NEWFOUNDLAND
LABRADOR
LIQUOR CORPORATION

Annual REPORT

2018-2019

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Interim President and CEO

Chairperson's Message

I am pleased to present the Annual Report for fiscal year 2018-19 on behalf of the Board of Directors of the Newfoundland and Labrador Liquor Corporation (NLC), which is a Category two entity under the provisions of the **Transparency and Accountability Act**. The Board of Directors is accountable for the contents and results provided herein.

The past fiscal year marked the second of NLC's 2017-2020 Business Plan. This Annual Report outlines the financial results and highlights from 2018-19 and a series of objectives and measurable indicators for the upcoming 2019-20 fiscal year - the third and last in NLC's current planning cycle. Perhaps the most significant point to highlight is the fact that this period also marked the legalization of the sale of non-medical cannabis and NLC was seized with the additional responsibility of developing a full operational and regulatory structure for the oversight of the sale of non-medical cannabis in Newfoundland and Labrador, including the licensing of producers and selection and licensing of retailers.

Notwithstanding the materiality of and financial burdens associated with the development and implementation of the cannabis related operations, NLC returned a dividend of $183.6 million in fiscal 2018-19 to the Corporation's shareholder, the Government of Newfoundland and Labrador. Total net earnings for the year were $174.9 million.

I would like to congratulate Sharon Sparkes, Interim President and CEO, and the entire NLC team for the results achieved during the 2018-19 fiscal year. Over and above the demands of the traditional beverage alcohol operations, many members of the leadership and operating staff at NLC were called upon to make extraordinary efforts, well above and beyond their regular and historical duties, to be able to launch a comprehensive system to ensure secure access to legal non-medical cannabis. As a result, NLC is now utilizing a unique business model, which includes collaboration with and the licensing of private enterprise retailers and producers.

Launching a robust new line of business, woven into the already-existing infrastructure of NLC in a cost-efficient manner, was indeed a significant challenge, met head-on and delivered upon successfully by the NLC team. I am very proud of how so many of the staff engaged in the additional demands, and embraced the need to complete the launch in a cost effective manner, while operating under very tight time constraints. I thank and congratulate every one of them for their respective sacrifices and contributions to success. As a result, NLC is well prepared to follow through on its role in the second phase of non-medical cannabis legalization in fiscal 2019-20.

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

I look forward to a successful year ahead and the completion of our 2017-2020 planning cycle, with the ongoing efforts of the outstanding team members at NLC.

Sincerely,

Wayne Myles, QC
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 in Newfoundland and Labrador. Since the development of its 2017-2020 Business Plan, NLC's mandate has evolved to reflect its responsibility for regulating the sale and distribution of non-medical 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, normally 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.

NLC's head office and blending/bottling plant (Rock Spirits) are located at 90 Kenmount Road, 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 found throughout the Province. NLC provides employment to 584 employees, 350 of which are female and 234 of which are male.

NLC's gross expenditures in the 2018-19 fiscal year were $160.2 million, with revenue of $329.4 million.

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

Highlights & Partnerships

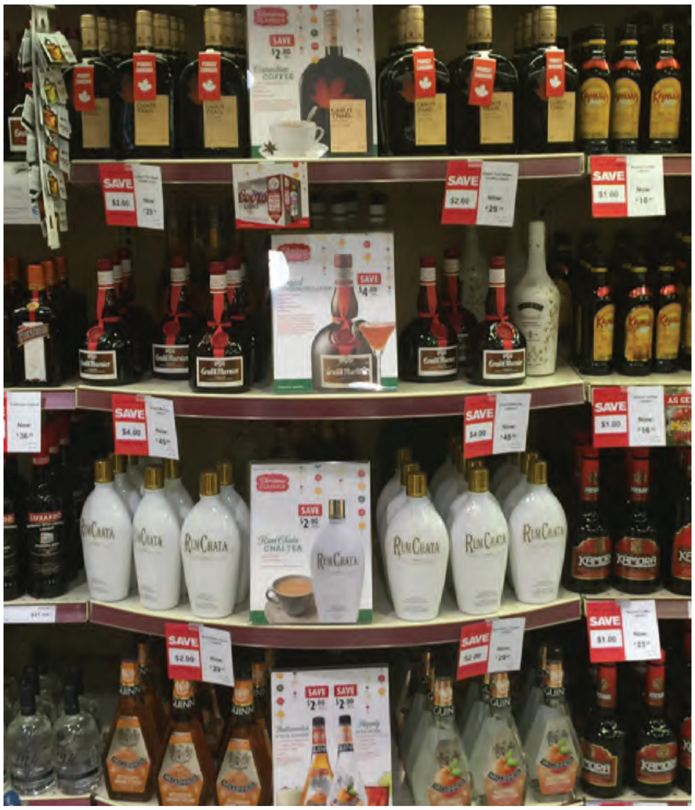
NLC achieved its financial commitment to the Provincial Government in the 2018-19 fiscal year, successfully following through on programs aimed at increasing efficiencies and reducing overall costs.

