



# PRESIDENT & CEO MESSAGE



I'm pleased to report we had a year of strong growth at the NSLC as we completed the second year of our Five-Year Strategic Plan. At the core of this success is our strategic focus on providing exceptional and responsible customer service. We're listening to our customers, focusing on initiatives that create a personalized shopping experience. Our customers gave us up to a 90% per cent satisfaction rate for the 2016-2017 fiscal year and up to a 91% approval rating in our retail shopping experience surveys. This includes rating us on everything from the friendliness and knowledge of our employees to how long it takes to complete a purchase at the checkout. These numbers demonstrate our employees are doing an outstanding job of ensuring our customers have a superb shopping experience and the opportunity to learn more about the products we offer.

Our success over the past year resulted in some outstanding results as we ended the fiscal year more than \$5 million ahead of our net income target. Our sales increased by more than \$4 million to \$611.8 million and the average dollar value of each transaction grew by 0.7% as customers continue to turn to more premium products. Customer demand for quality products helped drive strong growth in the sale of Nova Scotia products as we delivered on our mandate to support local industry. The numbers show our investment in local is paying dividends to the industry across this province. Nova Scotia spirit sales, for example, grew an astonishing 130.8% and Nova Scotia ready-to-drink products increased an impressive 83.8%, thanks primarily to the cider market.

Looking across our business, Corporate Social Responsibility (CSR) is a key element of our operations. It's the lens through which we make good business decisions. We are accountable to our customers and that means we have a duty to be a responsible retailer, to support our communities and to actively promote a sustainable future. This also includes our commitment to ensure beverage alcohol does not get into the wrong hands and

partnering with organizations to promote responsible consumption. It's a responsibility we take very seriously. Last year, we asked for ID 1.72 million times and refused sale 12,450 times through our We ID program in an effort to deliver on our responsible retailing mandate.

I'm proud of the ongoing efforts of our employees and customers to give back to their communities. They raised more than \$185,000 for the IWK Health Center, \$100,000 to restore and preserve wildlife habitat through the Adopt-A-Stream program, almost \$53,000 for Symphony Nova Scotia, \$21,000 for the United Way and more than \$49,000 for registered charities across the province through our Cash Can initiative. I want to thank you all for your tremendous efforts to help your fellow Nova Scotians.

We must also be fiscally responsible and deliver a fair return to our Shareholder. We count on our employees to help us get there by putting our strategy into action. Our terrific Distribution Center team shipped out almost five million cases of beverage alcohol last year. That's an average of 94,000 cases a week. Their top priority was to do it safely. That's why I signed a Safety Charter earlier this year in partnership with the Workers' Compensation Board. Providing a safe workplace and building a strong safety culture is an important part of how we live our corporate values. I'm pleased to report we have reduced workplace injuries 75% over the past five years.

We introduced two new shopping experiences last year with The Port by the NSLC and the NSLC Express as part of our new banner strategy. The Port truly is the gem in the corporate crown – a destination shopping experience designed to exceed the expectations of wine and spirit enthusiasts with premium products and featuring products made right here at home. The NSLC Express is designed especially for customer convenience with a limited selection of our top-selling 300 brands.

Diversification in our retail network will help ensure we give our customers the right product at the right time in the right place.

At the NSLC, we want to be known as a customer focused organization that provides excellent service. The 2016-2017 fiscal year was a success story for the NSLC thanks to the tremendous efforts of our employees across the business. I am proud of the efforts they make every day to provide our customers with exemplary service that goes beyond the expected. I would like to extend a special thank you to our employees in the Distribution Centre who consistently ensure the products our customers want are on the shelves when they want them. You all live our values each day, engaging in meaningful and respectful relationships with our customers, ensuring they are making informed choices and responsible decisions.

I would also like to thank our customers for their support and feedback, helping us to deliver on our promises to you, and to our partners and stakeholders. Working together is critical to our continued success



Bret Mitchell

# BOARD CHAIR MESSAGE



At the NSLC, we've gone from being a place to buy beverage alcohol to a place where our customers enjoy an exceptional shopping experience. This transformation was made possible by the strength and experience of our employees and leaders, by investing in innovative technology that allows us to work smarter and more efficiently and by good Board governance.

The talent and experience of the teams we have in place across the organization coupled with the vision of our Board support our success in being a responsive and responsible retailer. I believe strong and effective governance leads to better business decisions and that effective Board oversight is vital to our success.

