

ANNUAL REPORT

2022 – 2023







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FRASER EDISON
Chairperson



MESSAGE FROM THE CHAIRPERSON

I am pleased to present the Annual Report for fiscal year 2022-23 on behalf of the Board of Directors of the Newfoundland and Labrador Liquor Corporation (NLC), which is a Category Two entity under the provisions of the **Transparency and Accountability Act**. The Board of Directors is accountable for the contents and results provided herein.

The past fiscal year marked the third and final year of NLC's 2020-2023 Business Plan. This Annual Report includes highlights, objectives, and measurable outcomes from fiscal year 2022-23 as well as performance results for the full three-year period covered in the plan.

NLC returned a dividend of \$208.0 million in fiscal year 2022-23 to the Corporation's shareholder, the Government of Newfoundland and Labrador. Total net earnings for the year were \$201.2 million - the highest net earnings in NLC history.

The past three years have involved unprecedented challenges with the emergence of a worldwide pandemic. As a testament to its corporate excellence, NLC continued to deliver on its commitment to the Government and the province, while providing high-level customer service and ensuring the health and safety of its customers and employees. Congratulations to Bruce Keating, NLC President and CEO, and the entire NLC team for their dedication and for the results achieved.

I would also like to thank the Honourable Siobhan Coady, Minister Responsible for NLC, and the Government of Newfoundland and Labrador for its support through the past three years of our business cycle.

As NLC moves towards a new three year Business Plan for 2023-2026, the Corporation will continue its focus on customer excellence and financial performance, while driving meaningful and equitable change throughout the province and strengthening the industry in areas including Social Responsibility, Community Giving, Sustainability, Workplace Culture, and Governance.

We look forward to a successful year ahead as we carry forward with our 2023-2026 Business Plan.

Sincerely,

Fraser Edison
Chairperson

SPECIALT



BRUCE KEATING
President & CEO



MESSAGE FROM THE PRESIDENT AND CEO

Fiscal year 2022-23 represents the third year of our 2020-2023 Business Plan, and it has been an exceptional year. The Business Plan provides a roadmap for NLC, and challenges us to be the very best we can be – in financial performance, operational excellence, exceptional stakeholder experience, public trust, and as a compelling workplace for the outstanding people that work at NLC.

In fiscal year 2022-23, we completed the second year of our multi-year corporate store renovation program, transforming our customers' experience when visiting NLC Liquor Stores; expanded the retail cannabis network to more than 40 locations across the province; and made major upgrades in our technology environment. We made great strides with our cyber security plans to become a cyber-resilient organization in an ever-changing world. Rock Spirits continued to be an exceptional manufacturer of beverage alcohol. Our Regulatory Services team showed their expertise once again in regulating the beverage alcohol and cannabis industries, and we began the process of establishing new standards in corporate responsibility. Our governance processes are second-to-none, and were strengthened further this year as the Regulatory Committee of the Board began operations.

We reported record financial results, delivering a dividend to the Government of Newfoundland and Labrador of \$208.0 million. This was the second consecutive year in which the Corporation exceeded \$200.0 million, bringing the three-year total to \$613.0 million. Beverage alcohol sales reached a record \$287.9 million, a fourth consecutive year of record sales. Retail cannabis sales totalled a record \$70.7 million, equalling an estimated 65% of the illicit cannabis market that has been captured, and an increase from approximately 25% three years ago. These are outstanding financial and operational results under any circumstances, and particularly this year as we emerged from the lingering effects of the pandemic.

As President and CEO, I have two overriding objectives. For NLC to be the best it can be in every respect, first, for you, the people of Newfoundland and Labrador, and second, for the people that work at NLC and give so much to this organization each and every day.

We have accomplished much in the past year, and we take great pride in that. But we are not complacent. We have just completed our new ambitious three-year Business Plan covering 2023-2026, which embodies our belief that there is much more yet to be done.

It is with the utmost gratitude that I extend my thanks to every NLC employee across the province, to our exceptional Board of Directors for their guidance and counsel, and to Government for the support and confidence they have shown.

Finally, I would like to thank our customers, suppliers, licensees, and community partners. For visiting our stores and for working alongside us. For your loyalty and understanding. And for providing us with the motivation to be the very best version of NLC that we can be.

Thank you,

Bruce Keating
President & CEO



OVERVIEW

Mandate

As outlined in the **Liquor Corporation Act**, the **Liquor Control Act**, and the **Cannabis Control Act**, NLC's Legislative mandate is to manage and oversee the responsible importation, sale, and distribution of beverage alcohol and cannabis within Newfoundland and Labrador.

Mission

We are a best practice, socially responsible regulator, retailer, and wholesaler of beverage alcohol and cannabis, delivering value to the province through the efforts of outstanding employees.

Vision

To provide safe, convenient access to alcohol and cannabis products.

ABOUT NLC

NLC is a Crown Corporation of the Government of Newfoundland and Labrador with responsibility through the **Liquor Corporation Act**, the **Liquor Control Act**, and the **Cannabis Control Act** for the importation, sale, distribution and management of beverage alcohol and cannabis, and for the delivery of programs that promote safe, responsible consumption of alcohol and cannabis.

NLC is one of the largest retailers in the province. Through 29 corporate Liquor Store locations, private order services, over 140 Liquor Express stores, more than 600 Brewer's Agent outlets, and over 1,400 restaurants, lounges and other licensees, NLC offers over 4,000 products per year to consumers and its retail partners from more than 20 countries. It also regulates and distributes to over 40 licensed cannabis retailers across the province, and offers customers a secure, legal online environment for cannabis purchases via ShopCannabisNL.com. NLC operates a 77,000 square foot distribution centre, as well as a manufacturing operation, Rock Spirits.

NLC operates with the expectation that it will generate revenue for the Government of Newfoundland and Labrador, with 100% of its profits reinvested in the province to fund key public services. NLC aspires to build trust in everything it does - with customers, employees, retailers, commercial partners and communities, along with Government, to ensure a stronger Newfoundland and Labrador.

CORPORATE GOVERNANCE

In accordance with the **Liquor Corporation Act**, NLC is governed by a Board of Directors, consisting of five to nine independent members, as well as two non-voting members. The independent members are chosen and appointed for specific terms by the Lieutenant Governor in Council, following recommendation by the Independent Appointments Commission which is 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 as well as the Deputy Minister of the Department of Finance are members of the Board, serving in a non-voting capacity.

NLC's Board 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 regulations, as well as retailing and wholesaling of beverage alcohol and cannabis to the province, governed by a strong sense of corporate responsibility, transparency, and accountability to the people of Newfoundland and Labrador.

As a corporate member of the Institute of Corporate Directors, NLC's Board engages in knowledge sharing, educational and professional development opportunities, as well as thought leadership discussions in order to ensure greater governance and excellence in directorship.

INSTITUTE OF
CORPORATE
DIRECTORS
*THINK BEYOND
THE BOARDROOM.*

INSTITUT DES
ADMINISTRATEURS
DE SOCIÉTÉS
*PENSER AU-DELÀ
DE LA SALLE DU CONSEIL.*



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 decision-making. The Board's strategy, periodic 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 Executive 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.

BOARD MEMBERS

FRASER EDISON

Chairperson

VICTORIA BELBIN

Vice-Chair

JANIS C. BYRNE

Director

GEOFF DAVIS

Director

KEVIN DUMARESQUE

Director

KENDRA MACDONALD

Director

GLENN MIFFLIN

Director

DONNA RIDEOUT

Director

LYNN ZUREL

Director

MICHELLE JEWER

*Deputy Minister, Finance,
Director, Ex-officio*

BRUCE KEATING

*President & CEO,
Director, Ex-officio*

COMMITTEES OF THE BOARD

The Board's standing committees engage and support the Board's efforts in a number of governance responsibilities. For the fiscal year 2022-23, 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 service in the areas of financial management and reporting, internal control, and the audit process, along with assessing financial performance against plan, and providing oversight of NLC's enterprise risk management processes.

During the fiscal 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 as well as risk mitigation strategies and plans.

GOVERNANCE & HUMAN RESOURCES COMMITTEE

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

During the year, the Committee worked closely with the Vice President of Human Resources, Strategy and Risk, and the Corporate Secretary. Initiatives included the annual evaluation of Board governance practices, processes and policies; activation of a new Regulatory Committee; oversight of collective bargaining with NLC's unionized employees; implementation of development activities for the Board and Executive; and guidance on NLC's objective of being a compelling workplace.

REGULATORY COMMITTEE

The Regulatory Committee was established 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, to prevent 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.

