2016-2017
ANNUAL **REPORT**

NEWFOUNDLAND
LABRADOR
LIQUOR CORPORATION

Table of Contents

Chairperson's Message

I am pleased to present the Annual Report for fiscal year 2016-17 on behalf of the Newfoundland Labrador Liquor Corporation (NLC) Board of Directors, which is accountable for the contents and results reported herein.

This Annual Report outlines results, financial information and highlights from 2016-17. As the third and final fiscal year of NLC's 2014-17 Business Plan, it also provides a summary of NLC's successful completion of those years covered in the plan.

Within the past three years, NLC has returned a dividend of $170.5 million in fiscal year 2014-15, $158.5 million in 2015-16 and $198.0 million in 2016-17. Revenue, which includes sales and commission on the sale of beer, for fiscal 2016-17 reached $332.1 million, and total net earnings for the year were $176.2 million, a growth of 13.4% since fiscal 2013-14.

A new three year Business Plan for 2017-2020 was presented in the House of Assembly on June 30th, 2017 and is available to view online at nlliquor.com/corporate/about-nlc/business-plan.

As NLC prepares to take advantage of future opportunities, the Corporation will build upon its past success, focusing on outstanding customer service, progressive corporate culture and excellent financial performance, while staying true to its commitment to social responsibility.

I would like to thank the Government of Newfoundland and Labrador for its continued support and in particular, the Honourable Tom Osborne, Minister of Finance. In addition, I would like to congratulate Steve Winter and his team for the results achieved during the 2016-17 fiscal year.

This year marks the final year of NLC's three year Business Plan. I look forward to working with Mr. Winter and his team towards the continued success of the Corporation in years to come.

Sincerely,

Wayne Myles, QC

Photo: (left) Wayne Myles, QC, Chairperson of the Board, (right) Steve Winter, President & CEO

Vision & Mission

NLC Vision

To be passionate about service in everything we do.

NLC Mission

NLC is responsible for the importation, sale, and distribution of beverage alcohol within the Province – with the expectation that it will generate revenue for the Provincial Government which will be reinvested for the benefit of the population. Furthermore, NLC strives to ensure its mandate is conducted in a socially responsible manner. In NLC's view, these are the outputs expected of it – and they are not expected to change. To achieve these outputs, NLC has adopted the following mission statement:

To be recognized as an exceptional organization, known for its passion in customer service, strong business performance, and progressive corporate culture.

NLC is committed to sustainable, socially responsible growth. Over the coming years NLC will continue to manage the business to the benefit of the people of Newfoundland and Labrador.

NLC will have further improved the customer experience, improved safety culture, built on the foundation of social responsibility, and delivered a sustainable distribution to the Province.

NLC Values

Socially Responsible

Each NLC employee and Board member will advocate intelligent consumption by seeking to inform and educate customers and clients in the safe, responsible use of our products and by practicing intelligent consumption. NLC will also actively contribute to the communities within which it operates. Finally, NLC will also seek to operate in an environmentally friendly manner.

Professional

Each NLC employee and Board member will develop trusting relationships with our clients by demonstrating our values, being honest and forthright, honouring our commitments, and treating people with respect and dignity. NLC stores will be clean, attractive, well designed and functional. NLC staff will be knowledgeable, friendly, and will engage customers thoughtfully and courteously to ensure their needs are clearly understood and serviced.

Teamwork

Each NLC employee and Board member recognizes the importance of diversity and teamwork and will encourage input from all of our key stakeholders to promote better decision-making and to optimize performance. We will recognize outstanding contributions and will look for opportunities to celebrate and develop strong relationships among our staff. We will ensure expectations are defined and communication clear.

Initiative

Each NLC employee and Board member appreciates that leadership is not position specific. Initiative will be encouraged, recognized and rewarded throughout the organization. Staff will be expected to use good judgment and will be empowered to make decisions. NLC employees and Board members believe initiative leads to greater success – individually and organizationally.

Accountability

NLC employees and Board members recognize that each individual is personally responsible for ensuring that expectations are understood and will take the appropriate actions to ensure that these expectations are met. These individuals will seek feedback to ensure that expectations are met, and where they are not, will take action to remedy the situation and prevent it from happening in the future.

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 606 employees. *Liquor Store* and satellite store locations account for 68.0% of employees, corporate office accounts for 19.0%, while 13.0% are employed at *Rock Spirits* and the distribution centre. The workforce is 60.0% female and 40.0% male.

Retail Sales

Liquor Store outlets carry an extensive selection of spirits, wine, beer and ready to drink (RTD) alcoholic beverages, imported from within Canada and around the world, as well as, some locally produced spirits, wine and beer. *Liquor Store* staff are all direct employees of NLC. All aspects of store design, sales, marketing, merchandising and human resources fall under NLC jurisdiction.

The most visible component of NLC's operations to many is the retail sales of beverage alcohol through its 25 *Liquor Store* locations and 3 satellite store locations throughout the Province. These sales account for close to 64.0% of total sales. Population dictates the location of corporate stores. Currently, these stores are situated in the following localities:

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

Wholesale Sales

NLC's Wholesale operations supply 144 *Liquor Express* branded locations and over 1,400 licensees.

Liquor Express sales account for 29.0% of NLC's annual provincial sales revenues while licensees account for 6.0%. *Liquor Express* stores are normally located in areas in the Province that do not have the population to support a corporate store and involve an arrangement whereby an individual or corporation competes for the right to sell beverage alcohol in a retail environment. *Liquor Express* stores have limited selection relative to a *Liquor Store* and are more suited to the areas they service. *Liquor Express* operators receive a commission from NLC. Licensees include bars, lounges and restaurants that are licensed by NLC Regulatory Services to receive product that can be resold to customers for profit.

Blending/Bottling

NLC's manufacturing operation, known as *Rock Spirits*, consists of a blending and bottling plant. NLC has developed recipes for various spirits, owns the rights to certain brands, and blends and bottles product at its facility in St. John's. These products are sold in Newfoundland and Labrador as well as marketed to other liquor jurisdictions in Canada, the United States and Germany. *Rock Spirits* also blends, bottles and distributes spirits on behalf of other suppliers. *Rock Spirits* offers both high speed bottling as well as the ability to handle intricate bottling required of unique bottle shapes and sizes. NLC has made investments in its manufacturing operation to strengthen its position in regards to securing new contracts and to maintain production under current contracts.

