

ANNUAL REPORT

2021-2022



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BOARD MEMBERS



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Chairperson



VICTORIA BELBIN
Vice-Chair



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Director



GEOFF DAVIS
Director



KEVIN DUMARESQUE
Director



KENDRA MACDONALD
Director



GLENN MIFFLIN
Director



DONNA RIDEOUT
Director



LYNN ZUREL
Director



MICHELLE JEWER
Director, Ex-officio



BRUCE KEATING
President & CEO, Ex-officio

MESSAGE FROM THE CHAIRPERSON

I am pleased to present the Annual Report for fiscal year 2021-22 on behalf of the Board of Directors of the Newfoundland and Labrador Liquor Corporation (NLC), which is a Category 2 entity under the provisions of the Transparency and Accountability Act. The Board of Directors is accountable for the contents and results provided herein.

The past fiscal year marked the second of NLC's 2020-2023 Business Plan. This Annual Report outlines the results and highlights from fiscal year 2021-22 and a series of objectives and measurable indicators for the upcoming year.

NLC returned a dividend of \$210.0 million in fiscal year 2021-22 to the corporation's shareholder, the Government of Newfoundland and Labrador. Total net earnings for the year were \$200.9 million – the highest net earnings and the highest dividend to government in NLC history.

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

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

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

Sincerely,



Fraser Edison
Chairperson



Total net earnings for the year were
\$200.9 million –
**the highest net earnings
and the highest dividend to
government in NLC history.**

Our employees' performance,
more than anything else,
deserves to be highlighted.

**Anything that NLC
achieves happens
for one reason.
Our special people.**

MESSAGE FROM

THE PRESIDENT AND CEO



We remain steadfast in
our belief that there is
**so much more yet
to be done by NLC.**

After another year of significant challenge for all, I am pleased to report that the NLC team has stepped up with a level of commitment that has been inspiring, and earning the trust of our customers and partners that has been a joy to witness. We have grown the legal cannabis market; completed the second year of a store renovation program to improve the customer experience; and enjoyed great success in our Rock Spirits manufacturing division, with 82.0% of Rock Spirits' product leaving the province. Our Regulatory Services team have proven their expertise in regulating the beverage alcohol industry and the still-developing cannabis industry. We have laid the foundation for setting new standards in corporate responsibility. Our governance processes are second-to-none. We are reporting record earnings of \$200.9 million and a dividend to government of \$210.0 million, both the highest in the history of NLC.



Michael Rowe
Facilities Team Employee

Bruce Keating
President & CEO

Our employees' performance, more than anything else, deserves to be highlighted. Anything that NLC achieves happens for one reason. Our special people. Let me tell you about one.

Michael was born in St. John's. He is based here and works with our Facilities team. In his role, he supports every department at Corporate Office. He provides help to Rock Spirits when needed. He frequently visits our distribution centre to assist. He distributes mail. He's regularly in stores in the St. John's metro area picking up, dropping off and getting things done. He joined us in January 2003 and has been with us for almost twenty years. He's a diehard Montreal Canadiens fan. His mother is alive, but he lost his father to illness last year. He has a daughter, whom he adores. Life hasn't always been easy. He's had to deal with serious health issues over the years. He's friendly and outgoing, will do anything for you, always eager to lend a hand, and always asks about you, your family and how you're doing. He loves NLC and he loves helping us take care of our customers. It would be difficult to find someone at NLC who doesn't know Michael. Harder still to find anyone who doesn't cherish him and what he brings to the team. Everyone feels supportive and protective of him. He's part of the fabric of NLC.

We have hundreds of Michaels across our organization, employees who are passionate about the experience we provide for customers, committed to the vital role NLC fulfills, and determined to help make NLC be the very best it can be.

We remain steadfast in our belief that there is so much more yet to be done by NLC. Every member of the NLC team remains focused on earning trust in everything we do, each time out.

I would like to thank our Board of Directors. We have a world-class Board. Throughout the challenges of the past year, their judgment and expertise have been a huge benefit to our business. Our leadership team and I have appreciated their guidance and counsel.

Finally, I would like to say thank you to our customers. For visiting our stores. For your loyalty and understanding. For challenging us to be the best we can be. From all of our Michaels, from the entire NLC family in all parts of the province to you: thank you!

Bruce Keating
President and CEO

NLC's vision is to
**provide safe, convenient
access to alcohol and
cannabis products.**

OVERVIEW

NLC operates with the expectation that it will generate a dividend for the Government of Newfoundland and Labrador to be reinvested for the benefit of the people of the province. During the current business planning cycle, NLC's strategic focus centers around five themes:

- Grow the business
- Improve operational excellence
- Provide an exceptional stakeholder experience
- Improve public trust in the organization
- Become a compelling workplace

While striving toward these objectives, the organization will maintain a strict commitment to its corporate responsibility mandate. NLC's vision is to provide safe, convenient access to alcohol and cannabis products.

As a Category 2 entity, oversight of NLC is provided by a Board of Directors appointed by the Lieutenant Governor in Council, normally for a term of three years. The Board consists of a Chairperson, a President and CEO, and other members as appointed. The President and CEO of NLC is responsible for the everyday management and other duties as assigned by the Board. The President and CEO holds a non-voting position on the Board, reports directly to the Board and is appointed by the Lieutenant Governor in Council.

The mandate of NLC is to manage and oversee the importation, sale and distribution of beverage alcohol and cannabis within the Province of Newfoundland and

Labrador. This includes listing of products, setting of prices, and online retailing of cannabis. NLC takes a leading role in protecting the public interest by promoting socially responsible distribution, sale and consumption of beverage alcohol and cannabis.

NLC's head office and blending/bottling operation (Rock Spirits) are located at 90 Kenmount Road and its distribution centre for both alcohol and cannabis is located at 300 East White Hills Road in St. John's, Newfoundland and Labrador. NLC Liquor Stores are located throughout the province.

NLC provides employment to 654 employees – 378 of which are female and 276 are male. NLC's gross expenditures in fiscal year 2021-22 were \$194.8 million with revenue of \$388.9 million.




HIGHLIGHTS AND

PARTNERSHIPS


During the 2021-22 fiscal year, NLC followed through on commitments set out in its 2020-2023 Business Plan through the efforts of its people and partnerships with industry, law enforcement and community groups.

NLC saw great success in fiscal year 2021-22, with a contribution of \$210.0 million to the Government of Newfoundland and Labrador. This dividend was the largest in NLC's history, \$15.0 million higher than the same period a year ago. This, despite the continued challenges faced as a result of the pandemic.


 NLC added
9 new Licensed Cannabis Retailers
 in this past fiscal year.
Listing over 800 products from 27 suppliers throughout the country.

NLC's partnerships within the cannabis industry led to growth in the fiscal year. With NLC's initiative to distribute cannabis from its warehouse in St. John's, Licensed Cannabis Retailers experienced shorter shipping times and reduced costs, as well as a larger selection of products available. This translated directly into increased sales and growth in customer choice as the industry continues to mature.

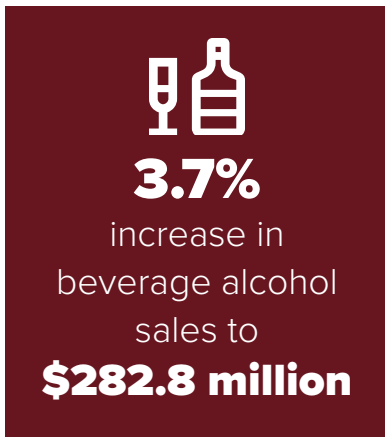
NLC added nine new Licensed Cannabis Retailers in this past fiscal year, and now lists over 800 products from 27 suppliers throughout the country. Total retail cannabis sales


17.2%
 increase in total
 cannabis sales to
\$61.0 million



in Newfoundland and Labrador for fiscal year 2021-22 increased by 17.2% vs. the prior year, to \$61.0 million. NLC's partnerships also extend to local law enforcement (the Royal Canadian Mounted Police and the Royal Newfoundland Constabulary) and Canada Post Inspectors. Together with its partners, NLC seized 100 KG of illicit cannabis and initiated 22 investigations. Growing the legal industry, while disrupting the illicit trade, will ensure NLC continues to follow through on its mandate to provide access to a safe and secure supply of product for Newfoundland and Labrador.

