NEWFOUNDLAND LABRADOR LIQUOR CORPORATION

2011 annual report

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. In addition, NLC has accepted responsibility 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."

NLC's 2008-11 Business Plan established objectives, goals and measures to help guide the Corporation to deliver on this mission. Looking back upon the past three years, it is clear that the Corporation has made significant gains. NLC has been recognized as an exceptional organization by way of awards and nominations from both provincial and national associations including the Newfoundland and Labrador Employers' Council and the Retail Council of Canada. The St. John's Board of Trade and AIR MILES Reward Program have presented NLC with awards for its sales and marketing efforts, and customer and employee surveys alike have garnered positive reviews of the Corporation's approach to retail programming and employee engagement and training practices. Further demonstration of NLC's progressive corporate culture and strong business performance is made evident by President and CEO Steve Winter's Top 50 CEO awards from Atlantic Business Magazine over the past three years.

The initiatives undertaken by NLC clearly demonstrate 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 key drivers of its success – customer focus and work environment. This, combined 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, marketing programs, staff education, employee engagement, social responsibility advocacy and partnerships, increased education and improved governance will enable NLC to meet and exceed expectations.

This annual report outlines NLC's success achieving the goals and objectives originally established and published in its 2008-11 Business Plan. One of the key deliverables of this past year was the development of a business plan for the next three years. This plan was finalized and delivered to the provincial government late in fiscal 2010-11. NLC's 2011-14 Business Plan was officially accepted in the first quarter of fiscal 2011-12. This plan will outline expectations for the next three years and will form the basis for the evaluation of the Corporation's performance.

inside

chairpersons message

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

After yet another successful year for NLC, I am proud to present the Corporation's 2010-11 Annual Report on behalf of the Board of Directors. This report has been prepared under my direction and the NLC Board is accountable for its contents.

This past fiscal year marked the end of NLC's 2008-11 Business Plan. This three year plan outlined an approach for 2008-11 which enabled the Corporation to progress towards and achieve its mission and vision. It promoted an understanding among all of NLC's stakeholders as to the Corporation's strategic priorities, performance criteria, and the environment within which NLC operates. Over the past three fiscal years, the plan provided guidance for all staff in their day-to-day decisions and actions that ultimately led to the execution of the Corporation's strategy. This Annual Report outlines key results, financial information and highlights from 2010-11, and also provides a summary of NLC's success reaching the goals outlined within the 2008-11 Business Plan.

In fiscal year 2010-11, NLC attained its dividend budget of $132.0 million with net earnings of $132.0 million. This financial success can be attributed to a sales increase in 2010-11 over fiscal 2009-10, Newfoundland and Labrador's robust economy, creative marketing and merchandising programs, continued consumer education, staff training, and improved customer service.

NLC demonstrated its value and commitment towards social responsibility through the education of customers and staff about the responsible sale and use of NLC products. The strong presence of the Check 25 program throughout Liquor Store locations increased awareness around this initiative and reinforced NLC's commitment to socially responsible retailing. The Corporation also supported community initiatives and charitable events, implemented energy reduction strategies and engaged in environmental best practices, further promoting its social responsibility objective.

The Corporation's success in achieving the goals outlined in the 2008-11 Business Plan is a direct result of the hard work from a dedicated and knowledgeable staff, and an accomplished CEO and Board of Directors. For a third consecutive year I would like to extend a warm congratulations to NLC's President and CEO, Steve Winter on receiving an Atlantic Business Magazine Top 50 CEO award. Steve Winter was honoured with this award in 2008, 2009 and again in 2010 for becoming one of Atlantic Canada's most accomplished business leaders. On behalf of the Corporation I would also like to recognize the Honourable Tom Marshall, Minister of Finance for his continued support. I look forward to the beginning of a new three year business plan with many opportunities for further achievements and success 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, implementing practices and initiatives that promote social responsibility in all areas of business, and by practicing intelligent consumption.

Professional

Each NLC employee and Board member will develop trusting relationships with internal and external 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 key stakeholders, internally and externally, to optimize returns from our operations. The Corporation will ensure expectations are defined and communication clear. NLC will recognize outstanding contributions and will look for opportunities to celebrate and develop strong relationships among staff.

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 sale of beverage alcohol through its 24 Corporate *Liquor Store* locations throughout the province. *Liquor Store* locations are dictated by population. *Liquor Stores* carry an extensive selection of spirits, wine, beer, 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 *Liquor Store* design, systems, sales, marketing, merchandising, human resources, and business operations fall under NLC jurisdiction.

Rock Spirits Brands

Screech Rum
Old Sam Rum
Ragged Rock Rum
Amherst Gate Whisky
Big Land Whisky
Newfoundlander's Rum
Cabot Tower Rum
Shiver Vodka
Shiver Gin
Charenac Brandy
George Street
Spiced Rum

Wholesale Sales

NLC's wholesale operations supply 122 *Liquor Express* agency operated locations and 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 beverage alcohol. These licenses totaled 1,797 as of April 2, 2011.

Bottling Contracts

Iceberg Vodka
Iceberg Gin
Iceberg Gold Rum
Iceberg Silver Rum
Crystal Head Vodka
Lemon Hart Rum
London Dock Rum
Smuggler's Cove
Dark Rum

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 1,119 outlets in the province as of April 2, 2011.

NLC issues special event licenses as temporary permits for non-profit events such as festivals, community celebrations and charitable fundraisers. These licenses totaled 883 in fiscal 2010-11.

Manufacturing

NLC's manufacturing operation consists of a blending and bottling plant. The operation was branded *Rock Spirits* during fiscal 2010-11. *Rock Spirits* 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 northeastern United States. *Rock Spirits* also blends, bottles, and distributes spirits on behalf of other suppliers. In fiscal 2010-11 production was 315,000 cases with a projected target for 2011-12 of 333,000 cases.

Regulatory Services

Overseeing the administration and ensuring compliance with appropriate legislation governing the sale and distribution of beverage alcohol is a primary responsibility of NLC. The functions associated with this line of business include: authorizing and issuing licenses in accordance with legislation, educating licensees, promoting compliance with legislation, investigating and enforcing relevant legislation and making recommendations on changes to legislation where appropriate. In addition, there is a conscious effort to raise public awareness of socially responsible consumption.


Check25
BACARDI
BREEZER

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 $132.0 million in fiscal 2010-11. This represents growth of $8.0 million (6.5%) over fiscal 2009-10. This dividend was paid entirely from operating cash flow. The dividend growth is the result of a 5.8% sales increase in fiscal 2010-11 over fiscal 2009-10, resulting in increased net earnings of $1.1 million (0.8%). 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.

Net earnings for fiscal 2010-11 were $132.0 million representing a 0.6% or $0.8 million decrease from the $132.8 million target. A robust economy in many areas serviced by NLC's *Liquor Stores* and *Liquor Express* along with creative marketing and merchandising programs contributed to sales growth of 5.8% over the prior year and 0.4% over the 2011 sales budget. The gross profit associated with these increased sales contributed an additional $4.2 million to the net earnings of the Corporation over the prior year. The gross profit was below target by $0.4 million principally due to lower production in the manufacturing division, therefore less revenue to absorb fixed overhead costs. Other

Measure:		
F 1.1 Dividend		
10/11 Target: (52 weeks)	10/11 Actual: (52 weeks)	11/12 Target: (53 weeks)
$132.0 million	$132.0 million	$138.0 million
10/11 Initiatives:		
• Regularly review financial expectations and performance with Government and Board. ✓		

Measure:		
F 1.2 Net Earnings		
10/11 Target: (52 weeks)	10/11 Actual: (52 weeks)	11/12 Target: (53 weeks)
$132.8 million	$132.0 million	$137.8 million
10/11 Initiatives:		
• Provide timely financial information aligned with management responsibility and accountability. ✓		

Sales by Product Category (millions of dollars)

	2011 Actual	2011 Target	Variance	Variance %	2010 Actual	Variance	% Variance
Spirits	113.8	115.0	(1.2)	-1.0%	111.1	2.7	2.4%
Wine	52.3	50.1	2.2	4.4%	47.4	4.9	10.3%
RTD	12.2	13.6	(1.4)	-10.3%	12.6	(0.4)	-3.2%
Beer	24.7	24.2	0.5	2.1%	22.0	2.7	12.3%

Measure:		
F 1.3 Earnings from Operations as a % of sales		
10/11 Target:	10/11 Actual:	11/12 Target:
34.7%	34.4%	34.8%
10/11 Initiatives:		
• Regular reviews of financial information by management with appropriate action taken to address issues. ✓		

income, which is principally related to the commission collected by NLC on domestic beer distribution to brewer's agents throughout the province, was lower than targeted by $0.5 million. Overall net operating expenses were 0.1 percentage points better than the budget as a percentage of sales volume.

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.

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 perspective. In fiscal 2010-11 earnings from operations as a percentage of sales was 34.4% which was below the target of 34.7% by 0.3 percentage points. There are two major factors influencing this target, gross profit percentage and operating expenses as a percentage of sales.

