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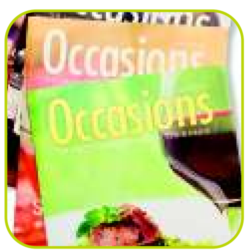



NEWFOUNDLAND
LABRADOR
LIQUOR CORPORATION

vision & mission

Vision

To be passionate about service in everything we do.

Mission

Newfoundland Labrador Liquor Corporation ("NLC" or the "Corporation") is mandated to oversee the manufacture, 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. 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 taken on the following mission:

> "To be recognized as an exceptional organization, known for its passion in customer service, strong business performance, and progressive corporate culture."

The recent initiatives undertaken by NLC speak to its commitment to this mission; and the success to date leaves NLC confident that this is the right approach going forward. This mission provides NLC with a constant sense of urgency to find better ways to deliver on the expectations of key stakeholders. It also reminds the Corporation of the various key drivers of its success – customer focus and work environment. This, coupled with the attention to financial performance, keeps NLC focused on the key measures of success.

NLC will continue to implement new initiatives aimed at achieving this mission. A focus on performance measurement and management, improved operational efficiencies, customer service, promotional and marketing programs, staff education and engagement, social responsibility advocacy and partnerships, increased enforcement and improved governance will enable NLC to meet and exceed expectations.

inside

chairperson's message

Left - Right: Steve Winter, President & CEO and Glenn Tobin, Chairperson of the Board.

As the Chairperson for NLC, I am pleased to present the Corporation's 2009-10 Annual Report. This report has been prepared under my direction and the NLC Board is accountable for its contents. NLC demonstrated its strong commitment to the goals, measures and indicators outlined in the Corporation's 2008-11 Business Plan through the impressive results delivered again this year.

NLC attained its dividend budget of $124.0 million with net earnings of $130.9 million. The Corporation's financial success can be attributed to its focus on building a strong corporate culture, the delivery of superior customer service and employee training programs, advanced retail developments and the implementation of new processes and technologies.

NLC remained committed to social responsibility as it continued to implement the "Check 25" program and developed new partnerships and campaigns aimed at educating consumers as well as licensee owners, operators and servers on the importance of responsible consumption. NLC broadened its social responsibility platform this year through environmental best practices and promotion of green products.

Positive gains are a direct result of the sustained application of the principals outlined in NLC's 2008-11 Business Plan. The Balanced Scorecard approach to strategy execution has promoted a strong corporate culture committed to superior customer service and strong financial performance.

During 2009-10 the Corporation implemented initiatives and prepared for the development of new projects that will allow it to reach the goals outlined in the 2008-11 Business Plan. An enthusiastic and knowledgeable staff, and a dedicated CEO and Board of Directors provides the Corporation with a unique team capable of delivering tremendous results. I would also like to extend congratulations to NLC's President & CEO, Steve Winter for receiving an Atlantic Business Magazine Top 50 CEO award in 2009. This reflects his corporate, community, and industry involvement, NLC's growth in recent years, as well as his ability to respond to managerial challenges. The Corporation also recognizes the support of the Honourable Tom Marshall, Minister of Finance. I am very pleased that NLC has achieved its objectives for fiscal 2009-10 and I look forward to serving as NLC's Chairperson for another successful year ahead.

Sincerely,

Glenn Tobin
Chair

values

Socially Responsible

Each NLC employee and Board member will advocate intelligent consumption by seeking to inform and educate customers and clients in the responsible and safe use of NLC products and by practicing intelligent consumption.

Professional

Each NLC employee and Board member will develop trusting relationships with clients by demonstrating the Corporation's values, being honest and forthright, honoring 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

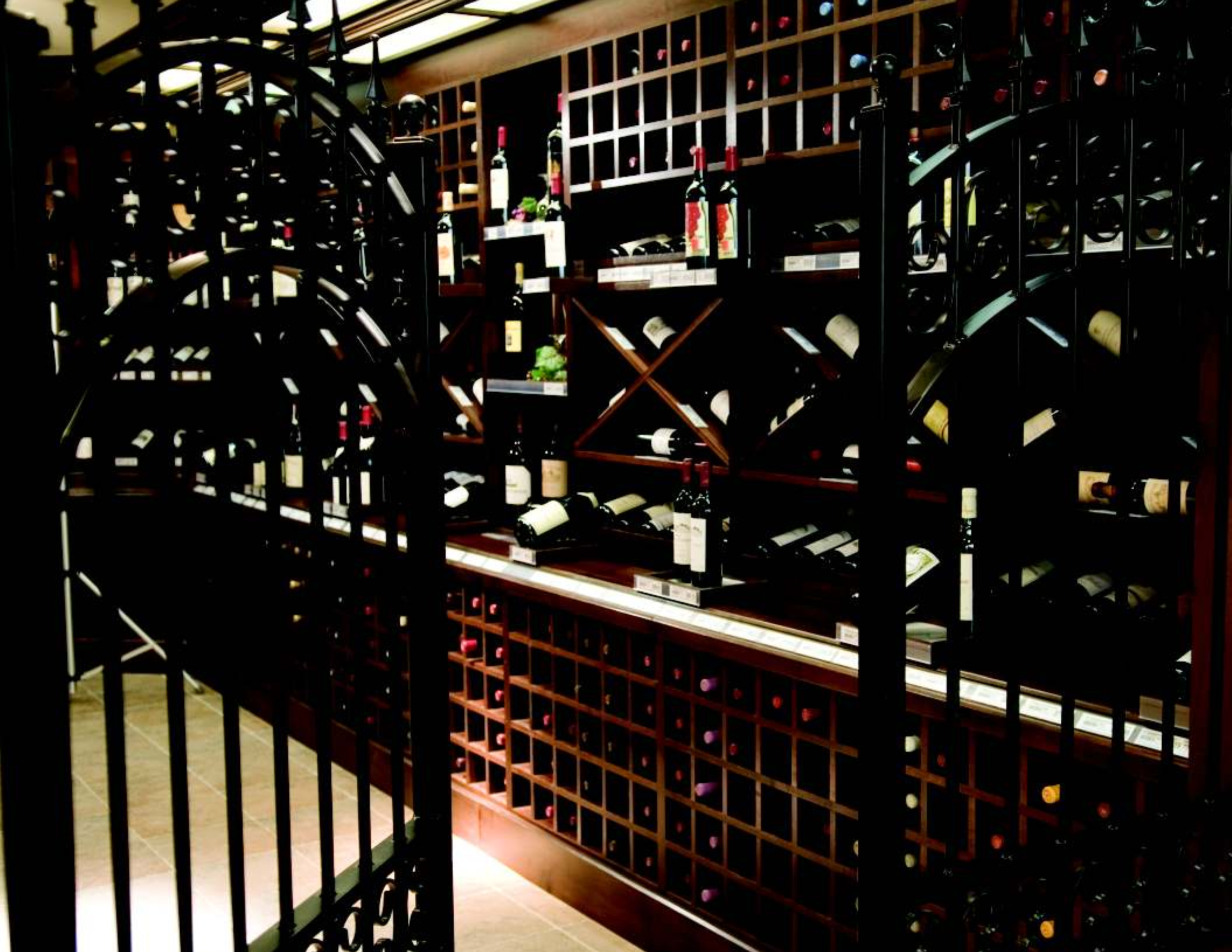
Each NLC employee and Board member recognizes the importance of diversity and teamwork and will seek input from all key stakeholders, internally and externally, to optimize returns from our operations. NLC will recognize outstanding contributions and will look for opportunities to celebrate and develop strong relationships among staff. The Corporation will ensure expectations are defined and communication clear.

Initiative

Each NLC employee and Board member realizes and accepts 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

Retail Sales

The most visible component of NLC's operations to many is the retail sales of beverage alcohol through its 24 Corporate *Liquor Stores* throughout the province. *Liquor Store* locations are dictated by size of market.
Liquor Stores carry an extensive selection of spirits, beers, wine and ready-to-drink ("RTD") beverages imported from around the world, as well as locally produced spirits, wine and beer. The staff of all *Liquor Stores* are direct employees of NLC. All aspects of store design, sales, marketing, merchandising, human resources, and business operations fall under NLC jurisdiction.

NLC Brands

Screech
Old Sam
Ragged Rock
Amherst Gate
Big Land
Newfoundlander's Rum
Cabot Tower
Shiver
Charenac

Wholesale Sales

NLC's wholesale operations supply 116 *Liquor Express* agency operated locations and over 1,700 licensees. *Liquor Express* locations are normally established in areas of the province that do not have the population to support a Corporate *Liquor Store* and involve an arrangement whereby an individual or corporation competes for the right to sell beverage alcohol in a retail environment. *Liquor Express* locations have limited selection and service relative to a *Liquor Store*.

NLC issues licenses to restaurants, bars and lounges, authorizing the sale of alcoholic beverage products. These licenses totaled 1,797 as of April 3, 2010.

Licenses are also issued by NLC to brewer's agents, authorizing the sale of beer to the general public. The brewers' agent network consisted of 1,126 outlets in the province as of April 3, 2010.

NLC issues special event licenses as temporary permits for festivals, community celebrations and charitable events. These licenses totaled 820 in fiscal 2009-10.

Bottling Contracts

Iceberg
Crystal Head
London Dock
Smuggler's Cove

Manufacturing

NLC's manufacturing operation consists of a blending and bottling plant. NLC has developed recipes for various spirits, owns the rights to certain brands, and blends and bottles product at the manufacturing facility in St. John's. These products are sold locally and are marketed to other liquor jurisdictions in Canada and the northeast United States. NLC also blends, bottles, and distributes spirits on behalf of other suppliers. In 2008-09 NLC produced 242,000 cases* and in fiscal 2009-10 production was 316,000 cases with a projected target for 2010-11 of 333,000 cases.

