

ANNUAL REPORT | 2019 - 2020



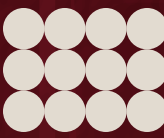
 **NEWFOUNDLAND
LABRADOR
LIQUOR CORPORATION**

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BOARD MEMBERS

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Chairperson

Victoria Belbin
Vice Chairperson

Geoffrey Davis
Director

Glenn Mifflin
Director

Donna Rideout
Director

Paul Smith
Director

Sharon Sparkes
Director

CHAIRPERSON'S MESSAGE



I am pleased to present the Annual Report for fiscal year 2019-20, on behalf of the Newfoundland and Labrador Liquor Corporation (NLC), 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.

This Annual Report outlines results, financial information and highlights from 2019-20. As the third and final fiscal year of NLC's 2017-20 Business Plan, it also provides a summary of NLC's success in those years covered in the plan.

A new three year Business Plan for 2020-2023 will be presented in the House of Assembly on December 31, 2020 and will be made available online at

<https://nliquorcorp.com/about-newfoundland-labrador-liquor-corporation>

As NLC prepares to take advantage of future opportunities, the Corporation will continue to focus on customer service, progressive corporate culture and excellent financial performance, while staying true to its commitment to social responsibility. I would like to thank the Government of Newfoundland and Labrador for its continued support and in particular, the Honourable Tom Osborne, Minister Responsible for NLC during these last three years of our current business cycle. I look forward to working closely with the current Minister Responsible for NLC, the Honourable Siobhan Coady.

I would like to congratulate and welcome Bruce Keating, NLC's President and CEO. Bruce joined NLC at a critical juncture, in the early stages of the COVID-19 pandemic. His leadership through the unprecedented challenges faced during the pandemic illustrates a people-first approach, ensuring employees and customers understand that NLC's top priority is their safety and well-being, while continuing to provide a high level of service. I commend Bruce and his team on a job well done.

Finally, I would like to thank Sharon Sparkes, former Interim President and CEO and Wayne Myles, former Board Chairperson for their contributions during this past business cycle. Delivering on NLC's traditional beverage alcohol mandate while guiding it through the legalization of cannabis required extraordinary efforts. The structure that they and their team launched and operate is a model of success, ensuring a safe and secure supply of cannabis, while significantly disrupting the illicit market and providing a financial return to the Government of Newfoundland and Labrador.

I look forward to a successful year ahead and the beginning of our 2020-2023 planning cycle.

Sincerely,

A handwritten signature in black ink, appearing to read 'Fraser Edison', written over a light-colored background.

Fraser Edison, Chairperson

OVERVIEW

NLC's vision is "to be dedicated to our customers and communities with progressive, passionate and responsible service."

NLC is responsible for the importation, sale and distribution of beverage alcohol and for regulating the sale and distribution of cannabis in Newfoundland and Labrador.

NLC operates under the expectation that it will generate revenue for the Government of Newfoundland and Labrador that will be reinvested for the benefit of the people of the Province. Over the coming years, NLC will strengthen the business, achieve operational excellence and continue to improve the experience of customers, all with a strict commitment to its social responsibility mandate.

Oversight of NLC is provided by a Board of Directors appointed by the Lieutenant Governor in Council, based on the recommendation of the Independent Appointments Commission, typically for a term of three years. The Board normally includes a Chairperson, the President and CEO and other members as appointed. The President and CEO of NLC is responsible for the everyday management and other duties as assigned by the Board. Reporting to the Board, the President and CEO is also appointed by the Lieutenant Governor in Council, based upon recommendation of the Independent Appointments Commission.

NLC's head office and blending/bottling plant (Rock Spirits) are located at 90 Kenmount Road and 85 O'Leary Avenue, St. John's, Newfoundland and Labrador. Its distribution centre is located at 300 East White Hills Road, St. John's, Newfoundland and Labrador. NLC Liquor Stores are located throughout the Province. NLC provides employment to 600 employees, 357 of which are female and 243 of which are male.

NLC's gross expenditures in the 2019-20 fiscal year were \$163.8 million, with revenue of \$342.8 million.

For additional information on NLC's Vision, Mission and Values, please visit

<https://nliquorcorp.com/about-newfoundland-labrador-liquor-corporation>

HIGHLIGHTS & PARTNERSHIPS

During the 2019-20 fiscal year, NLC built upon the previous year's launch of its successful cannabis business model – ensuring access to a safe and secure supply of cannabis throughout Newfoundland and Labrador. Following the broadening of scope to include concentrates, along with topical and edible cannabis products, NLC continued to work closely with government and the business community to introduce additional products through its retail and online channels. NLC's Merchandising team negotiated supply agreements with 13 additional providers of cannabis from throughout Canada, while NLC's Regulatory Services and Social Responsibility division continued to work closely with its partners within law enforcement and Canada Post to disrupt the illicit market. NLC's Regulatory Services and Social Responsibility division also works closely with members of the licensee community – including partners in both the beverage alcohol trade and the cannabis sector.

In addition to working with its partners in the cannabis line of business, NLC continues to monitor and enhance beverage alcohol product selection and works with suppliers to bring products to market that generate interest among customers and sales to the Corporation. These are highlighted in-store and promoted to consumers through a range of media and communications, including digital and social media, traditional advertising and quarterly catalogues. Customers were given an opportunity to sample a range of products from various taste profiles and price points through NLC's three consumer-sampling events in fiscal 2019-20 - Beer Expo, Wine Show and Whiskies of the World.

Additionally, during the 2019-20 fiscal year, NLC's Department of Regulatory Services and Social Responsibility partnered with several community organizations to further its mandate of promoting safe sale and consumption of beverage alcohol. These partnerships included the launch and support of the Mothers Against Drunk Driving (MADD) School Assembly program, efforts to curb impaired driving in conjunction with local law enforcement, the business and hospitality community through Hospitality Newfoundland and

Labrador's Serve Responsible NL Program and working with multiple community organizations and schools through NLC's Responsible Choices initiative. Through the Responsible Choices program, participants experience the potentially deadly consequences of being impaired, while they are sober and safe, working through a series of strategically controlled tests. Each activity requires participants to wear goggles that emulate various degrees of impairment while performing a variety of tasks, including opening a pad lock with a key, throwing or catching a tennis ball, walking a standard sobriety line and driving a mobile cart through a series of pylons and traffic signals.

