2017-2018 annual REPORT

NEWFOUNDLAND LABRADOR LIQUOR CORPORATION

TABLE OF CONTENTS

Chairperson's Message
3

Overview
4

Highlights
and Partnerships
5

Lines of Business
6-8

Strategic Theme 1
Strengthen the Business
9-11

Strategic Theme 2
Operational Excellence
12-13

Strategic Theme 3
Customer Experience
14-15

Strategic Theme 4
Social Responsibility (SR)
16-17

Opportunities and
Challenges Ahead
18

Financial Statements
19

Sales by Location
41

CHAIRPERSON'S MESSAGE

I am pleased to present the Annual Report for fiscal year 2017-18 on behalf of the Newfoundland Labrador Liquor Corporation (NLC) Board of Directors, which is accountable for the contents and results reported herein.

This past fiscal year marked the beginning of NLC's 2017-2020 Business Plan. The Annual Report will outline results and financial highlights from 2017-18, providing a summary of the first fiscal year of NLC's newest planning cycle.

In addition to the direction outlined in NLC's 2017-2020 Business Plan, in fiscal 2017-18 the Corporation was requested to take a lead role in the development and implementation of the Province's sale and distribution of non-medical cannabis. Working together with partners in Government, law enforcement and the business community, NLC is prepared to provide safe and secure access to these products for Newfoundlanders and Labradorians in the upcoming fiscal year.

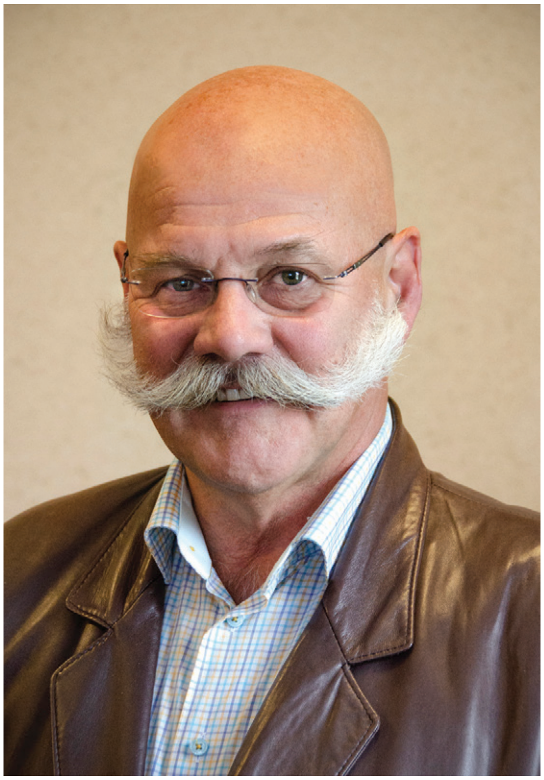
NLC returned a dividend of $180.0 million in fiscal 2017-18 to the Corporation's shareholder, the Government of Newfoundland and Labrador. Total net earnings for the year were $177.4 million.

I would like to thank the Government of Newfoundland and Labrador for its support and in particular, the Honourable Tom Osborne, Minister of Finance. In addition, I would like to congratulate Sharon Sparkes, Interim President and CEO and her team for the results achieved during the 2017-18 fiscal year.

NLC's Vision, as adopted in its 2017-2020 Business Plan is to be dedicated to our customers and communities with progressive, passionate and responsible service. I look forward to continued success and positive contributions to the people of Newfoundland and Labrador in the years ahead.

Sincerely,

Wayne Myles, QC



OVERVIEW

The Newfoundland Labrador Liquor Corporation (NLC) is responsible for the importation, sale and distribution of beverage alcohol in Newfoundland and Labrador. NLC operates under the expectation that it will generate revenue for the Government of Newfoundland and Labrador that will be reinvested for the benefit of the people of the province. Furthermore, NLC strives to ensure that its mandate is carried out in a socially responsible manner. Over the coming years NLC will continue to prioritize investment, focus resources, strengthen operations and ensure that employees and other stakeholders are working towards the common goal of benefiting the people of Newfoundland and Labrador.

Since the development of its 2017-2020 Business Plan, NLC's mandate has evolved to reflect its new responsibility for overseeing the sale and distribution of non-medical cannabis in Newfoundland and Labrador. This will be reflected in NLC's Lines of Business for the 2018-19 fiscal year and beyond.

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 normally includes a Chairperson, the President and Chief Executive Officer 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. Reporting to the board, the President and CEO is also appointed by the Lieutenant Governor in Council.

NLC's head office, as well as its blending/bottling plant (Rock Spirits) are located at 90 Kenmount Road, St. John's. Its distribution centre is located at 300 East White Hills Road, St. John's. NLC Liquor Stores are found throughout the province. NLC provides employment to 601 employees, 352 of which are female and 249 of which are male.

NLC's gross expenditures in the 2017-18 fiscal year were $162.9 million, with revenue of $334.8 million.

For additional information on NLC's Vision, Mission and Values, please visit **http://www.nlliquor.com/corporate/about-nlc/business-plan.**

HIGHLIGHTS AND PARTNERSHIPS

NLC was successful in achieving its financial commitment to the Provincial Government once again in the 2017-18 fiscal year, and achieved or exceeded all operational measures. Part of this success was due to the implementation of programs aimed at increasing efficiencies and reducing overall costs.

