



Annual Report

2004

We are a socially responsible...
retailer, manufacturer,
exporter and employer.



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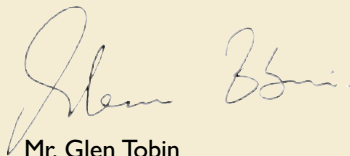
■ LETTER TO THE MINISTER

Honourable Loyola Sullivan
Minister of Finance
Government of Newfoundland and Labrador
Confederation Building
St. John's, NL
Canada A1B 4J6

Dear Minister Sullivan:

It is my pleasure to submit the thirty-first annual report of the Newfoundland and Labrador Liquor Corporation. This report summarizes the Corporation's activities for the fiscal year ending March 31, 2004.

Sincerely,

A handwritten signature in black ink, appearing to read "Glen Tobin". The signature is written in a cursive style with a large initial "G".

Mr. Glen Tobin
Chairman of the Board

■ EXECUTIVE MESSAGE



If there is a single theme running through the activities of the Newfoundland and Labrador Liquor Corporation (NLLC) this past year, it is one of managed change. Change is inevitable; it is how a corporation defines, anticipates and manages change that allows us to progress steadily toward fulfilling our vision of providing excellent management of the beverage alcohol industry in this province. In the past several years, as we have moved from a supply-based organization to a competitive, customer-service-oriented retailer, we have embraced change on every level from corporate identity to human resource management to the ways in which we market our products.

In 2003-2004, NLLC continued to work to meet the needs of an increasingly diverse and discerning consumer base. We did this by enhancing our retail spaces, opening new agency stores and improving access, displays, and signage. To meet our long-term goal of creating a customer-friendly culture, we have also become more interactive through expanded promotions and consumer information initiatives in our stores, through our enhanced website and through our consumer magazine, *Enjoy*.

Underlying all of our outreach to the population we serve is our fundamental commitment to social responsibility. This past year, we continued and renewed this commitment by communicating the message of responsible alcohol use to the broadest possible audience. Our public awareness campaign is a year-round, province-wide effort, with seasonally targeted campaigns and the extension of our Don't Drink and Drive message to all modes of transportation and recreational activities. With enthusiastic help from our staff, we also partnered with a wide range of charitable and community organizations this past year by providing them with space and support for their campaigns.

**Change is inevitable;
it is how a
corporation
defines, anticipates
and manages
change that allows
us to progress**

This past year also saw significant changes in how we use technology. We are dedicated to working smarter, and have undertaken the long-term project of assessing and



implementing modern technologies that can be used to create operational efficiencies and to provide information necessary to support effective management decision-making. Once completed, NLLC's full retail solution will link all of our operations, creating efficiencies in warehousing, ordering, delivery, and financial management. As this significant initiative moves forward, the Corporation owes much to our employees. Following the implementation of Point of Sale (POS) technology in 2003, NLLC employ-

ees - from dedicated IT specialists to front-line retail staff - have embraced change, innovation, and the acquisition of skills that make technology work.

Efficiencies and effective change management have also enabled growth in productivity and profitability. In response to greater demand for our products, driven by innovative marketing, we produced more than 181 thousand cases of product this year, up from almost 127 thousand the previous year.

We increased total sales from over \$118 million to just over \$131 million and the dividend provided to government for 2003-2004 was \$93.6 million.

As always, we owe these successes to the vision of our Board, the expertise of our management and the dedication of our employees. Together, they translate our goal of excellence into real and measurable results.

■ NLLC - AN OVERVIEW

Vision

To provide excellent management of the beverage alcohol industry in Newfoundland and Labrador.

Mission

To provide excellent management of the importation, distribution and sale of quality beverage alcohol. The Corporation will maximize revenues within a framework of social responsibility and will focus on customers, build partnerships and provide a quality workplace for employees.

Lines of Business

NLLC's head office and bottling plant are located in St. John's. At the end of the 2004 fiscal year, the Corporation:

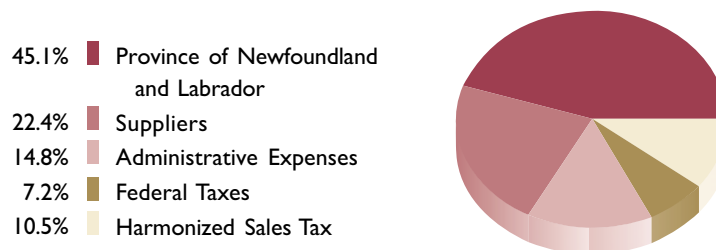
- ◆ operated 24 retail stores throughout the province;
- ◆ serviced 110 agency stores province-wide;
- ◆ supplied products to more than 1,500 licensees;
- ◆ had produced over 181 thousand cases of spirits; and
- ◆ employed in excess of 300 staff.

