



# LIQUOR STO







## NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION

### Vision

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

### Mission

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

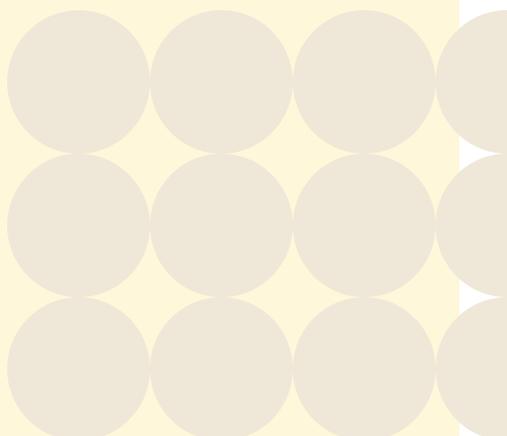
### Lines of Business

NLC's head office and bottling plant are located in St. John's. At the end of the 2005 fiscal year, the Corporation:

- operated 26 retail stores throughout the province
- serviced 112 agency stores province-wide
- supplied products to 1,807 licensees
- had produced over 191,000 cases of spirits
- employed in excess of 400 staff.

## TABLE OF CONTENTS

Chairperson's Message	2
Shared Commitments	4
2004-2005 Year in Review	5
Opportunities and Challenges Ahead	12
Financial Statements	13





## CHAIRPERSON'S MESSAGE

As Chairperson of the Newfoundland and Labrador Liquor Corporation (NLC), I am pleased to present the Corporation's fiscal 2004-2005 annual report. I want to take this opportunity to thank the Honourable Loyola Sullivan, Minister of Finance, for his ongoing support to the Board of NLC. I am honoured to have been appointed Chairperson of this Corporation and I look forward to working with the Board and management. The mandate of NLC is to manage the importation, sale and distribution of beverage alcohol in the province. This report summarizes our progress on key strategic objectives in the areas of customer service, financial performance, social responsibility, enforcement and organizational effectiveness. It also highlights our work with our many partners in industry and government and throughout the communities we serve in Newfoundland and Labrador.

As the provincial government and the public are aware, fiscal 2004-2005 was a year of change at NLC. The appointment of Mr. Steve Winter as President and Chief Executive Officer and a new Board of Directors presented the organization with both a period of transition and opportunities

for new vision and direction. As we proceed to build on that vision and direction, we will continue to move ongoing initiatives forward and develop new ones that will ensure the highest possible levels of performance and accountability. As in most business sectors, the job of improving the organization is never done. There will always be more to achieve in regard to improved efficiency, productivity, profitability and enhanced customer service and shareholder value.

One of the year's challenges was to ensure we met our financial performance objectives while maintaining good labour relations in the face of a month-long public-sector strike in April 2004. We are pleased to report that consequent sales losses were offset by additional revenues generated by new initiatives, such as Sunday store openings and administrative and operating efficiencies. As a result, NLC was able to realize a net income of \$104.0 million, an increase of \$4.0 million over the previous year. Our dividend to Government was on-target at \$105.4 million, \$11.8 million greater than in fiscal 2003-2004.



Our staff demonstrated dedication and professionalism in facing an array of ongoing challenges. Moving toward a full retail solution that will link and create efficiencies in every area of our operations continues to demand enhanced skills that integrate technology in the service of all our goals. New and renovated stores offer an informative shopping experience in convenient locations. Knowledgeable staff are equipped to assist customers with helpful advice on the use of our products.

We owe our continued success in fiscal 2004-2005 to all our employees, our management team and our Board. Together, they translate our mission and vision into daily action and positive results.

Glen Tobin

Chairperson of the Board



*Steve Winter, President and CEO; and  
Glen Tobin, Chairperson of the Board.*



## SHARED COMMITMENTS

As a Crown Corporation with a broad public mandate, NLC has a wide variety of customers and stakeholders. NLC stakeholders include the government and the people of Newfoundland and Labrador, our customers, employees, suppliers and industry partners, non-profit groups and all those who share our concern for public safety. Our customer base includes the public who access our products through our retail network of corporate and agency outlets, as well as wholesale clients such as restaurants and bars.