During the 2017-18 fiscal year, NLC made investments in the customer experience by continuing to monitor and adjust product selection. Growth opportunities were also capitalized on, by hosting five special sampling events, as well as the opening of a fourth satellite location at 370 Newfoundland Drive in St. John's (located in the new Coleman's grocery store).

Additionally, NLC's investment in product knowledge has helped ensure customers enjoy both a friendly and educational experience while shopping. Customers have come to expect a high level of expertise when visiting NLC Liquor Stores, and trust NLC and its staff to provide this enhanced experience via various touchpoints and interactions.

NLC's third annual Presidents Awards celebrated the work of six NLC employees, who were recognized for their contribution to Social Responsibility by going above and beyond their normal duties and responsibilities and providing vastly superior service and customer interaction.

Furthermore, a Licensee Handbook has been created as an easy reference guide that highlights key legislation and NLC policies for licensees. The handbook is posted on NLC's website and a link is included in all correspondence to licensees.

Since the development of NLC's 2017-2020 Business Plan, its mandate has been expanded to include the provision of safe and secure access to non-medical cannabis throughout the province once Federal and Provincial legislation is passed in fiscal 2018-19. After working closely with its partners within the Government of Newfoundland & Labrador, NLC publicly released its initial Request for Proposals for Licensed Cannabis Retailers (LCRs) on February 20, 2018, with plans to service Newfoundland and Labrador through LCRs and online at **www.ShopCannabisnl.com.**

LINES OF BUSINESS

Since the development of NLC's 2017-2020 Business Plan, the Corporation has added an additional satellite location in St. John's, and has grown its Rock Spirits division to include several additional brands. It has also restructured its Regulatory Services division to prepare for the legalization of non-medical cannabis in the 2017-18 fiscal year.

NLC's lines of business have been updated to reflect these changes, and include:

- Retail Sales
- Wholesale Sales
- Blending/Bottling
- Regulatory Services

RETAIL SALES

The most visible component of NLC's operations is its 25 Liquor Store and 4 satellite store locations. These are currently located in:

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

Liquor Store outlets carry an extensive selection of Canadian and international spirits, wine, beers and ready-to-drink alcoholic beverages, including locally produced spirits, wine and beer. Liquor Store staff members are all direct employees of NLC, and all aspects of store design, sales, marketing, merchandising, and human resources fall under NLC jurisdiction.

WHOLESALE SALES

NLC's wholesale operations supply 146 Liquor Express locations and over 1,400 licensees. Liquor Express accounts for 29.0% of NLC's annual sales revenues while licensees account for 6.0%. Liquor Express stores are located primarily in rural areas and involve arrangements whereby a business entity competes to sell beverage alcohol in a retail environment, receiving a commission from NLC on its product sales.

Licensees include bars, lounges and restaurants that are licensed by NLC Regulatory Services to purchase product that is resold to customers at a profit.

BLENDING / BOTTLING

Rock Spirits is NLC's manufacturing operation and consists of a blending and bottling plant that employs over 45 people. NLC has developed formulations for various spirits; owns the rights to certain brands; and blends and bottles products at its facility in St. John's. These products are sold in the province and are marketed to other liquor jurisdictions in Canada and the northeast United States. NLC also blends, bottles, and distributes spirits on behalf of other suppliers.

NLC's manufacturing plant also offers high speed bottling and the ability to support the unique bottling requirements of niche brands. As a result of its exceptional market position, NLC has secured new contracts and maintains current relationships through leading customer service practices and diligent investments in its manufacturing operations.

Rock Spirits owns, produces and markets:

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

Rock Spirits contract bottles:

- Iceberg Vodka
- Iceberg Gold Rum
- Iceberg Silver Rum
- Iceberg Gin
- Crystal Head Vodka
- Crystal Head Aurora Vodka
- Golden Wedding Whisky
- Liquormen's Ol' Dirty Canadian Whisky
- Signal Hill Whisky
- Newfoundland Distillery Company Gin
- Newfoundland Distillery Company Vodka
- Newfoundland Distillery Company Aquavit
- White Star Rum
- Hounds Vodka
- Drinklab Hop Vodka
- Smugglers Cove Rum

REGULATORY SERVICES

Regulatory Services is responsible for the 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. Regulatory Services is actively involved in the design and implementation of NLC's Social Responsibility programs, while promoting social responsibility in all areas of business within the Corporation and with our stakeholders.

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

Licensing and Regulatory Administration issues and maintains all liquor licenses in the province. Licensing information is stored and maintained to assure data accuracy, thereby promoting operational efficiency in support of Regulatory Compliance. The division is accountable for the development and implementation of policies and procedures, as well as advising and providing information to the government of Newfoundland and Labrador regarding governing legislation.

Regulatory Compliance strives to educate interested and vested parties in the relevant laws and regulations, promoting voluntary compliance. Where voluntary compliance is not achieved, Regulatory Compliance has the responsibility to take steps and ensure violations are addressed and public safety assured.