Rock Spirits owns, produces, and markets the following products:

Screech Rum	Shiver Vodka
Screech Honey Rum	Shiver Gin
Screech Spiced Rum	Cabot Tower Rum
Screech Gingerbread Rum	London Dock Rum
Old Sam Rum	Ragged Rock Rum
Old Sam 5 Rum	George Street Spiced Rum
Newfoundlander's White Rum	

Rock Spirits also contract bottles the following:

Crystal Head Vodka	Iceberg Vodka
Smuggler's Cove Rum	Iceberg Rum
Golden Wedding Whisky	Iceberg Gin
White Star Rum	Iceberg Silver Rum
Hounds Vodka	
Liquormen's Ol' Dirty Canadian Whisky	

Regulatory Services

Regulatory Services is the division responsible for regulation of all licensed establishments in the province in accordance with the *Liquor Control Act and Regulations*, the *Liquor Corporation Act* and the *Smoke Free Environmental Act*.

The division consists of two distinct departments - one which oversees all licensing and administrative matters and the other which ensures compliance with governing legislation:

Licensing and Regulatory Administration issues and maintains all liquor licenses in the Province. Licensing information is effectively stored and maintained to assure data accuracy, promoting operational efficiency in support of Regulatory Compliance. The department is accountable for the development, implementation, and maintenance of policies and procedures, as well as advising the Province on governing legislation. The department provides exceptional customer service for license applicants through clearly defined processes, communications and education.

The **Regulatory Compliance** department 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 assured.

NLC is adopting the use of consolidated and harmonized sets of compliance controls and methodologies such as risk-based inspections, remediation, education programs and effective, efficient inspections and investigative methods to act when suspected infringement occurs. This approach is used to ensure that all necessary governance requirements can be met with the optimum level of resources.

Regulatory Services is committed to providing a service that is based on NLC's vision and in keeping with the values set forth by the Corporation. Regulatory Services is actively involved in the design and implementation of NLC social responsibility programs while implementing practices and initiatives that promote social responsibility in all areas of business within the Corporation and with our many external stakeholders.

Additional Information

For more information on NLC and its operations, see NLC's website at www.nlliquor.com.

Issue 1: Improved Financial Performance

Paramount in the delivery of a balanced financial result for NLC is its unwavering commitment to social responsibility. NLC must balance the needs of all customers, employees and suppliers while optimizing the Corporation's value to the shareholder, the Province of Newfoundland and Labrador, and to the people of the Province. NLC must ensure pricing keeps pace with inflation and the relative pricing of other consumer products, while encouraging the purchase of higher quality products, thus contributing to revenue growth in a socially responsible manner.

Goal

By April 1, 2017, NLC will have improved its financial performance.

Measure

Improved Financial Performance

Indicators:

*Grown sales
*Achieved balanced financial return
*Improved operational efficiency

Objective – By April 1, 2017, NLC will have improved financial returns to its shareholder

Measure

Improved Financial Returns

Indicator	16/17 Actual
Increased sales by 4.3% compared to fiscal year 2015-16	1.1%

Sales for the year ended April 1, 2017 were $267.1 million, a $3.0 million increase over the prior year's sales of $264.1 million. This represents a 1.1% increase which did not meet the target of 4.3%, a shortfall of 3.2 percentage points. The sales target was determined prior to having knowledge of the extent of several external economic influences which impacted the disposable income of NLC's customers. An increase in various Provincial taxes, combined with a general downturn in the economy relating to employment particularly in the oil and gas industry, impacted consumer buying behaviour. Customers were not shopping as frequently as experienced in the past which greatly influenced the sales numbers. The number of transactions in NLC Corporate *Liquor Stores* decreased by 96,000, a 2.2% reduction from fiscal 2015-16.

A price increase of 3.0% on average offset the decline in transactions, coupled with a volume increase in wine which increased 1.2% over the prior year. Spirits (-2.5%), Ready-to-drink (-0.8%) and Beer (-4.5%) all experienced declines in volume. The beer category's decline can be in part attributed to a distribution change for several large brands which were anticipated to be distributed by NLC for the entire fiscal year however changed to be distributed by a local brewery commencing in the third quarter. Beer commission revenue increased as a result. Spirits volume, which experienced a 1.5% decline in fiscal 2015-16, experienced a greater decline in fiscal 2016-17 of 2.5%. Since fiscal 2013-14, when spirits volume was at its peak, the category has declined by 204,000 litres or 5.2%. This is indicative of consumers' changing preferences. While the category delivers the greatest margin, both in terms of dollar value and as a percentage, the Corporation must adjust the business model to deliver what customers desire. That said, NLC will continue to educate, promote and ensure the spirits category, which represents 48.6% of sales, receives focus and attention to maximize profitability.

Indicator	16/17 Actual
Increased dividend by 15.5% compared to fiscal year 2015-16	24.9%

The dividend to the Province increased to $198.0 million for the year ended April 1, 2017 from $158.5 million for the year ended April 2, 2016. The $198.0 million included an additional payment of $15.0 million from accumulated cash surpluses from prior years. Excluding this additional payment would normalize the current year's payment to $183.0 million which when compared to $158.5 million paid this year would amount to an increase of $24.5 million or 15.5% which was the target set for fiscal 2016-17.

Indicator	**16/17 Actual**
Maintained Sales per Worked Hour (SPWH)	Achieved

SPWH increased 6.4% vs. the previous fiscal year. After conducting an operational analysis, the Corporation was able to make more efficient use of labour and drive productivity gains. An analysis of sales per hour compared with labour costs by store location resulted in a reduction of store opening hours on Sundays in several locations. Additionally, projecting a challenging economic environment, an aggressive store labour reduction plan was implemented in the third and fourth Quarters combined with more optimal use of full time and part time staff.

Indicator	**16/17 Actual**
Improved core inventory turns without restricting sales growth	Core inventory turns have increased from 4.1 turns per year to 4.4

Improving core inventory turns without restricting sales growth is a priority for NLC. As inventory turns improve, efficiencies are gained, which decreases the investment in inventory, freeing up cash for dividend payments.