During the 2018-19 fiscal year, NLC carried out its mandate to provide safe and secure access to non-medical cannabis for residents of Newfoundland and Labrador. The Corporation partnered with Federal and Provincial governments and the business community to implement a retail model which combined NLC as regulator and representatives of private industry as retailers, licensed by the Corporation. NLC also launched its online shop at ShopCannabisNL.com, connecting consumers and suppliers. NLC's Category Management team negotiated supply agreements with eight providers of non-medical cannabis throughout Canada, while NLC's Regulatory Services division ensures compliance and partners with local law enforcement to diminish the illicit cannabis market. Non-medical cannabis will be added as a line of business in the next three-year plan to be tabled in fiscal year 2020.

Additionally, during the 2018-19 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 NLC's Responsible Server Program; and working with multiple community organizations and schools through NLC's Responsible Choices initiative.

NLC continues to invest in the customer experience by monitoring and adjusting product selection and working 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 through NLC's four consumer sampling events in fiscal 2018-19, including **Beer Expo**, **Wine Show**, **Whiskies of the World** and **A Taste of the Americas**.

Lines of Business



NLC has retail locations throughout the Province, as well as a corporate office, manufacturing plant (Rock Spirits) and distribution centre in St. John's, with a total workforce of 584 employees. Liquor Store and satellite store locations account for 68.0% of employees, corporate office accounts for 18.0%, while 14.0% 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)	Placentia
Mount Pearl (2 stores, 1 satellite)	Marystown
Conception Bay South	Clarenville (1 store, 1 satellite)
Paradise	Gander
Bay Roberts	Stephenville
Grand Falls-Windsor	Happy Valley-Goose Bay
Corner Brook (1 store, 1 satellite)	Port aux Basques
Carbonear	Labrador City

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 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.

WHOLESALE SALES

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

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

BLENDING / BOTTLING

Rock Spirits is NLC's manufacturing operation, and consists of a blending and bottling plant which employs 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
- Screech Spiced Rum
- Screech Honey Rum
- Screech Gingerbread Rum
- Old Sam Rum
- Old Sam 5 Rum
- George Street Spiced Rum
- Shiver Vodka
- Shiver Gin
- London Dock Rum
- Cabot Tower Rum
- Newfoundlander's White Rum
- Ragged Rock Rum

And contract bottles the following products:

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

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 and the Smoke Free Environmental Act. Regulatory Services is actively involved in the design and implementation of NLC's Social Responsibility programs while promoting social responsibility in all areas of business within the Corporation and with 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 **www.nlliquor.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 6, 2019, NLC will have improved shareholder value.

INDICATOR	18/19 ACTUAL
Reached target sales of $264.4 million	$262.4 million

Sales for the year ending April 6, 2019 were $262.4 million, $2.0 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 lower than expected private orders and premium wine sales, as well as lower over-the-counter sales. Wine volume was lower than targeted by 4.1% and below the prior year by 4.5%.

Spirit sales volume continues to decline. The decline in fiscal 2018-19 was 4.1%, fiscal 2017-18 was 0.9% and fiscal 2016-17 was 1.5%. The 4.1% decline in fiscal 2018-19 was more than anticipated as a result of the category trending to premium spirits.

Ready-to-drink (coolers/refreshment beverages) sales has been showing growth over the last few years and continues on this trend. Due to growth in the popularity of ciders, innovation from within the category and year-round programming in-store, sales volume increased 7.2% in fiscal 2018-19 compared to the prior year and were higher than anticipated.

Beer sales were expected to decline in fiscal 2018-19 due to economic trends. Due to the increased sales of specialty and domestic premium products, the decline was less than anticipated. Beer sales were ahead of target for fiscal 2018-19 by 1.1%.

The introduction of cannabis operations also contributed to sales in fiscal 2018-19.

The 2017-18 fiscal year was a 53-week year, compared to fiscal 2018-19 which had 52 weeks. It is estimated that the 53rd week contributed $2.0 million in spirit sales, $1.1 million in wine sales, $0.3 million in ready-to-drink sales and $0.5 million in beer sales in the 2017-18 fiscal year.

INDICATOR	18/19 ACTUAL
Achieved dividend of $181.0 million	$183.6 million

The dividend to the Provincial Government was $183.6 million, which exceeded the target for fiscal 2018-19. The increased dividend of $2.6 million related to cannabis operations. The dividend for the 2018-19 fiscal year was $3.6 million higher than the prior year.

INDICATOR	18/19 ACTUAL
Reduced inventory by $1.6 million	Inventory reduced by $1.0 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 $1.0 million in inventory was lower than targeted by $0.6 million. While targets were not met in the 2018-19 fiscal year due to lower than anticipated demand for non-core products, significant improvements in inventory were achieved. Total inventory has decreased by $8.4 million since fiscal 2015-16.

INDICATOR	18/19 ACTUAL
Achieved earnings from operations of $168.4 million	$169.2 million

Earnings from operations were $169.2 million which was $0.8 million higher than anticipated. NLC has focused on minimizing costs and reducing discretionary spending where appropriate. As a result, total operating expenses were lower than the prior year by 7.8%. The introduction of cannabis operations also contributed to increased earnings in the 2018-19 fiscal year.

