NEWFOUNDLAND
LABRADOR
LIQUOR CORPORATION

2015-2016
ANNUAL REPORT

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CHAIRPERSON'S MESSAGE

Photo: (left) Glenn Tobin, Chairperson of the Board, (right) Steve Winter, President & CEO

I am pleased to present the Annual Report for fiscal year 2015-16 on behalf of Newfoundland Labrador Liquor Corporation's (NLC) Board of Directors. The Board is accountable for the contents and results outlined in this report, which was prepared under my direction.

This Annual Report outlines key results, financial information and highlights from 2015-16, providing a summary of the second fiscal year of NLC's 2014-17 Business Plan. The Business Plan provides direction and strategic priorities until 2017, outlining criteria by which the Corporation's results will be measured. While staying true to its commitment to social responsibility, NLC will build on its past success as a leading retailer, recognized for customer service, a progressive corporate culture, and excellent financial performance.

NLC returned a dividend of $158.5 million in fiscal year 2015-16 to the Corporation's shareholder, the Government of Newfoundland and Labrador. Total net earnings for the year were $166.8 million, a $6.1 million increase over the prior year.

I would like to thank the Government of Newfoundland and Labrador for its continued support and in particular, the Honourable Cathy Bennett, Minister of Finance. In addition, I would like to congratulate Steve Winter and his entire team for the commendable results achieved during the 2015-16 fiscal year.

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

Sincerely,

Chair

VISION & MISSION

NLC VISION

To be passionate about service in everything we do.

NLC MISSION

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

TO BE RECOGNIZED AS AN EXCEPTIONAL ORGANIZATION, KNOWN FOR ITS PASSION IN CUSTOMER SERVICE, STRONG BUSINESS PERFORMANCE, AND PROGRESSIVE CORPORATE CULTURE.

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

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

NLC VALUES

SOCIALLY RESPONSIBLE

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

PROFESSIONAL

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

TEAMWORK

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

INITIATIVE

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

ACCOUNTABILITY

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

LINES OF BUSINESS

The lines of business for NLC are:

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

RETAIL SALES

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

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

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

WHOLESALE SALES

NLC's Wholesale operations supply over 140 **Liquor Express** branded locations and over 1,400 licensees. **Liquor Express** sales account for 28.0% of NLC's annual provincial sales revenues while licensees account for 6.0%. **Liquor Express** stores are normally located in areas in the province that do not have the population to support a corporate store and involve an arrangement whereby an individual, or corporation, competes for the right to sell beverage alcohol in a retail environment. **Liquor Express** stores have limited selection relative to a **Liquor Store** and are more suited to the areas they service. **Liquor Express** operators receive a commission from NLC. Licensees include bars, lounges and restaurants that are licensed by NLC Regulatory Services to receive product that can be resold to customers for profit.

BLENDING/BOTTLING

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

NLC'S MANUFACTURING PLANT OFFERS BOTH HIGH SPEED BOTTLING AS WELL AS THE ABILITY TO HANDLE INTRICATE BOTTLING REQUIRED OF UNIQUE BOTTLE SHAPES AND SIZES.

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

Screech Rum	**Shiver Vodka**
Screech Honey Rum	**Shiver Gin**
Screech Spiced Rum	**Cabot Tower Rum**
Screech Gingerbread Rum	**London Dock Rum**
Old Sam Rum	**Amherst Gate Whisky**
Old Sam 5 Rum	**Big Land Whisky**
Newfoundlander's White Rum	**Ragged Rock Rum**
George Street Spiced Rum	

And contract bottles the following:

Crystal Head Vodka	**Iceberg Vodka**
Smuggler's Cove Rum	**Iceberg Gold Rum**
Golden Wedding Canadian Whisky	**Iceberg Gin**
	Iceberg Silver Rum
Liquormen's Ol' Dirty Canadian Whisky	

REGULATORY SERVICES

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

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

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

2. The Regulatory Compliance department seeks to educate all interested and vested parties in the relevant laws and regulations promoting voluntary compliance. Where voluntary compliance is not achieved this department is responsible to take steps to ensure violations are addressed and ultimately public safety is assured.

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

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

ADDITIONAL INFORMATION

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

Photo: NLC Distribution Centre, St. John's

ISSUE 1
IMPROVED FINANCIAL PERFORMANCE

The success of NLC is determined by its ability to balance financial performance within the context of being a socially responsible organization. While optimizing its value to the shareholder, the Province of Newfoundland and Labrador and its people, it must also balance the needs of all stakeholders – customers, employees, suppliers and the public.

GOAL

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

MEASURE
Improved Financial Performance

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

OBJECTIVE – BY APRIL 2, 2016, NLC WILL HAVE MAINTAINED FINANCIAL RETURNS TO ITS SHAREHOLDER.

MEASURE
Maintained Financial Returns

Indicator	15/16 Actual
Increased sales by 1.3% compared to fiscal year 2014-15	3.2%

Sales for the year ended April 2, 2016 were $264.1 million, an $8.1 million increase over prior year's sales of $256.0 million. This represents a 3.2% increase exceeding the target of 1.3% by 1.9 percentage points. A price increase of 2.0% on average contributed to the growth, coupled with volume increases in wine, RTD and beer. The beer category is the leader in volume growth with an increase of 551,000 litres representing an 8.8% increase over the prior year. Increased selection, beer cooler upgrades and the new Paradise location have all contributed to this positive trend. Wine and RTD volumes have grown 4.7% and 4.8% respectively over prior year.

Spirits volume, which experienced a 1.3% decline last year, experienced a greater decline in fiscal 2015-16 of 1.5%. Since fiscal 2013-14, when spirits volume was at its peak, the category has declined by 110,000 litres or 2.8%. This is indicative of consumers' changing preferences. While the category delivers the greatest margin, both in terms of dollar value and as a percentage, the Corporation must accept and adjust the business model to deliver what customers desire. That said, NLC will continue to educate, promote and ensure the spirits category, which currently represents 48.0% of sales, receives focus and attention to ensure opportunities to maximize the profitability of spirits are advanced.

Sales by product category (millions of dollars)

	2015-16 Actual	2015-16 Target	Variance	% Var.	2014-15 Actual	Variance	% Var.
Spirits	128.1	128.5	(0.4)	-0.3%	128.0	0.1	0.1%
Wine	77.6	73.4	4.2	5.7%	72.4	5.2	7.2%
RTD	17.2	17.2	0.0	0.0%	16.5	0.7	4.2%
Beer	39.0	37.9	1.1	2.9%	34.9	4.1	11.7%

Within the spirits category there are sub categories such as Rye Whisky and Scotch which experienced growth, representing an opportunity. "Whiskies of the World", which is an annual NLC event, has contributed to consumer awareness of the category and the volume growth demonstrates the show's value. Related in-store programs further serve to enhance customer awareness and education.