During fiscal 2016-17, NLC improved its core inventory turns as it decreased its average inventory on hand by $2.0 million. NLC reviewed the number of product offerings during the year as well as the number of new listings with the goal to reduce these product offerings without restricting sales and product selection. In addition, during fiscal 2016-17 an international supplier of beverage alcohol entered into a storage and distribution agreement with a warehouse located in Halifax, Nova Scotia. This agreement allowed NLC to procure various products from Halifax that were previously sourced from international locations, thus reducing lead times and inventory balances.

Three Year Performance Summary

Indicator	**Result**
Grown Sales	Achieved

NLC has significantly improved its financial performance over the three year period from the end of fiscal 2013-14 to fiscal 2016-17.

Annual net sales have grown by $20.7 million at the end of the three-year period, an increase of 8.4%. The result of this sales growth is an additional $16.9 million in gross profit at the end of the three year period, an increase of 12.3%. This growth is attributable to a focus on customer service and ensuring product offerings and promotional activity deliver the desired results.

Indicator	**Result**
Achieved Balanced Financial Return	Achieved

The annual distribution to Government has increased over the three year period by $46.0 million or 30.3%. $15.0 million of that increase paid in 2016-17 was related to accumulated budget surpluses. Excluding the additional payment in 2016-17, the distribution would have increased $31.0 million or 20.4% since 2013-14.

Indicator	**Result**
Improved Operational Efficiency	Achieved

Another significant contributing factor to the successful execution of the Business Plan targets was a concentrated effort to reduce operating expenses as a percentage of sales. These efficiencies were gained through initiatives such as labour management and targeted cost reductions resulting in the operating expenses as a percentage of sales decreasing from 18.8% in 2013-14 to 18.2% for 2016-17.

Sales by product category (millions of dollars)

	2016-17 Actual	2016-17 Target	Variance	% Var.	2015-16 Actual	Variance	% Var.
Spirits	129.5	133.1	(3.6)	-2.7%	128.1	1.4	1.1%
Wine	80.3	80.6	(0.3)	-0.4%	77.6	2.7	3.5%
RTD	17.5	18.1	(0.6)	-3.3%	17.2	0.3	1.7%
Beer	38.6	42.2	(3.6)	-8.5%	39.0	(0.4)	-1.0%

Spirit Sales

(in thousands of litres)

	2016-17	2015-16	2014-15	2013-14	2012-13
Rum	1,762	1,824	1,893	1,947	1,959
Rye Whisky	836	826	813	815	814
Vodka	590	590	589	584	560
Liqueurs	329	356	368	371	379
Scotch - other Whisky	119	137	129	124	116
Gin	64	62	61	60	59
Tequila	19	19	19	20	21
Brandy	17	17	18	19	20
Cognac	4	3	4	4	4
Miscellaneous	1	1	-	1	1
	3,741	3,835	3,894	3,945	3,933

Wine Sales

(in thousands of litres)

	2016-17	2015-2016	2014-15	2013-14	2012-13
Table Wine	4,104	4,047	3,852	3,692	3,495
Sparkling & Champagne	290	296	285	275	274
Fortified Wine	61	65	70	71	71
Low Alcohol Wine	10	5	6	5	4
	4,465	4,413	4,213	4,043	3,844

Ready to Drink (RTD) and Cider Sales

(in thousands of litres)

	2016-17	2015-16	2014-15	2013-14	2012-13
RTD	1,789	1,817	1,771	1,578	1,584
Cider	312	300	249	137	88
	2,101	2,117	2,020	1,715	1,672

Beer Sales

(in thousands of litres)

	2016-17	2015-16	2014-15	2013-14	2012-13
Local Beer	3,570	3,698	3,681	3,479	3,386
Imported Beer	2,871	3,017	2,476	2,378	2,134
Low Alcohol Beer	61	94	101	100	102
	6,502	6,809	6,258	5,957	5,622

Issue 2: Improved Customer Service Experience

From 2014 through 2017, NLC has been guided by its vision, "to be passionate about service in everything we do." This commitment is embraced and upheld by all employees throughout the Corporation and is a continual focus of NLC's Executive Management team and Board, which recognizes that its success rests on the ability to meet and exceed customer expectations. NLC's customer promise is reflected in its inviting shopping environment, knowledgeable staff, excellent product selection and effective product promotions and events.

NLC's efforts to deliver an exceptional customer experience through professional and well trained staff have been key to its success throughout the 2014-2017 period.

Goal

By April 1, 2017, NLC will have improved the customer service experience.

Measure

Implemented Initiatives

Indicators:

* Installed new POS solution
* Built further product knowledge capacity in staff
* Started discovery process for store of the future

Objective – By April 1, 2017, NLC will have improved the customer service experience

Measure

Improved Customer Service Experience

Indicator	16/17 Actual
Trained and placed an additional Product Knowledge Consultant (PKC) at select locations	Achieved

Expanding the reach of Product Knowledge Consultants ensures customers have a consistent, pleasant and rewarding shopping experience. In fiscal 2016-17, NLC placed an additional four PKCs at select stores, including Blackmarsh Road, Pearlgate Plaza, Kelsey Drive and Long Pond. This brings the total number of PKCs to 10 across the Province.

The International Sommelier Guild (ISG) is an organization which pools the resources of the top experts, educators, industry leaders, and beverage alcohol producers in the world. ISG offers continuing education in the world of beverage alcohol and is widely recognized as a leader in this field. In fiscal 2016-17, 60 store employees were trained in ISG Level 1 and 19 in ISG Level 2.

NLC's Senior PKC also began coursework towards his Wine and Spirits Education Trust (WSET) Level 4 Diploma. This is a prestigious program which will ensure staff members are provided with the most relevant, up to date product knowledge training.

Product knowledge doesn't apply to just one individual, but is a blanket initiative spearheaded by the PKCs. Through initiatives such as staff Lunch and Learns, enhanced in-store tastings and more focused, specialized customer service at special events, PKCs are conduits of information and advice to customers and staff alike.

NLC's efforts to deliver an exceptional customer experience through professional and well trained staff continues to be a key contributor in the Corporation's ability to meet and exceed customer expectations and provide the personalized customer experience they desire.

Indicator	16/17 Actual
Renovated Blackmarsh Road and Humber Gardens Liquor Store locations, implementing learnings from Paradise location and achieved business plan volume for both locations in fiscal 2016-17	Partial

The Blackmarsh Road, St Johns location was renovated in May, 2016. This was a major renovation to mirror the Paradise store, which was the most recent store format. The changes included: straight aisles, new beer room, paint scheme, taste station location, redesigned front end, electronic feature signage and new flooring. The Humber Gardens, Corner Brook location was completed in November and involved a less extensive renovation. These changes included: new beer room, redesigned front end and electronic feature signage. The new designs have received positive feedback from customers and strategic investment in the customer shopping experience will provide a long term financial benefit.

