NEWFOUNDLAND LABRADOR LIQUOR CORPORATION

2012 ANNUAL REPORT

TABLE OF CONTENTS

VISION AND MISSION

Vision

To be passionate about service in everything we do.

Mission

The Newfoundland Labrador Liquor Corporation (NLC or the Corporation) is mandated to oversee the manufacture, sale, and distribution of beverage alcohol within the province of Newfoundland and Labrador – with the expectation that it will generate revenue for the Government which will be reinvested for the benefit of the population. Furthermore, NLC will strive to ensure its mandate is conducted in a socially responsible manner. In NLC's view, these are the outputs expected of it – and they are not expected to change. To achieve these outputs, NLC has adopted the following mission:

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

The recent initiatives undertaken by NLC speak to its commitment to this mission. Success to date leaves NLC confident that this approach is the right one 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 us of the key drivers of our success – customer focus and our work environment. This, coupled with the attention to financial performance, keeps NLC focused on the key measures of success. NLC will continue to implement new initiatives aimed at achieving this mission – our focus on customer service, social responsibility advocacy, performance measurement, operational efficiencies, marketing programs, staff education, staff engagement, increased education promoting legislative compliance, and improved governance will enable NLC to meet and exceed expectations. NLC will constantly strive to achieve this mission with the expectation that, in so doing, it will undertake initiatives that optimize its value to the Government and the people of Newfoundland and Labrador.

CHAIRPERSON'S MESSAGE

Welcome to NLC's 2012 Annual Report. I am pleased to present this report on behalf of the Corporation's Board of Directors following another successful year. The Board is accountable for the contents of this report which was prepared under my direction.

This Annual Report addresses the strategic priorities and performance criteria of the first reporting period of NLC's three year Business Plan. This plan outlines the Corporation's approach from 2011 to 2014 to enable NLC to progress towards its mission and vision. The Business Plan provides direction and strategic priorities until 2014 and outlines the criteria by which the Corporation's results will be measured. It is expected that NLC will build on its past success and further its position as a good corporate citizen that focuses on superior customer service, a progressive corporate culture, and excellent financial performance while staying true to its commitment to social responsibility.

NLC returned a distribution of $138.0 million in fiscal 2012 to the Corporation's shareholder, the provincial Government of Newfoundland and Labrador. Total net earnings for the year were $141.8 million which surpassed the target of $137.8 million. This financial success can be attributed to improved customer service, staff training, improved shopping experience, better product selection, as well as marketing and merchandising strategies which resulted in an increase in sales.

An important responsibility of NLC is to sell its products in a socially responsible manner by keeping beverage alcohol out of the wrong hands, giving back to the community, and caring for the environment. The Corporation continued its Check 25 program in fiscal 2012 whereby sales associates ask customers to show ID if they appear to be under the age of 25. To give back to the communities it serves, NLC supported numerous community and charitable organizations by donating dollars, goods, services and professional expertise throughout the past year. The Corporation also continued its energy reduction strategies and environmental initiatives.

I would like to thank the Government of Newfoundland and Labrador for its continued support and in particular, the Honourable Tom Marshall, Minister of Finance. Furthermore, I would like to congratulate Steve Winter and his entire team for the commendable results achieved during the 2012 fiscal year. The coming year marks the second year of NLC's three year Business Plan and I look forward to continued success.

Sincerely,

Glenn Tobin

Steve Winter,
President & CEO

Glenn Tobin,
Chairperson of the Board

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 our products and by practicing intelligent consumption. NLC will actively contribute to the communities within which it operates. Finally, NLC will seek to operate in an environmentally friendly manner.

Professional

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

Teamwork

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

Initiative

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

Accountability

NLC employees and Board members recognize that each individual is personally responsible for ensuring that expectations are understood and will take the appropriate actions to ensure that these are met. Individuals will seek feedback to confirm 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. Population density influences the location of Corporate *Liquor Stores*. Currently, these stores are situated in the following localities:

- St. John's (8 stores)
- Corner Brook (2 stores)
- Mount Pearl (2 stores)
- Conception Bay South
- Happy Valley-Goose Bay
- Clarenville
- Labrador City
- Bay Roberts
- Stephenville
- Carbonear
- Placentia
- Marystown
- Gander
- Grand Falls-Windsor
- Port aux Basques

Liquor Store outlets carry an extensive selection of spirits, wine, beer, and "ready to drink" (RTD) alcoholic beverages. Some products are imported from around the world, while other spirits, wine, and beer are locally produced. *Liquor Store* staff members are all direct employees of NLC. All aspects of business operations including store design, sales, marketing, merchandising, information technology, and human resources are managed by the Corporation.

Wholesale Sales

NLC's wholesale operations supply 131 *Liquor Express* agency operated stores and over 1,700 licensees. This group accounts for close to 35 percent of NLC's annual sales. *Liquor Express* stores are normally located in areas of the province that do not have the population to support a Corporate store and involve an arrangement whereby an individual or corporation applies for the right to sell beverage alcohol in a retail environment. *Liquor Express* stores have limited selection and service relative to a *Liquor Store*. *Liquor Express* operators receive a commission from NLC on the product they sell. Licensees include bars, lounges, and restaurants that are licensed by NLC Regulatory Services to purchase product that is resold to their customers in the operation of their business.

Regulatory Services

Developing, recommending, and ensuring compliance with appropriate legislation governing the sale and distribution of beverage alcohol continues to be a primary responsibility of NLC. The functions associated with this line of business include: recommending legislation, enforcing relevant legislation, and investigating potential violations, including laying charges and imposing penalties against those in violation of this legislation. A key component of the Regulatory Services mandate is the education of licensees, agencies, and the general public in regards to the legislation and how it impacts them in order to promote responsible sale and consumption of beverage alcohol.

Manufacturing

NLC's manufacturing operation, *Rock Spirits*, consists of a blending and bottling plant. NLC has developed recipes for various spirits and owns the rights to certain brands. These products are blended and bottled at the manufacturing facility in St. John's. They are sold locally, to other liquor jurisdictions in Canada, and to the northeast United States. NLC also blends, bottles, and distributes spirits on behalf of other suppliers. Investments have been made in the manufacturing operations to strengthen NLC's position in regards to securing new contracts and to maintain and grow production under current contracts.

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

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

The following products are bottled under contracts:

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

FINANCIAL

PERSPECTIVE

EXCELLENT BUSINESS PERFORMANCE

Goal

By 2014, NLC will have improved its financial performance.

Measure

By 2014, NLC's financial performance has improved.

Objective F1 - Optimize Shareholder Value

F1 Measure

NLC will implement initiatives to optimize shareholder value by balancing financial return within the context of a socially responsible organization.

NLC met its distribution target of $138.0 million in fiscal 2012. This represents growth of $6.0 million over fiscal 2011. In comparing fiscal 2012 to the previous year it is important to note fiscal 2012 was a 53 week year compared to a 52 week year in fiscal 2011. This distribution was paid from operating cash flow.

Financial information is prepared and reviewed with management and NLC's Board of Directors on a timely basis. NLC results are reported to the Government of Newfoundland and Labrador on a quarterly basis. Legislation review continued throughout the year in regards to the Liquor Control Act and the regulations under the Liquor Control Act.

Measure: F 1.1 Distribution‡

11/12 Target: (53 weeks)	11/12 Actual: (53 weeks)	12/13 Target: (52 weeks)
$138.0 million	$138.0 million	$139.7 million

11/12 Initiatives:

- Regular review of financial expectations and performance with Government and Board ✓
- Pursue revised legislation governing NLC operations ✓

Measure: F 1.2 Net earnings

11/12 Target: (53 weeks)	11/12 Actual: (53 weeks)	12/13 Target: (52 weeks)
$137.8 million	$141.8 million	$140.8 million

11/12 Initiatives:

- Monitor financial performance and take appropriate action to address issues ✓

Measure: F 1.3 Earnings from operations

11/12 Target: (53 weeks)	11/12 Actual: (53 weeks)	12/13 Target: (52 weeks)
$76.5 million	$79.7 million	$80.6 million

11/12 Initiatives:

- Regular review of financial performance with key management staff ✓
- Track key financial indicators regularly and take action as appropriate ✓

YEAR ENDED APRIL 7, 2012 (In thousands of dollars)

	2012 Actual (53 weeks)	2012 Target (53 weeks)	Variance	% Variance	2011 Actual* (52 weeks)	Variance	% Variance
Sales	227,693	219,980	7,713	3.5%	210,016	17,677	8.4%
Cost of goods sold	100,062	94,983	5,079	5.3%	91,202	8,860	9.7%
Gross profit	127,631	124,997	2,634	2.1%	118,814	8,817	7.4%
	56.1%	56.8%			56.6%		
Operating expenses	52,222	52,006	216	0.4%	48,464	3,758	7.8%
Other income from operations	4,242	3,492	750	21.5%	2,524	1,718	68.1%
Net operating expenses	47,980	48,514	(534)	-1.1%	45,940	2,040	4.4%
	21.1%	22.1%			21.9%		
Earnings from operations	79,651	76,483	3,168	4.1%	72,874	6,777	9.3%
Other income	62,145	61,335	810	1.3%	59,808	2,337	3.9%
Net earnings	141,796	137,818	3,978	2.9%	132,682	9,114	6.9%
Distribution to the province of Newfoundland and Labrador	138,000	138,000	-	0.0%	132,000	6,000	4.5%

2011 financial information revised due to the impact of implementation of International Financial Reporting Standards as described in the notes to the financial statements.

‡*The term distribution was previously referred to as dividend and is changed to more accurately reflect the nature of the transaction.*

Meetings were held with the Department of Finance and suggested updates and revisions are currently under consideration. This review will continue into fiscal 2013.

Net earnings were $141.8 million for fiscal 2012 which exceeded the target of $137.8 million by $4.0 million; a 2.9 percent positive variance. The increase in net earnings over target is principally attributable to product sales exceeding target by $7.7 million or 3.5 percent. Sales were $227.7 million against a target of $220.0 million. Earnings from operations were $79.7 million which exceeded target by $3.2 million or 4.1 percent.

International Financial Reporting Standards (IFRS) which were adopted in this fiscal year dictated a presentation reporting format for the financial statements found on pages 23-46 of this report. The measures included in NLC's Business Plan are reflective of how management measures results internally which is the format presented on the chart on page five.