Indicator	**15/16 Actual**
Increased dividend by 1.9% compared to fiscal year 2014-15	1.9%*

**Excluding one time cash surplus payment of $15.0 million in fiscal 2014-15.*

The dividend to the province decreased to $158.5 million for the year ended April 2, 2016 from $170.5 million for the year ended April 4, 2015. The $170.5 million in the prior year included an additional payment of $15.0 million from accumulated cash surpluses from prior years. Excluding this additional payment would normalize the previous year's payment to $155.5 million which when compared to $158.5 million paid this year would amount to an increase of $3.0 million or 1.9% which was the target set for fiscal 2015-16.

Indicator	**15/16 Actual**
Improved Sales per Worked Hour (SPWH) by 2.0%	-2.2%

Sales per Worked Hour (SPWH) includes sales from Corporate **Liquor Stores** and does not include **Liquor Express** or satellite store locations. SPWH decreased by 2.2% in fiscal 2015-16, below a target of 2.0% growth.

There were two primary factors leading to this shortfall:

1. While sales were strong in fiscal 2015-16 there was a shortfall in labour hours savings resulting in a decrease in SPWH. Specifically, although sick leave was reduced from 9.4 days/ FTE (Full-time Equivalent) to 9.2 days/ FTE, some sick leave replacement was necessary due to the requirement for customer service coverage during peak periods.

2. Product category sales mix, particularly in the new Paradise store was skewed more heavily than anticipated to beer. While this resulted in a stronger than average Cases per Worked Hour (CPWH) the resultant SPWH was below the average and reduced the overall result.

PERFORMANCE HIGHLIGHTS

Net earnings for the year ended April 2, 2016 were $166.8 million, a $6.1 million increase over the prior year. The net earnings growth resulted from an increase in gross profit of $7.3 million due to sales growth and an increase in commission revenue on the sale of beer. This gross profit increase was partially offset by an increase in expenses of $1.4 million. The majority of the expense increase relates to corporate store operations which include the operating expenses for the new Paradise location, increases in salaries and

Photo: NLC's Liquor Store in Paradise opened May 2015 benefits (throughout the organization) due to the collective bargaining agreement as well as costs directly associated with increased sales.

OBJECTIVE - BY APRIL 1, 2017, NLC WILL HAVE IMPROVED FINANCIAL RETURNS TO ITS SHAREHOLDER.

MEASURE
Improved Financial Returns

INDICATORS:
* Increased sales by 4.3% compared to fiscal 2015-16
* Increased dividend by 15.5% compared to fiscal 2015-16
* Maintained Sales per Worked Hour (SPWH)
* Improved inventory turns without restricting sales growth

Spirit Sales
(in thousands of litres)

	2015-16	2014-15	2013-14	2012-13	2011-12
Rum	1,824	1,893	1,947	1,959	1,962
Rye Whisky	826	813	815	814	800
Vodka	590	589	584	560	537
Liqueurs	356	368	371	379	375
Scotch - other Whisky	137	129	124	116	132
Gin	62	61	60	59	59
Tequila	19	19	20	21	19
Brandy	17	18	19	20	21
Cognac	3	4	4	4	4
Miscellaneous	1	-	1	1	1
	3,835	**3,894**	**3,945**	**3,933**	**3,910**

Wine Sales
(in thousands of litres)

	2015-2016	2014-15	2013-14	2012-13	2011-12
Table Wine	4,047	3,852	3,692	3,495	3,363
Sparkling & champagne	296	285	275	274	263
Fortified Wine	65	70	71	71	72
Low Alcohol Wine	5	6	5	4	4
	4,413	**4,213**	**4,043**	**3,844**	**3,702**

RTD and Cider Sales
(in thousands of litres)

	2015-16	2014-15	2013-14	2012-13	2011-12
Refreshment Beverages	1,817	1,771	1,578	1,584	1,455
Cider	300	249	137	88	80
	2,117	**2,020**	**1,715**	**1,672**	**1,535**

Beer Sales
(in thousands of litres)

	2015-16	2014-15	2013-14	2012-13	2011-12
Local Beer	3,698	3,681	3,479	3,386	3,145
Imported Beer	3,017	2,476	2,378	2,134	1,981
Low Alcohol Beer	94	101	100	102	106
	6,809	**6,258**	**5,957**	**5,622**	**5,232**

ISSUE 2
IMPROVED CUSTOMER SERVICE EXPERIENCE

NLC has implemented several initiatives to enhance the knowledge of its staff in customer service, to advance its ability to reach more customers online, to upgrade point of sale (POS) technology and to provide a more comfortable in-store shopping experience. By focusing on these initiatives, NLC continues to improve the overall customer service experience.

Consumer demands and expectations have evolved in recent years. While customers depend on **Liquor Store** employees to be knowledgeable on the products they serve, and to share such knowledge, increased demands on their time have translated into the desire to have a more efficient experience at the checkout counter. By ensuring employees are professionally trained on both product and the POS system, the overall customer service experience will continue to improve.

Through increased training and the opening of a newly designed store in Paradise which will help shape future store designs, NLC has invested in enhancing the in-store experience. It is imperative that NLC also continue to advance its digital presence to interact with customers in an environment that is convenient for them, providing online interactions which reflect the level of service they have come to expect in-store.

GOAL

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

MEASURE
Implemented Initiatives

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

OBJECTIVE – BY APRIL 2, 2016, NLC WILL HAVE IMPLEMENTED FURTHER INITIATIVES DIRECTED AT IMPROVING THE CUSTOMER EXPERIENCE.

MEASURE
Implemented Initiatives

Indicator	15/16 Actual
Increased number of employees trained via SERVE training program throughout Newfoundland and Labrador	Achieved

In fiscal 2015-16, NLC focused on increasing the number of employees trained in SERVE, a customer-focused, customized training program comprised of five stages, all of which are executed by all **Liquor Store** employees.

S – SET THE TONE
E – EXPLORE CUSTOMER NEEDS AND OCCASION
R – RECOMMEND PRIMARY SOLUTIONS
V – VALUE ADD SOLUTIONS
E – ENCOURAGE THE SALE TODAY AND TOMORROW

Focusing heavily on improving the customer experience through interactions with staff, NLC completed SERVE training for 57.0% of its employees, an increase of 22.0% over the previous year.

