



# 2014-2015 ANNUAL REPORT



NEWFOUNDLAND  
LABRADOR  
LIQUOR CORPORATION

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## BOARD MEMBERS

Glenn Tobin, Chairperson  
Andrea Marshall, Vice Chairperson  
Dick McCrate, Director  
Marjorie Gaulton, Director  
Brian McCormack, Director  
Paul Myrden, Director  
Steve Winter, President and CEO



## CHAIRPERSON'S MESSAGE

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

On behalf of NLC's Board of Directors, I am pleased to present the Corporation's Annual Report for fiscal year 2014-15. The Board is accountable for the contents and the actual results reported in this document, which was prepared under my direction.

This past fiscal year marked the beginning of NLC's 2014-2017 Business Plan. This Annual Report outlines key results, financial information and highlights from 2014-15, providing a summary of the first fiscal year of NLC's newest planning cycle. The Business Plan provides direction and strategic priorities until 2017 and outlines the criteria by which the Corporation's results will be measured. NLC will continue to build on its past successes and further establish itself as a leading retailer, recognized for customer service, a progressive corporate culture, and excellent financial performance – all while staying true to its commitment to social responsibility.

NLC returned a dividend of \$170.5 million in fiscal year 2014-15 to the Corporation's shareholder, the Government of Newfoundland and Labrador. Total net earnings for the year were \$161.1 million, a \$5.8 million increase over the prior year.

NLC continues to follow through on its commitment to social responsibility through the education of

customers and staff about the responsible sale and use of NLC products. This is evident through the enhancement of its Check 25 program and continued focus on educational programs to discourage drinking and driving.

I would like to thank the Government of Newfoundland and Labrador for its continued support and in particular, the Honourable Ross Wiseman, Minister of Finance. In addition, I would like to congratulate Steve Winter and his entire team for the commendable results achieved during the 2015 fiscal year. In recognition of his leadership and continued success, Mr. Winter was recognized in fiscal 2014-15 for the fifth time as one of Atlantic Canada's Top 50 CEOs, an honour which places him in the prestigious Top 50 CEO Hall of Fame.

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

Sincerely,

Chair

# VISION & MISSION

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## NLC VISION

To be passionate about service in everything we do.

## NLC MISSION

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

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

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

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

# NLC VALUES

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## SOCIALLY RESPONSIBLE

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

## PROFESSIONAL

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

## TEAMWORK

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

## INITIATIVE

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

## ACCOUNTABILITY

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

# LINES OF BUSINESS

The lines of business for NLC are:

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

## RETAIL SALES

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

The most visible component of NLC's operations to many is the retail sales of beverage alcohol through its 24 *Liquor Store* locations and 3 Satellite Store locations throughout the province. Population dictates the location of corporate stores. Currently, these stores are located in the following localities:

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

## WHOLESALE SALES

NLC's Wholesale operations supply 142 *Liquor Express* branded locations and over 1,400 licensees. *Liquor Express* sales account for 28.0% of NLC's annual

provincial sales revenues while licensees account for 6.0%. *Liquor Express* stores are normally located in areas in the province that do not have the population to support a corporate store and involve an arrangement whereby an individual or corporation competes for the right to sell beverage alcohol in a retail environment. *Liquor Express* stores have limited selection and service relative to a *Liquor Store*. *Liquor Express* operators receive a commission from NLC on the product they sell. Licensees include bars, lounges and restaurants that are licensed by NLC Regulatory Services to receive product that is resold to customers for profit.

## BLENDING/BOTTLING

Rock Spirits is NLC's manufacturing operation, which consists of a blending and bottling plant which employs over 50 people. NLC has developed recipes for various spirits, owns the rights to certain brands, and blends and bottles product at its blending and bottling facility in St. John's. These products are sold in Newfoundland

and Labrador and are marketed to other liquor jurisdictions in Canada, the northeast United States and Germany. 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 handle intricate bottling required of unique bottle shapes and sizes. NLC has made investments in its manufacturing operation to strengthen its position in regards to securing new contracts and to maintain and grow production under current contracts.

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

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

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

And contract bottles the following:

Crystal Head Vodka	Iceberg Vodka
Smuggler's Cove Dark Rum	Iceberg Gold Rum
Lemon Hart Rum	Iceberg Gin
Golden Wedding Whisky	Iceberg Silver Rum
White Star Rum	

## REGULATORY SERVICES

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

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

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

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

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

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

## ADDITIONAL INFORMATION

For more information on NLC and its operations, see NLC's website at [www.nliquor.com](http://www.nliquor.com).



# ISSUE 1

## IMPROVE FINANCIAL PERFORMANCE

NLC considers promoting social responsibility in the consumption of alcohol to be paramount in the delivery of a balanced financial result; therefore, financial performance revolves not solely around profit maximization. NLC must balance the needs of all stakeholders, customers, employees and suppliers all the while optimizing the Corporation's value to the shareholder, the Province of Newfoundland and Labrador, and ultimately the people of the province. Revenue growth and social responsibility are not mutually exclusive. NLC must ensure pricing keeps pace with inflation and the relative pricing of other consumer products, while encouraging the purchase of better quality products, thus contributing to revenue growth in a socially responsible manner.

### GOAL

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

### MEASURE

Improved Financial Performance

### INDICATORS:

- \*Grown sales
- \*Achieved balanced financial return
- \*Improved operational efficiency

OBJECTIVE 1 – BY APRIL 4, 2015, NLC WILL HAVE IMPROVED FINANCIAL RETURNS TO ITS SHAREHOLDER.

### MEASURE

Deliver a Balanced Financial Result

Indicator	14/15 Actual
Increased sales by 2.8%	3.9%

Sales for the year ended April 4, 2015 were \$256.0 million, a \$9.5 million increase over the prior year's sales of \$246.5 million. This represents a 3.9% increase, exceeding the target of 2.8% by 1.1 percentage points. Sales growth can be attributed to a continued focus on providing the customer with superior service and product choices. Customer education, delivered through various sampling events executed by NLC's special event team, provides opportunities for customers to become familiar with new and existing products. Education is key to helping customers make better product choices in a socially responsible manner. In-store programs complement the customer educational events while creating efficient and enjoyable shopping experiences. These programs are discussed in more detail under the section of **Issue 2 – Improved Customer Service Experience**.

### Sales by product category (millions of dollars)

	2014-15 Actual	2014-15 Target	Variance	% Var.	2013-14 Actual	Variance	% Var.
Spirits	128.0	130.0	(2.0)	-1.5%	126.7	1.3	1.0%
Wine	72.4	70.8	1.6	2.3%	67.9	4.5	6.7%
RTD	16.5	14.2	2.3	16.1%	13.9	2.6	18.5%
Beer	34.9	33.4	1.5	4.5%	32.3	2.6	8.1%



**Indicator**

Increased dividends by 2.3%

**14/15 Actual**

12.2%

The distribution (dividend) to the province increased to \$170.5 million for the year ended April 4, 2015 from \$152.0 million for the year ended April 5, 2014 and included an additional payment of \$15.0 million from accumulated cash surpluses from prior years. This \$18.5 million or 12.2% increase year-over-year is the result of increased earnings in the year ended April 4, 2015 as well as accumulated cash from budget surpluses of previous years.