Revenues and Expenditures

Figure A – Sources of Revenue Fiscal Year 2003 - 2004



Figure B – Application of Revenue Fiscal Year 2003 - 2004



Don't Drink & Drive Awareness Program

2003



■ SHARED COMMITMENTS

NLLC develops and delivers a variety of programs that seek to promote responsible use of beverage alcohol, often in partnership with other public bodies and non-profit organizations. NLLC also partners in and supports a number of fundraising initiatives each year.

Promoting Responsibility and Public Safety

In 2003-2004, NLLC continued its partnership with the Citizens' Crime Prevention Association, the Royal Newfoundland Constabulary (RNC) and the Royal Canadian Mounted Police (RCMP) to deliver the Brown Bag promotional program throughout the province. The program encourages students in grades four and five to illustrate brown paper bags

with images and messages focused on the consequences of drinking and driving. Winning entries were selected and prizes awarded. This year we completed the program begun in the last fiscal year and distributed thousands of illustrated bags through NLLC stores, beginning with the Victoria Day holiday weekend in May.

The Victoria Day weekend also marked the beginning of NLLC's Summer Road Show. Throughout the summer, this program promoted responsible alcohol use through radio ads encouraging the public to apply the Don't Drink and Drive message to all modes of transportation and recreational vehicles. To enhance the campaign's visibility, a road-show vehicle distributed promotional

t-shirts, keychains and other items. Throughout the fall and winter, NLLC continued to promote responsibility and public safety by targeting seasonal activities such as hunting and snowmobiling.

In fall 2003, NLLC repeated the successful initiative of the Canadian Association of Liquor Jurisdictions (CALJ) by distributing 10,000 free copies of *Host, NLLC's Guide to Responsible Entertaining* to customers through our retail network. The comprehensive booklet, distributed in November and December, promotes a safe holiday season by focusing on responsible hosting, liability issues, facts about alcohol and alcohol-free alternatives.



At NLLC, social responsibility also means giving back to the communities we serve. In 2003-2004, NLLC supported a number of non-profit organizations and community groups in their fundraising efforts.

Through a combination of these initiatives, NLLC has expanded the scope of its social responsibility campaign to a year-round, highly visible effort with a seasonal focus.

Fundraising-Supporting Our Communities

At NLLC, social responsibility also means giving back to the communities we serve. In 2003-2004, NLLC supported a number of non-profit organizations and

community groups in their fundraising efforts. Organizations benefiting included the Janeway Child Health Centre, the Newfoundland and Labrador Lung Association, Ducks Unlimited Canada and the Seniors' Resource Centre. Once again this year, the Ducks Unlimited campaign was particularly successful, raising more than \$22,000 through silent auctions of limited-edition prints displayed in our retail outlets.

As we do each year, NLLC welcomed several organizations into our stores to carry out seasonal promotions and fundraising. These included the Royal Canadian Legion's Remembrance Day Poppy Campaign, the Mothers Against Drunk Driving (MADD) Red Ribbon Campaign and the Salvation Army's Christmas Kettle Campaign.



■ HIGHLIGHTS AND ACCOMPLISHMENTS

Improving Facilities for Better Service

In 2003-2004, NLLC continued work on the long-term project of upgrading our retail spaces. Renovations to the Murray Premises and Kenmount Road stores were completed in the past year. Brand-carrying capacity was increased at both locations, and a chill room was installed at the Kenmount Road location. We also continued to create improvements throughout our stores by increasing product listings, adding beer coolers and promotion areas, improving aisle widths and traffic flow, and enhancing display and signage. We also conducted feasibility assessments for potential new locations. All of these initiatives aim to improve customer access and create a more pleasurable shopping experience.

Building a Strong Retail Distribution Network

At NLLC, a strong retail distribution network is essential in responding

to customer demand. Agency stores are a key component of this network, providing access to our products and services province-wide. In response to demand, nine new agency stores were opened in 2003-2004 in the communities of Benoit's Cove, Campbellton, Cartwright, Cottrell's Cove, Paradise, Point Leamington, Port Hope Simpson, Seal Cove and Triton. In addition, renovations to agency stores in Goulds, Jackson's Arm, St. Lawrence and Wesleyville were completed to provide better customer service.

Strengthening Communications and Marketing

As NLLC continues to diversify product offerings to meet the needs of an increasingly discerning consumer base, we are also working to enhance both internal and external communications. To strengthen corporate identity, we created the slogan Meeting Expectations...NLLC 2003 to aid

in the development of a corporate culture and philosophy to anchor and focus all activities toward the achievement of corporate objectives. In our efforts to enhance customer satisfaction, we developed a strategy for implementation of a Consumer Research Project. We updated our website to include our popular consumer magazine, *Enjoy*, as well as retail price information and special events such as Wine Fest. We also designed an information package for suppliers for listings, promotions and advertising. Targeted marketing in 2003-2004 included the development of a Retail Image Program with each sales quarter tied to a seasonally appropriate beverage category: *Ready, Set, Refresh* for spring; *Shake, Stir and Enjoy* for summer; *15 Wines under \$15.00* for fall; and *Warm Up Your Winter*. A special Christmas promotion with the theme *A Holiday Full of...Entertaining*



The success of recent marketing initiatives has translated into significantly increased demand for NLLC brands.