Indicator	15/16 Actual
Installed new POS system and provided POS training for all new employees	Achieved

In fiscal 2015-16 a training team was formed to ensure all **Liquor Store** employees were educated in the use of the newly installed POS system. A significant portion of the process was to create an operations manual relative to the new system and to update corporate policies and operating procedures. All sales clerks and managers were trained on the new POS system in a test environment. The system was rolled out to all stores between June 24 and September 15, 2015.

Indicator	15/16 Actual
Implemented initiatives to enhance digital/online reach	Achieved

While NLC's online presence has grown significantly in recent years, fiscal 2015-16 saw a sharpened focus and success for NLC's digital and online efforts. NLC has close to 25,000 followers across three primary platforms (facebook, twitter and Instagram). The increased focus on strategic planning across these channels, use of social media (paid and unpaid) and online advertising has become a major component of campaigns for all facets of NLC's media planning.

The introduction of NLC's digital marketing strategy in 2015-16 has allowed the Marketing and Communications department to open and engage in dialogue with customers in an environment (social media) which is comfortable for the consumer, and allows the organization to respond in a timely and effective manner to customer service related feedback. Leveraging these channels has allowed NLC to encourage sales growth by engaging customers in their "own space" and providing information that is easily shared among the general public – making more people aware of ongoing promotions and offers in a cost-efficient manner.

In addition to its growth across social media channels, NLC also made a significant effort in early fiscal 2015-16 to ensure its presence was improved online – utilizing traditional desktop and mobile. Consumers often trust searched online content (whether property of an organization or not) to reflect accurate information, and assume that the information found via Google or Bing, for instance, is complete and factual. Prior to fiscal 2015-16, **www.nlliquor.com** was the only online source of accurate information for NLC, including store hours and location.

As such, NLC's Digital Media Specialist initiated a project to ensure all **Liquor Express** and Corporate **Liquor Stores** have an up-to-date presence across both major search engines for desktop and mobile. Due to this initiative, more customers are now able to find detailed information across a larger number of platforms – particularly when searching via mobile, which has been identified as a growth opportunity for the organization heading into fiscal 2016-17.

Indicator	15/16 Actual
Launched new Liquor Store in 2015-16, executing plans from fiscal 2014-15	Achieved

The new Paradise **Liquor Store** opened ahead of schedule on May 14, 2015. This location included major initiatives to enhance the customer experience. These include large, straight aisles, a spacious cooler room and LED lighting, which creates clearer sightlines and well-lit product displays. NLC also introduced new flooring that requires minimal maintenance, an open air wine chiller and new coolers at cash to encourage and promote impulse purchases and incremental sales.

In the fiscal 2014-15 annual report, NLC indicated that the success of this new store would be largely measured by store sales. In fiscal 2015-16, sales were $6.2 million, $0.5 million greater than budgeted.

PERFORMANCE HIGHLIGHTS

NLC's special events team once again delivered a range of sampling events, educating consumers about new brands and products. June's "Beer Expo" delivered 115 different beers and ciders to a growing audience of beer lovers, while October saw NLC celebrate its twentieth anniversary of "Wine Show". "Whiskies of the World", in which consumers were given the opportunity to sample some of the best Scottish, Irish, American and Canadian whiskies, was hosted in November, and the special events calendar was rounded out with "Wines of Bordeaux" in January 2016.

As just the second Canadian stop among 10 North American cities on the international tour of Union des Grand Crus de Bordeaux, the St. John's show featured 180 wines from 76 of Bordeaux's top winemakers. The region of Bordeaux offers an En Primeur program, in which customers have the opportunity to purchase Bordeaux futures up to two years in advance. In July 2015, NLC brought En Primeur, a first class sampling event to its customers, which was the first of its kind in North America.

OBJECTIVE – BY APRIL 1, 2017, NLC WILL HAVE IMPROVED THE CUSTOMER SERVICE EXPERIENCE.

MEASURE
Improved Customer Service Experience

INDICATORS:
*Trained and placed an additional Product Knowledge Consultant (PKC) at select locations

* Renovated Blackmarsh Road and Humber Gardens **Liquor Store** locations, implementing learnings from Paradise location and achieved business plan volume for both locations in fiscal 2016-17
* Increased number of stores with Seasonal Beer offerings
* Initiated the implementation of an E-Commerce solution that will allow customers to order and pay online and pick up product at the store location of their choice
* Trained additional employees in the International Sommelier Guild (ISG) level 2, advanced wine knowledge course

Photo: NLC's Product Knowledge Consultant (PKC) Team

ISSUE 3
REINFORCE SAFETY CULTURE

Safety is a key theme throughout all business units at NLC and starts with every employee. Achieving excellence in safety is a shared commitment throughout the organization, and is an integral part of the conduct of the business.

NLC has established a strategic framework that guides safety initiatives and has seen its culture mature with NLC employees addressing unsafe conditions and accepting personal responsibility for safety.

With initiatives such as the introduction of surprise audits and the coordination of its second annual Safety Summit, NLC continues to enhance its safety culture as a core part of its strategy for the future.

GOAL

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

MEASURE

Enhanced Organizational Programs

INDICATORS:

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

OBJECTIVE – BY APRIL 2, 2016, NLC WILL HAVE IMPLEMENTED FURTHER PROGRAMS TARGETING AN IMPROVED SAFETY CULTURE.

MEASURE

Implemented Further Programs

Indicator	15/16 Actual
Developed in-house racking audit program	Deferred to fiscal 2016-17 Draft program completed

Through the developed online auditing program in 2013-14 it was identified that a warehouse racking audit was required for NLC. During fiscal 2015-16, warehouse racking audit programs were researched and external experts consulted with the intent to develop an in-house program that would suit the needs of the organization. External consultation has taken longer than anticipated to reach a conclusion and this has caused a delay in program initiation until fiscal 2016-17.

Indicator	15/16 Actual
Investigated Pronto Forms - Workplace Inspections	Achieved

Pronto Forms are electronic workplace inspection templates that are an essential component of NLC's Occupational Health and Safety (OHS) program as the information gathered is used to support and improve other elements of the OHS plan. During fiscal 2015-16 these forms were enhanced to incorporate risk analysis of hazards identified to facilitate prioritization of control measures and allocation of resources.