NLC experienced a shortfall in sales of 10.4% and 3.9% vs. budget at the Blackmarsh Road and Humber Gardens locations, respectively. Both locations were impacted by the change in the overall economic environment, which was not factored in the 2016-17 budget. In addition the Blackmarsh Road renovation was completed two months later than anticipated which also impacted sales compared to budget.

Indicator	16/17 Actual
Increased number of stores with Seasonal Beer offerings	Achieved

In fiscal 2016-17, NLC increased the number of stores participating in the Seasonal Beer Program from 14 to 21 locations. As consumers broaden their tastes, and the category becomes more fragmented, this is a significant tool to keep pace with consumers' demand for new items. Growth in the Seasonal Beer Category was 65.9% in the fiscal year.

Indicator	16/17 Actual
Initiated the implementation of an E-Commerce solution that will allow customers to order and pay online and pick up product at the store location of their choice	Achieved

Significant work was completed towards the implementation of NLC's E-commerce initiative, which is scheduled for implementation in fall, 2017. During fiscal 2016-17, NLC's work focused on developing the infrastructure required to support an E-commerce solution. This included development of a strategic digital roadmap, the evaluation and selection of an Omni-channel E-commerce solution, and an integrations assessment of E-commerce into existing NLC solutions.

Initial offerings will be limited to premium items, allowing greater access, regardless of geography, and will allow customers to designate a Liquor Store location of their choice for pick up.

Best practices were solicited from the other jurisdictions that have implemented E-Commerce and the model is scalable.

Indicator	16/17 Actual
Trained additional employees in the Sommelier Guild (ISG) level 2, advanced wine knowledge course	Achieved

NLC trained an additional 19 store employees, who achieved ISG Level 2 designation. There are now 65 ISG Level 2 certified staff in the Corporation. This is the minimum requirement to apply to be a Product Knowledge Consultant.

Three Year Performance Summary

Indicator	Result
Installed new POS System	Achieved

As per NLC's 2014-2017 Business Plan, the Corporation made significant gains in improving the customer experience over this period. The installation of a new POS System in fiscal 2015-16 gives NLC the ability to provide more dynamic, customized promotions to customers, offers customers the ability to see their AIR MILES earned on-receipt, and opens up the opportunity for NLC to provide a robust Omni-channel customer experience – both in-store and online.

Indicator	Result
Built Product Knowledge Capacity in Staff	Achieved

As noted in its 2014-17 Business Plan, NLC set out to build product knowledge and expertise among its staff over the course of this three year period. Between fiscal 2014-15 and fiscal 2016-17, NLC has trained the following numbers of employees in these specific programs:

- SERVE / Graff TV (Customer Service training) – 231
- ISG Level 1 – 194
- ISG Level 2 – 65
- Product Knowledge Level 1 – 76
- Product Knowledge Level 2 – 60
- Product Knowledge Level 3 - 38

Indicator	Result
Started Discovery Process for Store of the Future	Achieved

In fiscal 2015-16, NLC launched its new store concept in Paradise. This location includes several enhancements to the traditional store model, including large, straight aisles, a spacious cooler room and LED lighting, creating clearer sightlines and well-lit product displays. NLC adopted several of these improvements in additional Liquor Stores in fiscal 2016-17, creating an improved in-store customer experience.

Installation of a new POS system, building additional product knowledge among staff and improvements to in-store design have ensured that the Corporation has achieved its goal of improving the customer service experience.

Issue 3: Reinforce Safety Culture

Commitment to safety is the responsibility of every employee at NLC, and is key to the success of all business units.

NLC's strategic framework, which guides safety initiatives, is supported by a strong commitment from its leadership group. A culture of safety is entrenched in NLC's Board, management team and union partners, who share in the responsibility of continuous improvement in this area.

Goal

By April 1, 2017, NLC will have enhanced its organizational programs aimed to strengthen a culture of safety.

Measure

Enhanced Organizational Programs

Indicators:

* Enhanced current and developed new safety programs
* Improved communication of safety programs and initiatives
* Implemented a proactive approach to safety that is based on intelligent data analysis

Objective – By April 1, 2017, NLC will have enhanced its organizational programs aimed to strengthen a culture of safety

Measure

Enhanced Organizational Programs

Indicator	16/17 Actual
Completed the training and implementation of in-house racking program	Achieved

In accordance with continual improvement practices, NLC will train two people in a "train-the-trainer" session on inspecting and maintain steel racking. This would allow annual audits to be carried out in all NLC facilities that have steel racking in accordance with the Canadian Standards Association (CSA) standard for *Inspecting and Maintaining Steel Racks*. NLC's annual audit protocol has been drafted based on the CSA standards; however, until the training has been completed the annual inspection of racking will be completed by an outside third party.

Indicator	16/17 Actual
Completed four surprise audits based on analytics and other identifiers	Achieved

In fiscal 2016-17, NLC implemented unannounced audits as part of its Occupational Health and Safety (OHS) audit program. Stores were reviewed based on injuries, past audit scores, sick leave numbers and OHS directives and recommendations by senior managers. In fiscal 2016-17, Pearlgate Plaza was audited twice, while Howley Estates and Happy Valley-Goose Bay were also audited. Based on the success of this initiative, NLC will continue its focus on surprise audits well into the next business planning cycle and beyond.

Indicator	16/17 Actual
Coordinated and executed third annual Safety Summit	Cancelled

Because of additional programming, NLC reviewed its priorities in light of fiscal budget constraints and determined that this initiative could be postponed without compromising the health and safety of staff.

Indicator	16/17 Actual
Coordinated and reviewed Disability Management (DM) Program	Achieved

Two meetings were held in fiscal 2016-17 with the Joint DM Committee. Recommendations were made based on current best practices and issues were identified. This program was revised to incorporate a more comprehensive approach to accommodations and in particular mental health illness and disabilities. It is planned that the committee will reconvene in fiscal 2017-18.

Indicator	16/17 Actual
Completed retail stores ergonomic risk assessment	Achieved

Assessment of the retail environment has been completed with a review of six stores: Kelsey Drive, Mount Pearl, Queen Street, Stavanger Drive, Ropewalk Lane and Blackmarsh Road. When the report is formally completed, it will be shared with the store operations team.