OPEN COAST GIN

Blended and bottled at Rock Spirits



LINES OF BUSINESS

With a workforce of over 600 employees, NLC's commitment to service excellence can be found in almost every community in the province. We take pride in our efforts to provide convenient, authentic, and exceptional experiences for our customers through every line of our business – our retail locations, distribution centre, Rock Spirits manufacturing plant, Regulatory Services and corporate office.

Our primary clients include retail and wholesale customers. We also work directly with local producers, suppliers, agents and licensed producers, as well as liquor jurisdictions across Canada. Within Rock Spirits, we are a co-packaging partner with beverage alcohol brand owners from across the globe.

RETAIL BEVERAGE ALCOHOL

Owned and operated by NLC, our retail Liquor Store locations are the most visible component of our operations, offering a variety of beverage alcohol options to retail customers.

Our retail stores, including 24 Liquor Store locations and five satellite stores, carry an extensive selection of spirits, wine, beer, and ready-to-drink (RTD) alcoholic beverages, imported from other Canadian provinces and around the world. We also carry locally produced spirits, wine, beer, and RTD alcoholic beverages. Retail Liquor Stores are responsible for 63% of NLC's beverage alcohol sales.

WHOLESALE BEVERAGE ALCOHOL

NLC's wholesale operations supply over 140 Liquor Express (LE) locations and approximately 1400 licensees.

LE stores serve consumers in primarily rural areas, and are privately owned and operated entities that have entered into a contract to sell beverage alcohol. These entities receive a commission from NLC on its product sales.

Licensees include breweries, wineries, distilleries, lounges, and restaurants, licensed by NLC Regulatory Services to purchase product that is resold to their customers.

CANNABIS

NLC is responsible for the regulation, importation, product selection, and distribution of cannabis in the province. We are also responsible for price setting and online retailing of cannabis in Newfoundland and Labrador. NLC's merchandising department ensures that a stable and reliable supply of safe and secure product is available in the province.

Physical sales of cannabis are conducted through Licensed Cannabis Retailers (LCRs), which are privately owned entities that have entered into licensing agreements with NLC. Currently there are over 40 LCRs throughout Newfoundland and Labrador. In the province, we have two tiers of LCRs: tier 1 and tier 4. A tier 1 LCR operates as a stand-alone cannabis store that only sells cannabis and cannabis accessories. A tier 4 LCR operates within an existing retail location where the sale and supply of cannabis and cannabis accessories occurs behind the same counter used by the retail establishment in which it is located.

Online cannabis sales are conducted through NLC's e-commerce enabled cannabis website, ShopCannabisNL.com.

PRODUCTION OF BEVERAGE ALCOHOL

Rock Spirits is NLC's manufacturing operation, which develops formulations for spirits in its own portfolio, including the nationally-renowned Screech Rum, and RTD products. The facility also blends, bottles, cans, and distributes spirits, beer, and RTD products on a collaborative basis with beverage alcohol partners from across North America.

Rock Spirits has developed strong relationships with alcohol suppliers from across the globe to source the best quality neutral grain spirit, rum, and whisky, and enhance the natural flavour characteristics of the distilled spirits with blending and flavouring techniques. Customers range from start-up entrepreneurs to some of the biggest names in the global market, including several brands that have received awards on the international stage.

In operation for over 65 years, Rock Spirits exports over 80.0% of its products to other provinces and more than 30 countries.

REGULATORY SERVICES

NLC takes great responsibility in ensuring the safe access, distribution, and regulation of alcohol and cannabis for the people of the province. Our Regulatory Services Division is responsible for enforcing regulation of all licensed establishments in the province in accordance with the **Liquor Corporation Act**, the **Liquor Control Act and Regulations**, the **Cannabis Control Act and Regulations** and the **Smoke-Free Environment 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.

2022-23 AT A GLANCE

NLC provides employment to
630 EMPLOYEES
as of March 31, 2023

360 Female **270 Male**



**24 retail
store locations**



**5 satellite
store locations**

144



**Liquor Express
locations**

1400+

Licenseses
*{restaurants, bars,
and lounges}*

GENDER EQUITY

Female Employees at NLC

AREA OF WORK	Q4 2023	Q3 2020	% CHANGE
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NLC OVERALL

Management	48.9%	40.7%	8.2%
Non Union	63.2%	60.0%	3.2%
Union	59.2%	65.2%	-6.0%

Director Count

50.0%	16.7%	33.3%
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Stores Overall

Management	56.5%	43.9%	12.6%
Non Union	100.0%	53.3%	46.7%
Union	67.5%	74.7%	-7.2%

Store Managers

45.5%	27.3%	18.2%
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Head Office Management

43.4%	37.5%	5.9%
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41 LICENSED CANNABIS RETAILERS



31 × TIER 1 LCRs
10 × TIER 4 LCRs

DISTRIBUTION CENTRE



shipped
1.6 MILLION CASES
of beverage alcohol



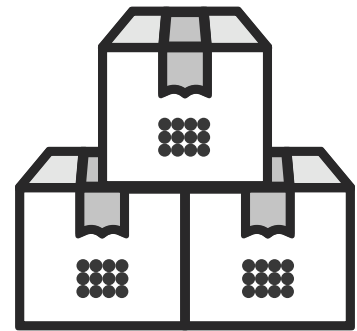
and
164,000 CASES
of cannabis

ROCK SPIRITS

produced a total of

345,000 CASES
of spirits and

33,000 CASES
of RTDs



FINANCIAL PERFORMANCE

Gross Expenditures
\$214.3 million
Sales
\$407.1 million

Government Remittances
total **\$272.1 million**

Dividend
\$208.0 million

HST
\$42.6 million

Excise tax & customs duties
\$21.5 million



THE CELLAR

Part of the renovated Specialty Section in Howley Estates

HIGHLIGHTS & PARTNERSHIPS

During the 2022-23 fiscal year, NLC followed through on commitments set out in our 2020-2023 Business Plan thanks to the efforts of our people as well as partnerships with industry representatives, local law enforcement, and community organizations.

NLC continued to make important investments towards the customer experience. During the fiscal year, NLC renovated six corporate Liquor Stores, with three of these stores located outside the capital city. Updates included the realignment of aisles and store layouts to provide greater shopping ease for customers, along with energy efficient lighting.

NLC works with local, national and international beverage alcohol and cannabis suppliers to ensure it has the right mix of products to meet customer expectations. We collaborate extensively with our supplier community to stay ahead of new sales trends and offer exciting promotional programs all while maintaining our social responsibility mandate. In fiscal year 2022-23, NLC launched its Wine Styles program, which will allow customers to better explore our vast wine selection.

In recognizing that our employees are the backbone of our organization, we continue to seek out new ways to provide quality training and education to help them succeed in their roles. Throughout the fiscal year, our retail staff received educational product training in order to gain the knowledge and expertise to provide sound advice to customers. NLC also invested in a new Graff Retail sales training program, Ready to Serve, which was launched at the end of the fiscal year. The program, which is designed specifically for the wine and liquor industry, will help engage and empower our employees to ensure quality connections with our customers.

Investing in our people also means ensuring that their health and safety remains a priority. We have continued to provide employees with ways to lead a healthier work-life balance, including flexible work arrangements. We partnered with subject matter experts to offer staff mental health first aid training, and provided reminders and tips on health and safety measures during Safety and Health Week and Mental Health Week.

NLC is also committed to building on a culture where every employee feels valued, respected, and heard. In fiscal 2022-23, our efforts towards diversity, inclusion, and belonging extended beyond awareness to include action. As an Employer Partner

with the Canadian Centre for Diversity and Inclusion (CCDI), we are a part of a larger business community, committed to creating a more equitable and inclusive society for all. Through participation in webinars and the sharing of ideas, we have taken key learnings and implemented them into our own operations and every day actions. We have also invested in LinkedIn Learning to provide professional development opportunities, as well as training on various topics, including the implementation of inclusive language training for all staff.



NLC's partnerships with industry representatives in both beverage alcohol and cannabis have led to continuous growth. During the fiscal year, Rock Spirits expanded its canning and bottling projects, establishing partnerships with local and international suppliers including Newfoundland Cider Company, Yellow Belly Brewery, and Georges St. Pierre's Pur Sang Vodka. The manufacturing facility also added a RTD to its own portfolio with the introduction of Sreech Sangria.

We continued to increase cannabis access points by adding two additional LCRs, ensuring greater access for customers to a safe and secure supply of cannabis. Following a three-year review of the cannabis industry in the province the decision was made in the fall of fiscal year 2022-23 to approve the sale of cannabis vape products in Newfoundland and Labrador. This has had a significant impact on sales and provided customers with access to safe and legal vape products. Sales for vape products in fiscal year 2022-23 totaled \$4.5 million.