To respond to the needs and concerns of our customers and stakeholders in fiscal 2004-2005, we:

- delivered quality products and services, responsive to customer needs and industry trends;
- promoted the safe and responsible use of beverage alcohol through comprehensive public awareness programs and partnerships with communities and non-profit groups;
- offered safe and professional workplaces to our employees;
- provided training to ensure both excellent customer service and enforcement of provincial liquor laws;
- partnered with agency stores on product information and distribution initiatives and provided organizational support to new agencies;
- participated in both consumer and trade events, including Manufactured Right Here and Hospitality Newfoundland and Labrador exhibitions;
- partnered with our suppliers to build effective promotions across all product categories which include spirits, wine, refreshment beverages and beer;
- sponsored regional festivals, partnering with Fabian James Promotions for the Fueling the Fire festival program;
- participated in fundraising campaigns for a significant number of charitable organizations including the Janeway Child Health Centre, Give to Feel Good Campaign, Heart and Stroke Association and the Canadian Cancer Society.

Figure A - Sources of Revenue Fiscal Year 2005

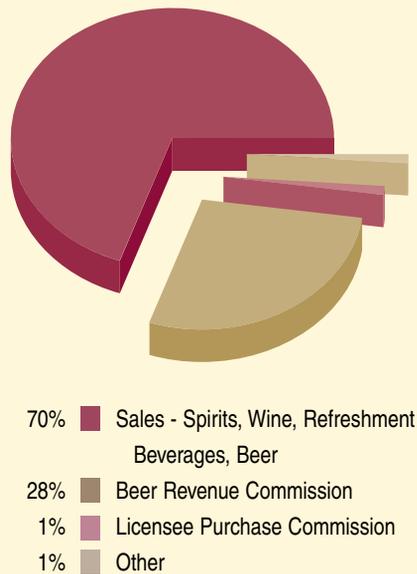
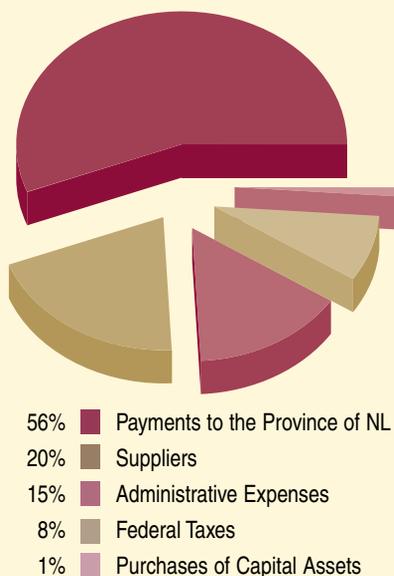


Figure B - Application of Revenue Fiscal Year 2005





## 2004-2005 YEAR IN REVIEW

NLC's Strategic Plan, implemented in 2000, continued to guide the Corporation's activities through fiscal 2004-2005. Progress on strategic objectives is supported by annual business plans that set priorities for actions to meet objectives and timelines for their completion. The following is an overview of our performance throughout the year in each of our five strategic objectives.

### ■ Strategic Objective Customer Service

#### Goal

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

#### Objectives

1. Provide customer-friendly facilities.
2. Offer convenient locations throughout Newfoundland and Labrador.
3. Increase customer satisfaction.

#### Performance Highlights

As we prepared for the opening of a new store on Blackmarsh Road in St. John's, NLC continued to explore options to ensure a customer-friendly design. Design features include a large, chilled beverage centre, more functional shelving with larger capacity, wider aisles and a bright and welcoming environment. Employees were consulted on the new design of the sales lanes, and their input was valuable in creating spaces with better traffic flow, customer access and

improved product displays. Sales lane lights were incorporated to allow customers to easily locate open registers during peak traffic periods.

We opened five new agency stores in fiscal 2004-2005 and relocated one, improving customer service in a greater variety of locations throughout the province.

To gauge our customer satisfaction and plan to better meet their needs, we conducted a Consumer Research Project. Consumers gave our stores a positive rating of eight on a scale of one to ten. We noted that younger consumers reported lower satisfaction ratings than others and developed a strategy to address their needs. We also added new products to our listings in response to consumer requests for a wider variety of imported beer.

We continued to build communication and interaction with our customers this past year through a number of initiatives. We expanded promotions, seasonal displays and in-store and special offers. We undertook a significant editorial process with the publishers of our consumer magazine, *Enjoy*, to re-focus and improve content. We expanded its distribution within our agency network. We improved our website with regular updates including limited-time offers and e-commerce functionality for ticket sales to special events like Wine Fest.

