

Annual Report 2007



Newfoundland Labrador Liquor Corporation Annual Report 2007

Vision

To provide excellent management of the beverage alcohol industry in Newfoundland 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

With a workforce of approximately 500 employees the Newfoundland Labrador Liquor Corporation (NLC or Corporation) manages its retail business through the operation of

- Twenty four retail stores across the province
- Three distribution centres in St. John's, Clarenville, and Deer Lake
- A head office on Kenmount Road in St. John's

The NLC Board appoints private retail Liquor Express locations based on a clearly defined set of criteria. As of March 31, 2007 there were a total of 115 Liquor Express locations in the province of Newfoundland Labrador.

The NLC operates a bottling plant facility from its Kenmount Road location in St. John's. In fiscal year 2006-07 this facility produced over 200,000 cases of spirits. These products are sold in Newfoundland Labrador and are exported for sale to other provinces in Canada and internationally.

The NLC issues licenses to restaurants, bars, and for special events, authorizing the sale of alcoholic beverage products. These licenses totaled 1,807 as of March 31, 2007.

Licenses are also issued by the NLC to brewer's agents, authorizing them to sell beer to the general public. The brewer's agent network consisted of 1,167 outlets in the province as of March 31, 2007.

Table of Contents

Chairperson's Message	4
Shared Commitments	6
Year in Review	8
Opportunities and Challenges Ahead	18
Financial Statements	20





The bottling plant located on Kenmount Road in St. John's produces local products, which are sold in Newfoundland Labrador and are exported for sale to other provinces in Canada and internationally.

Chairperson's Message.



It has been another successful year for the Newfoundland Labrador Liquor Corporation (NLC) and as the Chairperson of the NLC, I am pleased to present the Corporation's 2006-07 Annual Report. I would first like to take the opportunity to thank the Honorable Tom Marshall, Minister of Finance, for his ongoing support to the Board of the NLC and to thank our former Minister of Finance, the Honorable Loyola Sullivan, for his tremendous support since my appointment as Chairperson in 2004. The 2006-07 NLC annual report has been prepared under my direction. The NLC Board is accountable for the contents of this report and the information presented reflects the performance of the NLC during the 2006-07 fiscal year.

The mandate of the NLC is to manage the importation, sale and distribution of beverage alcohol in Newfoundland Labrador. This Annual Report summarizes the significant progress made in areas such as customer service, financial performance, social responsibility, regulatory services, and organizational effectiveness. It highlights the work accomplished with our many partners in industry and government and throughout the communities we serve in the province.

During 2006-07, the NLC implemented initiatives and prepared for the development of new projects. The Corporation continued to drive growth with strategic vision and creative concepts. It was a progressive year as the Corporation sought new opportunities and monitored existing advancements. We will strive to ensure the success of initiatives while promoting the highest possible levels of performance and accountability. As with any organization, there is constantly room for improvement and growth, and our job is to achieve optimum levels of customer service, productivity, efficiency and shareholder value. With an energetic and knowledgeable workforce, dedicated Board of Directors and superior management team, we are confident in our ability to reach these goals.

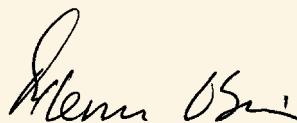
Meeting financial objectives and profitability goals are vital and necessary to the Corporation, and several projects were carried out to ensure the growth of the NLC. Significant efforts are reflected in our financial results which we are pleased to report are \$5.0 million ahead of our previous year from a net earnings perspective. The Corporation realized net earnings of \$111.2 million in fiscal 2006-07 and paid a dividend to

*Steve Winter, President and CEO (left)
Glen Tobin, Chairperson of the Board (right)*

the province of \$102.0 million, which was \$1.0 million higher than originally budgeted.

The NLC has made great strides in creating an efficient retail organization, utilizing new technologies and systems. It must be noted that our staff, through their dedicated and diligent efforts, have been critical to the success of all NLC initiatives. Employees have been successfully managing the challenges of working in an environment with new technologies and significant change. Training efforts have been increased to ensure staff has the necessary knowledge and skills to perform in the new environment and ultimately provide superior service to all our customers.

We owe our continued growth and success to our employees, management and our Board. Through their collective efforts, commitment and constant dedication to the goals of the Corporation, NLC has experienced outstanding success in 2006-07. We will continue to build on our successes into the new fiscal year while ensuring we meet the expectations of all our stakeholders.