Measure: F 2.1 Sales

11/12 Target: (53 weeks)	11/12 Actual: (53 weeks)	12/13 Target: (52 weeks)
$220.0 million	$227.7 million	$230.4 million

11/12 Initiatives:

- Review financial performance weekly with store managers ✓
- Store managers to discuss financial performance and goals with store staff daily ✓

Measure: F 2.2 Gross profit

11/12 Target: (53 weeks)	11/12 Actual: (53 weeks)	12/13 Target: (52 weeks)
$125.0 million	$127.6 million	$129.3 million

11/12 Initiatives:

- Develop a pricing strategy that optimizes balance between revenue generation and social responsibility ✓

Measure: F 2.3 Revenue per litre (by product category)

Category:	11/12 Target:	11/12 Actual:	12/13 Target:
Spirits	$30.41	$30.75	$30.84
Wine	$15.16	$15.90	$15.90
RTD	$8.26	$8.13	$8.05
Beer	$5.16	$5.20	$5.28

11/12 Initiatives:

- Implement customer education and merchandising initiatives that promote buying better, not more ✓

A key part of NLC's successful financial performance over the past fiscal year was the regular review of financial performance against targets and the tracking of key financial indicators. Management in all areas of the business reviewed financials on a timely basis which allowed action to be taken against any issues.

Optimizing shareholder value involves finding the right balance between revenue generation and the responsible retailing of beverage alcohol. NLC's financial goals are established with this in mind. The preferred method of achieving these goals is to offer customers a wide selection of products at varying price points rather than maximizing sales through increased volume. A focus on employee training, customer education, as well as strategic marketing and merchandising programs led customers to purchase better quality products as evidenced by the increased revenue per litre in the spirit, wine and beer categories.

Objective F2 - Grow Sales

F2 Measure

NLC will implement initiatives that lead to improved sales without interfering with its commitment to social responsibility.

Sales growth continued in the 2012 fiscal year due to the robust economy, marketing programs which educate and excite customers in regards to product selection, along with a warm and inviting store layout.

Sales by Product Category (millions of dollars)

	2012 Actual (53 weeks)	2012 Target (53 weeks)	Variance	Variance %	2011 Actual (52 weeks)	Variance	% Variance
Spirits	120.2	116.9	3.3	2.8%	113.8	6.4	5.7%
Wine	58.9	55.4	3.5	6.3%	52.3	6.7	12.8%
RTD	12.5	12.6	(0.1)	(0.8%)	12.2	0.3	2.6%
Beer	27.2	27.0	0.2	0.8%	24.7	2.4	9.9%

The expansion of amenities, such as chilled wine sections, Taste Stations and Product Knowledge Consultants in NLC Corporate *Liquor Stores* all serve to showcase the product selection which has a positive impact on sales. The in-stock service level of 96 percent ensures that the product a customer desires is obtainable the majority of the time. In addition to the high in-stock service level, customers can avail of a special order process should a product not be listed by NLC. Special orders can come from anywhere in the world.

Customer service is paramount at NLC and the sales growth demonstrates success in the Corporation's approach to such service. Sales performance and other key financial information are reviewed weekly with Store Managers, while sales reports and sales goals are reviewed with store staff on a daily basis.

Three of the four main product categories exceeded the targets and all exceeded the prior year sales levels. The wine product category had the highest percentage increase over target with a 6.3 percent increase.

Gross profit for fiscal 2012 was $127.6 million which exceeded the target of $125.0 million by $2.6 million or 2.1 percent. This positive variance is the direct result of sales exceeding target by $7.7 million. The pricing strategy used by NLC ensures a mix of products is available to customers at varying price points. This approach supports the goal of increasing revenue while maintaining a balance with social responsibility by encouraging customers to purchase more premium products as opposed to increased volume.

Revenue per litre was above target for all product categories with the exception of the RTD category. A price increase accompanied by increased sales of premium brands contributed to the revenue per litre increase in the spirits and beer product categories. The increase in revenue per litre in the wine product category is attributed to increased customer knowledge through in-store sampling, Wine Fests and product knowledge training. The Bordeaux futures program continues to attract customers not just locally but internationally. Customer education has proven to be effective in the promotion of quality products which in turn positively impacts revenue per litre. The RTD category was below target by $0.13 or 1.6 percent due to the popularity of new economy brand products which, while generating new interest in the category, did place downward pressure on revenue on a per litre basis.

In fiscal 2012, NLC implemented numerous initiatives in regards to product promotion, customer and staff education and pricing policies – all of which led to NLC achieving its sales objective. Furthermore, these initiatives were designed with an overriding objective to promote responsible consumption.

Figure A - Sources of Revenue

Fiscal Year 2012

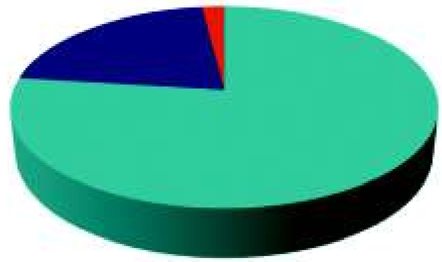


Figure B - Application of Revenue

Fiscal Year 2012

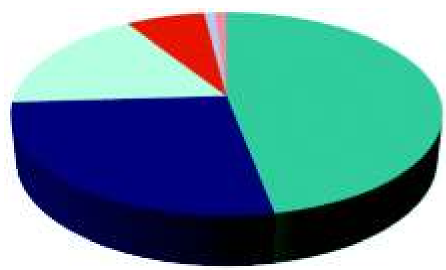


Figure C - Annual Product Sales Volume (litres in thousands)

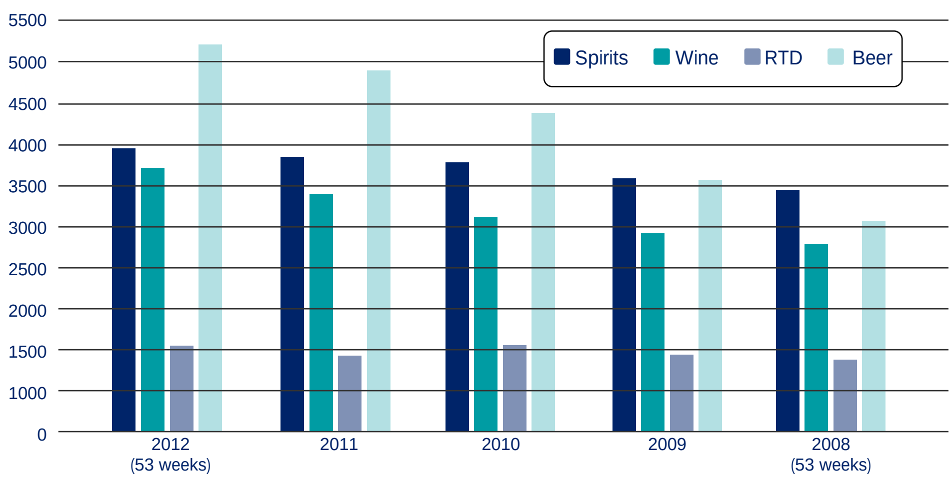


Figure D - Spirit Sales (litres in thousands)

	2012 (53 weeks)	2011	2010	2009	2008 (53 weeks)
Rum	1,962	1,894	1,875	1,812	1,764
Rye Whiskey	800	774	772	759	752
Vodka	537	509	479	451	416
Liqueurs	375	365	366	366	348
Scotch - other Whiskey	132	121	116	115	113
Gin	59	60	60	60	57
Brandy	21	21	21	22	23
Tequila	19	18	18	17	16
Cognac	4	4	3	3	3
Miscellaneous	1	1	1	1	1
	3,910	3,767	3,711	3,606	3,493

Includes sales in the province of Newfoundland Labrador only.

Figure E - Wine Sales (litres in thousands)

	2012 (53 weeks)	2011	2010	2009	2008 (53 weeks)
Table Wine	3,363	3,083	2,826	2,602	2,429
Sparkling and Champagne	263	251	244	235	228
Fortified Wine	72	74	79	83	85
Low Alcohol Wine	4	3	3	2	2
	3,702	3,411	3,152	2,922	2,744

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

	2012 (53 weeks)	2011	2010	2009	2008 (53 weeks)
RTD	1,455	1,402	1,465	1,436	1,386
Cider	80	69	67	52	38
	1,535	1,471	1,532	1,488	1,424

Figure G - Beer Sales (litres in thousands)

	2012 (53 weeks)	2011	2010	2009	2008 (53 weeks)
Local Beer	3,145	2,813	2,535	2,092	1,770
Imported Beer	1,981	1,985	1,761	1,404	1,254
Low Alcohol Beer	106	110	114	98	74
	5,232	4,908	4,410	3,594	3,098

Objective F3 - Improve Operational Efficiency

F3 Measure

NLC will implement initiatives to improve processes and promote efficient asset utilization.

Administrative and operating expenses as a percentage of sales were 21.1 percent which is a full percentage point better than the target of 22.1 percent. Growing sales while maintaining, and where possible, reducing administrative and operating expenses as a percent of sales continues to be a key objective for the Corporation. These expenses were reviewed on a regular basis throughout fiscal 2012 which allowed NLC to take appropriate action on a timely basis.

A time measurement study as well as a review of the tools, equipment, and technology used in the bottling plant was completed in fiscal 2012. This review identified areas of improvement and as a result, investment will be made in fiscal 2013 to improve the efficiency of the plant.

Work schedules for *Liquor Store* staff are reviewed and monitored on a regular basis to ensure labour hours are appropriate for the sales activity levels.

In fiscal 2012 inventory turns for core products were 4.7 turns per year compared to a target of 4.3 turns per year while inventory turns for non-core products (e.g. specialty wines and wine futures) were 0.4 turns per year which met the target set for the year. 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. A continued focus on improving inventory turns while maintaining in stock service levels led to this improvement in annual inventory turns.

During fiscal 2012, NLC started the implementation of a forecasting and replenishment software solution for the fulfillment of inventory in the Distribution Centres. This system will go live in fiscal 2013. Expected benefits from the system include increased forecast accuracy, reduced safety stock, and increased inventory turns while maintaining in-stock service levels.

NLC seeks to improve operational efficiency in all functional areas of the business by implementing initiatives to improve processes and to promote efficient asset utilization. Keeping operating expenses as a percentage of sales and annual inventory turns at acceptable levels are key financial indicators of NLC's efforts to ensure efficient operations. In addition to the initiatives mentioned in this section, more details regarding improving operational efficiency will be discussed throughout this report.