Members of the NSLC's Board of Directors are maintaining their commitment to best governance practices by continuing to upgrade their skills through such initiatives as membership in the Canadian Institute of Corporate Directors and Governance Professionals of Canada and by conducting an annual review of our committees and Board Charter. I am pleased to report this commitment to best governance practices resulted in our movement to Third Party Compliance Reporting. Ethical behaviour is a critical component of the NSLC's Code of Business Conduct and corporate values. We want to ensure we operate transparently and continuously make improvements to the business.

We had a very successful year, delivering a strong dividend of \$239.2 million to our shareholder, the Province of Nova Scotia. One hundred per cent of the NSLC's profits are returned to our Shareholder to fund key public services. I'm proud to see our efforts to cultivate the growth of local products are working as evidenced by across the board market sales growth in all Nova Scotia product categories. We are deeply committed to continuing and building upon our support of the local breweries, distilleries, cider makers and farm wineries invested in communities across Nova Scotia.

Several factors contributed to our success last year. We continued to diligently control expenses, made technology improvements that drove efficiencies and cost savings and offered our customers value in all product categories. I am pleased to report that these efforts resulted in a \$4.3 million increase in sales and the average dollar value of each transaction grew by 0.7 per cent, putting us more than \$5 million ahead of our net income target for the year.

Ours is a business that touches upon the lives of most Nova Scotians - directly through our product offerings and indirectly through the investments we make in communities and organizations. We are accountable to our customers and our Shareholder so it's important that Corporate Social Responsibility is integral to the way we run our business. It's ingrained in everything we do.

I am pleased by our efforts over the past year with The Port by NSLC in Halifax and our NSLC Express stores ensuring our stores reflect what our customers want in the varied markets that we serve. I am happy to report we are continuing to move forward, investing up to \$6 million in refreshing more than 30 of our small stores across the province in the next three years.

I would like to take this opportunity to thank our more than 1400 employees who work so diligently to serve our customers. They are working to exceed our customers' expectations, committed to ensuring each trip through the doors of our stores exceeds their expectations.

A handwritten signature in black ink, reading "Sherry Porter". The signature is written in a cursive, flowing style.

Sherry Porter

## OUR EXECUTIVE TEAM



*Our NSLC Executive Council is comprised of Caroline Duchesne, Director of Finance, Tim Pellerin, Senior VP and Chief Operating Officer, Bret Mitchell, President and CEO, Heather MacDougall, Director, Policy and Public Affairs, Corporate Secretary and Roddy Macdonald, Senior VP and Chief Services Officer*

## OUR EXECUTIVE TEAM



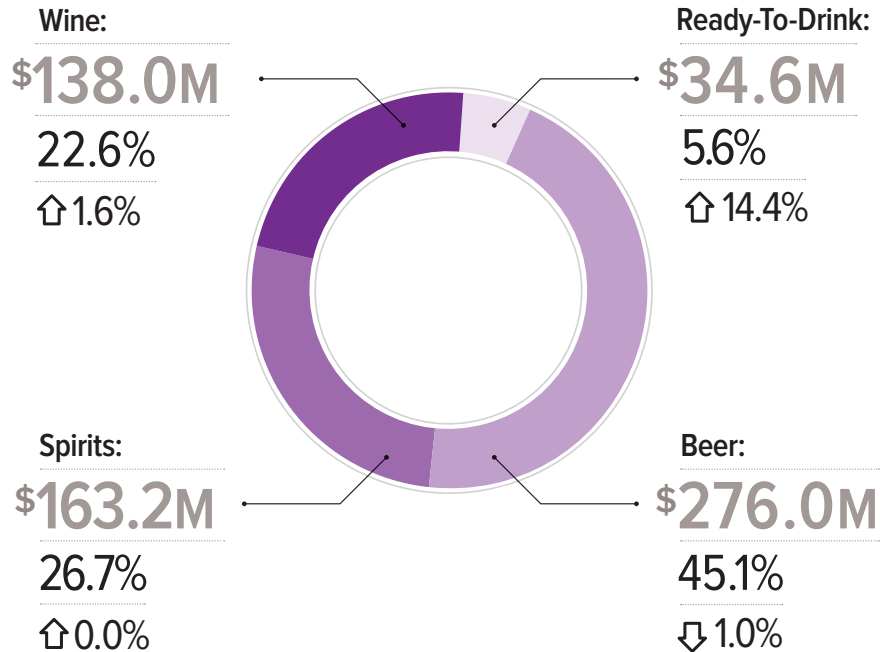
*Our Board of Directors are from left: Caroline Duchesne, Tim Pellerin, Keith Dexter, Paul Kent, John MacKinnon, Bret Mitchell, Sherry Porter, Byron Rafuse, Michele MacKenzie, Cathie O'Toole, Liz Cody, Kim Brooks, Heather MacDougall, Roddy Macdonald and James Wilson.*

# OUR FINANCIAL RESULTS

**A very good year:** Our financial results for 2016-2017 reflect our commitment to conduct our business in a fiscally responsible manner. More detailed information can be found in our Audited Financial Statements.