Three Year Performance Summary

Indicator	Result
Enhanced current and developed new safety programs	Achieved

NLC takes pride in fostering a safety conscious culture. Throughout the last three fiscal years, the Corporation has enhanced and developed new safety programs. In fiscal 2014-15, a new online OHS audit tool was introduced, providing improved reporting, increased productivity, and prompt recognition and correction of issues. Safety summits were held in fiscal 2014-15 and 2015-16, which brought together Safety Champions from throughout the organization to obtain further training and development in the field. Over the three year period, NLC has also developed and delivered training for safe knife usage at retail, enhanced its electronic workplace inspection templates (Pronto Forms), completed ergonomic assessment of retail stores and implemented unannounced bi-annual safety audits on all locations, with an average score of 96.0% in fiscal 2016-17.

NLC continues to work with both internal and external stakeholders to ensure it provides the safest work environment possible for all staff. WorkplaceNL statistics indicate a 16.7% reduction in all injuries and a 33.0% reduction in lost time injuries at NLC over the last two years.

Indicator	Result
Improved communication of safety programs and initiatives	Achieved

Open, regular communication with NLC employees is critical to ensure the safety message permeates the whole organization. NLC improved the beginning-of-shift warmup and end-of-shift cool down communication in-store in fiscal 2014-15, and incorporated employees into these posters, demonstrating proper techniques.

NLC's Safety Minutes, delivered directly from the Vice President, Human Resources, highlight everyday safety messages that can be incorporated into employees' personal and work lives. The purpose of this exercise is to encourage NLC staff to think about safety in every facet of their lives, leading to a safety culture, which influences their behaviours both at home and on the job.

Indicator	Result
Implemented a proactive approach to safety that is based on intelligent data analysis	Achieved

Occupational Health and Safety data was analyzed to identify the most prevalent root causes of incidents. Based on these results, programs were reviewed with a targeted approach and implemented to address these root causes to prevent future incidents of the same nature.

Issue 4: Be a Leader in Social Responsibility

NLC customers and the general public have clear expectations of NLC to operate in a socially responsible manner. This includes safe sale and distribution of NLC products, and ensures those who sell beverage alcohol comply with all applicable legislation.

Goal

By April 1, 2017, NLC will have implemented programs to enhance our leadership role in social responsibility (SR).

Measure
Implemented Programs

Indicators:
* Implemented risk-based inspection schedule
* Enhanced Social Responsibility initiatives
* Implemented communications plan for licensees

Objective – By April 4, 2017, NLC will have implemented programs to enhance our leadership role in social responsibility

Measure
Implemented programs

Indicator	16/17 Actual
Coordinated joint roadside and boating checks with law enforcement partners	Partial

NLC participated in several seasonal roadside checks with law enforcement partners, Royal Newfoundland Constabulary (RNC) and Royal Canadian Mounted Police (RCMP) as well as Mothers Against Drunk Driving (MADD), to launch and promote its Red Ribbon campaign. These included roadside checks at multiple locations on the West Coast and the Avalon Peninsula, as well as an extensive weekend-long initiative with RNC, RCMP and Highway Enforcement during the Victoria Day weekend. Boating checks scheduled for July 2016 were cancelled by RCMP due to logistical concerns.

During these checks, NLC's role is to support law enforcement and to promote its social responsibility campaigns through distribution of promotional "drinking and driving kills" material.

Indicator	16/17 Actual
Expanded role for inspectors in various community programs	Achieved

NLC Liquor Control Inspectors provided in-service training in the Liquor Control Act and Liquor Licensing Regulations to our law enforcement partners, high school and college students and community groups as well as liquor licensees.

NLC actively partnered with Mothers Against Drunk Driving (MADD), throughout the Province with their School Assembly Series and its inspectors participated in delivering programs such as Responsible Choices, completed in 23 high schools throughout the Province reaching approximately 1500 students.

Inspectors have also been trained to facilitate the Party Program, a program designed to prevent alcohol and risk related trauma in youth.

Three Year Performance Summary

Indicator	Result
Implemented risk-based inspection schedules	Achieved

A risk-based inspection schedule was written and adopted in fiscal 2014-15. This policy attached a ranking to licensees based on several criteria, including history, geography, nature of business and magnitude of special events held on premises. Licensees with higher risk levels are visited more often than those with a lower level of risk, ensuring more efficient allocation of resources, and encouraging further compliance among potential offenders.

Indicator	Result
Enhanced SR Initiatives	Achieved

During the past three years NLC has realized significant enhancements to its social responsibility programing and initiatives. New and continued community partnerships grow and thrive.

Indicator	Result
Implemented communications plan for licensees	Achieved

In fiscal 2015-16, NLC undertook efforts to increase engagement with the licensee community, implementing a communications plan for licensees. This initiative includes bi-annual e-newsletters, delivered to more than 1000 licensees via email. Development work was also completed on the creation of a licensee handbook – an easy reference guide for all companies and individuals who sell beverage alcohol in Newfoundland and Labrador.

From roadside checks to classroom education sessions and providing updated information with licensee newsletters and the user handbook, NLC is committed to both its customers and the communities in which it operates. NLC has reached and exceeded its projected three year goal and will continue to strive for excellence in SR for the betterment of its employees and its communities alike.

Opportunities & Challenges Ahead

NLC's 2014-2017 Business Plan led the Corporation's efforts over the past three fiscal years. The 2017-2020 Business Plan, presented in the House of Assembly on June 30th, 2017 will guide NLC's decisions during the coming years. The Corporation will progress through the Objectives, Initiatives, Measures and Targets outlined in each Theme of its 2017-2020 Business Plan.

Demographic shifts in Newfoundland and Labrador, including an aging and declining population, represent NLC's most significant challenge, particularly when combined with a declining economic outlook and decreasing disposable income among consumers.* To continue to grow revenue in a socially responsible manner in this environment, it is increasingly important to ensure the Corporation is educating consumers, in an effort to promote drinking "better, not more" and to provide an outstanding customer experience, both in-store and online.

In order to ensure that NLC continues to be in sync with the shopping expectations of consumers, it will continue to focus on engaging customers online, both through social channels and a newly designed website with E-commerce capabilities. This provides an opportunity to capture sales outside of the in-store environment, at the point-of-decision, and at a time and place that is most convenient to the customer.