*Note: Cases are 9 litre equivalents

Regulatory Services

Recommending appropriate legislation governing the sale and distribution of beverage alcohol has always been a primary responsibility of NLC. The functions associated with this line of business include: recommending legislation and the investigation and enforcement of relevant legislation. This would include laying charges and imposing penalties against those in violation of this legislation. This arm of the business also includes an education component whereby licensees, agencies, and the general public are informed of the legislation and how it impacts them. In addition, there is a conscious effort to raise public awareness of socially responsible consumption.


TORBRECK
BAROSSA VALLEY
2007
Woodcutter's Shiraz
RED WINE / VIN ROUGE
PRODUCT OF AUSTRALIA / PRODUIT D'AUSTRALIE
14.0% alc./vol
AIR MILES
Travel and More
$28.63
Torbreck Woodcutters Shiraz
750 ml
Cs: C12
Sweetness:02
020-190-255-225 Shiraz
$32.65
Included tax & bottle deposit
SHIRAZ
10 bonus AIR MILES reward miles
When you purchase 1 of the below product:
Torbreck Woodcutters Shiraz

financial perspective:
excellent business performance

Goal
By 2011, NLC will have improved its financial performance.

Measure
Improved financial performance as demonstrated by achievement of 2011 targets for measure indicators with Objectives F1, F2 and F3.

Objective F1 - Optimize Shareholder Value
F1 Measure

NLC will implement initiatives to optimize shareholder value by striking a balance between revenue generation while promoting socially responsible consumption.

NLC met its dividend payment target of $124.0 million in fiscal 2009-10. This represents growth of $6.0 million (or 5.1%) over fiscal 2008-09. This dividend was paid entirely from operating cash flow.

The dividend growth is the result of an 8.5% sales increase in fiscal 2009-10 over fiscal 2008-09, resulting in increased net earnings of $7.8 million (or 6.3%). Detailed budgeting coupled with prudent financial management has enabled the Corporation to meet its budget objectives. Budget assumptions and risks are identified and monitored closely, enabling regular communication of financial status to the Board of Directors and NLC's shareholder, the Government of Newfoundland and Labrador. Financial information is prepared and reviewed with management and NLC's Board of Directors on a regular and timely basis. NLC results are reported to the Government of Newfoundland and Labrador on a quarterly basis.

The budgeted dividend for the fiscal year 2010-11 is $132.0 million, an increase of $8.0 million (or 6.5%) over fiscal 2009-10.

Measure:		
F 1.1 Dividend		
09/10 Target:	09/10 Actual:	10/11 Target:
$124.0 million	$124.0 million	$132.0 million
09/10 Initiatives:		
• Regularly review financial expectations and performance with Government and Board. ✓		

Net earnings for fiscal 2009-10 were $130.9 million representing a 5.6% or $7.0 million improvement over the $123.9 million target. A robust economy in many areas serviced by NLC's *Liquor Stores* and *Liquor Express* along with creative marketing and merchandising programs, which delighted NLC's customers, contributed to stronger than expected sales growth. The gross profit associated with these increased sales contributed an additional $4.4 million to the net earnings of the Corporation.

Other income, which is principally related to the commission collected by NLC on beer sales made by brewer's agents throughout the province, contributed an additional $3.1 million to the net earnings over and above the target. Offsetting these increases were additional expenses primarily associated with the increased volume of business above the 2009-10 targets.

Sales by Product Category (millions of dollars)

	2010 Actual	2010 Budget	Variance	Variance %	2009 Actual	Variance	% Variance
Spirits	111.1	107.8	3.3	3.1%	105.9	5.2	4.9%
Wine	47.4	46.2	1.2	2.6%	43.5	3.9	9.0%
RTD	12.6	12.7	(0.1)	(0.1)%	12.2	0.4	3.3%
Beer	22.0	19.8	2.2	11.1%	17.5	4.5	25.7%

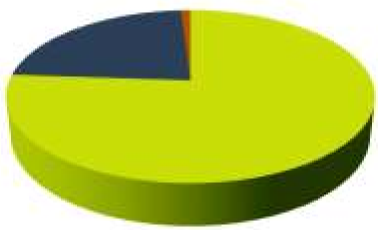

France
Port/Sherry

financial perspective:

excellent business performance

Figure A - Sources of Revenue

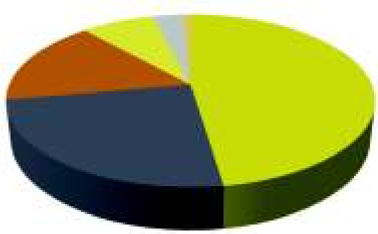
Fiscal Year 2010



76% Sales - Spirits, Wine, Ready-to-Drink, Beer
23% Commission Revenue on Sale of Beer
1% Other

Figure B - Application of Revenue

Fiscal Year 2010



48% Payments to the Province of Newfoundland and Labrador
25% Suppliers
16% Administrative Expenses
8% Federal Taxes
3% Equity
1% Purchase of Capital Assets

Key to successful financial management are regular and timely reviews of performance against targets and the actions taken to address issues arising by the management responsible in all areas of the business.

In order to align internal financial reporting with management responsibilities and accountabilities a restructuring of the internal financial reporting system was undertaken and completed in fiscal 2009-10. This has resulted in the creation of three main divisions within the Corporation; Corporate Store Operations, Express Store Operations, and Manufacturing Operations. These three main divisions are supported by Marketing & Merchandising, Supply Chain and Administration & Regulatory Services.

Earnings from operations as a percentage of sales is a key performance indicator which acts as a gauge in measuring NLC's profitability as sales increase. NLC management closely monitors sales profitability both from an absolute dollar perspective as well as a percentage of sales

Measure:		
F 1.2 Net Earnings		
09/10 Target:	09/10 Actual:	10/11 Target:
$123.9 million	$130.9 million	$132.8 million
09/10 Initiatives:		
• Provide timely financial information aligned with management responsibility and accountability.✓		

perspective. The two primary factors influencing this measure are gross profit margins and administrative and operating expenses. In fiscal 2009-10 earnings from operations as a percentage of sales was 35.6% which exceeded the target of 35.0% by 0.6 percentage points.

This measure includes supplier merchandising programs which are classified on the audited financial statements contained in this report under Other Income. The income from these programs is the direct result of marketing and merchandising efforts, and therefore, is included in the measure.

The target for 2010-11 is 34.7% which is lower than 2009-10 due to a projected decline in the overall gross profit percentage, the result of a continued shift in the ratio of lower gross profit products such as beer and wine which are growing at a greater pace

Measure:		
F 1.3 Earnings from Operations as a % of sales		
09/10 Target:	09/10 Actual:	10/11 Target:
35.0%	35.6%	34.7%
09/10 Initiatives:		
• Regular reviews of financial information by management with appropriate action taken to address issues. ✓		

financial perspective:

excellent business performance

than the higher gross profit spirits. Operating expenses as a percentage of sales are also expected to increase slightly due to increased costs particularly related to Information Technology initiatives.

The three year business plan target for this measure for 2010-11 was set at 34.9% which is 0.2 percentage points higher than the revised target of 34.7%. Overall, this measure has been tracking closely with original expectations.

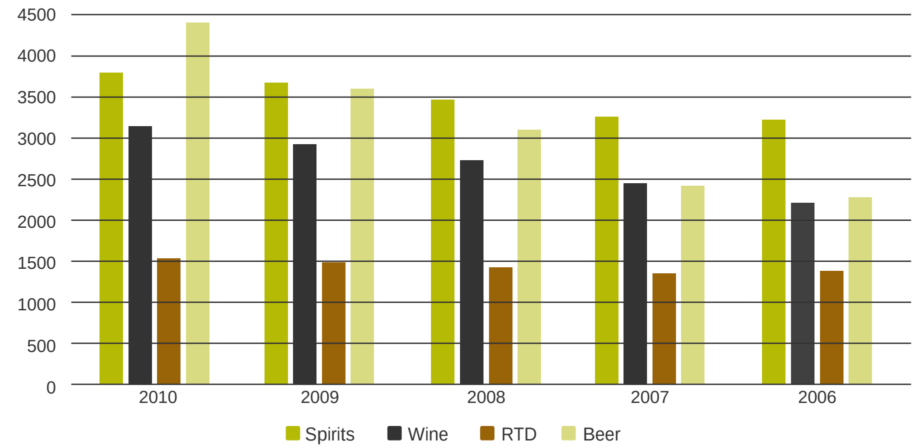
Objective F2 - Increase Sales

F2 Measure

NLC will implement initiatives that will generate information to improve financial decision making and behaviors that drive improved financial performance.

Sales this year were $198.5 million which surpassed the target by $7.4 million. This also surpassed the 2010-11 target set in NLC’s Business Plan by

Figure C - Product Sales Volume (litres in thousands)



YEAR ENDED APRIL 3, 2010

(In thousands of dollars)

	2010 Actual	2010 Budget	Variance	% Variance	2009 Actual	Variance	% Variance
Sales	198,529	191,053	7,476	3.9%	182,916	15,613	8.5%
Cost of goods sold	83,710	80,562	3,148	3.9%	76,944	6,766	8.8%
Gross profit	114,819	110,491	4,328	3.9%	105,972	8,847	8.3%
	57.8%	57.8%			57.9%		
Operating expenses	46,037	45,595	442	1.0%	42,457	3,580	8.4%
Other income from operations*	1,949	1,909	40	2.1%	1,474	475	32.2%
Net operating expenses	44,088	43,686	402	0.9%	40,983	3,105	7.6%
	22.2%	22.9%			22.4%		
Earnings from operations	70,731	66,805	3,926	5.9%	64,989	5,742	8.8%
Other income	60,207	57,131	3,076	5.4%	58,179	2,028	3.5%
Net earnings	130,938	123,936	7,002	5.6%	123,168	7,770	6.3%
Dividend to Provincial Government	124,000	124,000	-	0.0%	118,000	6,000	5.1%

**Note: Other income from operations represents income from supplier programs. For informational purposes, these amounts have been reclassifed from "other income" to "other income from operations". Marketing and merchandising expenses related to the administration of these supplier programs are included in operating expenses.*

financial perspective:

excellent business performance

$7.0 million. The target set for 2010-11 is $209.2 million which is $10.7 million ahead of 2009-10 and $17.7 million (or 9.2%) ahead of NLC's three year business plan. Strong sales performance is the result of a multi-faceted approach to improving customer service including store layout and appearance, merchandising programs, consumer education, staff training, and the constant pursuit of understanding NLC's customers' needs.