Glen Tobin
Chairperson of the Board



In 2006, the Kelsey Drive location opened with a new, contemporary look. Boasting an enhanced fine wine section and product displays it will serve as the benchmark for future store improvements.



Shared Commitments

The NLC holds a unique role as being a Commercial Crown Corporation, which operates within the retail sector. With its broad public mandate, the Corporation serves a wide variety of customers and stakeholders including the provincial government and residents of Newfoundland Labrador, industry partners and suppliers, customers, employees, not for profit organizations and all those concerned with the safety of the public such as the Royal Newfoundland Constabulary (RNC), the Royal Canadian Mounted Police (RCMP) and Crime Stoppers.

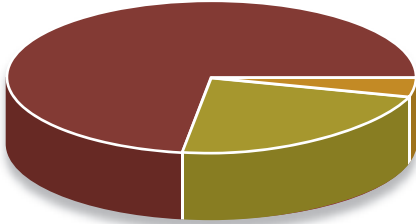
Customers of the NLC include both the general public, who access our products through our retail network of corporate and Express locations, and wholesale clients such as restaurants and bars that hold licenses to sell our products.



To best respond to our customers and stakeholders needs and concerns during 2006-07 we:

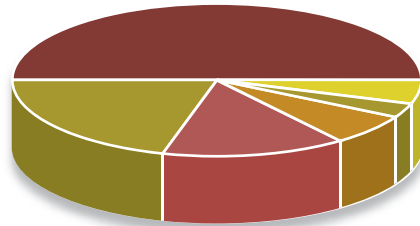
- Delivered quality products and services to our customers, meeting customer needs in accordance with industry trends,
- Relocated five corporate stores, opened one new store, and made significant renovations to existing stores enhancing the customer's shopping experience,
- Renovated our O'Leary Avenue location to include office space providing a smooth transition for the transfer of licensing and inspection services from the Government Service Centre,
- Launched a customer loyalty program, AIR MILES®,
- Launched a Gift Card product replacing gift certificates,
- Introduced a new concept in signage for all stores to better assist our customers in their shopping experience,
- Hosted customer and trade events including In-Store Tastings, Wine Fest and Spirit Fest,
- Increased both employee and customer education of products offered,
- Maintained regular inspections of licensed establishments,
- In conjunction with Hospitality Newfoundland and Labrador, carried out the *It's Good Business* Responsible Alcohol Server Program for server training for licensees,

Figure A - Sources of Revenue
Fiscal Year 2007



73% ■ Sales - Spirits, Wine, Refreshment Beverages, Beer
26% ■ Beer Revenue Commission
1% ■ Other

Figure B - Application of Revenue
Fiscal Year 2007



49% ■ Payments to the Province of NL
22% ■ Suppliers
15% ■ Administrative Expenses
8% ■ Federal Taxes
4% ■ Purchase of Capital Assets
2% ■ Equity



year in review highlights Product Education.

The NLC is committed to increased customer and employee education of products offered and ensures this by holding events such as Wine Fest/Spirit Fest and in store tastings.

- Invested in a new state of the art bottling facility to sustain growth of locally produced products,
- Introduced a new rum, Ragged Rock, to the market that compliments our offering of quality made in Newfoundland product,
- Invested in a 5,600 square foot warehouse expansion designed to enhance our ability to handle specialty products,
- Continued to promote and conduct Social Responsibility Initiatives, in association with the RNC, the RCMP and non-profit organizations, drawing attention to public awareness of responsible drinking.



Year in Review

The NLC's Business Plan developed in 2000 was extended to apply to fiscal 2006-07 as the plan was considered to be substantially valid to guide the fiscal year. We also completed an updated plan for next fiscal year in response to the provincial government's "Accountability and Transparency Act". During 2007-08 we will complete a three-year business plan to guide our activities through to fiscal 2010-11. The following synopsis highlights our progress towards the achievement of our objectives.