In fiscal year 2021-22, NLC's beverage alcohol sales increased 3.7% over the previous year, to \$282.8 million. As customer traffic returned to more typical pre-pandemic patterns, NLC corporate Liquor Stores experienced an increase of 8.8% in the year, while Liquor Express outlets experienced a decrease of 11.5% compared to the previous year and commissions on the sale of beer through Brewers' Agents decreased slightly by 2.9% for the year.

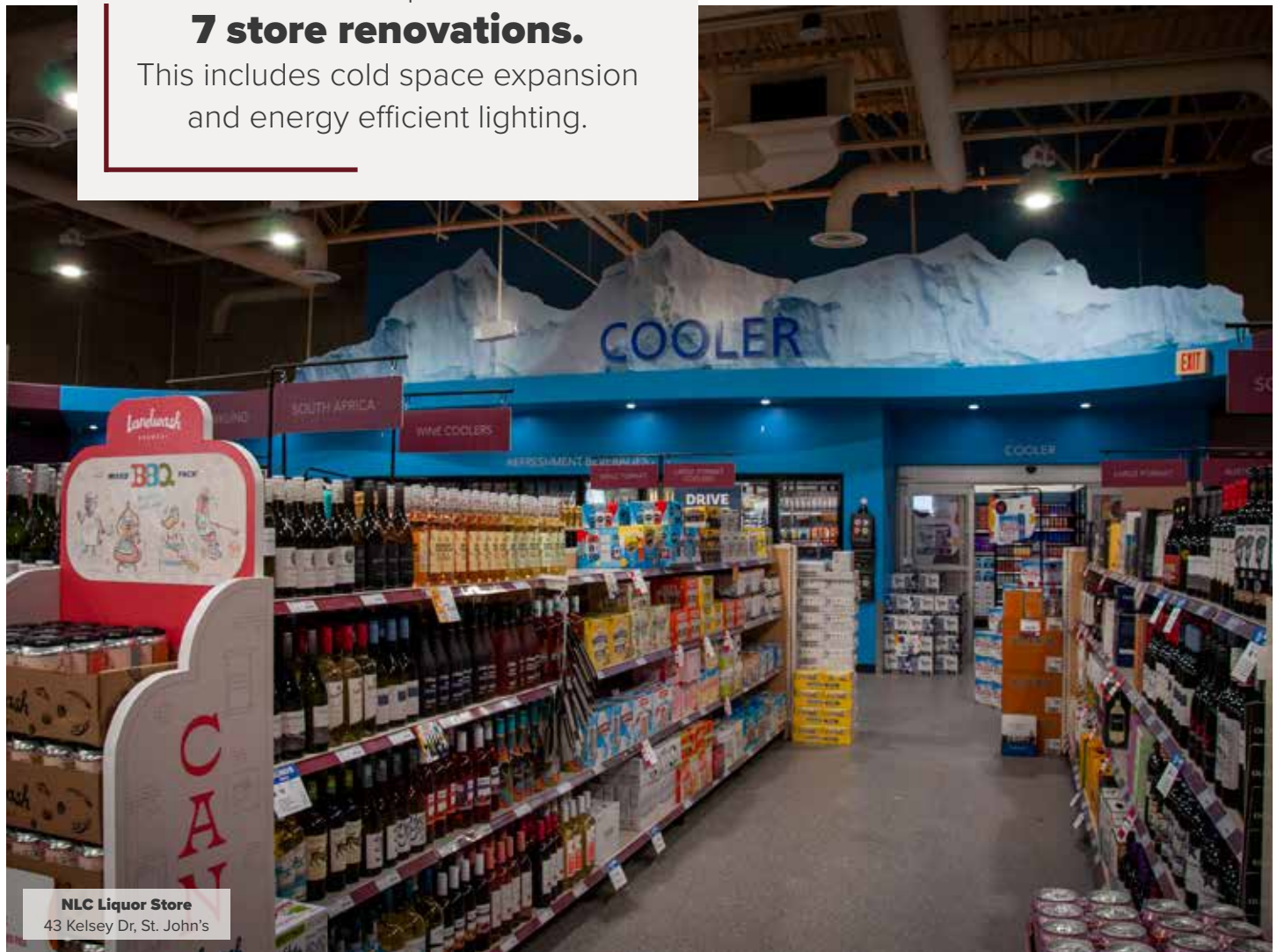


During the fiscal year, NLC completed several in-store renovations to its existing store network, including Stephenville, Corner Brook (Humber Gardens), Mount Pearl (Pearlgate Plaza) and St. John's (Kelsey Drive, Topsail Road, Howley Estates and Stavanger Drive) Liquor Stores. Renovations included cold space expansion, enhanced store layout, energy efficient lighting, flooring improvements and new signage. These changes will serve to enhance the customer experience.

In an effort to continue to focus public attention on the risks of impaired driving, NLC continued to collaborate with local law enforcement, Crime Stoppers and Mothers Against Drunk Driving (MADD) to help curb incidences of impaired driving. This included NLC's presence with law enforcement at numerous roadside stop events, as well as the sponsorship of MADD Canada's student assembly series. NLC also collaborated with both the School of Pharmacy and the Student Wellness and Counselling Centre at Memorial University to promote safe drinking habits and to promote awareness of the dangers of driving high.



NLC completed
7 store renovations.
This includes cold space expansion
and energy efficient lighting.

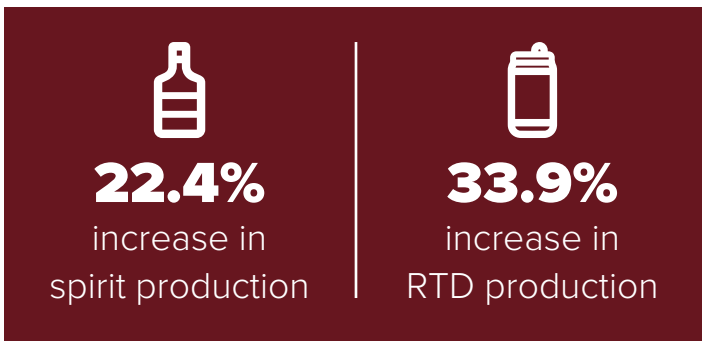




Rock Spirits continued its growth in fiscal year 2021-22 with the production of 350,000 cases of spirits and 12,000 cases of ready-to-drink (RTD) beverages. This equates to a 22.4% increase in spirits production and 33.9% increase in RTD over the prior year. This increase was driven primarily by significant growth across export sales of its partner brands as well as new canning projects for RTDs. Rock Spirits exports 82.0% of its production to other provinces and 34 countries. It continued to collaborate on new projects with its partners during the fiscal year, working with the Newfoundland Distillery Company and Hounds Vodka on the production of new RTDs, as well as Dildo Brewing Company on the release of its new vodka. During the fiscal year, it also added another RTD to its own portfolio, with the introduction of Shiver Lime Vodka.

To further its efforts in diversity, inclusion and belonging, NLC completed 12 diversity-related initiatives throughout the fiscal year, including participation and/or acknowledgement of such events as Pride Month, National Day for Truth and Reconciliation, Bell Let's Talk Day, Black History Month and Transgender Day of Visibility, among many others. NLC's partnership with the Association for New Canadians fostered several speaking engagements with employees, including a lunch-and-learn session with Liquor Store management. From a recruitment standpoint, NLC is working to create a workplace that more accurately reflects the communities it serves. This includes the circulation of job postings directly to groups such as Empower NL (Disability Resource Centre), Avalon Employment, and the Association for New Canadians, and posting opportunities to LGBTQ2S+ friendly site, "Pink Jobs."