In the 2017-18 fiscal year, NLC expanded the Regulatory Services department in support of cannabis regulation, prioritizing the strengthening of public confidence in NLC through increased public awareness of responsible choices across NLC business lines. With the combination of divisions within Regulatory Services, a new Executive position, Vice President of Regulatory Services and Social Responsibility, was created to lead the department and the cannabis legalization project.

For more information on NLC and its operations, please visit **www.nlliquor.com**.

STRATEGIC THEME 1: STRENGTHEN THE BUSINESS

The desired outcome of this strategic theme is to achieve financial commitments through innovation, realizing new opportunities and building on past performance. NLC continues to deliver significant financial return to its shareholders. Given the uncertain sales volumes associated with cannabis, any financial impact on NLC has not been included in this assessment.

Economic indicators for the province, which include a population decline of 4.2% (or 22,000 people by 2021) and an aging consumer base, create a challenging retail environment.

NLC's core objective is to increase shareholder value – meaning, the Corporation is keenly focused on delivering on its financial commitments through strategic management of key measures and achieving sales targets, while also maintaining a strong emphasis on socially responsible operations.

GOAL

By April 4, 2020, NLC will have strengthened the business.

Objective – By April 7, 2018, NLC will have improved shareholder value.

INDICATOR

17/18	ACTUAL
Reached sales target of $263.5 million	$268.8 million

**Original indicator of $267.9 million modified to align to external financial reporting requirements.*

Sales for the year ending April 7, 2018 were $268.8 million, $5.3 million higher than the sales target or a 2.0% increase. As a result of the forecasted economic conditions, the targets for the 2017-18 fiscal year reflected a sales decline from the 2016-17 fiscal year. Despite the anticipated decline, sales were higher than targeted across all product categories. In addition to the increase in sales, a price change in October 2017 contributed to sales growth.

When assessing specific categories, spirits sales volume had been declining over the last two years (2.5% and 1.5% respectively), with a further decline expected in the 2017-18 fiscal year. NLC has continued to educate customers and promote the spirits category, increasing premium spirits sales over the prior year, which resulted in the overall decline of spirits volume to be 0.9% which is less than was previously anticipated.

Wine sales were higher than targeted as a result of greater than expected private orders and premium wine sales. Wine volume was lower than targeted by 0.8% and above the prior year by 2.0%.

Beer sales were 4.4% higher than targeted. During the third quarter of the 2017-18 fiscal year, several large beer brands underwent a distribution change, which resulted in those brands being distributed through a local brewery instead of NLC. The impact on NLC sales was lower than anticipated and as a result beer sales were ahead of target.

The 2017-18 fiscal year was a 53-week year, compared to 2016-17 fiscal year which had 52 weeks. It is estimated that the 53rd week contributed $3.9 million in sales to the 2017-18 fiscal year.

INDICATOR 17/18	ACTUAL
Achieved dividend of $180 million	$180 million

The dividend to the Provincial Government was $180 million, which met the target for the 2017-18 fiscal year. The dividend for the 2017-18 fiscal year was $18.0 million lower than the previous year ($198.0 million). In the year prior, an additional $15.0 million was paid to the Provincial Government from accumulated cash surpluses from past years.

INDICATOR 17/18	ACTUAL
Reduced inventory by $3.2 million	Inventory reduced by $2.8 million

NLC is committed to reducing the amount of inventory on hand by improving core inventory turns and decreasing the percentage of non-core inventory. The reduction of $2.8 million in inventory was lower than targeted by $0.4 million. NLC missed its target for inventory reduction due to lower than anticipated demand for non-core products. While the targets were not met in the 2017-18 fiscal year, significant improvements in inventory were achieved.

INDICATOR	17/18
Achieved earnings from operations of $167.8 million	Earnings from operations: $171.9 million

**Original indicator of $108.5 million modified to align to external financial reporting requirements.*

Earnings from operations were $171.9 million, which was $4.1 million higher than targeted. As a result, sales for the year were higher than anticipated, translating into higher gross profit than targeted. By operating under a zero based budget approach, NLC has focused on minimizing costs, reducing discretionary spending where possible. As a result of these efforts, total operating expenses as a percentage of sales was 18.4% which is consistent with the targeted percentage.

Objective - By April 6, 2019, NLC will have improved shareholder value.

INDICATORS:

- Reached target sales of $264.4 million
- Achieved dividend of $181.0 million
- Reduced inventory by $1.6 million
- Achieved earnings from operations of $168.4 million

SALES BY PRODUCT CATEGORY (MILLIONS OF DOLLARS)

	2017-18 Actual	2017-18 Target	Variance	% Var.	2016-17 Actual	Variance	% Var.
Spirits	129.5	128.1	1.4	1.1%	129.5	0.0	0.0%
Wine	81.9	79.9	2.1	2.6%	80.3	1.7	2.1%
RTD	18.4	17.8	0.6	3.4%	17.5	0.9	4.9%
Beer	38.3	36.7	1.6	4.5%	38.6	(0.4)	-0.9%

Spirit Sales

(in thousands of litres)