Net operating expenses as a percentage of sales was better than target at 22.3%, however, there has been some pressure on gross profit percentage due to lower than expected production volumes in the manufacturing division.

Objective F2 - Increase Sales

F2 Measure

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

Sales this year were $210.0 million which surpassed the target by $0.8 million. Strong sales performance is the result of a multifaceted approach to improving customer service including store layout and appearance, merchandising programs, consumer education, staff training, enabling technology, and the constant pursuit of understanding NLC's customers' needs.

Three of the four main product categories grew over the prior year with beer leading the way with a 12.7% increase followed by wine which increased 10.1%, and spirits with a 2.5% increase. RTD was lower than the previous year by 3.4%.

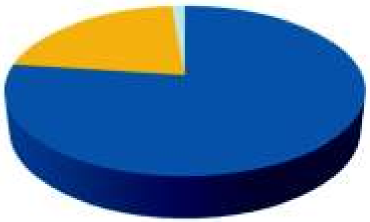
The beer category increase was the result of investments made in past years and this year in *Liquor Store* chill rooms as well as a focus on improving the selection of imported beers. As in the previous year, in March 2011, NLC introduced several new import beer products at Beer Fest and featured them in Beer Fest “Feature Sections” in Corporate *Liquor Stores*. In addition to the import beer growth, the 24 pack format has become increasingly popular with NLC customers offering better value and convenience relative to other formats.

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 continued 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.

Measure:		
F 2.1 Sales		
10/11 Target: (52 weeks)	10/11 Actual: (52 weeks)	11/12 Target: (53 weeks)
$209.2 million	$210.0 million	$220.0 million
10/11 Initiatives:		
• Review financial performance and address issues on a timely basis. ✓ • Develop and execute strategies for meeting customer needs and expectations. ✓		

Figure A - Sources of Revenue

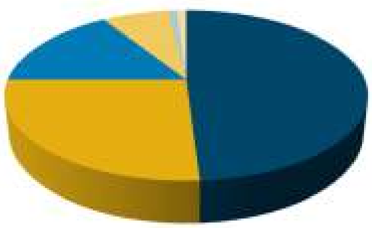
Fiscal Year 2011



77% Sales - Spirits, Wine, Ready-to-Drink, Beer
22% Commission Revenue on Sale of Beer
1% Other

Figure B - Application of Revenue

Fiscal Year 2011



49% Payments to the Province of Newfoundland and Labrador
26% Suppliers
16% Administrative Expenses
7% Federal Taxes
1% Equity
1% Purchase of Capital Assets

NLC has also continued to develop Bordeaux Futures offerings. The avid wine collectors in the province have responded positively to the Bordeaux Futures program. Outside the province, NLC's customer base for premium wines has also grown. This is an area NLC is looking to further develop in the coming years.

Gross profit for fiscal 2010-11 was $119.1 million, which was below target by $0.4 million. This 0.3% negative variance is principally due to below target production volumes in the manufacturing division as previously discussed. Category management is diligent in analyzing the 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.

Revenue per litre, with the exception of the beer category, which was slightly lower than 2010-11 target, was above target in each category. A price increase accompanied by increased sales of premium brands contributed to the

Measure:			
F 2.3 Revenue Per Litre			
Category	10/11Target:	10/11 Actual:	11/12 Target:
Spirits	$29.93	$30.21	$30.41
Wine	$15.05	$15.32	$15.16
RTD	$8.23	$8.27	$8.26
Beer	$5.06	$5.04	$5.16
10/11 Initiatives:			
• Provide educational opportunities for customers promoting appreciation for quality products. ✓			

revenue per litre increase in the spirits category. Promotions involving premium wines as well as Wine Fest sales growth and Bordeaux super premium wines positively impacted the revenue per litre in the wine category. The beer category was $0.02 below target primarily due to a greater than anticipated increase in the popularity of the 24 package size which offers greater value to customers.

As previously mentioned, customer education opportunities continued to grow with in-store sampling, ISG courses, and staff product knowledge training. Eight customer sampling events were held this year across the province. Popular events such as Wine Fest and Beer Fest were held as well as the second "A Taste of…" wine event presenting wines from Italy. 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.

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 22.3% which is 0.1 percentage points better than the target for 2010-11. Growing sales while maintaining and, where possible, reducing administrative and operating expenses as a percentage 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 Corporate *Liquor Stores.* These 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.

In fiscal 2010-11 NLC overall inventory turns were 3.2 turns per year on a target of 3.2. For NLC core products, inventory turns were 4.3 turns per year compared to a target of 4.0 turns per year while for non-core products the turns were 0.4 turns per year compared to a target of 0.5 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.

During 2010-11, NLC investigated a forecasting and replenishment software solution for the fulfillment of inventory for its Distribution Centre and *Liquor Stores*. This system will be implemented in fiscal 2011-12. Expected benefits from the system include increased forecast accuracy, reduced safety stock and increased inventory turns while maintaining in-stock service levels.

Order cycles were reviewed for several countries and suppliers in fiscal 2010-11 with more frequent reviews of orders implemented. This reduced inventory and increased inventory turns while not impacting service levels.

Measure:		
F 3.1 Operating Expenses as a % of Sales		
10/11 Target	10/11 Actual:	11/12 Target:
22.4%	22.3%	22.1%
10/11 Initiatives:		
• Regularly analyze expenses and take appropriate actions to address issues. ✓ • Continually look for opportunities to increase cost efficiency. ✓		

Measure:			
F 3.2 Inventory Turns Annually			
	10/11 Target	10/11Actual:	11/12 Target:
Overall	3.2	3.2	3.2
Core Products	4.0	4.3	4.3
Non-core Products	0.5	0.4	0.4

10/11Initiatives:

- Review order fulfillment process and implement initiatives to improve process. ✓
- Review ordering and shipping cycles. ✓

In 2010-11, NLC hired two new managers at its St. John's Distribution Centre to coordinate the timely delivery of products to *Liquor Store* and *Liquor Express* locations. During the fourth quarter of 2010-11, NLC entered into new contracts for inbound North American freight to service its distribution centres. These contracts came into effect in the first quarter of 2011-12.

YEAR ENDED APRIL 2, 2011

(In thousands of dollars)

	2011 Actual	2011 Target	Variance	% Variance	2010 Actual	Variance	% Variance
Sales	210,016	209,214	802	0.4%	198,529	11,487	5.8%
Cost of goods sold	90,952	89,775	1,177	1.3%	83,710	7,242	8.7%
Gross profit	119,064	119,439	(375)	-0.3%	114,819	4,245	3.7%
	56.7%	57.1%			57.8%		
Operating expenses	49,134	49,081	53	0.1%	46,037	3,097	6.7%
Other income from operations	2,275	2,207	68	3.1%	1,949	326	16.7%
Net operating expenses	46,859	46,874	(15)	0.0%	44,088	2,771	6.3%
	22.3%	22.4%			22.2%		
Earnings from operations	72,205	72,565	(360)	-0.5%	70,731	1,474	2.1%
Other income	59,808	60,263	(455)	-0.8%	60,207	(399)	-0.7%
Net earnings	132,013	132,828	(815)	-0.6%	130,938	1,075	0.8%
Dividend to Provincial Government	132,000	132,000	-	0.0%	124,000	8,000	6.5%

Figure C - Product Sales Volume (litres in thousands)

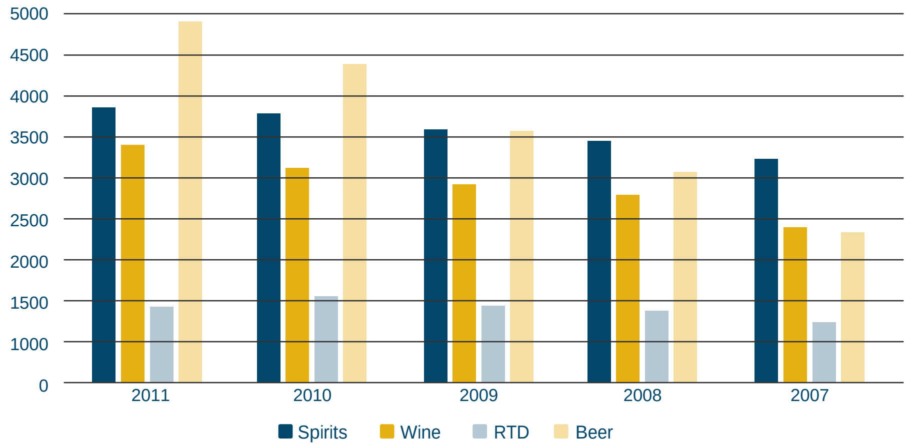


Figure D - Spirit Sales (litres in thousands)

	2011	2010	2009	2008	2007
Rum	1,894	1,875	1,812	1,764	1,663
Rye Whiskey	774	772	759	752	727
Vodka	509	479	451	416	379
Liqueurs	365	366	366	348	303
Scotch - other Whiskey	121	116	115	113	106
Gin	60	60	60	57	56
Brandy	21	21	22	23	24
Tequila	18	18	17	16	14
Cognac	4	3	3	3	3
Miscellaneous	1	1	1	1	1
	3,767	3,711	3,606	3,493	3,276

Includes sales in the province of Newfoundland Labrador only.