Our team worked hard to provide great service and make our company more efficient. We also benefited from an overall strong year in the retail sector. Here are some of the highlights:

## Business Highlights



## Local Product Sales

**Beer**

**+38.1%**

**\$8.7 million**

The Craft Beer Industry continues to experience significant growth with the NSLC listing products from local breweries as of year-end, up from three breweries just four years ago. One of every four beer listings on NSLC shelves is a local craft beer.

NS Commercial Beer Sales were stable at \$160.9 million in 2016-2017.

**Wine**

**+3.9%**

**\$9.9 million**

Nova Scotians like their locally grown grapes and are recognizing increasingly the superb quality of many varieties. One out of three wine collectors in Nova Scotia has purchased a bottle of local wine. Many varieties from Nova Scotia's 21 local wineries are earning accolades and recognition at home and abroad.

**Spirits**

**+130.8%**

**\$3.5 million**

Nova Scotia Distillers had a very strong year with tremendous growth in sales through NSLC stores. Nova Scotians recognize and appreciate the quality and array of local spirits and the good news is spreading as new customers discover these excellent products. Several local products were awarded medals at the influential World Spirits Competition in San Francisco which helped boost awareness of this burgeoning sector.

**NS Ready-To-Drink Products**

**+83.8%**

**\$2.9 million**

Nova Scotia Ready-to-Drink products saw tremendous sales growth. These strong sales figures were driven by cider, with local ciders accounting for 8.5% of all ready-to-drink sales and 36% of all ciders enjoyed by Nova Scotians.

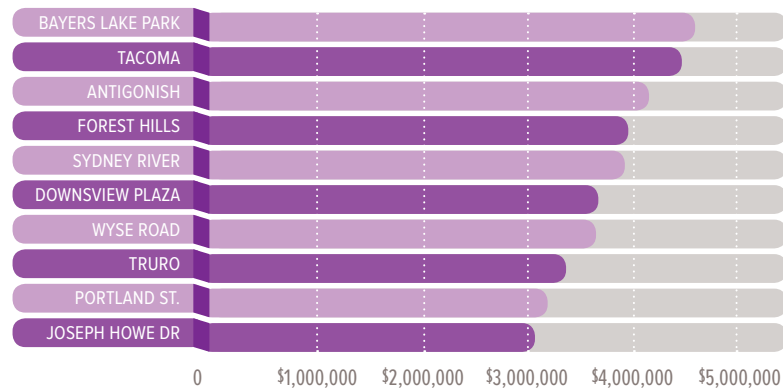


# OUR FINANCIAL RESULTS

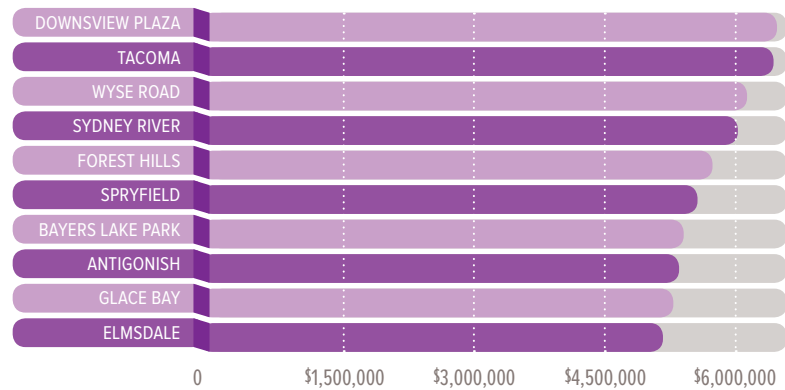
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## Top ten store sales by category