At NLC, we take our mandate seriously and continue to place Corporate Social Responsibility at the forefront of everything we do. In fiscal year 2022-23, NLC once again partnered with MADD Canada's School Program designed to educate thousands of youth on the dangers of impaired driving. Through NLC's contribution, MADD Canada conducted 15 presentations to schools throughout Newfoundland and Labrador. NLC also supported MADD Canada's Red Ribbon Campaign in its corporate Liquor

Stores to bring awareness to the harmful effects of impaired driving, and raise essential funds for the organization and its mission. Throughout the fiscal year, NLC promoted its Don't Drink and Ride awareness campaign via radio and social media. As well, members of our Regulatory Services team were present at various roadside stop events with local law enforcement.



In March 2023, staff representatives participated in the Evidence to Policy Symposium: Coming Together to Foster Safe Cannabis Use, hosted by Cannabis Health Evaluation and Research Partnership. NLC also sits on two separate national social responsibility committees for cannabis and beverage alcohol, which include jurisdictional representatives from across the country.

To further our commitment to ensuring access to a safe and secure supply of cannabis, NLC continued efforts to disrupt the illicit market with the support of our partners. Together with local law enforcement and Canada Post Inspectors, NLC investigated 18 files resulting in seizures of 409 KG of cannabis products with a market value of \$4.0 million.

As we move into a new three-year business cycle, NLC will build on our current achievements and continue to seek out new partnerships and opportunities in order to deliver elevated experiences and value to the people of Newfoundland and Labrador.

PUR SANG VODKA

Partnership with Georges St-Pierre



PUR SANG IS FOR THOSE
WHO PURSUE
WHAT THEY WANT.



PUR SANG EST POUR CEUX
QUI POURSUIVENT
CE QU'ILS VEULENT.





PERFORMANCE REPORT



STRATEGIC THEME 1: GROW THE BUSINESS

NLC remains committed to delivering returns to the people of Newfoundland and Labrador and ensuring our financial responsibility to the Provincial Government.

Throughout fiscal year 2022-23, NLC continued to generate earnings through strategic investment and fiscal management, as well as the expansion of our customer base and further development of the cannabis market. Enhanced staff training and a greater focus on the customer experience, along with ensuring convenient access and effective distribution and retail channels were all contributing factors to NLC's growth. Rock Spirits also saw expansion through new bottling and canning opportunities.

GOAL

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

OBJECTIVE

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

INDICATORS

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

INDICATOR

Reached sales targets of
\$428.0 million

22/23 ACTUAL

\$407.1 million

Sales for the year ended April 1, 2023 were \$407.1 million. Despite being below the 2022-23 fiscal year target, sales were a record high for NLC, up \$18.2 million from the previous year.

During the fiscal year, customer purchasing shifted back to pre-pandemic patterns. There were also general shifts with public behavior, including increased public travel outside the province and people moving back to their regular routines. Inflation and the increased cost of living also affected sales growth due to people having less disposable income.

The lifting of public health measures due to COVID-19 allowed for sales growth with licensees. We anticipate this growth to continue throughout fiscal year 2023-24.

Alcohol sales were \$2.7 million lower than expected during the year and beer commission revenue was \$2.7 million lower than target during the year. Alcohol sales overall were up 1.8% over fiscal year 2021-22, to \$287.9 million, with an increase in all product categories. Spirits sales were up 0.3%, wine sales increased 0.4%, RTD sales were up 6.4%, and beer sales increased by 6.0% compared with the prior year.

Sales through NLC’s Liquor Stores were up 0.5% for fiscal year 2022-23, while Liquor Express outlets across the province were consistent with prior year.

NLC also earns commissions on the sale of beer through Brewers’ Agents. These commissions were down 0.2% for the year, for a total of \$68.1 million.

Cannabis retail sales were higher than expected and higher than the prior year, mainly due to the growth and evolution of the cannabis industry, the addition of new LCRs, as well as the introduction of new products including vape. In addition to direct sales to LCRs and online sales, NLC earns commission on local producer product that is self-distributed to their own retail stores. This revenue is reflected in NLC commissions. Total cannabis retail sales for fiscal year 2022-23 increased by 15.8% over the prior year to \$70.7 million. This includes all sales of cannabis in the province, whether distributed by NLC or directly by local producers.

INDICATOR	22/23 ACTUAL
Achieved dividend of \$214.0 million	\$208.0 million

The dividend remitted for the fiscal year was \$208.0 million. The difference is due to lower net earnings.

INDICATOR	22/23 ACTUAL
Achieved net earnings of \$206.3 million	\$201.2 million

Net earnings for fiscal year 2022-23 total \$201.2 million, an increase of \$0.4 million or 0.2% from the prior year.

Net earnings were lower than the target due to many factors, including a newly negotiated collective agreement along with increased freight and security costs during the fiscal year.

In addition, NLC incurred an increase of 44.1% in cannabis operating and administrative expenses through the fiscal year. This is primarily due to an increase in commissions paid to tier 1 LCRs, due to higher sales volumes and an increase in the commission rate paid from 15% to 20% to these LCRs.

Three-Year Performance Summary

The end of fiscal year 2022-23 also marked the end of the three-year business cycle for the 2020-23 Business Plan. During this period, NLC reported record sales and earnings in each of the three years.

NLC exceeded its three-year sales target of \$1,145.1 million with total sales of \$1,159.8 million. Alcohol sales were higher than expected during the three-year business cycle, with sales volume increases in all product categories. Cannabis increases were due to the continued growth and evolution of the industry.

NLC delivered a dividend of \$208.0 million to the Government of Newfoundland and Labrador in fiscal year 2022-23, which helped fund public programs and services within the province. The dividend paid by NLC to Government for the three-year period totalled \$613.0 million, an increase of \$80.9 million over the previous three-year period.

The dividend payment during the three-year cycle exceeded the targeted dividend of \$611.0 million by \$2.0 million. This is primarily due to increased sales and net earnings during this period.

Throughout the three-year business cycle for the 2020-23 Business Plan, NLC focused on minimizing costs and reducing discretionary spending where appropriate. This reduction in costs along with increased alcohol and cannabis sales allowed NLC to exceed targeted earnings from operations in two of the three years. Targeted earnings were short by \$5.1 million in fiscal 2022-23. The difference is due to various factors including the newly negotiated collective agreement, increased freight and security costs, increased cannabis commissions to tier 1 LCRs, and increased support to local beverage alcohol producers.

SALES BY PRODUCT CATEGORY (MILLIONS OF DOLLARS)

	2022-23		Var.	% Var.	2021-22		Var.	% Var.	2020-21		Var.	% Var.
	Actual	Target			Actual	Target			Actual	Target		
Spirits	136.9	138.6	(1.7)	-1.2%	136.4	129.5	6.9	5.3%	137.5	127.0	10.5	8.3%
Wine	81.0	84.6	(3.6)	-4.3%	80.7	73.3	7.4	10.1%	77.3	75.9	1.4	1.8%
RTD	36.8	36.4	0.4	1.1%	34.6	35.8	(1.2)	-3.4%	31.9	23.3	8.6	36.9%
Beer	38.7	36.7	2.0	5.4%	36.5	36.2	0.3	0.8%	32.7	38.6	(5.9)	-15.3%

SPIRITS SALES (IN THOUSANDS OF LITRES)

	2023	2022	2021	2020	2019	2018	2017
Rum	1,419	1,527	1,593	1,602	1,606	1,711	1,762
Rye Whisky	846	876	878	861	807	837	836
Vodka	651	657	706	606	589	597	590
Liqueurs	377	375	363	307	311	326	329
Scotch - other Whisky	72	78	79	79	119	123	119
Gin	97	92	91	90	84	72	64
Tequila	36	32	26	23	20	19	19
Brandy	15	18	18	17	17	17	17
Cognac	3	3	3	3	3	3	4
Miscellaneous	2	2	3	3	1	1	1
	3,518	3,657	3,760	3,591	3,557	3,706	3,741

WINE SALES (IN THOUSANDS OF LITRES)

	2023	2022	2021	2020	2019	2018	2017
Table Wine	3,802	3,893	3,898	4,001	3,998	4,188	4,104
Sparkling & Champagne	300	328	318	285	284	294	290
Fortified Wine	48	51	53	53	54	59	61
Low Alcohol Wine	-	-	8	10	14	16	10
	4,150	4,272	4,277	4,349	4,350	4,557	4,465