NLC marketing initiatives in fiscal 2004-2005 focused on targeted product areas and new market opportunities. We designed a Retail Image program that used food and drink recipes to educate our customers on the various uses for our products. We utilized Point of Sale data to understand customer demands, and this significantly increased spirit promotions. Other new sales programs were developed for a variety of wine categories, both involving new product additions and creative marketing materials.

A number of popular and successful programs and events continued this year, including In-store Sampling, Gift Certificate sales, Wine Fest and Wine Fest West. For Wine Fest, we partnered with suppliers to offer a free bottle of wine with any purchase from the Wine Fest Store. Wine Fest was well-received, leading to increased Wine Fest store sales. We had special events in selected store locations, continued the Gift Kiosk program for the Christmas season, and expanded e-mail sales programs. We circulated information to agency stores to encourage introduction of new products.

#### ■ **Strategic Objective** **Financial Performance**

##### **Goal**

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

##### **Objectives**

1. Achieve or exceed net income targets.
2. Meet the planned dividend to the provincial government.

##### **Performance Highlights**

NLC delivered both an increased net profit and an increased provincial dividend in fiscal 2004-2005. Due to the impact of a strike on our corporate store sales, total annual sales were \$130.7 million, a decline of \$0.4 million from the previous year's total sales of \$131.1 million. A price increase in May 2004 and the introduction of Sunday openings in February 2005 were instrumental in reducing the strike's impact on sales. Despite the reduction in sales, net income for fiscal 2004-2005 was \$104.0 million, \$4.0 million higher than the previous year. This increase was

largely due to improved gross profit and beer commission revenue as well as reductions in administrative and operating expenses.

Organization-wide, we continued to develop a dynamic sales culture. We established a new Sales Coordinator position. Point of Sale data has become increasingly valuable as we now have comparable data for the past two years to help discern trends and determine areas of focus. Timely sales reporting throughout the organization enables us to be more responsive to customer demands and trends.

We undertook several initiatives to increase market performance of locally produced products. We repackaged and launched Screech in Newfoundland and Labrador, Ontario, Nova Scotia and New Brunswick. We also launched Screech in New Hampshire and Vermont. Recent activities have focused on developing a new creative concept for Old Sam Rum for implementation in fiscal 2005-2006.

We undertook several initiatives to improve efficiencies and reduce operating costs. We initiated a maintenance program designed to improve the function, controllability and life of the mechanical equipment we invest in. We conducted an ongoing review of contracts and services related to property and equipment. We began design work on a new security system that will reduce the likelihood of theft in our stores and provide a safer environment for both employees and customers. At our head office complex, we made significant improvements to conserve energy with the aid of a building management system.

Effective loss prevention and auditing procedures supported profitability and accountability goals. We conducted audit procedures on 17 branch stores and 63 agency stores according to a plan based on corporate risk assessment. We also performed audits on three breweries and a cottage winery to verify production reports and related NLC commissions. We ensured adequate controls, audit trails and adherence to best business practices on major projects including the Supply Chain Management System, post-implementation of the Point of Sale System, and the revision of the branch store policies and procedures manual. Well-defined procedures and ongoing employee efforts resulted in a year of successful loss prevention.

Figure C - Product Sales Volume - Litres in Thousands



Figure D - Spirit Sales by Product Type - Litres in Thousands

Year	2005	2004	2003	2002
Rum	1,774	1,794	1,581	1,482
Rye Whiskey	721	774	741	718
Vodka	338	348	326	309
Liqueurs	283	301	295	275
Scotch - other Whiskey	104	105	98	96
Gin	52	55	51	51
Brandy	27	29	28	26
Tequila	11	10	8	8
Cognac	3	3	3	3
Miscellaneous	0	1	0	0
<b>Total</b>	<b>3,313</b>	<b>3,420</b>	<b>3,131</b>	<b>2,968</b>

Figure E - Wine Sales - Litres in Thousands

Year	2005	2004	2003	2002
Table Wine	1,694	1,629	1,499	1,315
Sparkling and Champagne	204	222	224	227
Fortified Wine	92	93	88	85
Low Alcohol Wine	1	2	2	2
<b>Total</b>	<b>1,991</b>	<b>1,946</b>	<b>1,813</b>	<b>1,629</b>



■ **Strategic Objective**  
**Social Responsibility**

**Goal**

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

**Objectives**

1. Continue to promote public awareness of issues surrounding responsible use of beverage alcohol.
2. Train persons associated with the sale of beverage alcohol in the province.