Measure: F 3.1 Operating expenses as a % of sales

11/12 Target:	11/12 Actual:	12/13 Target:
22.1%	21.1%	21.1%

11/12 Initiatives:

- Regularly track expenses and take appropriate action to address issues ✓
- Implement new tools, equipment, and technology that increase efficiency ✓
- Review labour scheduling approach ✓
- Conduct time measurement studies to identify bottlenecks, improve up-time, and better allocate resources ✓

Measure: F 3.2 Inventory turns annually (by category)

Category:	11/12 Target:	11/12 Actual:	12/13 Target:
Core	4.3	4.7	4.6
Non-core	0.4	0.4	0.4

11/12 Initiatives:

- Review warehouse layout and operations and implement initiatives to improve operations ✓
- Utilize technology to optimize inventory levels and inventory flow ✓

CUSTOMER
PERSPECTIVE

EVERYTHING BEGINS WITH THE CUSTOMER

Goal

By 2014, NLC will have improved customer service across all key customer segments.

Measure

By 2014, NLC's customer service across all key customer segments has improved.

Objective C1 - Create an engaging and satisfying customer experience

C1 Measure

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

For the fifth consecutive year, NLC worked with AIR MILES to gauge customer satisfaction with *Liquor Stores* through an online customer satisfaction survey. Over 1,300 *Liquor Store* customers throughout the province participated in this survey and provided NLC with valuable feedback on product selection, staff assistance, social responsibility programs, and ultimately their overall satisfaction with the Corporation. This study revealed that 98 percent of customers surveyed were satisfied with their most recent shopping experience at an NLC *Liquor Store*; this significantly exceeded the 85 percent target set for the year. NLC continues to use AIR MILES to reward loyal customers and to effectively target customer groups with appealing promotions.

NLC's marketing and merchandising departments developed six retail image themes in fiscal 2012 to educate customers and to suggest product selections. These themes included AIR MILES offers through NLC's Rip N' Sip campaign, great ideas for summer beverages, discounts on select products, Christmas gifting ideas, and the chance to win great prizes with the purchase of select products. All of these programs yielded positive sales results for the Corporation. To encourage customers to explore new wines, NLC installed an additional four Taste Station units that allow customers to sample wines prior to purchase. These automated sampling machines are now available in 18 of the 24 *Liquor Stores*. Due to the cost of these machines, it was only feasible to implement four Taste Stations during fiscal 2012 however, plans are in place to evaluate the six *Liquor Stores* without Taste Stations to determine whether or not is it feasible to extend the program to these stores. As a convenience for customers, NLC has been increasing the selection of chilled wines available for purchase. In fiscal 2012 chilled wine sections were built in the Carbonear and Bay Roberts *Liquor Stores*.

During the summer of 2011, NLC Screeched-in over 1,500 people during ceremonies at the Jighouse *Liquor Store* located on New Gower Street in St. John's. These ceremonies promote the Newfoundland Screech brand and educate consumers about this Newfoundland tradition.

NLC continued to focus on staff training in the areas of product knowledge and customer service in fiscal 2012. Once again this year, NLC employees enrolled in the International Sommelier's Guild Wine Fundamental courses to broaden knowledge and enhance their appreciation of wine. Sixteen employees participated in the Level 1 course and eight in Level 2. Additional training initiatives are discussed in the Employee Learning and Growth section of this report. Specific to *Liquor Express*, streamlined communication strategies were implemented in fiscal 2012 to allow for greater operational support and increased efficiency in two way communication between NLC's Corporate office and *Liquor Express* operators. An online ordering system for *Liquor Express* operators was implemented and training provided in the use of the system resulting in enhanced ordering efficiency.

The retail inventory capacity project involving the development of planograms will continue to be implemented in fiscal 2013. The objective of this project is to establish consistent standards for store product listings and to ensure optimal product selection for stores.

During fiscal 2012, NLC began the development of a new brand platform to be launched in fiscal 2013 that will create consistency within the *Liquor Store* network and will build corporate brand recognition. Throughout the last fiscal year, NLC increased the use of social media channels to engage with customers, create awareness, and build excitement around promotions and events. These tools will also be utilized to further enhance NLC's new brand strategies throughout fiscal 2013.

A primary goal of NLC is to enhance the customer shopping experience at *Liquor Stores* and *Liquor Express* locations, in turn, increasing customers' overall satisfaction. The strategies pursued by the Corporations' marketing, merchandising, and store operations departments use a multitude of facets to achieve these goals – bright stores, wide aisles, broad product selection and knowledgeable staff – all designed to make the shopping experience enjoyable, convenient and educational.

Objective C2 - Serve customers (internal and external) with passion and integrity

C2 Measure

NLC will implement initiatives that enable staff to better understand and meet customer expectations.

To gather feedback and to monitor satisfaction, the various business units within NLC develop and administer internal customer surveys. The results of these surveys help NLC improve service to its internal customers. NLC received a satisfaction level of 87 percent in fiscal 2012 and will use the valuable feedback provided to improve services in fiscal 2013.

NLC hosted the following events in fiscal 2012: Perfect Pairings, Wine Fests in St. John's, Gander & Corner Brook, Whiskies of the World, AIR MILES Gold Event with Natalie MacLean, Beer Fest, and A Taste of Chile & Argentina. Two of these events were new to NLC's special events portfolio. NLC conducted a review of all special events hosted by the Corporation in fiscal 2012 and as a result, has decided to make changes within the next fiscal year to the line-up of special events. In order to prepare for this new direction, the following events will not be held in fiscal 2013: Wine Fest Gander, Wine Fest Corner Brook and Perfect Pairings.

NLC's mandate for special events is to focus on bringing customers together to taste new and existing products in addition to having the supplier/sales agent community share their knowledge and expertise with customers. The revision of NLC's special event portfolio will reflect this mandate.

To increase NLC's e-newsletter subscriber list, e-newsletter sign-up tear pads were created and placed at the cash in *Liquor Stores*. Customers can fill out their information on the tear pad to subscribe to NLC's e-newsletter and are entered in a draw to win a $100 *Liquor Store* gift card. This incented thousands of customers to sign up for the e-newsletter to receive information about special events, new products, promotions and contests.

NLC's website redesign project continued in fiscal 2012. The new website, which will undergo a significant change to its look and feel, will be launched early in fiscal 2013. Further stages of development will continue after the initial launch to improve the functionality of the site enhancing the web user's experience.

NLC's marketing and merchandising departments increased their focus on

Measure: C 1.1 Internal and external customer survey scores (AIR MILES Customer Satisfaction Survey)

11/12 Target:	11/12 Actual:	12/13 Target:
85%	98%	86%

11/12 Initiatives:

- Implement new promotional, marketing, and merchandising programs to promote products and educate consumers ✓
- Conduct staff training in product knowledge and customer engagement ✓
- Develop and implement operational support and education initiatives for *Liquor Express* store operators ✓
- Build brand recognition for *Liquor Store* and *Liquor Express* ✓
- Establish consistent standards for store product listings ✓
- Increase utilization of social media for promotions, education, and brand development ✓
- Introduce Taste Stations to seven *Liquor Store* locations

Measure: C 2.1 Internal and external customer survey scores

11/12 Target:	11/12 Actual:	12/13 Target:
85%	87%	86%

11/12 Initiatives:

- Introduce new events into NLC's special events portfolio ✓
- Grow e-mail distribution list to further develop customer relationships ✓
- Develop initiatives to gather feedback from all customers, both internal and external ✓
- Develop and implement marketing strategies specific to *Liquor Express* ✓

developing marketing materials and promotions for *Liquor Express* locations during fiscal 2012. The Sip N' Save promotion was developed for both *Liquor Stores* and *Liquor Express* giving customers the chance to save $1, $2, or $3 off select feature brands with a unique pull tab mechanism. This was the first time a major retail promotion was extended to the *Liquor Express* outlets. In addition to Sip N' Save, other smaller promotions were executed in the *Liquor Express* stores and signage including shelf cards and social responsibility posters were created specifically for the stores.

In order to gather feedback from customers throughout the province, NLC launched an online customer satisfaction survey late in fiscal 2012. An invitation to participate in this survey is printed on the bottom of customer receipts encouraging customers to share their feedback. The results of these surveys provide staff with information that could ultimately lead to improved customer service. In this survey, shoppers who are under the age of 25 are asked whether or not they were asked to show ID. The new online reporting will allow the Corporation to gather significantly more results which will be a more accurate measure of compliance with the Check 25 program. All store managers have been given access to the results of the online survey enabling them to develop store level reports on a daily basis. Customer comments from the online customer satisfaction survey will be monitored throughout fiscal 2013.

Objective C3 – Enhance NLC's reputation as a socially responsible organization

C3 Measure

NLC will implement initiatives that demonstrate a recognizable commitment to socially responsible consumption, retailing and business operations.

NLC continues to build on its environmental responsibility by encouraging customers to use reusable bags further engaging customers in a plastic bag reduction strategy.

In order to assist customers in making environmentally conscious decisions, the Corporation encourages customers to carry out purchases without a bag or to use a reusable bag, gives customers the option to purchase products in environmentally friendly packaging such as Polyethylene Terephthalate (PET) or Tetra Paks, as well as to purchase from a selection of organic products.

The results of a fall 2011 customer satisfaction survey which was distributed to over 1,300 *Liquor Store* customers revealed that 87 percent of respondents were satisfied with NLC's promotion of

Measure: C 3.1 External customer survey scores re social responsibility

11/12 Target:	11/12 Actual:	12/13 Target:
85%	87%	88%

11/12 Initiatives:

- Integrate social responsibility messaging into Corporate marketing efforts ✓
- Develop partnerships to leverage resources with other groups to maximize penetration of the social responsibility message ✓
- Introduce public awareness initiatives to promote socially responsible consumption ✓
- Enhance community visibility as a good Corporate citizen ✓

responsible alcohol consumption. This percentage increased significantly over the previous year when NLC received a rating of 78 percent on the same measure. This notable increase is likely a result of the integration of social responsibility messaging into Corporate marketing efforts. NLC includes messaging pertaining to social responsibility in radio and television advertisements, as well as signage elements designed for *Liquor Stores* and *Liquor Express* locations. NLC also includes a complementary taxi voucher with tickets to the majority of NLC's special events to dissuade attendees from drinking and driving. The redemption rate of these vouchers is greater than 80 percent.