READY TO DRINK (RTD) & CIDER SALES (IN THOUSANDS OF LITRES)

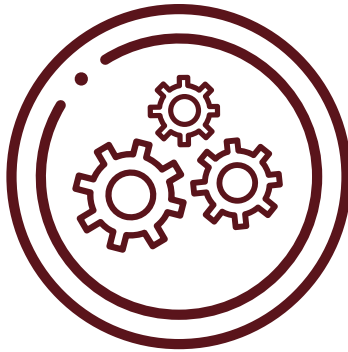
	2023	2022	2021	2020	2019	2018	2017
Refreshment Beverages	3,885	3,762	3,460	2,276	2,041	1,888	1,789
Cider	415	468	452	377	371	362	312
	4,300	4,230	3,912	2,653	2,412	2,250	2,101

BEER SALES (IN THOUSANDS OF LITRES)

	2022	2022	2021	2020	2019	2018	2017
Local Beer	3,423	3,282	2,808	3,509	3,524	3,559	3,570
Imported Beer	2,187	2,237	2,192	2,541	2,630	2,779	2,871
Low Alcohol Beer	15	16	15	22	32	40	61
	5,625	5,535	5,015	6,072	6,186	6,378	6,502

CANNABIS SALES (MILLIONS OF DOLLARS)

	2022-23 Actual	2022-23 Target	Var.	% Var.	2021-22 Actual	2021-22 Target	Var.	% Var.
Dried Flower	51.9	59.2	(7.3)	-12.3%	50.6	47.3	3.3	7.0%
Extracts & Concentrates	10.8	3.2	7.6	237.5%	3.5	0.5	3.0	600.0%
Ingestible	7.7	7.9	(0.2)	-2.5%	6.5	6.6	(0.1)	-1.5%
Topicals	0.3	0.3	(0.0)	0.0%	0.3	0.5	(0.2)	-40.0%
	70.7	70.6	0.1	0.1%	60.9	54.9	6.0	10.9%



STRATEGIC THEME 2: OPERATIONAL EXCELLENCE

NLC strives to improve operational excellence by working with key stakeholders and partners at all levels of the organization. Throughout fiscal year 2022-23, we continued to adapt to a continually changing environment and industry, while recognizing the importance of teamwork in executing effective and timely solutions. Leveraging technology was also key in our ability to increase efficiency and workplace safety, generate and protect data, and provide solutions to enhance our customer experience.

GOAL

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

OBJECTIVE

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

INDICATORS

- 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

INDICATOR

Achieved inventory turns of 4.8

22/23 ACTUAL

4.7

During fiscal year 2022-2023, supply chain challenges including availability of products, increased lead times on shipments to Newfoundland and Labrador, and increased costs of freight continued to be a challenge. These supply chain challenges resulted in total inventory increasing by \$0.6 million compared to prior year, which reduced inventory turns to 4.7, slightly below target.

INDICATOR

Improved cases per worked hours by 2.0%

22/23 ACTUAL

2.8%

Improved cases per worked hours illustrates sales efficiency in proportion to labour required. Retail cases per worked hours improved by 2.8% in fiscal year 2022-23. Efficiencies were gained throughout the store network as sales increased at a higher rate than hours worked by NLC staff.



Distribution Centre Strategy *Our Path to Success.*

NEWFOUNDLAND LABRADOR SUPPLY CORPORATION

OUR OBJECTIVES

- Corporate Strategy Map
- Departmental Strategy Map

OUR PRODUCTION

- Initiatives
- Shipping
- Inventory

SCORECARD

In Case Of
EMERGENCY
CALL

USING LADDERS

IF YOU USE LADDERS AT WORK, YOU MUST BE TRAINED AND CERTIFIED TO DO SO.

FOR MORE INFORMATION, CONTACT YOUR SUPERVISOR.

DISTRIBUTION CENTRE
300 East White Hills Rd, St. John's, NL

INDICATOR

Decreased costs as a percentage of sales by 1.3%

22/23 ACTUAL

0.5%

Costs decreased as a percentage of sales by 0.5%, which is 0.8% below target. This is primarily due to the newly negotiated collective agreement and an increase in commissions to support licensed cannabis retailers, as well as increased freight and security costs during the year.

INDICATOR

Introduced cyber security employee testing

22/23 ACTUAL

Completed

Given the continuing increase in cyber security threats throughout the province and country, NLC prioritized the efforts of our IT department by heightening our focus on this area during fiscal 2022-23. NLC implemented mandatory cyber security training for all staff with a goal of a 95.0% pass rate. While the pass rate was slightly under target at the beginning of the fiscal year, increased educational awareness and communication tools to employees allowed NLC to meet our goal by the second half of the fiscal year.

Three-Year Performance Summary

Despite supply chain challenges, core inventory turns have remained consistent throughout the 2020-2023 business cycle. In fiscal 2020-21, sales increases affected inventory turnover. In addition, supply chain challenges due to COVID-19 reduced inventory during certain periods of the year, which improved inventory turnover, as the sales were not negatively impacted. This resulted in inventory turns of 5.2, exceeding NLC's goal of 4.8. For fiscal years, 2021-22 and 2022-23, supply chain challenges, increased lead times on shipments, and increased cost of freight all resulted in inventory turns slightly below NLC targets.

Retail cases per worked hours increased by 4.5% from fiscal year 2019-20 to fiscal year 2022-23. Efficiencies were gained throughout the network as sales increased at a higher rate than hours worked by NLC staff.

NLC's IT department completed numerous projects throughout the three-year business cycle, which included those related to changes in business, security, automation, and cyber security. In addition, NLC achieved PCI compliance as of March 2023.



PRODUCT KNOWLEDGE CONSULTANTS

Trained experts to help our customers make informed product decisions



STRATEGIC THEME 3: EXCEPTIONAL STAKEHOLDER EXPERIENCE

NLC aims to build collaborative and productive relationships with stakeholders so that their needs are well understood and that our products, programs, policies and services align with expectations. Throughout fiscal year 2022-23, NLC worked towards ensuring that products and services were readily available and that staff were well trained to provide support and sound advice on every occasion. NLC also continued to build strategic alliances with key partners in the pursuit of delivering on our mandate. Our commitment to an exceptional customer experience extends to stakeholders from across our broad spectrum of responsibilities and multiples lines of business.

GOAL

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

OBJECTIVE

By April 1, 2023, NLC will have increased customer satisfaction.

INDICATORS

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

INDICATOR

Achieved customer satisfaction score of at least 95.0%

22/23 ACTUAL

97.3%

NLC continued to seek valuable customer feedback and insight through a receipt-based customer satisfaction survey. Liquor Store Managers monitor the survey results on a regular basis to ensure that we understand and meet customer needs.

NLC provides customers with various outlets to provide feedback both in-store and to head office personnel, including in-person, email, phone, and social media inquiries. We have made it a priority to ensure that customer concerns are addressed in a timely manner.

INDICATOR

Renovated six NLC corporate Liquor Stores

22/23 ACTUAL

Completed

NLC successfully completed renovations to six corporate Liquor Stores during fiscal year 2022-23: Gander, Happy-Valley Goose Bay, Howley Estates, Humber Gardens, Long Pond, and Merrymeeting Road. Renovations included energy efficient lighting, expansion of cold space, realignment of aisles, flooring improvements, digital screens, new signage, and interior paint to reflect NLC's current branding. In addition, a Specialty Wines section



was added to four locations, Howley Estates, Humber Gardens, Long Pond, and Merrymeeting Road, providing customers with greater access to quality products from local, national, and international suppliers. NLC will continue with its store renovation program throughout fiscal year 2023-24, with nine locations to be completed.

In an effort to disrupt the illicit market and provide safe access to a secure supply of cannabis in the province, NLC implemented its Rural Expansion Plan Strategy in fiscal year 2022-23. The strategy involved focused efforts to expand the retail store network to rural areas of Newfoundland and Labrador, specifically in areas where convenient access to legal cannabis did not exist. Several locations in rural areas throughout the province are targeted for openings in fiscal year 2023-24.

INDICATOR	22/23 ACTUAL
Increased number of Licensed Cannabis Retailers by five	2

During fiscal year 2022-23, NLC increased the number of cannabis access points in specific geographical areas of the province. The number of Licensed Cannabis Retailers increased slightly from 39 to 41. The remaining three targeted locations had delayed openings and are scheduled to open in fiscal year 2023-24.