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

INDICATORS:

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

SALES BY PRODUCT CATEGORY (MILLIONS OF DOLLARS)

	2018-19 Actual	**2018-19** Target	Variance	% Variance	**2017-18** Actual	**2017-18** Target	Variance	% Variance
Spirit	126.1	124.8	1.3	1.0%	129.5	128.1	1.4	1.1%
Wine	77.5	82.9	(5.4)	-6.5%	81.9	79.9	2.1	2.5%
RTD	19.8	18.4	1.4	7.6%	18.4	17.8	0.6	3.4%
Beer	38.0	37.5	0.5	1.3%	38.3	36.7	1.6	4.4%

Spirit Sales

(in thousands of litres)

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

Wine Sales

(in thousands of litres)

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

Ready to Drink (RTD) and Cider Sales

(in thousands of litres)

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

Beer Sales

(in thousands of litres)

	2019	2018	2017	2016	2015	2014
Local Beer	3,524	3,559	3,570	3,698	3,681	3,479
Imported Beer	2,630	2,779	2,817	3,017	2,476	2,378
Low Alcohol Beer	32	40	61	101	101	100
	6,186	6,378	6,448	6,816	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 6, 2019, NLC will have implemented further programs targeting improved operations.

INDICATOR	18/19 ACTUAL
Improved core inventory turns to 4.9	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 2018-19, 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 4.9, largely due to a decrease in wine sales. Total inventory has decreased by $8.4 million since fiscal year 2015-16.

INDICATOR	18/19 ACTUAL
Developed plastic bag strategy to reduce environmental impact of single-use plastic bags by NLC	Complete

Recognizing the impact of plastic bag usage and disposal on the environment in Newfoundland and Labrador, NLC sought to develop a plastic bag strategy in fiscal 2018-19. Liquor Stores have been using approximately 4.9 million plastic bags per year. A decision was made by NLC's Board and Executive team to not only introduce reusable bags at a cost-recovery price, but to completely eliminate the use of plastic bags in fiscal 2018-19. This commitment was delivered upon in November of 2018, to a positive response from customers and the general public, establishing NLC as a retail leader in Newfoundland and Labrador in the reduction of environmental impact due to single-use plastic bags.

NLC offers customers the option of recyclable paper bags and cardboard boxes when available, and will continue to develop its reusable bag strategy to increase the number of customers taking advantage of this option.

INDICATOR	18/19 ACTUAL
Improved Retail Cases per Worked Hours (CPWH) by 3.0%	Improved by 0.2%

Retail Cases per Worked Hours (CPWH) is the number of cases of product sold per total person hours worked. This measure improved by just 0.2% in fiscal 2018-19. While efficiencies were gained across the store network, including a reduction in salaries and benefits by 2.0%, sales decreases negatively impacted NLC's ability to successfully achieve this indicator.

As noted in Strategic Theme 1 – Strengthen the Business, Wine sales (volume) were lower than targeted by 4.1%, as a result of lower than expected private orders, premium and over-the-counter sales.

However, retail cases per worked hours has improved by 7.0% compared to two years ago which surpasses the two year indicator.

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 (CPWH) by 2.0%

STRATEGIC THEME 3: Customer Experience

The end result of a focus on the customer experience is personalized service regardless of what area the public interacts with an NLC employee, whether via NLC's retail network, Rock Spirits or Regulatory Administration and Enforcement.

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

INDICATOR	18/19 ACTUAL
Implemented option to print and/or email receipts	Complete

Implemented in the first quarter of fiscal 2018-19, corporate NLC Liquor Stores (not including Liquor Express locations) now offer customers the option to have a receipt printed or emailed. This option allows the customer to receive receipts in the manner most convenient for them, while reducing paper and waste. Since its inception, 60.0% of all receipts are no longer printed.

INDICATOR	18/19 ACTUAL
Achieved customer satisfaction of 95.0%	97.0%

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 makes changes to improve customer service where required. Customer concerns are reviewed promptly and actioned accordingly, which has helped foster 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.

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

It is worth noting that upon the expiry of its lease at Corner Brook Plaza, NLC took advantage of an opportunity in fiscal 2018-19 to locate its second Corner Brook location to Murphy Square, a higher-traffic shopping area in Corner Brook. NLC believes the convenience of this new location further contributes to the customer experience.

INDICATOR	18/19 ACTUAL
Implemented camera upgrades	Complete

NLC upgraded camera systems in three Liquor Stores in fiscal 2018-19, including both Mount Pearl locations and Bay Roberts. Camera upgrades contribute to the safety of customers and staff and assist in loss prevention initiatives.

Since fiscal 2015-16, 14 Liquor Stores and the distribution centre have been upgraded.

INDICATOR	18/19 ACTUAL
Met quarterly with licensees	Three meetings

Licensee sales contributed 6.0% overall to NLC's total sales in fiscal 2018-19. 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 quarterly, schedules and business demands of working committee members, including two out-of-province representatives, 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.