In the final weeks of NLC's fiscal year 2019-20, in response to the COVID-19 pandemic, the Provincial Government and the Office of the Chief Medical Officer enacted measures and guidelines to prevent the spread of the virus in Newfoundland and Labrador. Operating within the guidelines set forth and with employee and customer well-being as its top priority, NLC closed its retail locations to the public, while introducing an online/phone ordering and pick-up alternative. NLC had previously initiated a series of measures aimed at controlling the spread of the virus, including physical distancing and increased frequency of cleaning of all points of contact. During this time, NLC worked closely with the Provincial Government, the Office of the Chief Medical Officer, the Newfoundland and Labrador Association of Public and Private Employees, licensees, Liquor Express operators and employees. It adjusted operations accordingly, maintaining a high level of service to the public. Its distribution centre continued shipment of product to partners throughout the Province, Liquor Store staff remained committed to serving customers and head office employees continued to perform their regular roles. In addition, to provide a critical service to medical personnel and first responders, NLC repurposed its bottling plant to produce Health Canada approved hand sanitizer as part of Newfoundland and Labrador's broader response to the pandemic. NLC's response and the efforts of its staff were lauded by the public and industry for efficiency and attention to safety.

LINES OF BUSINESS

NLC has retail locations throughout the Province and a manufacturing plant (Rock Spirits), distribution centre and a corporate office in St. John's, with a total workforce of 600 employees. Liquor Store and satellite store locations account for 68% of employees, corporate office accounts for 17%, while 15% are employed at Rock Spirits and the distribution centre.

NLC's lines of business include the following:

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



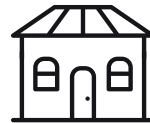
RETAIL SALES

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

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

Liquor Store outlets carry an extensive selection of spirits, wine, beer and ready-to-drink alcoholic beverages, imported from within Canada and around the world, as well as locally produced spirits, wine and beer. Liquor Store staff members are all direct employees of NLC. All aspects of store design, sales, marketing, merchandising and human resources fall under NLC jurisdiction. Liquor Store sales account for 66% of NLC's annual sales revenues.

**Recognizing that Lines of Business in the 2017-2020 Business Plan did not include cannabis, this will be added as a Line of Business in NLC's 2020-2023 Business Plan.*



WHOLESALE SALES

NLC's Wholesale operations supply 142 Liquor Express locations and over 1,400 licensees. Liquor Express accounts for 28% of NLC's annual sales revenues while licensees account for 5%. Liquor Express stores are located primarily in rural areas and involve arrangements whereby a business entity competes for the opportunity to sell beverage alcohol in a retail environment, receiving a commission from NLC on its product sales.

Licensees include lounges and restaurants that are licensed by NLC Regulatory Services to purchase product that is resold to customers.



BLENDING/BOTTLING

Rock Spirits is NLC’s manufacturing operation, and consists of a blending and bottling plant, employing 45 people. NLC has developed formulations 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 and are marketed to other liquor jurisdictions in Canada and the northeast United States. NLC also blends, bottles and distributes spirits on behalf of other suppliers. NLC’s manufacturing plant offers both high speed bottling as well as the ability to support the intricate bottling required of niche brands. NLC has secured new contracts and maintains current relationships through exceptional customer service and diligent investments in its manufacturing operations.

Rock Spirits owns, produces and markets the following products:

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

Rock Spirits contract bottles the following products:

Iceberg Vodka	Newfoundland Distillery Company Vodka
Iceberg Gold Rum	
Iceberg Silver Rum	Newfoundland Distillery Company Cloudberry Gin
Iceberg Gin	Newfoundland Distillery Company Aquavit
Crystal Head Vodka	Newfoundland Distillery Company Rhubarb Vodka
Crystal Head Aurora Vodka	Newfoundland Distillery Company Seaweed Gin
Crystal Head Pride Vodka	Newfoundland Distillery Company Chaga Rum
Golden Wedding Whisky	Newfoundland Distillery Company Gunpowder and Rose Rum
Signal Hill Whisky	
Liquormen’s Ol’ Dirty Canadian Whisky	
Smugglers Cove Rum	





REGULATORY SERVICES

Regulatory Services is responsible for regulation of all licensed establishments in the Province in accordance with the **Liquor Control Act and Regulations**, the **Liquor Corporation Act**, the **Smoke Free Environmental Act** and the **Cannabis Control Act and Regulations**. Regulatory Services is actively involved in the design and implementation of NLC's Social Responsibility programs while promoting social responsibility in all areas of business within the Corporation and with its stakeholders.

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

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

Regulatory Compliance 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.

Additional Information

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



STRATEGIC THEME 1: STRENGTHEN THE BUSINESS

The desired outcome or strategic result from this theme is achieving financial commitments through innovation, realizing new opportunities and building on past performance. NLC continues to deliver significant financial return to its shareholder.

NLC's core objective is increasing shareholder value – that is, delivering on financial commitments through management of key measures and achieving sales targets while maintaining a strong emphasis on socially responsible operations.

GOAL

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

Objective – By April 4, 2020, NLC will have improved shareholder value.

INDICATORS:

- Reached target sales of \$267.4 million
- Achieved earnings from operations of \$180.5 million
- Achieved dividend of \$189.5 million
- Reduced inventory by \$0.9 million

INDICATORS	19/20 ACTUAL
Reached target sales of \$267.4 million	\$268.9 million

Sales for the year ending April 4, 2020 were \$268.9 million, \$1.5 million higher than the sales target or a 0.5% increase. This growth was primarily driven by Liquor Express sales, as well as gains within both the spirits and ready-to-drink categories.

Liquor Express stores accounted for the majority of the increased sales. In March, there was a high degree of uncertainty related to the COVID-19 pandemic. Liquor Express stores purchased additional product in March to keep up with consumer demand and to mitigate the risk of any unforeseen issues in the supply chain.

Spirit sales volume increased during the year, driven primarily by the continued growth in the premium spirits category, which is the primary reason for the increase.