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 Labrador
3. Increase customer satisfaction

Performance Highlights

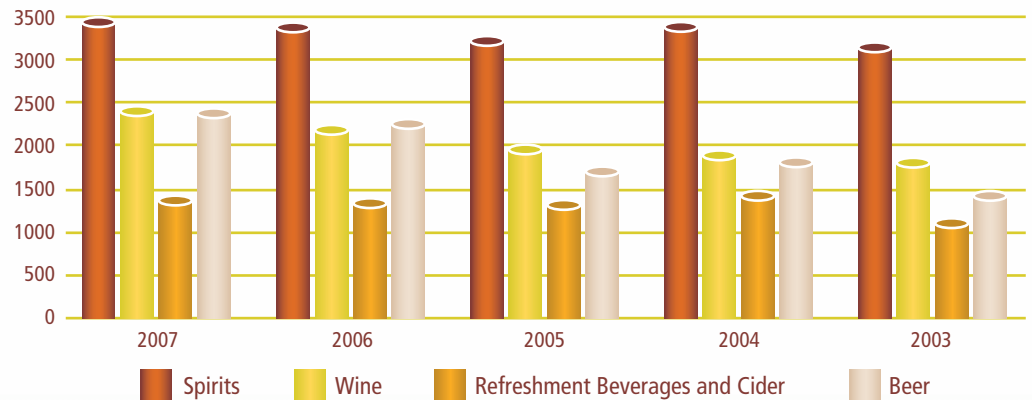
In 2006-07 we were excited to announce the relocation of five new corporate stores located in Bay Roberts, Carbonear, Clarenville, Corner Brook and on Merrymeeting Road in St. John's and the opening of a new store on Kelsey Drive in St. John's. These new locations provide our customers with greater convenience and improved facilities for their shopping

needs. A consistent retail image for the NLC is readily apparent in all of these newly constructed locations. As well as new locations, we have made improvements to the retail space of many of the existing NLC retail stores including Stephenville, Corner Brook Plaza, Marystown, Placentia, Labrador City, Pearlgate in Mount Pearl and Stavanger Drive, Elizabeth Avenue and Topsail Road in St. John's. A two year plan is in place to continue improvements through all NLC corporate stores. The improvements included new wine fixtures, wider aisles resulting in a better traffic flow for customers, and improved lighting.

A project was also initiated to classify all wines into categories of economy, premium and super premium. Super premium wines will be researched and the tasting notes, wine ratings and scores will be made available to customers.

Development of a consistent retail image for our Liquor Express locations, including color themes, logos and signage, has been valuable in creating a shopping environment similar to our

Figure C - Product Sales Volume
Litres in Thousands



year in review highlights Special Events.

Spirit Fest, only introduced last year, has proven to be growing in popularity. With two sold out events held in 2006-07, this event will no doubt continue for our customers in the foreseeable future.



corporate liquor stores but in line with the size and customer base of each respective location. We are endeavoring to have available the most frequently sought after products to our Liquor Express customers and ensure shopping is as quick and easy as their needs require. More than half of the over 100 Liquor Express locations were brought to a set standard during 2006-07, with the remainder to be completed in the next fiscal year.

Our customers successfully embraced the launch of two new programs: AIR MILES® reward miles and NLC Gift Cards. The Air Miles reward miles program provides reward miles and bonus miles to the customer in exchange for valuable information relating to customer loyalty and preferences. NLC Gift Cards make the customer experience even easier by allowing the NLC to display these at customer checkout counters. Customers can choose \$10, \$25, \$50 or variable amount wallet size cards that make great gifts or company rewards.

The focus on customer and employee education on the products we sell continued in 2006-07, providing relevant information relating to new and existing products, as well as offering them a chance to taste test these products in store. Our marketing team has designed, developed and implemented for the first time newspaper ads for product features such as new store openings, Wine Fest, Spirit Fest and reward miles promotions, broadening our communication to customers.

A warehouse expansion was begun in November 2006 and is expected to be completed by the end of the first quarter of 2007-08, which will enhance our ability to handle the increasing volume of diverse products. New handling equipment will allow for better utilization of warehouse space allowing greater storage and consequently, the ability to offer more new and exciting products to the ever discerning customer.