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

INDICATORS:

- Achieved customer satisfaction score of 95.0%
- Implemented camera upgrade in 4 additional stores
- Met twice per year with licensees

STRATEGIC THEME 4: Social Responsibility (SR)

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 will be strategically aligned so that NLC's reputation as a socially responsible organization reinforces its reputation as an excellent retailer. Additionally, NLC marketing and media will continue 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 6, 2019, NLC will have further developed and enhanced its Social Responsibility (SR) programs.

INDICATOR	18/19 ACTUAL
Community based partnership initiatives completed 100.0%	100%

NLC continued to engage the community through various partner programs and educational initiatives.

NLC partnered with MADD Canada to deliver its School Assembly Program to junior high and high school students throughout the Province. NLC also collaborated with MADD-NL for a paper bag design challenge for students across the Province to submit designs with "Don't Drink and Drive/Don't Drive High" messaging. Winners were selected from various age groups to receive gift cards (other retailers) and a pizza party for their class, which NLC Inspectors attended. The top overall winner will have her artwork featured on paper bags in NLC stores.

NLC presented its Responsible Choices program to several high schools and college campuses, as well as to Nalcor employees in Holyrood and during the annual Nick Coates Memorial Car Show. The Corporation also joined the RNC and RCMP, as well as local MADD chapters, to conduct roadside checks over the Christmas holiday season and Victoria Day weekend in Corner Brook, Gander, Clarenville and St. John's. These checks provided NLC an opportunity to support its law enforcement partners and further promote NLC's social responsibility messages regarding the dangers of impaired driving.

NLC partnered with the RNC for its Tour the Rock initiative during which members of the RNC completed a 10-day bike ride across the Province in an effort to raise awareness for MADD.

INDICATOR	18/19 ACTUAL
Achieved challenge and refusals rate of 9.0%	9.0%

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. In fiscal 2018-19, NLC met its target by challenging and/or refusing 9.0% of all sales.

INDICATOR	18/19 ACTUAL
Responsible Choices program redesigned	90.0% Complete

NLC designed a Responsible Choices logo which reflects each focus area of its Social Responsibility initiatives: Public Education, the Environment, Responsible Consumption/Impaired Driving Prevention and Corporate Citizenship/Community Partnerships. Completion of the program redesign is estimated at 90.0%, as content related to NLC's oversight of the non-medical cannabis industry is not yet included in the Responsible Choices redesign.

NLC's Responsible Choices Program vehicles (van and trailer) were wrapped with new imagery including the new Responsible Choices logo, Cannabis NL logo and Don't Drive High messaging. Future presentations of the program will also incorporate cannabis content.

INDICATOR	18/19 ACTUAL
Risk-based inspection program developed for Licensed Cannabis Retailers	Complete

As per NLC's risk-based inspection policy, licensed locations that obtain a 'high' risk factor are inspected at least four times a year (once a quarter). Due to the legislative framework and sensitivity around the initial stages of the non-medical cannabis industry, Licensed Cannabis Retailers (LCRs) were defaulted to a high risk ranking. Additionally, to ensure that these locations are aligned with new legislation, NLC committed to visiting these LCRs at least eight times a year until further notice. Licensed cannabis retail locations averaged approximately five visits from Inspectors in the first six months of legalization.

INDICATOR	18/19 ACTUAL
Provided safe and secure access to non-medical cannabis in Newfoundland and Labrador	Complete

NLC regulates the possession, sale and distribution of non-medical cannabis under the authority of the Cannabis Control Act and Regulations. To ensure secured, safe retail access to non-medical cannabis, NLC issued a Request for Proposal (RFP) for LCRs in Newfoundland and Labrador in February 2018, with another RFP issued in May 2018 for specific regions. As a result, over 70.0% of the population is within 50 kilometers of an LCR.

NLC also established a safe and secure online location at www.ShopCannabisNL.com for the purchase of non-medical cannabis, providing accessibility for Newfoundlanders and Labradorians of legal age.

Any federally-licensed producer of cannabis wishing to supply retailers in the Province is required to obtain an authorization from NLC. NLC is responsible for contracting authorized cannabis suppliers, selecting products and establishing prices. All LCRs are required to purchase non-medical cannabis from these NLC authorized producers through the online platform provided by Cannabis NL.

Public awareness and educational presentations were delivered by NLC to a wide variety of audiences, including partners, agencies, municipalities, businesses and special interest groups to inform audiences about legislation as well as the retail framework.

NLC created online training programs which helped the citizens of Newfoundland and Labrador prepare for the legalization of non-medical cannabis. Members of the public have access to “Cannabis General Awareness” training and cannabis retail owners, managers, employees and job seekers can access training to become responsible retailers. These courses educate retailers, employees and the general public to support responsible sale practices, ensure compliance with legislation and reduce or limit harm of cannabis use.

All LCRs are responsible for knowing and following the rules set out in the Cannabis Control Act and Regulations, the Smoke-free Environment Act, 2005, as well as the specific terms and conditions of their license. NLC Inspectors complete regular inspections of all licensed premises to ensure they comply with the Acts and Regulations. These inspections are done by appointment and the Inspectors may conduct other unannounced inspections from time to time to monitor compliance or to follow up on a complaint and/or report of questionable activity.