Three-Year Performance Summary

Our customer satisfaction score has exceeded the target for all three years of the 2020-2023 business cycle – with actual scores of 97.0% for both fiscal years 2020-21 and 2021-22, and 97.3% for fiscal 2022-23. Our continued commitment to expand the knowledge of our front-line staff, ensuring a highly skilled, well-educated workforce, has been a main contributor to our customer experience and satisfaction scores. As an increasing number of customers are no longer requesting a paper receipt, NLC will be implementing



HAPPY VALLEY - GOOSE BAY

The team in their newly renovated store

additional market research measures in fiscal year 2023-24 to expand our customer reach and capture pertinent information.

Throughout the 2020-23 business cycle, NLC planned, implemented, and completed the renovation of 11 corporate Liquor Store locations. To ensure an enhanced shopping experience, customer ease and access, improvement of product offerings, and operational efficiency were all important factors in the final layout and design of each location. The renovations also allowed NLC to accommodate for growth of the local craft beer and RTD market.

Increasing safe access to a secure and legal supply of cannabis was also a priority for NLC. Throughout the three-year business cycle, 16 LCRs were added across Newfoundland and Labrador. In fiscal year 2021-22, NLC introduced a significant change to

cannabis distribution in the province, fulfilling cannabis orders and delivering cannabis from its distribution centre in St. John's. This change translated into faster order fulfilment times for LCRs, as well as shorter delivery times and decreased shipping fees for online customers. It also led to improved product selection and enhanced NLC's regulatory effectiveness for the cannabis industry. In addition, the approval of vape sales during fiscal year 2022-23 played a significant role in diverting illicit cannabis sales in the province, while also contributing to cannabis growth. Currently, we have captured approximately 65% of the illicit market, up from approximately 25% in 2020. Through our Rural Expansion Plan Strategy, we will continue to ensure that customers from across Newfoundland and Labrador, including those in rural areas, have access to safe, secure, and legal cannabis.



CHECK 25

Checking the identification of customers who look 25 years of age or younger



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 vital. Gaining the public's trust as well as that of its shareholders requires a focus on sound governance practices, transparency, and accountability. Throughout fiscal year 2022-23, NLC integrated practices that promote these elements directly into its operations. NLC also established and leveraged partnerships with community organizations and entities across the province to promote our commitment to social responsibility and making a positive impact on the communities we serve.

GOAL

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

OBJECTIVE

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

INDICATORS

- Challenged 9% of transactions through NLC's Challenges and Refusals Policy
- Published four Quarterly Performance releases
- Developed Corporate Responsibility Strategy
- Achieved 95% Success Rate among Inspected Licensees

INDICATOR

Challenged 9.0% of transactions through NLC's Challenge and Refusals Policy

22/23 ACTUAL

9.0%

As a responsible retailer, NLC 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 addition, NLC staff are trained to challenge and/or refuse service to anyone who appears to be under the influence.

NLC staff challenged 352,000 transactions in fiscal year 2022-23.



INDICATOR	22/23 ACTUAL
Published four Quarterly Performance releases	Completed

INDICATOR	22/23 ACTUAL
Achieved 95% Success Rate among Inspected Licensees	97%

In an effort to improve transparency, NLC successfully published four Quarterly Performance releases which were sent to local media and made available on NLC’s corporate website. 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 success rate is defined as the percentage of inspections that are deemed satisfactory by our Regulatory Services licensed inspectors. When conducting inspections, licensees need to demonstrate that they are operating in line with Government legislation and NLC guidelines. In addition, inspectors follow a standard set of criteria in order to provide accurate and measurable results for each inspection.

INDICATOR	22/23 ACTUAL
Developed new Corporate Responsibility Plan	In Progress

Three-Year Performance Summary

During fiscal year 2022-23, NLC developed a framework for a new Corporate Responsibility Plan, which will encompass five main pillars: social responsibility, community giving, environmental sustainability, compelling workplace and governance. In Q4 of fiscal 2022-23, NLC invested in the necessary resources in order to develop and carry out the plan within the next fiscal and throughout the next three-year business cycle.

Through our Check 25 ID campaign, we continued to be diligent in our role as a responsible retailer. NLC measures the success of the program by monitoring challenge and refusal rates at Liquor Store and Liquor Express locations. NLC exceeded its target in the first two years of the Business Plan, and met its target for fiscal year 2022-23. In total, NLC staff challenged and/or refused 1 million transactions over the three-year period.

During the 2020-2023 business cycle, NLC partnered with various organizations and entities



to promote responsible drinking and cannabis use, including the Royal Canadian Mounted Police (RCMP), Citizens Crime Prevention, MADD NL, Safety Council of NL, and Safety NL, along with Memorial University’s School of Pharmacy and the Student Wellness and Counselling Centre. We also developed social responsibility messaging to generate further awareness in our retail stores and on our social media channels, including our most recent campaign, “Drive Sober. Make Sure Everyone Makes it Home.”

NLC continues to implement its risk-based policy, allowing for strategic scheduling of compliance inspections, and ensuring that those premises that present a higher risk are visited more frequently.

NLC’s Regulatory Compliance and Enforcement team exceeded their inspection targets in all three years of the 2020-2023 business cycle, with inspections carried out in over 90% of licensed establishments each year.

The Regulatory Compliance and Enforcement team work diligently with law enforcement partners to help keep our communities safe through joint operations

including roadside checks and cannabis seizures. For the three-year business cycle, NLC worked with local law enforcement and investigators with Canada Post to investigate over 67 files, resulting in seizures of 657kg of cannabis products with a total estimated market value of \$6.7 million.

NLC also continued to transform its governance processes and practices. In fiscal year 2021-2022, a Regulatory Committee was established as a permanent committee of the Board of Directors. The committee is mandated to provide direction and advice towards Regulatory Services’ strategy and objectives, and to ensure that Regulatory Services operates with an appropriate level of independence from NLC’s commercial activities, preventing any real or perceived conflicts of interest. It also oversees a process to periodically review, and where appropriate, to make recommendations to Government with respect to changes to legislation and regulations.



FINANCE

Employees at our Head Office



STRATEGIC THEME 5: A COMPELLING WORKPLACE

NLC continues to build on a culture that empowers employees to achieve their own goals, encourages a healthier work life balance, and embraces diversity, inclusion, and belonging. Throughout fiscal year 2022-23, NLC focused on providing employees with the opportunity to grow professionally and delivering the tools and training needed for them to succeed. Staff coaching, recognition measures, and two-way communication between management and staff were essential to supporting employees and establishing a workplace whereby individual satisfaction and achievement is reflected in the results of the organization.

GOAL

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

OBJECTIVE

By April 1, 2023, NLC will develop a strong internal talent pool by establishing a workplace that promotes individual success and personal growth.

INDICATORS

- 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

INDICATOR

Achieved voluntary turnover rate of less than 4.0%

22/23 ACTUAL

8.4%

During fiscal year 2022-23, NLC did not meet its goal with an 8.4% turnover rate – defined as permanent employees who voluntarily left the organization, excluding retirements. Exit interviews were conducted with employees voluntarily leaving the organization to understand why people resigned, and to explore suggestions to help facilitate organizational improvements. Market activity has settled yet continues to be challenging. The high voluntary turnover rate is largely due to part-time Liquor Sales Clerks who were previously temporary and only became permanent staff in the last two years. As a result, they were not included in prior years. This voluntary turnover rate is more in line with the retail sector.

Additional efforts in creating a compelling workplace to help attract and retain purpose-driven talent were implemented in fiscal year 2022-23. A Request for Proposals (RFP) for a new Human Resources Management System (HRMS) was issued in October 2022 and closed in December. The new HRMS, which is a modern, sophisticated cloud-based solution, will improve employee experience through the provision of mobile self-service options, electronic recruitment and onboarding processes, and increased automation of workflow processes.

NLC has also created an agile workforce with transferable skills leading to 95 internal promotions in fiscal year 2022-23. This was achieved through greater investment in training and development, continuation of succession planning and by providing employees with the knowledge and tools to thrive in their roles.

INDICATOR	22/23 ACTUAL
Achieved average absenteeism rate of less than 8.5 days per year	10.2

NLC reports a 10.2 average absenteeism rate for fiscal year 2022-23. Although this is above the fiscal target, the rate has been declining from a pandemic high in 2021-22 and early 2022-23 to below target in Q4 of this fiscal. This is due to a combination of reduced overall COVID numbers along with a decline in other public health illnesses. NLC’s pandemic response strategy has been significantly reduced and is consistent with measures as prescribed by the province’s Chief Medical Officer of Health. NLC also continues to make employee mental health a priority by offering Mental Health First Aid training to all staff on a quarterly basis.