Newfoundlanders and Labradorians continue to expand their tastes in beverage alcohol, both through travel abroad and experiencing current industry trends, and expect NLC to offer products to suit their interests and lifestyles.

Working with its loyalty partner, LoyaltyOne and the AIR MILES® Rewards program, NLC will continue to harness and leverage customer data to create better service experiences, online and in-store.

Newfoundlanders and Labradorians continue to expand their tastes in beverage alcohol, both through travel abroad and experiencing current industry trends, and expect NLC to offer products to suit their interests and lifestyles. It is imperative that NLC seize the opportunity to meet customer demands by accessing and offering products that customers want, while managing its inventory in the most efficient manner possible. With a growth in craft brewing and distilling, NLC's Rock Spirits division is well positioned to take advantage of new and exciting opportunities through co-packing arrangements with local partners. As well, NLC must continue to leverage its special events portfolio to allow customers to sample a varied range of items, particularly premium products, leading to increased sales.

The impending legalization of marijuana is anticipated to be both an opportunity and a challenge, with significant revenue and cost implications associated with it. If requested by the Provincial Government, NLC is prepared to play a role that is deemed appropriate.

**Real Household Disposable Income forecast to decrease over remainder of 2017 through 2019. Source: Statistics Canada; CMHC; Economic and Project Analysis Division, Department of Finance.*

Financial Statements

of Newfoundland Labrador Liquor Corporation
April 1, 2017

Independent Auditors' Report

To the Board of Directors of
Newfoundland Labrador Liquor Corporation

We have audited the accompanying financial statements of **Newfoundland Labrador Liquor Corporation**, which comprise the statement of financial position as at April 1, 2017 and the statements of comprehensive income, changes in net assets and cash flows for the period then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Newfoundland Labrador Liquor Corporation** as at April 1, 2017 and its financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP
Chartered Professional Accountants

St. John's, Canada
June 26, 2017

Newfoundland Labrador Liquor Corporation

Statement of Financial Position

[in thousands]

As at

	April 1, 2017 $	April 2, 2016 $
Assets		
Current		
Cash and cash equivalents	**16,596**	29,429
Accounts receivable *[note 8]*	**12,516**	13,135
Inventories *[note 9]*	**36,043**	40,567
Prepaid expenses	**1,928**	1,940
Total current assets	**67,083**	85,071
Property, plant and equipment *[note 6]*	**23,143**	25,076
Intangible assets *[note 7]*	**6,502**	6,997
	96,728	117,144
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities *[note 11]*	**31,415**	30,554
Accrued vacation pay	**3,725**	3,536
Total current liabilities	**35,140**	34,090
Obligations under finance lease *[note 16]*	**98**	167
Employee benefits *[note 10]*	**7,702**	7,287
Total liabilities	**42,940**	41,544
Net assets	**53,788**	75,600
	96,728	117,144

See accompanying notes

On behalf of the Board:

Director

Director

Newfoundland Labrador Liquor Corporation

Statement of Comprehensive Income

[in thousands]

Period ended

	April 1, 2017	April 2, 2016
	$	$
Sales *[note 12]*	**267,123**	264,135
Commission revenue on sale of beer	**64,961**	62,303
	332,084	326,438
Cost of sales	**112,719**	114,096
Gross profit	**219,365**	212,342
Administrative and operating expenses *[note 13]*	**48,734**	50,303
Earnings from operations	**170,631**	162,039
Other income		
Finance income	**342**	239
Miscellaneous income	**5,161**	4,360
	5,503	4,599
Net earnings for the period	**176,134**	166,638
Other comprehensive income		
Remeasurement of employee benefits *[note 10]*	**54**	152
Comprehensive income for the period	**176,188**	166,790

See accompanying notes

Newfoundland Labrador Liquor Corporation

Statement of Changes in Net Assets

[in thousands]

Period ended

	April 1, 2017	April 2, 2016
	$	$
Balance, beginning of period	**75,600**	67,310
Net earnings for the period	**176,134**	166,638
Other comprehensive income for the period	**54**	152
Comprehensive income for the period	**176,188**	166,790
	251,788	234,100
Distributions to the Province of Newfoundland and Labrador	**(198,000)**	(158,500)
Balance, end of period	**53,788**	75,600

See accompanying notes

Newfoundland Labrador Liquor Corporation

Statement of Cash Flows

[in thousands]

Period ended

	April 1, 2017 $	April 2, 2016 $
Operating activities		
Comprehensive income for the period	**176,188**	166,790
Add (deduct) items not affecting cash		
Depreciation and amortization	**3,942**	3,935
(Gain) loss on disposal of property, plant and equipment	**(9)**	5
Accrued vacation pay	**189**	314
Increase (decrease) in employee benefits	**415**	(311)
	180,725	170,733
Changes in non-cash working capital balances related to operations		
Decrease in accounts receivable	**619**	884
Decrease in inventories	**4,524**	2,011
Decrease in prepaid expenses	**12**	107
Increase (decrease) in accounts payable and accrued liabilities	**861**	(671)
Cash provided by operating activities	**186,741**	173,064
Investing activities		
Proceeds on disposal of property, plant and equipment	**9**	—
Purchase of property, plant and equipment	**(628)**	(1,243)
Purchase of intangible assets	**(886)**	(1,155)
Cash used in investing activities	**(1,505)**	(2,398)
Financing activities		
Decrease in obligations under finance lease	**(69)**	(69)
Distributions to the Province of Newfoundland and Labrador	**(198,000)**	(158,500)
Cash used in financing activities	**(198,069)**	(158,569)
Net (decrease) increase in cash during the period	**(12,833)**	12,097
Cash and cash equivalents, beginning of period	**29,429**	17,332
Cash and cash equivalents, end of period	**16,596**	29,429

See accompanying notes

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

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 throughout the Province of Newfoundland and Labrador [the "Province"] through its own Liquor Store locations and through Liquor Express operators. 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 periods ended April 1, 2017 and April 2, 2016 both contained 52 weeks. The next fiscal year ending April 7, 2018 will contain 53 weeks.

These financial statements were authorized for issue in accordance with a resolution of the Corporation's Board of Directors on June 26, 2017.