NLC regulates and enforces product packaging and safety guidelines in all LCRs and online as identified in the Federal Government regulatory framework.

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

INDICATORS:

- Community based partnership initiatives completed 100.0%
- Achieved challenge and refusals rate of 9.0%
- Licensed establishments and cannabis retailers inspected 90.0%
- Responsible Choices Program redesigned 100.0%
- Continue to strengthen enforcement partnership initiatives to disrupt organized crime activities relative to beverage alcohol and cannabis.

Opportunities and Challenges Ahead

NLC's 2017-2020 Business Plan, presented in the House of Assembly on June 30, 2017, provided direction in the past two fiscal years and will continue to do so during this upcoming fiscal year. In fiscal 2019-20 NLC will develop its new three-year business plan, covering fiscal years 2021 to 2023.

NLC will continue to work strategically to minimize the impact of economic challenges faced by all retailers in the Province, including facts such as outmigration and a decreasing and aging population. NLC is focused on strengthening the business by pursuing operational efficiencies, ensuring optimal product selection and focusing on the customer experience.

With the introduction of legalized non-medical cannabis in fiscal 2018-19, Newfoundland and Labrador experienced what is likely the most significant societal and legislative shift in decades. This represents a myriad of opportunities and challenges to NLC. Cannabis legalization helps ensure a safe and secure supply and is a step towards the elimination of the illicit market. It also offers an educational opportunity, which is paramount to ensuring Newfoundlanders and Labradorians understand non-medical cannabis and its effects. Only a few months into legalization, NLC does not yet have a full understanding of the potential effect on the sale of liquor and will continue to monitor to adjust objectives and strategies accordingly.

Ensuring appropriate resources so that objectives may be met from a regulatory and customer service standpoint is a challenge given that cannabis-related responsibilities are included in the existing infrastructure of NLC. Expertise and knowledge gained from managing the sale and regulation of alcohol has proven invaluable in NLC's role, and the organization sees itself well positioned to regulate the industry, while educating and engaging the communities it serves.

Legalization also presents challenges associated with the continued prevalence and adaptability of the illicit market, and the increased demands on NLC from a regulatory and enforcement standpoint. Without having to adhere to the parameters, regulations and costs associated with the legal model, non-licensed cannabis sellers continue to service the demands of a significant portion of the population. NLC anticipates the illicit market will continue to represent a challenge and will continue to work with government and law enforcement partners on a long-term strategy to diminish the impact of contraband cannabis, particularly with the phase two launch of legalization (edibles, concentrates and topicals) in fiscal 2019-20.

One of NLC's most important pillars of success is its commitment to improving customer experience. As such, NLC will continue to listen to its customers and will adapt its approaches to doing business to meet evolving customer expectations. NLC must balance the demands of customers with its commitment to operate in a cost-efficient manner. In doing so, it seeks opportunities to allow consumers access to a wider selection while not having the organization incur the cost of inventory for products with low sales potential. NLC will look to leverage its partnerships to allow a more robust and flexible private ordering program which is easier to use for the end consumer, while optimizing sales and minimizing risk.

Financial Statements

INDEPENDENT AUDITOR'S REPORT

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

Opinion

I have audited the financial statements of the Newfoundland and Labrador Liquor Corporation (the Corporation), which comprise the statement of financial position as at April 6, 2019 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 6, 2019 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 Matter

The financial statements of the Corporation for the period ended April 7, 2018 were audited by another auditor who expressed an unmodified opinion on those statements on June 22, 2018.

Other Information

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

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

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

Independent Auditor’s Report (cont.)

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

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- 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.

Independent Auditor's Report (cont.)

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.

Julia Mullaley

JULIA MULLALEY, CPA, CA
Auditor General

June 17, 2019
St. John's, Newfoundland and Labrador

Newfoundland Labrador Liquor Corporation

STATEMENT OF FINANCIAL POSITION

As at
[in thousands]

	April 6, 2019 $	April 7, 2018 $
ASSETS		
Current		
Cash and cash equivalents	**12,245**	18,717
Accounts receivable *[note 8]*	**12,623**	13,873
Inventories *[note 9]*	**32,203**	33,201
Prepaid expenses	**1,042**	1,541
Total current assets	**58,113**	67,332
Property, plant and equipment *[note 5]*	**20,350**	21,693
Intangible assets *[note 6]*	**4,109**	5,422
Right-of-use assets *[note 7]*	**7,337**	—
	89,909	94,447
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities *[note 11]*	**33,887**	31,189
Accrued vacation pay	**3,513**	3,855
Employee future benefits *[note 10]*	**129**	5,040
Total current liabilities	**37,529**	40,084
Obligations under finance lease	—	36
Obligations under lease liability *[note 16]*	**7,719**	—
Employee future benefits *[note 10]*	**2,700**	3,115
Total liabilities	**47,948**	43,235
Net assets	**41,961**	51,212
	89,909	94,447

See accompanying notes

On behalf of the Board:

Director

Director

Newfoundland Labrador Liquor Corporation

STATEMENT OF COMPREHENSIVE INCOME

Period ended
[in thousands]

	52 weeks April 6, 2019	53 weeks April 7, 2018
	$	$
Sales *[note 12]*	**262,387**	268,849
Commission revenue on sale of beer	**61,658**	65,943
Commission revenue on sale of cannabis	**5,320**	—
	329,365	334,792
Cost of sales	**112,061**	113,364
Gross profit	**217,304**	221,428
Administrative and operating expenses *[note 13]*	**48,137**	49,493
Earnings from operations	**169,167**	171,935
Other income		
Finance income	**480**	361
Miscellaneous income	**5,233**	5,242
	5,713	5,603
Net earnings for the period	**174,880**	177,538
Other comprehensive income		
Remeasurement of employee future benefits *[note 10]*	—	(114)
Comprehensive income for the period	**174,880**	177,424

See accompanying notes

Newfoundland Labrador Liquor Corporation

STATEMENT OF CHANGES IN NET ASSETS

Period ended
[in thousands]

	52 weeks April 6, 2019	53 weeks April 7, 2018
	$	$
Balance, beginning of period	**51,212**	53,788
Net earnings for the period	**174,880**	177,538
Other comprehensive (loss) gain for the period	**—**	(114)
Comprehensive income for the period	**174,880**	177,424
	226,092	231,212
Distributions to the Province of Newfoundland and Labrador	**(183,600)**	(180,000)
	42,492	51,212
Impact of adopting IFRS 16	**(531)**	—
Balance, end of period	**41,961**	51,212

See accompanying notes

Newfoundland Labrador Liquor Corporation

STATEMENT OF CASH FLOWS

Period ended
[in thousands]

	52 weeks April 6, 2019	53 weeks April 7, 2018
	$	$
OPERATING ACTIVITIES		
Comprehensive income for the period	**174,880**	177,424
Adjustments for non-cash effects		
Depreciation and amortization	**4,795**	3,734
Loss on disposal of property, plant, equipment and intangibles	**301**	—
(Decrease) increase in accrued vacation pay	**(342)**	130
(Decrease) increase in employee future benefits	**(5,326)**	453
	174,308	181,741
Changes in non-cash working capital balances		
Decrease (increase) in accounts receivable	**1,250**	(1,357)
Decrease in inventories	**998**	2,842
Decrease in prepaid expenses	**499**	387
Increase (decrease) in accounts payable and accrued liabilities	**2,698**	(226)
Cash provided by operating activities	**179,753**	183,387
INVESTING ACTIVITIES		
Proceeds on disposal of property, plant and equipment	**27**	—
Purchase of property, plant and equipment	**(780)**	(979)
Purchase of intangible assets	**(266)**	(225)
Cash used in investing activities	**(1,019)**	(1,204)
FINANCING ACTIVITIES		
Decrease in obligations under finance lease	**(36)**	(62)
Obligation under lease liability	**(1,570)**	—
Distributions to the Province of Newfoundland and Labrador	**(183,600)**	(180,000)
Cash used in financing activities	**(185,206)**	(180,062)
Net increase (decrease) in cash during the period	**(6,472)**	2,121
Cash and cash equivalents, beginning of period	**18,717**	16,596
Cash and cash equivalents, end of period	**12,245**	18,717

See accompanying notes

Notes to financial statements

[tabular amounts in thousands]

April 6, 2019

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 6, 2019 and April 7, 2018 contained 52 weeks and 53 weeks respectively.

The legalization of cannabis occurred on October 17, 2018. 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 June 17, 2019.

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:

Notes to financial statements

[tabular amounts in thousands]

April 6, 2019

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 6, 2019 was $5.5 million [period ended April 7, 2018 – $5.6 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.

Notes to financial statements

[tabular amounts in thousands]

April 6, 2019

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

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.

Notes to financial statements

[tabular amounts in thousands]

April 6, 2019

Cash and cash equivalents

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

Inventories

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

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

General provisions

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

Employee future benefits

Refer to note 10 for additional details regarding employee benefits.

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.

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.

Notes to financial statements

[tabular amounts in thousands]

April 6, 2019

Financial instruments

Financial assets

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

Financial liabilities

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

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

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

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

Impairment of financial assets

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

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

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

Notes to financial statements

[tabular amounts in thousands]

April 6, 2019

Significant accounting judgments, estimates and assumptions

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

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

4. Changes in accounting policies

IRFS 9, *Financial Instruments*

Effective April 8, 2018 the Corporation adopted IFRS 9, Financial Instruments. The issuance of IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, and a new hedge accounting model with corresponding disclosures about risk management activity.

The adoption of IFRS 9 has not had an effect on the policies used for financial assets or financial liabilities.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 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 Corporation has adopted the new standard under the modified retrospective method from April 8, 2018. The new revenue standard will supersede all current revenue recognition requirements under IFRS. The impact for the Corporation is recognized on customers' unexercised rights, which relates to the sale of gift cards.