Continuous improvements in Occupational Health and Safety (OH&S) during the 2022-23 fiscal year included the revision of workplace inspection forms and documentation retention that will meet both audit and regulatory compliance. Documentation review and monitoring also continues for all WorkplaceNL PRIME requirements, which will place NLC in a good position to take full advantage of this financial incentive program. Further enhancements are still being considered for the employee incident reporting process, which will likely be influenced through the new Human Resources Management System. As well, the Remote Work Safety protocol and associated tools/forms continue to be a focus for implementation and audit in order to support NLC’s objective of enhancing employee health, safety and wellness.

INDICATOR	22/23 ACTUAL
Achieved average safety inspection score of at least 85.0% on total safety inspections completed	96.0%

NLC is reporting another successful year of workplace inspections, with 96.0% of inspected areas/items found to be in satisfactory condition and requiring no corrective action. Inspection checklists have been updated and are in place for Rock Spirits, distribution centre, corporate Liquor Stores, as well as NLC’s head office and O’Leary Avenue locations.

INDICATOR	22/23 ACTUAL
Implemented at least 10 diversity, inclusion and belonging awareness initiatives	15

Throughout fiscal year 2022-2023, NLC implemented 15 diversity, inclusion and belonging awareness initiatives. Led by a volunteer staff Diversity, Inclusion, and Belonging committee, highlights of these initiatives included participation and/or acknowledgment of commemorative days including: National Day for Truth and Reconciliation, Black History Month and International Women’s Day. In April 2022, NLC participated in Celebrate Diversity Month, which included training on cultural intelligence to support anti-racist workplaces delivered by the Association for New Canadians. NLC raised the Progress Pride flag at our head office and developed in-store and online messaging in support of PRIDE month. In recognition of International Transgender Day of Visibility, NLC implemented mandatory staff training on inclusive language.

Three-Year Performance Summary

For the 2020-23 business cycle, NLC focused efforts on making NLC a place where people want to be. Communication between management and staff included the 2021 engagement survey, the introduction of town halls with employees, and the involvement of a broad group of senior leadership within the organization in developing the 2023-26 Business Plan. NLC also signed a new collective agreement with its unionized staff in November of 2022.

The engagement survey occurred half way through the business cycle. NLC had a record number of employees complete the survey with job satisfaction remaining at 74% and employees feeling comfortable being themselves at 88%. Measures related to NLC’s strategic direction show significant improvement, particularly in relation to NLC heading in the right direction with a 13-point improvement at 66%. This illustrates NLC has progressed, however opportunity for improvement exists.

Efforts in retention and recruitment have included focusing on NLC’s work environment and culture. In fiscal year 2020-21, the Board’s Governance and Human Resources Committee was reactivated. As well, NLC’s Human Resources, Strategy and Risk division invested in resources to focus on initiatives promoting a compelling workplace including learning

and development, specifically a store management readiness program and re-introduction of Graff Retail sales training to all retail employees. A Flexible Work Arrangement Policy was implemented in fiscal year 2021-22 in response to a changing workforce due to the COVID-19 pandemic, and to help employees achieve a greater work-life balance.

Absentee rates fluctuated throughout the 2020-23 business cycle, namely due to COVID-19 and other public health illnesses. During this time, employee health and safety was a major priority for NLC. Proactive measures were determined through a hazard assessment process and with direction from NL's Chief Medical Officer of Health. In addition, NLC followed COVID-19 guiding documents for day-to-day guidance on managing absenteeism. Control measures including protective barriers, informational signage, hand sanitizers, and personal protective equipment were implemented throughout the organization. As a result of these measures, NLC did not incur any facility closures due to employee shortages. NLC staff reported in the 2021 engagement survey that in relation to the pandemic, they had been kept well-informed (83%), were satisfied with NLC's response (79%), and felt employee health and safety has been a priority (78%).

NLC has made continuous improvements in OH&S. During fiscal year 2021-22, NLC implemented an Accident Reporting Policy, improved incident investigation processes, and a Remote Work Safety protocol. Throughout fiscal year 2022-23, the focus was on reviewing and revising forms, policies and procedures to ensure audit and regulatory compliance, including workplace inspection forms and documentation retention.

NLC fully recognizes the value diversity brings to the organization and continues to raise its profile within the workplace. Spearheaded by the Diversity, Inclusion, and Belonging Committee, the efforts are apparent as NLC continually met the annual target of at least 10 diversity, inclusion and belonging awareness initiatives with 10, 12 and 15 initiatives over the last three years respectively. Highlights over the three-year period have included: recognizing PRIDE throughout the corporation and raising the Progress Pride flag at head office; promoting understanding and kindness through various employees awareness campaigns; and continuing education in the form of videos, webinars and guest speakers on topics such as Indigenous Cultural Diversity, inclusive language, neurodiversity and mental health. NLC's employer partnership with CCDI is another example of our growth and commitment to create a space where all

employees and customers feel a sense of belonging, and that they are valued and included.

A review of NLC's gender diversity indicates significant improvement over the course of the 2020-23 business cycle. This resulted from conscious efforts to ensure NLC's recruitment and retention programs were reflective of the importance placed on diversity, inclusion, and belonging in the workplace.

SPECIALTY SELECTIONS

SPECIALTY
SPECIALTY

UNITED STATES

FRANCE

OPPORTUNITIES AND CHALLENGES

The past three years provided significant challenges and opportunities and generated great shifts in how we do business. Due to the COVID-19 pandemic, our teams continually pivoted operations in order to continue to meet customer demand, while also keeping the health and safety of our employees and community top of mind. Despite the interruptions and adjustments to operations, NLC continued to deliver on our commitments.

While supply chain disruptions slowly improve, inflation continues to have a direct impact on the cost of living and therefore, the disposable income of households in Newfoundland and Labrador. Despite the current economic and demographic challenges, there is a renewed sense of optimism with recent developments in various industries in the province, including in wind, energy, and mining. In the face of economic uncertainty, NLC will continue to support Government's Economic Policy that is necessary for provincial sustainability.

NLC continues to see changes in customer behavior, partly caused by the COVID-19 pandemic, but also driven by immigration and changing views on alcohol consumption by the Millennial and Gen Z age groups. Customer behavior trends will drive NLC to focus on emerging areas including: lighter choices, such as lower alcohol and lower sugar products, trading up to more premium products, focusing on brands with a social purpose that resonate with personal values, and the desire to buy and support local suppliers.

Cyber security threats continue to be a major risk as cybercriminal technology becomes more sophisticated. NLC will continue to make cyber security a priority and invest in the tools and training needed to combat this increased risk to our operations. Technology will also play a vital role in ensuring our business units move forward with tools to become more efficient and effective, including the implementation of an Electronic Promotional Application Calendar (EPAC) and tools to automate Health Canada reporting as well as beverage alcohol commission reporting for local producers.

NLC is committed to providing a dividend to the province of Newfoundland and Labrador and its people. It is also imperative that we acknowledge our role in the community as a responsible retailer, and the importance of balancing profit and purpose. In July 2022, the Government of Newfoundland and Labrador released the Provincial Alcohol Action Plan: Reducing Alcohol Harm and Costs in Newfoundland and Labrador. NLC will continue to work with Government and other stakeholders to reduce the negative consequences of alcohol consumption and to promote a culture of moderation for both alcohol and cannabis.

As a retailer with a provincial footprint, we have a responsibility to our planet and ensuring sustainable communities. NLC has committed to taking a leading stance on actions to enact change, including minimizing our carbon footprint, reducing our waste, and preserving our natural resources. We will also prioritize working with partners and suppliers who are committed to doing the same.

We also have an opportunity to give back to the community in ways that are more meaningful. As NLC prepares to launch a new community giving program, we will champion causes that reflect our corporate values and community needs, with our staff leading the way through employee engagement campaigns and volunteer initiatives.

NLC will continue to promote a workplace that fosters diversity, inclusion, and belonging, as we look to attract and retain purpose-driven talent in a tightening labour market. Ensuring a culture where our employees are valued, respected, and heard, is essential to not only our business but to our communities and the province as a whole.

We see opportunity to grow in both beverage alcohol and cannabis by continuing to invest in the customer experience. NLC plans to complete its corporate store renovation program by Q1 in fiscal year 2024-25. We will also provide more access points to a safe and secure supply of cannabis by introducing additional LCRs throughout Newfoundland and Labrador.

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 ships 82.0% of its products outside the province to over 30 countries.

Cannabis remains both a challenge and opportunity as it continues to mature as an industry. The cannabis industry is challenged by oversupply, illicit market competition and evolving consumer demands. As the industry moves forward, NLC will look to new ways to balance our commitment to providing a safe supply of cannabis throughout the province with supporting local retailers in an ever-changing market.