**Indicator**

Improved Sales per Worked Hours (SPWH) by 3.0%

**14/15 Actual**

3.3%

Sales per Worked Hours (SPWH) includes sales from Corporate Liquor Stores and does not include Liquor Express or Satellite Store locations. SPWH is a strong indicator of efficiency, and as it increases, profitability does as well, growing NLC's return to shareholders. SPWH grew by 3.3% in fiscal 2014-15, exceeding a target of 3.0%.

**Indicator**

Improved core inventory turns without restricting sales growth

**14/15 Actual**

Core inventory turns have decreased from 4.7 turns per year to 4.3 turns per year

Improving core inventory turns without restricting sales growth is a priority for NLC. As inventory turns improve, efficiencies are gained, which helps increase overall profitability.

During fiscal 2014-15 NLC did not improve its core inventory turns because it increased its average inventory on hand. Average inventory on hand was increased to ensure sufficient stock was available to meet customer requirements, particularly products with longer lead times from different countries in the world. This increase came as a result of lower service levels and fill rates for NLC *Liquor Store* and *Liquor Express* customers that were lower during the first portion of fiscal 2014-15. Inventory was increased to ensure that these service levels and fill rates were high enough to meet the requirements of *Liquor Store* and *Liquor Express* customers and offer customers a broad selection of products.

Core inventory turns are expected to decrease again during fiscal 2014-16, as the full year impact of the average inventory increase is recognized.

**PERFORMANCE HIGHLIGHTS**

Net earnings for the year ended April 4, 2015 were \$161.1 million, a \$5.8 million increase over the prior year. The net earnings increase was the result of increased gross profit of \$7.6 million due to sales growth and an increase in commission revenue on the sale of beer. This was partially offset by an increase in administrative and operating expenses of \$2.3 million over the prior year, resulting primarily from increases in salaries and benefits due to the collective bargaining agreement as well as costs directly associated with increased sales.



## Spirit Sales

(in thousands of litres)

	2014-15	2013-14	2012-13	2011-12	2010-11
Rum	1,893	1,947	1,959	1,962	1,894
Rye Whisky	813	815	814	800	774
Vodka	589	584	560	537	509
Liqueurs	368	371	379	375	365
Scotch - other Whisky	129	124	116	132	121
Gin	61	60	59	59	60
Tequila	19	20	21	19	18
Brandy	18	19	20	21	21
Cognac	4	4	4	4	4
Miscellaneous	-	1	1	1	1
	<b>3,894</b>	<b>3,945</b>	<b>3,933</b>	<b>3,910</b>	<b>3,767</b>

## Wine Sales

(in thousands of litres)

	2014-15	2013-14	2012-13	2011-12	2010-11
Table Wine	3,852	3,692	3,495	3,363	3,083
Sparkling & champagne	285	275	274	263	251
Fortified Wine	70	71	71	72	74
Low Alcohol Wine	6	5	4	4	3
	<b>4,213</b>	<b>4,043</b>	<b>3,844</b>	<b>3,702</b>	<b>3,411</b>

## RTD and Cider Sales

(in thousands of litres)

	2014-15	2013-14	2012-13	2011-12	2010-11
Refreshment Beverages	1,771	1,578	1,584	1,455	1,402
Cider	249	137	88	80	69
	<b>2,020</b>	<b>1,715</b>	<b>1,672</b>	<b>1,535</b>	<b>1,471</b>

## Beer Sales

(in thousands of litres)

	2014-15	2013-14	2012-13	2011-12	2010-11
Local Beer	3,681	3,479	3,386	3,145	2,813
Imported Beer	2,476	2,378	2,134	1,981	1,985
Low Alcohol Beer	101	100	102	106	110
	<b>6,258</b>	<b>5,957</b>	<b>5,622</b>	<b>5,232</b>	<b>4,908</b>

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

### MEASURE

Maintained Financial Returns

### INDICATORS:

\*Increased sales by 1.3% compared to fiscal year 2014-15.

\*Increased dividend by 1.9% compared to fiscal year 2014-15.

\*Improved Sales per Worked Hours (SPWH) by 2.0%

In fiscal 2015-16 NLC will continue to grow the sales and distribution to the province by balancing customer expectations with the social responsibility mandate. The targeted sales for fiscal 2015-16 are \$259.2 million, an increase of \$3.2 million from fiscal 2014-15 or 1.3%. The distribution to the province is targeted to increase to \$158.5 million from the \$155.5 million this year which excludes the \$15.0 million additional payment from accumulated budget surplus of prior years. This will result in a \$3.0 million increase or a 1.9% increase over fiscal 2014-15.

# ISSUE 2

## IMPROVED CUSTOMER SERVICE EXPERIENCE

NLC's success rests on its ability to meet and exceed customer expectations. NLC's customer promise focuses on an inviting shopping environment, knowledgeable staff, excellent product selection and effective product promotions.

Research indicates that consumers seek a pleasant and rewarding shopping experience, one that has salespeople that are polite, caring and genuinely interested in helping the customer; salespeople that have excellent product knowledge and offer good advice to the customer; attractive store design; and a reasonably fast shopping process. NLC's efforts to deliver exceptional customer service through professional and well trained staff will continue to be a key differentiator for the business over the course of this planning period.

NLC caters to a variety of customers – each with different needs and expectations. While NLC will continue to analyze customer buying patterns and sales trends, it will also look to an improved Point-of-Sale (POS) system to implement new promotional tools that ensure the most profitable product mix which will help to increase customer satisfaction.

### GOAL

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

### MEASURE

Implemented Initiatives

### INDICATORS:

- \*Installed new POS solution
- \*Built product knowledge capacity in staff
- \*Started discovery process for store of the future

OBJECTIVE 1 – BY APRIL 4, 2015, THE NLC WILL HAVE IMPLEMENTED INITIATIVES TO IMPROVE THE CUSTOMER SERVICE EXPERIENCE.

### MEASURE

Implemented Initiatives

Indicator	14/15 Actual
Installed POS	Delayed due to sale of successful vendor to another IT company

The implementation of a new POS system was identified as a prime opportunity to improve customer service. The benefits to NLC customers include: option for customers to have purchase history retained at the cash for efficient review of past purchases and returns; availability of gift receipts; bonus AIR MILES® printed on receipts; additional programs to encourage trial of premium products; more efficient execution of couponing; additional capability to execute value-add (free items with purchase); and emailed receipts.

NLC began work on its POS system in fiscal 2013-14, with planned implementation in fiscal 2014-15. An extensive discovery process was initiated followed by a request for proposals and contract offering to a top-ranked vendor with deep experience in delivering enterprise-scale POS solutions for retail clients. A comprehensive plan was developed and the project launched in fiscal 2014-15, however NLC did not anticipate the takeover of the successful vendor by a larger vendor, which caused delays in the development process, thus impacting project deployment dates. As a result, the POS launch is now targeted for Quarter 2 of fiscal 2015-16.