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

Year	2007	2006	2005	2004	2003
Rum	1,850	1,789	1,774	1,794	1,581
Rye Whiskey	727	730	721	774	741
Vodka	379	365	338	348	326
Liqueurs	303	286	283	301	295
Scotch - other Whiskey	106	107	104	105	98
Gin	56	52	52	55	51
Brandy	24	27	27	29	28
Tequila	14	13	11	10	8
Cognac	3	2	3	3	3
Miscellaneous	1	1	0	1	0
Total	3,463	3,372	3,313	3,420	3,131

Figure E - Wine Sales - Litres in Thousands

Year	2007	2006	2005	2004	2003
Table Wine	2,151	1,910	1,694	1,629	1,499
Sparkling and champagne	212	210	204	222	224
Fortified Wine	84	90	92	93	88
Low Alcohol Wine	1	1	1	2	2
Total	2,448	2,211	1,991	1,946	1,813

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

Year	2007	2006	2005	2004	2003
Refreshment Beverages	1,311	1,371	1,353	1,433	1,103
Cider	25	23	18	20	14
Total	1,336	1,394	1,371	1,453	1,117

Figure G - Beer Sales - Litres in Thousands

Year	2007	2006	2005	2004	2003
Imported Beer	1,107	1,295	933	866	797
Local Beer (Bottles)	1,111	803	661	684	572
Local Beer (Cans)	147	116	92	101	88
Low Alcohol Beer	56	53	39	47	36
Total	2,421	2,267	1,725	1,698	1,493

Figure H - Key Financial Data - Dollars in Thousands

Year	2007	2006	2005	2004	2003
Sales	151,447	143,559	130,732	131,107	118,217
Gross Profit on Sales	89,372	84,175	77,921	76,058	68,096
Commission Revenue on Sale of Beer	54,071	51,814	52,343	50,343	46,849
Commission on Licensee Purchases	-	1,832	2,626	2,789	2,649
Other Income	3,038	1,623	1,231	1,688	1,364
Income from Operations	146,481	139,444	134,121	130,878	118,958

Work has also begun on a significant upgrade to our bottling facility to ensure we can service the increasing demand for our locally produced spirit portfolio. Following that theme, in December 2006 we introduced a new amber rum, Ragged Rock to the marketplace, which fills a gap in our local product portfolio. Plans are underway to launch several new products during 2007-08, expanding our local product, made in Newfoundland portfolio, thereby allowing our customers to enjoy a wider variety of quality spirits produced in Newfoundland Labrador. These products are in addition to well-known brands such as Screech, Old Sam, Cabot Tower, and Iceberg products.

The Wine Fest and Spirit Fest events continue to grow, with 2006-07 having been the most successful in terms of sales and customer participation to date. The excitement and enthusiasm exhibited assures us that customers desire to try new products and increase their knowledge on a wide variety of wines and spirits. Spirit Fest was introduced during 2005-06 and has proven to be growing in popularity. Two sold out events in 2006-07 has led us to conclude this is an event that will continue for our customers in the foreseeable future.

NLC's magazine, Enjoy, was published four times during 2006-07 with approximately 48,000 copies distributed. Features included drink recipes, local restaurant features, top wine picks, and food and wine pairing. Planning is in progress for a new magazine, Occasions, which will be launched early in the summer of 2007 and will bring a greater variety of information to our customers and will strengthen the publication in terms of its value as a key NLC and industry marketing and communications tool.



Look for our new and improved "Occasions" magazine. Inside you'll find recipes and recommendations to suit any taste.



Figure I - Financial Performance - Dollars in thousands

	Fiscal 06-07	Budget 06-07	Variance \$	Variance %
Sales	151,447	148,769	2,678	1.8%
Cost of goods sold	62,075	61,736	339	0.5%
Gross profit	89,372	87,033	2,339	2.7%
Gross profit %	59.0%	58.5%		
Commission revenue on sale of beer	54,071	52,218	1,853	3.5%
Other income	3,038	3,070	(32)	-1.0%
Earnings from operations	146,481	142,321	4,160	2.9%
Administrative and operating expenses	35,331	36,511	(1,180)	-3.2%
Net earnings	111,150	105,810	5,340	5.0%

year in review highlights Wine Sales.

Wine sales growth continues to outpace spirits sales growth, resulting in wine comprising 22.2% of total sales. This year we have introduced a new wine classification system.

Depending on the price, each bottle of wine will be classified as either Economy, Premium or Super Premium.



Financial Performance

Goal

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

Objectives

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

Performance Highlights

Figure I above details our financial performance against our fiscal 2006-07 budgeted targets.