Now, more than ever, it is important to meet our customers at every level and wherever they are - from our city centres to our rural communities. NLC will continue to enhance the customer experience at our retail locations through our knowledgeable and enthusiastic staff. With a focus on customer trends, demand, and continuous improvement, we will continue to meet and exceed expectations.

NLC will rely on the strength of our people to meet all challenges and to seek out opportunities to grow. We will work towards building trust in everything we do, and we will collaborate with our partners and Government to fulfill both our legislative mandate and our social responsibility mandate for the people of Newfoundland and Labrador.



FINANCIAL STATEMENTS



INDEPENDENT AUDITOR'S REPORT

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

Opinion

I have audited the financial statements of the Newfoundland and Labrador Liquor Corporation (the Corporation), which comprise the statement of financial position as at April 1, 2023 and the statements of comprehensive income, changes in net assets and cash flows for the period then ended, and notes to the financial statements including a summary of significant accounting policies and other explanatory information.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at April 1, 2023 and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Other Information

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

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

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

Independent Auditor's Report (cont.)

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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

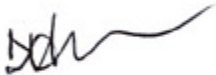
As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor's Report (cont.)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



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

June 22, 2023
St. John's, Newfoundland and Labrador

2022/2023 FINANCIAL STATEMENTS

Newfoundland Labrador Liquor Corporation STATEMENT OF FINANCIAL POSITION

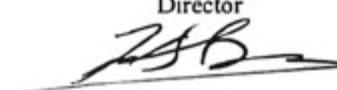
As at
[in thousands]

	April 1, 2023 \$	April 2, 2022 \$
ASSETS		
Current		
Cash and cash equivalents	22,368	32,807
Accounts receivable [note 7]	18,731	15,740
Inventories [note 8]	32,627	32,023
Prepaid expenses	515	491
Total current assets	74,241	81,061
Property, plant and equipment [note 4]	19,967	19,186
Intangible assets [note 5]	2,287	2,594
Right-of-use assets [note 6]	4,436	4,706
	100,931	107,547
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities [note 10]	40,243	39,670
Accrued vacation pay	4,963	4,635
Employee future benefits [note 9]	15	15
Total current liabilities	45,221	44,320
Obligations under lease liability [note 15]	4,880	5,147
Employee future benefits [note 9]	2,410	2,878
Total liabilities	52,511	52,345
Net assets	48,420	55,202
	100,931	107,547

See accompanying notes

On behalf of the Board:

 Director

Director


2022/2023 FINANCIAL STATEMENTS

Newfoundland Labrador Liquor Corporation

STATEMENT OF COMPREHENSIVE INCOME

Period ended
[in thousands]

	April 1, 2023 \$	April 2, 2022 \$
Sales [note 11]	332,256	309,615
Commission revenue on sale of beer	68,062	68,227
Commission revenue on sale of cannabis	6,809	11,067
	<u>407,127</u>	<u>388,909</u>
Cost of sales	160,059	141,113
Gross profit	247,068	247,796
Administrative and operating expenses [note 12]	54,219	53,655
Earnings from operations	192,849	194,141
Other income		
Finance income	1,183	347
Miscellaneous income	7,186	6,381
	<u>8,369</u>	<u>6,728</u>
Comprehensive income for the period	201,218	200,869

See accompanying notes

2022/2023 FINANCIAL STATEMENTS

Newfoundland Labrador Liquor Corporation

STATEMENT OF CHANGES IN NET ASSETS

Period ended
[in thousands]

	April 1, 2023 \$	April 2, 2022 \$
Balance, beginning of period	55,202	64,333
Comprehensive income for the period	201,218	200,869
Distributions to the Province of Newfoundland and Labrador	(208,000)	(210,000)
Balance, end of period	48,420	55,202

See accompanying notes

2022/2023 FINANCIAL STATEMENTS

Newfoundland Labrador Liquor Corporation

STATEMENT OF CASH FLOWS

Period ended
[in thousands]

	April 1, 2023 \$	April 2, 2022 \$
OPERATING ACTIVITIES		
Comprehensive income for the period	201,218	200,869
Adjustments for non-cash effects		
Depreciation and amortization	4,359	3,982
Increase in accrued vacation pay	328	358
(Decrease) in employee future benefits	(468)	(113)
	<u>205,437</u>	<u>205,096</u>
Changes in non-cash working capital balances		
(Increase) decrease in accounts receivable	(2,991)	583
(Increase) in inventories	(604)	(1,952)
(Increase) decrease in prepaid expenses	(24)	452
Increase in accounts payable and accrued liabilities	573	3,967
Cash provided by operating activities	<u>202,391</u>	<u>208,146</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,960)	(2,039)
Purchase of intangible assets	(376)	(765)
Purchase of right-of-use assets	(1,227)	(242)
Cash used in investing activities	<u>(4,563)</u>	<u>(3,046)</u>
FINANCING ACTIVITIES		
Obligation under capital lease	1,227	242
Obligation under lease liability	(1,494)	(1,182)
Distributions to the Province of Newfoundland and Labrador	(208,000)	(210,000)
Cash used in financing activities	<u>(208,267)</u>	<u>(210,940)</u>
Net (decrease) in cash during the period	<u>(10,439)</u>	<u>(5,840)</u>
Cash and cash equivalents, beginning of period	<u>32,807</u>	<u>38,647</u>
Cash and cash equivalents, end of period	<u>22,368</u>	<u>32,807</u>

See accompanying notes

2022/2023 FINANCIAL STATEMENTS

Newfoundland Labrador Liquor Corporation

NOTES TO FINANCIAL STATEMENTS

[tabular amounts in thousands]

April 1, 2023

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 1, 2023 and April 2, 2022 contained 52 weeks.

These financial statements were authorized for issue in accordance with a resolution of the Corporation's Board of Directors on June 22, 2023.

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

2022/2023 FINANCIAL STATEMENTS

Newfoundland Labrador Liquor Corporation

NOTES TO FINANCIAL STATEMENTS

[tabular amounts in thousands]

April 1, 2023

operators is deducted from the selling price of the products delivered. The commission paid to Liquor Express operators for the period ended April 1, 2023 was \$6.4 million [period ended April 2, 2022 – \$6.4 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 1, 2023 was \$11.3 million [period ended April 2, 2022 – \$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

2022/2023 FINANCIAL STATEMENTS

Newfoundland Labrador Liquor Corporation

NOTES TO FINANCIAL STATEMENTS

[tabular amounts in thousands]

April 1, 2023

- 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.

2022/2023 FINANCIAL STATEMENTS

Newfoundland Labrador Liquor Corporation

NOTES TO FINANCIAL STATEMENTS

[tabular amounts in thousands]

April 1, 2023

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.

2022/2023 FINANCIAL STATEMENTS

Newfoundland Labrador Liquor Corporation

NOTES TO FINANCIAL STATEMENTS

[tabular amounts in thousands]

April 1, 2023

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.

2022/2023 FINANCIAL STATEMENTS

Newfoundland Labrador Liquor Corporation

NOTES TO FINANCIAL STATEMENTS

[tabular amounts in thousands]

April 1, 2023

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.

2022/2023 FINANCIAL STATEMENTS

Newfoundland Labrador Liquor Corporation

NOTES TO FINANCIAL STATEMENTS

[tabular amounts in thousands]

April 1, 2023

Financial instruments

Financial assets

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

Financial liabilities

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

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

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

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

Impairment of financial assets

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

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

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

2022/2023 FINANCIAL STATEMENTS

Newfoundland Labrador Liquor Corporation

NOTES TO FINANCIAL STATEMENTS

[tabular amounts in thousands]

April 1, 2023

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 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
Additions	1,543	654	763	2,960
Disposals	—	(225)	(47)	(272)
As at April 1, 2023	33,987	14,301	9,619	57,907
Accumulated depreciation				
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)
Depreciation for the period	(943)	(641)	(595)	(2,179)
Disposals	—	225	47	272
As at April 1, 2023	(19,654)	(10,327)	(7,959)	(37,940)
Net book value				
As at April 2, 2022	13,733	3,961	1,492	19,186
As at April 1, 2023	14,333	3,974	1,660	19,967

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Newfoundland Labrador Liquor Corporation

NOTES TO FINANCIAL STATEMENTS

[tabular amounts in thousands]

April 1, 2023

5. Intangible assets

	Computer software \$	Trademark \$	Total \$
Cost			
As at April 3, 2021	17,769	254	18,023
Additions	765	—	765
Disposals	—	—	—
As at April 2, 2022	18,534	254	18,788
Additions	376	—	376
Disposals	—	—	—
As at April 1, 2023	18,910	254	19,164
Accumulated depreciation			
As at April 3, 2021	(15,294)	—	(15,294)
Amortization	(900)	—	(900)
Disposals	—	—	—
As at April 2, 2022	(16,194)	—	(16,194)
Amortization	(683)	—	(683)
Disposals	—	—	—
As at April 1, 2023	(16,877)	—	(16,877)
Net book value			
As at April 2, 2022	2,340	254	2,594
As at April 1, 2023	2,033	254	2,287

6. Right-of-Use Assets

	April 1, 2023 \$	April 2, 2022 \$
Opening Balance	4,706	5,650
Additions	1,227	242
Amortization	(1,497)	(1,186)
	4,436	4,706

The right-of-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.