## Indicator

Trained additional 20 employees in the International Sommelier Guild (ISG) level II, advanced wine knowledge course, across the province

## 14/15 Actual

11 employees achieved ISG Level II in FY2015

A continued commitment to training has provided NLC with a highly skilled and well educated workforce. Store employees who have voluntarily taken advantage of opportunities to expand their product knowledge through the International Sommelier Guild's (ISG) training program have helped the Corporation achieve its high standards of retail excellence and quality customer service. The cost to deliver these training programs, together with the availability of qualified staff, led to a decision to defer the training of all 20 employees in ISG level II in fiscal 2014-15.

With a planned rollout in fiscal 2015-16 of a new Product Knowledge Consultant (PKC) program, including the hiring of additional PKC's, interest in attaining ISG level II is expected to grow. A renewed focus on online customer service training through SERVE, a customized customer service program completed by all *Liquor Store* employees, will ensure NLC continues to grow the core knowledge of its workforce. The overall goal of the SERVE program is to build success and confidence on the sales floor and to ensure that excellent customer service is consistently achieved.

Throughout Newfoundland and Labrador, 169 employees have been trained via the ISG program to date and 18 stores have an employee with ISG level II. NLC continues to broaden its network of highly-informed staff and is well-poised to assist customers with ever-evolving tastes.

## PERFORMANCE HIGHLIGHTS

NLC has further improved the customer experience by offering unique educational sampling events, as well as developing marketing and merchandising programs that highlight new listings and encourage trial of premium products. Such "*premiumization*" allows NLC to continue to grow its dividend to Government while following through on its social responsibility mandate, encouraging the consumption of "better, not more". The introduction in fiscal 2014-15 of high quality product catalogues distributed throughout Newfoundland and Labrador has provided additional support for premium products, introducing customers to new products and unique ways to enjoy them.

NLC's special event team delivered a range of sampling events that furthered the Corporation's objective to educate consumers about new brands, food and drink pairings and responsible consumption. Spring's "A Taste of Italy" showcased wines from Italy's top vineyards, while June's "Beer Expo" delivered 100 different beers and ciders to a growing audience of beer enthusiasts. October showcased the 19th edition of the organization's marquee event "Wine Show", during which an ultra-premium tasting event was held at a local St. John's restaurant. Whisky lovers gathered in November to sample the best Scottish, Irish, American and Canadian offerings at "Whiskies of the World", and the events calendar concluded with the increasingly popular "Wines of Bordeaux".

As just the second Canadian stop among 10 North American cities on the international tour of *Union des Grand Crus de Bordeaux*, the St. John's show featured vintages from 74 of Bordeaux's top winemakers. To customers with interests piqued by such events, on a yearly basis the region of Bordeaux offers an *En Primeur* program (Bordeaux futures), which NLC has adopted. Customers have the opportunity, up to two years in advance, to purchase wines that have been reviewed, but are not yet bottled and only available through special orders. The growing interest in "Wines of Bordeaux" was further punctuated with the successful *Chateau Climens* dinner at one of the province's top dining establishments.

Signage and merchandising initiatives were launched in fiscal 2014-15 aimed at making the customer shopping experience more efficient and enjoyable. The most significant of these was the *Wine Varietals* project, in which wines of the same country of origin (for pilot purposes, the United States) are merchandised according to varietal instead of brand family. Such merchandising makes shopping for a particular grape type more time-efficient, and is in line with trends in other liquor jurisdictions.

An additional program launched with an aim towards premiumization includes *Top Tier*, in which products with high expert scores/ratings are highlighted at shelf level. While higher priced, most of these products are within budget for a majority of customers, and are often within arm's reach of the product the customer may have initially planned to purchase. Having the opportunity to see a high rating from a product expert is often enough to entice the customer to stretch his or

her spend and try a product that he or she may otherwise not have selected.

In recent years, NLC's online presence has grown significantly. In fiscal 2014-15 alone, its facebook following grew by 68% to reach almost 16,000 likes. Social media experts agree that while likes and followers are an important first step, the real measure of successful online and social media programming is the amount of engagement among customers. With the launch in fiscal 2014-15 of NLC staff's *Brand Ambassador Program* (rewarding random staff for engaging with the organization's social media posts), employees helped facilitate a new level of engagement via social media. Keeping in line with NLC's Social Media Policy, employees were encouraged to like, share, repost, retweet and generally further engage in the Corporation's social media presence. Harnessing this support to further the reach

of marketing promotions such as *12 Deals of Christmas* and *Black Friday*, engagement via social media channels reached a new level of growth, allowing NLC's messaging (both paid and unpaid) to reach thousands more customers online.

NLC's *Impulse at Cash* program succeeded in offering timely impulse products that matched up well according to time of the year. Having such products merchandised together at the checkout with attractive, seasonally themed signage offered customers exposure to products such as premium liqueurs and spirits that they may otherwise not have known were available.



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

### MEASURE

Implemented Further Initiatives

### INDICATORS:

\*Increased number of employees trained via SERVE training program throughout Newfoundland and Labrador

\*Installed new POS system and provided POS training for all new employees

\*Implemented initiatives to enhance digital/online reach

\*Launched new *Liquor Store* in 2015-16, executing plans from fiscal 2014-15

*SERVE* is a customer-focused, customized training program that is comprised of five stages, all of which are executed by all NLC *Liquor Store* employees.

### S – SET THE TONE

### E – EXPLORE CUSTOMER NEEDS AND OCCASION

### R – RECOMMEND PRIMARY SOLUTIONS

### V – VALUE ADD SOLUTIONS

### E – ENCOURAGE THE SALE TODAY AND TOMORROW

In fiscal 2015-16, NLC will focus heavily on increasing the number of employees trained in *SERVE*, ensuring a highly capable workforce, further improving the customer experience.

In the next fiscal year, the Corporation will launch its new POS system and ensure all employees are properly trained in its use. Increased relevancy of product offers and additional benefits to the customer will lead to an improved customer experience.

As noted, there were several initiatives undertaken in-store in fiscal 2014-15 aimed at growing the focus on premium products. As such, it was felt that while traditional flyers were successful at highlighting brands and offers, a higher quality catalogue would better support and showcase the products and programs offered in store. The initial Christmas edition of the catalogue was so well received by customers and supported by suppliers, that an additional catalogue (*Cheers to Spring*) was launched in fiscal 2014-15, with plans to produce several additional publications in fiscal 2015-16. Copies of the catalogue were distributed via The Telegram and other community newspapers to paid subscribers province-wide and available at all *Liquor Stores* throughout Newfoundland and Labrador. While catalogues were also available to review on the Corporation's website this year, a primary focus for fiscal 2015-16 is to increase digital/online reach via social media and third-party web site advertising in order to further engage customers, thereby providing a more satisfying and convenient browsing experience.

In fiscal 2014-15 NLC entered into an agreement to develop a new *Liquor Store* adjacent to Sobeys, at the corner of McNamara Drive and Topsail Road in Paradise.

The new Paradise *Liquor Store*, scheduled to open in Quarter 1 of fiscal 2015-16, will feature a unique store layout with new, higher light fixtures and energy-saving LED bulbs that create clean sightlines and well-lit product displays. Customers will experience an enhanced shopping experience with larger aisles, a spacious cooler room and an improved service and product selection that fits the needs of a growing community. NLC will inevitably benefit by having a more suitable environment to introduce customers to a broader selection of premium products that will increase sales revenue and deliver on its commitment to providing top-quality customer service.