NLC supports numerous community and charitable organizations by donating dollars, goods, services and professional expertise to non-profit groups whose principle areas of interest align with NLC's Corporate values and commitment to the communities it serves. NLC has partnered with Hospitality Newfoundland and Labrador, the Royal Newfoundland Constabulary, and Mothers Against Drunk Driving (MADD) to promote responsible consumption and distribution of beverage alcohol. NLC's efforts helped provide server training in the hospitality sector and presented the film "Damages" to 25 high schools – this film educates students about the potential impact of poor choices with respect to driving while under the influence of alcohol

These various partnerships further enhance NLC's reputation as a sound corporate citizen.

To raise public awareness of NLC's commitment to responsible retailing, the Corporation creates awareness messaging focusing on the benefits of moderate consumption, risks in using alcohol during pregnancy, and the consequences of drinking and driving. Posters and various point-of-sale materials are produced and strategically displayed in *Liquor Stores* and *Liquor Express* locations across the province.

The fourth wave of Check 25 was rolled out in fiscal 2012. This program requires all *Liquor Store* and *Liquor Express* staff to ask a customer to show ID if they appear to be under the age of 25. Check 25 is supported by a mystery shopper program which measures staff compliance. In fiscal 2012, eight percent of Corporate *Liquor Store* transactions were challenged (customers were asked to show ID). This exceeded the target of seven percent, demonstrating that *Liquor Store* staff members are being diligent in checking for customers' ID to ensure products are not sold to persons under the legal drinking age. To ensure beverage alcohol is kept out of the wrong hands, NLC regularly reviews and trains staff in standard operating procedures around the proper selling of NLC's products.

NLC takes its responsibility to be a socially responsible organization seriously. NLC has used a variety of approaches to establish this commitment to its key stakeholders. The focus includes educating staff in responsible retailing, promoting social responsibility in its advertising, carrying low alcohol beer and wine products, establishing minimum pricing for beverage alcohol sold in licensed establishments, partnering with other agencies to advise the public about responsible choices, and conducting its operations in a manner that is environmentally sensitive. Given the current public perception, it would appear that NLC is building a reputation as a socially responsible organization.

Measure: C 3.2 Number of challenges as a % of transactions

11/12 Target:	11/12 Actual:	12/13 Target:
7%	8%	7%

11/12 Initiatives:

- Introduce initiatives to raise public awareness of NLC's commitment to responsible retailing of NLC products ✓
- Introduce and train staff in standard operating procedures that reduce the risk of improper selling of NLC products ✓

INTERNAL
PROCESSES

INNOVATE, COLLABORATE, AND ALLOCATE RESOURCES EFFECTIVELY

Goal

By 2014, NLC will have improved internal processes to deliver enhanced operational efficiency to better meet customer expectations

Measures

By 2014 NLC's internal processes have improved, providing enhanced operational efficiency that better meet customer expectations.

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 flow and provide customers with the products they demand.

Within NLC, technology is recognized as an effective source to reduce costs, improve efficiency, and improve communication internally and externally. Initiatives undertaken in fiscal 2012 included launching phase two of the Business Intelligence project in January 2012. This will incorporate HR associated performance indicators and labour costs which will provide enhanced business analytics for NLC. The implementation of a state of the art Liquor Licensing and Control System began in fiscal 2012. This system which will go live in early fiscal 2013, allows for the efficient collection, storage and retrieval of information relating to licensees in the province.

NLC's 2011-14 Corporate Business Plan was approved by the provincial Government and communicated to all employees. NLC refined strategy maps and balanced scorecards for all departments to ensure alignment with NLC's 2011-14 Business Plan. This helped communicate departmental strategies, performance targets, and connection to the overall Corporate strategy to employees. During fiscal 2012, NLC completed 97 percent of the initiatives stated in this Business Plan which exceeded the target of 95 percent.

NLC achieved an overall in-stock service level of 96 percent in fiscal 2012 compared to a target of 95 percent. NLC was able to achieve this high in-stock service level and has continued to provide customers with a wide selection of products. Core products are categorized into A, B, C and D product units ("A" being the highest volume products) with appropriate service level percentages set for each category. Actual service levels for "A"'s (97 percent), "B"'s (94 percent), "C"'s (89 percent) and "D"'s (84 percent) all exceeded target.

Maintaining in-stock service levels is a balance between inventory investment levels and customer demand. NLC will continue to focus on optimizing physical inventory flow to ensure this balance is maintained. During fiscal 2012, NLC began the implementation of a forecasting and replenishment software solution for the fulfillment of inventory for its Distribution Centres. This system will go live in fiscal 2013. 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 launched during fiscal 2011 will be rolled out to *Liquor Express* and licensee customers in fiscal 2012. The program allows timely and accurate submission of orders through the online process while providing access to warehouse inventory levels.

Following a review of the layout and operations of the warehouse, a request for proposals will be issued in early fiscal 2013 for the design and construction of a new Distribution Centre in the St. John's metropolitan area. A new Distribution Centre is required due to the historical and expected future growth of retail sales, the growth of the manufacturing operations and the challenges presented by the current warehouse. This facility is expected to be ready for occupancy in early fiscal 2014 allowing for more efficient storage and movement of NLC inventory.

A promotional planner was developed by Category Management in fiscal 2012 which was communicated to suppliers and updated monthly. A new category review schedule was implemented that will now follow a yearly schedule for all product categories. This will ensure listings are regularly reviewed and that suppliers have the opportunity to apply for new products on a regular basis. Customer feedback collected through the annual AIR MILES customer satisfaction survey as well as a specific wine survey were used to develop plans for merchandising strategies which were implemented in fiscal 2012 and will continue to be implemented in fiscal 2013. These initiatives have improved product flow providing customers with products in the right place at the right time.

Objective IP2 - Ensure processes are simple, efficient and reduce unnecessary complexity

IP2 Measure

NLC will implement initiatives to improve the efficiency and effectiveness of processes throughout the organization.

NLC improved the effectiveness and efficiency of its operations through disciplined review and change in fiscal 2012. Initiatives identified in the annual departmental Business Plans were focused on improving NLC's ability to efficiently meet customer expectations while achieving Corporate goals. Specifically, each department identified processes to be reviewed and, where appropriate, amended to achieve intended results efficiently and effectively. A key element to NLC's success in continuous process improvement was tapping into the collective creativity and knowledge of employees at all levels of the organization, including front line staff. The Corporation implemented 71 percent of suggestions received from employees. This implementation rate significantly exceeded the target of 30 percent and demonstrates how important NLC employees are to improving the overall business. As part of the Corporation's internal Rewards and Recognition program, NLC rewards employees with valuable NLC points for any suggestions that are implemented. This program is encouraging a greater number of employees to submit process improvement suggestions.

Objective IP3 - Build social responsibility into all areas of our business

IP3 Measure

NLC will implement initiatives to raise employee awareness and commitment to socially responsible principles in the performance of their duties.

Social responsibility is a fundamental and significant expectation of NLC stakeholders. Ingraining social responsibility into the core of NLC's Corporate culture creates an environment where all NLC initiatives and processes are performed with consideration to social responsibility. Social responsibility messaging is integrated into all areas of

Measure: IP 1.1 Completion (%) of stated Business Plan initiatives

11/12 Target:	11/12 Actual:	12/13 Target:
95%	97%	95%

11/12 Initiatives:

- Develop and review departmental scorecards regularly ✓

Measure: IP 1.2 In-stock service level (core products)

11/12 Target:	11/12 Actual:	12/13 Target:
95%	96%	95%

11/12 Initiatives:

- Introduce a demand planning process ✓
- Review inventory management practices and warehouse layout ✓
- Develop and communicate promotional planner on a timely basis ✓
- Implement regular category review schedule ✓
- Collect customer feedback and incorporate into merchandising planning ✓

Measure: IP 2.1 % of Suggestions received from employees implemented

11/12 Target:	11/12 Actual:	12/13 Target:
30%	71%	40%

11/12 Initiatives:

- Introduce incentives for generating employee suggestions ✓
- Introduce process improvement initiatives involving front line employees ✓

NLC including retail campaigns, promotional materials, departmental and Corporate strategy maps, the Check 25 program, and the apparel worn by front line staff. NLC placed ads in various print and broadcast media during special events and occasions (Christmas, Labour Day, etc.). NLC also provided *Liquor Express* locations with responsible consumption promotional materials designed specifically for those locations.

The Corporation's staff members recognize the importance of social responsibility in NLC operations and are committed to this principle. This is evident from the survey results that revealed 90 percent of employees were satisfied with the integration of social responsibility into work processes and organizational culture. This surpassed the target of 85 percent. NLC regularly monitored staff understanding and commitment of this ideal throughout fiscal 2012 to ensure social responsibility is built into the culture of the organization.

NLC has adopted "Check 25" to guide its approach for challenges and refusals at *Liquor Stores* and *Liquor Express* locations, asking for appropriate identification from any customer who appears to be under the age of 25. This data is tracked and reported monthly. NLC's Mystery Shopper program continues at both *Liquor Store* and *Liquor Express* locations.

Measure: IP 3.1 Employee survey scores re integration of social responsibility into work processes and organizational culture

11/12 Target:	11/12 Actual:	12/13 Target:
85%	90%	87.5%

11/12 Initiatives:

- Develop clear guidelines for challenges and refusals in Liquor Stores and Liquor Express outlets ✓
- Track challenges and refusals monthly ✓
- Implement Mystery Shopper program to promote compliance with procedures ✓
- Implement communication initiatives to raise staff awareness of Corporate and individual social responsibility obligations ✓

To continue raising staff awareness of Corporate and individual social responsibility obligations, NLC implemented numerous communication initiatives. These initiatives included awareness programs during peak periods such as Summer's *"Keep Good Times Great – Moderate"*; Halloween's *"Go Ahead and Try the Broom";* and Christmas' "And to All a Safe Night". In addition, the development of a staff educational online *"Challenge and Refusal"* course commenced in fiscal 2012 with full implementation planned for fiscal 2013.

NLC employees are critical to promoting social responsibility throughout NLC's operations. Social responsibility is hard-wired into retail operations through Check 25 and its importance highlighted in several ways – promotional messaging, mystery shops, as well as reporting and reviewing challenges and refusals of service. In a comprehensive survey, 94 percent of NLC staff felt they understand their role in promoting social responsibility. This, coupled with strong public recognition of NLC's status as a socially responsible organization, provides confidence that NLC has effectively integrated this element into its operations.