Figure E - Wine Sales (litres in thousands)

	2011	2010	2009	2008	2007
Table Wine	3,083	2,826	2,602	2,429	2,151
Sparkling and Champagne	251	244	235	228	212
Fortified Wine	74	79	83	85	84
Low Alcohol Wine	3	3	2	2	1
	3,411	3,152	2,922	2,744	2,448

Figure F - RTD and Cider Sales (litres in thousands)

	2011	2010	2009	2008	2007
RTD	1,402	1,465	1,436	1,386	1,311
Cider	69	67	52	38	25
	1,471	1,532	1,488	1,424	1,336

Figure G - Beer Sales (litres in thousands)

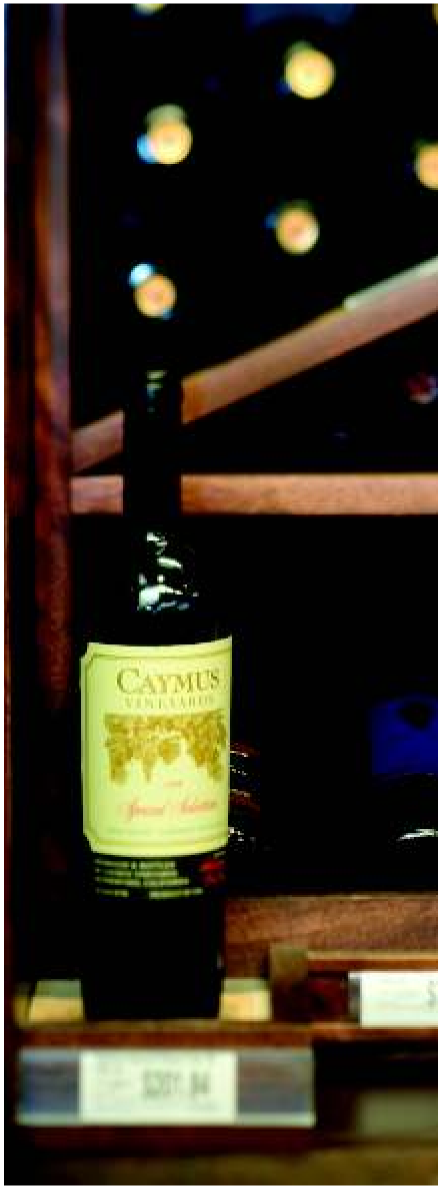
	2011	2010	2009	2008	2007
Local Beer	2,813	2,535	2,092	1,770	1,258
Imported Beer	1,985	1,761	1,404	1,254	1,107
Low Alcohol Beer	110	114	98	74	56
	4,908	4,410	3,594	3,098	2,421

Financial Perspective: Three Year Performance Summary

Measure	2008-09 Actual		2010-11 Actual	
F1.1 Dividend	$118.0 million		$132.0 million	
F1.2 Net Earnings	$123.2 million		$132.0 million	
F1.3 Earnings from Operations (as a % of sales)	34.7%		34.4%	
F2.1 Sales	$182.9 million		$210.0 million	
F2.2 Gross Profit	$106.0 million		$119.1 million	
F2.3 Revenue Per Litre	Spirits: $29.38 Wine: $14.89	RTD: $8.22 Beer: $4.87	Spirits: $30.31 Wine: $15.32	RTD: $8.27 Beer: $5.04
F3.1 Operating Expenses (as a % of Sales)	23.2%		22.2%	
F3.2 Inventory Turns Annually	3.0		3.2	

Overall, the Corporation has significantly improved financial performance in the past three years. Dividend, net earnings, sales, gross profit and operating expense targets improved well beyond the 2008-11 Business Plan's targeted improvements.

The change in product mix whereby wine and beer increased at a substantially greater rate than the higher gross profit percentage spirits product category was not anticipated. While this contributed to the increased sales and net earnings in 2010-11, it meant a 0.3 of a percentage point lower earnings from operations as a percentage of sales since 2008-09. A lower gross profit percentage in the manufacturing division due to lower than expected production volume also had a negative impact on this measure. Revenue per litre did improve in each product category during the 2008-11 period. Inventory turns annually were 0.2 of a turn better than 2008-09 despite the fact that the premium wine strategy was not originally factored into the plan. This opportunity meant a further investment in premium wines which, while lowering inventory turnover, provides greater profits on a per unit basis. As the Corporation executes the strategy for this wine category, becoming known as a source for avid wine collectors, it is expected inventory turnover will improve. Core product inventory turns have shown improvement during the 2008-11 period finishing at 4.3 turns per year in 2010-11.



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.

During 2010-11 NLC invested further in *Liquor Stores* through the renovation and construction of four Corporate stores. The *Liquor Store* located on Topsail Road in St. John's underwent major renovations to modernize the retail environment and to provide an improved shopping experience for customers. The Marystown *Liquor Store* relocated to a new site adjacent to Sobeys; the store now has more square footage compared to the former store and includes a Taste Station sampling machine as well as a walk-in cooler. The *Liquor Store* on Commonweath Avenue, Mount Pearl closed its doors and moved adjacent to the Sobeys grocery store on Old Placentia Road. Similar to Marystown, the new store was enhanced to include a Taste Station and a walk-in chill room all housed within a location with greater square footage. Lastly, Gander's *Liquor Store* was relocated from the Fraser Mall to a new facility adjacent to a Dominion supermarket. The new store, consistent with the new format of *Liquor Stores*, increased in square footage and now includes a Taste Station. The Marystown, Mount Pearl (Old Placentia Road) and Gander *Liquor Stores* are all situated next to grocery store outlets to provide customers with a convenient shopping experience.

An inventory capacity project commenced in 2010-11 which verified the capacity of each shelf set on *Liquor Store* retail floors to create optimal product listings for stores. The result of the project was to set standards for the capacity in *Liquor Store* storage areas which led to efficient space maximization. An optimal shelf capacity tool was also created to help with inventory process decisions. Floor plans are in development for all stores and will assist with the management of the inventory capacity project.

To ensure store management and staff possess the skills needed to provide excellent customer service, NLC focused considerably on training staff and enhancing product knowledge in 2010-11. Over 200 Online Product Knowledge Training courses were completed during the past fiscal year by Liquor Sales Clerks and Store Management throughout the province. This course builds confidence by increasing product knowledge and preparing staff to provide suitable product recommendations to customers. Each year, select NLC employees are given the opportunity to enroll in the ISG Wine Fundamentals courses which broadens knowledge and enhances one's appreciation of wine. Eighteen employees completed Level 1

Measure:		
C 1.1 Customer Survey Scores (Retail)		
10/11 Target:	10/11 Actual:	11/12 Target:
90%	97%	85%

10/11Initiatives:

- 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. ✓
- Implement new inventory capacity project for Corporate *Liquor Stores*. ✓

ISG this past fiscal year while six employees enrolled in Level 2.

In the fall of 2010, NLC and AIR MILES sent a satisfaction survey to customers for the fourth consecutive year. With over 1,500 customer responses, 97 percent indicated they were satisfied with their most recent visit to an NLC *Liquor Store*. Despite utilizing a more elaborate rating scale than in previous years, the Corporation surpassed its target of achieving a satisfaction level of 90 percent. Results from the survey assist NLC in gaining a greater understanding of customers and how to better serve their needs.

NLC continues to use AIR MILES customer segmentation data to effectively target customer groups with appealing promotions through direct mail and email campaigns. Furthermore, AIR MILES assists with the execution of in-store consumer promotions, adding value to shopping at *Liquor Stores*. One promotion for example, rewarded 50 Bonus AIR MILES reward miles to customers who spent $50 on NLC and $50 on Sobeys gift cards from December 3 - December 24, 2010. This program resulted in a 58% increase in transactions with gift card spend of $50 or more during the promotion. The Mega Miles promotions provide an opportunity for NLC to reward loyal customers by offering generous AIR MILES offers on various products. During fiscal 2010-11 three Mega Miles mini events were held which significantly increased retail sales of the products offering Bonus reward miles.

In April 2010, NLC offered the exciting customer promotion titled “Rip n Sip” for the second year. This promotion rewards loyal AIR MILES customers by providing them with a game card and a chance to win Bonus reward miles if they spend $40 or more and swipe their AIR MILES Collector Card. The success and positive customer feedback from this promotion provides merit for its continuation in future years. In 2010, the Corporation was presented with its second AIR MILES Marketing Excellence Award for “Best Promotions Across Canada” for the “Rip n Sip” promotion.

NLC's flyer was redesigned this year and was re-formatted to be included as an insert within Sobeys flyer. The new flyer is delivered directly to customer's homes through The Telegram newspaper's “Go Bag” and is made available in NLC and Sobeys stores. Partnering with Sobeys on this initiative created wider flyer distribution and has widely promoted Special Savings and Bonus AIR MILES offers. The flyer is now produced on a bi-weekly schedule as opposed to the former monthly distribution and includes new additions such as “Insiders Choice” which features a recommended product from an NLC Product Knowledge Consultant. The new flyer has proved its effectiveness by generating positive impact on total retail sales growth particularly with Bonus reward miles and discounted products. The Corporation's e-newsletter was redesigned in 2010 and now has greater visual appeal, is user-friendly and allows users to share content via social media. This redesign has led to growth in subscription rates.