Ready-to-drink sales have been showing growth over the last few years and continues on this trend. Sales volume increased 10% in fiscal 2019-20 compared to prior year and was higher than anticipated.

Beer sales were consistent with prior year and ahead of target for fiscal 2019-20 by 0.9%. Increased sales of specialty and domestic premium products is mitigating the decline of domestic products.

Wine sales and volume were 0.9% lower than targeted. Research indicates that consumers, specifically millennials, are moving away from wine towards lower-calorie, portable drinks in the ready-to-drink category.

Cannabis online sales were \$0.5 million in fiscal 2019-20, which is consistent with the prior year. This remains an area of focus for the organization in the future.

INDICATORS	19/20 ACTUAL
Achieved earnings from operations of \$180.5 million	\$179.1 million

Earnings from operations were \$179.1 million, which was \$1.4 million lower than anticipated. This is due to lower earnings from cannabis operations. Legalized cannabis is a new industry, making it challenging to forecast. Sales volume was lower than expected, resulting in lower earnings. NLC continues to make strides in its efforts to disrupt the illicit market, and sees this as an opportunity to gain additional revenues in fiscal year 2020-21 and beyond.

Alcohol earnings were strong, showing increased sales. NLC has also focused on minimizing costs and reducing discretionary spending where possible.

INDICATORS	19/20 ACTUAL
Achieved dividend of \$189.5 million	\$168.5 million

The dividend to the Provincial Government was \$168.5 million, which was below the target for fiscal 2019-20 by \$21 million.

During the fiscal year, the total dividend payment was reduced by \$9.5 million primarily due to lower than expected cannabis sales. As an emerging industry, it is difficult to forecast sales in cannabis, however, NLC is confident that continued investment in this market will yield substantial growth, particularly as it continues to disrupt the illicit market.

The remaining \$11.5 million was withheld in March 2020 in order to manage working capital during the COVID-19 pandemic, and will be paid to the Provincial Government during the first quarter of fiscal 2020-21.

INDICATORS	19/20 ACTUAL
Reduced inventory by \$0.9 million	Inventory reduced by \$1 million

NLC is committed to reducing the amount of inventory on hand by improving core inventory turns and decreasing the percentage of non-core inventory. The reduction of \$1 million in inventory was above target by \$0.1 million, primarily due to the sale of non-core wine products in fiscal 2020.

THREE-YEAR PERFORMANCE SUMMARY

While sales targets were achieved in two of the three fiscal years, sales were lower than anticipated in fiscal year 2018-19. Sales for the year ending April 6, 2019 were \$262.4 million, \$2 million lower than targeted. Economic indicators were forecasting a decline in sales for fiscal 2018-19, however, sales were lower than expected, specifically in the wine category. Wine sales were lower than targeted as a result of less than expected private orders and premium wine sales. Spirit sales volume declined in the second year of the three-year planning cycle as well.

Dividend targets were achieved in two of the three fiscal years, however, it was not achieved in fiscal 2019-20 due to lower than anticipated cannabis sales and the allocation of funds to manage working capital during the COVID-19 pandemic. As noted, the \$11.5 million variance associated with COVID-19 will be paid to the Provincial Government during the first quarter of fiscal year 2020-21. During the fiscal year, the total dividend payments were reduced by \$9.5 million primarily due to lower than expected cannabis sales.

Throughout the three-year business cycle associated with the 2017-2020 Business Plan, NLC has focused on minimizing costs and reducing discretionary spending where appropriate. While this reduction in costs allowed the organization to achieve its targeted earnings from operations in two of the three years, it was short of its target in fiscal year 2019-20 by \$1.4 million.



SALES BY PRODUCT CATEGORY (MILLIONS OF DOLLARS)

	2019-20 Actual	2019-20 Target	Variance	% Variance	2018-19 Actual	2018-19 Target	Variance	% Variance
Spirit	129.6	126.5	3.1	2.5%	126.1	124.8	1.3	1.0%
Wine	78.8	79.5	(0.7)	-0.9%	77.5	82.9	(5.4)	-6.5%
RTD	21.8	20.4	1.4	6.9%	19.8	18.4	1.4	7.6%
Beer	38.3	38.0	0.3	0.8%	38.0	37.5	0.5	1.3%

SPIRITS SALES

(in thousands of litres)

	2020	2019	2018	2017	2016	2015	2014
Rum	1,602	1,606	1,711	1,762	1,824	1,893	1,947
Rye Whisky	861	807	837	836	826	813	815
Vodka	606	589	597	590	590	589	584
Liqueurs	307	311	326	329	356	368	371
Scotch - other Whisky	79	119	123	119	137	129	124
Gin	90	84	72	64	62	61	60
Tequila	23	20	19	19	19	19	20
Brandy	17	17	17	17	17	18	19
Cognac	3	3	3	4	3	4	4
Miscellaneous	3	1	1	1	1	-	1
	3,591	3,557	3,706	3,741	3,835	3,894	3,945

WINE SALES
(in thousands of litres)

	2020	2019	2018	2017	2016	2015	2014
Table Wine	4,001	3,998	4,188	4,104	4,047	3,852	3,692
Sparkling & Champagne	285	284	294	290	296	285	275
Fortified Wine	53	54	59	61	65	70	71
Low Alcohol Wine	10	14	16	10	5	6	5
	4,349	4,350	4,557	4,465	4,413	4,213	4,043

READY TO DRINK (RTD) & CIDER SALES
(in thousands of litres)

	2020	2019	2018	2017	2016	2015	2014
Refreshment Beverages	2,276	2,041	1,888	1,789	1,817	1,771	1,578
Cider	377	371	362	312	300	249	137
	2,653	2,412	2,250	2,101	2,117	2,020	1,715

BEER SALES
(in thousands of litres)

	2020	2019	2018	2017	2016	2015	2014
Local Beer	3,509	3,524	3,559	3,570	3,698	3,681	3,479
Imported Beer	2,541	2,630	2,779	2,871	3,017	2,476	2,378
Low Alcohol Beer	22	32	40	61	94	101	100
	6,072	6,186	6,378	6,502	6,809	6,258	5,957

STRATEGIC THEME 2: OPERATIONAL EXCELLENCE

Operational Excellence is a key pillar on which NLC will achieve its mission and vision. Operational excellence means operating in a way that is safe, reliable and cost-efficient.