Sales for 2006-07 were a record \$151.4 million, which exceeded budget by \$2.7 million and the prior year by \$7.9 million. Net earnings were \$111.2 million, exceeding budget by \$5.3 million and last year by \$5.0 million. This enabled the NLC to pay a dividend to the Provincial Government of \$102.0 million, which was \$1.0 million higher than originally budgeted and \$3.0 million higher than the previous year.

Wine sales contributed significantly to the positive budget variance, exceeding budget by \$3.7 million or 12.3%. The customer trend towards premiumization in the wine category is evident in that wine sales increased 12.3% over budget and 15.8% over last year, outpacing wine volume sales, which were up 5.4% from budget and 10.7% over the prior year. This growth was led by imported wines, which grew by 14.8% in volume over the previous year, while domestic wines increased in volume by 3.0%. In terms of dollar value growth Australia is the leader with a 15.7% increase over last year, followed by Italy with a 22.4% increase. On a percentage basis significant increases were seen in New Zealand wines which increased 145.0%, South African wines which increased 47.6%, as well as wines from Argentina with a 42.3% increase, followed by Spanish wines with an 18.0% increase over the previous year. Wine sales growth continues to outpace spirit sales growth resulting in wine comprising 22.2% of total sales, up from 20.3% last year, while spirits account for 62.3% of total sales, down from 63.5% in the prior year.

Price changes were implemented on July 1, 2006 and September 24, 2006 in response to factors including Federal Government Harmonized Sales Tax and Excise rate changes,

manufacturers' adjustments to product costs, freight cost adjustments due to rising energy costs, and a revised NLC pricing policy. One aspect of the pricing policy change allows for greater value to the customer on a volume basis for each successive increase in package size purchased.

Commission revenue on the sale of domestic beer at brewers' agents and imported beer to NLC Liquor Express locations exceeded budget by \$1.9 million. The principal

reason for the increase over budget was a price increase, which took place July 1, 2006.

Administrative and operating expenses were below budget by 3.2%. The principal reason was prudent expense management coupled with timing changes on capital investments and new store openings. We continue to explore opportunities to become more efficient and effective in the management of our administrative and operating expenses.



We are proud to announce that the last Wine Fest event, held in 2006, was the most successful to date. Such events are part of the NLC's ongoing commitment to providing the highest levels of customer service possible.



year in review highlights

Drinking & Driving.

Many thought provoking campaigns were conducted throughout the year utilizing humour to inform the public of alternatives to drinking and driving.

Social Responsibility

Goal

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

Objectives

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

Performance Highlights

We place an emphasis on spreading specific messages to the general public about responsible consumption of beverage alcohol. Many different campaigns were conducted throughout the year; with messages traveling through the media directed at the general public and individuals throughout the province. These campaigns were thought provoking and humorous with a focus on informing the public that there are many alternatives to drinking and driving. One campaign was seasonally based on drinking and driving in motorized vehicles, which included a focus on snowmobiles and ATV's in the winter, and boating and automobile driving in the summer. This campaign utilized local TV networks, the RNC and the RCMP.

Another significant social responsibility campaign focused on alternative methods of getting home. This holiday campaign was spearheaded by the Nova Scotia Liquor Corporation and was completed in conjunction with the other Atlantic Provinces. Held during December, the campaign appeared in corporate stores as well as licensees, TV, media and newspapers and targeted 19-35 year olds. The main aspect

was to inform people on the alternative ways of getting home, using website game initiatives that allowed browsers to win t-shirts, business cards, ads and posters.

Regulatory Services

Goal

In partnership with enforcement agencies, work to enforce the provincial legislation governing 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
3. Conduct inspections to ensure compliance with the provincial liquor related Acts and Regulations

Performance Highlights

Due to the transfer of licensing and inspections from the Government Service Centre the previous year, NLC facilities on O'Leary Avenue in St. John's were renovated for permanent office space and allowed for an expansion of the Corporate Services Department. Inspection services located in Clarenville were relocated to Marystown to provide improved service to that region. There were 3,211 inspections of licensed establishments carried out over the year and 27 tribunal hearings were conducted for licensees violating the regulations.

The *It's Good Business* Responsible Alcohol Service Program was implemented in conjunction with Hospitality Newfoundland and Labrador and the Regulatory Services



This year the It's Good Business Responsible Alcohol Service Program was implemented in conjunction with Hospitality Newfoundland and Labrador and the Regulatory Services Division. This included server training for licensee staff that deal directly with patrons.





year in review highlights

Employee Matters.

