANCING ACTIVITIES		
Obligation under lease liability	(767)	(1,347)
Distributions to the Province of Newfoundland and Labrador	(195,000)	(168,500)
Cash used in financing activities	<u>(195,767)</u>	<u>(169,847)</u>
Net increase in cash during the period	12,229	14,173
Cash and cash equivalents, beginning of period	26,418	12,245
Cash and cash equivalents, end of period	<u>38,647</u>	<u>26,418</u>

See accompanying notes

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 3, 2021

1. Nature of operations

Newfoundland Labrador Liquor Corporation [the "Corporation" or "NLC"] is a Provincial Crown Corporation responsible for managing the importation, sale and distribution of beverage alcohol and cannabis throughout the Province of Newfoundland and Labrador [the "Province"] through its own Liquor Store locations, through Liquor Express operators and through online sales for cannabis. As a Crown Corporation, the NLC is not subject to any Provincial or Federal taxation in relation to its income.

The corporate office is located at 90 Kenmount Road in St. John's, Newfoundland and Labrador.

The fiscal year of the Corporation ends on the first Saturday of April. As a result, the Corporation's fiscal year is usually 52 weeks in duration but includes a 53rd week every 5 to 6 years. The years ended April 3, 2021 and April 4, 2020 contained 52 weeks.

These financial statements were authorized for issue in accordance with a resolution of the Corporation's Board of Directors on June 24, 2021.

2. Basis of preparation

Statement of compliance

The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"].

Going concern and basis of measurement

These financial statements were prepared on a going concern basis, under the historical cost convention. The financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand except when otherwise indicated. The financial statements provide comparative information in respect of the previous period.

3. Summary of significant accounting policies

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received [or receivable], excluding returns, rebates and sales taxes or duty. The Corporation assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Corporation has concluded that it is acting as a principal in all of its revenue arrangements with the exception of commission revenue. The Corporation's major revenue streams include sales to retail and wholesale customers and commission revenue on the sale of beer and cannabis. The following specific recognition criteria apply before revenue is recognized:

Sales of goods

The Corporation generates and recognizes net sales of alcohol to retail and licensee customers at the point of sale in its stores and upon delivery of products to Liquor Express outlets. The commission paid to the Liquor Express

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 3, 2021

operators is deducted from the selling price of the products delivered. The commission paid to Liquor Express operators for the period ended April 3, 2021 was \$7.0 million [period ended April 4, 2020 – \$5.7 million].

The Corporation generates and recognizes net sales of cannabis at the point of sale on its e-commerce platform.

Sales of gift cards are deferred and included in accounts payable and accrued liabilities as part of other payables on the statement of financial position at the time of the sale and subsequently recognized in the statement of comprehensive income when redeemed.

Sales exclude Harmonized Sales Tax and other taxes due.

Commission revenue on sale of beer and cannabis

The Corporation earns a commission on the sale of beer products in the Province sold through Liquor Express outlets and brewer's agent stores, and on the sale of cannabis products in the Province sold through Licensed Cannabis Retailers. Commissions are recognized on an accrual basis, based upon beer and cannabis products distributed during the reporting period. The commission earned is presented within revenue as it is earned through the ordinary business activities of the Corporation.

Miscellaneous income

Miscellaneous income contains income related to merchandising and marketing of the Corporation's products. It is earned as promotions are executed and the related expenses are incurred.

Foreign currency translation

Transactions in foreign currencies are initially recorded by the Corporation at rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the functional currency spot rate of exchange ruling at the reporting date. Non-monetary assets are valued at the historical amount.

Current versus non-current classification

The Corporation presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is classified as current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 3, 2021

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Corporation classifies all other liabilities as non-current.

Property, plant and equipment

Property, plant and equipment are stated at cost net of accumulated depreciation and accumulated impairment losses, if any. The cost includes expenditures that are directly attributable to the acquisition of the items. Repairs and maintenance are charged to the statement of comprehensive income during the period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives as follows:

Building components	10–50 years
Leasehold improvements	5–20 years
Office furniture and equipment	5–10 years
Computer hardware	5–6 years
Plant and warehouse equipment	5–20 years
Store equipment and fixtures	5–20 years
Motor vehicles	3 years

Building components include building structure [50 years], building exterior [20 years], mechanical and electrical [20 years], roofing and paving [20 years], and interior finishes [10 years]. These components are combined and presented in these financial statements as building components.

The assets' residual values, useful lives and methods of depreciation are reviewed and adjusted if appropriate at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Intangible assets

Intangible assets consist of trademarks and computer software assets not considered integral to the operation of the related hardware. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any impairment losses. The Corporation capitalizes internally generated intangible assets that meet capitalization criteria. The useful lives of intangible assets are assessed as either finite or indefinite.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 3, 2021

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Intangible assets with finite lives [including computer software] are amortized over periods of 5–9 years. New product research and development costs are expensed as incurred.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit ["CGU"] level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. The Corporation considers the capitalized trademarks to have an indefinite life.