**Performance Highlights**

Reaching out to customers, we developed a standard message for use on all promotional material and partnered with suppliers to ensure its inclusion throughout the range of our products and locations. We conducted a year-round, province-wide Don't Drink and Drive Campaign targeting all types of transportation and recreational vehicles. We continued our Brown Bag promotional program which involves elementary students in illustrating paper bags with messages discouraging drinking and driving. The bags were distributed throughout our retail network.

To ensure employee awareness, we offered The Liquor Control Board of Ontario's Working SMAART program, which provides training to front-line employees in dealing with age and alcohol-related situations, to new employees and agency store operators. In fiscal 2004-2005 employees challenged 30,845 customers who appeared underage or intoxicated. Over 2,000 customers were refused service due to not being able to produce valid identification or due to the fact they were intoxicated.

To get the message out to youth, we offered a Safe Grad program, reinforcing alcohol-free options through a radio campaign.

We extended the reach of our messaging through partnerships with The Royal Newfoundland Constabulary, Royal Canadian Mounted Police, the Citizens' Crime Prevention Association and Mothers Against Drunk Driving.

As the Corporation responsible for promoting the responsible use of alcohol by the public, NLC takes care to reinforce this message with our staff, particularly in conjunction with social events sponsored by NLC. Throughout the year, we incorporated messaging into all our sponsored and partnership activities.

Figure F - Refreshment Beverages and Cider Sales - Litres in Thousands

Year	2005	2004	2003	2002
Refreshment Beverages	1,353	1,433	1,103	869
Cider	18	20	14	13
<b>Total</b>	<b>1,371</b>	<b>1,453</b>	<b>1,117</b>	<b>882</b>

Figure G - Beer Sales - Litres in Thousands

Year	2005	2004	2003	2002
Imported Beer	933	866	797	521
Local Beer (Bottles)	661	684	572	422
Local Beer (Cans)	92	101	88	72
Low Alcohol Beer	39	47	36	28
<b>Total</b>	<b>1,725</b>	<b>1,698</b>	<b>1,493</b>	<b>1,043</b>

Figure H - Per Capita Consumption - Litres



Figure I - Key Financial Data - Dollars in Thousands

Year	2005	2004	2003	2002
Sales	130,732	131,107	118,217	108,455
Gross Profit on Sales	77,921	76,058	68,096	63,622
Commission Revenue on Sale of Beer	51,976	50,343	46,849	46,693
Commission on Licensee Purchases	2,626	2,789	2,649	2,635
Earnings From Operations	134,121	130,878	118,958	114,260

■ **Strategic Objective  
Enforcement**

**Goal**

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

**Objectives**

1. Ensure adequate information and training is provided to persons involved in the beverage alcohol industry in the province.
2. Issue licenses in accordance with provincial regulations for the sale of beverage alcohol.

**Performance Highlights**

Information and training initiatives support NLC's enforcement role. We provided information on enforcement issues by distributing the pamphlets *Minors on Licensed Premises* and *Show Cause Hearing Process*. In partnership with the RCMP, the RNC, Hospitality Newfoundland and Labrador and Labatt Breweries, we continued to offer the Server Training Program to licensees, their staff and organizations throughout the province.

■ **Strategic Objective  
Organizational Effectiveness**

**Goal**

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

**Objectives**

1. Ensure an adequate level of staffing is maintained throughout the Corporation.
2. Enhance staff skills through employee training programs.
3. Ensure information systems are adequate to enable staff to carry out their duties in an efficient and effective manner.

**Performance Highlights**

Workforce recruitment activity was significant in fiscal 2004-2005. Increased human resource needs were

**Number of Liquor Licenses Issued in 2004-2005**

Brewer's Agent	107
Bonded Warehouse	1
Club	4
Distributor	3
Hotel/Motel	7
Lounge	85
Restaurant	42
Recreational Facility	6
Restaurant/Lounge	3
Tour Boat	1
Tourist Home	2
Catering	7
Special Events	430

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

**Total Licenses in Effect, March 31, 2005**

Airport Establishment	3
Brewer's Agent	1259
Bonded Warehouse	7
Club	368
Distributor	35
Hotel/Motel	105
Institution	3
Lounge	706
Military Mess	11
Restaurant	301
Recreational Facility	51
Restaurant/Lounge	13
Tour Boat	8
Tourist Home	30
Transportation Services	10
Catering	156

primarily due to an increased number of retirements and resignations, the creation of new positions required to carry out our information technology (IT) strategy and preparation for the opening of our new Blackmarsh Road store.