Each of the four main product categories grew over the prior year with beer leading the way with a 25.7% increase followed by wine which increased 9.0%, spirits a 4.9% increase and finally RTD with a 3.3% increase.

The beer category increase was the result of investments made in past years and this year in *Liquor Store* chill rooms, as well as, a focus on improving the selection of imported beers. In March 2010, NLC introduced several new import beer products at *Beer Fest* and featured them in *Beer Fest* "Feature Sections" in Corporate *Liquor Stores*.

The wine category continued to grow and NLC category management continues to monitor industry trends to ensure the selection is in keeping with consumer tastes. Consumer education opportunities continue to grow with in-store sampling, *Wine Fests* and staff product knowledge training. For those consumers who desire a more in-depth knowledge of wines, the International Sommeliers Guild ("ISG") offers Level 1 and Level 2 wine courses at NLC facilities led by a certified sommelier who is also the Senior Product Knowledge Consultant with NLC.

NLC has also continued to develop Bordeaux Futures offerings which, up until recently, have only been available to customers outside the province. The avid wine collectors in the province have responded positively to the Bordeaux Futures program.

The target for 2010-11 is an aggressive target, however, with continued investment in stores and marketing programs NLC will strive to attain this goal. The risks associated with this target cannot be ignored as assumptions such as a continued robust economy and an excellent summer season from a weather perspective are key to achieving the sales budget of $209.2 million in 2010-11.

Gross profit for fiscal 2009-10 was $114.8 million, which exceeded target by $4.3 million. This also exceeded the target for 2010-11 as set out in the Corporation's three year business plan by $2.8 million. These improvements over annual plan and the three year business plan are due to the larger than expected sales growth. Category Management is diligent in analyzing the

Measure:		
F 2.1 Sales		
09/10 Target:	09/10 Actual:	10/11 Target:
$191.1 million	$198.5 million	$209.2 million
09/10 Initiatives:		
• Review financial performance and address issues on a timely basis. ✓		
• Develop and execute strategies for meeting customer needs and expectations. ✓		

Measure:		
F 2.2 Gross Profit		
09/10 Target:	09/10 Actual:	10/11 Target:
$110.5 million	$114.8 million	$119.4 million
09/10 Initiatives:		
• Product category management for optimal product mix. ✓		

financial perspective:

excellent business performance

impact of actions taken in regards to product profitability by ensuring the mix of product available at various price points is optimized. Social responsibility dictates that selling more volume is not necessarily the best or only way to enhance profitability. Offering customers a wide selection of quality products at various price points is the preferred method of growing gross profit.

The target for 2010-11 is $119.4 million, which is $7.4 million (or 6.6%) above the three year business plan target.

Revenue per litre, with the exception of the beer category, which was consistent with the 2009-10 target, was under target in each category. The principal reason for this target shortfall was the fact that supplier cost increases were less than budgeted which benefited NLC's customers. The anticipated impact of the recession and events in the world economy did keep supplier cost increases below normal annual levels. Although the revenue per litre results were below target, the effect was minimal as each category either maintained or grew compared to the prior year in terms of revenue per litre and sales volume. The Corporation has set conservative targets for the 2010-11 fiscal year in anticipation of minimal cost increases and a stable price point mix within each product category.

As previously mentioned, customer education opportunities continued to grow with in-store sampling, ISG courses, and staff product knowledge training. Added to the hugely popular *Wine Fest*, *Spirit Fest* and *Beer Fest* events were new events such as *Whiskies of the World* and *A Taste of Australia*. Plans for next year include a new event – *The California Wine Fair*. In addition to this, store staff continue to expand their knowledge through various training opportunities which in turn allows them to educate NLC's customers. Expanding the product knowledge of NLC's customers has proven to be effective in the promotion of higher quality products and is having a positive effect on revenue per litre.

Measure:

F 2.3 Revenue Per Litre

Category	09/10 Target:	09/10 Actual:	10/11 Target:
Spirits	30.02	29.93	29.93
Wine	15.19	15.05	15.05
RTD	8.38	8.22	8.23
Beer	4.98	4.98	5.06

09/10 Initiatives:

- Provide educational opportunities for customers promoting appreciation for quality products. ✓

Objective F3 - Improve Operational Efficiency

F3 Measure

NLC will implement initiatives and new processes to promote efficient utilization of its assets.

Administrative and operating expenses as a percentage of sales were 22.2% which is 0.7 of a percentage point better than the target for 2009-10, which was adjusted in 2009-10 from 23.9% to 22.9%. The target for 2010-11 is 22.4% which is 1.2 percentage points below the three year business plan target for 2010-11. The 2009-10 and 2010-11 targets were adjusted due to a change in the method of reporting operating expenses. Income received from supplier programs administered by the Sales and Marketing Department is an offset to the supplier program associated expenditures which provides an accurate representation of operating expenses as a percentage of sales. This positive variance from target is due to the fact that as sales have grown, expenses have not grown at the same rate,

financial perspective:

excellent business performance

therefore, the Corporation is benefitting from economies of scale. Growing sales while maintaining and, where possible, reducing administrative and operating expenses as a percent of sales will continue to be a key objective of the Corporation.

NLC managed its single largest operational expense category, salaries, by implementing standardized labour schedules in all retail stores by the end of fiscal 2009-10. Corporate *Liquor Stores* are allocated labour hours based on sales budgets and then compared to actual results. New training initiatives and back room communication boards enhanced customer service while utilizing staff in an efficient manner.

NLC implemented several energy saving projects to improve operational and energy efficiency. An electrical demand control strategy was implemented, and lighting was modified in both stores and the warehouse, which led to significant increases in efficiency. Other projects included the installation of a new air handling unit, upgrades to the building automation system, and the development of an outdoor air reset strategy.

A review of store level inventory control concerns identified areas to improve operational efficiencies. Store level inventory control initiatives included utilizing back room communication boards for monthly inventory counts and tracking, and using monthly color-coded labels on cases to prioritize inventory. NLC also developed an acrylic signage holder for end aisle displays which can reduce the inventory required for each end aisle display by one third. For the first time this year NLC applied inventory budgets at store level. This approach yields accurate store budgets that are aggregated into a budget plan that can be used to measure individual store performance.

Measure:		
F 3.1 Operating Expenses as a % of Sales		
09/10 Target	09/10 Actual:	10/11 Target:
22.9%	22.2%	22.4%

09/10 Initiatives:

- Regularly analyze expenses and take appropriate actions to address issues. ✓
- Continually look for opportunities to increase cost efficiency. ✓

In fiscal 2009-10 NLC overall inventory turns were 3.1 turns per year on a target of 3.2. For NLC core products, inventory turns were 3.8 turns per year while for non-core products the turns were 0.4 turns per year. Non-core products include specialty wines and wine futures.

Non-core products have increased in recent years due to NLC's premium wine strategy that allows for a greater selection of premium wines for NLC customers. The Business Plan had an overall inventory turns target of 3.5 for 2010-11. This target has been revised to 3.2 turns per year based on the premium wine strategy as these wines do not turn over as quickly as other products due to their vintage and price.

Measure:		
F 3.2 Inventory Turns Annually		
09/10 Target	09/10 Actual:	10/11 Target:
3.2	3.1	3.2

09/10 Initiatives:

- Review ordering and shipping cycles to establish optimal cycle times. ✓
- Develop revised inventory report. ✓
- Review warehouse layout and operations and implement initiatives to improve operations. ✓

Figure D - Spirit Sales (litres in thousands)

	2010	2009	2008	2007	2006
Rum	1875	1812	1,764	1,663	1,643
Rye Whiskey	772	759	752	727	730
Vodka	479	451	416	379	365
Liqueurs	366	366	348	303	286
Scotch - other Whiskey	116	115	113	106	107
Gin	60	60	57	56	52
Brandy	21	22	23	24	27
Tequila	18	17	16	14	13
Cognac	3	3	3	3	2
Miscellaneous	1	1	1	1	1
	3,711	3,606	3,493	3,276	3,226

Includes sales in the province of Newfoundland and Labrador only.

Figure E - Wine Sales (litres in thousands)

	2010	2009	2008	2007	2006
Table Wine	2,826	2,602	2,429	2,151	1,910
Sparkling and champagne	244	235	228	212	210
Fortified Wine	79	83	85	84	90
Low Alcohol Wine	3	2	2	1	1
	3,152	2,922	2,744	2,448	2,211

Figure F - Ready-to-Drink (“RTD”) and Cider Sales

(litres in thousands)

	2010	2009	2008	2007	2006
RTD	1,465	1,436	1,386	1,311	1,371
Cider	67	52	38	25	23
	1,532	1,488	1,424	1,336	1,394

Figure G - Beer Sales (litres in thousands)

	2010	2009	2008	2007	2006
Local Beer (Bottles)	2,190	1,830	1,539	1,111	803
Imported Beer	1,761	1,404	1,254	1,107	1,295
Local Beer (Cans)	345	262	231	147	116
Low Alcohol Beer	114	98	74	56	53
	4,410	3,594	3,098	2,421	2,267

financial perspective:

excellent business performance

Order cycles were reviewed for several countries and suppliers in fiscal 2009-10 with more frequent reviews of orders implemented. This reduced inventory and increased inventory turns while not impacting service levels. A further review of order cycles for other countries and suppliers will take place in fiscal 2010-11.