Indicator	15/16 Actual
Introduced surprise unannounced audits bi-annually	Achieved

In fiscal 2013-14, NLC implemented an online OHS audit tool. Through analysis and program review in fiscal 2014-15, it was identified that in order to enhance the program, it was necessary to implement another auditing tool in the form of surprise, unannounced audits along with the regularly scheduled bi-annual audits already in place. During fiscal 2015-16 this was introduced and the criteria for department selection were identified with the audits scheduled for fiscal 2016-17.

Indicator	15/16 Actual
Coordinated and executed second annual Safety Summit	Achieved

Due to the positive feedback and response from Safety Champions and employees in regards to NLC's first Safety Summit, NLC executed its second annual Safety Summit in fiscal 2015-16. The summit was attended by 32 corporate Safety Champions representing all functional areas. The daylong session consisted of training highlighted by:

2015NLC SAFETY SUMMIT

- Workplace Health, Safety and Compensation Commission
- Government Services
- Industry leaders in soft tissue injury prevention and Mental health awareness
- An injured worker's story

OBJECTIVE – BY APRIL 1, 2017, NLC WILL HAVE ENHANCED ITS ORGANIZATIONAL PROGRAMS AIMED TO STRENGTHEN A CULTURE OF SAFETY.

MEASURE

Enhanced Organizational Programs

INDICATORS:

* Completed the training and implementation of in-house racking program
* Completed four surprise audits based on analytics and other identifiers
* Coordinated and executed third annual Safety Summit
* Coordinated and Reviewed Disability Management Program
* Completed Retail stores Ergonomic risk assessment

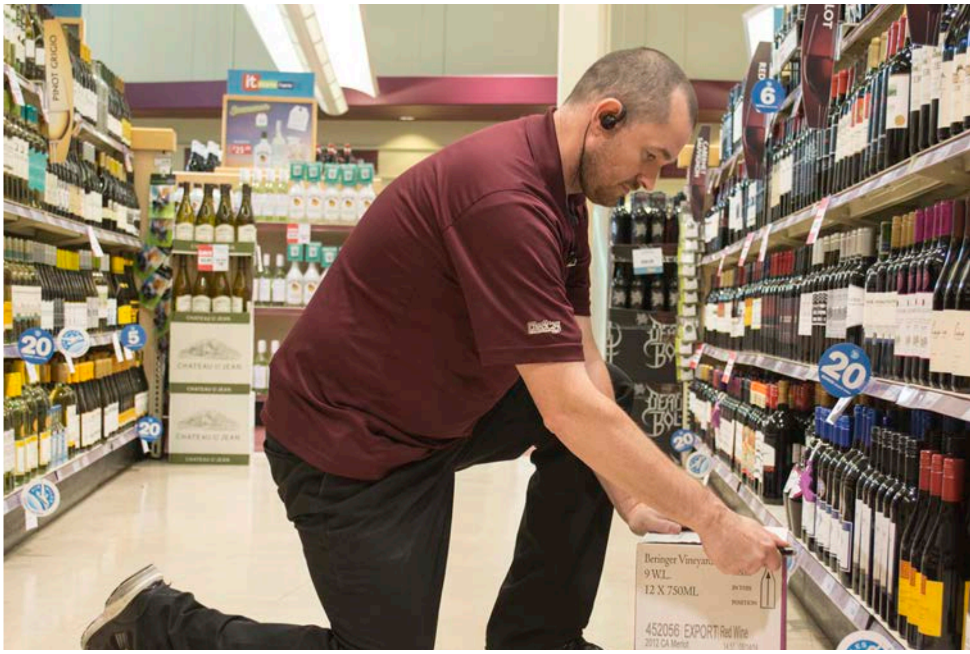

Photo: **Liquor Store** employee practicing safe knife usage.

ISSUE 4
BE A LEADER IN SOCIAL RESPONSIBILITY

Social responsibility is at the core of NLC's business success. While this means safe sale and distribution of beverage alcohol, it also includes enforcement of Provincial legislation to ensure those selling NLC products adhere to existing rules and regulations.

Regulatory Services is actively involved in the design and implementation of NLC Social Responsibility programs while implementing practices and initiatives that promote social responsibility in all areas of business within the Corporation. In fiscal 2015-16, NLC executed several programs aimed at spreading its core message of social responsibility, including the launch of its Responsible Choices campaign in schools throughout Newfoundland and Labrador.

NLC also created and nurtured strategic partnerships and launched a communications campaign to engage and educate the public on the dangers of drinking and driving. NLC's role of *"educator and promoter of responsible consumption"* and its commitment to the communities in which it operates goes hand in hand with the sale of its products. Programs are strategically aligned so that NLC's reputation as a socially responsible organization is as evident as its reputation as an excellent retailer.

GOAL

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

MEASURE

Implemented Programs

INDICATORS:

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

OBJECTIVE – BY APRIL 2, 2016, NLC WILL HAVE FURTHER DEVELOPED AND ENHANCED ITS SOCIAL RESPONSIBILITY PROGRAMS.

MEASURE

Further Developed and Enhanced Social Responsibility Programs

Indicator	14/15 Actual
Increased the number of strategic community partnerships	Achieved

NLC's sponsorship of the East Coast Music Awards (ECMAs) in fiscal 2015-16 offered the Corporation the opportunity to showcase the "don't drink and drive" message at the awards banquet, televised to a national audience. Sponsorship funds allocated towards the provision of safe transportation to and from event venues, ensured NLC's message of "don't drink and drive" was communicated and executed accordingly.

With its first President's Awards, NLC recognized individuals including employees, families directly affected by drinking and driving and MADD Canada (Mothers Against Drunk Driving) for their efforts to end impaired driving. The President's Awards were designed to honour those special organizations and individuals whose commitment to social responsibility sets them apart.

In fiscal 2015-16, NLC furthered its partnership with the George Street Association and Hospitality Newfoundland and Labrador to work towards the development of Best Bar None, an accreditation program aimed at highlighting compliance among Newfoundland and Labrador's liquor establishments. A rollout for this initiative is planned for fiscal 2016-17.

Indicator	15/16 Actual
Executed communications plan	Achieved

In fiscal 2014-15, NLC engaged with an advertising agency to help initiate a social responsibility oriented communications plan which was executed in fiscal 2015-16. This campaign included strategically delivered, impactful "Don't Drink and Drive" messages via outdoor billboards in high traffic areas and a poster program in schools throughout the province. The imagery was designed to elicit a response from the public in general and youth in particular. Response from school administration and the public was positive.

