

Financial statements

Newfoundland Labrador Liquor Corporation

April 1, 2023



OFFICE OF THE AUDITOR GENERAL
NEWFOUNDLAND AND LABRADOR

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

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

Basis for Opinion

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

Other Information

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

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

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

Independent Auditor's Report (cont.)

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Independent Auditor's Report (cont.)

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

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



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

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

Newfoundland Labrador Liquor Corporation

STATEMENT OF FINANCIAL POSITION

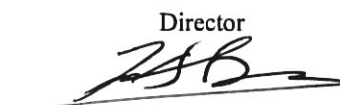
As at
[in thousands]

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

See accompanying notes

On behalf of the Board:

 Director

Director


Newfoundland Labrador Liquor Corporation

STATEMENT OF COMPREHENSIVE INCOME

Period ended
[in thousands]

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

See accompanying notes

Newfoundland Labrador Liquor Corporation

STATEMENT OF CHANGES IN NET ASSETS

Period ended
[in thousands]

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

See accompanying notes

Newfoundland Labrador Liquor Corporation

STATEMENT OF CASH FLOWS

Period ended
[in thousands]

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

See accompanying notes

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2023

1. Nature of operations

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

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

The fiscal year of the Corporation ends on the first Saturday of April. As a result, the Corporation's fiscal year is usually 52 weeks in duration but includes a 53rd week every 5 to 6 years. The years ended April 1, 2023 and April 2, 2022 contained 52 weeks.

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

2. Basis of preparation

Statement of compliance

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

Going concern and basis of measurement

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

3. Summary of significant accounting policies

Revenue recognition

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

Sales of goods

The Corporation generates and recognizes net sales of alcohol to retail and licensee customers at the point of sale in its stores and upon delivery of products to Liquor Express outlets. The commission paid to the Liquor Express

Newfoundland Labrador Liquor Corporation

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[tabular amounts in thousands]

April 1, 2023

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

The Corporation generates and recognizes net sales of cannabis upon delivery of products to Licensed Cannabis Retail outlets, which commenced on October 1, 2021, and at the point of sale on its e-commerce platform. The commission paid to the Licensed Cannabis Retail operators is deducted from the selling price of the products delivered from NLC warehouse. The commission paid to Licensed Cannabis Retail operators relating to product delivered from NLC warehouse for the period ended April 1, 2023 was \$11.3 million [period ended April 2, 2022 - \$3.6 million].

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

Sales exclude Harmonized Sales Tax and other taxes due.

Commission revenue on sale of beer and cannabis

The Corporation earns a commission on the sale of beer products in the Province sold through Liquor Express outlets and brewer's agent stores. Prior to October 1, 2021, the Corporation earned a commission on the sale of cannabis products in the Province sold through Licensed Cannabis Retailers. Subsequent to October 1, 2021, the Corporation earns commission only on the sale of cannabis products distributed directly from the Licensed Producers to related Licensed Cannabis Retailers. Commissions are recognized on an accrual basis, based upon beer and cannabis products distributed during the reporting period. The commission earned is presented within revenue as it is earned through the ordinary business activities of the Corporation.

Miscellaneous income

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

Foreign currency translation

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

Current versus non-current classification

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

An asset is classified as current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or

Newfoundland Labrador Liquor Corporation

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[tabular amounts in thousands]

April 1, 2023

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Corporation classifies all other liabilities as non-current.

Property, plant and equipment

Property, plant and equipment are stated at cost net of accumulated depreciation and accumulated impairment losses, if any. The cost includes expenditures that are directly attributable to the acquisition of the items. Repairs and maintenance are charged to the statement of comprehensive income during the period in which they are incurred.

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

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

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

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

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2023

Intangible assets

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

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

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

Impairment of non-financial assets

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

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

Cash and cash equivalents

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

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Notes to financial statements

[tabular amounts in thousands]

April 1, 2023

Inventories

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

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

General provisions

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

Employee future benefits

Refer to note 9 for additional details regarding employee benefits.

Sick leave

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

Pension

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

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2023

Fair value measurement

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

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

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

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

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

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

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

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2023

Financial instruments

Financial assets

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

Financial liabilities

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

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

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

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

Impairment of financial assets

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

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

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

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2023

Significant accounting judgments, estimates and assumptions

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

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

4. Property, plant and equipment

	Land, buildings and leasehold improvements \$	Furniture and equipment \$	Computer equipment and vehicles \$	Total \$
Cost				
As at April 3, 2021	32,164	13,021	8,167	53,352
Additions	280	1,018	741	2,039
Disposals	—	(167)	(5)	(172)
As at April 2, 2022	32,444	13,872	8,903	55,219
Additions	1,543	654	763	2,960
Disposals	—	(225)	(47)	(272)
As at April 1, 2023	33,987	14,301	9,619	57,907
Accumulated depreciation				
As at April 3, 2021	(17,828)	(9,508)	(6,973)	(34,309)
Depreciation for the period	(883)	(570)	(443)	(1,896)
Disposals	—	167	5	172
As at April 2, 2022	(18,711)	(9,911)	(7,411)	(36,033)
Depreciation for the period	(943)	(641)	(595)	(2,179)
Disposals	—	225	47	272
As at April 1, 2023	(19,654)	(10,327)	(7,959)	(37,940)
Net book value				
As at April 2, 2022	13,733	3,961	1,492	19,186
As at April 1, 2023	14,333	3,974	1,660	19,967

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2023

5. Intangible assets

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

6. Right-of-Use Assets

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

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

Newfoundland Labrador Liquor Corporation

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[tabular amounts in thousands]

April 1, 2023

7. Accounts receivable

Accounts receivable include the following:

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

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

As at April 1, 2023, approximately 93% [April 2, 2022 – 98%] of the trade accounts receivable balance is current. An allowance for doubtful accounts has been recorded in respect of certain non-current receivables in the amount of \$0.08 million [April 2, 2022 – \$0.04 million].

8. Inventories

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

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

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2023

9. Employee future benefits

Employee future benefits include the following:

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

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

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

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2023

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

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

Employee retention rates used vary depending on age and length of service.

The table below shows the sensitivities of the total employee benefits to a change in the key assumptions:

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

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

Pension plan

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

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2023

10. Accounts payable and accrued liabilities

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

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

11. Sales

Sales include the following:

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

12. Administrative and operating expenses

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

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2023

13. Capital management

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

No changes were made in the objective, policies, or processes for managing capital during the periods ended April 1, 2023 and April 2, 2022.

14. Financial risk management objectives and policies

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

Credit risk

The Corporation is exposed to credit risk with respect to accounts receivable from customers. The Corporation provides products to a large customer base, which minimizes the concentration of credit risk. There were two customers that accounted for 10% or more of the Corporation's accounts receivable as at April 1, 2023 [April 2, 2022 – two customers]. The Corporation has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and utilizes internal and third-party collections processes for overdue accounts.

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

Newfoundland Labrador Liquor Corporation

Notes to financial statements

[tabular amounts in thousands]

April 1, 2023

15. Obligation under lease liability

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

Annual obligations under lease liability are as follows:

	April 1, 2023 \$	April 2, 2022 \$
Within one year	1,243	1,175
After one year but no more than five years	2,290	2,308
More than five years	1,347	1,664
	<u>4,880</u>	<u>5,147</u>

16. Related party transactions

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

During the period ended April 1, 2023, the Corporation made distributions of \$208.0 million [period ended April 2, 2022 – \$210.0 million] to the Province.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, being the members of the Executive Management. The total compensation [including salary and benefits] paid to key management personnel for the period ended April 1, 2023 was \$0.9 million [April 2, 2022 – \$0.9 million].