Ideas, Perfect Gifts was also created. Building on the success of our Wine Fests, we undertook a series of new consumer events including Australian Treasures in St. John's; Taste Australia in St. John's and Corner Brook; and a Fine Wine Release in St. John's. We also carried out several initiatives toward the re-positioning of the Screech brand. These included developing a marketing program; determining and accessing promotional requirements to re-launch the brand with a new label and bottle design; and appointing a sales representative to introduce Screech to the US market. In addition, NLLC partnered in a rum festival in St. John's in 2003.

Increasing Productivity to Meet Market Demand

The success of recent marketing initiatives has translated into significantly increased demand for NLLC brands. In meeting this demand in 2003-2004, NLLC's bottling plant produced more than 181 thousand cases of product, a notable increase from the record of almost 127 thousand cases in the previous year. The Corporation is now preparing for further volume increases to meet expanding opportunities in national and international markets.

Planning to Meet the Human Resource Needs of the Future

In 2003-2004, NLLC carried out several initiatives to improve our capacity to meet current and future human resource needs. We began work toward the development of a comprehensive Human Resources Plan. Consultations were held with both the provincial government and the private sector and research was conducted. In addition, a database program was designed to electronically capture information on employee training and education, a valuable tool in the planning process.

Getting the Message Out - Launch of New Safe Grad Program

NLLC works continually to get its public safety message out to teens and young adults. With this goal in mind and with the assistance of the Newfoundland and Labrador Teachers' Association (NLTA), the Corporation launched a new safe grad initiative in 2003. With the assistance of the NLTA, we contacted each high school in the province and invited them to submit their plans for safe graduation events. Schools responded overwhelmingly and four were selected through a random draw to receive \$500 toward their safe grad activities.

Table A – Product Sales Volumes (Litres) Including National Sales 2002 - 2004

	2002	2003	2004
Spirits	2,967,819	3,130,762	3,420,271
Wine	1,629,247	1,813,312	1,945,910
Refreshment Beverages and Cider	881,712	1,116,930	1,452,721
Beer	1,042,761	1,493,039	1,698,453
Total	6,521,539	7,554,043	8,517,355

Please note: In preparation for a potential labor dispute in April 2004, agency and branch locations ordered up to six weeks of stock in advance, which caused a fluctuation in sales for the final quarter of the 2003-2004 fiscal year.

Table B – Spirit Sales by Product Type (Litres) 2002 - 2004

	2002	2003	2004
Rum	1,481,842	1,581,093	1,793,947
Rye Whisky	718,007	740,925	773,788
Scotch - other Whiskey	95,575	97,580	104,936
Gin	51,055	51,418	55,465
Vodka	308,504	325,801	348,173
Brandy	26,224	27,538	29,471
Cognac	2,557	2,533	2,974
Liqueurs	275,089	295,323	301,154
Tequila	7,762	8,070	9,861
Miscellaneous	1,204	481	502
Total Spirits	2,967,819	3,130,762	3,420,271

Table C – Wine Sales (Litres) 2002 - 2004

	2002	2003	2004
Fortified Wine	86,227	88,098	93,350
Sparkling and Champagne	226,775	224,528	221,617
Table Wine	1,314,688	1,499,090	1,629,388
Low Alcohol Wine	1,557	1,596	1,555
Total Wine	1,629,247	1,813,312	1,945,910

Table D – Refreshment Beverages and Cider Sales (Litres) 2002 - 2004

	2002	2003	2004
Refreshment Beverages	868,747	1,102,793	1,432,736
Cider	12,965	14,137	19,985
Total	881,712	1,116,930	1,452,721

Table E – Beer Sales (Litres) 2002 - 2004

	2002	2003	2004
Low Alcohol Beer	27,634	35,947	47,653
Local Beer (Bottles)	422,245	571,633	683,969
Local Beer (Cans)	72,093	88,141	101,216
Imported Beer	520,789	797,318	865,615
Total Beer	1,042,761	1,493,039	1,698,453