Employee safety is a high priority. Specific training on OH&S compliance, forklift training and crime prevention actively leads to a safer work environment for everyone involved.

Number of Liquor Licenses Issued in 2006-07

Brewer's Agents	132
Club	10
Distributor	2
Hotel/Motel	8
Lounge	79
Military Mess	1
Restaurant	57
Recreational Facility	6
Restaurant/Lounge	3
Special Events	441
Tour Boat	3
Tourist Home	5
Catering	6

Total Licenses in Effect, March 31, 2007

Airport Establishment	2
Brewer's Agent	1,167
Bonded Warehouse	5
Club	365
Distributor	36
Hotel/Motel	107
Institution	3
Lounge	668
Military Mess	11
Restaurant	312
Recreational Facility	55
Restaurant/Lounge	12
Special Event	11
Tour Boat	15
Tourist Home	32
Transportation Services	10
Catering	163

division of the Corporate Services Department, which includes server training for licensee's staff that deal directly with patrons. The objective was to teach these individuals how to deal with false identification, how to properly serve liquor and other related topics. Appropriate measures such as tribunal hearings and license suspensions were taken by the NLC to address any matters of concern and we continue to partner with the RNC, the RCMP and Hospitality Newfoundland and Labrador in efforts to ensure enforcement issues are appropriately addressed.

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

As progressive changes are taking place within the Corporation we are managing our human resources needs appropriately. There have been several improvements made to the recruitment and selection process with a focus on ensuring the appropriate fit of individuals to the needs of the Corporation. Our staff is key to our success and their enthusiasm and responsiveness to change has focused them on providing superior service to our customers.

Employee safety is a high priority and we have continued training and awareness in Occupational Health and Safety (OH&S) areas with specific training on OH&S compliance, forklift training and crime prevention. These actions should lead to a safer working environment for everyone involved. NLC's success in this area is reflected in premiums lower than the industry average for workers compensation coverage.

In 2006-07 a Datastream MP2 preventative maintenance system was implemented, which gives a running history of everything from how many fire extinguishers are on location to cost analysis and when maintenance has been done. This system will provide valuable information to management in effectively controlling maintenance related costs.

A significant milestone in 2006-07 was the implementation of a new financial accounting system. This has been a major step forward in ensuring accurate and timely financial information is available for management decision-making. It has also improved the efficiency of producing financial information by reducing manual processes.

Reliance on technology has increased dramatically for the NLC in the past five years and has necessitated a review and implementation of a Disaster Recovery Plan, which will ensure key technologies are recovered, maintained and restored in the event of an emergency or disaster.

The NLC will continue to invest in the upgrading and integration of its existing and new systems to improve services and efficiency.

Opportunities and Challenges Ahead

NLC has made considerable progress in the past year and has implemented initiatives throughout the Corporation that will improve the overall efficiency and effectiveness of our operations and the service we provide to our customers. Certain opportunities and challenges will be focused upon in the near term as they present significant impacts and rewards for the Corporation.

year in review highlights

The Value in Customers.

A better understanding of what our customers are looking for has allowed us to grow our customer base by providing them with the product and shopping experience they want.

NLC, again this year, has placed an emphasis on customer service by looking at our approach to the shopping experience. Keeping this in mind, we have opened new stores, upgraded and renovated others and have developed a two year plan that will create a consistent look and feel in all our stores for the relaxed and comfortable shopping experience our customers have come to appreciate.

We are focused on customer education relating to the products we sell and are confident that our efforts will ensure the NLC is a leading retailer in the minds of customers in Newfoundland Labrador and abroad. Challenges such as product supply and the optimization of service levels, are examples of the various initiatives we will be focusing on in the coming fiscal year.

In support of business effectiveness, the NLC will continue to invest in technology including a records management system, budget system, management information system, and a human resources and payroll system. Training of staff in management practices and policies will continue. As

previously stated we will complete a three year Business Plan during the 2007-08 fiscal year, which will guide the organization through to fiscal 2011. The initiatives presented will challenge the Corporation's resources, both now and in the future. The changes that have been made in the last year alone have demonstrated our commitment to ensuring the NLC becomes and remains an exceptional organization for the benefit of our customers, stakeholders, and employees.