Impairment of non-financial assets

The Corporation assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

Cash and cash equivalents

Cash and cash equivalents are defined as short-term deposits with original maturities of three months or less. The Corporation holds cash in an interest-bearing bank account. The interest income earned on these deposits is recorded as finance income.

Inventories

Inventories are measured at the lower of cost and net realizable value and include raw materials and finished goods. Inventories held in the distribution centres, in transit and in retail stores are measured at landed cost, consisting of acquisition costs, freight and customs and excise duties. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Periodically, the Corporation reviews its inventory to investigate whether an inventory reserve is required, to reduce the carrying value of inventory for obsolescence and amounts required to value inventory at the lower of cost or net realizable value.

Newfoundland Labrador Liquor Corporation

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[tabular amounts in thousands]

April 3, 2021

General provisions

General provisions are recognized when the Corporation has a present obligation [legal or constructive] as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Employee future benefits

Refer to note 9 for additional details regarding employee benefits.

Sick leave

Certain employees of the Corporation are entitled to sick leave benefits that accumulate but do not vest. The Corporation recognizes the liability for the future use of these benefits in the period in which the employee renders the service. The obligation is determined by management using assumptions based on their best estimates of the probability of use of accrued sick leave, salary changes, mortality and expectations on retention along with other relevant assumptions. Discount rates are based on the yield on high quality corporate bonds with cash flows similar to those of this liability. Actuarial gains or losses are recognized immediately in the statement of financial position, with a corresponding debit or credit to net assets through profit or loss in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Pension

The Corporation and its employees participate in the Province's Public Service Pensions Plan ["PSPP"], a multi-employer defined benefit plan. The Corporation is however not able to obtain sufficient information from the plan administrator to account for the plan as a defined benefit plan and therefore applies defined contribution accounting guidelines. The Corporation's contributions are expensed as incurred. The Corporation is neither obligated for any unfunded liability nor entitled to any surplus that may arise in this plan. The Corporation's share of future contributions is dependent upon the funded position of the PSPP.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible by the Corporation.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Corporation uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 3, 2021

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted [unadjusted] market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; or
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Corporation determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization [based on the lowest level input that is significant to the fair value measurement as a whole] at the end of each reporting period.

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[tabular amounts in thousands]

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Financial instruments

Financial assets

Financial assets are classified at initial recognition as financial assets at fair value through profit or loss ["FVTPL"], fair value through other comprehensive income ["FVOCI"], amortized cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value through profit or loss.

Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss, amortized cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognized initially at fair value.

The Corporation has classified and subsequently measures financial assets/liabilities as follows:

<u>Asset/Liability</u>	<u>Classification and Measurement</u>
Accounts receivable	Amortized cost using Effective Interest Rate Method ["EIR"]
Accounts payable and accrued liabilities	Amortized cost using EIR

The carrying value of the Corporation's financial instruments approximates fair value due to their immediate or short-term maturity and normal credit terms.

Impairment of financial assets

The Corporation assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event") has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For financial assets carried at amortized cost, the Corporation first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Corporation determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows [excluding future expected credit losses that have not yet been incurred]. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statement of comprehensive income.

Newfoundland Labrador Liquor Corporation

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[tabular amounts in thousands]

April 3, 2021

Significant accounting judgments, estimates and assumptions

The preparation of the Corporation's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the accompanying disclosures, and disclosure of contingent liabilities. Actual results could differ from those estimates.

The most significant estimates and assumptions were made as part of the sick leave account balances. The Corporation made assumptions regarding the discount rate, salary increase, and retention rates to estimate the amount of sick leave accrued as of the reporting date. There were no significant judgments used in the preparation of these financial statements.

4. Property, plant and equipment

	Land, buildings and leasehold improvements \$	Furniture and equipment \$	Computer equipment and vehicles \$	Total \$
Cost				
As at April 6, 2019	32,033	12,238	7,218	51,489
Additions	41	312	460	813
Disposals	—	(431)	(43)	(474)
As at April 4, 2020	32,074	12,119	7,635	51,828
Additions	90	1,064	532	1,686
Disposals	—	(162)	—	(162)
As at April 3, 2021	32,164	13,021	8,167	53,352
Accumulated depreciation				
As at April 6, 2019	(16,035)	(9,239)	(5,865)	(31,139)
Depreciation for the period	(904)	(404)	(649)	(1,957)
Disposals	—	431	43	474
As at April 4, 2020	(16,939)	(9,212)	(6,471)	(32,622)
Depreciation for the period	(889)	(458)	(502)	(1,849)
Disposals	—	162	—	162
As at April 3, 2021	(17,828)	(9,508)	(6,973)	(34,309)
Net book value				
As at April 4, 2020	15,135	2,907	1,164	19,206
As at April 3, 2021	14,336	3,513	1,194	19,043