For customers and stakeholders, operating in this way helps NLC deliver on its commitment to the Province of Newfoundland and Labrador and the communities it serves.

GOAL

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

Objective – By April 4, 2020, NLC will have enhanced its organization’s programs aimed to strengthen operations.

INDICATORS:

- Improved core inventory turns to 4.8
- Improved cases per worked hours by 2%

INDICATORS	19/20 ACTUAL
Improved core inventory turns to 4.8	4.7

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

During fiscal 2019-20, NLC continued to focus on improvements to inventory turnover, continuing to address lower volume products at retail and the distribution centre. This resulted in core inventory turns of 4.7, falling slightly short of NLC’s goal of 4.8. However, total inventory decreased by \$1 million in 2019-20 compared to 2018-19. Total inventory has decreased by \$4.9 million since fiscal 2016-17.

INDICATORS	19/20 ACTUAL
Improved cases per worked hours by 2%	7.7%

Improved cases per worked hours is a measure which helps illustrate sales efficiency against labour required. Retail cases per worked hours improved by 7.7% in fiscal 2019-20. Efficiencies were gained across the store network as sales increased while salaries and benefits remained consistent with 2018-19. Retail cases per worked hours have increased by 15.6% since fiscal year 2016-17.



THREE-YEAR PERFORMANCE SUMMARY

In an effort to continuously strengthen its operations, NLC is not only committed to employee physical safety, but to psychological safety as well. An analysis of the utilization of NLC's Employee/Family Assistance Program and Long Term Disability claims in 2018 showed a marked increase in employee-requested support and long-term absences due to mental health issues. An in-house trainer was certified in Mental Health First Aid (MHFA) and as a result, all NLC locations and/or departments have at least one manager/supervisor trained in MHFA who can provide support, guidance, information and access to resources. NLC delivered on its commitment during the three years of the 2017-2020 Business Plan, by increasing the number of employees trained in Mental Health First Aid to 88 from just 17.

Retail cases per worked hours have increased by 15.6% from fiscal 2016-17 to fiscal 2019-20, as efficiencies were gained in each of the three years of the 2017-2020 Business Plan. In fiscal year 2017-18, NLC made significant gains in this area following an operational analysis by store location, offering insights into how to make more efficient use of labour. While sales results in fiscal year 2018-19 negatively impacted NLC's ability to successfully achieve this indicator for that specific year, gains made in fiscal 2019-20 were the result of efficiencies across the store network as sales increased.

Core inventory turns have increased from 4.4 turns in fiscal 2016-17 to 4.7 turns per year in fiscal 2019-20, as NLC continued to focus on improvements to inventory turnover, addressing lower volume products at retail and the distribution centre. While falling slightly short of its targets of 4.9 in fiscal year 2018-19 and 4.8 in fiscal year 2019-20 (achieving 4.7 in both years), NLC has improved inventory turnover overall, without restricting sales growth.



STRATEGIC THEME 3: CUSTOMER EXPERIENCE

NLC's success rests on its ability to meet and exceed expectations of those served. Retail consumers seek a pleasant and rewarding shopping experience, with associates who are polite, caring and genuinely interested in helping; employees that have excellent product knowledge and offer sound advice; and an efficient shopping process, both in-store and online.

GOAL

By April 4, 2020, NLC will have improved the Customer Experience

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

INDICATORS:

- Achieved customer satisfaction score of 95%
- Implemented camera upgrade in four additional stores
- Met twice per year with licensees

INDICATORS	19/20 ACTUAL
Achieved customer satisfaction score of 95%	97.7%

NLC's receipt-based customer satisfaction survey provides valuable insight and information that is used to improve overall customer experience. Liquor Store Managers monitor survey results on a regular basis and make changes to improve customer service where required. Customer concerns are reviewed promptly and actioned accordingly, fostering high satisfaction ratings.

NLC has made it a priority to ensure customers' concerns are addressed as soon as possible – in-store, via email, phone and through social media inquiries. Customers have several outlets with which to provide feedback, and in-store staff and head office personnel work closely on matters of customer complaint escalation.

INDICATORS	19/20 ACTUAL
Implemented camera upgrade in four additional stores	Achieved

NLC upgraded camera systems in four Liquor Stores in fiscal 2019-20, located in Corner Brook, Gander, Grand Falls-Windsor and Stephenville. Camera upgrades contribute to the safety of customers and staff and assist in loss prevention initiatives.

Since fiscal 2015-16, 18 Liquor Stores and the distribution centre have been upgraded, with remaining stores and head office to be completed in the near future.

INDICATORS	19/20 ACTUAL
Met twice per year with licensees	One Meeting

NLC has made it a priority to meet with licensees regularly, ensuring lines of communication remain open and topics of interest may be discussed on an ongoing basis. While NLC had planned to meet with licensees twice per year, schedules and business demands of working committee members, weather related events and the COVID-19 pandemic prevented it from fully achieving this indicator. This collaborative approach to working with licensees on issues impacting its business will provide long-term stability to NLC's relationships with these valued partners, to the mutual benefit of the Corporation, licensees and customers.



THREE-YEAR PERFORMANCE SUMMARY

The launch of e-commerce for beverage alcohol was highlighted in the 2017-2020 Business Plan. It was subsequently cancelled in fiscal year 2017-18 due to the investment required at the time, as well as the impending legalization of cannabis. NLC had shifted its focus from online retailing of beverage alcohol to e-commerce functionality for cannabis. However, the onset of the COVID-19 pandemic in March 2020 altered this direction and required the organization to change its customer experience model, ensuring the safety of staff and the general public was paramount, while maintaining a high degree of service.

NLC applied its learnings from the launch of cannabis e-commerce to build upon the flexibility of its newly designed beverage alcohol site (nliquor.com) to offer a 'click and collect' option for customers. The ability

for customers to now order online or via telephone, and to pay and pick-up in-store received immediate positive response and offered a new service, which NLC will build upon with 'add-to-cart' functionality in the near future. This enhancement was possible given that NLC had recently re-launched its retail and corporate websites. Both new websites (nliquor.com and nliquorcorp.com) are now mobile-friendly, offering a seamless and efficient user experience for both desktop and mobile devices.