We realigned store-staffing structure within the Eastern Region to improve efficiency of operations, working with the regional manager and the union to ensure that change was implemented smoothly and with as little disruption as possible. We also worked with the union to ensure that notice requirements and shift scheduling arrangements were fulfilled efficiently and that positive relationships were maintained as we accommodated Sunday openings.

We undertook several initiatives to clarify employee roles and responsibilities and build managerial expertise. We delivered a comprehensive orientation program to all store management staff to ensure familiarity with human resource responsibilities. We researched managerial needs and developed training sessions for managers in supervisory skill development and performance coaching in conjunction with the Centre for Management Development at Memorial University for delivery in early 2005-2006. We developed new policy and procedure language related to the human resource functions of store managers for inclusion in the new stores procedure manual. We reviewed and implemented changes in the organizational structure and employee roles and responsibilities in head office departments.

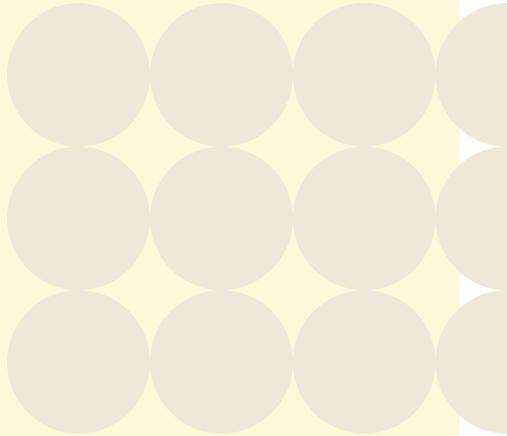
Employee development and growth continued through a number of initiatives including annual management seminars, regular staff meetings, NLC-sponsored post-secondary education programs, course offerings and in-house product knowledge training.

Throughout the year, NLC continued to work to ensure a healthy and safe workplace for all employees. We established and trained Occupational Health and Safety Committees and Worker Health and Safety Representatives at all NLC locations. We began recruitment for the new position of Manager of Occupational Health and



Safety as part of a strategy to enable the Corporation to reach full compliance with the Workplace Health, Safety and Compensation Commission's new financial incentive system aimed at improving health and safety in the workplace.

A highlight of the year was a long-term IT initiative that will serve each of our strategic directions and corporate goals. We developed a five-year Strategic Information Technology Plan for fiscal years 2005-2009. From preparing for operations maintenance in the event of a disaster to ensuring that the right products are on our shelves to meet customer demand, the IT strategy will be central to service, efficiency and information management organization-wide. Key initiatives for the next two years are the completion of the implementation of the Supply Chain Management System and the implementation in May of an Enterprise Resource Planning solution for finance, human resources and manufacturing.





## OPPORTUNITIES AND CHALLENGES AHEAD

Looking ahead, NLC has identified a number of challenges and opportunities and a variety of situations which embody both.

Over the past several years, NLC has strived to meet the expectations of an increasingly diverse and discerning consumer base. New stores and renovations incorporating customer-friendly design and amenities and changes to how we market our products are all part of a directional shift. As we change to meet consumer needs, we are also setting standards for facilities and services which will require investment over time. We will also need to dedicate both human and financial resources to fulfilling our 2005-2009 Strategic Information Technology Plan.

Meeting future needs requires a capital plan involving investment in technology, retail stores and production equipment. To provide the necessary funds for these investments, NLC has a dividend payment commitment of \$99.0 million to the provincial government for the 2005-2006 fiscal year.

While we made significant progress in implementing the Supply Chain Management System, the challenge for the coming year will be to ensure our efforts result in meeting our target of full implementation by the end of next fiscal year.

A key challenge exists in the area of human resources. As employees retire and new retail facilities and technology create new needs, we are challenged to constantly examine how we deploy human resources. We must also ensure that we have the resources to provide ongoing training and support for new staff and for existing staff requiring new skills to enhance both productivity and job satisfaction.

As with any new initiative, Sunday store openings will require monitoring and evaluation. As time allows us to determine customer usage, we will need to examine how this initiative is functioning in terms of profitability and human resources, and respond accordingly.