Financial Statements

Table of Contents

Auditors' Report	21
Balance Sheet	22
Statement of Earnings	23
Statement of Retained Earnings	24
Statement of Cash Flows	25
Notes to the Financial Statements	26 – 29
Schedule 1 – Schedule of Administrative and Operating Expenses	30

Auditors' Report

To the Board of Directors of
Newfoundland Labrador Liquor Corporation

We have audited the balance sheet of the Newfoundland Labrador Liquor Corporation (the "Corporation") as at March 31, 2007 and the statement 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements for the preceding year were audited by other auditors.

St. John's, Canada
May 15, 2007

Ernst + Young LLP

Chartered Accountants

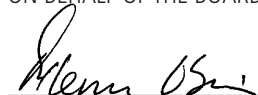


Balance Sheet

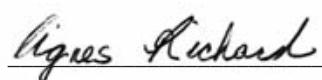
March 31 (in thousands)

	<u>2007</u>	<u>2006</u>
	\$	\$
ASSETS		
CURRENT		
Cash	28,390	23,136
Accounts receivable	3,533	5,152
Beer commissions receivable	4,353	4,413
Inventories, at cost (Note 3)	26,279	24,064
Prepaid expenses	1,724	814
	<u>64,279</u>	57,579
CAPITAL ASSETS (Note 4)	16,998	12,604
INTANGIBLE ASSET (Note 5)	41	61
	<u>81,318</u>	70,244
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	19,580	17,647
Accrued vacation pay	1,166	1,225
Current portion of obligation under capital lease (Note 6)	70	70
	<u>20,816</u>	18,942
ACCRUED SEVERANCE PAY	2,400	2,280
OBLIGATION UNDER CAPITAL LEASE (Note 6)	52	122
	<u>23,268</u>	21,344
EQUITY		
Retained earnings	58,050	48,900
	<u>81,318</u>	70,244

ON BEHALF OF THE BOARD:



CHAIRMAN OF THE BOARD



DIRECTOR

Newfoundland Labrador Liquor Corporation
Statement of Earnings

Year ended March 31 (in thousands)

	<u>2007</u>	<u>2006</u>
	\$	\$
SALES	151,447	143,559
COST OF GOODS SOLD		
Inventory, beginning of the year	24,064	26,418
Purchases	64,290	57,030
Cost of goods available for sale	88,354	83,448
Less: inventory, end of the year	26,279	24,064
	62,075	59,384
GROSS PROFIT	89,372	84,175
COMMISSION REVENUE ON SALE OF BEER	54,071	51,814
OTHER INCOME		
Commission on licensee purchases	-	1,832
Interest	1,728	869
Miscellaneous	1,310	754
	3,038	3,455
EARNINGS FROM OPERATIONS	146,481	139,444
ADMINISTRATIVE AND OPERATING EXPENSES (Schedule 1)	35,331	33,312
NET EARNINGS	111,150	106,132

Statement of Retained Earnings

Year ended March 31 (in thousands)

	<u>2007</u>	<u>2006</u>
	\$	\$
BALANCE, BEGINNING OF YEAR	48,900	41,768
NET EARNINGS	111,150	106,132
	160,050	147,900
PAYMENTS TO THE PROVINCE OF NEWFOUNDLAND LABRADOR	(102,000)	(99,000)
BALANCE, END OF YEAR	58,050	48,900

Newfoundland Labrador Liquor Corporation
Statement of Cash Flows

Year ended March 31 (in thousands)

	<u>2007</u>	<u>2006</u>
	\$	\$
OPERATING ACTIVITIES		
Net earnings	111,150	106,132
Adjustments for:		
Amortization	3,014	2,376
Gain on disposal of capital assets	(145)	-
Accrual for vacation pay	(59)	247
Accrual for severance pay	120	(71)
Net change in non-cash operating working capital	487	1,875
	<u>114,567</u>	<u>110,559</u>
INVESTING ACTIVITIES		
Proceeds on disposal of capital assets	267	-
Purchase of capital assets	(7,510)	(3,351)
	<u>(7,243)</u>	<u>(3,351)</u>
FINANCING ACTIVITIES		
Payments to the Province of Newfoundland Labrador	(102,000)	(99,000)
Repayment of obligation under capital lease	(70)	(29)
	<u>(102,070)</u>	<u>(99,029)</u>
NET INCREASE IN CASH	5,254	8,179
CASH, BEGINNING OF YEAR	23,136	14,957
CASH, END OF YEAR	<u>28,390</u>	<u>23,136</u>

1. DESCRIPTION OF BUSINESS

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

2. ACCOUNTING POLICIES

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

Revenue recognition

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

Inventories

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

Capital assets

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

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

Intangible asset

The intangible asset consists of a trademark which is recorded at cost and amortized on a straight-line basis over a ten-year period.