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. The Corporation's major revenue streams include sales to retail and wholesale customers and commission revenue on the sale of beer. The following specific recognition criteria apply before revenue is recognized:

Sales of goods

The Corporation generates and recognizes net sales 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 operators is deducted from the selling price of the products delivered. The commission paid to Liquor Express operators for the period ended April 1, 2017 was $5.6 million [period ended April 2, 2016 – $5.4 million].

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 HST and other taxes due.

Commission revenue on sale of beer

The Corporation earns a commission on the sale of beer products in the Province sold through Liquor Express outlets and brewer's agent stores. Commissions are recognized on an accrual basis, based upon beer 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 realised 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.

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

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

- 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.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset, even if that asset is not explicitly specified in an arrangement. The Corporation analyzes its lease agreements to assess whether they are finance or operating leases, using the lease term, useful life of the underlying asset, the present value of lease payments and other relevant factors.

Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Property under finance lease is recorded as an asset. The corresponding obligation is recorded as a liability at the lower of the fair value of the asset and the present value of the minimum lease payments. Assets are amortized over the shorter of the lease term or the life of the asset.

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

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.

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. For the period ended April 1, 2017, the Corporation did not hold a guaranteed investment certificate [April 2, 2016 – $5.0 million].

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

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, NLC 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.

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 benefits

Refer to note 10 for additional details regarding employee benefits.

Severance

The Corporation provides a severance payment to employees upon resignation, retirement or termination subject to certain vesting and other conditions of employment. The obligation is actuarially determined using assumptions based on management's best estimates of the probability of employees meeting the eligibility requirements for severance, 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 in other comprehensive income ["OCI"] in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

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 actuarially determined using assumptions based on management's 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.

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

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. NLC'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.

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.

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

Financial instruments

Financial assets

Financial assets are classified at initial recognition as financial assets at fair value through profit or loss ["FVTPL"], loans and receivables, held-to-maturity investments, available-for-sale financial assets, 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, loans and borrowings, 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:

Asset/Liability	Classification	Measurement
Accounts receivable	Loans and receivables	Amortized cost using Effective Interest Rate Method ["EIR"]
Accounts payable and accrued liabilities	Loans and borrowings	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.

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

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

4. Changes in accounting policies

Annual Improvements 2012-2014 Cycle

These improvements are effective from January 1, 2016 and the Corporation has applied these amendments for the first time in these financial statements. They include:

IFRS 7, *Financial Instruments: Disclosures*

The amendment clarifies whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required.

IAS 19, *Employee Benefits*

The amendment clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid [thus, the depth of the market for high quality corporate bonds should be assessed at currency level].

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify the existing presentation and disclosure requirements in IAS 1, including the presentation of line items, subtotals and notes, and provide guidance to assist entities to apply judgment in determining what information to disclose, and how that information is presented in their financial statements. This amendment did not have a material impact on the annual financial statements of the Corporation.

5. Standards issued but not yet effective

The Corporation monitors the activities of the IASB and considers the impact that changes in the standards may have on the Corporation's financial reporting. Some of the ongoing projects that may impact the Corporation are as follows:

IFRS 9, *Financial Instruments*

In 2013, the IASB issued amendments to IFRS 9, *Financial Instruments* ["IFRS 9"], issued in 2010, which will ultimately replace IAS 39. The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, and a new hedge accounting model with corresponding disclosures about risk management activity. IFRS 9 allows for early adoption, but the Corporation does not intend to do so at this time. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

In April 2016, the IASB published clarifications to IFRS 15 that address three topics [identifying performance obligations, principal versus agent considerations, and licensing] and provide some transition relief for modified contracts and completed contracts.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Corporation is currently evaluating the impact arising from the adoption of this standard.

IFRS 16, *Leases*

IFRS 16 was issued in January 2016 and is effective for periods beginning on or after January 1, 2019. An organization can choose to apply IFRS 16 before that date but only if it also applies IFRS 15

The new standard changes the classification of leases. All leases result in an organization obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognize:

[a] assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
[b] depreciation of lease assets separately from interest on lease liabilities in the income statement.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events. The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the asset. The Corporation is currently evaluating the impact arising from the adoption of this standard.

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

6. Property, plant and equipment

	Land, buildings and leasehold improvements	Furniture and equipment	Computer equipment and vehicles	Total
	$	$	$	$
Cost				
As at April 4, 2015	32,622	12,076	5,940	50,638
Additions	257	285	701	1,243
Disposals	—	(822)	(295)	(1,117)
As at April 2, 2016	32,879	11,539	6,346	50,764
Additions	65	265	298	628
Disposals	—	(154)	(211)	(365)
As at April 1, 2017	**32,944**	**11,650**	**6,433**	**51,027**
Accumulated depreciation				
As at April 4, 2015	(12,298)	(8,085)	(3,668)	(24,051)
Depreciation for the period	(1,269)	(752)	(728)	(2,749)
Disposals	—	821	291	1,112
As at April 2, 2016	(13,567)	(8,016)	(4,105)	(25,688)
Depreciation for the period	(1,258)	(651)	(652)	(2,561)
Disposals	—	154	211	365
As at April 1, 2017	**(14,825)**	**(8,513)**	**(4,546)**	**(27,874)**
Net book value				
As at April 2, 2016	19,312	3,523	2,241	25,076
As at April 1, 2017	**18,119**	**3,137**	**1,887**	**23,143**

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

7. Intangible assets

	Computer software $	Trademark $	Total $
Cost			
As at April 4, 2015	15,184	254	15,438
Additions	1,155	—	1,155
Disposals	(23)	—	(23)
As at April 2, 2016	16,316	254	16,570
Additions	886	—	886
Disposals	(416)	—	(413)
As at April 1, 2017	**16,789**	**254**	**17,043**
Accumulated depreciation			
As at April 4, 2015	(8,410)	—	(8,410)
Amortization	(1,186)	—	(1,186)
Disposals	23	—	23
As at April 2, 2016	(9,573)	—	(9,573)
Amortization	(1,381)	—	(1,381)
Disposals	413	—	413
As at April 1, 2017	**(10,541)**	**—**	**(10,541)**
Net book value			
As at April 2, 2016	6,743	254	6,997
As at April 1, 2017	**6,248**	**254**	**6,502**

8. Accounts receivable

Accounts receivable include the following:

	April 1, 2017 $	April 2, 2016 $
Beer commission receivable	**5,091**	5,841
Trade accounts receivable	**3,003**	2,897
Other receivables	**4,422**	4,397
	12,516	13,135

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

As at April 1, 2017, approximately 99% [April 2, 2016 – 97%] 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 $0.04 million [April 2, 2016 – $0.04 million].