In 2009-10, NLC entered into new contracts for international transportation which also included partnering with other Atlantic liquor jurisdictions to avail of combined orders so that smaller shipments from overseas suppliers can be shipped in a more timely manner and with greater efficiency. During the fourth quarter of 2009-10, NLC entered into new contracts for outbound freight to service its *Liquor Stores* and *Liquor Express* locations. These contracts are scheduled to take effect in the first quarter of 2010-11. A Logistics Manager was hired during 2009-10 to manage these contracts and ensure the efficient transportation of NLC products from vendor to customer. There was also planning for new management roles to be created in the St. John's Distribution Centre to coordinate the timely delivery of products to *Liquor Stores* and *Liquor Express* locations.

Inventory reports were reviewed and revised during 2009-10. IT solutions enabled product supply managers to have greater visibility when ordering products, thus reducing inventory and increasing inventory turns. More initiatives are planned for 2010-11 to improve the order fulfillment process. As product selection continues to broaden and change to meet consumer expectations, the warehouse layout is continuously under review to ensure the Corporation is structured to meet the demands.

customer perspective:

everything begins with the customer

Goal

By 2011, NLC will have improved customer service across all key customer segments.

Measure

Improved customer service across all key customer segments as indicated by achievements of 2011 measure indicator targets associated with Objectives C1, C2 and C3.

Objective C1 - Create an Engaging and Satisfying Customer Experience

C1 Measure

NLC will implement initiatives to enhance the whole shopping experience at *Liquor Stores* and *Liquor Express* locations.

NLC's investment in Corporate *Liquor Stores* continued in fiscal 2009-10. Two corporate locations, Grand Falls-Windsor and Happy Valley-Goose Bay, were relocated to better serve customers in those areas. NLC's *Liquor Store* in Port aux Basques was relocated at the end of fiscal 2009-10 to provide a convenient and modern shopping experience. NLC's *Liquor Store* in Corner Brook Plaza was renovated this year to provide its customers with an improved shopping experience in a modern retail environment.

Category Management created and executed a *Liquor Express* core product list this year. An inventory capacity project for Corporate *Liquor Stores* will be undertaken in 2010-11 and will involve the utilization of capacities and floor plans to determine product selection by store.

Staff training and product knowledge was a major focus for the Corporation in fiscal 2009-10. NLC continued SERVE, its sales training program for delivering superior customer service. The Retail Council of Canada recognized NLC's SERVE program with its "Employee Development Award" in June 2009. This national award recognizes a Canadian retailer that demonstrates a comprehensive employee program that has improved the customers' shopping experience and made an impact on sales. NLC further enhanced the SERVE program in 2009-10 with the introduction of SERVE boards in *Liquor Stores*, which display pertinent information relating to the program, and the use of mystery shoppers to audit stores application of the program. NLC's mystery shopper program continued to test stores to ensure SERVE was effectively utilized to assist customers.

This year NLC created on-line testing for product knowledge to better track employee performance and ensure that customers are served by knowledgeable staff. NLC has continued to engage the ISG by offering training courses that increase product knowledge while enhancing one's enjoyment of wine. Eighteen employees achieved level 1 ISG and 6 achieved level 2, demonstrating NLC's increased commitment to personal and professional growth as well as product knowledge.

Measure:		
C 1.1 Customer Survey Scores (Retail)		
09/10 Target:	**09/10 Actual:**	**10/11 Target:**
89%	98%	90%

09/10 Initiatives:

- Implement improvements in shopping facilities and infrastructure to create an engaging shopping experience. ✓
- Increase staff training in product knowledge and customer engagement. ✓
- Consistently review product selection to provide NLC customers with a broad assortment of products. ✓

customer perspective:

everything begins with the customer

NLC utilized AIR MILES® data to send satisfaction surveys to customers to gauge their level of satisfaction with NLC *Liquor Stores*. There were over 1,400 respondents to the survey and 98 percent were satisfied with their last visit to an NLC *Liquor Store*.

The 90% target set for fiscal 2010-11 may appear low in comparison to the results this year, however, NLC intends to employ a new survey next year that will ask customers to rank their satisfaction based on a more elaborate scale.

From a marketing perspective, NLC implemented a variety of successful programs this year. The monthly flyer, which was originally produced on standard newsprint material, was revitalized with improvements to the look, feel, design, layout, and paper quality. This improved format provides for an enhanced consumer shopping experience. Promotion of NLC gift cards as ideal gifts for any occasion through print media, radio, web, in-store advertising, and various events proved successful as retail sales of gift cards increased by 41.6% over the previous year.

NLC developed and implemented an entry level wine education tool for customers interested in learning the basics about wine varietals and ideal food pairings. The “Make Friends with Wine” program was promoted through the retail image program, Occasions Magazine, radio advertisements and the corporate website. The program continues to play a role in-store through signage at shelf level which pairs specific wine products to various foods and through a convenient pocket guide that helps NLC customers and staff to learn about wine varietals and food pairings. The second phase of the wine education program is in development and will attempt to take customers to a higher level in food and wine pairing. The program is expected to launch in 2010-11.

Re-design of in-store AIR MILES signage and the new tag line, “What's in your bottle?” allowed NLC to effectively promote the benefit of the AIR MILES reward program to all customer types. AIR MILES market segmentation data enabled NLC to implement direct mail and e-campaigns that provided appealing promotions to the intended target audiences.

NLC partnered with Spirit of Newfoundland Productions, a local group of professionally trained performers, to host daily Screech-Ins at the Jighouse during the summer of 2009. The events increased traffic to the New Gower Street *Liquor Store* and created an engaging, exciting, and educational shopping experience for both tourists and local customers.

NLC continued to enhance the Occasions Magazine publication through higher quality articles, photography, improved content and product education. Feedback from customers and NLC staff has been very positive and popularity of the magazine continued to grow with each issue. Late in 2009-10 NLC awarded an RFP to its current publisher, Transcontinental/Holiday Media, so that it can continue to provide customers with a high quality publication that they have come to expect.

Objective C2 - Serve Customers - Internal and External - With Passion and Integrity to Build Loyalty

C2 Measure

NLC will identify and implement initiatives to better understand and engage the customer.

A target of $31.70 was set for the sales per over the counter (“OTC”) transaction in fiscal 2009-10, which accounted for a $0.35 increase over the previous year. OTC sales are the retail sales to customers from NLC’s Corporate *Liquor Stores*. The actual average sales per


beer fest
Feature Products
As Sampled at Beer Fest
*Limited Quantities
Wines of Italy
Wines of France
RICKARD'S
DARK
Miller
$3.49
$3.49
$3.31
Happy Father's Day

customer perspective:

everything begins with the customer

Measure:		
C 2.1 Sales per OTC Transaction		
09/10 Target:	09/10 Actual:	10/11 Target:
$31.70	$32.49	$32.55
09/10 Initiatives:		
• Constantly review NLC's Special Events portfolio. ✓		
• Develop initiatives to gather feedback from customers. ✓		

OTC transaction for fiscal 2009-10 exceeded the target by 2.5% and grew to $32.49. NLC's focus on product knowledge, improvements to the retail image program and the AIR MILES reward program generated customer appreciation for premium products. In fiscal 2009-10 NLC achieved its goal to have a "stronger call to action" in its monthly Retail Image Program themes. The Corporation was presented with an AIR MILES Marketing Excellence Award, won for "Best Promotion across Canada" in 2009, for its April and May Retail Image Program. This program incented customers to spend $40 and swipe their AIR MILES collector card for a chance to win bonus AIR MILES reward miles and various merchandise.

NLC's Marketing department worked closely with Merchandising, Store Operations, and *Liquor Store* Managers to effectively merchandise products and ensure efficient use of available retail space. OTC transactions grew from 3.4 million in 2008-09 to 3.8 million in 2009-10, due in part to a new Corporate *Liquor Store* in Long Pond, Conception Bay South.

This was a banner year for NLC special events. The Corporation held three new events, offering a total of eight throughout the year. Based on customer feedback and category potential, NLC held the first ever *Whiskies of the World* festival in St. John's in early November 2009. This premium event, which offered over 50 products, was very well received by customers and suppliers. Based on the success of *Wine Fest* in St. John's and Corner Brook, NLC introduced *Wine Fest* in Gander in April 2009. The first *"A Taste of…"* wine event was held in St. John's in late February 2010, featuring wines from Australia. Each year NLC expects to introduce a new selection of wines from a different country. The Corporation will expand its events in fiscal 2010-11 by partnering with The Wine Institute of California to bring *The California Wine Fair* to St. John's. For shows in 2009-10, for which customers could purchase tickets online, NLC also utilized contact information provided for online ticket purchases to implement a consumer survey to ensure that customer expectations were met and to uncover opportunities to improve events in the future.

NLC implemented initiatives this year to optimize its e-newsletter marketing tool. Improvements to design led to increased subscription rates. A contest component was added to each e-newsletter with prizes ranging from NLC gift cards to special event tickets. This approach created a more interactive experience for subscribers, and generated increased traffic flow to NLC's website. In the 2010-11 fiscal year NLC's Corporate internet site will be re-designed to enhance the ability to provide information to customers and gain valuable insight into consumer preferences.

Objective C3 - Promote a Sense of Social Responsibility in the Enjoyment of our Products and Services

C3 Measure

NLC will implement initiatives and leverage partnerships to promote socially responsible consumption of beverage alcohol.

NLC's Marketing department provided support to the Corporate Services division to increase the number of social responsibility partnerships. NLC *Liquor Store and Liquor Express* locations, Special Events, in-store audio, coin box program, poster designs and store grand openings all included greater visibility and messaging for Social Responsibility campaigns. Social Responsibility messaging for Drinking and Driving, Drinking and Boating, and Drinking and Snowmobiling was applied in all *Liquor Stores*, *Liquor Express*, brewer's agents and licensed establishments. These initiatives were further supported by social responsibility media messaging.