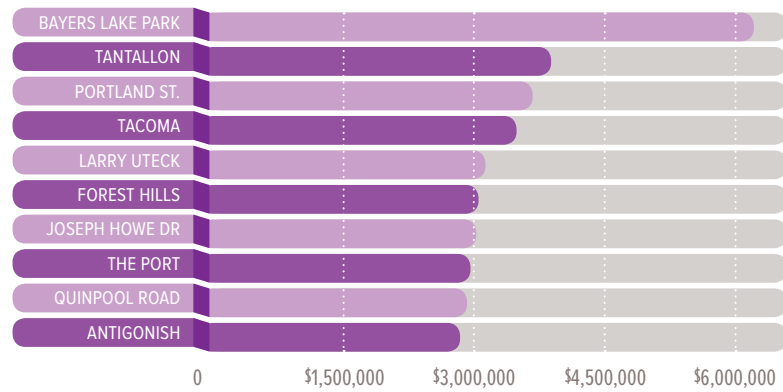
### SPIRITS



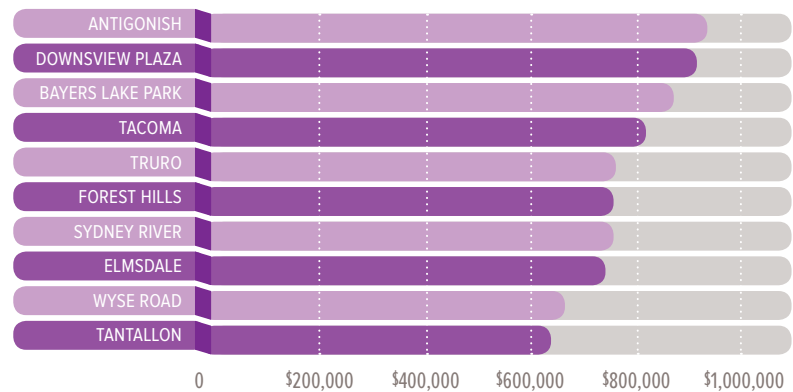
### BEER



### WINE



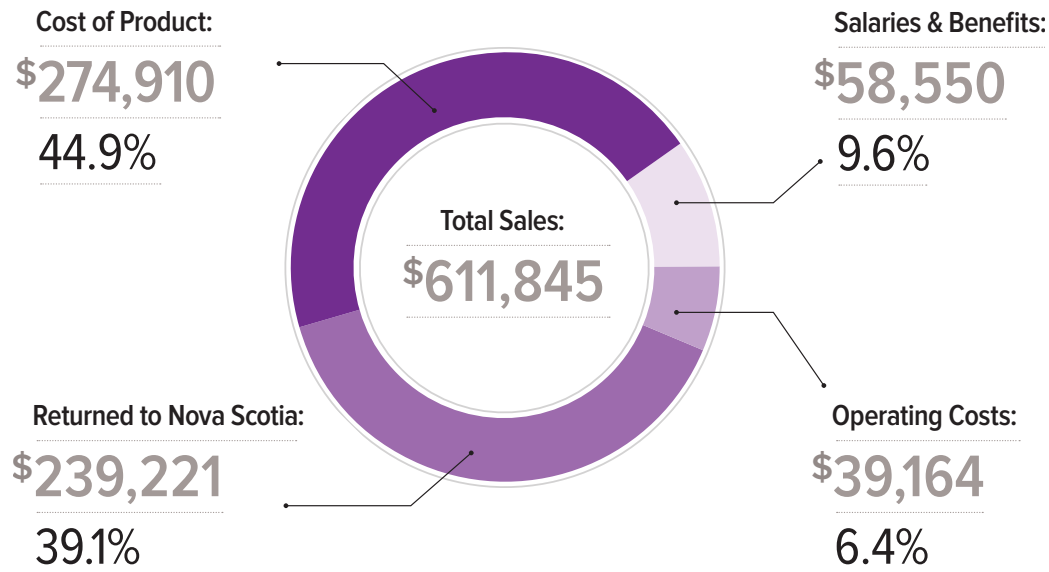
### READY TO DRINK



# OUR FINANCIAL RESULTS

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## Our Spending (in thousands)