The St. John's Board of Trade presented NLC with the award for “Marketing and Promotional Achievements” in 2010 for its “Avoid this Reaction” gift card campaign. This campaign was extended into the 2011 Christmas season with the focus on getting a big reaction by giving NLC gift cards. These promotions along with the introduction of specialty gift cards, that featured specific brands, resulted in record sales; gift card retail sales increased 46.6% in 2010-11 compared to the previous fiscal year.

The second phase of the entry level customer wine education program commenced in 2010; this phase used shelf cards with images of prepared meals and paired them with suitable wines. An image of a chicken dish for example, would be presented with a wine that pairs well with the meal. The Corporation's partnership with Spirit of Newfoundland Productions continued and in the summer of 2010, over 500 authentic Screech-Ins were hosted by local professionally trained performers at The Jighouse, NLC's *Liquor Store* located on New Gower Street in St. John's. The Jighouse offers the original Screech experience and celebrates the history and tradition of Screech in an entertaining environment.

In late 2010, Transcontinental Media along with NLC and its Atlantic Canadian liquor board partners undertook the project of a full redesign of Occasions magazine. Amongst the many changes to the publication, a modern wordmark was introduced along with a new font package and grid system designed to create a fresher, cleaner looking publication. Investment was also made behind the camera through the use of professional food stylists and photographers. The content of the publication, while remaining true to its element of producing inspiring but unintimidating articles on food and drink, adapted to include more direct input from the NLC's category management team and Senior Product Knowledge Consultant. The new look of Occasions was launched with the release of the spring 2011 edition.

In the fall of 2010, NLC launched its social media presence through Facebook and Twitter pages. These mediums allow NLC to engage in a two-way conversation with customers and create excitement around special events, promotions and contests. In 2011-2012 NLC's goal is to increase Facebook fans from 3,100 to 5,000 which will assist in furthering the engaging and satisfying customer experience.

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.

Sales per Over the Counter (OTC) transaction for 2010-11 exceeded target by $0.66 or 2% and increased to $33.21. OTC transactions refer to retail sales to customers from NLC's Corporate *Liquor Stores*.

The Corporation's Marketing department continued to work closely alongside the Merchandising and Store Operations departments to effectively merchandise products and ensure efficient use of available retail space. OTC transactions grew over 0.1 million from 2009-10 to 2010-11.

NLC continued to engage customers and create greater product awarenes through sampling at the various special events hosted by the Corporation in 2010-11. A total of eight events were held in Eastern, Central, and Western Newfoundland, all of which received positive feedback from consumers and suppliers. The second “A Taste of…” wine event was held at the St. John's Convention Centre and presented wines from Italy. It is anticipated these events will continue each year and feature wines from a different country. In May 2010, the Corporation hosted a Cos d'Estournel wine tasting at the Johnson Geo Centre. The event featured a guest speaker from Bordeaux, France and consumers enjoyed an unforgettable evening with a specially prepared menu paired with a selection of Cos d'Estournel wines. The additional events hosted by the Corporation in 2010-11 included Spirit Fest, Beer Fest, the California Wine Fair as well as Wine Fests in St John's, Gander, and Corner Brook. Customer satisfaction surveys continue to be sent to consumers following the special events to gauge satisfaction levels with the shows and to generate potential new ideas for the shows.

The 2010 Annual Report stated that NLC's Corporate internet site would be re-designed in the 2010-11 fiscal year. Although the new site is not yet public, information gathering took place with key stakeholders to create a requirements document in 2010-11. The Corporation will begin building a new site map and implementation plan for website deployment in fiscal year 2011-12.

Measure:		
C 2.1 Sales per OTC Transaction		
10/11 Target:	10/11 Actual:	11/12 Target:
$32.55	$33.21	Not Available*
10/11 Initiatives:		

- Constantly review NLC's Special Events portfolio. ✓
- Develop initiatives to gather feedback from customers. ✓
- Redesign NLC's Corporate internet site. ✓

** The 11/12 Target for measure C 2.1 Sales per OTC Transaction is not available as this measure has been changed in the 2011-2014 Business Plan and will no longer be reported on.*

Measure:		
C 3.1 Customer Survey Scores (Social Responsibility)		
10/11 Target:	10/11 Actual:	11/12 Target:
80%	78%	85%
10/11 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. ✓
- Further promote Check 25 through staff apparel. ✓

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.

The third wave of Check 25 was rolled out in fiscal 2010-11 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 the age of 19, but under the age of 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 was embossed on staff apparel to further promote the initiative. Furthermore, from January to March 2011, the *Liquor Store's* retail image program was dedicated to promoting awareness of the Check 25 program and reinforcing the importance of asking for ID when customers purchase beverage alcohol. Bright blue posters with simple phrases and eye catching visuals were noticeable throughout all Corporate stores and coordinated with sales clerks' apparel. The staff t-shirts and Check 25 posters will remain present in *Liquor Stores* on a yearly basis to further reinforce the initiative.

The Corporation's partnership with Hospitality Newfoundland and Labrador continued in 2010-11. The "It's Good Business" Server Training Program educates people in the industry regarding methods to ensure they serve consumers responsibly to promote intelligent consumption while growing their businesses by providing superior customer service. NLC requires all beverage alcohol servers at NLC events be certified under this program.

NLC's partnership with Mothers Against Drunk Driving (MADD) continued in 2010-11; all fees collected from ATMs in Corporate *Liquor Stores* were donated to MADD to support its initiatives. Over the past year, the number of ATMs in Corporate *Liquor Stores* tripled from four to 12 and over $18,000 was donated to MADD.

NLC continued to build on its environmental responsibility by encouraging customers to use reusable bags and further engaged customers in a plastic bag reduction strategy. A new six-bottle reusable bag with collapsible walls was introduced which allows for increased storage and greater convenience for customers. The successful implementation of biodegradable bags has led the Corporation to explore other uses of biodegradable materials in its day-to-day business.

The Corporation has also implemented numerous energy reduction strategies which include designing Corporate Liquor Stores to include LED lamps, using the latest technology in building automation systems and waste audits to reduce refuse sent to landfills.

In the 2010 Customer Satisfaction Survey to over 1,500 *Liquor Store* customers, 78% of respondents were satisfied with NLC's efforts in promoting social responsibility. This percentage fell just short of the goal of 80% satisfaction which is likely a result of the change to a more elaborate and stringent rating scale on the questionnaire.

Customer Perspective: Three Year Performance Summary

Measure	2008-09 Actual	2010-11 Actual
C1.1 Customer Survey Scores (Retail)	83%	97%
C2.1 Sales per OTC Transaction	$31.45	$33.21
C3.1 Customer Survey Scores (Social Responsibility)	87%	78%

From 2008 to 2011, the Corporation significantly improved customer service across all key customer segments. This goal set out in the 2008-11 Business Plan was achieved by creating an engaging and satisfying customer experience, by serving internal and external customers with passion and integrity to build loyalty, and by promoting a sense of social responsibility in the enjoyment of NLC's products and services. These three objectives were measured using customer survey scores (retail), sales per OTC transaction, and customer survey scores (social responsibility).

Customer satisfaction scores (retail) improved from 2008-09 by 14%. This high level of satisfaction was achieved by listening and responding to customer feedback. Customer satisfaction surveys were deployed in each of the past three years which provided customers with the opportunity to express their opinions about *Liquor Stores* and NLC in general. NLC's social networking channels provide another medium through which the Corporation can engage with customers. Other areas of focus over the past three years which have contributed to the higher than predicted satisfaction levels include continuous investment in *Liquor Stores*' retail environment, a focus on staff training and product knowledge, and monitoring customer needs and trends.

Sales per OTC transaction grew by $1.76 since 2008-09. This measure has increased steadily over the past three years. Throughout the timeline of the 2008-11 Business Plan the Corporation's Marketing department worked alongside the Merchandising, Store Operations, and Liquor Store Managers to ensure the efficient use of available retail space and to effectively merchandise products. The number of special events has increased over the past three years to keep up with consumer demand for interactive sampling events and based on the success of past events.

NLC launched new initiatives over the past three years to increase awareness around responsible consumption of beverage alcohol including widespread promotion of the Check 25 program. NLC departments now work closer together on social responsibility initiatives and the number of social responsibility partnerships have increased. During the past three fiscal years the Mystery Shopper program was launched and subsequent waves of mystery shops were performed. Overall, social responsibility messaging is more prominently displayed throughout *Liquor Stores* and has greater visibility.

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.

Measures

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 2010-11 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 (97%) and "C"'s (90%) all exceeded target.