	2018	2017	2016	2015	2014
Rum	1,711	1,762	1,824	1,893	1,947
Rye Whisky	837	836	826	813	815
Vodka	597	590	590	589	584
Liqueurs	326	329	356	368	371
Scotch - other Whisky	123	119	137	129	124
Gin	72	64	62	61	60
Tequila	19	19	19	19	20
Brandy	17	17	17	18	19
Cognac	3	4	3	4	4
Miscellaneous	1	1	1	-	1
	3,706	3,741	3,894	3,894	3,945

Wine Sales

(in thousands of litres)

	2018	2017	2016	2015	2014
Table Wine	4,188	4,104	4,047	3,852	3,692
Sparkling & Champagne	294	290	296	285	275
Fortified Wine	59	61	65	70	71
Low Alcohol Wine	16	10	5	6	5
	4,556	4,465	4,413	4,213	4,043

Ready to Drink (RTD) and Cider Sales

(in thousands of litres)

	2018	2017	2016	2015	2014
RTD	1,888	1,789	1,817	1,771	1,578
Cider	362	312	300	249	137
	2,250	2,101	2,117	2,020	1,715

Beer Sales

(in thousands of litres)

	2018	2017	2016	2015	2014
Local Beer	3,559	3,570	3,698	3,681	3,479
Imported Beer	2,779	2,817	3,017	2,476	2,378
Low Alcohol Beer	40	61	101	101	100
	6,378	6,502	6,809	6,258	5,957

STRATEGIC THEME 2: OPERATIONAL EXCELLENCE

Operational Excellence is a key pillar on which NLC will achieve its mission and vision.

Operational excellence means operating in a way that is safe, reliable and cost-efficient. For customers and stakeholders, operating in this way helps NLC deliver on its commitment to the Provincial Government and the communities it serves. NLC will strive to improve operational measures, streamline processes and share knowledge, while creating a committed and engaged workplace, dedicated to producing desired business results.

GOAL

By April 4, 2020, NLC will have improved its operations.

Objective – By April 7, 2018, NLC will have implemented programs aimed to improve operations.

INDICATOR	17/18 ACTUAL
Improved Retail Cases per Worked Hours (CPWH) by 3.0%	7.2%

Improved retail cases per worked hours is a measure which helps illustrate sales efficiency against labour required. This improved by 7.2% in fiscal 2017-18, after an operational analysis by store location offered insights on how to make more efficient use of labour. Sunday store hours were reduced in several locations and a store labour rationalization plan was carried through from the previous fiscal year to optimize use of full and part-time staff.

INDICATOR	17/18 ACTUAL
Improved core inventory turns to 4.6	4.7

NLC must continue to improve core inventory turns (the number of times core inventory is sold and replaced within the year) without restricting sales growth. As inventory turns improve (as product is sold through more quickly), efficiencies are gained, helping to increase overall profitability, freeing up cash for dividend payments.

During the 2017-18 fiscal year, NLC continued to focus on improvement of inventory turnover, with a particular emphasis on addressing lower volume products, both at retail locations and at the distribution centre. This resulted in a reduction of core inventory by $1.7 million, and improved turns to 4.7.

During the 2016-17 fiscal year, an international supplier of beverage alcohol entered into a storage and distribution agreement with a warehouse located in Halifax, Nova Scotia, allowing NLC to procure various products from Halifax that were previously sourced internationally. Lead times and inventory balances have been reduced accordingly, to the benefit of NLC.

INDICATOR	17/18 ACTUAL
Increased percentage of employees trained in Mental Health First Aid by 2.5% (or 17 employees)	3.4% (22 employees)

In fiscal 2017-18, NLC increased the number of employees trained in Mental Health First Aid by 3.4% (22 employees). The Corporation utilized a subject matter expert to conduct training, and as a result staff have been trained in Mental Health First Aid in all the Avalon Peninsula, Clarenville, Gander, and Grand Falls-Windsor locations.

In October 2017, NLC was the recipient of the Silver Award for Psychological Safety in the Workplace. The award was presented by Occupational Health and Safety Canada as part of its Safest Employers Awards Gala. Receiving this significant award highlights the substantial efforts NLC has dedicated to ensure employees have a psychologically safe working environment.

Objective – By April 6, 2019, NLC will have implemented further programs targeting improved operations.

INDICATORS:

- Improved core inventory turns to 4.9
- Developed plastic bag strategy to reduce environmental impact of single-use plastic bags by NLC
- Improved Retail Cases per Worked Hours (CPWH) by 3.0%

STRATEGIC THEME 3: CUSTOMER EXPERIENCE

NLC's success rests on its ability to meet and exceed expectations of its customers and stakeholders. The end result of a keen focus on the customer experience is personalized service, regardless of what area of the organization with which a member of the public interacts.

Retail consumers seek an enjoyable and rewarding shopping experience with associates who are friendly, polite and genuinely interested in helping. Employees that have product knowledge can offer sound advice and offer an efficient shopping process, both in-store and online.

NLC caters to a variety of customers, all with different needs and expectations. NLC will continue to research and implement new promotional tools that will enhance the customer experience while maximizing sales opportunities.

GOAL

By April 4, 2020, NLC will have improved the customer experience.