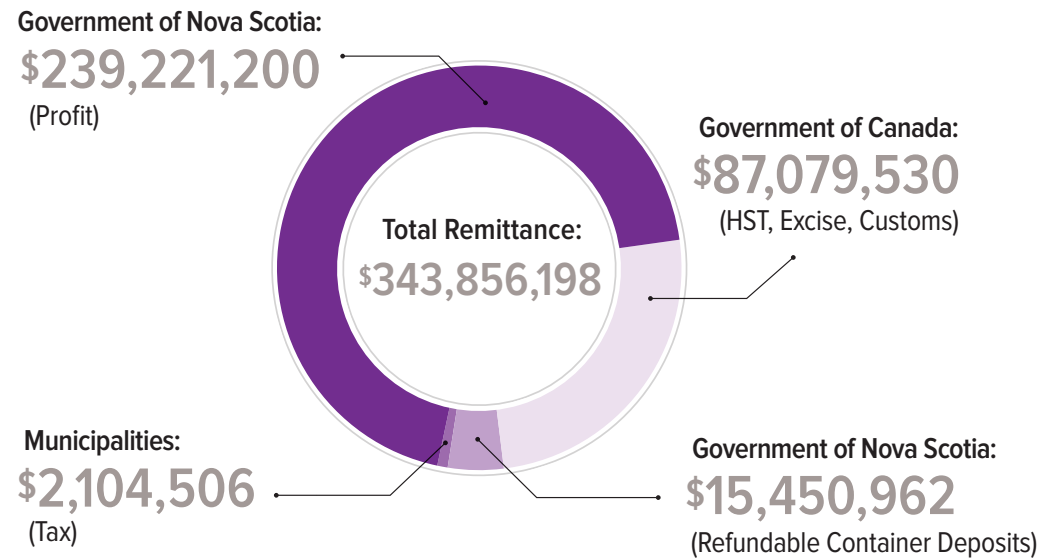


# OUR FINANCIAL RESULTS

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## Our Financial Return



# OUR FINANCIAL RESULTS

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## Trends

### Per Capita Consumption\*

Nova Scotians are drinking more in terms of volume.

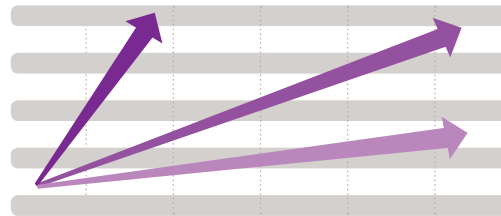
#### % change 2016 / 2015

	BEER	SPIRITS	WINE	RTD
Nova Scotia	0.8%	1.7%	4.3%	8.2%
Canada	0.5%	1.9%	2.5%	13.0%

\* Source: Statistics Canada. Table 183-0023 - Sales and per capita sales of alcoholic beverages by liquor authorities and other retail outlets, by value, volume, and absolute volume, annual. Per capita sales by value and volume are based on the population of inhabitants of 15 years of age and over.

### Opportunities

Customers are excited by innovative products and are asking us for new product experiences.



- NS SPIRITS ↑ 130.8%
- NS RTD GROWTH ↑ 83.8%
- NS CRAFT BEER GROWTH ↑ 38.1%

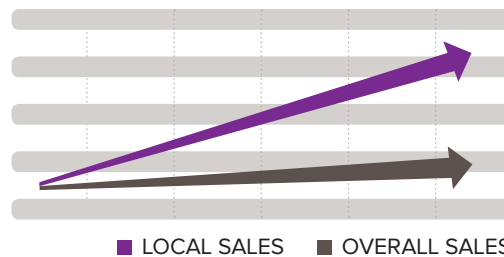
# OUR FINANCIAL RESULTS

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## Trends

### Growth

We're very pleased with sales, particularly local product sales, as we continue our focus on investing in local industry, promoting responsible consumption and providing exceptional customer service  
 Overall – \$4.3 million increase; 0.7%  
 Local – 16.6%

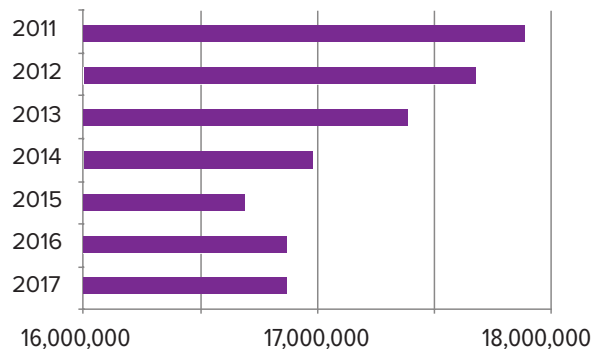


### Demand

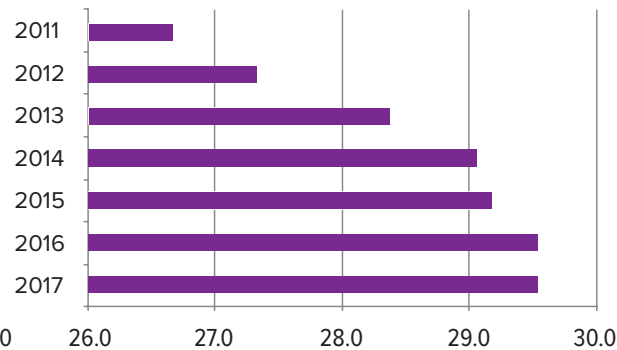
2016/17  
 Retail Transactions 16,856,301