Maintaining in-stock service levels is a balance between inventory levels, space requirements and product availability. NLC will continue to focus on physical inventory flow to ensure an optimum balance is maintained. During 2010-11, NLC investigated a forecasting and replenishment software solution for the fulfillment of inventory for its Distribution Centre and *Liquor Stores*. This system will be implemented in fiscal 2011-12. Expected benefits from the system include increased forecast accuracy, reduced safety stock and increased inventory turns while maintaining in-stock service levels.

An online ordering solution was implemented during 2010-11. The program allows timely and accurate submission of orders through the online process and also provides access to inventory levels. The program was launched to a number of *Liquor Express* and licensee customers during 2010-11 with additional *Liquor Express* and licensee customers expected to utilize the system in 2011-12.

Measure:		
IP 1.1 In-stock Service Level (Core Products)		
10/11 Target:	10/11 Actual:	11/12 Target:
95%	97%	95%
10/11 Initiatives:		

- Establish optimal order and shipping cycles for each product. ✓
- Review inventory management practices and warehouse layout. ✓

Objectives 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.

During 2010-11, NLC, in partnership with other liquor jurisdictions across the country, implemented an initiative to lower case weights for the products sold. This initiative will be complete by the end of fiscal 2011-12. This will be implemented to protect the health and safety of individuals handling products by reducing the weight of cases required to be lifted by employees. Once completed, the maximum case weight for products will be set at 18.9 kilograms for regularly listed products. Suppliers have adopted

Measure:		
IP 2.1 Process Improvement Compliance		
10/11 Target:	10/11 Actual:	11/12 Target:
90%	94%	Not Available*
10/11 Initiatives:		
• Departments to identify key process and technology improvement initiatives annually and report on success of implementation. ✓		

new forms of packaging to comply with the new maximum case weight including reducing the number of bottles in a case, switching to polyethylene terephthalate (PET) packaging, or switching to lighter weight glass. This initiative should reduce the number of injuries associated with lifting heavy cases.

Within NLC, technology is recognized as a true source to reduce costs, improve efficiency, and improve communication internally and externally. Some of the top opportunities for 2010-11 included full replacement of registers and back offices at all stores, upgrading the communications infrastructure, and automating processes such as payroll notices, backups, and manual integrations.

In 2010-11 NLC implemented the foundation for our evolving Business Intelligence solution with Phase 1 completed and delivering up to date sales and inventory information to all points of work within the Corporation.

Objective IP3 - Optimize Manufacturing Productivity

IP3 Measure

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

In 2010-11, the manufacturing operation incurred a net loss of $164,000 compared to targeted net earnings of $767,000. The financial results of the manufacturing operation is dependent on the production of other suppliers' spirits through bottling contracts. During 2010-11, production for key contract bottling customers was lower than anticipated.

Several factors contributed to this lower production; the U.S. economic downturn as shipments to the U.S. declined, the strong Canadian Dollar impacted U.S. shipments and expansion into other international markets was slower than expected.

Several key initiatives were implemented in 2010-11 and will continue to be implemented into 2011-12 to ensure the manufacturing operation returns to profitability:

✓ The manufacturing operation was branded *Rock Spirits*. This brand helps identify the operation to potential customers and suppliers.

✓ In May 2010, *Rock Spirits* produced the one millionth bottle of Crystal Head Vodka. This bottling agreement started as a 30,000 bottle project and has surpassed expectations. A five-year bottling contract was signed in May 2010 to be North America's exclusive supplier for Crystal Head Vodka. During 2010-11, Crystal Head Vodka expanded its packaging size to include 50ml and 1750ml bottles, both of which are produced by *Rock Spirits*.

✓ A five-year bottling contract was signed in May 2010 with Mosaiq Inc. to produce Lemon Hart Rum at NLC's manufacturing facility in St. John's. Lemon Hart is a centuries old rum savored by discerning rum drinkers around the world. In Canada, the Lemon Hart brand has long been the favorite choice of imported dark rum consumers.

✓ Several new products will be launched in the first quarter of 2011-12 including George Street Spiced Rum, Ragged Rock White Rum and PET bottled Screech, Old Sam and Ragged Rock.

✓ An integrated Materials Requirement Planning system was implemented in 2010-11 to coordinate raw materials purchases for production schedules.

✓ Investments in equipment over the past five years have positioned *Rock Spirits* for more bottling contracts.

Measure:		
IP 3.1 Net Earnings (Manufacturing)		
10/11 Target:	10/11 Actual:	11/12 Target:
$767,000	($164,000)	Not Available*
10/11 Initiatives:		
• Increase production through new contract bottling opportunities. ✓ • Reduce bottling line downtime. ✓ • Develop new products to satisfy customer demand. ✓		

** The 11/12 Targets for measures IP 2.1 Process Improvement Compliance and IP 3.1 Net Earnings (Manufacturing) are not available as these measures have been changed in the 2011-2014 Business Plan and will no longer be reported on.*

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

IP4 Measure

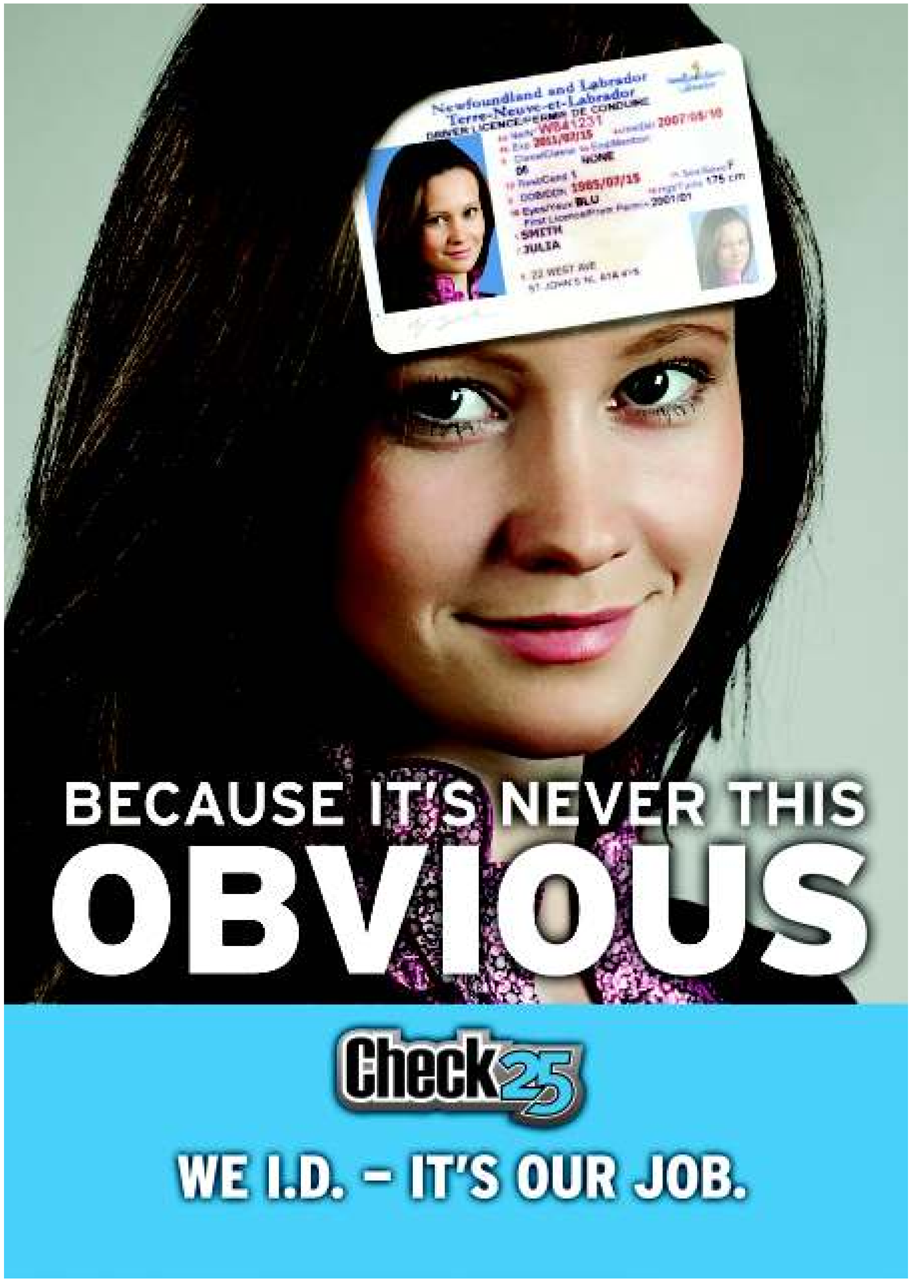
NLC will develop and implement standard operating procedures that reduce the risk that beverage alcohol is sold to inappropriate individuals.

The Check 25 program, whereby all customers who appear under 25 are asked for an ID, was aggressively promoted in-store and across several media in fiscal 2010-11. The result was that 7.0% of all transactions in NLC *Liquor Store* outlets were challenged – well beyond the target of 4.5%. NLC also contracted a third party to conduct mystery shops on a quarterly basis at NLC *Liquor Store* locations and other establishments retailing beverage alcohol such as *Liquor Express* locations and various brewers' agents across the province. Tickets to the majority of NLC's special events included taxi vouchers to dissuade attendees from drinking and driving.