Objective – By April 7, 2018, NLC will have implemented initiatives to improve the customer experience.

INDICATOR	17/18 ACTUAL
E-commerce platform launched	No

During the 2017-18 fiscal year, NLC continued to work towards the development of a more efficient and user-friendly online customer experience. As a result, a standalone retail site was designated for development to service customers, while a separate corporate site would undergo development and include the NLC's business functions and its community involvement and initiatives. Both of these sites would be developed with a 'mobile first' philosophy, capitalizing on the sustained trend of increased web traffic via mobile devices.

While NLC had planned to include E-commerce functionality in its new online offering, it was recognized that the investment required would not at this time produce a viable financial return to the Corporation and its shareholder, the Government of Newfoundland and Labrador. The Corporation continues to evaluate this project, and will proceed accordingly in the future.

With the impending legalization of non-medical cannabis expected in 2018, NLC has shifted its focus from online retailing of beverage alcohol to E-commerce functionality for non-medical cannabis. Key learnings garnered through its work to develop liquor E-commerce will be strategically applied in developing, implementing and managing online sales of cannabis.

INDICATOR	17/18 ACTUAL
Achieved Retail customer experience satisfaction rating of 95.0%	97.4%

NLC monitors the results of its receipt-based customer satisfaction survey on a daily basis. Over 42,000 surveys were completed by customers during the fiscal year, which provided the Corporation with valuable insight and information that was used to improve overall customer experience. Survey results and individual customer concerns are visible to Store Managers, Assistant Managers and Senior Head Office Management and Executive. Each Liquor Store manager monitors their store's survey results on a regular basis and makes changes to improve customer service where required. Customer concerns are reviewed promptly and actioned accordingly, which has helped foster high satisfaction ratings.

Objective – By April 6, 2019, NLC will have implemented further initiatives directed at improving the customer experience.

INDICATORS:

- Implemented option to print and/or email receipts
- Achieved customer satisfaction score of 95.0%
- Implemented camera upgrades
- Met quarterly with licensees

STRATEGIC THEME 4: SOCIAL RESPONSIBILITY (SR)

NLC customers and the general public have clear expectations for NLC to operate in a socially responsible manner. This includes the safe sale and distribution of NLC products, while ensuring that those selling beverage alcohol and non-medical cannabis comply with provincial legislation.

NLC will implement initiatives, individually or in partnership with other organizations, that target the public, engaging and educating them. NLC's role as educator and promoter of responsible consumption, and its commitment to the communities in which it operates, works in tandem with the sale of product. Programs will be strategically aligned so that NLC's reputation as a socially responsible organization reinforces its reputation as an excellent retailer. Additionally, NLC marketing and media messaging will continue to have integrated social responsibility messaging.

GOAL

By April 4, 2020, NLC will have implemented initiatives to strengthen its commitment to social responsibility.

Objective – By April 7, 2018, NLC will have implemented initiatives to enhance its leadership role in social responsibility.

INDICATOR	17/18 ACTUAL
Community based partnerships initiatives completed 100%	100%

NLC participated in several seasonal roadside checks with its law enforcement partners, the Royal Newfoundland Constabulary and the Royal Canadian Mounted Police, as well as Mothers Against Drunk Driving (MADD). These included roadside checks in Corner Brook, Gander and St. John's during the Christmas season as well as the Victoria Day weekend. In addition to supporting law enforcement, NLC promoted its social responsibility messaging during these checks and distributed promotional Responsible Choices material.

NLC partnered with MADD for the delivery of its School Assembly Program throughout the province. Inspectors delivered sessions for NLC's Responsible Choices Program in schools in their respective regions, including a partnership with Eastern Health during Addictions Week and the College of the North Atlantic's orientation week. NLC's summer team also completed Responsible Choices presentations at corporate stores and community events throughout the province.

NLC participated in Labatt Breweries' Operation (Be)er Responsible "Partners for Safer Communities," whereby Don't Drink and Drive messages were promoted throughout several stores in the St. John's area.

INDICATOR	17/18 ACTUAL
Licensed establishments inspected 90.0%	88.0%

Licensed establishments were inspected according to a risk-based inspection schedule, which ensures that those premises that present a higher risk are visited more frequently. Inspectors have the ability to strategically schedule compliance inspections, which focuses the application of resources in order to encourage compliance by those that present greater risk.

As a result of position vacancies in two regions, the target number of inspections was slightly below target.

INDICATOR	17/18 ACTUAL
Challenge and Refusals Rate 9.0%	9.5%

NLC's Check 25 initiative is a well-established program, which requires all Liquor Store and Liquor Express staff to ask a customer to show ID if they appear to be 25 years of age or younger.

The Corporation measures the success of this program by monitoring the challenge and refusal rate, defined as the percentage of transactions at Liquor Stores during which customers are asked to show ID. In the fiscal 2017-18, NLC exceeded its target of 9.0% of transactions by challenging and/or refusing 9.5% of all sales.

Objective – By April 6, 2019, NLC will have further developed and enhanced its SR programs.