2016/17  
 Dollar Value for Average Basket \$29.68

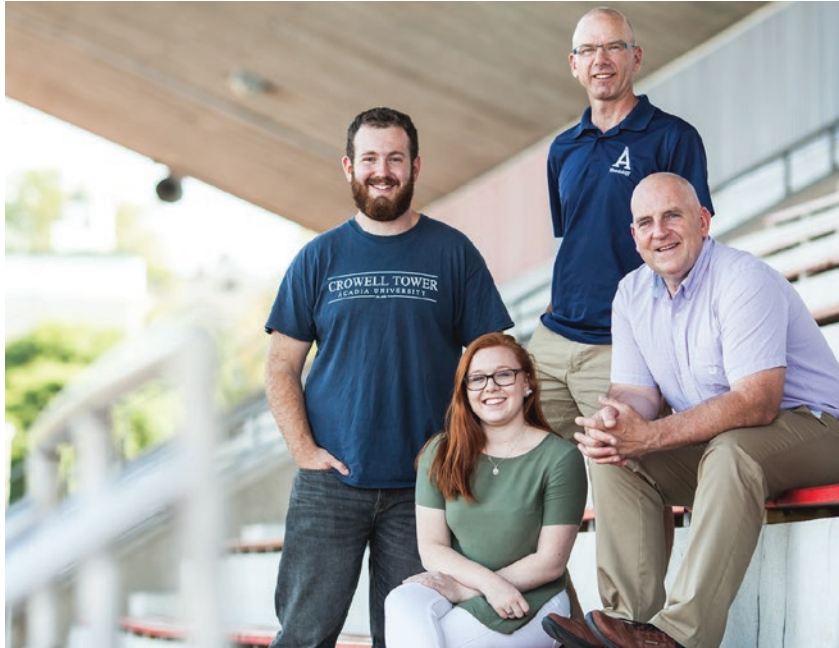
**TRANSACTIONS**



**AVERAGE BASKET**



# Responsibility



*Keep It Social is an initiative developed by the NSLC in partnership with most Nova Scotia universities to help educate university students about the harms of high-risk drinking. Malcolm Anderson, Vice-President of Events and Promotions at Acadia University, and Emily Murray, Vice-President of Student Life with Acadia Students' Union, are lead ambassadors of the program at Acadia. They are pictured here with Darren Kruisselbrink, standing, a faculty member in the School of Kinesiology, and James Sanford, Executive Director of Student Services, who co-chair Acadia's Alcohol Harms Working Group.*

Drop in to any one of our stores across Nova Scotia and you'll see smiling employees. We love coming to work each day and we're aware we have been entrusted with a very serious responsibility. It's a core responsibility of every NSLC employee to take every measure to help keep beverage alcohol out of the wrong hands. It's a considerable obligation and each of us is committed to our mandate to be a responsible retailer accountable to our customers and deeply invested in our communities.

Corporate Social Responsibility is the cornerstone of every decision we make as we do our part to make Nova Scotia a better place to live and work. Our employees are dedicated to doing their part to be responsive and accountable to our customers, raise awareness about beverage alcohol issues, support our communities and reduce our environmental footprint.

We are making a conscious effort to focus on the long-term impact of our operations from a social, economic and environmental perspective. Here are some of the ways we're doing that.

## KEEP IT SOCIAL

Keep It Social is our responsible consumption platform on university campuses. It's a long-term, collaborative initiative that promotes drinking in moderation and use of harm reduction strategies among university and college students. Keep It Social is a branded social responsibility platform informed by students and delivered by students. In Nova Scotia, it's an initiative that's supported through partnerships with Acadia, Mount Saint Vincent, Cape Breton, St. Mary's and Saint Francis Xavier universities as well as Saint Anne Universite.

"We did our homework in developing this program, working closely with universities. It's a success because it's a peer to peer program. It's crucial to have the support of university administrators but it's the student organizations that implement the program and that's why it's working," said Beth Martin, manager of Corporate Social Responsibility at the NSLC.

University is a social experience and while that often involves the consumption of beverage alcohol, many students choose not to drink. The goal of this campaign is to help students better define and understand the line between social and high-risk drinking and to drink responsibly. Key to the



# Responsibility

success of the program are the student ambassadors on each campus. The Keep It Social student ambassadors are the eyes and ears on their respective campuses, relaying feedback and discovering opportunities for amplification. Ambassadors provide input and influence the direction of the creative and the messaging at each phase to ensure it is “student-approved”.