Severance pay

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

Use of estimates

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

3. INVENTORIES

	2007	2006
	\$	\$
Head office	12,245	8,870
Branch stores	8,680	7,907
Stock in transit	3,940	6,149
Raw materials	1,392	1,120
Work in progress	22	18
	26,279	24,064

4. CAPITAL ASSETS

	2007		2006	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Land	1,314	-	1,314	1,123
Leasehold improvements	9,103	5,187	3,916	4,171
Buildings	7,910	4,807	3,103	2,655
Office furniture and equipment	6,808	2,987	3,821	3,324
Plant and warehouse equipment	4,553	1,021	3,532	467
Store equipment and fixtures	2,824	1,528	1,296	837
Motor vehicles	46	30	16	27
	32,558	15,560	16,998	12,604

During the year, the Corporation acquired capital assets in the amount of \$7.5 million (2006 - \$3.6 million, of which \$0.2 million was financed through a capital lease).

Notes to the Financial Statements

March 31, 2006 (tabular amounts in thousands)

5. INTANGIBLE ASSET

	2007		2006
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Trademark	203	162	41
			61

6. OBLIGATION UNDER CAPITAL LEASE

	2007	2006
	\$	\$
IBM Canada Limited, capital equipment lease repayable in monthly instalments of \$6,132 to December 31, 2008	129	203
Less: interest on obligation	7	11
	122	192
Less: current portion	70	70
	52	122

7. 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 obligation under capital lease bears interest at current borrowing rates available to the Corporation and therefore, reflects fair value.

8. LEASE COMMITMENTS

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

	\$
2008	1,333
2009	901
2010	692
2011	668
2012	491
	<hr/>
	4,085
	<hr/>

9. RELATED PARTY TRANSACTIONS

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

10. PENSIONS

The Corporation and its employees are subject to the Public Service Pensions Act effective June 26, 1973. Pension contributions deducted from employees' salaries are matched by the Corporation and then remitted to the Province of Newfoundland Labrador Pooled Pension Fund from which pensions will be paid to employees when they retire. The Corporation's share of pension expense for the year is \$1.1 million (2006 - \$1.0 million).

Schedule of Administrative and Operating Expenses

Year ended March 31 (in thousands)

	<u>2007</u>	<u>2006</u>
	\$	\$
Salaries and employee benefits	18,970	18,146
Agency store commission and expenses	4,425	4,390
Amortization	3,014	2,376
Rent and municipal taxes	1,637	1,635
Marketing	1,236	1,130
Interest and bank charges	892	831
Other	5,157	4,804
	35,331	33,312

Newfoundland Labrador Liquor Corporation
Corporate Stores Revenue

Year ended March 31 (in thousands)

Sales by location (in thousands)

	2007	2006
Kenmount Road	26,657	25,493
Clarenville	14,355	14,219
Deer Lake	13,426	11,398
Elizabeth Avenue	12,084	11,523
Stavanger Drive	7,870	7,201
Blackmarsh Road	6,676	4,900
Pearlgate Plaza	6,453	5,871
Topsail Road	5,774	5,616
Corner Brook - Humber Gardens	5,447	5,452
Bay Roberts	4,524	4,362
Stephenville	4,111	3,946
Gander	4,083	3,874
Marystown	3,997	4,028
Carbonear	3,968	4,709
Grand Falls	3,895	4,523
Commonwealth Avenue	3,862	4,341
Happy Valley	3,490	3,143
Merrymeeting Road	3,104	2,278
Corner Brook Plaza	2,903	2,588
Labrador City	2,877	2,688
Avalon Mall	2,590	2,284
Murray Premises	2,237	2,514
Port Aux Basques	2,217	2,094
Placentia	2,147	2,534
Kelsey Drive	2,011	-
Village Mall	-	1,469
Special Events	689	511
TOTAL	151,447	143,559



**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 0529
www.nliquor.com