As it moves into the final year of its current business cycle, NLC will continue to strengthen and seek out partnerships to build upon its success in the first two years as it works to achieve the goals set out in the 2020-2023 business plan.



Rock Spirits
90 Kenmount Rd, St. John's



NLC completed
**12 diversity-related
initiatives**

including celebrating Pride Month.



NLC Head Office Employees
90 Kenmount Rd, St. John's

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 654 employees. Liquor Store and satellite store locations account for 67.0% of employees, corporate office accounts for 19.0%, while 14.0% are employed at Rock Spirits and the distribution centre.

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



NLC's lines of business include the following:

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

RETAIL BEVERAGE ALCOHOL SALES

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



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

Liquor Store outlets are responsible for 62.8% of NLC's beverage alcohol sales and carry an extensive selection of spirits, wine, beer and RTD alcoholic beverages, sourced from within the province, Canada and around the world. Liquor Store staff members are all direct employees of NLC. All aspects of store design, sales, marketing and merchandising fall under NLC jurisdiction.

WHOLESALE BEVERAGE ALCOHOL SALES

NLC's Wholesale operations supply 140 privately owned Liquor Express locations and approximately 1,400 licensees. Liquor Express accounts for 31.4% of NLC's annual sales revenues while licensees account for 4.0%.

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

CANNABIS SALES

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

Sales of cannabis in physical locations is conducted through Licensed Cannabis Retailers, which are privately-owned entities that have entered into licensing agreements with NLC. There are currently 40 such locations throughout the province (visit <https://shopcannabisnl.com/apps/store-locator> for current locations).

Although NLC-licensed cannabis retailers are located throughout the province, NLC also provides customer access to products online at ShopCannabisNL.com. This e-commerce enabled website allows shoppers to access delivery of products directly from NLC's distribution centre via a common carrier. It also provides valuable information and resources to ensure consumers have access to the educational tools necessary for responsible use and possession of cannabis.



NLC Distribution Centre Employee
East White Hills, St. John's

In fiscal year 2021-22, NLC began warehousing and distributing cannabis from its distribution centre at East White Hills Road in St. John's. Shipments from the distribution centre translate into significantly faster order fulfilment times for Licensed Cannabis Retailers, and shorter delivery times and decreased shipping fees for online customers. This initiative also provides more effective oversight of the industry from a regulatory standpoint.

PRODUCTION OF BEVERAGE ALCOHOL

Rock Spirits is NLC's manufacturing operation, and consists of a blending and bottling/canning plant which employs 52 people. NLC has developed formulations for various spirits and RTD products, owns the rights to certain brands, and blends and packages product at its facility in St. John's.

These products are sold in Newfoundland and Labrador and are marketed to other liquor jurisdictions in Canada and the northeastern United States. NLC also blends, bottles, cans and distributes spirits and RTDs on behalf of other suppliers to 34 countries worldwide. NLC's manufacturing plant offers both high-speed bottling as well as the ability to support the intricate bottling and canning required of niche brands. In fiscal year 2020-21, it introduced a new canning line to take advantage of the growing trend in RTD beverages and craft brewing. NLC has secured new contracts and maintains current relationships through exceptional customer service and diligent investments in its manufacturing operations.



NLC also blends, bottles, cans and distributes spirits and RTDs on behalf of other suppliers to **34 countries worldwide.**



Rock Spirits
90 Kenmount Rd, St. John's

Rock Spirits owns, produces and markets the following brands:

- Screech Rum
- Old Sam Rum
- Shiver Vodka and Gin
- London Dock Rum
- Cabot Tower Rum
- George Street Spiced Rum
- Newfoundlander's Rum
- Ragged Rock Rum
- Screech Punch RTD Beverage
- Shiver Vodka Soda Lime RTD Beverage

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

- Iceberg Vodka, Rum and Gin
- Crystal Head Vodka
- Golden Wedding Whisky
- Signal Hill Whisky
- Smugglers Cove Rum
- Liquormen's Ol' Dirty Whisky
- Newfoundland Distillery Company Vodka, Gin, Rum, Aquavit and RTD Beverages
- Lamb's Sociable RTD Beverage
- Jumping Bean Rum
- Good Good You Whisky
- Open Coast Gin
- Dildo Premium Vodka
- Keeper's Whisky
- Bira! South Pacific Rum
- Hounds Vodka RTD Beverages



REGULATORY SERVICES

Regulatory Services is responsible for enforcing legislation and regulation of all licensed establishments in the province in accordance with the **Liquor Corporation Act, Liquor Control Act and Regulations, Cannabis Control Act and Regulations,** and the **Smoke-Free Environmental Act, 2005 and Regulations.**

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

Licensing and Regulatory Administration issues and maintains all liquor and cannabis licenses in the province as well as the authorizations for Licensed Cannabis Producers in Newfoundland and Labrador. The division is accountable for the development, implementation and maintenance of licensing and compliance policies and procedures, as well as advising and providing information to the province in regards to governing legislation.

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

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

STRATEGIC THEME 1:

**GROW THE
BUSINESS**

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

GOAL

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

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

Indicators:

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

INDICATOR	21/22 ACTUAL
Reached sales targets of \$383.6 million	\$388.9 million

Sales for the year ended April 2, 2022 were \$388.9 million, \$5.3 million higher than the sales target. This growth was due to beverage alcohol and cannabis sales.

Alcohol sales were higher than expected in both NLC corporate Liquor Stores and Liquor Express locations. Sales in NLC Liquor Stores grew over the prior year, as stores were closed for a period of time during fiscal year 2020-21 due to public health measures related to COVID-19, which prevented customers from shopping in-person. Liquor Express sales were lower than the prior year, but above sales targets. A shift in sales from Liquor Express stores to Liquor Stores occurred during the year, however sales in Liquor Express remained stronger than expected.

Spirits and wine sales volume were higher than expected during the year, driven primarily by growth in licensee sales, while RTD sales were lower than expected during the year, but were higher than the prior year due to innovation in the category. Beer sales at NLC Liquor Stores were higher than anticipated as a result of sales shifting to more typical pre-pandemic levels – from Brewers’ Agents to NLC Liquor Stores.

Cannabis retail sales were higher than the prior year and ahead of target. These increases are due to the growth and evolution of the cannabis industry.

INDICATOR	21/22 ACTUAL
Achieved dividend of \$210.0 million	\$210.0 million

The dividend to government was \$210.0 million, which achieved target. The dividend was the highest paid to the Government of Newfoundland and Labrador in NLC’s history.

INDICATOR	21/22 ACTUAL
Achieved net earnings of \$191.5 million	\$200.9 million

Net earnings were \$200.9 million, which is \$0.3 million higher than the prior year. This is primarily due to increased alcohol and cannabis sales during the year, along with the focus of minimizing costs and reduced discretionary spending where possible as well as investing in the growth of the cannabis industry.

Objective – By April 1, 2023, NLC will have grown the dividend and expanded the customer base.