In accordance with IFRS 15, an entity shall recognize a contract liability in the amount of the prepayment for its performance obligation. If an entity expects that customers will not exercise all of their contractual rights, a breakage amount is recognized as revenue. This amount is determined when the likelihood of the customer exercising their rights becomes remote.

The Corporation recognizes breakage on the contract liability as follows:

100%	Balances older than 8 years
75%	Balances greater than 7 years but less than 8 years
50%	Balances greater than 6 years but less than 7 years
33%	Balances greater than 5 years but less than 6 years
25%	Balances greater than 4 years but less than 5 years
10%	Balances greater than 3 years but less than 4 years
0%	Balances less than 3 years old

Notes to financial statements

[tabular amounts in thousands]

April 6, 2019

IFRS 16, *Leases*

IFRS 16 was issued in January 2016 and is effective for periods beginning on or after January 1, 2019, with early adoption permitted. The Corporation has chosen to early adopt this standard and has applied IFRS 16 effective April 8, 2018.

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 International Accounting Standards (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.

The Corporation has adopted IFRS 16 using the modified retrospective approach, which requires the recognition of the cumulative effect of initially applying IFRS 16 as an adjustment to retained earnings and does not restate comparative figures. The impact to net assets was $531 thousand.

The Corporation has elected to follow practical expedients in the application of the modified retrospective approach:

[a] apply a single discount rate (3.95%) to the portfolio of leases; and

[b] not recognize right-of-use assets or lease liabilities for short-term leases with a term of less than 12 months.

Notes to financial statements

[tabular amounts in thousands]

April 6, 2019

5. Property, plant and equipment

	Land, buildings and leasehold improvements	Furniture and equipment	Computer equipment and vehicles	Total
	$	$	$	$
Cost				
As at April 1, 2017	32,944	11,650	6,433	51,027
Additions	49	555	375	979
Disposals	—	(33)	—	(33)
As at April 7, 2018	32,993	12,172	6,808	51,973
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**
Accumulated depreciation				
As at April 1, 2017	(14,825)	(8,513)	(4,546)	(27,884)
Depreciation for the period	(1,139)	(520)	(770)	(2,429)
Disposals	—	33	—	33
As at April 7, 2018	(15,964)	(9,000)	(5,316)	(30,280)
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)**
Net book value				
As at April 7, 2018	17,029	3,172	1,492	21,693
As at April 6, 2019	**15,998**	**2,999**	**1,353**	**20,350**

Notes to financial statements

[tabular amounts in thousands]

April 6, 2019

6. Intangible assets

	Computer software $	Trademark $	Total $
Cost			
As at April 1, 2017	16,789	254	17,043
Additions	225	—	225
Disposals	—	—	—
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**
Accumulated depreciation			
As at April 1, 2017	(10,541)	—	(10,541)
Amortization	(1,305)	—	(1,305)
Disposals	—	—	—
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)**
Net book value			
As at April 7, 2018	5,168	254	5,422
As at April 6, 2019	**3,855**	**254**	**4,109**

7. Right-to-Use Assets

	April 6, 2019 $
Opening Balance	**6,229**
Additions	**2,529**
Amortization	**(1,421)**
	7,337

The right-to-use assets represent the area that is leased for corporate stores. The Corporation has adopted IFRS 16 using the modified retrospective approach, which does not require the restatement of comparative figures. The opening balance is value of the right-to-use assets at the transition date, April 8, 2018.

Notes to financial statements

[tabular amounts in thousands]

April 6, 2019

8. Accounts receivable

Accounts receivable include the following:

	April 6, 2019 $	April 7, 2018 $
Commission receivable	**3,494**	5,869
Trade accounts receivable	**4,209**	3,518
Other receivables	**4,920**	4,486
	12,623	13,873

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

As at April 6, 2019, approximately 93% [April 7, 2018 – 97%] of the trade accounts receivable balance is current. An allowance for doubtful accounts has been recorded in respect of certain non-current receivables in the amount of $0.08 million [April 7, 2018 – $0.05 million].

9. Inventories

	April 6, 2019 $	April 7, 2018 $
Distribution centres	**18,119**	18,694
Branch stores	**10,082**	10,598
Inventory in transit	**2,963**	2,978
Raw materials	**1,039**	931
	32,203	33,201

The total value of inventory expensed to cost of sales for the period ended April 6, 2019 was $107.3 million [April 7, 2018 – $108.5 million]. The inventory value includes a reserve of $1.6 million [April 7, 2018 – $1.6 million]. Residual amounts included in cost of sales include manufacturing labour and overhead, and foreign exchange gains/losses.