The success of this new store concept will be measured by store sales and also through monitoring feedback from staff and customers alike. As opportunities arise through the expiration of lease agreements at existing NLC *Liquor Stores*, the Corporation will utilize the best elements of this new design framework to create a concept and roll-out plan for subsequent stores thereby creating cost efficiencies and creating a consistent and enjoyable shopping environment for customers.

# ISSUE 3

## REINFORCE SAFETY CULTURE

Safety commitment starts with every employee at NLC and it is a key theme throughout all business units. Achieving excellence in safety is a shared commitment throughout the organization. For NLC, safety excellence is more than a way of operating; it is an integral part of our identity and the central theme of our strategy for the future.

NLC has established a strategic framework that guides safety initiatives. It is supported by strong leadership commitment with a supportive corporate culture, established safe work practices and procedures; union and management aligned with shared responsibility and reporting. NLC's safety performance has improved over the last number of years. Between 2011 and 2013, the total number of injuries decreased by 27.0%, with the number of lost-time injuries down 43.0% during the same period. As well, the Corporation has seen its safety culture mature with NLC employees addressing unsafe conditions and accepting personal responsibility for their safety and the safety of others.

### GOAL

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

### MEASURE

Enhanced Organizational Programs

### INDICATORS:

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

OBJECTIVE 1 – BY APRIL 4, 2015, THE NLC WILL HAVE IMPLEMENTED PROGRAMS AIMED TO IMPROVE OUR SAFETY CULTURE.

### MEASURE

Implemented Program

Indicator	14/15 Actual Achieved
Development of on-line OHS audit tool to enhance current program	

Occupational Health and Safety (OHS) audits promote a safe and healthy work environment and get all staff engaged in safe work practices by taking a proactive, preventative approach to mitigating safety risks. In the fourth quarter of fiscal 2014-15 NLC rolled out the mobile-enabled OHS audit tool for use in all corporate *Liquor Stores*, head office administration, warehouse and the Rock Spirits manufacturing division. The tool has improved on the current manual OHS audit by providing more user-friendly reporting. Rather than a paper OHS audit, which took days to complete, the mobile audit tool allows auditors to complete their work in real-time, include pictures where appropriate and submit the document for approval during the site visit. This has improved the productivity of the team and improved the speed at which deficiencies are corrected.

Furthermore, the tool's enhanced documentation of OHS audits and real-time reporting of results allows for pattern recognition and prompt correction of issues logged.

Indicator	14/15 Actual
Refreshed safety communications materials	Achieved

Open, regular communication with NLC employees is critical in ensuring the safety message permeates the whole organization. NLC Safety Champions are central to this and are a continual source of ideas and inspiration for improved communications. From the Safety Champions' feedback, NLC has improved the beginning-of-shift warm up and end-of-shift cool down communication posters in stores. To demonstrate that the Safety Champions "walk the talk" the new posters are personalized with NLC employees demonstrating proper techniques.

Improved communication can also be seen in the new Safety page on the Corporation's intranet site, which now includes safety videos, one-page quick reference safety guides and upcoming training notices.

Indicator	14/15 Actual
Developed and delivered training for safe knife usage	Achieved

Knives are regularly used in the completion of daily activities among NLC employees. Such activities as opening boxes and packaging require the use of a sharp tool, which can present a danger. Fiscal 2014-15 saw ZERO knife accidents at NLC. The introduction of the *EasyCut4000* and a significant focus on proper use was central to this achievement.

The new tools were launched across the organization and training was initiated, which included:

- Web presentation to managers and Safety Champions to introduce the new tool and provide direction for the disposal of old tools
- Morning meeting introduction to tool and safe use training
- One-page safety leaflets for all employees
- Videos of safe use on the Grapevine (NLC's intranet)
- Continued communication as to best use practices as questions arose

### PERFORMANCE HIGHLIGHTS

In fiscal 2014-15, Safety Champions were provided with additional training throughout the year including the first annual "NLC Safety Summit", held in September 2014. The Safety Summit was a full-day training seminar highlighted by:

- Opening remarks and a commitment to build on the program by NLC President and CEO, Steve Winter
- Sessions led by external safety partners
- Government of NL Ergonomist
- Workplace Health, Safety and Compensation Commission
- Royal Newfoundland Constabulary

After the training day, all Safety Champions delivered a summary of what they had learned to their locations and effectively shared with their peers and managers.

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

### MEASURE

Implemented Further Programs

### INDICATORS:

- \*Developed in-house racking audit program
- \*Investigated Pronto Forms Part 2 – Workplace Inspections
- \*Introduced surprise unannounced audits bi-annually
- \*Coordinated and executed second annual Safety Summit

The on-line OHS audit tool has real-time reporting of results, allowing for pattern recognition and prompt correction of issues logged. The implementation of the OHS audit tool in fiscal 2014-15 ensured deeper investigation and thorough cause analysis to identify systematic issues; specifically the need for a formalized warehouse racking audit and more unannounced audits, which will be implemented in fiscal 2015-16.

Users of this new tool recognized its potential to improve other safe work processes and suggested that this type of product could also be used for workplace safety inspections, further illustrating that NLC employees are a continual source of ideas and inspiration.

Given the positive feedback and response from Safety Champions and employees overall to NLC's first Safety Summit, the Corporation plans to execute its second annual Safety Summit in fiscal 2015-16, building upon the success of the first.



# ISSUE 4

## BE A LEADER IN SOCIAL RESPONSIBILITY

NLC customers, and the public at large, have clear expectations of NLC to operate in a socially responsible manner. This includes ensuring safe sale and distribution of NLC products, but also includes ensuring that those charged with selling beverage alcohol comply with Provincial legislation.

Due to the increasing number of regulations and need for operational transparency, NLC is increasingly adopting the use of consolidated and harmonized sets of compliance controls and methodologies such as managing risks, remediation, educational programs and effective and efficient investigative methods to act when an adverse event occurs. This approach is used to ensure that all necessary governance requirements can be met with the optimum level of resources.

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

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 its products – programs will be strategically aligned so that NLC's reputation as a socially responsible organization is just as evident as its reputation as an excellent retailer. Additionally, NLC marketing and media messaging will continue to have integrated social responsibility messaging.

### GOAL

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

### MEASURE

Implemented Programs

### INDICATORS:

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

OBJECTIVE 1 – BY APRIL 4, 2015, NLC WILL HAVE IMPLEMENTED INITIATIVES TO ENHANCE OUR LEADERSHIP ROLE IN SOCIAL RESPONSIBILITY.

### MEASURE

Implemented Initiatives

Indicator	14/15 Actual
Risk-based inspections are carried out in accordance with plan	Achieved

A risk-based implementation policy was written and adopted in fiscal 2014-15, with all inspections carried out afterwards done so accordingly. This policy attaches a risk-based ranking to licensees based on several criteria, including history, geography, nature of business and magnitude of special events held on premises. Licensees with higher risk levels will be visited more often than those with a lower level of risk, ensuring more efficient allocation of resources, and encouraging further compliance among potential offenders, thus assisting in the fulfillment of NLC's social responsibility mandate.