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5. Intangible assets

	Computer software \$	Trademark \$	Total \$
Cost			
As at April 6, 2019	16,909	254	17,163
Additions	145	—	145
Disposals	—	—	—
As at April 4, 2020	17,054	254	17,308
Additions	715	—	715
Disposals	—	—	—
As at April 3, 2021	17,769	254	18,023
Accumulated depreciation			
As at April 6, 2019	(13,054)	—	(13,054)
Amortization	(1,167)	—	(1,167)
Disposals	—	—	—
As at April 4, 2020	(14,221)	—	(14,221)
Amortization	(1,073)	—	(1,073)
Disposals	—	—	—
As at April 4, 2020	(15,294)	—	(15,294)
Net book value			
As at April 4, 2020	2,833	254	3,087
As at April 3, 2021	2,475	254	2,729

6. Right-to-Use Assets

	April 3, 2021 \$	April 4, 2020 \$
Opening Balance	6,455	7,337
Additions	446	482
Amortization	(1,251)	(1,364)
	5,650	6,455

The right-to-use assets represent the area that is leased for corporate stores. The Corporation does not recognize right-of-use assets or lease liabilities for short-term leases with a term of less than 12 months.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

(tabular amounts in thousands)

April 3, 2021

7. Accounts receivable

Accounts receivable include the following:

	April 3, 2021 \$	April 4, 2020 \$
Commission receivable	7,438	6,147
Trade accounts receivable	5,089	9,551
Other receivables	3,796	3,704
	16,323	19,402

Accounts receivable and beer commissions receivable are non-interest bearing and are generally on terms of 7 to 30 days.

As at April 3, 2021, approximately 96% [April 4, 2020 – 96%] of the trade accounts receivable balance is current. An allowance for doubtful accounts has been recorded in respect of certain non-current receivables in the amount of \$0.05 million [April 4, 2020 – \$0.07 million].

8. Inventories

	April 3, 2021 \$	April 4, 2020 \$
Distribution centres	15,145	16,730
Branch stores	10,580	10,780
Inventory in transit	3,081	2,483
Raw materials	1,265	1,193
	30,071	31,186

The total value of inventory expensed to cost of sales for the period ended April 3, 2021 was \$113.9 million [April 4, 2020 – \$110.3 million]. The inventory value includes a reserve of \$1.7 million [April 4, 2020 – \$1.3 million]. Residual amounts included in cost of sales include manufacturing labour and overhead, and foreign exchange gains/losses.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 3, 2021

9. Employee future benefits

Employee future benefits include the following:

	April 3, 2021 \$	April 4, 2020 \$
Accrued severance obligation, beginning of period	15	129
Benefits paid	(11)	(114)
Accrued severance obligation, end of period	<u>4</u>	<u>15</u>
	April 3, 2021 \$	April 4, 2020 \$
Accrued sick leave obligation, beginning of period	2,881	2,700
Current service cost	391	376
Interest cost	55	71
Actuarial (gain) loss ¹ due to Experience adjustment	(60)	(82)
	<u>3,267</u>	<u>3,065</u>
Benefits paid	(265)	(184)
Accrued sick leave obligation, end of period	<u>3,002</u>	<u>2,881</u>
Total employee future benefits	3,006	2,896
Less: Current portion	(4)	(15)
Total long-term employee future benefits payable	<u>3,002</u>	<u>2,881</u>

¹ Actuarial losses/gains due to changes in assumptions on the sick leave obligation are recorded in profit or loss.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 3, 2021

The significant assumptions used by the Corporation in calculating the provisions are as follows:

	April 3, 2021	April 4, 2020
	\$	\$
Salary increases	3.25	3.25
Discount rate – sick leave liability	1.80	2.45

Employee retention rates used vary depending on age and length of service.

The table below shows the sensitivities of the total employee benefits to a change in the key assumptions:

	Sick leave obligation	
	\$	%
Discount rate		
1% decrease	205	6.8
1% increase	(184)	(6.1)
Salary increase		
1% decrease	(184)	(6.1)
1% increase	205	6.8
Sick leave usage		
10% decrease in hours	(34)	(1.1)
10% increase in hours	42	1.4

Membership data as at April 3, 2021 was used for the valuation.

Pension plan

The Corporation's share of pension expense for the period ended April 3, 2021 is \$2.3 million [April 4, 2020 – \$2.2 million]. The anticipated contributions for the fiscal year ending April 2, 2022 are \$2.3 million.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 3, 2021

10. Accounts payable and accrued liabilities

	April 3, 2021 \$	April 4, 2020 \$
Trade payables	12,071	10,213
Excise duties	8,403	9,535
Accrued liabilities	7,339	6,507
HST payable	3,326	3,539
Other	4,564	4,623
	35,703	34,417

Included in accrued liabilities is \$1.7M in contractual obligations related to gift cards, net of breakage of \$0.3M.