NLC challenged itself to improve the customer experience, measuring this success using its receipt-based customer satisfaction survey. The organization is proud to have consistently achieved Retail Satisfaction scores over 97% during its business cycle.

DURING COVID-19 ORDER ONLINE!

@ nliquor.com



STRATEGIC THEME 4: SOCIAL RESPONSIBILITY

NLC will implement initiatives, individually or in partnership with other organizations, that reach out to the public, engaging and educating them. 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 product. Programs are strategically aligned so that NLC's reputation as a socially responsible organization reinforces its reputation as an excellent retailer. Additionally, NLC marketing and media continues to integrate social responsibility messaging.

GOAL

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

Objective – By April 4, 2020, NLC will have implemented programs to enhance our leadership role in social responsibility.

INDICATORS:

- Community based partnerships initiatives completed 100%
- Achieved challenge and refusals rate of 9%
- Licensed establishments and cannabis retailers inspected 90%
- Responsible Choices program redesigned 100%
- Continue to strengthen enforcement partnership initiatives to disrupt organized crime activities relative to beverage alcohol and cannabis.

INDICATORS	19/20 ACTUAL
Community based partnerships initiatives completed 100%	100%

NLC continued its legacy partnerships with Crime Stoppers NL, Citizens' Crime Prevention Association, MADD, Fetal Alcohol Spectrum Disorder (fasdNL), Law Enforcement Torch Run, Hospitality NL, and Iris Kirby House. In addition, NLC contributed to the Community Food Sharing Association, Rainbow Riders, The Gathering Place, A Dollar a Day and First Step Charity in recognition of their important work.

Leadership Awards were presented in recognition of those who have gone 'above and beyond' in terms of commitment to their communities. The recipients

included the Newfoundland and Labrador Construction Association, First Step Charity, Bill Mahoney, Courtney Clarke, Allan Hawco, Lauren Pearcey, as well as the NLC Cannabis Team.

NLC sponsored MADD Canada's School Assembly Program, delivered to junior high and high school students throughout the Province, reaching over 4,000 students. NLC also participated in MADD Canada's Project Red Ribbon campaign, accepting donations at Liquor Stores during the months of November through January.

As part of a Victoria Day weekend social responsibility initiative to raise awareness of the dangers of impaired driving, all Liquor Stores distributed seatbelt covers and t-shirts with 'Drinking and Driving Kills' messaging to customers.

NLC recognized Plaid for Dad Day at its head office and corporate stores by donating funds and wearing plaid in support of Canadian families facing prostate cancer.

Inspectors joined the Royal Canadian Mounted Police (RCMP) to deliver presentations of NLC's Responsible Choices Program in Old Perlican and Bell Island.

INDICATORS	19/20 ACTUAL
Achieved challenge and refusals rate of 9%	8.7%

The Corporation monitors its challenge and refusals rate, defined as the percentage of transactions at Liquor Stores during which customers are asked to show identification. NLC's Check 25 program mandates that Liquor Store and Liquor Express staff check identification of customers who look 25 years of age or younger to ensure they are of legal age to purchase beverage alcohol. In fiscal 2019-20, NLC slightly missed its target by challenging and/or refusing 8.7% of all sales transactions.

INDICATORS	19/20 ACTUAL
Licensed establishments and cannabis retailers inspected 90%	90%

Licensed establishments and cannabis retailers are inspected according to a risk-based inspection schedule, which ensures that those premises that present a higher risk are visited more frequently. As a result of operating at full capacity with no position vacancies, the target number of inspections was met in fiscal 2019-20.

INDICATORS	19/20 ACTUAL
Responsible Choices program redesigned 100%	100%

The redesign of NLC’s Responsible Choices program was completed in fiscal 2019-20 with the incorporation of content related to the effects of cannabis use.

INDICATORS	19/20 ACTUAL
Continue to strengthen enforcement partnership initiatives to disrupt organized crime activities relative to beverage alcohol and cannabis	95%

In the 2019-20 fiscal year, NLC’s Compliance and Enforcement unit investigated 16 incidents, 12 of which resulted in cannabis seizures. With the assistance of the Royal Newfoundland Constabulary (RNC), RCMP and Canada Post, a total of \$2.1 million in illicit products and cash was seized.

NLC’s Compliance and Enforcement unit has secured access to the Provincial Government license to take online training with the Canadian Police Knowledge Network. Training is ongoing, with 14 courses now available to NLC Inspectors, while these Inspectors provided training for law enforcement partners regarding new cannabis legislation.

Memorandums of Understanding (MOUs) and Working Groups are in place with Canada Post and the RCMP. Although NLC had hoped to have MOUs in place with the RNC and Service NL’s Motor Registration division in fiscal 2019-20, discussions remain underway. For this reason, the indicator is considered 95%.

THREE-YEAR PERFORMANCE SUMMARY

Through legacy partnerships with Crime Stoppers NL, Citizens’ Crime Prevention Association, MADD, fasdNL, Law Enforcement Torch Run, Hospitality NL and Iris Kirby House, NLC continues delivery of its social responsibility programs. Initiatives such as the NLC Leadership Awards, Responsible Choices program, Serve Responsible NL and the “Drinking and Driving Kills” campaign enable NLC to engage and educate, delivering on its commitment to social responsibility.

Over the last three years, NLC has expanded its “Drinking and Driving Kills” messaging to include cannabis, and has included this in subsequent campaigns through traditional and digital media. In working with various partners, NLC has also played a key role in promoting social responsibility in cannabis through the development of online training modules accessible through ShopCannabisNL.com.

NLC continues to effectively implement its risk-based inspection policy, which guides Inspectors’ ability to strategically schedule compliance inspections, focusing the application of resources to encourage compliance by those that present greater risk. While targets were met in two of three years, the number of inspections was slightly below target at 88% in fiscal 2017-28 due to position vacancies.