- Reached sales targets of \$428.0 million
- Achieved dividend of \$214.0 million
- Achieved net earnings of \$206.3 million

SALES BY PRODUCT CATEGORY (MILLIONS OF DOLLARS)

	2021-22 Actual	2021-22 Target	Variance	% Variance	2020-21 Actual	2020-21 Target	Variance	% Variance
Spirits	136.4	129.5	6.9	5.3%	137.5	127.0	10.5	8.3%
Wine	80.7	73.3	7.4	10.1%	77.3	79.5	(2.2)	-2.8%
RTD	34.6	35.8	(1.2)	-3.4%	31.9	23.3	8.6	36.9%
Beer	36.5	36.2	0.3	0.8%	32.7	38.6	(5.9)	-15.3%

SPIRITS SALES

(in thousands of litres)

	2022	2021	2020	2019	2018	2017	2016
Rum	1,524	1,593	1,602	1,606	1,711	1,762	1,824
Rye Whisky	876	878	861	807	837	836	826
Vodka	657	706	606	589	597	590	590
Liqueurs	375	363	307	311	326	329	356
Scotch - other Whisky	78	79	79	119	123	119	137
Gin	92	91	90	84	72	64	62
Tequila	32	26	23	20	19	19	19
Brandy	18	18	17	17	17	17	17
Cognac	3	3	3	3	3	4	3
Miscellaneous	2	3	3	1	1	1	1
	3,657	3,760	3,591	3,557	3,706	3,741	3,835

WINE SALES

(in thousands of litres)

	2022	2021	2020	2019	2018	2017	2016
Table Wine	3,893	3,898	4,001	3,998	4,188	4,104	4,047
Sparkling & Champagne	328	318	285	284	294	290	296
Fortified Wine	51	53	53	54	59	61	65
Low Alcohol Wine	-	8	10	14	16	10	5
	4,272	4,277	4,349	4,350	4,557	4,465	4,413

READY TO DRINK (RTD) & CIDER SALES

(in thousands of litres)

	2022	2021	2020	2019	2018	2017	2016
Refreshment Beverages	3,762	3,460	2,276	2,041	1,888	1,789	1,817
Cider	468	452	377	371	362	312	300
	4,230	3,912	2,653	2,412	2,250	2,101	2,117

BEER SALES

(in thousands of litres)

	2022	2021	2020	2019	2018	2017	2016
Local Beer	3,282	2,808	3,509	3,524	3,559	3,570	3,698
Imported Beer	2,237	2,192	2,541	2,630	2,779	2,871	3,017
Low Alcohol Beer	16	15	22	32	40	61	94
	5,535	5,015	6,072	6,186	6,378	6,502	6,809

STRATEGIC THEME 2:

**OPERATIONAL
EXCELLENCE**

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

GOAL

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

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

Indicators:

- Achieved inventory turns of 5.0
- Improved cases per worked hours by 2.0%
- Decreased costs as a percentage of sales by 0.3%
- Completed 90.0% of Information Technology initiatives as per plan

INDICATOR	21/22 ACTUAL
Achieved inventory turns of 5.0	4.9

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

During fiscal year 2021-22, NLC encountered many supply chain challenges due to the pandemic, including availability of products, increased lead times on shipments to Newfoundland and Labrador, and significantly increased costs of freight. Products from certain parts of the world were ordered months in advance of normal order cycles. These supply chain challenges resulted in total inventory increasing by \$2.0 million compared to prior year, which reduced inventory turns to 4.9, slightly below target.

INDICATOR	21/22 ACTUAL
Improved cases per worked hours by 2.0%	7.0%

Improved cases per worked hours is a measure that helps illustrate sales efficiency in proportion to labour required. Retail cases per worked hours improved by 7.0% in fiscal year 2021-22. Efficiencies were gained throughout the store network as sales increased at a higher rate than salaries and benefits.

INDICATOR	21/22 ACTUAL
Decreased costs as a percentage of sales by 0.3%	0.5%

Costs decreased as a percentage of sales by 0.5%, which is 0.2% ahead of target. This is primarily due to strong sales performance during the year. Sales growth was achieved without a significant increase in costs due to the focus on minimizing costs where possible.

INDICATOR	21/22 ACTUAL
Completed 90.0% of Information Technology (IT) initiatives as per plan	54.0%

IT completed 54.0% of overall initiatives primarily due to resource capacity constraints, changing priorities from a Board and IT Governance standpoint, and logistics delays. IT completed 38 projects in fiscal year 2021-22, 13 of which were unplanned, with the primary focus on changes in business, automation and, most importantly, cyber security. Given the increase in cyber security threats throughout the province and country in fiscal year 2021-22, NLC prioritized the efforts of its IT department, heightening its focus on this area in particular during the year. NLC will be re-prioritizing and addressing all IT initiatives in the upcoming fiscal year.

Objective – By April 1, 2023, NLC will have improved operational efficiency through intelligent application of technology.

- Achieved inventory turns of 4.8
- Improved cases per worked hours by 2.0%
- Decreased costs as a percentage of sales by 1.3%
- Introduced cyber security employee testing

STRATEGIC THEME 3:

**EXCEPTIONAL
STAKEHOLDER
EXPERIENCE**

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

GOAL

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

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

Indicators:

- Achieved customer satisfaction score of at least 95.0%
- Renovated 7 NLC Corporate Stores
- Increased number of Licensed Cannabis Retailers by 10
- Implemented cannabis central warehousing

INDICATOR	21/22 ACTUAL
Customer satisfaction score of at least 95.0%	97.0%

NLC’s receipt-based customer satisfaction survey provides valuable insight and information that is used to improve overall customer experience. Given that an increasing number of customers request to not receive a paper receipt (thereby affecting sample size), NLC will investigate other means by which to obtain this feedback going forward. Liquor Store Managers monitor survey results on a regular basis and make changes to improve customer service where required. NLC has made it a priority to ensure customers’ concerns are addressed as soon as possible – in-store, via email, phone, and through social media inquiries. Customers have several outlets with which to provide feedback, with in-store staff and head office personnel working closely on matters of customer complaint escalation.

INDICATOR	21/22 ACTUAL
Renovated 7 NLC Corporate Stores	7

During fiscal year 2021-22, NLC undertook several in-store renovations to its existing store network, including Stephenville, Corner Brook (Humber Gardens), Mount Pearl (Pearlgate Plaza) and St. John’s (Kelsey Drive, Topsail Road, Howley Estates and Stavanger Drive) Liquor Stores. Renovations included cold space expansion, realignment of aisles, energy efficient lighting, flooring improvements and new signage. These changes are in line with industry best practices and will expand to include other locations in the future.



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

INDICATOR	21/22 ACTUAL
Increased number of Licensed Cannabis Retailers by 10	9

During the fiscal year, NLC increased the number of cannabis access points in specific geographical areas of the province. The number of Licensed Cannabis Retailers increased from 30 at the beginning of the year to 39 at the end of the year, one short of NLC’s target as one location closed on March 31, 2022 due to the termination of the company’s production agreement. An additional location is due to open to service the needs of this area in the second quarter of fiscal year 2022-23.

INDICATOR	21/22 ACTUAL
Implemented cannabis central warehousing	Complete

During fiscal year 2021-22, NLC introduced a significant change to cannabis distribution in the province. NLC streamlined cannabis supply into the province and began fulfillment and delivery of cannabis from its distribution centre at East White Hills Road in St. John’s. NLC is committed to providing access to a safe and secure supply of cannabis products to Newfoundlanders and Labradorians. Shipment from the distribution centre translates into significantly faster order fulfillment times for Licensed Cannabis Retailers, and shorter delivery times and decreased shipping fees for online customers. This change has also improved product selection and has enhanced NLC’s regulatory effectiveness for the cannabis industry.



With more timely and convenient delivery and decreased prices since launch,

NLC will further disrupt the illicit market in the province.

Objective – By April 2, 2023, NLC will have increased customer satisfaction.

- Achieved customer satisfaction score of at least 95.0%
- Renovated six NLC Corporate Stores
- Increased number of Licensed Cannabis Retailers by five

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STRATEGIC THEME 4:

PUBLIC TRUST

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

GOAL

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

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

Indicators:

- Collaborated on 10 enforcement initiatives
- Published four Quarterly Performance releases and Cannabis Industry Insights Report
- Updated corporate by-laws and applicable Terms of Reference (Audit and Governance and Human Resources Committees) and Code of Conduct
- Implemented Whistleblower Policy
- Inspected 90.0% of licensed establishments
- Challenged 9.0% of transactions through NLC's challenge and refusals policy
- Developed new Corporate Responsibility Plan

INDICATOR	21/22 ACTUAL
Collaborated on 10 enforcement initiatives	31

The Regulatory Compliance and Enforcement team conducted 31 joint operations with our law enforcement partners. These operations range from roadside checks to over \$600,000 in contraband cannabis seizures.