Bring it on
Slushie Drink Mix
Check25
ICEBERG
ICEBERG

EMPLOYEE
LEARNING & GROWTH

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

Goal
By 2014, NLC will create a Corporate culture that is more widely recognized for engaging its staff, celebrating success, and being an excellent employer.

Measure
By 2014, NLC's Corporate culture is recognized for staff engagement, celebrating success, and being an excellent employer.

In fiscal 2012, NLC employed 798 employees, of which 444 were female and 354 were male. Of these employees, 549 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 13 percent from 469 full time equivalent employees (FTEs) in 2007 to 538 FTEs in 2012. Employees continue to deliver on performance expectations enabling NLC to meet organizational performance goals. Furthermore, NLC continues to focus on providing a workplace culture, resources, and opportunities that motivate and challenge employees to contribute to the best of their abilities.

Objective ELG1 – Attract, retain, and grow the best people
ELG1 Measure
Implement initiatives that create a workplace that attracts, retains, and develops exceptional talent.

NLC's success hinges on its employees willingness and capability to deliver on NLC's customer promise, to be creative and innovative, and their access to the tools and environment that fosters excellence in their role. NLC's performance during fiscal 2012 is a reflection of the exceptional performance and contribution of its employees. Each and every employee who works for NLC is a trusted and valued member of an exceptional team. The Corporation focuses on attracting, retaining, and developing exceptional talent because NLC cannot be an exceptional organization without exceptional people.

During fiscal 2012, NLC conducted a comprehensive employee survey where 82 percent of respondents described NLC as a "great place to work", with high employee engagement in the areas of: *Discretionary Effort* – staff willing to help others with heavy workloads, volunteer for extra duties and put in extra effort to get a job done; *Emotional Commitment* – staff find the job satisfying and are proud to work with NLC; *Manager/Supervisor Quality* – staff feel that their manager or supervisor is respectful and fair, treats staff consistently, is committed to giving staff flexibility in balancing work and non-work responsibilities, is knowledgeable and has expertise to do the job; and *Social Responsibility* – staff understand their role and are committed to promoting social responsibility at NLC. In response to the most commonly identified issues, NLC continued with the implementation of a number of initiatives to improve two-way communication, training, development, performance management as well as rewards and recognition.

NLC sustained its strong commitment to union consultation by regularly engaging union representatives in regards to issues affecting employees through various committees (Labour Management, Occupational Health & Safety (OH&S), problem solving groups, focus groups, etc.) and on individual issues of concern. These efforts continue to result in a strong, respectful, collaborative relationship with union officials which has benefited NLC and its employees.

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.

To improve internal communications, NLC's internal communications portal, *Grapevine*, was refreshed with additional features added including a blog from NLC's President & CEO. All staff members were provided with Corporate email accounts to ensure employees have easy access to two-way communication throughout the organization. Finally, to improve overall internal communications within NLC, a new pilot position was created with a dual focus on Corporate social responsibility and employee communications.

NLC continued with its commitment to training and professional development not only as a means of achieving excellence in customer service and performance, but also to develop a rich talent pool of qualified individuals for succession planning. Key performance indicators (KPIs) were set at both the departmental and employee levels which set performance standards to be achieved. Increased attention to building leadership capacity at the supervisory level helped to ensure employees receive the coaching, feedback, and workplace environment they need to excel in their roles. NLC continued its focus on developing and strengthening the competencies of employees and translating this in a way that optimizes employee and organizational success.

To deliver employee training, NLC's e-Learning Network was launched in partnership with *CoursePark*. This network provides employees with access to online professional development courses including those available within the *SmartForceNL* platform.

NLC continued its partnership with Memorial University of Newfoundland's Division of Life Long Learning which includes professional development opportunities to enhance leadership and supervisory capacity of staff. These e-Learning initiatives provide employees with the flexibility to learn in, and outside the workplace, allowing NLC to deliver courses over a wide geographic region. Over 1,200 e-Learning hours were completed by staff including such courses as performance coaching, building and leading effective teams, project management, motivation, and goal setting. Furthermore, an enhanced Professional Development Policy was developed and implemented which includes guidelines for individual professional development through the *ACHIEVE* performance planning process.

In total, staff participated in over 8,272 training hours in fiscal 2012. The Corporation is hopeful that these employee development initiatives will lead to satisfied employees as well as high retention rates.

NLC initiated succession planning for key positions that resulted in development plans being incorporated into individual ACHIEVE performance plans. In order to gain further insight into an employee's performance and necessary development, a 360 degree Performance Feedback pilot is planned for early fiscal 2013.

In February 2012, NLC was recognized by the Newfoundland and Labrador Employers' Council as an *"Employer of Distinction"* (large employer category) – NLC was one of a select few companies to receive this award. Being named an Employer of Distinction means more than building a good place to work. It means an organization that encourages excellence in all areas of progressive employment relationships. The award recognizes leadership, innovation, creativity, and a fundamental belief in the value of a healthy, safe, and motivated workforce. An Employer of Distinction is, simply put, one who views employees as vital and integral to the organization's success. This award is a clear reflection of the success NLC has had creating a workplace that attracts, retains and develops exceptional talent.

Objective ELG2 – Foster a culture of exceptional performance, open communication, and employee engagement

ELG2 Measure

NLC will implement initiatives that promote a culture of exceptional performance, open communication, and employee engagement.

Over the past year, NLC was active in creating a culture whereby performance was understood, regularly reviewed, and communicated throughout the organization. This permitted significant communication between staff and management at all levels. The increased popularity of NLC's Reward and Recognition program further attests to the visibility of excellent performance – it not only leads to more conversations but also to

Measure: ELG 1.1 Employee survey scores

11/12 Target:	11/12 Actual:	12/13 Target:
70%	78%	73%

11/12 Initiatives:

- Develop and conduct employee survey ✓
- Collaborate and consult regularly with union officials ✓
- Implement initiatives to promote two-way communication between management and staff ✓

Measure: ELG 1.2 Training time per employee (FTE)

11/12 Target:	11/12 Actual:	12/13 Target:
14 hours	15 hours	17 hours

11/12 Initiatives:

- Allocate budget for staff education ✓
- Establish departmental succession plans for key positions ✓
- Establish minimum performance standards and provide training to ensure staff have appropriate training to be successful ✓
- Complete ACHIEVE Performance Planning and Coaching Program for all staff

more engaged staff who are focused on meeting performance expectations.

NLC completed the implementation of an electronic scorecard management tool (e-SCORE) in fiscal 2012 by utilizing internal technology to generate greater measurement accuracy, efficiency, as well as to ease the process of compiling and reporting the results of key performance indicators. Corporate and employee performance was reported regularly through e-SCORE and workplace scoreboards throughout NLC.

During fiscal 2012, NLC's ACHIEVE performance planning and coaching process was reviewed in response to employees' feedback from the 2011 employee survey. ACHIEVE serves to clarify expectations/performance standards and enhance employee development allowing staff to contribute to the best of their abilities. Staff and managers were provided with consultation services in the effective use of ACHIEVE. Enhancements to the ACHIEVE resources will be implemented early in fiscal 2013. Eighty-nine percent of NLC employees had a completed performance plan in fiscal 2012. This was below the target of 95 percent as there were delays implementing the ACHIEVE process due to extreme work volumes in particular areas of the Corporation.

Implementation of the multi-faceted "Celebrating Success: NLC's Reward and Recognition Program", was completed in

fiscal 2012. Employee performance is recognized through initiatives such as: *"Quarterly Departmental Performance Awards"* which rewards an entire department for reaching established targets for their defined KPIs, *"Three Cheers Awards"* which recognize exceptional employee performance and *"Tapping In"*, the employee suggestion program, designed to generate ideas from employees by rewarding those who come forth with improvement ideas that are implemented.

To enhance employee engagement, NLC will restructure its social club committee in fiscal 2012. The goal of this restructuring is to allow the various departments at NLC's Corporate office to interact with one another and to increase employee engagement.

Measure: ELG 2.1 Employees with a completed performance plan (ACHIEVE)

11/12 Target:	11/12 Actual:	12/13 Target:
95%	89%	95%

11/12 Initiatives:

- Implement Performance Management process ✓
- Report regularly on Corporate and employee performance ✓
- Train staff and managers in the performance management process ✓

Objective ELG3 – Ensure a safe, healthy & respectful workplace

ELG3 Measure

NLC will implement initiatives that create a safe work environment and enable staff to actively contribute to the best of their abilities.

NLC places a high level of importance on health and safety throughout the organization as evidenced by the objective *"ensure a safe, healthy and respectful workplace"* on the 2011-14 Corporate Strategy Map. This Corporate objective has been cascaded to all departmental strategies highlighting NLC's commitment to educating and enforcing health and safety (H&S) practices. Each department has initiatives tied to this objective that incorporate H&S throughout NLC. During fiscal 2012, a detailed three year H&S strategic plan and scorecard was developed including the implementation of an H&S auditing program that will measure each location against NLC standards on an annual basis. Additionally, OH&S committee meetings were held on a quarterly basis. This not only ensures consistent application of health and safety standards across all work locations, but also helps identify areas of potential risk.

Development of NLC's *Workplace Intimidation and Violence Prevention Program (WIVP)* is ongoing with implementation via NLC's e-Learning network *(CoursePark)* planned for early in fiscal 2013.