2022/2023 FINANCIAL STATEMENTS

Newfoundland Labrador Liquor Corporation

NOTES TO FINANCIAL STATEMENTS

[tabular amounts in thousands]

April 1, 2023

7. Accounts receivable

Accounts receivable include the following:

	April 1, 2023 \$	April 2, 2022 \$
Commission receivable	7,605	5,763
Trade accounts receivable	6,330	6,036
Other receivables	4,796	3,941
	18,731	15,740

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

As at April 1, 2023, approximately 93% [April 2, 2022 – 98%] 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 \$0.08 million [April 2, 2022 – \$0.04 million].

8. Inventories

	April 1, 2023 \$	April 2, 2022 \$
Distribution centres	15,979	15,640
Branch stores	11,996	10,750
Inventory in transit	3,454	4,872
Raw materials	1,198	761
	32,627	32,023

The total value of inventory expensed to cost of sales for the period ended April 1, 2023 was \$99.8 million [April 2, 2022 – \$118.9 million]. The inventory value includes a reserve of \$0.6 million [April 2, 2022 – \$1.1 million]. Residual amounts included in cost of sales include manufacturing labour and overhead, and foreign exchange gains/losses.

2022/2023 FINANCIAL STATEMENTS

Newfoundland Labrador Liquor Corporation

NOTES TO FINANCIAL STATEMENTS

[tabular amounts in thousands]

April 1, 2023

9. Employee future benefits

Employee future benefits include the following:

	April 1, 2023 \$	April 2, 2022 \$
Accrued severance obligation, beginning of period	15	4
Benefits accrued	—	11
Accrued severance obligation, end of period	<u>15</u>	<u>15</u>

	April 3, 2023 \$	April 2, 2022 \$
Accrued sick leave obligation, beginning of period	2,878	3,002
Current service cost	400	389
Interest cost	119	66
Actuarial (gain) ¹ due to Experience adjustment	<u>(795)</u>	<u>(432)</u>
	2,602	3,025
Benefits paid	<u>(192)</u>	<u>(147)</u>
Accrued sick leave obligation, end of period	<u>2,410</u>	<u>2,878</u>
Total employee future benefits	2,425	2,893
Less: Current portion	<u>(15)</u>	<u>(15)</u>
Total long-term employee future benefits payable	<u>2,410</u>	<u>2,878</u>

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

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Newfoundland Labrador Liquor Corporation

NOTES TO FINANCIAL STATEMENTS

[tabular amounts in thousands]

April 1, 2023

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

	April 1, 2023 \$	April 2, 2022 \$
Salary increases	3.25	3.25
Discount rate – sick leave liability	3.85	2.05

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	141	5.9
1% increase	(128)	(5.3)
Salary increase		
1% decrease	(128)	(5.3)
1% increase	141	5.9
Sick leave usage		
10% decrease in hours	(42)	(1.7)
10% increase in hours	41	1.7

Membership data as at April 1, 2023 was used for the valuation.

Pension plan

The Corporation's share of pension expense for the period ended April 1, 2023 is \$2.4 million [April 2, 2022 – \$2.3 million]. The anticipated contributions for the fiscal year ending April 6, 2024 are \$2.4 million.

2022/2023 FINANCIAL STATEMENTS

Newfoundland Labrador Liquor Corporation

NOTES TO FINANCIAL STATEMENTS

[tabular amounts in thousands]

April 1, 2023

10. Accounts payable and accrued liabilities

	April 1, 2023 \$	April 2, 2022 \$
Trade payables	10,935	11,975
Accrued liabilities	12,244	11,512
Excise duties	9,026	8,950
HST payable	3,134	2,655
Other	4,904	4,578
	<u>40,243</u>	<u>39,670</u>

Included in accrued liabilities is \$1.9M in contractual obligations related to gift cards, net of breakage of \$0.6M.

11. Sales

Sales include the following:

	April 1, 2023 \$	April 2, 2022 \$
Sales of beverage alcohol	287,948	282,780
Sales of cannabis	38,938	21,930
Other	5,370	4,905
	<u>332,256</u>	<u>309,615</u>

12. Administrative and operating expenses

	April 1, 2023 \$	April 2, 2022 \$
Salaries and employee benefits	33,152	30,929
Depreciation and amortization	2,863	2,796
Rent and municipal taxes	2,633	2,586
Marketing and royalties	1,692	1,616
Interest and bank charges	2,553	2,451
Other	11,326	13,277
	<u>54,219</u>	<u>53,655</u>

2022/2023 FINANCIAL STATEMENTS

Newfoundland Labrador Liquor Corporation

NOTES TO FINANCIAL STATEMENTS

[tabular amounts in thousands]

April 1, 2023

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 1, 2023 and April 2, 2022.

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 1, 2023 [April 2, 2022 – 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.

2022/2023 FINANCIAL STATEMENTS

Newfoundland Labrador Liquor Corporation

NOTES TO FINANCIAL STATEMENTS

[tabular amounts in thousands]

April 1, 2023

15. Obligation under lease liability

	April 1, 2023 \$	April 2, 2022 \$
Opening Balance	5,147	6,087
Additions	1,227	242
Interest	231	223
Lease Payments	(1,725)	(1,405)
	<u>4,880</u>	<u>5,147</u>

Annual obligations under lease liability are as follows:

	April 1, 2023 \$	April 2, 2022 \$
Within one year	1,243	1,175
After one year but no more than five years	2,290	2,308
More than five years	1,347	1,664
	<u>4,880</u>	<u>5,147</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 1, 2023, the Corporation made distributions of \$208.0 million [period ended April 2, 2022 – \$210.0 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 1, 2023 was \$0.9 million [April 2, 2022 – \$0.9 million].



APPENDIX

BOARD COMPENSATION

Current members of NLC’s Board of Directors earned the following compensation in fiscal year 2022-2023.

DIRECTOR	BOARD/COMMITTEE(S)*	MEETINGS ATTENDED	COMPENSATION
Fraser Edison	Board/AC/GHRC/RC	66	\$11,648
Lynn Zurel	Board/GHRC/RC	21	\$3,480
Janis C. Byrne	Board/GHRC/RC	20	\$3,262
Victoria Belbin	Board/GHRC	15	\$3,230
Geoff Davis	Board/GHRC	21	\$3,117
Glenn Mifflin	Board/AC	15	\$2,465
Kevin Dumaresque	Board/AC	13	\$2,247
Donna Rideout	Board/AC	12	\$2,030
Kendra MacDonald	Board/AC	11	\$1,812

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

SALES BY LOCATION (NLC LIQUOR STORES)

FISCAL YEAR 2022-23 (THOUSANDS OF DOLLARS)

Howley Estates	19,422
Stavanger Drive	13,029
Topsail Road	12,818
Corner Brook (Humber Gardens)	11,706
Conception Bay South (Long Pond)	11,229
Kelsey Drive	11,014
Mount Pearl (Pearlgate Plaza)	10,085
Paradise	9,600
Merrymeeting Road	9,241
Gander	8,969
Grand Falls – Windsor	8,233
Mount Pearl (Old Placentia Road)	7,908
Happy Valley – Goose Bay	6,989
Bay Roberts	6,860
Blackmarsh Road	6,472
Clareville	6,231
Stephenville	6,118
Ropewalk Lane	5,691
Carbonear	5,625
Marystown	5,019
Labrador City	4,395
Murphy's Square - Satellite Store	2,815
Port aux Basques	2,811
Placentia	2,251
TD Place/Queen Street	1,694
Lake Avenue - Satellite Store	1,657
Newfoundland Drive - Satellite Store	1,640
Centennial Square - Satellite Store	1,481
Clareville Irving - Satellite Store	525



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