INDICATOR	21/22 ACTUAL
Published four Quarterly Performance releases and Cannabis Industry Insights Report	Complete

NLC successfully published four Quarterly Performance releases, which were posted to NLC's corporate website and sent to NLC's media distribution list. This initiative resulted in numerous media appearances and local media exposure, in which President and CEO Bruce Keating had an opportunity to discuss NLC operations and performance.

The Cannabis Industry Insights Report was not completed as a separate initiative in fiscal year 2021-22. Given the human resources capacity constraints associated with central warehousing for cannabis delivery, efforts were prioritized accordingly. Cannabis metrics were, however, tracked and reported upon in each of the Quarterly Performance releases, including sales, new suppliers/products and additional Licensed Cannabis Retailers, as well as a look at the industry overall. NLC's decision to implement warehousing and distribution of product at its East White Hills distribution centre in the second quarter also significantly changed how the industry and cannabis model operates in the province. Having a full fiscal year with this new arrangement in fiscal year 2022-23 will allow NLC to gain more valuable insights to further improve the industry going forward.

INDICATOR	21/22 ACTUAL
Updated corporate by-laws and applicable Terms of Reference (Audit and Governance and Human Resources Committees) and Code of Conduct	Complete

During the prior fiscal year, the Board worked closely with the Vice President, Human Resources, Strategy and Risk, including a review of Board governance practices, processes and policies. This resulted in updates to NLC's corporate by-laws, the Terms of Reference for standing committees of the Board, and the Code of Conduct that applies to all employees and directors.



Cannabis Seizures

INDICATOR	21/22 ACTUAL
Implemented Whistleblower Policy	Complete

NLC implemented a new Whistleblower Policy, which was facilitated by the Governance and Human Resources Committee of the Board in the prior fiscal year.

INDICATOR	21/22 ACTUAL
Inspected 90.0% of licensed establishments	99.0%

In fiscal year 2021-22, the Regulatory Compliance team inspected 99.0% of all licensed establishments at least once. This achievement is a testament to the Inspectors' commitment to supporting licensees as restrictions due to the pandemic eased and operations began to return to pre-pandemic levels.

INDICATOR	21/22 ACTUAL
Challenged 9.0% of transactions through NLC's challenge and refusals policy	9.2%

The corporation monitors its challenges and refusals rate, defined as the percentage of transactions at Liquor Stores during which customers are asked to show identification. NLC's Check 25 program mandates that Liquor Store and Liquor Express staff check identification of customers who look 25 years of age or younger to ensure they are of legal age to purchase beverage alcohol. In fiscal year 2021-22, NLC exceeded its target by challenging and/or refusing 9.2% of all sales transactions.

INDICATOR	21/22 ACTUAL
Developed new Corporate Responsibility Plan	Incomplete

Although NLC has completed a number of initiatives in social responsibility, to reach its full potential as corporate citizen, it must use its extensive footprint – retail, wholesale, manufacturing, regulatory and distribution network – to affect real change. Based on this, NLC has started the development of its new Corporate Responsibility strategy to encompass not only social responsibility, but community, sustainability, compelling workplace and governance. While NLC did not have adequate resources in place to accomplish this in fiscal year 2021-22, it has now developed the appropriate resources to be a true champion of change in the province going forward, and will complete its corporate responsibility strategy in the upcoming fiscal year, which will guide these efforts through its next three-year business plan. NLC will work closely with government and other stakeholders to reduce the negative consequences of alcohol consumption and to promote a culture of moderation, as outlined in the Provincial Alcohol Action Plan.

Objective – By April 1, 2023, NLC will have strengthened public confidence.

- Challenged 9.0% of transactions through NLC's challenges and refusals policy
- Published four Quarterly Performance releases
- Developed Corporate Responsibility Strategy
- Achieved 95.0% Success Rate among Inspected Licensees

STRATEGIC THEME 5:

A COMPELLING WORKPLACE



NLC's corporate success is
**driven by the efforts and success
of its people.**

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

GOAL

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

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

Indicators:

- Achieved voluntary turnover rate of less than 4.0%
- Achieved average absenteeism rate of less than 8.5 days per year
- Implemented at least 10 diversity, inclusion and belonging awareness initiatives

During fiscal year 2021-22, NLC did not meet its goal with a 6.7% turnover rate – defined as permanent employees who voluntarily left the organization, excluding retirements. Employee feedback was sought during the year through an employee engagement survey, which 78.0% of staff completed and overall job satisfaction was 74.0%. Exit interviews with employees voluntarily leaving the organization were also implemented. Compensation also factors into the difficulty recruiting from a very competitive market for talent. This is resulting in multiple attempts to fill some positions and a much smaller than normal pool of qualified applicants coming forward.

Efforts in recruitment and retention of staff have also focused on non-financial elements of what NLC has to offer. These include NLC's focus on its work environment and culture and its efforts to become a great place to work. It includes recognizing staff for their significant contribution to NLC's success over the past year. It also involves enhancing communication with staff through employee town halls and planning focus groups to explore areas of opportunity identified in NLC's Employee Engagement Survey. A flexible work arrangement policy has been implemented to help employees achieve a greater work-life balance, and NLC's Respectful Workplace policy was revised to ensure it accurately reflects NLC's values. NLC has focused on its internal pool of candidates and promoting from within, and is committed to growing its own talent. This will be achieved through greater investment in training and development, initiation of succession planning, and the introduction of leadership practices and behaviours to support leadership competency development.

INDICATOR	21/22 ACTUAL
Achieved voluntary turnover rate of less than 4.0%	6.7%

INDICATOR	21/22 ACTUAL
Achieved average absenteeism rate of less than 8.5 days per year	9.5 days

NLC reports an absenteeism rate slightly above the target, primarily seen in the fourth quarter of the fiscal year. It can be explained by the strong presence of COVID-19 during the quarter with the Omicron variant circulating in the community starting in December 2021. Another contributor to the increased absenteeism rate in the fourth quarter is the resurgence of the cold and flu season.

NLC’s response to the pandemic continues to be a part of the corporation’s attendance management strategy and over the last fiscal year has included mask-wearing, implementation of a mandatory vaccine policy and enhanced cleaning protocols. NLC also continues to make the mental health of employees a priority by ensuring designated staff are trained in Mental Health First Aid and supports such as the Employee Family Assistance Program are available to help employees manage their mental health. Continuous improvements in Occupational Health and Safety included the implementation of an Accident Reporting policy and improved incident investigation processes. In addition, a Remote Work Safety protocol and associated tools/forms were developed and implemented to support NLC’s objective of enhancing employee health, safety and wellness.

INDICATOR	21/22 ACTUAL
Implemented at least 10 diversity, inclusion and belonging awareness initiatives	12

NLC is committed to creating an inclusive and diverse workplace. The Diversity, Inclusion and Belonging Committee members are championing the creation of an environment where people genuinely feel and see it demonstrated that the way that they think, approach problems, their background and “who they are” are valued.

NLC implemented 12 diversity, inclusion and belonging initiatives during this past fiscal year. These included initiatives and events aimed at recognizing and gaining a better understanding of Black and Indigenous groups, members of the LGBTQ2S+ community, as well as those in the neuro-diverse community. NLC also celebrated Bell Let’s Talk Day, hosting a virtual mental health session for all employees. The organization was honoured to be recognized with a certificate of appreciation from the Canadian Association of Supported Employment in fiscal year 2021-22 for “demonstrating ongoing commitment to creating a diverse and inclusive community in Canada.”

Objective – By April 1, 2023 NLC will develop a strong internal talent pool by establishing a workplace which promotes individual success and professional growth.