The second wave of Check 25 was rolled out in fiscal 2009-10 and targeted 19-25 year olds through media advertising and a new poster design in *Liquor Stores*, *Liquor Express*, brewer's agents and licensed establishments. The Check 25 Mystery Shopper program continued this year whereby a shopper over 19, but under 25 who appeared young was sent into *Liquor Stores* and *Liquor Express* locations to make a purchase and the shopper recorded whether or not they were asked for ID. In fiscal 2010-11, the Check 25 logo will be embossed on staff apparel to further promote the initiative.

A partnership with Hospitality Newfoundland and Labrador, a professional tourism industry association representing organizations involved in the Newfoundland and Labrador tourism industry, saw the development and production of the "It's Good Business" Server Training Program. The program educates people in the industry regarding methods to keep responsible alcohol consumption top of mind while growing their businesses by providing superior customer service.

Measure:		
C 3.1 Customer Survey Scores (Social Responsibility)		
09/10 Target:	09/10 Actual:	10/11 Target:
80%	84%	80%

09/10 Initiatives:

- Develop partnerships to leverage resources with other groups to maximize penetration of the social responsibility message.✓
- Implement initiatives to promote socially responsible consumption.✓
- Enhance community visibility as a good corporate citizen.✓

NLC developed a pilot program with Mothers Against Drunk Driving ("MADD") this year and placed ATM machines in four of its Corporate *Liquor Stores*. All fees collected from the ATM's go to MADD to support its initiatives. Next year the Corporation plans to expand this program across several additional *Liquor Store* locations. The Corporation also produced a Fetal Alcohol Spectrum Disorder bag stuffer that was given to customers in the western part of the province during Fetal Alcohol Syndrome month, September 2009.

Environmental social responsibility was a key focus for NLC in fiscal 2009-10. The Retail Image Program theme for March was dedicated to NLC environmental best practices and green product options. The Corporation engaged customers in a plastic bag reduction strategy. NLC's Marketing department promoted its reusable bags through a promotion which gave away a free bag for every purchase of 4 bottles of wine. A total of 16,000 reusable bags were given out to qualifying customers. A new 6-bottle reusable bag was designed and is expected to be available to customers in fiscal 2010-11. This year, as a pilot program in select stores, NLC also began to offer complimentary 8-bottle recyclable cardboard cartons in an effort to reduce the demand for plastic bags.

The Corporation partnered with several organizations and agencies to sponsor an Eco-Exhibition during Environmental Week. NLC will participate again next year to promote its eco-friendly products. In the 2009 Customer Satisfaction Survey to over 1,400 *Liquor Store* customers, 84% of respondents were satisfied with NLC's efforts in promoting social responsibility.

In conjunction with other liquor jurisdictions across the country, NLC implemented a national campaign "Moderation is always in good taste." The 4-year project is being led by the Canadian Association of Liquor Jurisdictions ("CALJ") and is striving to make moderate consumption of alcohol a "top of mind" topic for everyone as NLC increases awareness regarding the importance of responsible drinking habits.

internal processes:

innovate, collaborate, and allocate resources effectively

Goal

By 2011 NLC will improve internal processes to deliver enhanced operational efficiency in meeting customer expectations.

Measure

Improved internal processes that deliver enhanced operational efficiency in meeting customer expectations as defined by the achievement of 2011 measure indicator targets associated with Objectives IP1, IP2, IP3, and IP4.

Objective IP1- Ensure We Have the Right Products and Services at the Right Place at the Right Time

IP1 Measure

NLC will implement initiatives to streamline product delivery and reduce stock-outs of core products.

NLC achieved an overall in-stock service level of 97% in 2009-10 compared to a target of 95%. NLC was able to achieve this high in-stock service level and continue to provide customers with a wide selection of products. Core products are categorized into A, B and C product units (“A” being the highest volume products) with appropriate service level percentages set for each category. Actual service levels for “A”’s (98%), “B”’s (95%) and “C”’s (91%) were all better than target. A target of 95% in-stock service level has been set for NLC’s core product group for 2010-11.

Maintaining in-stock service levels is a balance between inventory levels and space requirements. NLC will continue to focus on physical inventory flow to ensure this fine balance is maintained. A forecasting and replenishment software solution will be investigated during 2010-11 in an effort to optimize this balance by providing greater efficiency in the ordering process. An online ordering solution was developed in the third quarter of fiscal 2009-10 and a successful pilot program was implemented in the fourth quarter. The program will allow timely and accurate submission of orders through the online process, which will also provide access to inventory levels. The program is expected to launch in 2010-11 for a number of *Liquor Express* and licensee customers.

Measure:		
IP 1.1 In-stock Service Level (Core Products)		
09/10 Target:	09/10 Actual:	10/11 Target:
95%	97%	95%
09/10 Initiatives:		

- Review of warehouse layout to ensure the Corporation is structured to meet demands. ✓
- Review order cycles by country and supplier to reduce stock-outs. ✓

Objective IP2 - Ensure Processes are Simple, Efficient and Reduce Unnecessary Complexity

IP2 Measure

NLC will implement improved processes and technology throughout the organization to improve efficiency and reduce errors.

Throughout fiscal 2009-10 NLC conducted a corporate wide launch of a Continuous Improvement (“CI”) program which educated Director and Manager level employees about CI and how it can support process improvement initiatives.

A review of NLC’s procurement process led to the implementation of a pilot project focused on a single consolidation point, Australia. This project resulted in a reduction of inventory while maintaining service levels. The principle will be extended to other countries in 2010-11 in an effort to optimize annual inventory turnover.

NLC completed the implementation of its comprehensive Human Resource Management System (HRMS) which included payroll, human resources information, and time and attendance business solutions that provide enhanced accuracy and reporting capabilities. This significant project will

internal processes:
innovate, collaborate, and allocate resources effectively

provide greater visibility to key labour statistics.

The category management tool, Electronic Promotional Application Calendar ("e-PAC") was deployed to vendors this year. e-PAC is an electronic submission system that was designed to track vendor programs, expenditures and results and compare this to the budgets established at the start of the fiscal year. In fiscal 2009-10 e-PAC results included optimizing efficiencies and revenue streams, creating significant visibility for Category Management and vendors, and reducing human error and manual labour. This program helped establish long-term strategies for NLC.

The Electronic Product Application Submission System ("e-PASS"), was designed in fiscal 2008-09 to track listing applications submitted by vendors, maintain a history of approvals and rejections, allow access to this information, and track progress of departments as the listing moves from Category to Finance and Supply Chain before arriving at the warehouse. While e-PASS was expected to be in use by fiscal 2009-10, the cost exceeded expectations and so the Corporation made a decision to put this project on hold and focus on other projects that demonstrated a greater benefit in relation to their cost.

In fiscal 2009-10, NLC began work on a new analytical tool that will allow improved reporting across all business units within NLC. Business Intelligence ("BI") began with Supply Chain, Store Operations and Category Management and will ultimately expand to hold data across all departments. BI is expected to launch September 2010 and be the main source for data and information for the Corporation. The result will be efficient and accurate access to critical information for analysis and management decision making.

Measure:		
IP 2.1 Process Improvement Compliance		
09/10 Target:	09/10 Actual:	10/11 Target:
91%	93%	90%
09/10 Initiatives:		
• Departments to identify key process and technology improvement initiatives annually and report on success of implementation. ✓		

Distribution to *Liquor Express* locations was centralized to four locations this year: St. John's, Clarenville, Deer Lake and Labrador City to better serve *Liquor Express* locations as well as improve customer service at Corporate *Liquor Stores* that were previously serving both customer types.

Corporate Services also posted all licensing applications online this year to allow these customers easier access to this information.

There are a number of IT initiatives planned for fiscal 2010-11 that support operational improvements across all departments.

Objective IP3 - Optimize Manufacturing Productivity

IP3 Measure

NLC will improve utilization of plant assets to improve financial return on these assets.

Manufacturing earnings exceeded target in 2009-10 by $72,000 or 14% primarily due to Crystal Head Vodka production. In May 2010, NLC will produce the one millionth bottle of Crystal Head Vodka. This bottling agreement started as a 30,000 bottle project and has surpassed expectations. NLC will also look to secure a five-year

internal processes:

innovate, collaborate, and allocate resources effectively

contract as North America's exclusive supplier for Crystal Head Vodka. Created by entertainer Dan Aykroyd and American landscape artist and portraitist John Alexander, Crystal Head Vodka is a pure spirit free of any additives such as sugar, glycerin or citrus oil and is packaged in a striking skull-shaped bottle. Using Newfoundland and Labrador water, the vodka is quadruple distilled and triple-filtered through Herkimer diamond crystals.

A new management structure introduced in the last quarter of fiscal 2008-09 also strengthened manufacturing processes by implementing initiatives resulting in significant efficiency gains this year. This contributed to the net earnings exceeding target.

Another five-year bottling contract is expected to be signed in May 2010 with Mosaiq Inc. to produce Lemon Hart Rum at NLC's manufacturing facility in St. John's.

With these two contracts in place early next year, net earnings are expected to increase in 2010-11 to $767,000. This is lower than the $1.2 million in the three year business plan as a result of a review by management in 2009-10 of operational and market issues affecting the operation. NLC is well positioned to secure additional bottling contracts and increase production capabilities. An integrated materials requirement planning system will be implemented in 2010-11 to better coordinate raw materials for production schedules.