Measure:		
IP 4.1 Number of Challenges as a % of Transactions		
10/11 Target:	10/11 Actual:	11/12 Target:
4.5%	7.0%	7.0%

10/11 Initiatives:

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




Before
You

Internal Processes: Three Year Performance Summary

Measure	2008-09 Actual	2010-11 Actual
IP1.1 In-Stock Service Level (Core Products)	91%	97%
IP2.1 Process Improvement Compliance	91%	94%
IP3.1 Net Earnings (Manufacturing)	($10,342)	($164,000)
IP4.1 Number of Challenges (as a % of Transactions)	2.7%	7.0%

In-stock service levels were 97% for fiscal 2010-11 compared to 91% in 2008-09. NLC has been able to maintain high in-stock service levels in addition to increasing inventory turns on core products.

Manufacturing net earnings were $153,658 lower than in 2008-09. The manufacturing operation depends heavily on the production of other supplier's spirits through bottling contracts. During the three year period, production for key contract bottling customers were lower than anticipated. Our budget is based on their predictions – which have not been met in many cases. This is outside our control. Several factors contributed to this lower production; the U.S. economic downturn as shipments to the U.S. declined, the strong Canadian Dollar impacted U.S. shipments and expansion into other international markets was slower than expected.

Despite these external factors, which had a negative impact on Net Earnings, the Corporation was able to steadily improve all other measures related to Internal Processes, and in doing so, deliver enhanced operational efficiencies in meeting customer expectations.

employee learning & growth

proud to be with NLC

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.

Objectives 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.

NLC's performance is a reflection of the cumulative performance and contribution of its employees. In fiscal 2010-11, NLC employed 778 employees, of which 431 were female and 347 were male. Of these employees, 529 were located in urban areas and 249 were located in rural areas. In fact, over the past five years, NLC's staff complement has increased 12% (i.e.: 64 full time equivalents (FTE) positions) from 469 FTEs in 2007 to 533 FTEs in 2011. Employees continue to deliver on performance expectations thereby enabling NLC to meet organizational performance goals. Further, NLC continues to develop a workplace and corporate culture that fosters pride and a drive for both employee and organizational success. Some of the initiatives contributing to this are described in the following section, as are some of the results of these efforts.

** 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.*

Measure:		
ELG 1.1 Employee Survey Scores		
10/11 Target:	10/11 Actual:	11/12 Target:
70%	Not Available*	70%
10/11 Initiatives:		

- Finalize and implement a Code of Conduct. ✓
- Collaborate and consult with union officials to create a harmonious labour relations environment. ✓
- Implement internal communication initiatives to receive and give employee feedback. ✓

** The 10/11 Actual for measure ELG 1.1 Employee Survey Scores is not available as the employee survey was delayed and will be completed in the 11/12 fiscal year.*

In the most recent employee survey, 71% of respondents described NLC as a "great place to work", with strong satisfaction with NLC health and safety, training, and base pay. NLC implemented a number of initiatives in response to concerns about communication and rewards for performance identified in the most recent employee survey. Focus groups were held with a variety of staff from all areas and levels of the organization – feedback was fed into the planning process for the development of the Corporate Business Plan for 2011-14. Improvements were made to NLC's internal communications portal, Grapevine, to make it easier for staff to navigate and to provide more information of relevance to employees.

NLC's 2011 annual employee survey was delayed due to priority being placed on obtaining employee feedback for input into development of the three-year Corporate Business Plan for 2011-14.

NLC continues its strong commitment to union consultation by engaging union representatives in issues affecting employees, through various committees (e.g. Labour Management, Occupational Health & Safety, problem solving groups, etc.) and on individual issues of concern.

The result is a strong, respectful, collaborative relationship with union officials which has benefited NLC and its employees.

NLC continued its focus on developing and strengthening the competencies of employees and translating this in a way that maximized employee and organizational performance. NLC increased the utilization of internal subject matter experts and extensive on-line training resources to improve employee capabilities, skills, knowledge and operational performance.

To deliver this training, NLC partnered with Memorial University of Newfoundland's Division of Life Long Learning and the HR Leadership Council and launched a series of self-directed, e-learning professional development courses that enhanced the leadership skills of staff which included training in such areas as coaching employees and teams, increasing employee productivity, project management and customer service. NLC launched the Microsoft e-learning solution that provided employees training access to the full suite of the Microsoft Product portfolio with the flexibility to learn at home or in the workplace. Additionally, employees availed of the Product Knowledge Course program (home study), hands-on teaching by NLC's Senior Product Knowledge Consultant, and courses offered through the ISG. Finally, NLC made the position of Training Manager – Store Operations permanent. This position focuses on developing and implementing store specific programs and initiatives that led to increased staff capabilities and improved store performance. Overall, the learning and growth initiatives covered all aspects of NLC's business and are leading to a tremendous internal pool of qualified

Measure:		
ELG 1.2 Training Spend per Employee		
10/11 Target:	10/11 Actual:	11/12 Target:
$1,060 (FTE)	$554 (FTE)	Not Available*
10/11 Initiatives:		

- Establish career goals for employees and provide educational support to promote their potential. ✓
- Establish minimum performance standards and provide training to ensure staff have appropriate training to be successful. ✓
- Assess job requirements, customer demands, and succession planning needs. ✓

** The 11/12 target for measure ELG 1.2 Training Spend per Employee is not available as this measure has been changed in the 2011-2014 Business Plan and will no longer be reported on.*

individuals for future succession planning.

It was noted that training spend was not a particularly effective performance indicator and, as such, NLC has dropped this indicator for a more relevant performance measure i.e. Training Time per FTE Employee with an established target for 2011-12 of 14 hours.

NLC continued with its review and classification of management positions, as well as its participation in the Government's Job Evaluation System (JES) initiative involving the development of a new evaluation system for unionized positions within the provincial public service.

NLC's efforts to create a progressive, performance oriented culture have not gone unnoticed. For the second consecutive year, NLC was a finalist for the Newfoundland and Labrador Employers' Council's Employer of Distinction award (large employer category) and a nominee for the Gold Star Agency Award from the International Personnel Management Association-Canada for its progressive human resources practices.

Objectives ELG2 – Define Success and Celebrate It

ELG1 Measure

NLC will implement performance management processes and tools.

During 2010-11, increased emphasis was placed on NLC's ACHIEVE Performance Planning and Coaching process in response to employees' feedback (focus groups held in the fall of 2010) and its effectiveness as a communication and development vehicle. Additionally, in the winter of 2011, a Pulse Survey was sent to employees requesting feedback on the ACHIEVE process. Eighty-one percent of respondents indicated they were satisfied with the ACHIEVE process however a number of recommendations were made to improve the ACHIEVE program which will be reviewed in 2011-12 to ensure continuous improvement of performance planning and coaching process with employees at NLC.

NLC also established Strategy Maps and Scorecards for all departments – this will help communicate departmental strategies, their performance targets, and their connection to the overall corporate strategy. Feedback from the Employee Focus Groups held in the fall of 2010 indicated that employees want improved communication to help them better understand objectives, key performance indicators (KPI's), targets and supporting initiatives contained in NLC's 2011-14 Business Plan and how their performance can influence the overall performance of the organization. During 2011-12 an internal communication strategy will be implemented to achieve this goal.

NLC also commenced the first phase of developing an electronic scorecard management tool (e-SCORE) by utilizing internal technology to generate greater measurement accuracy, efficiency, and ease the process of compiling and reporting the results of key performance indicators. Business Unit sessions commenced in late 2010-11 to refine departmental Strategy Maps & Balanced Scorecards to ensure alignment with NLC's 2011-14 Business Plan with full implementation of the e-SCORE application during 2011-12.

NLC also introduced “Celebrating Success: NLC Reward and Recognition Program”, in 2011-12. This program offers several initiatives to recognize employee performance and recognition, individually and as part of a group.

Finally, to improve overall internal communications within NLC, a new position will be introduced in 2011-12 with a duel focus on corporate social responsibility and employee communications.

Measure:		
ELG 2.1 Employees with a Completed Performance Plan		
10/11 Target:	10/11 Actual:	11/12 Target:
95%	95%	95%

10/11 Initiatives:

- Increase emphasis on the ACHIEVE Performance Planning and Coaching Program. ✓
- Focus on defining and reporting on key performance indicators at all levels of the organization. ✓
- Introduce initiatives to recognize outstanding employee contributions and improve communication. ✓

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 from 9.40 to 9.32 days per full time equivalent employee per year, although the target of 9.25 was not reached. The decrease was attributed to increased visibility of statistics, continued education, focus on NLC's Disability Management Program and the Attendance Management & Support Program. This year, NLC piloted a new position, Wellness Coordinator, which focused on early and safe return to work plans for employees who were away from work due to illness or injury. The value added by this role was significant to the point that NLC has expanded the accountabilities and making it a permanent position in 2011-12.