- Achieved voluntary turnover rate of less than 4.0%
- Achieved average absenteeism rate of less than 8.5 days per year
- Achieved average safety inspection score of at least 85.0% on total safety inspections completed
- Implemented at least 10 diversity, inclusion and belonging awareness initiatives



Distribution Center Employee
300 E White Hills Rd, St. John's

OPPORTUNITIES AND
CHALLENGES

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

As the world grapples with challenges in the global supply chain, inflation continues to have a direct impact on the cost of living and disposable income in Newfoundland and Labrador. From the effects of the pandemic to the war in Ukraine, disruptions throughout the world have had a significant effect on Newfoundlanders and Labradorians. Despite the current economic and demographic challenges, there is a renewed sense of optimism with recent developments in both the offshore and mining industries. In the face of economic uncertainty, NLC will continue to support government's economic policy that is necessary for provincial sustainability.

Another significant global challenge encountered as the world shifts out of the pandemic is access to labour. During the pandemic, and in the months since its most recent wave, employers have experienced a shortage of available labour and critical skills. As the Province of Newfoundland and Labrador continues to focus on immigration to help fill these gaps, NLC continues to build its profile as a compelling workplace to attract and retain employees of all backgrounds. NLC's focus on diversity, inclusion and belonging in the past several years will continue to expand moving forward, ensuring that NLC is an attractive employer to all those who wish to perform at their best in an environment where they feel welcomed and valued. NLC wishes to become an organization that reflects the communities in which it serves – and sees an opportunity to prosper through these efforts. To this end, NLC will continue to invest in diversity-related initiatives, provide specific training required for its people to excel and offer enhanced work-life balance through flexible workplace scheduling where possible.

Technology continues to be at the forefront of many of NLC's initiatives as it moves into the third year of its current business plan. Technology will play a vital role as all business units move forward with tools to become more efficient and effective. This includes e-commerce discovery in beverage alcohol, as well as a continued focus on online retailing of cannabis through [ShopCannabisNL.com](https://shopcannabisnl.com). Given the recent increase in cyber security threats,

NLC's Information Technology department will work closely with all business units to ensure it is neutralizing this threat wherever possible. NLC will continue to invest in the tools and training to combat this increased risk to its success.

While NLC is committed to providing a dividend to the Province of Newfoundland and Labrador, it also acknowledges its vital role as a member of the community. The Government of Newfoundland and Labrador recently released the Provincial Alcohol Action Plan: Reducing Alcohol Harms and Costs in Newfoundland and Labrador. NLC will work with government and other stakeholders to reduce the negative consequences of alcohol consumption and to promote a culture of moderation. This plan aligns with NLC's increased emphasis on social responsibility, corporate responsibility and community impact. NLC recognizes it has a critical role to play as a socially responsible regulator, retailer and wholesaler of beverage alcohol and cannabis.



NLC is an attractive employer to all those who wish to perform at their best in an environment **where they feel welcomed and valued.**

NLC Employee
43 Kelsey Dr, St. John's

NLC is continuing to invest in the user experience as an opportunity to grow both in beverage alcohol and cannabis. From a physical, in-store standpoint, it recently updated seven of its NLC Liquor Store locations to expand the cold beverage section (primarily to accommodate the growing craft beer and RTD market), enhanced store layout for ease of use and a better customer experience, and replaced lighting to become more energy efficient and to increase visibility through the stores. It also added nine Licensed Cannabis Retailers in fiscal year 2021-22, increasing access for Newfoundlanders and Labradorians to a safe and secure supply of cannabis. NLC will continue to look at all of its current and available channels to develop more user-friendly options to provide greater access to product for its customers, in a socially responsible manner.

Cannabis remains both a challenge and opportunity, as it continues to mature as an industry. NLC's willingness to monitor and adapt is evident through its recent shift to distribute cannabis from its own warehouse in St. John's. This has provided greater access to product, shorter lead times and more efficient delivery for both the consumer and Licensed Cannabis Retailers. At the same time, it has provided NLC with additional oversight, which will allow it to continue to look for more effective means by which to regulate and manage the industry in the province. As NLC

continues to provide greater access to a safe and secure supply of product, it is also working closely with partners in law enforcement to disrupt the illicit cannabis market. NLC's investment in its Regulatory Compliance and Enforcement team will ensure it continues to move forward in this capacity, as cannabis legislation in the province is unique and creates an enforcement capability that gives much more strength in stabilizing the legal industry while disrupting the illegal market.

Rock Spirits represents a significant opportunity for NLC, particularly with growth in craft products and RTD. Rock Spirits has developed partnerships with both global and local brands, and currently exports 82.0% of its products outside Newfoundland and Labrador to other provinces and to 34 countries.

NLC will continue to rely on the strength of its people to meet all challenges, and to seek out opportunities to grow. It will work with its partners and government to fulfill its mandate for the people of Newfoundland and Labrador.



Rock Spirits currently exports
82.0% of its products
outside Newfoundland and Labrador



Beer Cooler Expansion
43 Kelsey Dr, St. John's

CORPORATE

GOVERNANCE

OVERVIEW

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

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

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

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

COMMITTEES OF THE BOARD

The Board's standing committees engage and support its efforts in a number of governance responsibilities. For the fiscal year 2021-22, this was accomplished through three committees: Audit; Governance and Human Resources; and Regulatory.

AUDIT COMMITTEE

The Audit Committee is mandated to provide the Board advice and services in the areas of financial management and reporting, internal control, the audit process, assessing

financial performance against plan, and providing oversight of NLC's enterprise risk management processes.

During the year, the Committee worked closely with the Chief Financial and Information Officer, the Director of Internal Audit and the Vice President, Human Resources, Strategy and Risk in a number of areas. These included a review of quarterly financial results, oversight of the annual year-end audit and related findings, review of quarterly enterprise risk reports, approval of the annual internal audit plan, review of findings of internal financial and operational audits, and review of NLC's cyber security risk assessment and risk mitigation strategies and plans.

GOVERNANCE AND HUMAN RESOURCES COMMITTEE

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

During the year, the Committee worked closely with the Vice President, Human Resources, Strategy and Risk. This included: a major review of Board governance practices, processes and policies, resulting in a new board member orientation process, board member skills inventory, President & CEO job description, a board and committee annual evaluation process; a President and CEO evaluation process; and a review and analysis of NLC's bi-annual employee survey results.

REGULATORY COMMITTEE

The Regulatory Committee was established late in the fiscal year as part of NLC's broader program of governance reform to recognize the critical role of the Board in providing oversight and direction to NLC's legislated regulatory mandate for beverage alcohol and cannabis. The Regulatory Committee is mandated to provide direction and advice to guide Regulatory Services' strategy and objectives; and ensure that Regulatory Services operates with an appropriate level of independence from NLC's commercial activities, and prevents any real or perceived conflicts of interest. It also oversees a process to periodically review, and where appropriate, make recommendations to government with respect to changes to legislation and regulations.

BOARD COMPENSATION

The following compensation was earned by current voting members of NLC's Board of Directors in fiscal year 2021-22.