Notes to financial statements

[tabular amounts in thousands]

April 6, 2019

10. Employee future benefits

Employee future benefits include the following:

	April 6, 2019	April 7, 2018
	$	$
Accrued severance obligation, beginning of period	**5,040**	4,637
Current service cost	**—**	369
Interest cost	**—**	179
Actuarial loss (gain) due to		
Curtailment	**—**	(43)
Changes in financial assumptions	**—**	114
	5,040	5,256
Benefits paid	**(4,911)**	(216)
Accrued severance obligation, end of period	**129**	5,040

	April 6, 2019	April 7, 2018
	$	$
Accrued sick leave obligation, beginning of period	**3,115**	3,065
Current service cost	**399**	316
Interest cost	**131**	98
Actuarial (gain) loss[1] due to		
Experience adjustment	**(651)**	—
Changes in financial assumptions	**—**	(57)
	2,994	3,422
Benefits paid	**(294)**	(307)
Accrued sick leave obligation, end of period	**2,700**	3,115
Total employee future benefits	**2,829**	8,155
Less: Current portion	**(129)**	(5,040)
Total long-term employee future benefits payable	**2,700**	3,115

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.

Notes to financial statements
[tabular amounts in thousands]

April 6, 2019

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

	April 6, 2019	April 7, 2018
	$	$
Salary increases	**3.25**	3.25
Discount rate – severance liability	**—**	3.45
Discount rate – sick leave liability	**3.95**	3.30

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	167	6.2
1% increase	(151)	(5.6)
Salary increase		
1% decrease	(151)	(5.6)
1% increase	167	6.2
Sick leave usage		
10% decrease in hours	(161)	(6.0)
10% increase in hours	163	6.0

Membership data as at April 6, 2019 was used for the valuation.

Pension plan

The Corporation's share of pension expense paid to the PSPP for the period ended April 6, 2019 is $2.3 million [April 7, 2018 – $2.2 million]. The anticipated contributions for the fiscal year ending April 4, 2020 are $2.3 million.

Notes to financial statements

[tabular amounts in thousands]

April 6, 2019

11. Accounts payable and accrued liabilities

	April 6, 2019 **$**	April 7, 2018 $
Excise duties	**10,133**	9,202
Trade payables	**8,536**	7,550
Accrued liabilities	**7,052**	6,178
HST payable	**3,002**	2,908
Other	**5,164**	5,351
	33,887	31,189

Included in accrued liabilities is $1.6M in contractual obligations related to gift cards, net of breakage of $0.2M.

12. Sales

Sales include the following:

	April 6, 2019 **$**	April 7, 2018 $
Sales of beverage alcohol	**257,126**	263,822
Sales of cannabis	**469**	—
Other	**4,792**	5,027
	262,387	268,849

13. Administrative and operating expenses

	April 6, 2019 **$**	April 7, 2018 $
Salaries and employee benefits	**29,085**	31,169
Depreciation and amortization	**4,795**	3,734
Interest and bank charges	**2,246**	2,246
Marketing and royalties	**2,019**	2,115
Rent and municipal taxes	**1,285**	2,885
Other	**8,707**	7,344
	48,137	49,493

Notes to financial statements

[tabular amounts in thousands]

April 6, 2019

14. Capital management

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

No changes were made in the objective, policies, or processes for managing capital during the periods ended April 6, 2019 and April 7, 2018.

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 was one customer that accounted for 10% or more of the Corporation's accounts receivable as at April 6, 2019 [April 7, 2018 – two customers]. The Corporation has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and utilizes internal and third-party collections processes for overdue accounts.

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

Notes to financial statements

[tabular amounts in thousands]

April 6, 2019

16. Obligation under lease liability

	April 6, 2019
	$
Opening Balance	6,662
Additions	2,529
Interest	256
Lease Payments	(1,728)
	7,719

The Corporation has adopted IFRS 16 using the modified retrospective approach, which does not require the restatement of comparative figures. The opening balance is value of the obligation under operating lease at the transition date, April 8, 2018.

Annual obligations under lease liability are as follows:

	April 6, 2019
	$
Within one year	1,292
After one year but no more than five years	3,434
More than five years	2,993
	7,719

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 6, 2019, the Corporation made distributions of $183.6 million [period ended April 7, 2018 – $180.0 million] to the Province.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, being the members of the Executive Management. The total compensation [including salary and benefits] paid to key management personnel for the period ended April 6, 2019 was $0.8 million [April 7, 2018 – $1.0 million].

Sales by Corporate Store Location

(THOUSANDS OF DOLLARS)
FISCAL YEAR 2019

Howley Estates	17,304
Stavanger Drive	12,332
Long Pond - CBS	10,187
Corner Brook - Humber Gardens	10,140
Merrymeeting Road	10,028
Kelsey Drive	9,801
Pearlgate Plaza	9,034
Topsail Road	8,790
Paradise	7,869
Gander	7,832
Grand Falls	7,488
Mount Pearl - Old Placentia Road	7,425
Happy Valley	6,682
Blackmarsh Road	6,659
Bay Roberts	5,939
Clarenville	5,665
Ropewalk Lane	5,403
Stephenville	5,157
Carbonear	4,950
Marystown	4,801
Queen Street	4,498
Labrador City	3,742
Port aux Basques	2,623
Corner Brook Plaza	2,417
Placentia	2,088
Lake Avenue - Satellite Store	1,566
Newfoundland Drive - Satellite Store	1,467
Centennial Square - Satellite Store	1,329
Murphy’s Square - Satellite Store	873
Clarenville Irving - Satellite Store	470

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