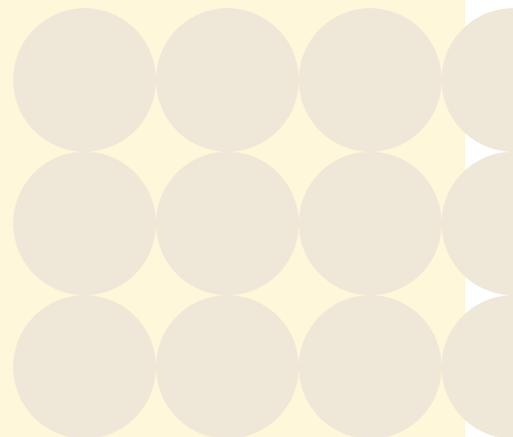
NLC's commitment to social responsibility presents ongoing opportunities to get the message of responsible drinking and public safety out to a wide range of audiences, including youth. We believe that expanding our technological capabilities will allow us to advance this important part of our mandate through interactive messaging and multimedia.

Underlying all of these challenges and opportunities is our vision of excellence in management. By being prepared to capitalize on new opportunities in the marketplace and continuing to integrate and streamline all our operations, we believe we are building an organization that is internally more efficient and publicly more accountable.



## FINANCIAL STATEMENTS CONTENTS

Auditors' Report	14
Statement of Earnings	15
Statement of Retained Earnings	16
Balance Sheet	17
Statement of Cash Flows	18
Notes to Financial Statements	19
Schedule of Administrative and Operating Expenses	23
NLC Corporate Stores Revenue	24





Deloitte & Touche LLP  
10 Factory Lane  
Fort William Building  
St. John's NL A1C 6H5  
Canada

Tel: (709) 576-8480  
Fax: (709) 576-8460  
[www.deloitte.ca](http://www.deloitte.ca)

## **AUDITORS' REPORT**

**To the Board of Directors of  
Newfoundland and Labrador Liquor Corporation**

We have audited the balance sheet of the Newfoundland and Labrador Liquor Corporation as at March 31, 2005 and the statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

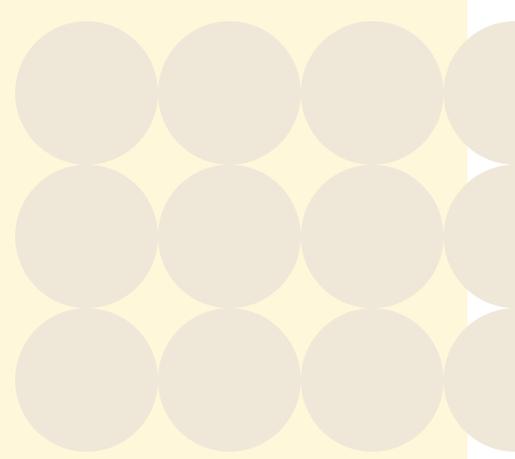
*Deloitte & Touche LLP*

**Chartered Accountants  
June 24, 2005**

**NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION**  
**STATEMENT OF EARNINGS**  
YEAR ENDED MARCH 31 (IN THOUSANDS)

	<u>2005</u>	<u>2004</u>
	\$	\$
SALES	<b>130,732</b>	131,107
<b>COST OF GOODS SOLD</b>		
Inventory, beginning of the year	<b>22,723</b>	24,161
Purchases	<b>56,506</b>	53,611
Cost of goods available for sale	<b>79,229</b>	77,772
Less: inventory, end of the year	<b>26,418</b>	22,723
	<b>52,811</b>	55,049
<b>GROSS PROFIT</b>	<b>77,921</b>	76,058
<b>COMMISSION REVENUE ON SALE OF BEER</b>	<b>51,976</b>	50,343
<b>OTHER INCOME</b>		
Commission on licensee purchases	<b>2,626</b>	2,789
Interest	<b>603</b>	643
Miscellaneous	<b>995</b>	1,045
	<b>4,224</b>	4,477
<b>EARNINGS FROM OPERATIONS</b>	<b>134,121</b>	130,878
<b>ADMINISTRATIVE AND OPERATING EXPENSES (Schedule 1)</b>	<b>30,104</b>	30,840
<b>NET EARNINGS</b>	<b>104,017</b>	100,038

See accompanying notes



**NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION****STATEMENT OF RETAINED EARNINGS**

YEAR ENDED MARCH 31 (IN THOUSANDS)

	<u>2005</u>	<u>2004</u>
	\$	\$
BALANCE, BEGINNING OF YEAR	43,121	36,683
NET EARNINGS	104,017	100,038
	147,138	136,721
PAYMENTS TO THE PROVINCE OF NEWFOUNDLAND AND LABRADOR	105,370	93,600
BALANCE, END OF YEAR	41,768	43,121