## Indicator

Communications plan initiated

## 14/15 Actual

Achieved

In late fiscal 2014-15, NLC engaged with an advertising agency to help initiate a social responsibility oriented communications plan which would begin in fiscal 2015-16, leading into the peak summer driving months. This communications plan will strategically deliver impactful messaging related to responsible consumption, and will utilize the most effective channels to reach to Newfoundlanders and Labradorians with these messages.

## Indicator

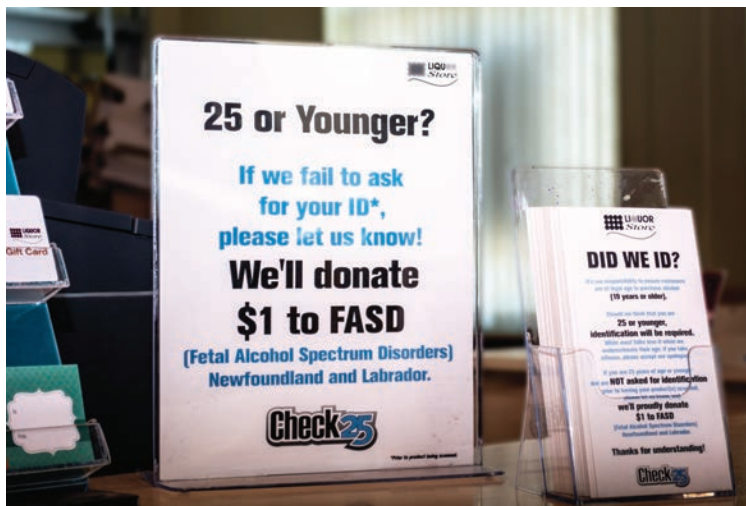
SR programs are enhanced and new ones implemented

## 14/15 Actual

Achieved

In fiscal 2014-15, NLC's enhanced *Check 25* campaign realized funding to support Fetal Alcohol Spectrum Disorder Newfoundland and Labrador (FASD NL), resulting in a \$10,000 donation to support research. FASD Awareness Day was celebrated by NLC, including a press conference and cheque presentation. NLC's commitment was further highlighted through FASD NL embossed shirts worn by several NLC employees participating in last year's *Tely 10* road race.

In winter 2015, NLC launched its new "*Chill Out! Don't Drink and Drive Campaign*". This was accomplished by a province-wide poster campaign and it spurred the *Share the Warmth* message by providing members of the public and staff alike with hats and scarves that communicated the appropriate message regarding social responsibility.



## PERFORMANCE HIGHLIGHTS

In fiscal 2014-15, NLC continued its work with strategic community partners. NLC acknowledges the often close relationship between alcohol and domestic abuse and supported Iris Kirby House in St. John's with a donation of \$10,000. The Corporation continues to support Mothers Against Drunk Driving (MADD) and in fiscal 2014-15, enhanced its support with an investment of \$30,000, allowing NLC and MADD to reach 30 schools in the province with a full school presentation aimed at educating youth on the dangers of drinking and driving. In addition, *Operation Santa* was a pre-Christmas program that saw the Corporation partner with the Royal Newfoundland Constabulary (RNC) to deliver food hampers to the needy – an effort planned to be carried forward into future holiday seasons.

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

### MEASURE

Further Developed and Enhanced Programs

### INDICATORS

- \*Increased the number of strategic community partnerships
- \*Executed communications plan
- \*Implemented additional initiatives, including Responsible Choices educational campaign

Social responsibility efforts in fiscal 2015-16 will begin with the launch of the *Responsible Choices Program*, educating on the dangers of impaired driving through its "drunk goggles" simulation. Participants in the program will be asked to wear the special goggles which simulate impairment while performing everyday tasks, including driving a pedal cart through an obstacle course. Throughout the summer, representatives will travel Newfoundland and Labrador in the NLC *Responsible Choices* van facilitating programs on the dangers of impaired driving with each respective corporate store, special events, community group requests and police partnership events. This program will continue throughout the year with a focus given to high schools throughout the province.

Additional partnerships and initiatives will be launched in fiscal 2015-16 to further promote NLC's social responsibility mandate.

# OPPORTUNITIES & CHALLENGES AHEAD

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

NLC faces challenges in the future due to demographic shifts of Newfoundlanders and Labradorians, particularly the aging and declining rural population. The Government of Newfoundland and Labrador recently embarked on a 10-year Population Growth Strategy to help encourage individuals to choose Newfoundland and Labrador as their home, workplace of choice and a place to build a family and community. NLC stands to benefit from any potential gains made in this direction in future years.

## A PARTICULAR AREA OF GROWTH AND OPPORTUNITY FOR NLC IS IN DIGITAL AND MOBILE MARKETING AND E-COMMERCE.

The growth of revenue amid current economic uncertainties also represents a potential challenge for NLC. In order to fulfill its mandate of growing revenue in a socially responsible manner, increasing revenue per litre by encouraging trial of more premium products has been an ongoing strategy of the Corporation. As a segment of customers may shift to more value-based products in uncertain economic times, NLC may experience a slowing in the increase in revenue per litre, and will seek new opportunities to drive awareness and trial of premium products.

While the Corporation will face challenges as previously noted, there are a number of opportunities to be taken advantage of in the years ahead. Primarily, NLC continues to see its focus on the customer as providing its greatest opportunity. Advancing staff knowledge, implementing a more efficient Point of Sale (POS) system and enhancing private ordering services to offer more flexibility to the customer will assist in providing a more robust service experience.

A particular area of growth and opportunity for NLC is in digital and mobile marketing and e-commerce. This could be accomplished by leveraging the purchase information available through NLC's current loyalty program and new POS system to provide relevant and engaging offers via mobile devices both at home and in-store. Using data and analytics to provide more relevant offers to the customer encourages trial of premium products, and creates a better overall experience for the customer.

# FINANCIAL STATEMENTS

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OF NEWFOUNDLAND LABRADOR LIQUOR CORPORATION

APRIL 4, 2015

<b>21</b>	Independent Auditor's Report
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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
**Newfoundland Labrador Liquor Corporation**

We have audited the accompanying financial statements of **Newfoundland Labrador Liquor Corporation**, which comprise the statement of financial position as at April 4, 2015 and the statements of comprehensive income, changes in net assets and cash flows for the period then ended and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

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

### **Auditors' responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Newfoundland Labrador Liquor Corporation** as at April 4, 2015 and its financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards.