DIRECTOR	BOARD/COMMITTEE(S)*	MEETINGS ATTENDED	COMPENSATION
Fraser Edison	Board/AC/GHRC/RC	61	\$11,685
Geoff Davis	Board/GHRC	18	\$2,900
Victoria Belbin	Board/GHRC	14	\$2,850
Glenn Mifflin	Board/AC	15	\$2,465
Donna Rideout	Board/AC	14	\$2,320
Janis C. Byrne	Board/GHRC/RC	10	\$1,885
Kendra MacDonald	Board/AC	11	\$1,740
Lynn Zurel	Board/GHRC/RC	12	\$1,667
Kevin Dumaresque	Board/AC	10	\$1,595

**Audit Committee (AC); Governance and Human Resources Committee (GHRC); and Regulatory Committee (RC)*

FINANCIAL **STATEMENTS**

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OFFICE OF THE AUDITOR GENERAL
NEWFOUNDLAND AND LABRADOR

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of the Newfoundland and Labrador Liquor Corporation (the Corporation), which comprise the statement of financial position as at April 2, 2022 and the statements of comprehensive income, changes in net assets and cash flows for the period then ended, and notes to the financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at April 2, 2022 and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Independent Auditor's Report (cont.)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

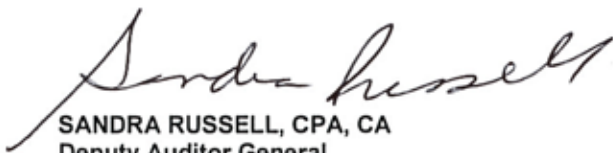
As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



DENISE HANRAHAN, CPA, CMA, MBA, ICD.D
Auditor General



SANDRA RUSSELL, CPA, CA
Deputy Auditor General

June 23, 2022
St. John's, Newfoundland and Labrador

Newfoundland Labrador Liquor Corporation

STATEMENT OF FINANCIAL POSITION

As at
[in thousands]

	April 2, 2022	April 3, 2021
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	32,807	38,647
Accounts receivable [note 7]	15,740	16,323
Inventories [note 8]	32,023	30,071
Prepaid expenses	491	943
Total current assets	81,061	85,984
Property, plant and equipment [note 4]	19,186	19,043
Intangible assets [note 5]	2,594	2,729
Right-of-use assets [note 6]	4,706	5,650
	107,547	113,406
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities [note 10]	39,670	35,703
Accrued vacation pay	4,635	4,277
Employee future benefits [note 9]	15	4
Total current liabilities	44,320	39,984
Obligations under lease liability [note 15]	5,147	6,087
Employee future benefits [note 9]	2,878	3,002
Total liabilities	52,345	49,073
Net assets	55,202	64,333
	107,547	113,406

See accompanying notes

On behalf of the Board:



Director



Director

Newfoundland Labrador Liquor Corporation

STATEMENT OF COMPREHENSIVE INCOME

Period ended
[in thousands]

	April 2, 2022 \$	April 3, 2021 \$
Sales <i>[note 11]</i>	309,615	278,947
Commission revenue on sale of beer	68,227	70,292
Commission revenue on sale of cannabis	11,067	14,527
	<u>388,909</u>	<u>363,766</u>
Cost of sales	141,113	118,519
Gross profit	<u>247,796</u>	<u>245,247</u>
Administrative and operating expenses <i>[note 12]</i>	53,655	50,018
Earnings from operations	<u>194,141</u>	<u>195,229</u>
Other income		
Finance income	347	343
Miscellaneous income	6,381	5,027
	<u>6,728</u>	<u>5,370</u>
Comprehensive income for the period	<u>200,869</u>	<u>200,599</u>

See accompanying notes

Newfoundland Labrador Liquor Corporation

STATEMENT OF CHANGES IN NET ASSETS

Period ended
[in thousands]

	April 2, 2022 \$	April 3, 2021 \$
Balance, beginning of period	64,333	58,734
Comprehensive income for the period	200,869	200,599
Distributions to the Province of Newfoundland and Labrador	<u>(210,000)</u>	<u>(195,000)</u>
Balance, end of year	<u>55,202</u>	<u>64,333</u>

See accompanying notes

Newfoundland Labrador Liquor Corporation

STATEMENT OF CASH FLOWS

Period ended
[in thousands]

	April 2, 2022 \$	April 3, 2021 \$
OPERATING ACTIVITIES		
Comprehensive income for the period	200,869	200,599
Adjustments for non-cash effects		
Depreciation and amortization	3,982	4,173
Accrued vacation pay	358	794
(Decrease) increase in employee future benefits	(113)	110
	<u>205,096</u>	<u>205,676</u>
Changes in non-cash working capital balances		
Decrease in accounts receivable	583	3,079
(Increase) decrease in inventories	(1,952)	1,115
Decrease (increase) in prepaid expenses	452	(313)
Increase in accounts payable and accrued liabilities	3,967	1,286
Cash provided by operating activities	<u>208,146</u>	<u>210,843</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,039)	(1,686)
Purchase of intangible assets	(765)	(715)
Purchase of right to use assets	(242)	(446)
Cash used in investing activities	<u>(3,046)</u>	<u>(2,847)</u>
FINANCING ACTIVITIES		
Obligation under capital lease	242	—
Obligation under lease liability	(1,182)	(767)
Distributions to the Province of Newfoundland and Labrador	(210,000)	(195,000)
Cash used in financing activities	<u>(210,940)</u>	<u>(195,767)</u>
Net (decrease) increase in cash during the period	<u>(5,840)</u>	<u>12,229</u>
Cash and cash equivalents, beginning of period	<u>38,647</u>	<u>26,418</u>
Cash and cash equivalents, end of period	<u>32,807</u>	<u>38,647</u>

See accompanying notes

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

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1. Nature of operations

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

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

The fiscal year of the Corporation ends on the first Saturday of April. As a result, the Corporation's fiscal year is usually 52 weeks in duration but includes a 53rd week every 5 to 6 years. The years ended April 2, 2022 and April 3, 2021 contained 52 weeks.

These financial statements were authorized for issue in accordance with a resolution of the Corporation's Board of Directors on June 23, 2022.

2. Basis of preparation

Statement of compliance

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

Going concern and basis of measurement

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

3. Summary of significant accounting policies

Revenue recognition

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

Sales of goods

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

Newfoundland Labrador Liquor Corporation

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[tabular amounts in thousands]

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operators is deducted from the selling price of the products delivered. The commission paid to Liquor Express operators for the period ended April 2, 2022 was \$6.4 million [period ended April 3, 2021 – \$7.0 million].

The Corporation generates and recognizes net sales of cannabis upon delivery of products to Licensed Cannabis Retail outlets, which commenced on October 1, 2021, and at the point of sale on its e-commerce platform. The commission paid to the Licensed Cannabis Retail operators is deducted from the selling price of the products delivered from NLC warehouse. The commission paid to Licensed Cannabis Retail operators relating to product delivered from NLC warehouse for the period ended April 2, 2022 was \$3.6 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 Harmonized Sales Tax and other taxes due.

Commission revenue on sale of beer and cannabis

The Corporation earns a commission on the sale of beer products in the Province sold through Liquor Express outlets and brewer's agent stores. Prior to October 1, 2021, the Corporation earned a commission on the sale of cannabis products in the Province sold through Licensed Cannabis Retailers. Subsequent to October 1, 2021, the Corporation earns commission only on the sale of cannabis products distributed directly from the Licensed Producers to related Licensed Cannabis Retailers. Commissions are recognized on an accrual basis, based upon beer and cannabis products distributed during the reporting period. The commission earned is presented within revenue as it is earned through the ordinary business activities of the Corporation.

Miscellaneous income

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

Foreign currency translation

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

Current versus non-current classification

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

An asset is classified as current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or

Newfoundland Labrador Liquor Corporation

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[tabular amounts in thousands]

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- 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
- 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.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 2, 2022

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.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

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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 9 for additional details regarding employee benefits.