See accompanying notes

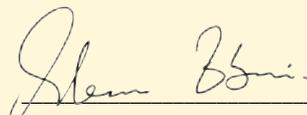
**NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION**

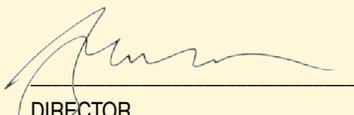
**BALANCE SHEET**

MARCH 31 (IN THOUSANDS)

	<u>2005</u>	<u>2004</u>
ASSETS	\$	\$
CURRENT		
Cash	14,957	15,689
Accounts receivable	5,830	6,108
Beer commissions receivable	4,550	4,770
Inventories, at cost (Note 3)	26,418	22,723
Prepaid expenses	521	448
	<b>52,276</b>	49,738
CAPITAL ASSETS (Note 4)	6,735	7,581
LEASED ASSETS (Note 5)	4,665	4,942
INTANGIBLE ASSETS (Note 6)	82	102
	<b>63,758</b>	62,363
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	18,648	15,744
Accrued vacation pay	978	1,027
Current portion of obligation under capital lease (Note 7)	13	50
	<b>19,639</b>	16,821
ACCRUED SEVERANCE PAY	2,351	2,408
OBLIGATION UNDER CAPITAL LEASE (Note 7)	-	13
	<b>21,990</b>	19,242
EQUITY		
Retained earnings	41,768	43,121
	<b>63,758</b>	62,363

ON BEHALF OF THE BOARD:

  
 CHAIRMAN OF THE BOARD

  
 DIRECTOR

See accompanying notes

**NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION****STATEMENT OF CASH FLOWS**

YEAR ENDED MARCH 31 (IN THOUSANDS)

	<u>2005</u>	<u>2004</u>
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net earnings	104,017	100,038
Adjustments for:		
Amortization	2,153	1,984
Gain on disposal of capital assets	(2)	(16)
Accrual for vacation pay	(49)	144
Accrual for severance pay	(57)	197
Net change in non-cash operating working capital	(366)	(1,858)
	<u>105,696</u>	<u>100,489</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds on disposal of capital assets	3	48
Purchase of capital assets	(1,011)	(2,150)
	<u>(1,008)</u>	<u>(2,102)</u>
<b>FINANCING ACTIVITIES</b>		
Payments to the Province of Newfoundland and Labrador	(105,370)	(93,600)
Repayment of long term debt	-	(100)
Repayment of obligation under capital lease	(50)	(49)
	<u>(105,420)</u>	<u>(93,749)</u>
NET (DECREASE) INCREASE IN CASH	(732)	4,638
CASH, BEGINNING OF YEAR	15,689	11,051
CASH, END OF YEAR	14,957	15,689

See accompanying notes

## NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION

### NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2005 (TABULAR AMOUNTS IN THOUSANDS)

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#### 1. DESCRIPTION OF BUSINESS

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

#### 2. ACCOUNTING POLICIES

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

##### *Revenue recognition*

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

##### *Inventories*

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

##### *Capital assets*

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

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

##### *Leased assets*

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

Leasehold improvements	1 to 20 years
Leased land	30 years

##### *Intangible assets*

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

## NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION

### NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2005 (TABULAR AMOUNTS IN THOUSANDS)

#### 2. ACCOUNTING POLICIES (Continued)

##### *Severance pay*

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

##### *Use of estimates*

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

#### 3. INVENTORIES

	<u>2005</u>	<u>2004</u>
	\$	\$
Head office	11,098	10,661
Branch stores	7,054	7,911
Stock in transit	7,190	3,127
Raw materials	1,035	938
Work in progress	41	86
	<u>26,418</u>	<u>22,723</u>

#### 4. CAPITAL ASSETS

	<u>2005</u>		<u>2004</u>	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Land	1,123	-	1,123	1,123
Buildings	7,139	4,443	2,696	2,966
Store equipment and fixtures	2,254	1,471	783	887
Motor vehicles	155	144	11	31
Office furniture and equipment	4,387	2,675	1,712	2,097
Plant and warehouse equipment	3,229	2,819	410	477
	<u>18,287</u>	<u>11,552</u>	<u>6,735</u>	<u>7,581</u>

**NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
MARCH 31, 2005 (TABULAR AMOUNTS IN THOUSANDS)

**5. LEASED ASSETS**

	2005		2004
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Leasehold improvements	10,966	6,416	4,550
Leased land	249	200	49
Leased equipment	147	81	66
	<b>11,362</b>	<b>6,697</b>	<b>4,665</b>
			4,790
			57
			95
			4,942

**6. INTANGIBLE ASSETS**

	2005		2004
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Trademark	203	121	82
			102

**7. OBLIGATION UNDER CAPITAL LEASE**

	\$
IBM Canada Limited, capital equipment lease repayable in monthly instalments of \$5,226 to June 30, 2005	16
Less: interest on obligation	3
	13
Less: current portion	13
	-

**8. FINANCIAL INSTRUMENTS**

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

## NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION

### NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2005 (TABULAR AMOUNTS IN THOUSANDS)

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#### 9. LEASE COMMITMENTS

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

	\$
2006	1,135
2007	838
2008	681
2009	372
2010	197
	<hr/> 3,223 <hr/>

#### 10. RELATED PARTY TRANSACTIONS

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

#### 11. PENSIONS

The Corporation and its employees are subject to the Public Service Pensions Act effective June 26, 1973. Pension contributions deducted from employees' salaries are matched by the Corporation and then remitted to the Province of Newfoundland and Labrador Pooled Pension Fund from which pensions will be paid to employees when they retire. The Corporation's share of pension expense for the year is \$0.9 million (2004 - \$0.8 million).

#### 12. COMPARATIVE FIGURES

Certain of the comparative information has been reclassified to conform with the presentation adopted in the current year.

**NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION**  
**SCHEDULE OF ADMINISTRATIVE AND OPERATING EXPENSES**  
YEAR ENDED MARCH 31 (IN THOUSANDS)

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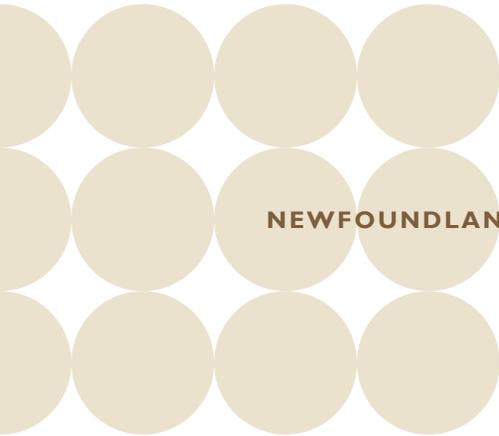
	<u>2005</u>	<u>2004</u>
	\$	\$
Salaries and employee benefits	15,026	15,927
Agency store commission and expenses	4,196	4,118
Amortization on capital and leased assets	2,057	1,873
Marketing	1,740	1,442
Rent and municipal taxes	1,511	1,449
Interest and bank charges	793	722
Interest on long term debt	8	9
Other	4,773	5,300
	<u>30,104</u>	<u>30,840</u>

**NEWFOUNDLAND AND LABRADOR LIQUOR CORPORATION**  
**NLC CORPORATE STORES REVENUE**  
12 MONTHS ENDED MARCH 31

**Sales by Location** - Dollars in Thousands

Location	2005	2004
Agency Store	19,171	17,067
Clarenville	13,934	14,157
Elizabeth Avenue	10,334	10,435
Deer Lake	9,632	9,551
Topsail Road	6,636	6,851
Stavanger Drive	6,371	5,582
Pearlgate	5,004	4,738
Millbrook Mall	4,813	5,340
Harbour Grace	4,571	4,632
Grand Falls	4,293	5,195
Mount Pearl	4,153	4,532
Marystown	4,143	4,184
Bay Roberts	4,032	4,163
Stephenville	3,640	3,585
Kenmount Road	3,441	2,762
Gander	3,430	3,519
Labrador City	2,631	2,592
Happy Valley	2,545	2,726
Churchill Square	2,513	2,911
Avalon Mall	2,493	2,688
Murray Premises	2,429	2,836
Corner Brook Plaza	2,408	2,264
Placentia	2,372	2,524
Licensee Store	2,004	2,521
Port Aux Basques	1,876	1,934
Village Mall	1,537	1,526
Wine Shows	326	292
<b>TOTAL</b>	<b>130,732</b>	<b>131,107</b>





**NEWFOUNDLAND AND 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.nfliquor.com](http://www.nfliquor.com)