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

9. Inventories

	April 1, 2017 $	April 2, 2016 $
Distribution centres	**21,471**	25,381
Branch stores	**10,016**	9,967
Inventory in transit	**3,507**	3,948
Raw materials	**1,049**	1,271
	36,043	40,567

The total value of inventory expensed to cost of sales for the period ended April 1, 2017 was $107.5 million [April 2, 2016 – $108.6 million]. The inventory value includes a reserve of $0.9 million [April 2, 2016 – $0.9 million]. Residual amounts included in cost of sales include manufacturing labour and overhead, and foreign exchange gains/losses.

10. Employee benefits

Employee benefits include the following:

	April 1, 2017 $	April 2, 2016 $
Accrued severance obligation, beginning of period	**4,337**	4,207
Current service cost	**363**	363
Interest cost	**164**	148
Actuarial gain[1] due to		
Experience adjustment	**—**	(49)
Changes in financial assumptions	**(54)**	(103)
	4,810	4,566
Benefits paid	**(173)**	(229)
Accrued severance obligation, end of period	**4,637**	4,337
Accrued sick leave obligation, beginning of period	**2,950**	3,391
Current service cost	**305**	306
Interest cost	**96**	85
Actuarial loss (gain)[2] due to		
Experience adjustment	**—**	(466)
Changes in financial assumptions	**11**	(78)
	3,362	3,238
Benefits paid	**(297)**	(288)
Accrued sick leave obligation, end of period	**3,065**	2,950
Total employee benefits, end of period	**7,702**	7,287

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

[tabular amounts in thousands]

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

	April 1, 2017 %	April 2, 2016 %
Salary increases	**3.25**	3.25
Discount rate – severance liability	**3.65**	3.55
Discount rate – sick leave liability	**3.05**	3.10

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		Severance obligation	
	$	%	$	%
Discount rate				
1% decrease	243	7.9	580	12.5
1% increase	(210)	(6.9)	(486)	(10.5)
Salary increase				
1% decrease	(272)	(8.9)	(576)	(12.4)
1% increase	310	10.1	682	14.7
Sick leave usage				
10% decrease in hours	(347)	(11.3)	—	—
10% increase in hours	342	11.2	—	—

Membership data as at April 5, 2015 was used for the valuation and extrapolated to April 1, 2017.

Pension plan

The Corporation's share of pension expense paid to the PSPP for the period ended April 1, 2017 is $2.3 million [April 2, 2016 – $2.3 million]. The anticipated contributions for the fiscal year ending April 7, 2018 are $2.3 million.

11. Accounts payable and accrued liabilities

	April 1, 2017 $	April 2, 2016 $
Excise duties	**9,526**	10,348
Trade payables	**7,831**	5,684
Accrued liabilities	**5,808**	6,835
HST payable	**3,013**	2,550
Other	**5,237**	5,137
	31,415	30,554

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

12. Sales

Sales include the following:

	April 1, 2017 $	April 2, 2016 $
Sales of beverage alcohol	**261,514**	258,320
Other	**5,609**	5,815
	267,123	264,135

13. Administrative and operating expenses

	April 1, 2017 $	April 2, 2016 $
Salaries and employee benefits	**31,002**	31,149
Depreciation and amortization	**3,942**	3,935
Rent and municipal taxes	**2,743**	2,659
Marketing and royalties	**2,279**	2,648
Interest and bank charges	**2,475**	2,414
Other	**6,293**	7,498
	48,734	50,303

14. Capital management

The Corporation defines capital that it manages as net assets. Due to its nature as a Crown Corporation, NLC'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 1, 2017 and April 2, 2016.

15. 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.

Notes to financial statements

[tabular amounts in thousands]

April 1, 2017

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 1, 2017 [April 2, 2016 – 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.

16. Commitments

The Corporation has entered into rental leases covering most of its corporate stores and has concluded that all of its retail store leases are operating leases.

Annual operating lease obligations are as follows:

	April 1, 2017 $	**April 2, 2016** $
Within one year	**2,336**	2,525
After one year but no more than five years	**4,885**	6,488
More than five years	**3,770**	4,441

The Corporation has one finance lease with the following lease obligations:

	April 1, 2017 $	**April 2, 2016** $
Within one year	**62**	70
After one year but no more than five years	**36**	97

17. Related party transactions

The Corporation uses office and warehouse space in St. John's that is owned by the Department of Works, Services and Transportation of the Province. The Corporation is not required to make any payments to the Department of Works, Services and Transportation; 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 1, 2017, the Corporation made distributions of $198.0 million [period ended April 2, 2016 – $158.5 million] to the Province.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of NLC, being the members of the Executive Management [CEO/President, Senior Vice President & CFO, Vice President of Sales, Vice President of Supply Chain Management, Vice President of Human Resources and Corporate Administration, and Chief Information Officer]. The total compensation [including salary and benefits] paid to key management personnel for the period ended April 1, 2017 was $1.0 million [April 2, 2016 – $0.9 million].

18. Comparative financial statements

Certain prior period amounts have been reclassified for consistency with the current period presentation. These re-classifications had no effect on the reported results of the Corporation.

Sales by Corporate Store Location

(Thousands of dollars)
Fiscal Year 2017

Howley Estates	17,494
Stavanger Drive	12,184
Long Pond - CBS	10,068
Corner Brook - Humber Gardens	9,955
Merrymeeting Road	9,719
Kelsey Drive	9,651
Pearlgate Plaza	9,086
Mount Pearl - Old Placentia Road	9,039
Topsail Road	9,035
Gander	7,589
Paradise	7,523
Grand Falls-Windsor	7,291
Happy Valley-Goose Bay	7,125
Blackmarsh Road	6,701
Bay Roberts	6,032
Clarenville	5,802
Queen Street	5,457
Ropewalk Lane	5,275
Stephenville	5,197
Carbonear	4,984
Marystown	4,779
Corner Brook Plaza	3,692
Labrador City	3,603
Port aux Basques	2,565
Placentia	2,064
Lake Avenue - Satellite Store	1,478
Centennial Square - Satellite Store	1,240
Clarenville Irving - Satellite Store	488

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