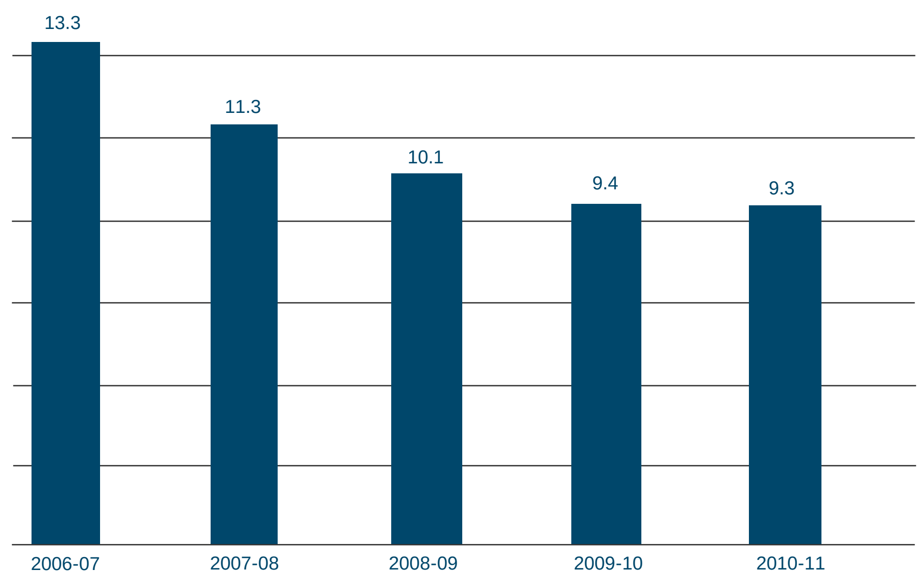
NLC's commitment to safety is further demonstrated by its qualification for rebates available through the Workplace Health Safety and Compensation Commission PRIME program each of the last three years and NLC's placement as a top quartile company in workplace accommodation.

Measure:		
ELG 3.1 Sick Leave Usage (days per year)		
10/11 Target:	10/11 Actual:	11/12 Target:
9.25 days/FTE	9.32 days/FTE	9.0 days/FTE

10/11 Initiatives:

- Implement a Disability/Attendance Management policy. ✓
- Implement a comprehensive OH&S program. ✓
- Healthy workplace assessment. ✓
- OH&S training initiatives. ✓
- National Disability Management Audit. ✓

Sick Leave Usage per FTE



Employee Learning and Growth: Three Year Performance Summary

Measure	2008-09 Actual	2010-11 Actual
ELG1.1 Employee Survey Scores	68%	Not Available*
ELG1.2 Training Spend per Employee	$1,000	$554
ELG2.1 Employees with a Completed Performance Plan	83%	95%
ELG3.1 Sick Leave Usage (days per year)	10.20	9.32

** The 11/12 Actual for measure ELG 1.1 Employee Survey Score is not available as the employee survey was delayed and will be completed in the 11/12 fiscal year.*

NLC clearly indicated in its 2008-11 Business Plan that its people were the foundation of its success – that organizational success is achieved through individual success. Hence, NLC focused its initiatives on those areas that could positively influence employee satisfaction as well as overall corporate performance. The targets that NLC established three years ago were, admittedly, challenging. However, given the success NLC has experienced over the past three years, it would appear its focus was well placed.

A June 2010 survey indicated that over 70% of employees agree that NLC is a great place to work. Given the diversity of motivators, perspectives, goals, circumstances, and roles of the various employees working at NLC, this score is considered a significant achievement as it speaks of the cumulative impact of all aspects of the culture and work environment at NLC.

Over the past three years, NLC's commitment to training was paramount. Core competencies for all roles were identified and training tailored to those competencies. This past year, although NLC consciously reduced training spend in order to achieve budgetary commitments, it has certainly spent more for training than $554 per employee once factors such as travel costs and replacement costs are factored in. Going forward, Training Spend will not continue to be a KPI due to the difficulty tracking true training costs but also because it does not represent quality or quantity of training received, which is considered a better performance indicator.

NLC also spent considerable time developing and instituting a performance planning and coaching program, ACHIEVE, which is a key tool for succession planning, communication, and employee development.

Sick leave usage provides insight into various critical elements of the business including safety practices, management-employee relations, and customer service. Lower absences means NLC operates more often with experienced staff whose knowledge and expertise greatly enhances the customer experience while at the same time improves operational efficiencies and lowers replacement costs. NLC's efforts to keep people on the job or to return them to their job as at full capacity or through accommodation have been extremely successful. NLC's culture is now one where an employee's presence is counted on and their contribution valued.

Finally, NLC has worked progressively and productively with union representatives. Consultation is frequent, open, and respectful. The result is a labour management relationship that enables issues to be addressed early and usually without third party involvement. This relationship has been critical to NLC's ability to create the work environment it currently enjoys.

The past three years have seen NLC undergo a significant cultural transformation and unprecedented success. NLC remains convinced that its success comes from motivated, customer focused, and knowledgeable employees who enjoy coming to work each day and will continue to operate under this belief.

opportunities & challenges ahead

2010-11 saw the final implementation of the goals, measures, and indicators outlined in NLC's 2008-11 Business Plan. Over the past three years, this document provided the framework by which the Corporation guided its employees, held each business unit accountable, and ultimately measured the Corporation's collective success.

During the first quarter of fiscal 2011-12, NLC will issue a request for proposals (RFP) for the lease of warehouse space. A new warehouse is required due to the historical and expected future growth of retail sales, the growth of the manufacturing operations and the layout of the current warehouse. This warehouse is expected to be ready for occupancy during fiscal 2012-13 and will provide NLC with improved capability to handle an increased number products in an efficient manner.

The development and launch of several new products by *Rock Spirits* early in fiscal 2011-12 will provide opportunity for increased earnings. Investments in equipment have positioned *Rock Spirits* to secure new bottling contracts in the future and increase production capacity.

Shifting demographics, such as the aging population of Newfoundland and Labrador and population movement are likely to present challenges to the Corporation in future years. It may be difficult to accurately predict the needs of a complex, highly demanding customer base. Consumer economic indicators are favourable however, and the increased strength of NLC's brand will assist the Corporation in facing such challenges with assurance.

The Corporation's achievement over the past fiscal year as well as over the past three fiscal years was not met without facing challenges and seizing opportunities. The new Business Plan for 2011-14 will guide the approach of the Corporation over the coming three fiscal years and enable it to progress towards the achievement of its mission and vision.

financial statements

of Newfoundland Labrador Liquor Corporation

April 2, 2011

inside

auditors' report

To the Board of Directors of
Newfoundland Labrador Liquor Corporation

We have audited the accompanying financial statements of Newfoundland Labrador Liquor Corporation which comprise the balance sheet as at April 2, 2011 and the statements of earnings, retained earnings, and cash flows for the 52-week period then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Newfoundland Labrador Liquor Corporation as at April 2, 2011 and the results of its operations and its cash flows for the 52-week period then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP
Chartered Accountants

St. John's, Canada,
June 10, 2011.

Newfoundland Labrador Liquor Corporation

Balance Sheet (in thousands)

	April 2, 2011	April 3, 2010
ASSETS	$	$
CURRENT		
Cash and cash equivalents	28,693	27,500
Accounts receivable	5,079	5,885
Beer commissions receivable	4,497	5,360
Inventories (Note 5)	32,702	31,770
Prepaid expenses	4,285	2,607
	75,256	73,122
CAPITAL ASSETS (Note 6)	13,515	15,133
INTANGIBLE ASSETS (Note 7)	2,927	2,880
	91,698	91,135
LIABILITIES & EQUITY		
CURRENT		
Accounts payable and accrued liabilities	24,675	24,544
Accrued vacation pay	2,240	1,912
	26,915	26,456
ACCRUED SEVERANCE PAY	2,455	2,364
	29,370	28,820
EQUITY		
RETAINED EARNINGS	62,328	62,315
	91,698	91,135

See accompanying notes

ON BEHALF OF THE BOARD:

CHAIRMAN OF THE BOARD

DIRECTOR

Newfoundland Labrador Liquor Corporation

Statement of Earnings (in thousands)

	52 weeks ended April 2, 2011	52 weeks ended April 3, 2010
	$	$
SALES	210,016	198,529
COST OF GOODS SOLD	90,952	83,710
GROSS PROFIT	119,064	114,819
ADMINISTRATIVE AND OPERATING EXPENSES (Note 8)	49,134	46,037
EARNINGS FROM OPERATIONS	69,930	68,782
OTHER INCOME		
Commission revenue on sale of beer	58,585	59,756
Interest	288	68
Miscellaneous	3,210	2,332
	62,083	62,156
NET EARNINGS	132,013	130,938

See accompanying notes

Newfoundland Labrador Liquor Corporation

Statement of Retained Earnings (in thousands)