St. John's, Canada  
June 23, 2015

*Ernst + Young LLP*

Chartered Professional Accountant

**Newfoundland Labrador Liquor Corporation**


**STATEMENT OF FINANCIAL POSITION**

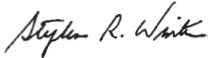
As at  
[in thousands]

	April 4, 2015	April 5, 2014
	\$	\$
<b>ASSETS</b>		
<b>Non-current</b>		
Property, plant and equipment <i>[note 6]</i>	26,587	27,177
Intangible assets <i>[note 7]</i>	7,028	6,570
	<u>33,615</u>	<u>33,747</u>
<b>Current</b>		
Cash and cash equivalents	17,332	29,840
Accounts receivable <i>[note 8]</i>	14,019	11,266
Inventories <i>[note 9]</i>	42,578	36,100
Prepaid expenses	2,047	2,759
	<u>75,976</u>	<u>79,965</u>
<b>TOTAL ASSETS</b>	<u>109,591</u>	<u>113,712</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Non-current</b>		
Obligations under finance lease <i>[note 16]</i>	236	312
Employee benefits <i>[note 10]</i>	7,598	6,758
	<u>7,834</u>	<u>7,070</u>
<b>Current</b>		
Accounts payable and accrued liabilities <i>[note 11]</i>	31,225	26,638
Accrued vacation pay	3,222	2,934
	<u>34,447</u>	<u>29,572</u>
	<u>42,281</u>	<u>36,642</u>
<b>Net assets</b>	<u>67,310</u>	<u>77,070</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>109,591</u>	<u>113,712</u>

See accompanying notes

On behalf of the Board:

  
Chairman of the Board

  
Director

**Newfoundland Labrador Liquor Corporation**

**STATEMENT OF COMPREHENSIVE INCOME**

Period ended  
[in thousands]

	April 4, 2015 \$	April 5, 2014 \$
<b>Sales</b> <i>[note 12]</i>	<b>256,043</b>	246,460
Commission revenue on sale of beer	<b>61,393</b>	59,955
	<b>317,436</b>	306,415
Cost of sales	<b>112,414</b>	109,011
<b>Gross profit</b>	<b>205,022</b>	197,404
Administrative and operating expenses <i>[note 13]</i>	<b>48,581</b>	46,326
<b>Earnings from operations</b>	<b>156,441</b>	151,078
<b>Other income</b>		
Finance income	413	351
Miscellaneous income	<b>4,241</b>	3,817
	<b>4,654</b>	4,168
<b>Net earnings for the period</b>	<b>161,095</b>	155,246
<b>Other comprehensive income</b>		
Remeasurement of employee benefits <i>[note 10]</i>	<b>(355)</b>	150
<b>Comprehensive income for the period</b>	<b>160,740</b>	155,396

*See accompanying notes*



**Newfoundland Labrador Liquor Corporation**

**STATEMENT OF CHANGES IN NET ASSETS**

Period ended  
[in thousands]

	<b>April 4, 2015</b>	<b>April 5, 2014</b>
	\$	\$
<b>Balance, beginning of period</b>	<b>77,070</b>	73,674
Net earnings for the period	<b>161,095</b>	155,246
Other comprehensive (expense) income for the period	<b>(355)</b>	150
<b>Comprehensive income for the period</b>	<b>160,740</b>	155,396
	<b>237,810</b>	229,070
Distributions to the Province of Newfoundland and Labrador	<b>(170,500)</b>	(152,000)
<b>Balance, end of year</b>	<b>67,310</b>	77,070

*See accompanying notes*

**Newfoundland Labrador Liquor Corporation**

**STATEMENT OF CASH FLOWS**

Period ended  
[in thousands]

	April 4, 2015 \$	April 5, 2014 \$
<b>OPERATING ACTIVITIES</b>		
Comprehensive income for the period	160,740	155,396
Adjustments for non-cash effects		
Depreciation and amortization	4,114	4,291
(Gain) loss on disposal of property, plant and equipment	(2)	4
Accrued vacation pay	288	236
Employee benefits	1,394	742
	<u>166,534</u>	<u>160,669</u>
Employee benefit payments	(554)	(595)
Changes in non-cash working capital balances		
(Increase) decrease in accounts receivable	(2,753)	684
(Increase) decrease in inventories	(6,478)	240
Decrease in prepaid expenses	712	2,598
Increase (decrease) in accounts payable and accrued liabilities	4,587	(2,001)
<b>Cash provided by operating activities</b>	<u>162,048</u>	<u>161,595</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds on disposal of property, plant and equipment	6	—
Purchase of property, plant and equipment	(2,177)	(5,140)
Purchase of intangible assets	(1,809)	(2,341)
<b>Cash used in investing activities</b>	<u>(3,980)</u>	<u>(7,481)</u>
<b>FINANCING ACTIVITIES</b>		
(Decrease) increase in obligations under finance lease	(76)	312
Distributions to the Province of Newfoundland and Labrador	(170,500)	(152,000)
<b>Cash used in financing activities</b>	<u>(170,576)</u>	<u>(151,688)</u>
<b>Net (decrease) increase in cash during the period</b>	<b>(12,508)</b>	<b>2,426</b>
Cash and cash equivalents, beginning of period	<u>29,840</u>	<u>27,414</u>
<b>Cash and cash equivalents, end of period</b>	<u>17,332</u>	<u>29,840</u>

*See accompanying notes*

## **Newfoundland Labrador Liquor Corporation**

### **NOTES TO FINANCIAL STATEMENTS**

#### **1. NATURE OF OPERATIONS**

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

The fiscal year of the Corporation ends on the first Saturday of April. As a result, the Corporation’s fiscal year is usually 52 weeks in duration but includes a 53rd week every 5 to 6 years. The periods ended April 4, 2015 and April 5, 2014 both contained 52 weeks.

#### **2. BASIS OF PREPARATION**

##### **Statement of compliance**

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

##### **Going concern and basis of measurement**

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

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Revenue recognition**

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

##### *Sales of goods*

The Corporation generates and recognizes net sales to retail and licensee customers at the point of sale in its stores and upon delivery of products to Liquor Express operators. The commission paid to the Liquor Express operators is deducted from the selling price of the products delivered. The commission paid to Liquor Express operators for the period ended April 4, 2015 was \$5.4 million [period ended April 5, 2014 – \$5.1 million].

## Newfoundland Labrador Liquor Corporation

### NOTES TO FINANCIAL STATEMENTS

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

Sales exclude HST and other taxes due.

#### *Commission revenue on sale of beer*

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

#### *Miscellaneous income*

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

#### **Foreign currency translation**

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

#### **Current versus non-current classification**

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

An asset is classified as current when it is:

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

All other assets are classified as non-current.

## Newfoundland Labrador Liquor Corporation

### NOTES TO FINANCIAL STATEMENTS

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 less depreciation and any impairment. The cost includes expenditures that are directly attributable to the acquisition of the items. Repairs and maintenance are charged to the statement of comprehensive income during the period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives as follows:

Building components	10 – 50 years
Leasehold improvements	5 – 20 years
Office furniture and equipment	5 – 10 years
Computer hardware	5 – 6 years
Plant and warehouse equipment	5 – 20 years
Store equipment and fixtures	5 – 20 years
Motor vehicles	3 years

Building components include building structure (50 years), building exterior (20 years), mechanical and electrical (20 years), roofing and paving (20 years), and interior finishes (10 years). These components are combined and presented in these financial statements as building components.

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

#### Leases

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

## Newfoundland Labrador Liquor Corporation

### NOTES TO FINANCIAL STATEMENTS

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

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

#### **Intangible assets**

Intangible assets consist of trademarks and computer software assets not considered integral to the operation of the related hardware. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any impairment losses. The Corporation capitalizes internally generated intangible assets that meet capitalization criteria. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Intangible assets with finite lives (including computer software) are amortized over periods of 5-9 years. New product research and development costs are expensed as incurred.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit ["CGU"] level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. The Corporation considers the capitalized trademarks to have an indefinite life.