INDICATORS:

- Community based partnership initiatives completed 100.0%
- Achieved challenge and refusals rate of 9.0%
- Responsible Choices program redesigned
- Risk-based inspection program developed for Licensed Cannabis Retailers
- Provided safe and secure access to non-medical cannabis in Newfoundland and Labrador

OPPORTUNITIES AND CHALLENGES AHEAD

NLC's 2017-2020 Business Plan, presented in the House of Assembly on June 30, 2017, provided direction this past fiscal year, and will continue to do so over the next two fiscal years.

Demographic shifts and economic uncertainty, including an aging population, outmigration and high unemployment levels represent significant challenges to NLC. With economic indicators pointing to a continued decline in real retail sales over the next four years, NLC will work strategically, both internally and with its partners, to minimize the impact of this retail environment. It will continue to strengthen the business by ensuring the optimal selection and product mix and focusing on the customer experience in-store and online.

In the 2017-18 fiscal year, NLC was tasked with developing and implementing the Provincial Government's plan for the sale of non-medical cannabis, as part of the Federal Government's marijuana legalization initiative. The sale of non-medical cannabis represents a challenge, both for its potential impact on sales of beverage alcohol and from a regulatory standpoint. That said, NLC also views the legalization of cannabis as an opportunity to be a leader in educating the public, and is confident in its ability to promote and ensure responsible consumption. To this end, NLC is currently executing in-store training programs with retailers and is in the process of developing educational training modules which may be accessed and completed online by members of the public.

While NLC faces several challenges in the years ahead, a number of opportunities also exist. Changing consumer trends and preferences will create new areas for growth in NLC's product mix, and continued investment in its retail locations and new technologies will ensure NLC is well positioned to take advantage of these opportunities.

Ensuring safe and secure province-wide access to controlled substances, such as beverage alcohol and non-medical cannabis, is a role NLC takes very seriously. It will continue to work with its community partners and stakeholders to ensure this mandate is carried out in a socially responsible manner, and in the best interest of the people of Newfoundland and Labrador.

FINANCIAL STATEMENTS

Independent Auditors' Report
20

Statement of Financial Position
21

Statement of Comprehensive Income
22

Statement of Changes in Net Assets
23

Statement of Cash Flows
24

Notes to Financial Statements
25 - 40

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 7, 2018 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 7, 2018 and its financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

St. John's, Canada
June 22, 2018

Chartered Professional Accountants

Newfoundland Labrador Liquor Corporation

STATEMENT OF FINANCIAL POSITION

As at
[in thousands]

	April 7, 2018 $	April 1, 2017 $
ASSETS		
Current		
Cash and cash equivalents	**18,717**	16,596
Accounts receivable *[note 8]*	**13,873**	12,516
Inventories *[note 9]*	**33,201**	36,043
Prepaid expenses	**1,541**	1,928
Total current assets	**67,332**	67,083
Property, plant and equipment *[note 6]*	**21,693**	23,143
Intangible assets *[note 7]*	**5,422**	6,502
	94,447	96,728
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities *[note 11]*	**31,189**	31,415
Accrued vacation pay	**3,855**	3,725
Employee future benefits *[note 10]*	**5,040**	—
Total current liabilities	**40,084**	35,140
Obligations under finance lease *[note 16]*	**36**	98
Employee future benefits *[note 10]*	**3,115**	7,702
Total liabilities	**43,235**	42,940
Net assets	**51,212**	53,788
	94,447	96,728

See accompanying notes

On behalf of the Board:

Director   Director

Newfoundland Labrador Liquor Corporation

STATEMENT OF COMPREHENSIVE INCOME

Period ended
[in thousands]

	53 weeks April 7, 2018	52 weeks April 1, 2017
	$	$
Sales *[note 12]*	**268,849**	267,123
Commission revenue on sale of beer	**65,943**	64,961
	334,792	332,084
Cost of sales	**113,364**	112,719
Gross profit	**221,428**	219,365
Administrative and operating expenses *[note 13]*	**49,493**	48,734
Earnings from operations	**171,935**	170,631
Other income		
Finance income	**361**	342
Miscellaneous income	**5,242**	5,161
	5,603	5,503
Net earnings for the period	**177,538**	176,134
Other comprehensive income		
Remeasurement of employee future benefits *[note 10]*	**(114)**	54
Comprehensive income for the period	**177,424**	176,188

See accompanying notes

Newfoundland Labrador Liquor Corporation

STATEMENT OF CHANGES IN NET ASSETS

Period ended
[in thousands]

	53 weeks April 7, 2018	52 weeks April 1, 2017
	$	$
Balance, beginning of period	**53,788**	75,600
Net earnings for the period	**177,538**	176,134
Other comprehensive (loss) gain for the period	**(114)**	54
Comprehensive income for the period	**177,424**	176,188
	231,212	251,788
Distributions to the Province of Newfoundland and Labrador	**(180,000)**	(198,000)
Balance, end of period	**51,212**	53,788

See accompanying notes

Newfoundland Labrador Liquor Corporation

STATEMENT OF CASH FLOWS

Period ended
[in thousands]