Indicator	15/16 Actual
Implemented additional initiatives, including Responsible Choices educational campaign	Achieved

Social responsibility efforts in fiscal 2015-16 began with the launch of the Responsible Choices Program, through its "drunk goggles" interactive driving simulation, educating on the dangers of impaired driving. Participants in the program were asked to wear the special goggles which simulate impairment while performing everyday tasks, including driving a pedal cart through an obstacle course.

Throughout the summer of fiscal 2015-16, NLC representatives travelled the province in the NLC Responsible Choices van facilitating programs on the dangers of impaired driving. Based on its success, the Corporation plans to further develop the program in fiscal 2016-17.

Partnering with the St. John's Ice Caps, NLC presented the "Be a Good Sport" program, designed to run through the entire hockey season and promote responsible choices and "don't drink and drive" messaging. During the second period of every home game, an audience member was chosen as the designated driver "Be a Good Sport Program" award winner. The chosen candidates participated in an earlier online competition and qualified to be shortlisted and presented with an Ice Caps jersey, sporting the "NLC Be a Good Sport" logo. Throughout the game, "don't drink and drive" messages were played on the scoreboard at centre ice.

OBJECTIVE – BY APRIL 4, 2017, THE NLC WILL HAVE IMPLEMENTED PROGRAMS TO ENHANCE OUR LEADERSHIP ROLE IN SOCIAL RESPONSIBILITY.

MEASURE

Implemented Programs

INDICATORS

* Coordinated joint roadside and boating checks with law enforcement partners
* Expanded role for inspectors in various community programs

Photo: Simulated impairment testing

OPPORTUNITIES & CHALLENGES AHEAD

NLC's 2014-2017 Business Plan, presented and tabled in the House of Assembly on June 27, 2014, provided direction over the past two fiscal years and will continue to do so through fiscal 2016-17.

The challenges faced by the Corporation are similar to those currently encountered by other businesses and organizations throughout Newfoundland and Labrador. An aging and declining population, uncertain economic conditions, increased costs, and pressure on the consumer's disposable income represent a challenge to growing net income.

The prosperity of recent years enabled Newfoundlanders and Labradorians to expand their tastes and increased their knowledge of products available to them. The investments that suppliers have made in product innovation in recent years has led to it being said that customers "want products they don't know they want yet." This consumer demand for new and interesting products must be balanced with NLC's overall inventory investment. Finding the optimal balance of product selection and efficient use of inventory space is a challenge which all retailers encounter and which NLC will strive to meet in fiscal 2016-17 and beyond. Enhanced private ordering services will assist in continuing to offer selection and flexibility for the customer.

WITH THE PROSPERITY OF RECENT YEARS, NEWFOUNDLANDERS AND LABRADORIANS HAVE EXPANDED THEIR TASTES AND INCREASED THEIR KNOWLEDGE OF PRODUCTS AVAILABLE TO THEM.

While it is a challenge to stay up-to-date on trends and evolving consumer tastes in the beverage alcohol industry, it is also an opportunity for the Corporation to grow knowledge among its staff. Enhanced product knowledge among employees increases consumer confidence, leading to a better customer experience in store.

To further enrich the customer experience, NLC will continue to invest in its online capabilities in fiscal 2016-17, with the rollout of e-commerce and further innovation in digital and mobile. The introduction of e-commerce will ultimately allow NLC to become an omni-channel retailer – in store and online, creating efficiencies for the general consumer and licensees. Growing NLC's digital reach and exploiting opportunities to engage with consumers online, and via means that are most relevant for them represents a significant opportunity for NLC in the upcoming fiscal year and well into the future.

While NLC must take advantage of the opportunity to grow revenue in the face of challenges, it understands and places great value on its mandate to be a leader in social responsibility. As such, it will continue to develop and enhance strategic community partnerships and be a community leader in the promotion of responsible use and consumption of beverage alcohol.

FINANCIAL STATEMENTS

OF NEWFOUNDLAND LABRADOR LIQUOR CORPORATION

APRIL 2, 2016

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Newfoundland Labrador Liquor Corporation

We have audited the accompanying financial statements of **Newfoundland Labrador Liquor Corporation**, which comprise the statement of financial position as at April 2, 2016 and the statements of comprehensive income, changes in net assets and cash flows for the period then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Newfoundland Labrador Liquor Corporation** as at April 2, 2016 and its financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

St. John's, Canada
June 22, 2016

Chartered Professional Accountants

Newfoundland Labrador Liquor Corporation

STATEMENT OF FINANCIAL POSITION

As at
[in thousands]

	April 2, 2016 $	April 4, 2015 $
ASSETS		
Non-current		
Property, plant and equipment *[note 6]*	**25,076**	26,587
Intangible assets *[note 7]*	**6,997**	7,028
	32,073	33,615
Current		
Cash and cash equivalents	**29,429**	17,332
Accounts receivable *[note 8]*	**13,135**	14,019
Inventories *[note 9]*	**40,567**	42,578
Prepaid expenses	**1,940**	2,047
	85,071	75,976
TOTAL ASSETS	**117,144**	109,591
LIABILITIES AND NET ASSETS		
Non-current		
Obligations under finance lease *[note 16]*	**167**	236
Employee benefits *[note 10]*	**7,287**	7,598
	7,454	7,834
Current		
Accounts payable and accrued liabilities *[note 11]*	**30,554**	31,225
Accrued vacation pay	**3,536**	3,222
	34,090	34,447
	41,544	42,281
Net assets	**75,600**	67,310
TOTAL LIABILITIES AND NET ASSETS	**117,144**	109,591

See accompanying notes

On behalf of the Board:

Director

Director

Newfoundland Labrador Liquor Corporation

STATEMENT OF COMPREHENSIVE INCOME

Period ended
[in thousands]

	April 2, 2016 $	April 4, 2015 $
Sales *[note 12]*	**264,135**	256,043
Commission revenue on sale of beer	**62,303**	61,393
	326,438	317,436
Cost of sales	**114,096**	112,414
Gross profit	**212,342**	205,022
Administrative and operating expenses *[note 13]*	**49,999**	48,581
Earnings from operations	**162,343**	156,441
Other income		
Finance income	**239**	413
Miscellaneous income	**4,360**	4,241
	4,599	4,654
Net earnings for the period	**166,942**	161,095
Other comprehensive loss		
Remeasurement of employee benefits *[note 10]*	**(152)**	(355)
Comprehensive income for the period	**166,790**	160,740