Figure C – Per Capita Consumption (Litres) 2002 - 2004

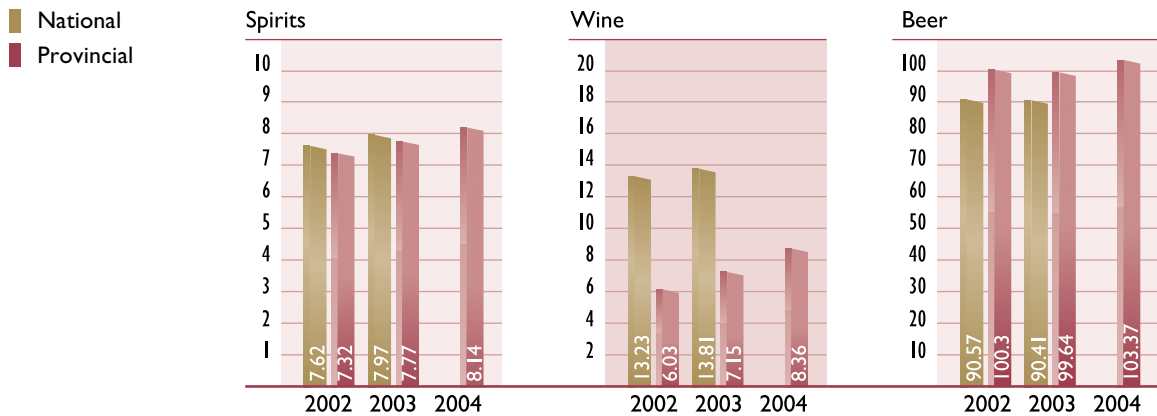


Table F – Sales and Income 2002 - 2004

	2002	2003	2004
Sales	108,454,825	118,216,852	131,106,452
Gross Profit on Sales	63,622,378	68,095,881	76,057,514
Commission Revenue on Sale of Beer	46,692,613	46,849,362	50,343,131
Commission on Licensee Purchases	2,634,976	2,648,988	2,788,736
Other Income	1,310,368	1,363,444	1,687,302
Income from Operations	114,260,335	118,957,675	130,876,683



■ KEY ACHIEVEMENTS AND PRIORITIES

NLLC implemented a Strategic Plan in 1999 to guide the organization's progress through 2004. Progress on strategic directions is supported by annual business plans that set priorities for actions to meet objectives and timelines for their completion.

Strategic Objective: Customer Service

To understand the needs of our customers so that we can provide quality products and services that are delivered by knowledgeable, courteous employees in attractive and accessible facilities.

Priorities and Progress

Increasing customer satisfaction was one of the main goals identified in our 2003-2004 business plan. Efforts to meet this goal involved every area of corporate activity. On the front lines

of customer service, we continued to renovate and renew our retail spaces to make them both more efficient and more user-friendly. Wider aisles, improved signage and displays, and increased brand carrying capacity all contribute to better customer service. We opened nine new agency stores and renovated four, thereby improving access to our products and services for more customers in more areas of the province.

We also worked to improve how we communicate with the public we serve. Expanded promotions, seasonal displays and in-store tastings all made our stores more interactive. We continued to publish our popular lifestyle magazine, *Enjoy*, and included information about it on our website. To know our customers better, we initiated a Consumer Research Project.

At NLLC we know that well-trained and knowledgeable staff are the cornerstone of solid customer service. We provide our employees with the opportunity to participate in product knowledge courses through an independent study program that leads to three levels of certification. Developed by the Liquor Control Board of Ontario, the program provides staff with the product knowledge to answer customer inquiries and make recommendations. NLLC actively promotes retail staff certification and includes customer satisfaction as a key component of building management expertise. Following the successful introduction of our Point of Sale (POS) system, we are actively examining and implementing technology applications and enhancements that enable us to better meet the needs of all our customers.



The successful application of technology drives both efficiency and productivity. The introduction of the POS system has created significant sales efficiencies.

Strategic Objective: Profitability/Revenue Generation

To maximize profitability through efficient business practices and exploring new, related business opportunities.

Priorities and Progress

As in every fiscal year, improving profitability and revenue generation was a key corporate goal. This past year we achieved increases in both sales and production. New agency stores provided new sources of revenue. Expanded hours of opening were established for both the Grand Falls-Windsor and Stephenville stores. Store enhancements increased consumer traffic. Christmas gift stores and kiosks were opened in Corner Brook, Grand Falls-Windsor and Marystown. We highlighted NLLC brands by working with store and agency managers to create effective shelf and floor displays for our products. Our bottling plant produced just over 181 thousand cases of product, a significant increase from just under 127 thousand the previous year. The result of these efforts is reflected in an increase in sales from the 2002-2003 level of \$118 million to \$131 million for 2003-2004.

The successful application of technology drives both efficiency and productivity. The introduction of the POS system has created significant sales efficiencies. Application to warehousing and distribution is ongoing

and will move efficiency to new levels when fully implemented. We are also examining long-term information technology (IT) needs in other areas of the Corporation. In 2003-2004, we initiated a strategic planning project to identify technology related opportunities that will further corporate goals and objectives and to provide a basis for planning IT priorities and scheduling over the next number of years. Several specific initiatives strengthened our IT base this past year: we carried out additional training and development for Retail Ideas, our new analytical tool that utilizes data collected from our POS system; we began work on the Supply Chain Management project; and we recruited skilled technical staff for our newly restructured IT department.

Supply chain efficiencies enhance profitability. We continued warehouse reconfiguration and reorganization this past year. Products were regrouped to allow for easier and more logical product flow. Warehouse staff remained in constant contact with stores to streamline ordering processes and cycles and to create a smooth transition to a POS working environment. Warehouse management began an in-depth systems review of new technology applications. We also continued to upgrade our fleet of equipment to ensure that operations are not interrupted by equipment malfunction. As an ongoing project, warehouse best practices are being





reviewed, updated and recorded in a procedures manual. Warehouse throughput this past year rose to a record high of 1.53 million cases as compared to 1.34 million in the previous year.