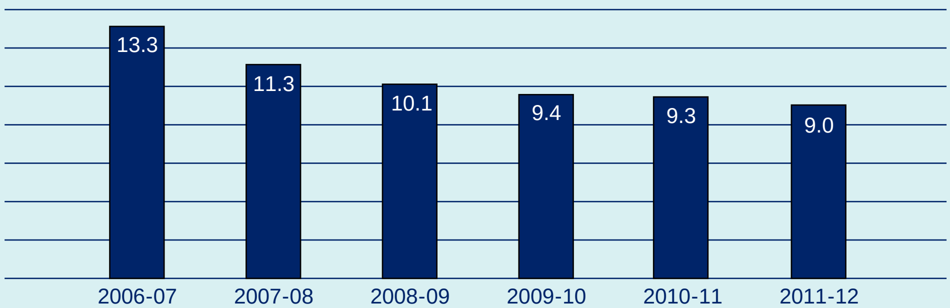
NLC developed and implemented a *Sick Leave Policy, Attendance Management & Support Policy*, and updated the *Integrated Disability Management Program*. In addition, NLC hired a permanent HR Consultant (Employee Wellness) who is dedicated to working with employees and their supervisors to facilitate early and safe return to work allowing employees to actively contribute to the best of their abilities. These initiatives strive to promote employee recovery through early intervention, active case management, along with opportunities for early and safe return to work. In partnership with other liquor jurisdictions across the country, NLC completed an initiative to lower the weight of a case of product. The initiative was implemented to protect the health and safety of NLC employees by reducing the weight of cases required to be lifted by employees. The maximum case weight for products is set at 18.9 kilograms for regularly listed products. Suppliers have adopted new forms of packaging to comply with the new maximum case weight including reducing the number of bottles in a case, switching to PET packaging, or switching to lighter weight glass. This initiative should reduce the number of injuries associated with lifting heavy cases.

During fiscal 2012, NLC qualified for the Prevention and Return-to-Work Insurance Management for Employers/Employees (PRIME) incentive from the Workplace Health, Safety and Compensation Commission for the fifth consecutive year. NLC also delivered over 90 Workplace Hazardous Materials Information System (WHMIS) e-Learning courses to employees, developed an e-Learning Hearing Conservation Policy & Procedure, completed a second party safety audit and a healthy workplace assessment. Health and safety reports are a leading agenda item on regular Executive and Board of Directors meetings. Furthermore, sick leave usage is reported on a regular basis to track key drivers of absence.

Results from these initiatives have been impressive. Sick leave usage per FTE has been trending downward with a 32 percent reduction in sick leave usage from 2007 to 2012.

NLC employees consistently rate NLC's commitment to safety very highly. Injury and sick leave statistics continue to trend positively. All of this leads one to reasonably conclude that NLC is clearly on the right track in terms of creating a workplace that is safe.

Sick Leave Usage (Days) Per FTE



Measure: IP 3.1 Sick leave usage (days per year)

11/12 Target:	11/12 Actual:	12/13 Target:
9.0	9.0	8.75

11/12 Initiatives:
- Establish a position dedicated to implementing a disability/attendance management program ✓
- Report sick leave usage regularly – track key drivers of absence ✓
- Conduct safety audits ✓
- Conduct regular OH&S Committee meetings ✓
- Implement a comprehensive OH&S program ✓

OPPORTUNITIES
& CHALLENGES AHEAD

Throughout fiscal 2012, the initiatives outlined in NLC's 2011-14 Business Plan were implemented and the Corporation continued to progress towards achieving the goals and objectives described in each perspective. This Business Plan provided direction over the past fiscal year and will continue to do so over the next two fiscal years.

The construction of a new distribution centre in St. John's is required to handle the expected increase in retail sales. The new facility will allow for more efficient storage and movement of inventory and will provide the opportunity to grow the Corporation's manufacturing operations. It is expected that the new facility will be ready for occupancy in early fiscal 2014.

NLC may face challenges in the future due to demographic shifts including the aging population of Newfoundlanders and Labradoreans and the movement of population. Such shifts may make it challenging to meet customer expectations and will require careful monitoring. Furthermore, over the past five years, considerable investment has been made to renovate numerous *Liquor Stores*. No major renovations or expansions are planned in the next two years and thus it may be difficult to sustain recent growth patterns. Monitoring customer feedback and purchase behaviour will be important to recognizing changes and adapting to the needs of customers in the years ahead.

FINANCIAL STATEMENTS

OF NEWFOUNDLAND LABRADOR LIQUOR CORPORATION | APRIL 7, 2012

INDEPENDENT
AUDITORS' REPORT

To the Board of Directors of
Newfoundland Labrador Liquor Corporation

We have audited the accompanying financial statements of Newfoundland Labrador Liquor Corporation, which comprise the statements of financial position as at April 7, 2012, April 2, 2011 and April 4, 2010, and the statements of comprehensive income, changes in net assets and cash flows for the periods ended April 7, 2012 and April 2, 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

We believe that the audit evidence we have obtained in our audits 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 7, 2012, April 2, 2011 and April 4, 2010, and its financial performance and its cash flows for the periods ended April 7, 2012 and April 2, 2011 in accordance with International Financial Reporting Standards.

Ernst + Young LLP

Chartered Accountants

St. John's, Canada
July 6, 2012

STATEMENTS OF
FINANCIAL POSITION

As at
[in thousands]

	April 7, 2012 $	April 2, 2011 $	April 4, 2010 $
ASSETS			
Non-current			
Property, plant and equipment (note 6)	14,757	16,256	17,458
Intangible assets (note 7)	5,756	4,602	4,083
	20,513	20,858	21,541
Current			
Cash and cash equivalents	31,419	28,693	27,500
Accounts receivable (note 8)	10,403	9,576	11,245
Inventories (note 9)	34,702	32,702	31,770
Prepaid expenses	6,375	4,285	2,607
	82,899	75,256	73,122
TOTAL ASSETS	103,412	96,114	94,663
LIABILITIES AND NET ASSETS			
Non-current			
Employee benefits (note 10)	4,610	4,375	4,065
Current			
Accounts payable and accrued liabilities (note 11)	27,773	24,675	24,544
Accrued vacation pay	2,409	2,240	1,912
	30,182	26,915	26,456
Net assets	68,620	64,824	64,142
TOTAL LIABILITIES AND NET ASSETS	103,412	96,114	94,663

See accompanying notes

Chairman of the Board

Director

STATEMENTS OF
COMPREHENSIVE INCOME

Periods ended
[in thousands]

	53 Weeks April 7, 2012 $	52 Weeks April 2, 2011 $
Sales (note 12)	224,360	206,367
Commission revenue on sale of beer	61,407	58,585
	285,767	264,952
Cost of sales	101,039	91,934
Gross profit	184,728	173,018
Administrative and operating expenses (note 13)	46,122	43,834
Earnings from operations	138,606	129,184
Other income		
Finance income	383	288
Miscellaneous income	2,807	3,210
	3,190	3,498
Comprehensive income	141,796	132,682

See accompanying notes

STATEMENTS OF CHANGES IN
NET ASSETS

Periods ended
[in thousands]

	53 Weeks April 7, 2012 $	52 Weeks April 2, 2011 $
Balance, beginning of period	64,824	64,142
Comprehensive income	141,796	132,682
	206,620	196,824
Distributions to the Province of Newfoundland and Labrador	(138,000)	(132,000)
Balance, end of year	68,620	64,824

See accompanying notes

STATEMENTS OF

CASH FLOWS

Periods ended
[in thousands]

	53 Weeks April 7, 2012 $	52 Weeks April 2, 2011 $
OPERATING ACTIVITIES		
Comprehensive income	141,796	132,682
Adjustments for:		
Depreciation and amortization	3,645	3,680
Gain on disposal of property, plant and equipment	—	(474)
Accrued vacation pay	169	328
Employee benefits	235	310
	145,845	136,526
Net change in non-cash working capital	(1,819)	(810)
	144,026	135,716
INVESTING ACTIVITIES		
Proceeds on disposal of property, plant and equipment	—	950
Purchase of property, plant and equipment	(1,086)	(2,078)
Purchase of intangible assets	(2,214)	(1,395)
	(3,300)	(2,523)
FINANCING ACTIVITY		
Distributions to the Province of Newfoundland and Labrador	(138,000)	(132,000)
	(138,000)	(132,000)
Net increase in cash during the period	2,726	1,193
Cash and cash equivalents, beginning of period	28,693	27,500
Cash and cash equivalents, end of period	31,419	28,693

See accompanying notes

NOTES TO FINANCIAL
STATEMENTS

1. NATURE OF OPERATIONS

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

The fiscal year of the Corporation ends on the first Saturday of April. As a result, the Corporation's fiscal year is usually 52 weeks in duration but includes a 53rd week every 5 to 6 years. The years ended April 7, 2012 and April 2, 2011 contained 53 weeks and 52 weeks, respectively.

2. BASIS OF PREPARATION

Statement of compliance

The financial statements of the Corporation for the 53 weeks ended April 7, 2012 were authorized for issue in accordance with a resolution of the directors on July 6, 2012.

The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). As these financial statements for the period ended April 7, 2012 represent the Corporation's initial presentation of its results and financial position under IFRS, they were prepared in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards (“IFRS 1”).

For the period up to and including April 2, 2011, NLC's financial statements were previously prepared based on Canadian generally accepted accounting principles (“CGAAP”). CGAAP differs in some areas from IFRS. In preparing these financial statements, management has amended certain accounting previously applied in the CGAAP financial statements to comply with IFRS. The comparative figures for the period ended April 2, 2011 were restated to reflect these adjustments. Certain information and footnote disclosures which are considered material to the understanding of NLC's transition to IFRS along with reconciliations and descriptions of the effect of the transition from CGAAP to IFRS on net assets at April 4, 2010, and comprehensive income for the period ended April 2, 2011 are included in note 5. The Corporation's transition date to IFRS is April 4, 2010 (“Transition Date”), and the Corporation prepared its opening IFRS statement of financial position at that date.

Going concern and basis of measurement

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

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

Sale of goods

The Corporation generates and recognizes net sales to retail and licensee customers at the point of sale in its stores and upon delivery of products to *Liquor Express* operators. The commission paid to the *Liquor Express* operators is deducted from the selling price of the products delivered.

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

` Sales exclude HST and other taxes due.

Commission revenues

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

Foreign currency translation

Transactions in foreign currencies are initially recorded by the Corporation at rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the functional currency spot rate of exchange ruling at the reporting date. All differences are recorded on the statement of comprehensive income.

Property, plant and equipment

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

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

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

Building components include building structure, building envelope, mechanical and electrical, roofing and paving, and interior finishes. These components are combined and presented in these financial statements as building components.

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

Leases

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

Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Contingent rent payable is estimated at the inception of the lease and recognized on an accrual basis.

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

Intangible assets

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

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

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

Impairment of non-financial assets

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

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

Cash and cash equivalents

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

Inventories

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

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

Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current rate that reflects, where appropriate, the risks specific to the liability.

Employee benefits

Severance

The Corporation provides a severance payment upon resignation, retirement or termination subject to certain vesting and other conditions of employment. The expected cost of this employee benefit is accounted for on an accrual basis and has been valued using an estimated actuarial basis. The Corporation reviews its assumptions annually and any resulting adjustments are recognized immediately in the statement of comprehensive income.