The Corporation measures the success of the Check 25 customer ID program by monitoring challenge and refusal rates at Liquor Stores. While NLC’s challenge and refusals rate met or exceeded targets in the first two years of the Business Plan, it fell just below its 9% target (at 8.7%) in fiscal 2019-20.



OPPORTUNITIES & CHALLENGES AHEAD

NLC's 2017-2020 Business Plan, presented in the House of Assembly on June 30, 2017, provided direction for the past three fiscal years and guided the efforts of the Corporation until the end of fiscal year 2019-20. The 2020-2023 Business Plan will be presented in the House of Assembly on December 31, 2020 and will guide NLC's decisions during the coming years.

In addition to the responsibilities outlined in the 2017-2020 Business Plan, the legalization of cannabis by the Government of Canada in 2018 resulted in NLC taking a lead role in the launch of this new industry. Opportunities include revenue growth and public education, while challenges exist from a regulatory and enforcement perspective.

NLC and all retailers throughout Newfoundland and Labrador face challenges with respect to economic uncertainty - including a decreasing and maturing population. At an already-challenging time, the effects of the COVID-19 pandemic have also created further difficulties for retailers. While it is early to determine these overall effects, NLC has noted a number of trends, including a shift towards larger format options and economy brands and an increase in purchase of established brands. NLC must also consider consumption trends as it seeks opportunities to grow. Compared with the rest of the country, Newfoundland and Labrador has higher rates of consumption in categories such as beer and spirits, while wine and ready-to-drink categories continue to offer a significant growth opportunity.

In fiscal 2019-20, NLC improved its online experience, redesigning nliquor.com, implementing lessons learned from its launch of the cannabis e-commerce website, ShopCannabisNL.com. Upon closing its stores to the general public to assist in preventing the spread of COVID-19, NLC developed an online/telephone ordering solution. NLC will continue to build upon this initiative, offering 'add-to-cart' functionality in the weeks ahead and will optimize the use of e-commerce and m-commerce (mobile commerce) in the years to come.

During fiscal 2019-20, NLC conducted a survey to gather the thoughts of its workforce. Having recently come through a period of organizational change, results indicated that there existed an opportunity for the organization to ensure its people feel a sense of belonging and that they feel valued for their contributions. The introduction of NLC's Diversity, Inclusion and Belonging Committee in fiscal 2019-20 ensures that NLC continues to evolve as an organization where all employees and customers feel

welcomed, safe and valued. The survey also indicated that employees desire more information and regular communications. To this end, NLC has a renewed focus on ensuring matters of organizational significance are well communicated, recognizing this as an opportunity to engage its employees and further nurture an environment of belonging and trust.

An additional opportunity that NLC will explore in the months and years ahead is with respect to the means by which customers access products, exploring new opportunities to provide efficient access. For instance, it will continue to strengthen the Liquor Express channel and build upon its private ordering program. NLC will also continue to play a partnership role in the further development of the craft brewing industry, as this continues to be a key opportunity.

NLC will continue to optimize operations at Rock Spirits, attracting new partners and expanding opportunities to export products outside of its home markets. NLC's control over its own bottling plant provides flexibility to reconfigure operations to meet unique needs of partners and Government, as evidenced by its production of hand sanitizer in the early stages of the COVID-19 pandemic. With plans to add a canning line, NLC looks forward to taking advantage of trends in the ready-to-drink category.

During fiscal 2019-20, the Office of the Auditor General, Newfoundland and Labrador, released a **Report to the House of Assembly, Newfoundland and Labrador Liquor Corporation**, outlining issues of concern related to the Bordeaux Premium Wines program. The report included a number of recommendations - all of which NLC implemented either prior to or immediately upon the report's release, along with other initiatives it feels will strengthen public trust. NLC also seized upon this opportunity to reduce excess Bordeaux wine inventory. While this report was in relation to a specific category, NLC viewed it as an opportunity to reduce inventory and increase supply chain optimization.

While it requires the support of its shareholder and partners to help it realize its full potential, NLC will continue to explore and capitalize on new opportunities.

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OFFICE OF THE AUDITOR GENERAL
NEWFOUNDLAND AND LABRADOR

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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 4, 2020 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 4, 2020 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.

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

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

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

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

Independent Auditor's Report (cont.)

Auditor's Responsibilities for the Audit of the Financial Statements

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.
- 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.



SANDRA RUSSELL, CPA, CA
Auditor General (A)

September 17, 2020
St. John's, Newfoundland and Labrador

Newfoundland Labrador Liquor Corporation

STATEMENT OF FINANCIAL POSITION

As at
[in thousands]

	April 4, 2020 \$	April 6, 2019 \$
ASSETS		
Current		
Cash and cash equivalents	26,418	12,245
Accounts receivable [note 7]	19,402	12,623
Inventories [note 8]	31,186	32,203
Prepaid expenses	630	1,042
Total current assets	77,636	58,113
Property, plant and equipment [note 4]	19,206	20,350
Intangible assets [note 5]	3,087	4,109
Right-of-use assets [note 6]	6,455	7,337
	106,384	89,909
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities [note 10]	34,417	33,887
Accrued vacation pay	3,483	3,513
Employee future benefits [note 9]	15	129
Total current liabilities	37,915	37,529
Obligations under lease liability [note 15]	6,854	7,719
Employee future benefits [note 9]	2,881	2,700
Total liabilities	47,650	47,948
Net assets	58,734	41,961
	106,384	89,909

See accompanying notes

On behalf of the Board:


Director


Director

Newfoundland Labrador Liquor Corporation

STATEMENT OF COMPREHENSIVE INCOME

Period ended
[in thousands]

	April 4, 2020 \$	April 6, 2019 \$
Sales [note 11]	268,845	262,387
Commission revenue on sale of beer	63,164	61,658
Commission revenue on sale of cannabis	10,831	5,320
	342,840	329,365
Cost of sales	114,580	112,061
Gross profit	228,260	217,304
Administrative and operating expenses [note 12]	49,192	48,137
Earnings from operations	179,068	169,167
Other income		
Finance income	366	480
Miscellaneous income	5,839	5,233
	6,205	5,713
Comprehensive income for the period	185,273	174,880