Effective loss prevention and auditing procedures underscore NLLC's commitment to profitability and accountability. In 2003-2004, we conducted audit procedures on 15 NLLC stores and 63 agency stores. Audits were performed on two breweries to verify production reports and related NLLC commissions. We also took steps to ensure that adequate controls, audit trails and adherence to best business practices were maintained in relation to four major projects: supply chain management systems; post-implementation of POS; revision of the branch store policies and procedures manual; and post-implementation support of a new accounts receivable system.

Using information provided by the POS system, we also implemented improvements that both reduced costs and streamlined audit processes. The ongoing efforts of NLLC employees, combined with well-defined procedures, resulted in another successful year for loss prevention.

Strategic Objective: Social Responsibility

In partnership with community groups and suppliers, we will strive to raise public and staff awareness of the responsible use of beverage alcohol.

Priorities and Progress

As the corporation responsible for the distribution and sale of beverage alcohol in the province, we take social responsibility seriously. In 2003-2004, we conducted a year-round, province-wide public awareness campaign to promote appropriate and responsible alcohol

use. A key component of the campaign is the expansion of our Don't Drink and Drive message to all modes of transportation and recreational vehicles. We are also proud to have launched a well-received safe grad program. We continued our Brown Bag promotional program whereby elementary school students illustrated paper bags with messages discouraging drinking and driving. The bags were distributed to our customers through NLLC retail stores. We believe the benefits of this program are two-fold: it creates a highly visible message and encourages awareness and discussion among young people. We also distributed free of charge 10,000 copies of *Host, NLLC's Guide to Responsible Entertaining* through our retail network.

Staff training is also an important tool in socially responsible retailing, especially in dealing with minors



and impaired customers. In 2003-2004, NLLC expanded our use of a video-based employee training program from corporate stores exclusively to a number of agency store locations. The training will continue through the 2004-2005 fiscal year.

**Strategic Objective:
Enforcement**

In partnership with the Government Services Centre and enforcement agencies to enforce the Acts and regulations with respect to the sale, transportation and distribution of beverage alcohol.

Priorities and Progress

Effective employee training programs and information initiatives support NLLC's enforcement role. We provided information on enforcement issues by distributing the pamphlets *Minors on Licensed Premises* and *Show Cause Hearing Process*. In partnership with the RCMP, the RNC, Hospitality Newfoundland and Labrador and Labatt Breweries, we continued to offer the Server Training Program. Presented to licensees, their staff, and organizations, training took place on the Burin Peninsula, in the Bonavista-Trinity area and in Rocky Harbour in 2003-2004.

Number of Liquor Licenses Issued in 2003-2004

Brewer's Agent	139
Bonded Warehouse	1
Club	8
Hotel/Motel	8
Lounge	91
Restaurant	38
Recreational Facility	7
Special Event	520
Tour Boat	1
Tourist Home	3
Catering	9

**Note: Licenses were issued by the Government Services Centre*

Total Licenses in Effect, March 31, 2004

Airport Establishment	3
Brewers Agent	1352
Bonded Warehouse	7
Club	374
Distributor	37
Hotel/Motel	106
Institution	3
Lounge	716
Military Mess	12
Restaurant	302
Recreational Facility	47
Restaurant/Lounge	14
Tour Boat	7
Tourist Home	31
Transportation Services	11
Catering	156



Strategic Objective: Organizational Effectiveness

To create a progressive and stimulating workplace through an enhanced employee workforce, staff training programs, effective communications processes, and the latest in available technology.

Priorities and Progress

NLLC is committed to the corporate goal of developing an environment that produces productivity, efficiency and employee growth. In 2003-2004, we undertook several initiatives to improve our ability to efficiently fulfill current and future human resource requirements. We began work towards the development of a comprehensive Human Resources Plan. We engaged in a process to clarify the roles and responsibilities of a number of positions within the Corporation, particularly within Store Operations. New position descriptions were developed for virtually all management positions within that department. The descriptions recognize the tremendous change in the store manager's role in recent years as NLLC has focused on its goal of becoming a dynamic, customer service oriented retailer. The new descriptions were invaluable in filling store management vacancies this past year.

In preparation for filling upcoming vacancies, NLLC provided a variety of training opportunities for staff. These included resume writing, interview preparation and computer training. In addition, NLLC provided financial support to several employees in their pursuit of part-time university and college education.

In 2003-2004, the Corporation began to deliver a comprehensive orientation program for new management employees. In addition, several new managers received training in supervisory skills from the Centre for Management Development. NLLC also reviewed options for management training specific to the retail sector and expects to introduce a program for store management in the next fiscal year.