See accompanying notes

Newfoundland Labrador Liquor Corporation

STATEMENT OF CHANGES IN NET ASSETS

Period ended
[in thousands]

	April 2, 2016 $	April 4, 2015 $
Balance, beginning of period	**67,310**	77,070
Net earnings for the period	**166,942**	161,095
Other comprehensive loss for the period	**(152)**	(355)
Comprehensive income for the period	**166,790**	160,740
	234,100	237,810
Distributions to the Province of Newfoundland and Labrador	**(158,500)**	(170,500)
Balance, end of year	**75,600**	67,310

See accompanying notes

Newfoundland Labrador Liquor Corporation

STATEMENT OF CASH FLOWS

Period ended
[in thousands]

	April 2, 2016	April 4, 2015
	$	$
OPERATING ACTIVITIES		
Comprehensive income for the period	**166,790**	160,740
Adjustments for non-cash effects		
Depreciation and amortization	**3,934**	4,114
Loss (gain) on disposal of property, plant and equipment	**5**	(2)
Accrued vacation pay	**314**	288
Employee benefits	**206**	1,394
	171,249	166,534
Employee benefit payments	**(517)**	(554)
Changes in non-cash working capital balances		
Decrease/(increase) in accounts receivable	**884**	(2,753)
Decrease/(increase) in inventories	**2,011**	(6,478)
Decrease in prepaid expenses	**107**	712
(Increase)/decrease in accounts payable and accrued liabilities	**(671)**	4,587
Cash provided by operating activities	**173,063**	162,048
INVESTING ACTIVITIES		
Proceeds on disposal of property, plant and equipment	—	6
Purchase of property, plant and equipment	**(1,243)**	(2,177)
Purchase of intangible assets	**(1,155)**	(1,809)
Cash used in investing activities	(2,398)	(3,980)
FINANCING ACTIVITIES		
Decrease in obligations under finance lease	**(69)**	(76)
Distributions to the Province of Newfoundland and Labrador	**(158,500)**	(170,500)
Cash used in financing activities	(158,569)	(170,576)
Net increase/(decrease) in cash during the period	12,096	(12,508)
Cash and cash equivalents, beginning of period	**17,332**	29,840
Cash and cash equivalents, end of period	29,428	17,332

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

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

The fiscal year of the Corporation ends on the first Saturday of April. As a result, the Corporation’s fiscal year is usually 52 weeks in duration but includes a 53rd week every 5 to 6 years. The periods ended April 2, 2016 and April 4, 2015 both contained 52 weeks.

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

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. Revenue is measured at the fair value of the consideration received (or receivable), excluding returns, rebates, and sales taxes or duty. The Corporation assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Corporation has concluded that it is acting as a principal in all of its revenue arrangements. The Corporation’s major revenue streams include sales to retail and wholesale customers and commission revenue on the sale of beer. The following specific recognition criteria apply before revenue is recognized:

Sales of goods
The Corporation generates and recognizes net sales to retail and licensee customers at the point of sale in its stores and upon delivery of products to Liquor Express operators. The commission paid to the Liquor Express operators is deducted from the selling price of the products delivered. The commission paid to Liquor Express operators for the period ended April 2, 2016 was $5.4 million [period ended April 4, 2015 – $5.4 million].

NOTES TO FINANCIAL STATEMENTS

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

Sales exclude HST and other taxes due.

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

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

Foreign currency translation

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

Current versus non-current classification

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

An asset is classified as current when it is:

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

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period; or
- 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.

NOTES TO FINANCIAL STATEMENTS

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any impairment. 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 and useful lives are reviewed and adjusted if appropriate at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset. The Corporation analyzes its lease agreements to assess whether they are finance or operating leases, using the lease term, useful life of the underlying asset, the present value of lease payments and other relevant factors.

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

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

Intangible assets

Intangible assets consist of trademarks and computer software assets not considered integral to the operation of the related hardware. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any

NOTES TO FINANCIAL STATEMENTS

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 is 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 a guaranteed investment certificate of $5.0 million (April 4, 2015 - $5.0 million) along with cash held in an interest bearing bank account. The interest income earned on these deposits is recorded as finance income.

Inventories

Inventories are measured at the lower of cost and net realizable value and include raw materials and finished goods. Inventories held in the distribution centres, in transit and in retail stores are measured at landed cost, consisting of acquisition costs, freight and customs and excise duties. In

NOTES TO FINANCIAL STATEMENTS

the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity.

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

General provisions

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

Employee benefits

Refer to note 10 for additional details regarding employee benefits.

Severance

The Corporation provides a severance payment to employees upon resignation, retirement or termination subject to certain vesting and other conditions of employment. The obligation is actuarially determined using assumptions based on management's best estimates of the probability of employees meeting the eligibility requirements for severance, salary changes, mortality, and expectations on retention along with other relevant assumptions. Discount rates are based on the yield on high quality corporate bonds with cash flows similar to those of this liability. Actuarial gains or losses are recognized in other comprehensive income ["OCI"] in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Sick leave

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

Pension

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

NOTES TO FINANCIAL STATEMENTS

entitled to any surplus that may arise in this plan. NLC share of future contributions are dependent upon the funded position of the PSPP.

Fair value measurement

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

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

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

The Corporation uses valuation techniques that are appropriate in the circumstances and for which sufficient data are 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;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

Financial instruments

Financial assets

Financial assets within the scope of *IAS 39 Financial Instruments: Recognition and Measurement* ["IAS 39"] are classified at initial recognition as financial assets at fair value through profit or loss ["FVTPL"], loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

NOTES TO FINANCIAL STATEMENTS

The Corporation determines the classification of its financial assets at initial recognition. All financial assets are recognized initially at fair value through profit or loss.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Corporation determines the classification of its financial liabilities at initial recognition and all financial liabilities are recognized initially at fair value.

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

Asset/Liability	Classification	Measurement
Cash and cash equivalents	Financial assets at FVTPL	Fair value through profit or loss
Accounts receivable	Loans and receivables	Amortized cost using Effective Interest Rate Method ["EIR"]
Accounts payable and accrued liabilities	Loans and borrowings	Amortized cost using EIR

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

Impairment of financial assets

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

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

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

Significant accounting judgments, estimates and assumptions

The preparation of the Corporation's financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

4. CHANGES IN ACCOUNTING POLICIES

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment did not have any impact on the Corporation, since it has no defined benefit plans with contributions from employees or third parties.

Annual Improvements 2010-2012 Cycle

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the Corporation during the current period.

Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Corporation has applied these amendments for the first time in these financial statements. They include:

NOTES TO FINANCIAL STATEMENTS

IFRS 13 Fair Value Measurement
The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Corporation does not apply the portfolio exception in IFRS 13.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Retrospective application is required but providing comparative information is not compulsory.

The adoption of IFRS 9 will have no material impact on the classification and measurement of the Corporation's financial assets and liabilities.

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

The Corporation is currently analyzing the impact this new standards will have on its financial statements.

Annual improvements 2012-2014 Cycle
These improvements are effective from 1 January 2016 and are not expected to have a material impact on the Corporation. They include:

IFRS 7 Financial Instruments: Disclosures
The amendment clarifies whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required.

IAS 19 Employee Benefits
The amendment clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Corporation given that the Corporation has not used a revenue-based method to depreciate its non-current assets.

6. PROPERTY, PLANT AND EQUIPMENT

	April 2, 2016			April 4, 2015
	Cost $	**Accumulated depreciation** $	**Net book value** $	**Net book value** $
Land	**3,194**	**—**	**3,194**	3,194
Building components	**15,793**	**3,312**	**12,481**	12,850
Leasehold improvements	**13,892**	**10,255**	**3,637**	4,280
Office furniture and equipment	**1,278**	**1,154**	**124**	191
Computer hardware	**6,030**	**3,884**	**2,146**	2,121
Plant and warehouse equipment	**5,651**	**3,178**	**2,473**	2,684
Store equipment and fixtures	**4,610**	**3,684**	**926**	1,116
Motor vehicles	**316**	**221**	**95**	151
Total	**50,764**	**25,688**	**25,076**	26,587

NOTES TO FINANCIAL STATEMENTS

	Period ending April 2, 2016			
	Opening balance $	Additions $	Disposals $	Closing balance $
Cost				
Land	**3,194**	**—**	**—**	**3,194**
Building components	**15,601**	**192**	**—**	**15,793**
Leasehold improvements	**13,827**	**65**	**—**	**13,892**
Office furniture and equipment	**1,356**	**—**	**(78)**	**1,278**
Computer hardware	**5,624**	**701**	**(295)**	**6,030**
Plant and warehouse equipment	**5,621**	**30**	**—**	**5,651**
Store equipment and fixtures	**5,099**	**255**	**(744)**	**4,610**
Motor vehicles	**316**	**—**	**—**	**316**
Total	**50,638**	**1,243**	**(1,117)**	**50,764**

	Period ending April 4, 2015			
	Opening balance $	Additions $	Disposals $	Closing balance $
Cost				
Land	3,194	—	—	3,194
Building components	15,414	196	(9)	15,601
Leasehold improvements	14,203	152	(528)	13,827
Office furniture and equipment	1,404	19	(67)	1,356
Computer hardware	4,735	895	(6)	5,624
Plant and warehouse equipment	5,151	492	(22)	5,621
Store equipment and fixtures	4,946	241	(88)	5,099
Motor vehicles	180	182	(46)	316
Total	49,227	2,177	(766)	50,638

NOTES TO FINANCIAL STATEMENTS

	Period ending April 2, 2016			
	Opening balance $	Depreciation $	Disposals $	Closing balance $
Accumulated depreciation				
Building components	2,751	561	—	3,312
Leasehold improvements	9,547	708	—	10,255
Office furniture and equipment	1,165	66	(77)	1,154
Computer hardware	3,503	672	(291)	3,884
Plant and warehouse equipment	2,937	241	—	3,178
Store equipment and fixtures	3,983	445	(744)	3,684
Motor vehicles	165	56	—	221
Total	24,051	2,749	(1,112)	25,688
Net book value	26,587	(1,506)	(5)	25,076

	Period ending April 4, 2015			
	Opening balance $	Depreciation $	Disposals $	Closing balance $
Accumulated depreciation				
Building components	2,215	545	(9)	2,751
Leasehold improvements	9,284	790	(527)	9,547
Office furniture and equipment	1,159	70	(64)	1,165
Computer hardware	2,986	524	(7)	3,503
Plant and warehouse equipment	2,704	255	(22)	2,937
Store equipment and fixtures	3,553	519	(89)	3,983
Motor vehicles	149	60	(44)	165
Total	22,050	2,763	(762)	24,051
Net book value	27,177	(586)	(4)	26,587

7. INTANGIBLE ASSETS

	April 2, 2016			April 4, 2015
	Cost $	Accumulated amortization $	Net book value $	Net book value $
Trademark	254	—	254	254
Computer software	16,316	9,573	6,743	6,774
	16,570	9,573	6,997	7,028

NOTES TO FINANCIAL STATEMENTS

	Period ending April 2, 2016			
	Opening balance $	Additions/ amortization $	Disposals $	Closing balance $
Cost				
Trademark	**254**	**—**	**—**	**254**
Computer software	**15,184**	**1,155**	**(23)**	**16,316**
Total	**15,438**	**1,155**	**(23)**	**16,570**
Accumulated amortization				
Computer software	**8,410**	**1,186**	**(23)**	**9,573**
Net book value	**7,028**	**(31)**	**—**	**6,997**

	Period ending April 4, 2015			
	Opening balance $	Additions/ amortization $	Disposals $	Closing balance $
Cost				
Trademark	254	—	—	254
Computer software	13,386	1,809	(11)	15,184
Total	13,640	1,809	(11)	15,438
Accumulated amortization				
Computer software	7,070	1,351	(11)	8,410
Net book value	6,570	458	—	7,028

8. ACCOUNTS RECEIVABLE

Accounts receivable include the following:

	April 2, 2016 $	April 4, 2015 $
Accounts receivable	**7,294**	8,798
Beer commissions receivable	**5,841**	5,221
	13,135	14,019

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

As at April 2, 2016, approximately 97% [April 4, 2015 – 96%] of the accounts receivable balance is current. An allowance for doubtful accounts has been recorded in respect of certain non-current receivables in the amount of $0.04 million [April 4, 2015 - $0.08 million].

NOTES TO FINANCIAL STATEMENTS

9. INVENTORIES

	April 2, 2016 $	April 4, 2015 $
Distribution centres	**25,381**	28,363
Branch stores	**9,967**	10,637
Stock in transit	**3,948**	2,312
Raw materials	**1,271**	1,266
	40,567	42,578

The total value of inventory expensed to cost of sales for the period ended April 2, 2016 was $110.2 million [April 4, 2015 – $108.6 million]. The inventory value includes a reserve of $0.9 million [April 4, 2015 – $1.0 million]. Residual amounts included in cost of sales include manufacturing labour and overhead, and foreign exchange gains/losses.