Sick leave

Certain employees of the Corporation are entitled to sick leave benefits which accumulate but do not vest. In accordance with IFRS, the Corporation recognizes the liability for the future use of these benefits in the period in which the employee renders the service based on factors such as salary changes, mortality, expectations on retention along with other relevant assumptions. The expected cost of this employee benefit is accounted for on an accrual basis and has been valued using an estimated actuarial basis.

Pension

The Corporation and its employees participate in the Province's Public Service Pensions Plan (“PSPP”), a multi-employer defined benefit plan. The Corporation is however not able to obtain sufficient information from the plan administrator to account for the plan as a defined benefit plan and therefore applies defined contribution accounting guidelines. The Corporation's contributions are expensed as incurred.

Financial instruments

Financial assets

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

Financial liabilities

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

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

Asset/Liability	Classification	Measurement
Cash and cash equivalents	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost

Significant accounting judgments, estimates and assumptions

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

The most significant estimates and assumptions were made as part of the severance and sick leave account balances. The Corporation made assumptions regarding the discount rate, salary increases, and retention rates to estimate the amount of severance and sick leave accrued as of the reporting date.

4. FUTURE ACCOUNTING PRONOUNCEMENTS

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

IAS 17, Leases

The IASB has issued an exposure draft which proposes a new, single approach to lease accounting that would ensure that all assets and liabilities arising under lease contracts are recognized in the statement of financial position.

IAS 19, Employee Benefits

The IASB has issued a revised standard on employee benefits which is applicable for years beginning on or after January 1, 2013. The revised standard will require the impact of changes in actuarial assumptions from year to year be recorded in other comprehensive income.

IFRS 9, Financial Instruments, which replaces IAS 39.

IFRS 13, Fair Value Measurement, establishes a single source of guidance for fair value measurements, which fair value is required or permitted under IFRS.

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

5. TRANSITION TO IFRS

For all periods up to April 2, 2011, the Corporation prepared its financial statements in accordance with CGAAP. These financial statements for the period ended April 7, 2012 are the first annual financial statements that comply with IFRS, as detailed in the accounting policies described in note 3. In preparing these financial statements, the Corporation prepared its opening statement of financial position as at April 4, 2010, the Corporation's Transition Date. This note explains the principal adjustments made by the Corporation in restating its CGAAP statement of financial position as at April 4, 2010 and its previously published CGAAP financial statements for the period ended April 2, 2011.

A. ELECTED EXEMPTIONS FROM FULL RETROSPECTIVE APPLICATION

In preparing these financial statements in accordance with IFRS 1, the Corporation has not applied any of the optional exemptions from full retrospective application of IFRS.

B. RECONCILIATION OF NET ASSETS AND STATEMENT OF FINANCIAL POSITION AS PREVIOUSLY REPORTED UNDER CGAAP:

As at April 4, 2010

	CGAAP $	Adjustments $	IFRS $
ASSETS			
Non-current			
Property, plant and equipment (a)	15,133	2,325	17,458
Intangible assets (b)	2,880	1,203	4,083
	18,013	3,528	21,541
Current			
Cash and cash equivalents	27,500	—	27,500
Accounts receivable	11,245	—	11,245
Inventories	31,770	—	31,770
Prepaid expenses	2,607	—	2,607
	73,122	—	73,122
TOTAL ASSETS	91,135	3,528	94,663
LIABILITIES AND NET ASSETS			
Non-current			
Employee benefits (c, d)	2,364	1,701	4,065
Current			
Accounts payable and accrued liabilities	24,544	—	24,544
Accrued vacation pay	1,912	—	1,912
	26,456	—	26,456
Net Assets	62,315	1,827	64,142
TOTAL LIABILITIES AND NET ASSETS	91,135	3,528	94,663

As at April 2, 2011

	CGAAP	Adjustments	IFRS
	$	$	$
ASSETS			
Non-current			
Property, plant and equipment (a)	13,515	2,741	16,256
Intangible assets (b)	2,927	1,675	4,602
	16,442	4,416	20,858
Current			
Cash and cash equivalents	28,693	—	28,693
Accounts receivable	9,576	—	9,576
Inventories	32,702	—	32,702
Prepaid expenses	4,285	—	4,285
	75,256	—	75,256
TOTAL ASSETS	91,698	4,416	96,114

	CGAAP	Adjustments	IFRS
LIABILITIES AND NET ASSETS			
Non-current			
Employee benefits (c, d)	2,455	1,920	4,375
Current			
Accounts payable and accrued liabilities	24,675	—	24,675
Accrued vacation pay	2,240	—	2,240
	26,915	—	26,915
Net Assets	62,328	2,496	64,824
TOTAL LIABILITIES AND NET ASSETS	91,698	4,416	96,114

C. RECONCILIATION OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED APRIL 2, 2011

	CGAAP $	Adjustments $	IFRS $
Sales (e)	210,016	(3,649)	206,367
Commission revenue on sale of beer (f)	—	58,585	58,585
	210,016	54,936	264,952
Cost of sales (e)	90,952	982	91,934
Gross profit	119,064	53,954	173,018
Administrative and operating expenses (a, b, c, d, e)	49,134	(5,300)	43,834
Earnings from operations	69,930	59,254	129,184
Other income			
Finance income	288	—	288
Commission revenue on sale of beer (f)	58,585	(58,585)	—
Miscellaneous income	3,210	—	3,210
	62,083	(58,585)	3,498
Comprehensive income	132,013	669	132,682

Explanation of transitional adjustments

(a) Property, plant and equipment

IFRS requires that each part of an item of property, plant and equipment that has a cost that is significant in relation to the cost of the item be depreciated separately. The standard also requires that NLC re-evaluate its estimates of useful lives and residual values of significant assets at each statement of financial position date.

As a result of componentizing the Corporation's buildings and production equipment in accordance with IFRS, the net book value increased with a corresponding increase to net assets of $1.0 million.

The Corporation revised estimated useful lives of specific assets in accordance with IFRS which resulted in a transition adjustment to increase net book value by $1.3 million with a corresponding increase in net assets.

As a result of the changes to the carrying amounts of property, plant and equipment, the related depreciation amounts decreased by $0.4 million for April 2, 2011.

(b) Intangible assets

IFRS allows intangible assets to have either a finite or infinite useful life. NLC assessed that its Old Sam trademark would have an infinite useful life. As such, the trademark was reinstated at its original acquisition cost of $0.2 million.

IFRS requires intangible assets with a finite useful life be re-evaluated at each statement of financial position date. As a result, NLC revised the estimated useful life on certain types of computer software, increasing the net book value of the assets with a corresponding increase to net assets of $1.0 million.

As a result of the changes to the carrying amounts of intangible assets, the related amortization amounts decreased $0.5 million for April 2, 2011.

(c) Severance

IFRS requires that the accrual for the provision of severance pay be recorded as of the date employees join the Corporation as it is more likely than not that some employees will be paid severance. The amount accrued takes into account expected employee retention rates, age and length of service.

IFRS 1 requires that NLC apply IFRS as if it had always been applied. Adjustments for previous years are recorded through the net assets account.

Due to the changes in calculation of the severance provision, the amount of the Corporation's annual expense also changed.

(d) Sick leave

IFRS requires NLC to accrue the provision for sick leave based upon a lower threshold than was required under CGAAP. The amount accrued takes into account expected employee retention ratios and the present value of money, as well as historical usage data.

IFRS 1 requires that NLC apply IFRS as if it had always been applied. Adjustments for previous years are recorded through the net assets account.

Due to the changes in calculation of sick leave accrual, the amount of the Corporation's annual expense also changed.

(e) Sales and cost of sales

Under IFRS, the commissions paid to *Liquor Express* operators are presented as a reduction of sales, whereas under CGAAP these were presented as operating expenses.

Under IFRS, the amounts billed to suppliers for the purchase of AIR MILES reward miles are presented as sales, whereas under CGAAP these were presented as a reduction of operating expenses. The cost of purchasing AIR MILES reward miles is presented as a cost of sales under IFRS, whereas under CGAAP these were presented as operating expenses.

(f) Commission revenue on the sale of beer

Under IFRS, the commission revenue earned on sale of beer through *Liquor Express* outlets and brewer's agent stores is presented as revenue, whereas under CGAAP the commission revenue earned on the sale of beer was presented as other income.

D. OTHER TRANSITIONAL IMPACTS

There were no significant differences between CGAAP and IFRS on NLC's statement of cash flows for the 52 weeks ended April 2, 2011.

6. PROPERTY, PLANT AND EQUIPMENT

	April 7, 2012			April 2, 2011	April 4, 2010
	Cost	Accumulated depreciation	Net book value	Net book value	Net book value
	$	$	$	$	$
Land	784	—	784	784	1,195
Buildings	5,354	1,780	3,574	3,805	3,797
Leasehold improvements	13,376	7,769	5,607	6,476	7,597
Office furniture	1,756	1,239	517	639	677
Computer hardware	3,248	1,845	1,403	1,484	918
Plant and warehouse equipment	3,910	2,302	1,608	1,810	2,033
Store equipment and fixtures	4,006	2,834	1,172	1,239	1,206
Motor vehicles	158	66	92	19	35
	32,592	17,835	14,757	16,256	17,458

	April 7, 2012			
	Opening balance	Additions	Disposals	Closing balance
	$	$	$	$
Cost				
Land	784	—	—	784
Building components	5,354	—	—	5,354
Leasehold improvements	13,292	84	—	13,376
Office furniture and equipment	1,710	66	(20)	1,756
Computer hardware	2,921	390	(63)	3,248
Plant and warehouse equipment	3,865	51	(6)	3,910
Store equipment and fixtures	3,623	389	(6)	4,006
Motor vehicles	77	106	(25)	158
Total	31,626	1,086	(120)	32,592

	Opening balance	Depreciation	Disposals	Closing balance
	$	$	$	$
Accumulated depreciation				
Land	—	—	—	—
Building components	1,549	231	—	1,780
Leasehold improvements	6,816	953	—	7,769
Office furniture and equipment	1,071	188	(20)	1,239
Computer hardware	1,437	471	(63)	1,845
Plant and warehouse equipment	2,055	253	(6)	2,302
Store equipment and fixtures	2,384	456	(6)	2,834
Motor vehicles	58	33	(25)	66
Total	15,370	2,585	(120)	17,835
Net book value	16,256	(1,499)	—	14,757