11. Sales

Sales include the following:

	April 3, 2021 \$	April 4, 2020 \$
Sales of beverage alcohol	272,809	263,921
Sales of cannabis	872	549
Other	5,266	4,375
	278,947	268,845

12. Administrative and operating expenses

	April 3, 2021 \$	April 4, 2020 \$
Salaries and employee benefits	30,160	29,136
Depreciation and amortization	2,922	3,124
Interest and bank charges	2,338	2,344
Marketing and royalties	1,521	1,883
Rent and municipal taxes	2,631	2,706
Other	10,446	9,999
	50,018	49,192

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 3, 2021

13. Capital management

The Corporation defines capital that it manages as net assets. Due to its nature as a Crown Corporation, the Corporation's capital management is strongly influenced by the liquidity forecasts of the Province, and although the Corporation prepares its own budget, including proposed distributions, the Province may at any time decide to request an additional distribution or to increase the distributions as included in the budget. Generally, the Corporation aims at maintaining a net assets balance that ensures that the Corporation is able to fund its obligations as they fall due and has available a reserve to allow for unexpected expenditures. Annual budgets and distribution plans are set to accommodate the Corporation's expenditures in relation to planned investments in property, plant and equipment and intangible assets.

No changes were made in the objective, policies, or processes for managing capital during the periods ended April 3, 2021 and April 4, 2020.

14. Financial risk management objectives and policies

The Corporation's principal financial liabilities comprise trade and other payables. The Corporation's principal financial assets include trade and other receivables and cash and cash equivalents that derive directly from its operations. The primary risk to the Corporation is credit risk.

Credit risk

The Corporation is exposed to credit risk with respect to accounts receivable from customers. The Corporation provides products to a large customer base, which minimizes the concentration of credit risk. There were two customers that accounted for 10% or more of the Corporation's accounts receivable as at April 3, 2021 [April 4, 2020 – two customers]. The Corporation has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and utilizes internal and third-party collections processes for overdue accounts.

Accounts receivable balances related to Liquor Express store operations are subject to general security agreements. The Corporation also maintains provisions for potential credit losses that are assessed on an ongoing basis.

Newfoundland Labrador Liquor Corporation

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[tabular amounts in thousands]

April 3, 2021

15. Obligation under lease liability

	April 3, 2021 \$	April 4, 2020 \$
Opening Balance	6,854	7,719
Additions	446	482
Interest	252	289
Lease Payments	(1,465)	(1,636)
	<u>6,087</u>	<u>6,854</u>

Annual obligations under lease liability are as follows:

	April 3, 2021 \$	April 4, 2020 \$
Within one year	1,166	1,223
After one year but no more than five years	2,889	3,131
More than five years	2,032	2,500
	<u>6,087</u>	<u>6,854</u>

16. Related party transactions

The Corporation uses office and warehouse space in St. John's that is owned by the Department of Transportation and Infrastructure of the Province. The Corporation is not required to make any payments to the Department of Transportation and Infrastructure; no amount has been recorded in these financial statements. All operating, leasehold and maintenance costs related to the buildings are the responsibility of the Corporation.

During the period ended April 3, 2021, the Corporation made distributions of \$195.0 million [period ended April 4, 2020 – \$168.5 million] to the Province.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, being the members of the Executive Management. The total compensation [including salary and benefits] paid to key management personnel for the period ended April 3, 2021 was \$0.9 million [April 4, 2020 – \$0.8 million].

SALES BY LOCATION

(NLC LIQUOR STORES)

FISCAL YEAR 2021

(THOUSANDS OF DOLLARS)

Howley Estates	19,477
Corner Brook - Humber Gardens	11,356
Topsail Road	11,261
Long Pond - CBS	9,944
Kelsey Drive	9,528
Merrymeeting Road	9,508
Paradise	8,849
Mount Pearl - Old Placentia Road	8,718
Stavanger Drive	7,438
Happy Valley	7,332
Gander	7,307
Grand Falls	7,275
Pearlgate Plaza	6,579
Bay Roberts	5,770
Ropewalk Lane	5,732
Clareville	5,690
Stephenville	5,286
Marystown	4,994
Carbonear	4,586
Blackmarsh Road	4,451
Labrador City	4,225
Port aux Basques	2,483
Placentia	2,000
Newfoundland Drive - Satellite Store	1,322
Murphy's Square - Satellite Store	1,256
Queen Street	1,140
Centennial Square - Satellite Store	986
Lake Avenue - Satellite Store	658
Clareville Irving - Satellite Store	430