#### **Impairment of non-financial assets**

The Corporation assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

## **Newfoundland Labrador Liquor Corporation**

### **NOTES TO FINANCIAL STATEMENTS**

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

#### **Cash and cash equivalents**

Cash and cash equivalents are defined as short-term deposits with original maturities of three months or less. The Corporation holds a guaranteed investment certificate of \$5.0 million (April 5, 2014 - \$5.0 million) along with cash held in an interest bearing bank account. The interest income earned on these deposits is recorded as finance income.

#### **Inventories**

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

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

#### **General provisions**

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

#### **Employee benefits**

Refer to note 10 for additional details regarding employee benefits.

##### *Severance*

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

## Newfoundland Labrador Liquor Corporation

### NOTES TO FINANCIAL STATEMENTS

#### *Sick leave*

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

#### **Fair value measurement**

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

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

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

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



## Newfoundland Labrador Liquor Corporation

### NOTES TO FINANCIAL STATEMENTS

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

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

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

#### Financial instruments

##### Financial assets

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

##### Financial liabilities

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

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

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

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

## Newfoundland Labrador Liquor Corporation

### NOTES TO FINANCIAL STATEMENTS

#### Impairment of financial assets

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

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

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

#### Significant accounting judgments, estimates and assumptions

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

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

#### 4. CHANGES IN ACCOUNTING POLICIES

##### *Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities*

These amendments clarify the meaning of ‘currently has a legally enforceable right to set-off’ and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the existing offsetting arrangements of the Corporation.

## Newfoundland Labrador Liquor Corporation

### NOTES TO FINANCIAL STATEMENTS

#### **IFRIC 21 Levies**

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Corporation as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

#### **Annual Improvements 2010-2012 Cycle**

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 *Fair Value Measurement*. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Corporation.

### **5. STANDARDS ISSUED BUT NOT YET EFFECTIVE**

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

#### **IFRS 9 Financial Instruments**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have no material impact on the classification and measurement of the Corporation's financial assets and liabilities.

#### **Amendments to IAS 19 Defined Benefit Plans: Employee Contributions**

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

## Newfoundland Labrador Liquor Corporation

### NOTES TO FINANCIAL STATEMENTS

#### **Annual improvements 2010-2012 Cycle**

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Corporation. They include:

#### **IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets**

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

#### **Annual improvements 2011-2013 Cycle**

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Corporation. They include:

#### **IFRS 13 Fair Value Measurement**

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

#### **Annual improvements 2012-2014 Cycle**

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

#### **IFRS 7 Financial Instruments: Disclosures**

The amendment clarifies whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required.

#### **IAS 19 Employee Benefits**

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

#### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to 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.

## Newfoundland Labrador Liquor Corporation

### NOTES TO FINANCIAL STATEMENTS

The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. On April 28, 2015 the International Accounting Standards Board tentatively decided to defer the effective date of IFRS 15 *Revenue from contracts with customers* to January 1, 2018. A decision is expected in July 2015. The Corporation is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

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

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

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

#### **6. PROPERTY, PLANT AND EQUIPMENT**

	April 4, 2015		April 5, 2014	
	Cost	Accumulated depreciation	Net book value	Net book value
	\$	\$	\$	\$
Land	3,194	—	3,194	3,194
Building components	15,601	2,751	12,850	13,199
Leasehold improvements	13,827	9,547	4,280	4,919
Office furniture and equipment	1,356	1,165	191	245
Computer hardware	5,624	3,503	2,121	1,749
Plant and warehouse equipment	5,621	2,937	2,684	2,447
Store equipment and fixtures	5,099	3,983	1,116	1,393
Motor vehicles	316	165	151	31
Assets under construction	—	—	—	—
<b>Total</b>	<b>50,638</b>	<b>24,051</b>	<b>26,587</b>	<b>27,177</b>

Newfoundland Labrador Liquor Corporation

NOTES TO FINANCIAL STATEMENTS

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

	Period ending April 5, 2014				
	Opening balance	Transfer	Additions	Disposals	Closing balance
	\$	\$	\$	\$	\$
<b>Cost</b>					
Land	704	2,490	—	—	3,194
Building components	5,236	7,367	2,811	—	15,414
Leasehold improvements	14,243	—	100	(140)	14,203
Office furniture and equipment	1,496	—	28	(120)	1,404
Computer hardware	3,964	—	800	(29)	4,735
Plant and warehouse equipment	4,020	—	1,203	(72)	5,151
Store equipment and fixtures	4,779	—	198	(31)	4,946
Motor vehicles	180	—	—	—	180
Assets under construction	9,857	(9,857)	—	—	—
<b>Total</b>	<b>44,479</b>	<b>—</b>	<b>5,140</b>	<b>(392)</b>	<b>49,227</b>

Newfoundland Labrador Liquor Corporation

NOTES TO FINANCIAL STATEMENTS

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

	Period ending April 5, 2014			
	Opening balance	Depreciation	Disposals	Closing balance
	\$	\$	\$	\$
<b>Accumulated depreciation</b>				
Building components	1,713	502	—	2,215
Leasehold improvements	8,600	824	(140)	9,284
Office furniture and equipment	1,180	98	(120)	1,159
Computer hardware	2,492	523	(29)	2,986
Plant and warehouse equipment	2,517	256	(68)	2,704
Store equipment and fixtures	3,052	532	(31)	3,553
Motor vehicles	105	44	—	149
<b>Total</b>	<b>19,659</b>	<b>2,779</b>	<b>(388)</b>	<b>22,050</b>
<b>Net book value</b>	<b>24,820</b>	<b>2,361</b>	<b>(4)</b>	<b>27,177</b>

7. INTANGIBLE ASSETS

	April 4, 2015		April 5, 2014	
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Trademark	254	—	254	254
Computer software	15,184	8,410	6,774	6,316
	<b>15,438</b>	<b>8,410</b>	<b>7,028</b>	<b>6,570</b>

## Newfoundland Labrador Liquor Corporation

### NOTES TO FINANCIAL STATEMENTS

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

	Period ending April 5, 2014			Closing balance \$
	Opening balance \$	Additions/ amortization \$	Disposals \$	
<b>Cost</b>				
Trademark	204	50	—	254
Computer software	11,096	2,291	(1)	13,386
<b>Total</b>	<b>11,300</b>	<b>2,341</b>	<b>(1)</b>	<b>13,640</b>
<b>Accumulated amortization</b>				
Computer software	5,559	1,512	(1)	7,070
<b>Net book value</b>	<b>5,741</b>	<b>829</b>	<b>—</b>	<b>6,570</b>

#### 8. ACCOUNTS RECEIVABLE

Accounts receivable include the following:

	April 4, 2015 \$	April 5, 2014 \$
Accounts receivable	8,798	7,145
Beer commissions receivable	5,221	4,121
	<b>14,019</b>	<b>11,266</b>

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

As at April 4, 2015, approximately 96% [April 5, 2014 – 97%] of the accounts receivable balance is current. An allowance for doubtful accounts has been recorded in respect of certain non-current receivables in the amount of \$0.08 million [April 5, 2014 - \$0.04 million].