As high levels of computer knowledge and technical skill are needed in our clerical and technical positions, NLLC introduced formal proficiency testing in office suite applications and IT-related skills. This testing has proven successful in recruitment and promotion of employees whose high levels of technical skills increase our productivity.

Ensuring the health and safety of our employees is an ongoing priority at NLLC. A key initiative this



Ensuring the health and safety of our employees is an ongoing priority at NLLC. A key initiative this past year was the staging of an Employee Wellness Day in conjunction with National Occupational Health and Safety Week.

past year was the staging of an Employee Wellness Day in conjunction with National Occupational Health and Safety Week. Approximately 80 employees participated in a number of health tests, and brochures and other information on health issues were distributed.

2003-2004 was a successful year for NLLC labour relations as we engaged in negotiations to renew our collective agreement with unionized employees. Discussions

with the union bargaining team resulted in a number of mutually beneficial changes to the agreement. In particular, we were able to negotiate flexibility with respect to hours of work provisions. This will enable NLLC to make bottling plant operations more competitive to meet increased demand for our products. Despite a positive labour relations climate, a public service sector strike is scheduled to begin April 1, 2004.

NLLC also worked to increase the visibility of the Corporation and the brands produced by our bottling plant through sponsorship of events organized by professional and labour organizations in which our staff are active such as the Newfoundland and Labrador Association of Public and Private Employees, the International Association of Personnel Management, and the Newfoundland and Labrador Employers' Council.

■ OPPORTUNITIES AND CHALLENGES AHEAD



As we look ahead, NLLC faces both opportunities and challenges, driven largely by change and growth.

One of the key challenges will be improving our ability to meet human resource requirements. Our workforce is both growing and changing. Productivity gains, corporate diversification and new technology all require us to source skilled staff, provide ongoing training and plan for future change. In order to address this, NLLC began work toward a comprehensive Human Resources Plan that will continue in 2004-2005.

The implementation of new technology presents constant challenges as we move toward a complete retail solution. We have already seen efficiency advantages produced by POS. The next step in the process is the implementation of the Supply Chain Management System. This system is in its initial stages and significant progress is anticipated in the 2004-2005 fiscal year with full implementation expected to occur during fiscal 2005-2006.

As we have learned in recent years, our customer base is rapidly changing. As customer service is a key part of our mandate, we are challenged to

address this change on a continuous basis. In recent years, this has meant renovations and new store openings, improved communications and a shift to a more interactive corporate culture. Looking ahead, we are also challenged to anticipate consumer trends and to balance meeting consumer expectations with the goal of profitability and maximizing the dividend payment to the Province.

Our commitment to social responsibility also requires constant monitoring. We need to assess our programs on an ongoing basis, continue to build our media and communications expertise, and expand the audience receiving our message. We believe that our recent safe grad program is a positive step in expanding the audience.

Market expansion and increased production are providing new opportunities, with dramatic increases and market openings in the past several years. Volume increases drive both employment and operational efficiencies. Having successfully entered new markets, we must now look to others, creating the marketing tools and building the distribution networks that will maximize our products' potential.

FINANCIAL STATEMENTS OF
NEWFOUNDLAND AND LABRADOR
LIQUOR CORPORATION

MARCH 31, 2004



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■ AUDITORS' REPORT

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To the Board of Directors of
Newfoundland and Labrador Liquor Corporation

We have audited the balance sheet of the Newfoundland and Labrador Liquor Corporation as at March 31, 2004 and the statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
September 22, 2004

■ NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION
STATEMENT OF EARNINGS

YEAR ENDED MARCH 31, 2004

Statement of Earnings

	2004	2003
	\$	\$
SALES	131,106,452	118,216,852
COST OF GOODS SOLD		
Inventory, beginning of the year	24,161,050	23,296,912
Purchases	53,610,999	50,985,109
Cost of goods available for sale	77,772,049	74,282,021
Less: Inventory, end of the year	22,723,111	24,161,050
	55,048,938	50,120,971
GROSS PROFIT	76,057,514	68,095,881
COMMISSION REVENUE ON SALE OF BEER	50,343,131	46,849,362
OTHER INCOME		
Commission on licensee purchases	2,788,736	2,648,988
Interest	642,531	494,480
Miscellaneous	1,044,771	868,964
	4,476,038	4,012,432
EARNINGS FROM OPERATIONS	130,876,683	118,957,675
ADMINISTRATIVE AND OPERATING EXPENSES (Schedule 1)	30,838,792	26,686,918
NET EARNINGS	100,037,891	92,270,757

■ NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION
STATEMENT OF RETAINED EARNINGS

YEAR ENDED MARCH 31, 2004

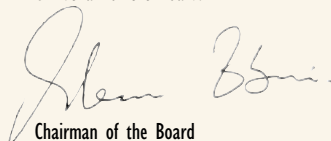
	2004	2003
	\$	\$
BALANCE, BEGINNING OF YEAR	36,683,285	37,412,528
NET EARNINGS	100,037,891	92,270,757
	136,721,176	129,683,285
PAYMENTS TO THE PROVINCE OF NEWFOUNDLAND AND LABRADOR	93,600,000	93,000,000
BALANCE, END OF YEAR	43,121,176	36,683,285