Keep It Social provides a platform that universities can customize and integrate with their individual campus alcohol policies and programming.

Atlantic University Sport is a new addition to the Keep It Social platform and has elevated the visibility of the Keep It Social message at university level sporting events and provided consistency of messaging as students visit campus-to-campus.

“Atlantic University Sport is proud to be partnered with Keep It Social and to be able to leverage several of our marquee events to deliver such an important message to students in our region. For many students, this is their first time away from home,” said AUS Executive Director Phil Currie. Keep It Social was promoted at home opening football games as well as basketball, hockey and soccer tournaments resulting in well over 30,000 students exposed to the message through the AUS partnership.

This year, the Keep It Social platform was also adopted by universities in both New Brunswick and Prince Edward Island.



## RESPONSIBLE RETAILING

We are entrusted with the sometimes difficult task of making sure beverage alcohol stays out of the hands of minors. The legal drinking age in Nova Scotia is 19 but it can be very difficult to determine a person’s age which is why we routinely ask customers who appear to be under 30 years old to provide valid identification.

“Although it’s not always easy to handle certain situations, I strongly believe it’s important to be accountable for the safety and satisfaction of our customers,” said Dylan, who works in our Larry Uteck store. At 23, Dylan falls into that 20-something category where it can be challenging to determine a customer’s age.



Jakke works in our Agricola store and said asking for ID provides the opportunity to help the customer find the right product and improve their shopping experience while helping to keep beverage alcohol from falling into the wrong hands. The 22-year-old said responsible retailing is about helping our customers understand why selling beverage alcohol responsibly is so important for them and for the NSLC.

Employees like Dylan and Jakke receive regular training for our responsible retailing program and we use mystery shoppers to make sure our policies and practises are working. With 1.72 million ID challenges last year, it is proving to be an effective method of ensuring proof of age and is a deterrent to prevent minors from making a purchase attempt.



## MADD CANADA

We’re proud to work with MADD Canada by sponsoring its School Assembly Program. More than 50,000 students in grades 7 through 12 across Nova Scotia received this program last year. Featuring a multi-media presentation, this program speaks to young people on their level, encouraging them to take a closer look at their values and perceptions through a powerful dramatization about the tragic consequences of impaired driving. The video ends with testimonials from real-life family members and friends who share their heartbreaking stories with the audience.

## CABBIOKE

We want all Nova Scotians to end their night on the right note and to get home safely. Our Cabbioke platform has been delighting Nova Scotians since 2014 with its karaoke monitors and microphones and disco balls, changing behaviours one song at a time. It’s a fun way to help us spread the importance of planning ahead to ensure you get home safely. Last year, our vibrant purple Cabbioke travelled to 25 community events across the province, visited 27 stores and participated in 16 parades. We’ve sung thousands of songs, from Dancing Queen to I Love Rock and Roll and awarded almost 2000 taxi vouchers, working to change behaviours and keep Nova Scotians safe.

You can see some of the fun for yourself by viewing this video: <https://vimeo.com/227789272/c3296649ba>

# Community



*The IWK Health Centre is a cause dear to the hearts of the team at our Barrington Passage store. Store clerk Cathy Nickerson, left, store manager Anita Spencer and store clerk Tina Goreham, right, helped make the South Shore store the NSLC's top fundraising store for the regional women and children's hospital.*

## IWK

Our employees are deeply committed to being active members in the communities where we live, work and play. One of the ways they do that is through their dedicated support of the IWK Health Centre. It is a wonderful place that provides world-class compassionate care to women, babies, children, youth and their families. In 1987, our employees decided to champion the IWK as their charity of choice. That's 30 years of ongoing support with over \$1.7 million donated. From answering the phones at the IWK Telethon to hosting bake sales to having fun at Trivia nights, our employees have devoted much of their personal time to this cause which is so close to their hearts.

The IWK has touched the lives of many of our employees and their families and makes a difference to families in communities across our province. We're proud to say that our store in Barrington Passage received the prestigious recognition as our top fundraising store. "We could not have done it without our customers," said store manager Anita Spencer. "They generously support the IWK with direct donations at the store as well as by supporting fundraising events the employees organize, such as book and plant sales and auctions."

Thank you to our employees, partners and customers. Your dedication to helping others resulted in a donation of \$210,000 to the IWK in 2016-2017.