## Newfoundland Labrador Liquor Corporation

### NOTES TO FINANCIAL STATEMENTS

#### 9. INVENTORIES

	April 4, 2015	April 5, 2014
	\$	\$
Distribution centres	28,363	19,990
Branch stores	10,637	10,682
Stock in transit	2,312	3,613
Raw materials	1,266	1,815
	<u>42,578</u>	<u>36,100</u>

The total value of inventory expensed to cost of sales for the period ended April 4, 2015 was \$108.6 million [April 5, 2014 – \$102.9 million]. The inventory value includes a reserve of \$1.0 million [April 5, 2014 – \$0.6 million]. Residual amounts included in cost of sales include Manufacturing labour and overhead, and foreign exchange gains/losses.

#### 10. EMPLOYEE BENEFITS

Employee benefits include the following:

	April 4, 2015	April 5, 2014
	\$	\$
<b>Accrued severance obligation, beginning of period</b>	<b>3,611</b>	3,332
Current service cost	293	527
Interest cost	156	140
Actuarial loss (gain) <sup>1</sup> due to		
Changes in demographic assumptions	(1)	-
Changes in financial assumptions	356	(150)
	<u>4,415</u>	3,849
Benefits paid	(208)	(238)
<b>Accrued severance obligation, end of period</b>	<b>4,207</b>	3,611

<sup>1</sup> Actuarial losses/gains due to changes in assumptions on the severance obligation are recorded in OCI.

## Newfoundland Labrador Liquor Corporation

### NOTES TO FINANCIAL STATEMENTS

<b>Accrued sick leave obligation, beginning of period</b>	<b>3,147</b>	3,279
Current service cost	<b>307</b>	315
Interest cost	<b>117</b>	111
Actuarial loss (gain) <sup>2</sup> due to		
Changes in demographic assumptions	<b>(8)</b>	-
Changes in financial assumptions	<b>174</b>	(201)
	<b>3,737</b>	3,504
Benefits paid	<b>(346)</b>	(357)
<b>Accrued sick leave obligation, end of period</b>	<b>3,391</b>	3,147
<b>Total employee benefits, end of period</b>	<b>7,598</b>	6,758

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

	<b>April 4, 2015</b>	<b>April 5, 2014</b>
	%	%
Salary increases	<b>3.25</b>	3.25
Discount rate – severance liability	<b>3.35</b>	4.10
Discount rate – sick leave liability	<b>2.75</b>	3.55

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		Severance obligation	
	\$	%	\$	%
<i>Discount Rate</i>				
1% decrease	245	7.2	690	16.4
1% increase	(215)	(6.3)	(572)	(13.6)
<i>Salary increase</i>				
1% decrease	(312)	(9.2)	(586)	(13.9)
1% increase	353	10.4	695	16.5
<i>Sick leave usage</i>				
1% decrease	(318)	(9.4)	-	-
1% increase	316	9.3	-	-

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

## Newfoundland Labrador Liquor Corporation

### NOTES TO FINANCIAL STATEMENTS

The last actuarial valuation was performed effective April 7, 2012; the next actuarial valuation will be performed as at April 4, 2015. The results of that valuation will be reflected in the April 2, 2016 financial statements.

#### Pension plan

The Corporation's share of pension expense paid to the PSPP for the 52 weeks ended April 4, 2015 is \$1.8 million [April 5, 2014 – \$1.7 million].

During the year ended April 4, 2015 changes were made to the PSPP by the plan administrators including in increase in retirement ages, changes to post retirement indexing, and increased contributions from both PSPP members and the Corporation. These changes were effective January 1<sup>st</sup>, 2015.

#### 11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	April 4, 2015	April 5, 2014
	\$	\$
Excise duties	11,080	8,813
Accrued liabilities	7,695	7,008
Trade payables	6,221	4,872
HST payable	2,141	2,321
Other payables	4,088	3,624
	<u>31,225</u>	<u>26,638</u>

#### 12. SALES

Sales include the following:

	April 4, 2015	April 5, 2014
	\$	\$
Sales of beverage alcohol	249,992	239,270
Other	6,051	7,190
	<u>256,043</u>	<u>246,460</u>

## Newfoundland Labrador Liquor Corporation

### NOTES TO FINANCIAL STATEMENTS

#### 13. ADMINISTRATIVE AND OPERATING EXPENSES

	April 4, 2015 \$	April 5, 2014 \$
Salaries and employee benefits	29,321	27,777
Depreciation and amortization	4,114	4,291
Marketing and royalties	3,292	2,891
Rent and municipal taxes	2,536	2,635
Interest and bank charges	2,313	2,163
Other	7,005	6,569
	<b>48,581</b>	<b>46,326</b>

#### 14. CAPITAL MANAGEMENT

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

No changes were made in the objective, policies, or processes for managing capital during the periods ended April 4, 2015 and April 5, 2014.

#### 15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

##### Credit risk

The Corporation is exposed to credit risk with respect to accounts receivable from customers. The Corporation provides products to a large customer base, which minimizes the concentration of credit risk. There were two customers that accounted for 10% or more of the Corporation's accounts receivable as at April 4, 2015 [April 5, 2014 – 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.

## Newfoundland Labrador Liquor Corporation

### NOTES TO FINANCIAL STATEMENTS

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

#### 16. COMMITMENTS

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

Annual operating lease obligations are as follows:

	April 4, 2015 \$	April 5, 2014 \$
Within one year	2,343	2,421
After one year but no more than five years	5,984	7,416
More than five years	987	1,561

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

	April 4, 2015 \$	April 5, 2014 \$
Within one year	82	82
After one year but no more than five years	154	230
More than five years	—	—

#### 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 4, 2015, the Corporation made distributions of \$170.5 million [period ended April 5, 2014 - \$152.0 million] to the Province.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of NLC, being the members of the Executive Management (CEO/President, Senior Vice President & CFO, Vice President of Sales and Marketing, Vice President of Supply Chain Management, Vice President of Human Resources and Corporate Administration, and Chief Information Officer). The total compensation (including salary and benefits) paid to key management personnel for the 52 weeks ended April 5, 2014 was \$0.9 million [April 5, 2014 - \$0.9 million].

**Newfoundland Labrador Liquor Corporation**

**NOTES TO FINANCIAL STATEMENTS**

**18. COMPARATIVE FINANCIAL STATEMENTS**

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

**19. SUBSEQUENT EVENTS**

The financial statements of the Corporation for the 52 weeks ended April 4, 2015 were authorized for issue in accordance with a resolution of the Board of Directors on June 23, 2015.

## SALES BY CORPORATE STORE LOCATION (THOUSANDS OF DOLLARS)

	2015
Howley Estates	17,499
Stavanger Drive	11,969
Merrymeeting Road	10,444
Long Pond - CBS	10,253
Kelsey Drive	9,784
Corner Brook - Humber Gardens	9,609
Topsail Road	9,199
Pearlgate Plaza	9,026
Old Placentia Road	8,116
Gander	7,051
Blackmarsh Road	6,992
Grand Falls	6,726
Happy Valley	6,605
Bay Roberts	6,293
Ropewalk lane	5,638
Clarenville	5,488
Labrador City	5,245
Marystown	4,992
Stephenville	4,810
Carbonear	4,792
Queen Street	4,277
Corner Brook Plaza	3,578
Port aux Basques	2,605
Placentia	2,011
Lake Avenue - Satellite Store	1,197
Centennial Square - Satellite Store	979
Clarenville Irving - Satellite Store	536