	52 weeks ended April 2, 2011	52 weeks ended April 3, 2010
	$	$
BALANCE, BEGINNING OF YEAR	62,315	55,377
NET EARNINGS	132,013	130,938
	194,328	186,315
PAYMENTS TO THE PROVINCE OF NEWFOUNDLAND AND LABRADOR	(132,000)	(124,000)
BALANCE, END OF YEAR	62,328	62,315

See accompanying notes

Newfoundland Labrador Liquor Corporation

Statement of Cash Flows (in thousands)

	52 weeks ended April 2, 2011	52 weeks ended April 3, 2010
	$	$
OPERATING ACTIVITIES		
Net earnings	132,013	130,938
Items not affecting cash		
Amortization	4,568	4,026
Gain on disposal capital assets	(474)	-
Change in accrual for vacation pay	328	208
Change in accrual for severance pay	91	(149)
	136,526	135,023
Net change in non-cash working capital	(810)	(397)
	135,716	134,626
INVESTING ACTIVITIES		
Proceeds on disposal of capital assets	950	-
Purchase of capital assets	(2,078)	(2,646)
Purchase of intangible assets	(1,395)	(1,159)
	(2,523)	(3,805)
FINANCING ACTIVITIES		
Payments to the Province of Newfoundland and Labrador	(132,000)	(124,000)
	(132,000)	(124,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,193	6,821
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	27,500	20,679
CASH AND CASH EQUIVALENTS, END OF YEAR	28,693	27,500

See accompanying notes

Newfoundland Labrador Liquor Corporation

Notes to the Financial Statements, April 2, 2011 (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 five to six years. The fiscal periods ended April 2, 2011 and April 3, 2010 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 lives 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).

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. 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 3, 2010 and amounts reported by the Corporation for the period ended April 2, 2011.

The Newfoundland Labrador Liquor Corporation ["NLC"] conducted a comprehensive review of each area of IFRS that is expected to have a significant impact on the Corporation. At this point NLC is able to provide a summary of the expected adjustments to the balance sheet as part of the transition to IFRS, however, throughout the 52-week period ending April 7, 2012 the Corporation will continue to refine these adjustments and with the external auditors, work to finalize the technical position papers.

NLC will continue to evaluate developments in IFRS, including possible changes that may result from IFRS exposure drafts for revised standards.

Impact of IFRS on the Corporation

NLC has determined a number of areas where the transition to IFRS is expected to impact the financial statements. Following is a summary of the anticipated changes to the significant accounting policies resulting from the transition:

Provisions

Under IFRS, provisions are distinguished from accrued liabilities as liabilities of uncertain timing or amount. As a result, on transition to IFRS, the Corporation will reclassify certain balances previously included in accounts payable and accrued liabilities on the balance sheet to a separate line item entitled provisions. The reclassification will have no impact on opening equity.

A further implication of the transition to IFRS is an increase of the severance provision and the recognition of a sick days provision. The previous accounting policy for the severance provision was to accrue the entitlement upon the employee reaching nine years of service, which would subsequently be increased by additional entitlements as years of service were completed. Under IFRS, the Corporation will start recognizing an obligation to pay severance as of the moment an employee joins the Corporation, using assumptions with respect to retention. The impact as a result of the transition to IFRS will be an increase in the severance provision, with the offset recognized in retained earnings.

The Corporation was not required to recognize a liability for its obligation for accumulated sick days under Canadian generally accepted accounting principles ["GAAP"]. Under IFRS, a provision of such is required. The usage of sick days is limited to cover short-term disability periods and accumulated days are forfeited upon retirement or termination of the employment agreement. However, during the active service period, sick days do accumulate and at any given point during the employment period, employees are able to utilize the accumulated days to cover extended periods of illness. The Corporation estimates the provisions by using historical sick leave usage and retention averages. The expected impact on transition to IFRS is an increase to the provision, with the offset recognized in retained earnings.

Property, plant and equipment
As a result of the componentization of the Corporation's real estate and production equipment in accordance with IFRS, the Corporation anticipates it will increase the net book value of its property, plant and equipment [by decreasing the accumulated depreciation as at the transition date], with a corresponding increase in retained earnings.

For all categories, due to revising the estimated useful lives in accordance with IFRS, the Corporation anticipates an increase in the net book value of the fixed assets [also due to decreasing accumulated depreciation taken as at the transition date] and an increase in retained earnings by a corresponding amount.

Presentation differences
Under IFRS, NLC will present the beer commissions the Corporation earns on beer sales through its corporate stores as an adjustment to cost of goods sold, whereas under Canadian GAAP these were shown as revenue.

Under IFRS, NLC will present the commissions payable to *Liquor Express* operators as a reduction of revenue, whereas under Canadian GAAP these were shown in operating expenses.

Under IFRS, NLC will present the beer commission earned by the Corporation on sales of domestic beer through *Liquor Express* outlets and convenience stores as revenue, whereas this was shown as an other income item under Canadian GAAP.

5. INVENTORIES

	April 2, 2011	April 3, 2010
	$	$
Distribution centres	16,692	17,058
Branch stores	9,428	8,830
Stock in transit	5,923	4,930
Raw materials	659	952
	32,702	31,770

The total value of inventory expensed to cost of goods for the period ended April 2, 2011 amounted to $87.2 million (2010 - $80.7 million).

6. CAPITAL ASSETS

	April 2, 2011		
	Cost	Accumulated amortization	Net book value
	$	$	$
Land	704	–	704
Leasehold improvements	15,232	8,953	6,279
Buildings	5,029	2,473	2,556
Office furniture and equipment	4,585	2,669	1,916
Plant and warehouse equipment	3,868	2,965	903
Store equipment and fixtures	3,628	2,489	1,139
Motor vehicles	77	59	18
	33,123	19,608	13,515

	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

During the period, the Corporation acquired capital assets in the amount of approximately $2.1 million (2010 - $2.6 million).

7. INTANGIBLE ASSETS

	April 2, 2011		
	Cost	Accumulated amortization	Net book value
	$	$	$
Computer software	7,780	4,853	2,927
Trademark	203	203	–
	7,983	5,056	2,927

	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

During the period, the Corporation acquired intangible assets [computer software] in the amount of approximately $1.4 million [2010 - $1.2 million].

8. ADMINISTRATIVE AND OPERATING EXPENSES

	April 2, 2011	April 3, 2010
	$	$
Salaries and employee benefits	26,486	24,916
Express store commissions and expenses	5,025	4,845
Amortization	4,568	4,026
Rent and municipal taxes	2,629	2,448
Marketing	2,734	1,987
Interest and bank charges	1,761	1,583
Other	5,931	6,232
	49,134	46,037

9. 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 4% 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 2, 2011, the potential decrease or increase in earnings from a hypothetical instantaneous 10% increase or decrease in the April 2, 2011 quoted foreign currency spot rates applied to the above currency-denominated monetary assets and liabilities included in the April 2, 2011 balance sheet would have amounted to approximately $0.01 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 2, 2011 or April 3, 2010. 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 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 maturities and normal trade credit terms of these instruments.

10. LEASE COMMITMENTS

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

	$
2012	2,155
2013	1,834
2014	1,718
2015	1,698
2016	1,601
	9,006

11. 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.

12. 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 period amounted to $1.6 million [2010 – $1.5 million].

Newfoundland Labrador Liquor Corporation

Sales by Locations (thousands of dollars)

	2011
Kenmount Road*	32,739
Deer Lake*	18,661
Clarenville Distribution Centre*	16,615
Howley Estates	13,960
Merrymeeting Road	10,327
Stavanger Drive	9,807
Long Pond CBS	8,875
Pearlgate Plaza	8,496
Corner Brook - Humber Gardens	8,012
Topsail Road	7,244
Kelsey Drive	7,153
Blackmarsh Road	6,351
Grand Falls	5,728
Gander	5,600
Mount Pearl	5,280
Bay Roberts	5,129
Ropewalk Lane	4,972
Clarenville Store	4,568
Happy Valley	4,510
Labrador City*	4,367
Stephenville	4,209
Marystown	4,088
Carbonear	3,866
Corner Brook Plaza	3,123
Port aux Basques	2,287
Placentia	1,529
Special events	1,392
New Gower Street	1,066
TOTAL	210,016

** Denotes locations that also service express stores.*

appendix 1

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

Financial

Excellent Business Performance

- F2. Increase Sales
- F1. Optimize Shareholder Value
- F3. Improve Operational Efficiency

Customer

Everything Begins with the Customer

- C1. Create an engaging & satisfying customer experience
- C2. Serve customers - internal & external - with passion & integrity to build loyalty
- C3. Promote a sense of social responsibility in the enjoyment of our products & services

Internal Process

Innovate, Collaborate & Allocate Resources Effectively

- IP1. Ensure we have the right products & services at the right place at the right time
- IP2. Ensure processes are simple, efficient & reduce unnecessary complexity
- IP3. Optimize manufacturing productivity
- IP4. Build social responsibility into all areas of our business

Employee Learning & Growth

Proud to be with NLC

- ELG1. Create a performance oriented culture through a knowledgeable & engaged workforce
- ELG2. Define success and celebrate it
- ELG3. Ensure a safe, healthy & respectful workplace

NEWFOUNDLAND
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