Measure:		
IP 3.1 Net Earnings (Manufacturing)		
09/10 Target:	09/10 Actual:	10/11 Target:
$530,000	$602,000	$767,000

09/10 Initiatives:

- Streamline and improve quality of manufacturing reporting. ✓
- Increase production through new contract bottling opportunities. ✓
- Reduce bottling line downtime. ✓
- Implement initiatives to improve inventory control, forecasting and production scheduling. ✓

Top: NLC employees at the St. John's Bottling Plant.

Bottom: NLC employees at the St. John's Warehouse.

internal processes:
innovate, collaborate, and allocate resources effectively

Objective IP4 - Build Social Responsibility into all Areas of our Business

IP4 Measure

NLC will develop and implement standard operating procedures that reduce the risk that beverage alcohol is sold to inappropriate individuals.

The Check 25 program, whereby all customers who appear under 25 will be asked for an ID, was also promoted in-store and across several media in fiscal 2009-10. A target to challenge 2.8% of all transactions in Corporate *Liquor Stores* was established. In fiscal 2009-10, 4.3% of all transactions were challenged by NLC staff, a considerable increase from 2.7% in fiscal 2008-09, demonstrating that Check 25 was understood and utilized by store employees.

As mentioned earlier, Corporate Services, Retail and Wholesale Operations also conducted a Check 25 mystery shop program in all Corporate *Liquor Stores* and in 25 *Liquor Express* locations per quarter. Check 25 mystery shops will be conducted on a quarterly basis in 2010-11.

Enhancements to NLC's Grapevine were planned to allow for expansion of the challenges and refusals tracking program to *Liquor Express*, however the enhancements were put on hold due to other IT priorities.

Measure:		
IP 4.1 Number of Challenges as a % of Transactions		
09/10 Target:	09/10 Actual:	10/11 Target:
2.8%	4.3%	4.5%
09/10 Initiatives:		

- Maintain clear guidelines for challenges and refusals in *Liquor Stores* and *Liquor Express* locations. ✓
- Implement Mystery Shopper approach to ensure compliance with procedures. ✓

employee learning & growth

proud to be with NLC

The foundation for NLC's successful execution of strategy lies with the ability of its staff to perform their individual roles with excellence. In the 2009-10 fiscal year, NLC employed a total of 743 employees, of which 397 were female and 346 were male. Of these employees, 526 were employed in urban areas and 217 in rural areas of the province*. Their success drives departmental and, ultimately, corporate success. As evidenced by last year's unprecedented success, NLC staff are clearly exceeding expectations. This section outlines some of the initiatives and measurable results that illustrate this success.

** For the purpose of the annual report Government of Newfoundland and Labrador's Rural Secretariat has defined urban as anything within the St. John's census metropolitan area – this area extends from Pouch Cove to Conception Bay South to Witless Bay. Anything outside of that area is considered rural.*

Goal

By 2011, NLC will have shifted its corporate culture to one that more visibly engages staff and recognizes excellent performance.

Measure

Establishment of a corporate culture to one that more visibly engages staff and recognizes excellent performance as measured by achievement of 2011 measure indicator targets for objectives ELG1, ELG2, and ELG3.

Objective ELG1 - Create a Performance Oriented Culture Through a Knowledgeable and Engaged Workforce

ELG1 Measure

Implement initiatives that engage staff and increase their competence and professional potential.

Measure:		
ELG 1.1 Employee Survey Scores		
09/10 Target:	09/10 Actual:	10/11 Target:
68%	65%	70%

09/10 Initiatives:

- Finalize a Code of Conduct.✓
- Hold focus groups with employees.✓
- Collaborate and consult with union officials to implement the new collective agreement.✓
- Conduct employee survey.✓

In the 2009-10 fiscal year, NLC participated in the Great Places to Work® "Best Places in Canada" 2010 Survey. Employee's interest in their workplace was evident in the 69% response rate, which surpassed the response rate of NLC's previous employee survey by 20 percentage points. Seventy one percent of respondents agreed to the statement "Overall, NLC is a great place to work". Staff highlighted communication and rewards for performance as key issues. NLC is now evaluating potential initiatives to target these issues.

A Code of Conduct has been developed that clearly communicates, explains, and outlines NLC's expectations of ethical conduct. The Code will be finalized in fiscal 2010-11 and made available to employees, Board Members, and contractors acting on NLC's behalf or working with NLC. Focus groups were held with employees to discuss areas of concern and to help identify solutions. Key results include an improved schedule for store employees and key operational and organizational changes within Supply Chain which created greater efficiency and effectiveness.

employee learning & growth

proud to be with NLC

NLC has continued to have a strong relationship with its union. Management and union officials met regularly this year with particular attention given to the interpretation and implementation of the new collective agreement, which was signed on February 25, 2009.

NLC continued its strong commitment to professional and personal development and growth of its employees with emphasis placed on increasing managerial skills (such as priority time management, performance coaching & development, conflict management & resolution, customer service capabilities, and product knowledge). In delivering this training, NLC utilized Memorial University of Newfoundland and Labrador's Gardiner Centre, the Retail Council of Canada, and Graff & Associates for the development of NLC's customer service program SERVE.

This year, NLC piloted a new position, Training Manager – Store Operations, which was focused on developing and implementing store specific programs and initiatives that led to increased staff capabilities and improved store performance. The value added by this role was significant, to the point that NLC is now considering making it a permanent position in 2010-11.

Measure:		
ELG 1.2 Training Spend per Employee		
09/10 Target:	09/10 Actual:	10/11 Target:
$1,050	$840	$1,060

09/10 Initiatives:

- Through the ACHIEVE program, supervisors and staff worked together to identify career goals and individual training programs. ✓
- Additional staff participated in customized training programs designed to improve managerial capability and operational performance. ✓
- NLC increased product knowledge training opportunities for store staff. ✓

employee learning & growth

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The training spend per employee this year does not appear to meet the target however, this is somewhat misleading. NLC has been utilizing internal expertise and contractual employees to provide training to other employees. Internal training, as it has no assigned monetary value, is not included in the actual result of $840. More significantly, NLC employees spent an average of almost 20 hours each in training this year.

NLC initiated the first phase of its review of management jobs, developing new position descriptions and updating others. NLC is also an active participant in Government's Job Evaluation System ("JES") initiative involving the development of a new evaluation system for unionized positions within the provincial public service.

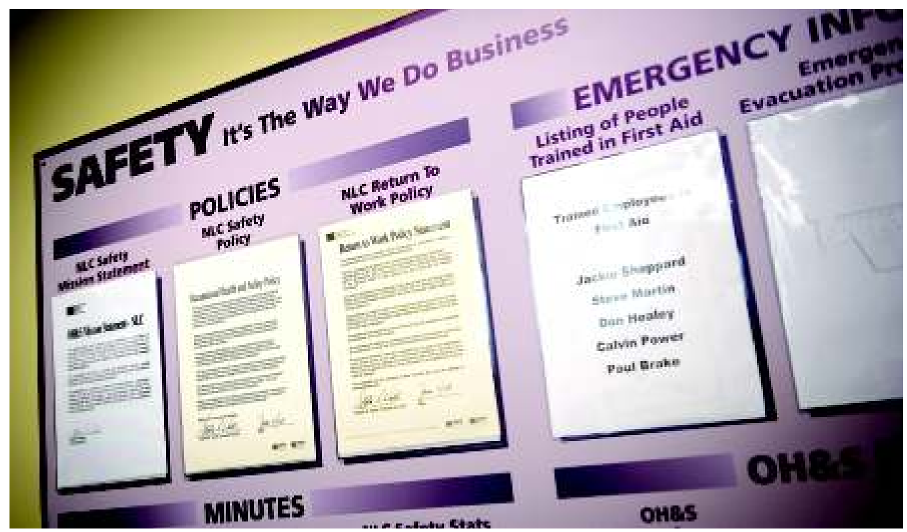
Objective ELG2 – Define Success and Celebrate It

ELG2 Measure

NLC will implement performance management processes and tools.

NLC was able to fully implement the ACHIEVE Performance Planning and Coaching Program throughout the organization over the past fiscal year. This was a first for many unionized staff and has been well received to date.

Strategy maps, which illustrate key strategic objectives, have been developed for all departments within NLC as well as the key performance indicators (measures), which form the basis of the department's scorecard.



employee learning & growth

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NLC's intranet site, the Grapevine, provided employees with increased access to information and tools. This year NLC installed communication boards in the back room of *Liquor Stores*, giving staff the opportunity to display key objectives, performance, and other store operations information.

The coming year will see a focus on defining and reporting on key performance indicators at all levels of the organization, and introducing initiatives to recognize outstanding employee contributions.

Objective ELG3 - Ensure a Safe, Healthy, and Respectful Workplace

ELG3 Measure

NLC will implement initiatives that protect employees and provide them the opportunity to attend work and to contribute to the best of their ability.

NLC's sick leave usage declined again this year to 9.4 days per employee per year. This was driven by increased visibility to statistics, continued education, and the introduction of an Attendance Management & Support Program.

Increased awareness of Occupational Health and Safety ("OH&S") led to a 23% decrease in employee injuries. NLC will continue to focus on providing a safe work environment and implement return to work plans for any employee who is unable to work due to injury.

NLC's response to the H1N1 pandemic was comprehensive and extremely effective as 94% of respondents to an internal survey agreed that NLC's preparation for the H1N1 pandemic met or exceeded their expectations. The impact of related absences on operations was negligible; far less than predicted. Response to the H1N1 pandemic led to a delay in the formal implementation of the OH&S Management Plan.

2009-10 initiatives also included the launch of a new Respectful Workplace Policy, an enhanced Employee & Family Assistance Program and a new Critical Incident Stress Management Policy.

NLC introduced Safety Boards in all work locations which communicated relevant safety information, policies, and tips to promote a safe work environment.