	April 2, 2011			
	Opening balance	Additions	Disposals	Closing balance
	$	$	$	$
Cost				
Land	1,195	—	(411)	784
Building components	6,228	167	(1,041)	5,354
Leasehold improvements	13,705	230	(643)	13,292
Office furniture and equipment	1,831	101	(222)	1,710
Computer hardware	2,634	927	(640)	2,921
Plant and warehouse equipment	3,911	130	(176)	3,865
Store equipment and fixtures	3,764	523	(664)	3,623
Motor vehicles	77	—	—	77
Total	33,345	2,078	(3,797)	31,626

	Opening balance	Depreciation	Disposals	Closing balance
	$	$	$	$
Accumulated depreciation				
Land	—	—	—	—
Building components	2,431	108	(990)	1,549
Leasehold improvements	6,108	1,345	(637)	6,816
Office furniture and equipment	1,154	152	(235)	1,071
Computer hardware	1,716	356	(635)	1,437
Plant and warehouse equipment	1,878	353	(176)	2,055
Store equipment and fixtures	2,558	476	(650)	2,384
Motor vehicles	42	16	—	58
Total	15,887	2,806	(3,323)	15,370
Net book value	17,458	(728)	(474)	16,256

7. INTANGIBLE ASSETS

	April 7, 2012			April 2, 2011	April 4, 2010
	Cost	Accumulated amortization	Net book value	Net book value	Net book value
	$	$	$	$	$
Trademark	204	—	204	204	204
Computer software	9,797	4,245	5,552	4,398	3,879
	10,001	4,245	5,756	4,602	4,083

	April 7, 2012			
	Opening Balance	Additions/ amortization	Disposals	Closing Balance
	$	$	$	$
Cost				
Trademark	204	—	—	204
Computer software	7,734	2,214	(151)	9,797
Total	7,938	2,214	(151)	10,001
Accumulated amortization				
Trademark	—	—	—	—
Computer software	3,336	1,060	(151)	4,245
Total	3,336	1,060	(151)	4,245
Net book value	4,602	1,154	—	5,756

	April 2, 2011			
	Opening Balance	Additions/ amortization	Disposals	Closing Balance
	$	$	$	$
Cost				
Trademark	204	—	—	204
Computer software	6,478	1,395	(139)	7,734
Total	6,682	1,395	(139)	7,938
Accumulated amortization				
Trademark	—	—	—	—
Computer software	2,599	872	(135)	3,336
Total	2,599	872	(135)	3,336
Net book value	4,083	523	(4)	4,602

8. ACCOUNTS RECEIVABLE

Accounts receivable include the following:

	April 7, 2012	April 2, 2011	April 4, 2010
	$	$	$
Accounts receivable	4,828	5,079	5,885
Beer commissions receivable	5,575	4,497	5,360
Total	10,403	9,576	11,245

For the year ended April 7, 2012, approximately 98% (April 2, 2011 – 96%) of the accounts receivable balance is current.

9. INVENTORIES

Accounts receivable include the following:

	April 7, 2012	April 2, 2011	April 4, 2010
	$	$	$
Distribution Centres	17,741	16,692	17,058
Branch stores	10,057	9,428	8,830
Stock in transit	5,883	5,923	4,930
Raw materials	1,021	659	952
	34,702	32,702	31,770

The total value of inventory expensed to cost of sales for the period ended April 7, 2012 was $95.6 million (April 2, 2011 - $87.2 million).

The inventory value includes a reserve of $0.2 million (April 2, 2011 - $0.1 million).

10. EMPLOYEE BENEFITS

Employee benefits include the following:

Accrued severance

	April 7, 2012	April 2, 2011
	$	$
Accrued severance, beginning of period	3,130	2,854
Benefit expense	599	494
Benefits paid	(364)	(218)
Accrued severance, end of period	3,365	3,130

Accrued sick leave

	April 7, 2012 $	April 2, 2011 $
Accrued sick leave, beginning of period	1,245	1,211
Benefit expense	671	715
Benefits paid	(671)	(681)
Accrued severance, end of period	1,245	1,245
Total employee benefits	4,610	4,375

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

	April 7, 2012 %	April 2, 2011 %
Salary increases	2.0	2.0
Discount rate	4.0	4.0

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

Pension plan

The Corporation's share of pension expense paid to the PSPP for the 53 weeks ended April 7, 2012 is $1.7 million (April 2, 2011 - $1.6 million).

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	April 7, 2012 $	April 2, 2011 $	April 4, 2010 $
Trade payables	6,075	3,574	4,031
Accrued liabilities	5,643	8,142	7,493
Excise duties	11,572	8,675	9,390
HST payable	2,035	1,996	1,811
Other payables	2,448	2,288	1,819
	27,773	24,675	24,544

12. SALES

Sales include the following:

	April 7, 2012 $	April 2, 2011 $
Sales of beverage alcohol	217,423	201,173
Other	6,937	5,194
	224,360	206,367

13. ADMINISTRATIVE AND OPERATING EXPENSES

	April 7, 2012 $	April 2, 2011 $
Salaries and employee benefits	27,955	26,705
Amortization	3,645	3,680
Marketing	3,089	2,579
Rent and municipal taxes	2,744	2,629
Interest and bank charges	1,855	1,761
Other	6,834	6,480
	46,122	43,834

14. CAPITAL MANAGEMENT

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

15. FINANCIAL INSTRUMENTS

(a) Market risk - foreign currency exposure

The Corporation purchases beverage alcohol internationally and is therefore exposed to market risk related to foreign currency exchange rate fluctuations. Such exposure arises from purchases of beverage alcohol in currencies other than Canadian dollars. Approximately 5% of the Corporation's purchases are denominated in currencies other than Canadian dollars. To perform a sensitivity analysis, the Corporation assessed 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 Canadian dollars. The Corporation's primary exposures to foreign currency exchange rate fluctuations are the Euro, U.S. dollar, Australian dollar, British pound sterling and New Zealand dollar. For the 53 weeks ended April 7, 2012, the potential decrease or increase in comprehensive income from a hypothetical, instantaneous 10% increase or decrease in the April 7, 2012 quoted foreign currency spot rates applied to the above currency denominated monetary assets and liabilities included in the statement of financial position would have been approximately $0.04 million (April 2, 2011 - $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.

(b) Credit risk

The Corporation is exposed to credit risk with respect to accounts receivable from customers. The Corporation provides products to a large customer base, which minimizes the concentration of credit risk. There were two customers that accounted for 10% or more of the Corporation's accounts receivable as at April 7, 2012 (April 2, 2011 – two customers). The Corporation has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and utilizes internal and third-party collections processes for overdue accounts. Accounts receivable balances related to *Liquor Express* store operations are subject to general security agreements. The Corporation also maintains provisions for potential credit losses that are assessed on an ongoing basis.

(c) 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.

(d) 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 involving uncertainties and judgment. The carrying values of financial instruments included in current assets and current liabilities on the statement of financial position approximate their fair values, reflecting the short-term maturity and normal trade credit terms of these instruments.

16. COMMITMENTS

The Corporation has entered into rental leases covering most of its corporate stores.

Annual lease obligations are as follows

	April 7, 2012	April 2, 2011
	$	$
Within one year	2,539	2,217
After one year but no more than five years	9,309	7,100
More than five years	4,280	5,330

On June 1, 2012, NLC entered into a contract to construct a new warehouse facility. The estimated cost of this warehouse, including land purchase, is $12.6 million. The estimated completion date is March 2013.

17. 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 to the Corporation; however, all operating, leasehold and maintenance costs related to the buildings are the responsibility of the Corporation.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of NLC, being the members of the Executive Management (CEO/President, Senior Vice President & CFO, Vice President of Sales and Marketing, Vice President of Supply Chain Management, and Vice President of Human Resources and Corporate Administration). The total compensation (including salary and benefits) paid to key management personnel for the 53 weeks ended April 7, 2012 was $0.8 million (April 2, 2011 - $0.8 million).

Sales by Location (thousands of dollars)

	2012
Kenmount Road*	41,617
Deer Lake*	16,640
Howley Estates	15,974
Clarenville Distribution Centre*	15,847
Merrymeeting Road	10,587
Stavanger Drive	10,462
Long Pond, CBS	9,322
Corner Brook - Humber Gardens	8,603
Pearlgate Plaza	8,361
Topsail Road	8,101
Kelsey Drive	7,770
Blackmarsh Road	6,590
Old Placentia Road	6,469
Grand Falls	6,114
Gander	6,094
Labrador City*	5,512
Bay Roberts	5,319
Ropewalk Lane	5,192
Clarenville	4,910
Happy Valley	4,845
Marystown	4,802
Stephenville	4.470
Carbonear	4,143
Corner Brook Plaza	3,305
Port aux Basques	2,382
Placentia	1,684
Special events	1,364
New Gower Street	1,213
TOTAL	227,693

** Denotes locations that also service Liquor Express stores.*

NEWFOUNDLAND LABRADOR LIQUOR CORPORATION

NLC 2011-2014

Strategy Map

Our path to success.

VISION:
To be passionate about service in everything we do.

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

VALUES:

Socially Responsible
NLC staff will perform their roles in a manner that promotes the responsible consumption and sale of our products.

Professional
NLC staff will perform their duties respectfully, with integrity, and knowledgably.

Teamwork
NLC staff recognize the value of diversity and strong relationship, and will work collaboratively to meet business needs.

Initiative
NLC staff are encouraged to initiate action to improve operations and service delivery to customers.

Accountability
NLC staff accept responsibility for fulfilling their commitments and will actively seek feedback to ensure customer expectations are understood and met.

Strategic Themes that guide our business:

- Engage our Customers – with outstanding selection and friendly helpful service.
- Improve our Performance – by continually raising the bar on key measures.
- Be Socially Responsible – in everything we do.
- Cultivate Leaders – building leadership capabilities throughout the organization.
- Enhance our Culture – engaging our people more strongly in our journey of success.

NEWFOUNDLAND
LABRADOR
LIQUOR CORPORATION

P.O. BOX 8750, STATION "A"
90 KENMOUNT ROAD
ST. JOHN'S, NL A1B 3V1
TEL: 709 724 1100
FAX: 709 754 0321

www.nlliquor.com