	53 weeks April 7, 2018 $	52 weeks April 1, 2017 $
OPERATING ACTIVITIES		
Comprehensive income for the period	**177,424**	176,188
Adjustments for non-cash effects		
Depreciation and amortization	**3,734**	3,942
Loss on disposal of property, plant and equipment	**—**	(9)
Accrued vacation pay	**130**	189
Increase in employee future benefits	**453**	415
	181,741	180,725
Changes in non-cash working capital balances		
(Increase) decrease in accounts receivable	**(1,357)**	619
Decrease in inventories	**2,842**	4,524
Decrease in prepaid expenses	**387**	12
(Decrease) increase in accounts payable and accrued liabilities	**(226)**	861
Cash provided by operating activities	**183,387**	186,741
INVESTING ACTIVITIES		
Proceeds on disposal of property, plant and equipment	**—**	9
Purchase of property, plant and equipment	**(979)**	(628)
Purchase of intangible assets	**(225)**	(886)
Cash used in investing activities	**(1,204)**	(1,505)
FINANCING ACTIVITIES		
Decrease in obligations under finance lease	**(62)**	(69)
Distributions to the Province of Newfoundland and Labrador	**(180,000)**	(198,000)
Cash used in financing activities	**(180,062)**	(198,069)
Net increase (decrease) in cash during the period	**2,121**	(12,833)
Cash and cash equivalents, beginning of period	**16,596**	29,429
Cash and cash equivalents, end of period	**18,717**	16,596

See accompanying notes

Notes to financial statements

[tabular amounts in thousands]

April 7, 2018

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 years ended April 7, 2018 and April 1, 2017 contained 53 and 52 weeks, respectively.

These financial statements were authorized for issue in accordance with a resolution of the Corporation’s Board of Directors on June 22, 2018.

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. 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 7, 2018 was $5.6 million [period ended April 1, 2017 – $5.6 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.

[tabular amounts in thousands]

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.

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.

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.

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.

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 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.

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.

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.

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 7, 2018

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

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 and either a full retrospective application or a modified retrospective application is required. The Corporation is adopting the new standard under the modified retrospective method from April 8, 2018.

The Corporation continues to assess the impact of the new standard on its financial statements. Management have reviewed the nature of the Corporation's contracts with it customers in its most significant revenue arrangements in effect at April 7, 2018. The Corporation has identified the areas of impact and continues to assess their implications upon adoption. Management will continue to evaluate other sources of revenue, as well as disclosure, transition and other implications of IFRS 15 through to the date of its adoption.

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.

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 adopting the new standard from April 8, 2018.

The Corporation continues to assess the impact of the new standard on its financial statements. Management have reviewed the nature of the Corporation's leases in effect at April 7, 2018. The Corporation has identified the areas of impact and continues to assess their implications upon adoption. Management will continue to evaluate the implications of IFRS 16 through to the date of its adoption.

Notes to financial statements

[tabular amounts in thousands]

April 7, 2018

6. Property, plant and equipment

	Land, buildings and leasehold improvements $	Furniture and equipment $	Computer equipment and vehicles $	Total $
Cost				
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
Additions	49	555	375	979
Disposals	—	(33)	—	(33)
As at April 7, 2018	**32,993**	**12,172**	**6,808**	**51,973**
Accumulated depreciation				
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)	(27,884)
Depreciation for the period	(1,139)	(520)	(770)	(2,429)
Disposals	—	33	—	33
As at April 7, 2018	**(15,964)**	**(9,000)**	**(5,316)**	**(30,280)**
Net book value				
As at April 1, 2017	18,119	3,137	1,887	23,143
As at April 7, 2018	**17,029**	**3,172**	**1,492**	**21,693**

Notes to financial statements

[tabular amounts in thousands]

April 7, 2018

7. Intangible assets

	Computer software $	Trademark $	Total $
Cost			
As at April 2, 2016	16,316	254	16,570
Additions	886	—	886
Disposals	(413)	—	(413)
As at April 1, 2017	16,789	254	17,043
Additions	225	—	225
Disposals	—	—	—
As at April 7, 2018	**17,014**	**254**	**17,268**
Accumulated depreciation			
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)
Amortization	(1,305)	—	(1,305)
Disposals	—	—	—
As at April 7, 2018	**(11,846)**	**—**	**(11,846)**
Net book value			
As at April 1, 2017	6,248	254	6,502
As at April 7, 2018	**5,168**	**254**	**5,422**

8. Accounts receivable

Accounts receivable include the following:

	April 7, 2018 $	April 1, 2017 $
Beer commission receivable	**5,869**	5,091
Trade accounts receivable	**3,518**	3,003
Other receivables	**4,486**	4,422
	13,873	12,516

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

As at April 7, 2018, approximately 97% [April 1, 2017 – 99%] 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 1, 2017 – $0.04 million].

Notes to financial statements

[tabular amounts in thousands]

April 7, 2018

9. Inventories

	April 7, 2018 $	April 1, 2017 $
Distribution centres	**18,694**	21,471
Branch stores	**10,598**	10,016
Inventory in transit	**2,978**	3,507
Raw materials	**931**	1,049
	33,201	36,043

The total value of inventory expensed to cost of sales for the period ended April 7, 2018 was $108.5 million [April 1, 2017 – $107.5 million]. The inventory value includes a reserve of $1.6 million [April 1, 2017 – $0.9 million]. Residual amounts included in cost of sales include manufacturing labour and overhead, and foreign exchange gains/losses.