See accompanying notes

Newfoundland Labrador Liquor Corporation

STATEMENT OF CHANGES IN NET ASSETS

Period ended
[in thousands]

	April 4, 2020 \$	April 6, 2019 \$
Balance, beginning of period	41,961	51,212
Comprehensive income for the period	185,273	174,880
Distributions to the Province of Newfoundland and Labrador	(168,500)	(183,600)
Impact of adopting IFRS 16	58,734	42,492
	—	(531)
Balance, end of year	58,734	41,961

See accompanying notes

Newfoundland Labrador Liquor Corporation

STATEMENT OF CASH FLOWS

Period ended
[in thousands]

	April 4, 2020 \$	April 6, 2019 \$
OPERATING ACTIVITIES		
Comprehensive income for the period	185,273	174,880
Adjustments for non-cash effects		
Depreciation and amortization	4,488	4,795
(Gain) loss on disposal of property, plant and equipment	(6)	301
(Decrease) in accrued vacation pay	(30)	(342)
Increase (decrease) in employee future benefits	67	(5,326)
	<u>189,792</u>	<u>174,308</u>
Changes in non-cash working capital balances		
(Increase) decrease in accounts receivable	(6,779)	1,250
Decrease in inventories	1,017	998
Decrease in prepaid expenses	412	499
Increase in accounts payable and accrued liabilities	530	2,698
Cash provided by operating activities	<u>184,972</u>	<u>179,753</u>
INVESTING ACTIVITIES		
Proceeds on disposal of property, plant and equipment	6	27
Purchase of property, plant and equipment	(813)	(780)
Purchase of intangible assets	(145)	(266)
Cash used in investing activities	<u>(952)</u>	<u>(1,019)</u>
FINANCING ACTIVITIES		
Decrease in obligations under finance lease	—	(36)
Obligation under lease liability	(1,347)	(1,570)
Distributions to the Province of Newfoundland and Labrador	(168,500)	(183,600)
Cash used in financing activities	<u>(169,847)</u>	<u>(185,206)</u>
Net increase (decrease) in cash during the period	14,173	(6,472)
Cash and cash equivalents, beginning of period	<u>12,245</u>	<u>18,717</u>
Cash and cash equivalents, end of period	<u>26,418</u>	<u>12,245</u>

See accompanying notes

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 4, 2020

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 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 4, 2020 and April 6, 2019 contained 52 weeks.

The legalization of cannabis occurred on October 17, 2018. Comparative revenue reported on Cannabis operations were for the period October 17, 2018 to April 6, 2019.

These financial statements were authorized for issue in accordance with a resolution of the Corporation's Board of Directors on September 17, 2020.

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:

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 4, 2020

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 operators is deducted from the selling price of the products delivered. The commission paid to Liquor Express operators for the period ended April 4, 2020 was \$5.7 million [period ended April 6, 2019 – \$5.5 million].

The Corporation generates and recognizes net sales of cannabis at the point of sale on its e-commerce platform.

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, and on the sale of cannabis products in the Province sold through 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.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 4, 2020

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
- 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

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 4, 2020

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.

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.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 4, 2020

Cash and cash equivalents

Cash and cash equivalents are defined as short-term deposits with original maturities of three months or less. The Corporation holds cash in an interest-bearing bank account. The interest income earned on these deposits is recorded as finance income.

Inventories

Inventories are measured at the lower of cost and net realizable value and include raw materials and finished goods. Inventories held in the distribution centres, in transit and in retail stores are measured at landed cost, consisting of acquisition costs, freight and customs and excise duties. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity.

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

General provisions

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

Employee future benefits

Refer to note 9 for additional details regarding employee benefits.

Sick leave

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

Pension

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

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 4, 2020

Fair value measurement

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

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

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

The Corporation uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted [unadjusted] market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; or
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 4, 2020

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.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 4, 2020

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.

The COVID-19 pandemic declared March 11, 2020 has resulted in economic disruptions worldwide. The financial impact to the Corporation for the period ended April 4, 2020 was minimal, but due to the unpredictable nature of the pandemic it is difficult to ascertain the future impact on the financial statements and operations.

4. Property, plant and equipment

	Land, buildings and leasehold improvements s	Furniture and equipment s	Computer equipment and vehicles s	Total s
Cost				
As at April 7, 2018	32,993	12,172	6,808	51,973
Additions	47	248	485	780
Disposals	(1,007)	(182)	(75)	(1,264)
As at April 6, 2019	32,033	12,238	7,218	51,489
Additions	41	312	460	813
Disposals	—	(431)	(43)	(474)
As at April 4, 2020	32,074	12,119	7,635	51,828
Accumulated depreciation				
As at April 7, 2018	(15,964)	(9,000)	(5,316)	(30,280)
Depreciation for the period	(1,078)	(421)	(616)	(2,115)
Disposals	1,007	182	67	1,256
As at April 6, 2019	(16,035)	(9,239)	(5,865)	(31,139)
Depreciation for the period	(904)	(404)	(649)	(1,957)
Disposals	—	431	43	474
As at April 4, 2020	(16,939)	(9,212)	(6,471)	(32,622)
Net book value				
As at April 6, 2019	15,998	2,999	1,353	20,350
As at April 4, 2020	15,135	2,907	1,164	19,206

Newfoundland Labrador Liquor Corporation

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April 4, 2020

5. Intangible assets

	Computer software \$	Trademark \$	Total \$
Cost			
As at April 7, 2018	17,014	254	17,268
Additions	266	—	266
Disposals	(371)	—	(371)
As at April 6, 2019	16,909	254	17,163
Additions	145	—	145
Disposals	—	—	—
As at April 4, 2020	17,054	254	17,308
Accumulated depreciation			
As at April 7, 2018	(11,846)	—	(11,846)
Amortization	(1,259)	—	(1,259)
Disposals	51	—	51
As at April 6, 2019	(13,054)	—	(13,054)
Amortization	(1,167)	—	(1,167)
Disposals	—	—	—
As at April 4, 2020	(14,221)	—	(14,221)
Net book value			
As at April 6, 2019	3,855	254	4,109
As at April 4, 2020	2,833	254	3,087

6. Right-to-Use Assets

	April 4, 2020 \$	April 6, 2019 \$
Opening Balance	7,337	6,229
Additions	482	2,529
Amortization	(1,364)	(1,421)
	6,455	7,337

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

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 4, 2020

7. Accounts receivable

Accounts receivable include the following:

	April 4, 2020 \$	April 6, 2019 \$
Commission receivable	6,147	3,494
Trade accounts receivable	9,551	4,209
Other receivables	3,704	4,920
	<u>19,402</u>	<u>12,623</u>

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

As at April 4, 2020, approximately 96% [April 6, 2019 – 93%] 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 \$0.07 million [April 6, 2019 – \$0.08 million].