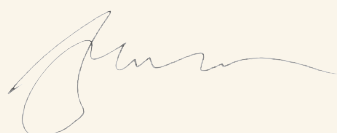
■ NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION
BALANCE SHEET

MARCH 31, 2004

	2004	2003
	\$	\$
ASSETS		
CURRENT		
Cash	15,689,094	11,051,136
Accounts receivable	6,107,699	3,374,836
Beer commissions receivable	4,769,833	3,948,512
Inventories, at cost (Note 3)	22,723,111	24,161,050
Prepaid expenses	448,027	480,891
	49,737,764	43,016,425
CAPITAL ASSETS (Note 4)	7,580,949	8,283,500
LEASED ASSETS (Note 5)	4,941,970	4,084,679
INTANGIBLE ASSETS (Note 6)	101,805	122,004
	62,362,488	55,506,608
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	15,743,919	15,518,879
Accrued vacation pay	1,027,081	882,823
Current portion of long term debt	-	100,000
Current portion of obligation under capital lease (Note 7)	49,841	48,751
	16,820,841	16,550,453
ACCRUED SEVERANCE PAY	2,407,839	2,210,396
OBLIGATION UNDER CAPITAL LEASE (Note 7)	12,632	62,474
	19,241,312	18,823,323
EQUITY		
Retained earnings	43,121,176	36,683,285
	62,362,488	55,506,608

On behalf of the Board:


Chairman of the Board


Director

■ NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION
STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2004

	2004	2003
	\$	\$
OPERATING ACTIVITIES		
Net earnings	100,037,891	92,270,757
Adjustments for:		
Amortization	1,983,840	1,550,941
Loss (gain) on disposal of capital assets	(16,181)	6,270
Accrual for vacation pay	144,258	217,422
Accrual for severance pay	197,443	168,212
Net change in non-cash operating working capital	(1,858,341)	1,922,639
	100,488,910	96,136,241
INVESTING ACTIVITIES		
Proceeds on disposal of capital assets	48,338	162
Purchase of capital assets	(2,150,538)	(6,258,803)
	(2,102,200)	(6,258,641)
FINANCING ACTIVITIES		
Payments to the Province of Newfoundland and Labrador	(93,600,000)	(93,000,000)
Repayment of long term debt	(100,000)	(100,000)
Repayment of obligation under capital lease	(48,752)	(35,859)
	(93,748,752)	(93,135,859)
NET (DECREASE) INCREASE IN CASH	4,637,958	(3,258,259)
CASH, BEGINNING OF YEAR	11,051,136	14,309,395
CASH, END OF YEAR	15,689,094	11,051,136

■ NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2004

1. Description of Business

The Newfoundland and Labrador Liquor Corporation (the "Corporation") is a provincial crown corporation responsible for managing the importation, sale and distribution of beverage alcohol throughout Newfoundland and Labrador.

2. Accounting Policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following accounting policies:

♦ *Revenue recognition*

Revenue is recognized when goods have been sold and all contractual obligations have been met and collection is reasonably assured.

♦ *Inventories*

During the year, the Corporation changed its method of recording inventory from using the lower of cost and net realizable value to the weighted average cost method. No retroactive adjustment has been made to these statements as it has been determined that the impact of this change is not material.

♦ *Capital assets*

Capital assets are recorded at cost. Amortization is recorded over the expected useful life of the asset on a straight line basis as follows:

Buildings	20 years
Store equipment and fixtures	5 years
Motor vehicles	3 years
Office furniture and equipment	5 years and 10 years
Plant and warehouse equipment	5 years

♦ *Leased assets*

Leased assets are recorded at cost. Amortization is recorded over the terms of the leases on a straight line basis as follows:

Leasehold improvements	1 to 20 years
Leased land	30 years

■ NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2004

2. Accounting Policies (Continued)

♦ *Intangible assets*

Intangible assets consist of a trademark which is recorded at cost and amortized on a straight line basis over a ten-year period.

♦ *Severance pay*

A liability for severance pay is recorded in the accounts for all employees who have a vested right to receive such payment. No provision for severance pay liability is made for employees who have less than nine years of continual service.