Sick leave

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

Pension

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

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 2, 2022

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.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 2, 2022

Financial instruments

Financial assets

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

Financial liabilities

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

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

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

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

Impairment of financial assets

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

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

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

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 2, 2022

Significant accounting judgments, estimates and assumptions

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

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

4. Property, plant and equipment

	Land, buildings and leasehold improvements \$	Furniture and equipment \$	Computer equipment and vehicles \$	Total \$
Cost				
As at April 4, 2020	32,074	12,119	7,635	51,828
Additions	90	1,064	532	1,686
Disposals	—	(162)	—	(162)
As at April 3, 2021	32,164	13,021	8,167	53,352
Additions	280	1,018	741	2,039
Disposals	—	(167)	(5)	(172)
As at April 2, 2022	32,444	13,872	8,903	55,219
Accumulated depreciation				
As at April 4, 2020	(16,939)	(9,212)	(6,471)	(32,622)
Depreciation for the period	(889)	(458)	(502)	(1,849)
Disposals	—	162	—	162
As at April 3, 2021	(17,828)	(9,508)	(6,973)	(34,309)
Depreciation for the period	(883)	(570)	(443)	(1,896)
Disposals	—	167	5	172
As at April 2, 2022	(18,711)	(9,911)	(7,411)	(36,033)
Net book value				
As at April 3, 2021	14,336	3,513	1,194	19,043
As at April 2, 2022	13,733	3,961	1,492	19,186

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

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5. Intangible assets

	Computer software \$	Trademark \$	Total \$
Cost			
As at April 4, 2020	17,054	254	17,308
Additions	715	—	715
Disposals	—	—	—
As at April 3, 2021	17,769	254	18,023
Additions	765	—	765
Disposals	—	—	—
As at April 2, 2022	18,534	254	18,788
Accumulated depreciation			
As at April 4, 2020	(14,221)	—	(14,221)
Amortization	(1,073)	—	(1,073)
Disposals	—	—	—
As at April 3, 2021	(15,294)	—	(15,294)
Amortization	(900)	—	(900)
Disposals	—	—	—
As at April 2, 2022	(16,194)	—	(16,194)
Net book value			
As at April 3, 2021	2,475	254	2,729
As at April 2, 2022	2,340	254	2,594

6. Right-to-Use Assets

	April 2, 2022 \$	April 3, 2021 \$
Opening Balance	5,650	6,455
Additions	242	446
Amortization	(1,186)	(1,251)
	4,706	5,650

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

Newfoundland Labrador Liquor Corporation

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[tabular amounts in thousands]

April 2, 2022

7. Accounts receivable

Accounts receivable include the following:

	April 2, 2022 \$	April 3, 2021 \$
Commission receivable	5,763	7,438
Trade accounts receivable	6,036	5,089
Other receivables	3,941	3,796
	15,740	16,323

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

As at April 2, 2022, approximately 98% [April 3, 2021 – 96%] of the trade accounts receivable balance is current. An allowance for doubtful accounts has been recorded in respect of certain non-current receivables in the amount of \$0.04 million [April 3, 2021 – \$0.05 million].

8. Inventories

	April 2, 2022 \$	April 3, 2021 \$
Distribution centres	15,640	15,145
Branch stores	10,750	10,580
Inventory in transit	4,872	3,081
Raw materials	761	1,265
	32,023	30,071

The total value of inventory expensed to cost of sales for the period ended April 2, 2022 was \$118.9 million [April 3, 2021 – \$113.9 million]. The inventory value includes a reserve of \$1.1 million [April 3, 2021 – \$1.7 million]. Residual amounts included in cost of sales include manufacturing labour and overhead, and foreign exchange gains/losses.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 2, 2022

9. Employee future benefits

Employee future benefits include the following:

	April 2, 2022 \$	April 3, 2021 \$
Accrued severance obligation, beginning of period	4	15
Benefits accrued (paid)	11	(11)
Accrued severance obligation, end of period	<u>15</u>	<u>4</u>
	April 2, 2022 \$	April 3, 2021 \$
Accrued sick leave obligation, beginning of period	3,002	2,881
Current service cost	389	391
Interest cost	66	55
Actuarial (gain) loss ¹ due to Experience adjustment	(432)	(60)
	<u>3,025</u>	<u>3,267</u>
Benefits paid	(147)	(265)
Accrued sick leave obligation, end of period	<u>2,878</u>	<u>3,002</u>
Total employee future benefits	2,893	3,006
Less: Current portion	(15)	(4)
Total long-term employee future benefits payable	<u>2,878</u>	<u>3,002</u>

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

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 2, 2022

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

	April 2, 2022 \$	April 3, 2021 \$
Salary increases	3.25	3.25
Discount rate – sick leave liability	2.05	1.80

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

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

	Sick leave obligation	
	\$	%
Discount rate		
1% decrease	195	6.8
1% increase	(173)	(6.0)
Salary increase		
1% decrease	(173)	(6.0)
1% increase	195	6.8
Sick leave usage		
10% decrease in hours	(38)	(1.3)
10% increase in hours	46	1.6

Membership data as at April 2, 2022 was used for the valuation.

Pension plan

The Corporation's share of pension expense for the period ended April 2, 2022 is \$2.3 million [April 3, 2021 – \$2.3 million]. The anticipated contributions for the fiscal year ending April 1, 2023 are \$2.3 million.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 2, 2022

10. Accounts payable and accrued liabilities

	April 2, 2022	April 3, 2021
	\$	\$
Trade payables	11,975	12,071
Accrued liabilities	11,512	7,339
Excise duties	8,950	8,403
HST payable	2,655	3,326
Other	4,578	4,564
	<u>39,670</u>	<u>35,703</u>

Included in accrued liabilities is \$1.9M in contractual obligations related to gift cards, net of breakage of \$0.4M.

11. Sales

Sales include the following:

	April 2, 2022	April 3, 2021
	\$	\$
Sales of beverage alcohol	282,780	272,809
Sales of cannabis	21,930	872
Other	4,905	5,266
	<u>309,615</u>	<u>278,947</u>

12. Administrative and operating expenses

	April 2, 2022	April 3, 2021
	\$	\$
Salaries and employee benefits	30,929	30,160
Depreciation and amortization	2,796	2,922
Rent and municipal taxes	2,586	2,631
Marketing and royalties	1,616	1,521
Interest and bank charges	2,451	2,338
Other	13,277	10,446
	<u>53,655</u>	<u>50,018</u>

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 2, 2022

13. Capital management

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

No changes were made in the objective, policies, or processes for managing capital during the periods ended April 2, 2022 and April 3, 2021.

14. Financial risk management objectives and policies

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

Credit risk

The Corporation is exposed to credit risk with respect to accounts receivable from customers. The Corporation provides products to a large customer base, which minimizes the concentration of credit risk. There were two customers that accounted for 10% or more of the Corporation's accounts receivable as at April 2, 2022 [April 3, 2021 – two customers]. The Corporation has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and utilizes internal and third-party collections processes for overdue accounts.

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

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 2, 2022

15. Obligation under lease liability

	April 2, 2022 \$	April 3, 2021 \$
Opening Balance	6,087	6,854
Additions	242	446
Interest	223	252
Lease Payments	(1,405)	(1,465)
	<u>5,147</u>	<u>6,087</u>

Annual obligations under lease liability are as follows:

	April 2, 2022 \$	April 3, 2021 \$
Within one year	1,175	1,166
After one year but no more than five years	2,308	2,889
More than five years	1,664	2,032
	<u>5,147</u>	<u>6,087</u>

16. Related party transactions

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

During the period ended April 2, 2022, the Corporation made distributions of \$210.0 million [period ended April 3, 2021 – \$195.0 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 2, 2022 was \$0.9 million [April 3, 2021 – \$0.9 million].

SALES BY

LOCATION

(NLC LIQUOR STORES)

FISCAL YEAR 2021-22

(THOUSANDS OF DOLLARS)

Howley Estates	19,873
Stavanger Drive	12,114
Topsail Road	12,067
Corner Brook (Humber Gardens)	11,731
Conception Bay South	11,042
Kelsey Drive	10,429
Merrymeeting Road	9,686
Paradise	9,647
Mount Pearl (Pearlgate Plaza)	9,624
Gander	8,224
Grand Falls – Windsor	7,849
Mount Pearl (Old Placentia Road)	7,762
Happy Valley – Goose Bay	7,335
Bay Roberts	6,544
Clarenville	6,093
Blackmarsh Road	5,997
Stephenville	5,708
Ropewalk Lane	5,581
Carbonear	5,197
Marystown	5,133
Labrador City	4,538
Port aux Basques	2,620
Murphy’s Square - Satellite Store	2,557
Placentia	2,091
Queen Street	1,613
Newfoundland Drive - Satellite Store	1,599
Lake Avenue - Satellite Store	1,507
Centennial Square - Satellite Store	1,378
Clarenville Irving - Satellite Store	525