Measure:		
ELG 2.1 Employees with a Completed Performance Plan		
09/10 Target:	09/10 Actual:	10/11 Target:
90%	92%	95%

09/10 Initiatives:

- Full implementation of the ACHIEVE Performance Planning and Coaching Program. ✓
- Increased proliferation of departmental strategy maps and scorecards. ✓
- Initiatives to promote improved communication throughout NLC. ✓

Measure:		
ELG 3.1 Sick Leave Usage (days per year)		
09/10 Target:	09/10 Actual:	10/11 Target:
10.0	9.4	9.25

09/10 Initiatives:

- Implement a Disability/Attendance Management policy, implement a comprehensive OH&S program. ✓
- OH&S Awareness Initiatives. ✓
- National Disability Management Audit. ✓

opportunities & challenges ahead

2009-10 saw the implementation of the goals, measures, and indicators outlined in NLC's 2008-11 Business Plan. This document has continued to provide a framework from which the Corporation guides its employees, holds each business unit accountable, and ultimately measures the Corporation's collective success.

Success over the last fiscal year has been met with opportunities and challenges. As the Corporation plans for future success, each viable opportunity must be seized and challenges must be overcome through adherence to the Business Plan and strong leadership.

New bottling contracts will provide opportunity for increased net earnings. Investments in the bottling plant have put the Corporation in a position to secure new bottling contracts in the future and increase production capacity. Full implementation of new technologies will increase efficiencies, reporting capabilities and provide transparency of pertinent sales and user data information across all business units.

A complex customer base may present challenges to the Corporation to appeal to the diverse range of customer types. State of the art NLC retail store environments and employee engagement initiatives have built a foundation on which NLC can capitalize on new opportunities to tackle such challenges with confidence.

The Corporation must continue its development of a corporate culture that engages employees and recognizes excellent performance. Pursuit of existing strategies and confidence in the ability to attain the goals outlined in the plan will provide for another successful year for the Corporation and all stakeholders, from the Government to the people of Newfoundland and Labrador.


AIR MILES® Features
LAS MORAS
12 bonus
10 bonus
AIR MILES

financial statements

of Newfoundland Labrador Liquor Corporation

April 3, 2010

inside

auditors' report

To the Board of Directors of
Newfoundland Labrador Liquor Corporation

We have audited the balance sheet of the Newfoundland Labrador Liquor Corporation ("the Corporation") as at April 3, 2010 and the statement of earnings, retained earnings and cash flows for the 52- week period 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 April 3, 2010 and the results of its operations and its cash flows for the fiscal period then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

St. John's, Canada,
May 19, 2010.

Chartered Accountants

Newfoundland Labrador Liquor Corporation

Balance Sheet (in thousands)

	April 3, 2010	April 4, 2009 (restated - note 4)
ASSETS	$	$
CURRENT		
Cash and cash equivalents	27,500	20,679
Accounts receivable	5,885	4,461
Beer commissions receivable	5,360	5,598
Inventories (Note 6)	31,770	34,636
Prepaid expenses	2,607	1,959
	73,122	67,333
CAPITAL ASSETS (Note 7)	15,133	15,426
INTANGIBLE ASSETS (Note 8)	2,880	2,808
	91,135	85,567
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	24,544	25,973
Accrued vacation pay	1,912	1,704
	26,456	27,677
ACCRUED SEVERANCE PAY	2,364	2,513
	28,820	30,190
EQUITY		
RETAINED EARNINGS	62,315	55,377
	91,135	85,567

ON BEHALF OF THE BOARD:

CHAIRMAN OF THE BOARD

DIRECTOR

Newfoundland Labrador Liquor Corporation

Statement of Earnings (in thousands)

	52 weeks ended April 3, 2010	52 weeks ended April 4, 2009
	$	$
SALES	198,529	182,916
COST OF GOODS SOLD	83,710	76,944
GROSS PROFIT	114,819	105,972
ADMINISTRATIVE AND OPERATING EXPENSES (Note 9)	46,037	42,457
EARNINGS FROM OPERATIONS	68,782	63,515
OTHER INCOME		
Commission revenue on sale of beer	59,756	57,361
Interest	68	622
Miscellaneous	2,332	1,670
	62,156	59,653
NET EARNINGS	130,938	123,168

Newfoundland Labrador Liquor Corporation

Statement of Retained Earnings (in thousands)

	52 weeks ended April 3, 2010	52 weeks ended April 4, 2009
	$	$
BALANCE, BEGINNING OF YEAR	55,377	50,209
NET EARNINGS	130,938	123,168
	186,315	173,377
PAYMENTS TO THE PROVINCE OF NEWFOUNDLAND LABRADOR	(124,000)	(118,000)
BALANCE, END OF YEAR	62,315	55,377

Newfoundland Labrador Liquor Corporation

Statement of Cash Flows (in thousands)

	52 weeks ended April 3, 2010	52 weeks ended April 4, 2009
	$	$
OPERATING ACTIVITIES		
Net earnings	130,938	123,168
Adjustments for:		
Amortization	4,026	3,425
Accrual for vacation pay	208	303
Accrual for severance pay	(149)	85
Net change in non-cash operating working capital	(397)	763
	134,626	127,744
INVESTING ACTIVITIES		
Purchase of intangible assets	(1,159)	(1,701)
Purchase of capital assets	(2,646)	(3,340)
	(3,805)	(5,041)
FINANCING ACTIVITIES		
Payments to the Province of Newfoundland Labrador	(124,000)	(118,000)
Repayment of obligation under capital lease	–	(52)
	(124,000)	(118,052)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,821	4,651
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	20,679	16,028
CASH AND CASH EQUIVALENTS, END OF PERIOD	27,500	20,679

Newfoundland Labrador Liquor Corporation

Notes to the Financial Statements, April 3, 2010 (tabular amounts in thousands)

1. DESCRIPTION OF BUSINESS

The Newfoundland 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. FISCAL PERIOD-END

The fiscal period of the Corporation ends on the first Saturday of April. As a result, the Corporation's fiscal period is usually 52 weeks in duration but includes a 53rd week every 5 to 6 years. The fiscal periods ended April 3, 2010 and April 4, 2009 contained 52 weeks.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

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

Cash and cash equivalents

Cash and cash equivalents are defined as short-term deposits with original maturities of twelve months or less.

Inventories

Inventory is carried at the lower of average cost and net realizable value.

Capital assets

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

Leasehold improvements	1 to 20 years
Buildings	20 years
Office furniture & equipment	5 & 10 years
Plant & warehouse equipment	5 years
Store equipment & fixtures	5 years
Motor vehicles	3 years

Intangible assets

Intangible assets consist of a trademark and computer software assets not considered integral to the operation of the related hardware. The trademark is recorded at cost and amortized on a straight-line basis over a ten-year period. Computer software is recorded at cost and amortized on a straight-line basis over a five-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.

Financial instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are initially recorded in the balance sheet at fair value. In subsequent periods, loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost; held-for-trading financial assets and liabilities are measured at fair value and changes in fair value are recognized in net earnings, and available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income (loss) until the instrument is derecognized or impaired. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sale, normal purchase exemption. All changes in their fair value are recorded in earnings unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income (loss).

Newfoundland Labrador Liquor Corporation

Notes to the Financial Statements, April 3, 2010 (tabular amounts in thousands)

The Corporation classifies its financial assets and liabilities as follows:

Cash and cash equivalents are classified as held-for-trading financial assets. These assets are measured at fair value and changes in fair value are recognized in earnings.

Accounts receivable and beer commissions receivable are classified as loans and receivables and are measured at amortized cost, which is generally the amount on initial recognition.

Accounts payable, accrued liabilities and accrued vacation pay are classified as other financial liabilities and are measured at amortized cost, which is generally the amount on initial recognition.

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.

4. CHANGE IN ACCOUNTING POLICIES

Goodwill and Intangible Assets
Effective April 5, 2009, the Corporation adopted the recommendations of the Canadian Institute of Chartered Accountant's ("CICA") Handbook Section 3064, Goodwill and Intangible Assets. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standard requires that intangible assets to be segregated, presented separately on the balance sheet and amortized over their estimated useful lives. Intangible assets of the Corporation include a trademark and computer software and are amortized on a straight-line basis. The trademark is fully amortized while the computer software is amortized over five years. For the period ended April 3, 2010, this has resulted in the recognition of intangible assets, previously included in capital assets, in the amount of \$6.3 million (2009 - \$5.4 million) net of accumulated amortization of \$3.7 million (2009 - \$2.6 million). Amortization of \$1.1 million (2009 - \$0.7) is included in administrative and operating expenses for the period.

5. FUTURE ACCOUNTING POLICIES

International Financial Reporting Standards ("IFRS")
In October 2009, the Accounting Standards Board ("AcSB") issued a third and final Omnibus Exposure Draft confirming that publicly accountable enterprises in Canada will be required to apply IFRS, in full and without modification, for period-ends beginning on or after January 1, 2011. The Corporation's expected IFRS transition date of April 3, 2011 will require the restatement, for comparative purposes, of amounts reported on the Corporation's opening IFRS balance sheet as at April 4, 2010 and amounts reported by the Corporation for the period ended April 2, 2011.

In July 2009, CICA Handbook Section 1506, Accounting Changes, was modified such that it does not apply to changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. The requirement for all publicly accountable enterprises in Canada to apply IFRS, beginning for period- ends ending on or after January 1, 2011, represents a complete replacement of the Corporation's primary basis of accounting. CICA Handbook Section 1506, therefore, does not apply to the adoption of IFRS.

Newfoundland Labrador Liquor Corporation

Notes to the Financial Statements, April 3, 2010 (tabular amounts in thousands)

6. INVENTORIES

	April 3, 2010	April 4, 2009
	$	$
Head office	15,973	15,894
Branch stores	9,915	10,065
Stock in transit	4,930	7,254
Raw materials	952	1,423
	31,770	34,636

The total value of inventory expensed to cost of goods for the period ended April 3, 2010 amounted to $80.7 million (2009 - $74.9 million).