10. Employee future benefits

Employee future benefits include the following:

	April 7, 2018 $	April 1, 2017 $
Accrued severance obligation, beginning of period	**4,637**	4,337
Current service cost	**369**	363
Interest cost	**179**	164
Actuarial loss (gain)[1] due to		
Curtailment	**(43)**	—
Changes in financial assumptions	**114**	(54)
	5,256	4,810
Benefits paid	**(216)**	(173)
Accrued severance obligation, end of period	**5,040**	4,637

Notes to financial statements

[tabular amounts in thousands]

April 7, 2018

	April 7, 2018	April 1, 2017
	$	$
Accrued sick leave obligation, beginning of period	**3,065**	2,950
Current service cost	**316**	305
Interest cost	**98**	96
Actuarial (gain) loss[2] due to		
Changes in financial assumptions	**(57)**	11
	3,422	3,362
Benefits paid	**(307)**	(297)
Accrued sick leave obligation, end of period	**3,115**	3,065
Total employee future benefits	**8,155**	7,702
Less: Current portion	**(5,040)**	—
Total long-term employee future benefits payable	**3,115**	7,702

The Corporation reached an agreement with its unionized employees in March 2018 and its non-unionized and management employees subsequent to year-end to discontinue severance. The accumulated benefit will be paid out between April 8, 2018 and April 6, 2019.

[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.

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

	April 7, 2018	**April 1, 2017**
	$	$
Salary increases	**3.25**	3.25
Discount rate – severance liability	**3.45**	3.65
Discount rate – sick leave liability	**3.30**	3.05

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

Notes to financial statements

[tabular amounts in thousands]

April 7, 2018

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	241	7.7	313	11.7
1% increase	(209)	(6.7)	(264)	(9.9)
Salary increase				
1% decrease	(299)	(9.6)	(341)	(12.7)
1% increase	342	11.0	402	15.0
Sick leave usage				
10% decrease in hours	(292)	(9.4)	—	—
10% increase in hours	287	9.2	—	—

Membership data as at April 5, 2015 was used for the valuation and extrapolated to April 7, 2018.

Pension plan

The Corporation's share of pension expense paid to the PSPP for the period ended April 7, 2018 is $2.2 million [April 1, 2017 – $2.3 million]. The anticipated contributions for the fiscal year ending April 6, 2019 are $2.3 million.

11. Accounts payable and accrued liabilities

	April 7, 2018	April 1, 2017
	$	$
Excise duties	**9,202**	9,526
Trade payables	**7,550**	7,831
Accrued liabilities	**6,178**	5,808
HST payable	**2,908**	3,013
Other	**5,351**	5,237
	31,189	31,415

12. Sales

Sales include the following:

	April 7, 2018	April 1, 2017
	$	$
Sales of beverage alcohol	**263,822**	261,514
Other	**5,027**	5,609
	268,849	267,123

Notes to financial statements

[tabular amounts in thousands]

April 7, 2018

13. Administrative and operating expenses

	April 7, 2018 $	April 1, 2017 $
Salaries and employee benefits	**31,169**	31,002
Depreciation and amortization	**3,734**	3,942
Rent and municipal taxes	**2,885**	2,743
Marketing and royalties	**2,115**	2,279
Interest and bank charges	**2,246**	2,475
Other	**7,344**	6,293
	49,493	48,734

14. 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 7, 2018 and April 1, 2017.

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.

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 7, 2018 [April 1, 2017 – 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.

Notes to financial statements

[tabular amounts in thousands]

April 7, 2018

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 7, 2018 $	April 1, 2017 $
Within one year	**1,869**	2,336
After one year but no more than five years	**4,170**	4,885
More than five years	**2,695**	3,770

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

	April 7, 2018 $	April 1, 2017 $
Within one year	**36**	62
After one year but no more than five years	**—**	36

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 7, 2018, the Corporation made distributions of $180.0 million [period ended April 1, 2017 – $198.0 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 7, 2018 was $1.0 million [April 1, 2017 – $1.0 million].

SALES BY LOCATION

(THOUSANDS OF DOLLARS)
FISCAL YEAR 2018

Howley Estates	17,523
Stavanger Drive	12,546
Long Pond - CBS	10,404
Corner Brook - Humber Gardens	10,237
Kelsey Drive	9,867
Merrymeeting Road	9,750
Pearlgate Plaza	9,419
Topsail Road	9,142
Mount Pearl - Old Placentia Road	8,092
Gander	7,957
Paradise	7,786
Grand Falls	7,733
Happy Valley	7,317
Blackmarsh Road	7,028
Bay Roberts	6,118
Clarenville	5,837
Ropewalk Lane	5,541
Stephenville	5,328
Queen Street	5,289
Carbonear	5,124
Marystown	4,956
Corner Brook Plaza	3,756
Labrador City	3,742
Port aux Basques	2,708
Placentia	2,049
Lake Avenue - Satellite Store	1,606
Centennial Square - Satellite Store	1,353
Newfoundland Drive - Satellite Store	625
Clarenville Irving - Satellite Store	503

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