8. Inventories

	April 4, 2020 \$	April 6, 2019 \$
Distribution centres	16,730	18,119
Branch stores	10,780	10,082
Inventory in transit	2,483	2,963
Raw materials	1,193	1,039
	<u>31,186</u>	<u>32,203</u>

The total value of inventory expensed to cost of sales for the period ended April 4, 2020 was \$110.3 million [April 6, 2019 – \$107.3 million]. The inventory value includes a reserve of \$1.3 million [April 6, 2019 – \$1.6 million]. Residual amounts included in cost of sales include manufacturing labour and overhead, and foreign exchange gains/losses.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 4, 2020

9. Employee future benefits

Employee future benefits include the following:

	April 4, 2020 \$	April 6, 2019 \$
Accrued severance obligation, beginning of period	129	5,040
Benefits paid	(114)	(4,911)
Accrued severance obligation, end of period	15	129
	April 4, 2020 \$	April 6, 2019 \$
Accrued sick leave obligation, beginning of period	2,700	3,115
Current service cost	376	399
Interest cost	71	131
Actuarial (gain) loss ¹ due to Experience adjustment	(82)	(651)
	3,065	2,994
Benefits paid	(184)	(294)
Accrued sick leave obligation, end of period	2,881	2,700
Total employee future benefits	2,896	2,829
Less: Current portion	(15)	(129)
Total long-term employee future benefits payable	2,881	2,700

The Corporation reached an agreement with its unionized employees in March 2018 and its non-unionized and management employees in June 2018 to discontinue severance. The majority of the accumulated benefit was paid out during the period ended April 6, 2019.

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

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 4, 2020

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

	April 4, 2020 \$	April 6, 2019 \$
Salary increases	3.25	3.25
Discount rate – sick leave liability	2.45	3.95

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	189	6.6
1% increase	(170)	(5.9)
Salary increase		
1% decrease	(170)	(5.9)
1% increase	189	6.6
Sick leave usage		
10% decrease in hours	(162)	(5.6)
10% increase in hours	141	4.9

Membership data as at April 4, 2020 was used for the valuation.

Pension plan

The Corporation's share of pension expense for the period ended April 4, 2020 is \$2.2 million [April 6, 2019 – \$2.3 million]. The anticipated contributions for the fiscal year ending April 3, 2021 are \$2.3 million.

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 4, 2020

10. Accounts payable and accrued liabilities

	April 4, 2020 \$	April 6, 2019 \$
Trade payables	10,213	8,536
Excise duties	9,535	10,133
Accrued liabilities	6,507	7,052
HST payable	3,539	3,002
Other	4,623	5,164
	<u>34,417</u>	<u>33,887</u>

Included in accrued liabilities is \$1.5M in contractual obligations related to gift cards, net of breakage of \$0.3M.

11. Sales

Sales include the following:

	April 4, 2020 \$	April 6, 2019 \$
Sales of beverage alcohol	263,921	257,126
Sales of cannabis	549	469
Other	4,375	4,792
	<u>268,845</u>	<u>262,387</u>

12. Administrative and operating expenses

	April 4, 2020 \$	April 6, 2019 \$
Salaries and employee benefits	29,136	29,085
Depreciation and amortization	3,124	4,795
Interest and bank charges	2,344	2,246
Marketing and royalties	1,883	2,019
Rent and municipal taxes	2,706	1,285
Other	9,999	8,707
	<u>49,192</u>	<u>48,137</u>

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 4, 2020

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 4, 2020 and April 6, 2019.

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 4, 2020 [April 6, 2019 – one customer]. The Corporation has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and utilizes internal and third-party collections processes for overdue accounts.

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

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 4, 2020

15. Obligation under lease liability

	April 4, 2020 \$	April 6, 2019 \$
Opening Balance	7,719	6,662
Additions	482	2,529
Interest	289	256
Lease Payments	(1,636)	(1,728)
	<u>6,854</u>	<u>7,719</u>

Annual obligations under lease liability are as follows:

	April 4, 2020 \$	April 6, 2019 \$
Within one year	1,223	1,292
After one year but no more than five years	3,131	3,434
More than five years	2,500	2,993
	<u>6,854</u>	<u>7,719</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 4, 2020, the Corporation made distributions of \$168.5 million [period ended April 6, 2019 – \$183.6 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 4, 2020 was \$0.8 million [April 6, 2019 – \$0.8 million].

SALES BY LOCATION

(NLC LIQUOR STORES)

FISCAL YEAR 2020

(THOUSANDS OF DOLLARS)

Howley Estates	17,980
Stavanger Drive	11,837
Corner Brook - Humber Gardens	10,839
Long Pond - CBS	10,539
Merrymeeting Road	10,116
Kelsey Drive	10,052
Pearlgate Plaza	10,025
Topsail Road	9,768
Paradise	8,213
Gander	8,125
Mount Pearl - Old Placentia Road	7,573
Grand Falls	7,473
Happy Valley	6,738
Blackmarsh Road	6,410
Bay Roberts	5,977
Clareville	5,802
Stephenville	5,328
Ropewalk Lane	5,235
Carbonear	4,942
Marystown	4,853
Labrador City	3,793
Queen Street	3,337
Port aux Basques	2,659
Murphy's Square - Satellite Store	2,573
Placentia	2,128
Lake Avenue - Satellite Store	1,543
Centennial Square - Satellite Store	1,543
Newfoundland Drive - Satellite Store	1,508
Clareville Irving - Satellite Store	485



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