10. EMPLOYEE BENEFITS

Employee benefits include the following:

	April 2, 2016 $	April 4, 2015 $
Accrued severance obligation, beginning of period	**4,207**	3,611
Current service cost	**363**	293
Interest cost	**148**	156
Actuarial loss (gain)[1] due to		
Experience Adjustment	**(49)**	—
Changes in demographic assumptions	**—**	(1)
Changes in financial assumptions	**(103)**	356
	4,566	4,415
Benefits paid	**(229)**	(208)
Accrued severance obligation, end of period	**4,337**	4,207

[1] Actuarial losses/gains due to changes in assumptions on the severance obligation are recorded in OCI.

NOTES TO FINANCIAL STATEMENTS

	April 2, 2016 $	April 4, 2015 $
Accrued sick leave obligation, beginning of period	**3,391**	3,147
Current service cost	**306**	307
Interest cost	**85**	117
Actuarial loss (gain)[2] due to		
Experience adjustments	**(466)**	—
Changes in demographic assumptions	**—**	(8)
Changes in financial assumptions	**(78)**	174
	3,238	3,737
Benefits paid	**(288)**	(346)
Accrued sick leave obligation, end of period	**2,950**	3,391
Total employee benefits, end of period	**7,287**	7,598

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

	April 2, 2016 %	April 4, 2015 %
Salary increases	**3.25**	3.25
Discount rate – severance liability	**3.55**	3.35
Discount rate – sick leave liability	**3.10**	2.75

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 $	Sick leave obligation %	Severance obligation $	Severance obligation %
Discount Rate				
1% decrease	233	7.9	556	12.8
1% increase	(202)	(6.9)	(464)	(10.7)
Salary increase				
1% decrease	(232)	(7.9)	(508)	(11.7)
1% increase	263	8.9	600	13.8
Sick leave usage				
10% decrease in hours	(276)	(9.4)	-	-
10% increase in hours	271	9.2	-	-

[2] Actuarial losses/gains due to changes in assumptions on the sick leave obligation are recorded in P&L.

NOTES TO FINANCIAL STATEMENTS

An actuarial valuation was performed during the year. Membership data as at April 5, 2015 was used for the valuation and extrapolated to April 2, 2016.

Pension plan

The Corporation's share of pension expense paid to the PSPP for the 52 weeks ended April 2, 2016 is $2.3 million [April 4, 2015 – $1.8 million]. The anticipated contributions for the fiscal year ending April 1, 2017 are $2.4 million.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	April 2, 2016	**April 4, 2015**
	$	$
Excise duties	**10,348**	11,080
Accrued liabilities	**6,835**	7,695
Trade payables	**5,684**	6,221
HST payable	**2,550**	2,141
Other payables	**5,137**	4,088
	30,554	31,225

12. SALES

Sales include the following:

	April 2, 2016	**April 4, 2015**
	$	$
Sales of beverage alcohol	**258,320**	249,992
Other	**5,815**	6,051
	264,135	256,043

NOTES TO FINANCIAL STATEMENTS

13. ADMINISTRATIVE AND OPERATING EXPENSES

	April 2, 2016 $	**April 4, 2015** $
Salaries and employee benefits	**30,845**	29,321
Depreciation and amortization	**3,936**	4,114
Rent and municipal taxes	**2,659**	2,536
Marketing	**2,648**	3,292
Interest and bank charges	**2,407**	2,313
Other	**7,504**	7,005
	49,999	48,581

14. CAPITAL MANAGEMENT

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

No changes were made in the objective, policies, or processes for managing capital during the periods ended April 2, 2016 and April 4, 2015.

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Credit risk

The Corporation is exposed to credit risk with respect to accounts receivable from customers. The Corporation provides products to a large customer base, which minimizes the concentration of credit risk. There were two customers that accounted for 10% or more of the Corporation's accounts receivable as at April 2, 2016 [April 4, 2015 – 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.

NOTES TO FINANCIAL STATEMENTS

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

16. COMMITMENTS

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

Annual operating lease obligations are as follows:

	April 2, 2016 $	**April 4, 2015** $
Within one year	**2,525**	2,343
After one year but no more than five years	**6,488**	5,984
More than five years	**4,441**	987

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

	April 2, 2016 $	**April 4, 2015** $
Within one year	**70**	69
After one year but no more than five years	**97**	167

17. RELATED PARTY TRANSACTIONS

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

During the period ended April 2, 2016, the Corporation made distributions of $158.5 million [period ended April 4, 2015 - $170.5 million] to the Province.

NOTES TO FINANCIAL STATEMENTS

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of NLC, being the members of the Executive Management (CEO/President, Senior Vice President & CFO, Vice President of Sales, Vice President of Supply Chain Management, Vice President of Human Resources and Corporate Administration, and Chief Information Officer). The total compensation (including salary and benefits) paid to key management personnel for the 52 weeks ended April 4, 2015 was $0.9 million [April 4, 2015 – $0.9 million].

18. COMPARATIVE FINANCIAL STATEMENTS

The comparative notes to the financial statements have been reclassified to conform to the presentation adopted for the current year.

19. SUBSEQUENT EVENTS

The financial statements of the Corporation for the 52 weeks ended April 2, 2016 were authorized for issue in accordance with a resolution of the Board of Directors on June 22, 2016.

SALES BY CORPORATE STORE LOCATION

(THOUSANDS OF DOLLARS)

	2016
Howley Estates	17,917
Stavanger Drive	12,028
Merrymeeting Road	10,342
Long Pong - CBS	10,163
Corner Brook - Humber Gardens	9,940
Kelsey Drive	9,882
Topsail Road	9,157
Pearlgate Plaza	9,002
Mount Pearl - Old Placentia Road	8,054
Gander	7,534
Happy Valley	7,065
Grand Falls	7,064
Blackmarsh Road	6,865
Paradise	6,331
Bay Roberts	6,136
Clarenville	5,631
Ropewalk lane	5,412
Marystown	5,090
Stephenville	5,031
Carbonear	4,924
Queen Street	4,716
Labrador City	4,023
Corner Brook Plaza	3,711
Port aux Basques	2,661
Placentia	2,032
Lake Avenue - Satellite Store	1,370
Centennial Square - Satellite Store	1,139
Clarenville Irving - Satellite Store	607

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