♦ *Use of estimates*

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

3. Inventories

	<u>2004</u>	2003
	\$	\$
Head office	10,660,874	9,899,759
Branch stores	7,910,863	6,896,501
Stock in transit	3,126,573	6,105,643
Raw materials	938,281	1,240,733
Work in progress	86,520	18,414
	22,723,111	24,161,050

■ NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2004

4. Capital Assets

	2004			2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Land	1,122,840	-	1,122,840	1,128,841
Buildings	7,138,764	4,172,676	2,966,088	3,236,837
Store equipment and fixtures	2,162,624	1,275,488	887,136	1,093,094
Motor vehicles	154,626	123,614	31,012	46,793
Office furniture and equipment	4,276,051	2,179,125	2,096,926	2,239,961
Plant and warehouse equipment	3,134,785	2,657,838	476,947	537,974
	17,989,690	10,408,741	7,580,949	8,283,500

5. Leased Assets

	2004			2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Leasehold improvements	10,372,221	5,582,641	4,789,580	3,894,449
Leased land	248,925	192,037	56,888	65,252
Leased equipment	147,084	51,582	95,502	124,978
	10,768,230	5,826,260	4,941,970	4,084,679

6. Intangible Assets

	2004			2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Trademark	202,800	100,995	101,805	122,004

7. Obligation Under Capital Lease

	\$
IBM Canada Limited, capital equipment lease repayable in monthly instalments of \$5,226 to June 30, 2006	78,390
Less: Interest on obligation	15,917
	62,473
Less: Current portion	49,841
	12,632

■ NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2004

8. Financial Instruments

The Corporation's financial instruments included in current assets and current liabilities approximate fair value due to their short term to maturity. The Corporation intends to hold its long-term debt instruments to maturity and therefore does not expect any differences between carrying value and fair market value will be recorded in the accounts.

9. Lease Commitments

The Corporation has entered into rental leases covering retail outlets. Annual lease obligations for the next five years are as follows:

	\$
2005	1,317,882
2006	1,120,730
2007	762,348
2008	584,840
2009	267,910
	<hr/> 4,053,710

10. Related Party Transactions

The Corporation is leasing office and warehouse space in St. John's from the Department of Works, Services and Transportation. These leases are rent free; however, all operating and maintenance costs related to the buildings are the responsibility of the Corporation.

11. Pensions

The Corporation and its employees are subject to the Public Service Pensions Act effective June 26, 1973. Pension contributions deducted from employees' salaries are matched by the Corporation and then remitted to the Province of Newfoundland and Labrador Pooled Pension Fund from which pensions will be paid to employees when they retire. The Corporation's share of pension expense for the year is \$775,133 (2003 - \$695,175).

■ NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION
 SCHEDULE OF ADMINISTRATIVE AND OPERATING EXPENSES
 YEAR ENDED MARCH 31, 2004

Schedule I

	<u>2004</u>	2003
	\$	\$
Salaries and employee benefits	15,927,379	13,769,656
Agency store commission and expenses	4,118,124	3,666,972
Marketing	1,398,622	986,863
Rent	1,311,793	1,233,252
Amortization on capital assets	1,180,159	771,440
Repairs and maintenance	889,948	560,410
Interest and bank charges	722,183	607,064
Professional fees	730,502	843,909
Amortization on leased assets	693,397	667,685
Heat and light	419,945	418,123
Freight to stores	341,693	316,754
Stationery and office supplies	330,006	305,625
Miscellaneous	315,623	269,799
Cleaning	288,259	255,347
Communications	259,823	254,886
Bad debt expense	229,957	100,684
Consulting fees	221,254	51,395
Store supplies and wrapping	220,508	207,655
Travel	178,416	273,847
Staff training	154,312	363,329
Insurance	149,134	58,511
Security	143,031	115,471
Municipal taxes	136,938	124,725
Uniforms	131,807	71,658
Directors' fees and expenses	80,597	58,602
Postage	62,749	60,796
Inventory breakage and storage	57,876	109,630
Advertising	43,080	35,452
Staff recruitment	43,005	40,049
Dues and subscriptions	42,968	36,433
Motor vehicle expense	23,281	21,861
Interest on long term debt	8,604	22,765
Loss (gain) on disposal of capital assets	(16,181)	6,270
	30,838,792	26,686,918

■ NLLC CORPORATE STORES REVENUE

Sales by Location 2003-2004

Location	Net Sales
Elizabeth Avenue	\$ 10,434,616
Murray Premises	2,836,384
Kenmount Road	2,762,428
Corner Brook Plaza	2,264,128
Port Aux Basques	1,933,994
Stephenville	3,585,276
Gander	3,518,685
Grand Falls	5,195,106
Labrador City	2,591,708
Harbour Grace	4,631,853
Churchill Square	2,911,486
Deer Lake	9,551,198
Clarenville	14,156,571
Marystown	4,183,754
Licensee Store	2,521,138
Millbrook Mall	5,339,718
Mount Pearl	4,532,167
Placentia	2,524,422
Happy Valley	2,726,300
Topsail Road	6,851,217
Bay Roberts	4,162,937
Stavanger Drive	5,581,533
Pearlgate	4,738,051
Agency Store	17,066,645
Avalon Mall	2,688,174
Village Mall	1,525,713
Wine Show West	8,557
Wine Show	282,693
TOTAL	\$ 131,106,452

We are a socially responsible...
retailer, manufacturer,
exporter and employer.

WWW.NFLIQUOR.COM

Newfoundland and Labrador Liquor Corporation

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