Notes to the Financial Statements, April 3, 2010 (tabular amounts in thousands)

7. CAPITAL ASSETS

	April 3, 2010		
	Cost	Accumulated amortization	Net book value
	$	$	$
Land	1,115	–	1,115
Leasehold improvements	15,649	8,338	7,311
Buildings	5,903	3,255	2,648
Office furniture and equipment	4,418	2,928	1,490
Plant and warehouse equipment	3,914	2,517	1,397
Store equipment and fixtures	3,762	2,625	1,137
Motor vehicles	77	42	35
	34,838	19,705	15,133

	April 4, 2009 (restated - noted 4)		
	Cost	Accumulated amortization	Net book value
	$	$	$
Land	1,115	–	1,115
Leasehold improvements	14,127	7,121	7,006
Buildings	5,837	3,050	2,787
Office furniture and equipment	4,028	2,507	1,521
Plant and warehouse equipment	3,730	1,914	1,816
Store equipment and fixtures	3,403	2,244	1,159
Motor vehicles	48	26	22
	32,288	16,862	15,426

During the period, the Corporation acquired capital assets in the amount of $3.8 million (2009 - $5.0 million).

Newfoundland Labrador Liquor Corporation

Notes to the Financial Statements, April 3, 2010 (tabular amounts in thousands)

8. INTANGIBLE ASSETS

	April 3, 2010		
	Cost	Accumulated amortization	Net book value
	$	$	$
Computer software	6,524	3,644	2,880
Trademark	203	203	–
	6,727	3,847	2,880

	April 4, 2009 (restated - noted 4)		
	Cost	Accumulated amortization	Net book value
	$	$	$
Computer software	5,368	2,562	2,806
Trademark	203	201	2
	5,571	2,763	2,808

Notes to the Financial Statements, April 3, 2010 (tabular amounts in thousands)

9. ADMINISTRATIVE AND OPERATING EXPENSES

	April 3, 2010	April 4, 2009
	$	$
Salaries and employee benefits	24,916	22,797
Express store commissions and expenses	4,845	4,887
Amortization	4,026	3,425
Rent and municipal taxes	2,448	1,979
Marketing	1,987	1,707
Interest, bank and payment card charges	1,583	1,416
Other	6,232	6,246
	46,037	42,457

Newfoundland Labrador Liquor Corporation

Notes to the Financial Statements, April 3, 2010 (tabular amounts in thousands)

10. FINANCIAL INSTRUMENTS

Market risk - foreign currency exposure

The Corporation purchases beverage alcohol internationally and is therefore exposed to market risks related to foreign currency exchange rate fluctuations. Such exposure arises from purchases of beverage alcohol in currencies other than the Canadian dollar. Approximately 3% of the Corporation's purchases are denominated in currencies other than the Canadian dollar. To perform a sensitivity analysis, the Corporation assesses the risk of loss in fair values due to the impact of hypothetical changes in foreign currency exchange rates on monetary assets and liabilities denominated in currencies other than the Canadian dollar. The Corporation's primary exposures to foreign currency exchange rate fluctuations are in European Euro, U.S dollar, Australian dollar, U.K pound sterling and New Zealand dollar. For the 52 weeks ended April 3, 2010, the potential decrease or increase in earnings from a hypothetical instantaneous 10% increase or decrease in the April 3, 2010 quoted foreign currency spot rates applied to the above currency denominated monetary assets and liabilities included in the April 3, 2010 balance sheet would have been approximately $0.02 million. To mitigate the potential risk with respect to foreign currency exchange rate fluctuations, the Corporation periodically adjusts the landed cost of its products to account for changing foreign currency exchange rates. The Corporation's retail prices are calculated in reference to landed cost.

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 no single customers that accounted for 10% or more of the Corporation's accounts receivable at April 3, 2010 (2009 – one customer accounted for more than 10%). 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. Customers with contracts related to the Corporation's manufacturing operation are required to provide adequate security for outstanding credit balances. 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.

Liquidity risk

The Corporation is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. The Corporation manages liquidity risk by maintaining adequate cash and cash equivalents. The

Newfoundland Labrador Liquor Corporation

Notes to the Financial Statements, April 3, 2010 (tabular amounts in thousands)

Corporation believes that cash and cash equivalents on hand and future cash flows generated by operations will be adequate to meet its financial obligations. All of the Corporation's financial liabilities are due within one year.

Fair values

Fair value estimates are made as of a specific point in time, using available information about the financial instruments and current market conditions. The estimates are subjective in nature and involve uncertainties and judgment. The carrying values of financial instruments included in current assets and current liabilities on the balance sheet approximate their fair values, reflecting the short-term maturity and normal trade credit terms of these instruments.

11. LEASE COMMITMENTS

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

	$
2010	1,927
2011	1,799
2012	1,523
2013	1,187
2014	1,084
	7,520

12. 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, leasehold and maintenance costs related to the buildings are the responsibility of the Corporation.

13. 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 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 amounted to $1.5 million (2009 - $1.3 million).

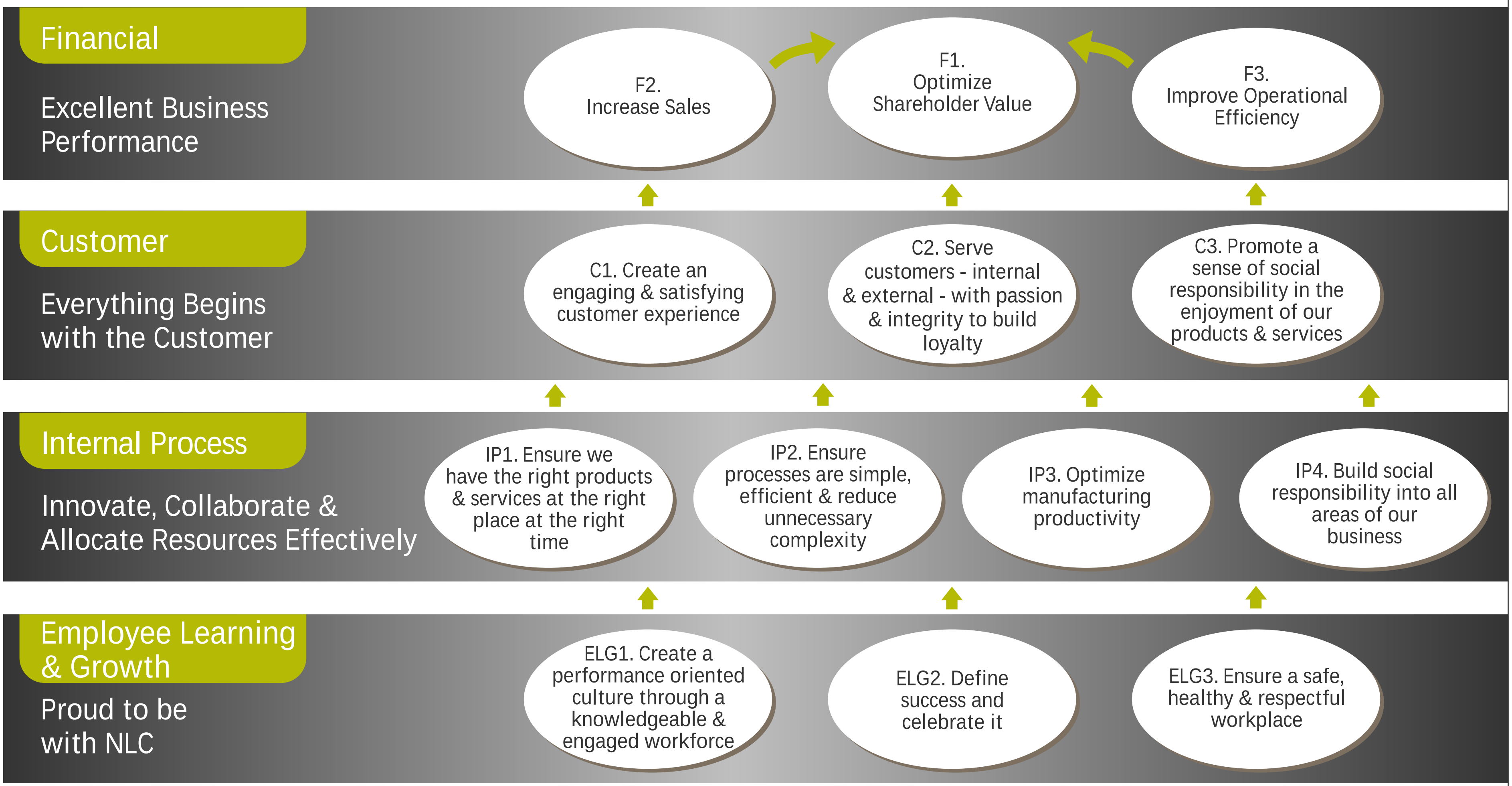
Newfoundland Labrador Liquor Corporation

Sales by Locations (thousands of dollars)

	2010
Kenmount Road*	31,555
Deer Lake*	18,478
Clarenville**	18,204
Howley Estates	14,126
Stavanger Drive	9,238
Merrymeeting Road	9,090
Pearlgate Plaza	8,408
Long Pond CBS	8,288
Corner Brook - Humber Gardens	7,640
Topsail Road	6,908
Kelsey Drive	6,499
Blackmarsh Road	6,361
Grand Falls-Windsor	5,263
Gander	4,985
Bay Roberts	4,967
Mount Pearl	4,686
Ropewalk Lane	4,517
Happy Valley	4,094
Stephenville	4,059
Labrador City**	3,827
Marystown	3,739
Carbonear	3,697
Corner Brook Plaza	2,902
Special events	2,527
Port aux Basques	1,983
Placentia	1,503
New Gower Street	984
TOTAL	198,529

appendix 1

NLC's Strategy Map – The Balanced Scorecard
2008 - 2011



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