## CASH CANS

We take pride in being a responsible corporate citizen and good neighbour in the communities we serve. This often involves giving provincial charities the opportunity to conduct fundraising activities in our retail stores. With our Cash Can Program, registered charities place donation boxes at every cash lane for customers to deposit spare change. We raised just shy of \$49,600 in 2016-2017, supporting ten organizations, including the Hope for Wildlife Society, Canadian Cancer Society, Canadian Red Cross and Fort McMurray Relief Fund.



# Community

## HABITAT FOR HUMANITY

Employees enjoyed a new experience last year with Habitat for Humanity. They donned hard hats and safety gloves and picked up power tools and tape measures to help build homes for a family in Oxford. It was a rewarding experience that we hope to continue and grow providing increased opportunities for our employees to contribute to creating better lives for appreciative Nova Scotia families.



# Sustainability

## NSLC ADOPT A STREAM

We believe we have an important role to play in being good stewards of the environment. The NSLC Adopt A Stream program is a partnership with the Nova Scotia Salmon Association that supports the work of more than 30 volunteer community groups. Through the Adopt A Stream program, these groups receive training and carry out projects to protect, repair and improve wetlands, lakes, streams, rivers and estuaries across Nova Scotia.

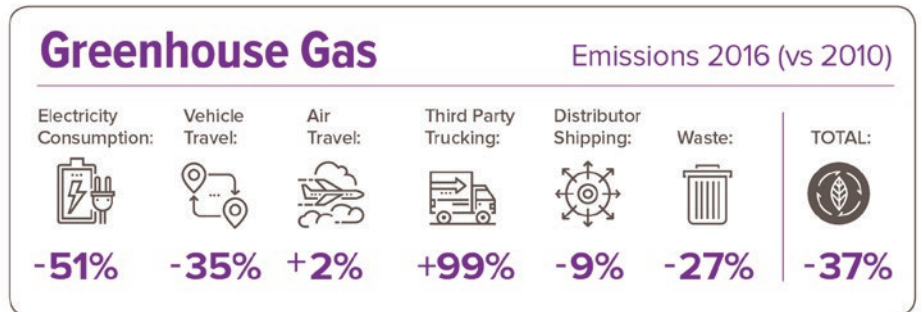
In the past seven years, we raised \$700,000 (\$100,000/year) through the sale of participating products in our stores during the month of April. That money has been used to hire field staff and train community groups to restore habitat and fish passage and improve water quality across Nova Scotia.

Since we initiated this program in 1998, we've completed 160 projects, protected and restored 1.9 million square meters of stream habitat, planted almost 61,000 trees, re-established 395 km of fish passage and created 615 seasonal field jobs. We couldn't do this great work alone and are very thankful for the participation of over 2,300 community volunteers who gave over 51,000 hours of their time. <https://youtu.be/-XJpRLFnOg>

## ENVIRONMENTAL IMPACT

As we look to minimize our carbon footprint, we have established ambitious programs and targets to reduce our impact on the environment. These initiatives include implementing energy efficiency upgrades in our stores, Head Office and Distribution Centre. We conduct waste audits in our drive to divert 95% of solid waste from Nova Scotia landfills and ensure compliance with our Zero Waste policy and we have a liquid waste program to ensure waste from broken or damaged bottles and cans in our stores and Distribution Centre doesn't endanger the local water supply. We collect all liquid waste which is then securely handled by a contracted service provider. We have also committed that all new build and renovations will be completed to LEED Silver standards. Leadership in Energy and Environmental Design, LEED, is an internationally acclaimed green building certification program that includes such features as energy efficiency, sustainable development and indoor environmental quality.

Looking across our business, we have reduced Greenhouse Gas Emissions by 37% since 2010 in a sector that is heavily dependent upon transportation.



# Recognition

## CELEBRATING OUR STARS



*Theresa Arbuckle excels at helping our customers – and always with a smile – which is why she was one of four recipients of the NSLC’s CEO Shining Star Award.*

Some 27 years ago, a small oblong package arrived at work for Theresa Arbuckle. She opened it and inside was a book about providing first-rate customer service. It came from a customer Theresa had spoken with on the phone and he wanted to thank her for exemplifying superb customer-focused service.

In recognition of the outstanding service Theresa continues to provide nearly three decades later, she was named one of four recipients of the NSLC’s CEO Shining Star Award. The award salutes employees who make a significant contribution to the corporation’s success and demonstrate a sustained commitment to excellence in all that they do.

Theresa still has that book and remembers what the customer said to her. “He told me, ‘It’s like you smile through the phone.’” That’s the attitude she continues to bring to work every day as Facilities Manager.

### Gloria King

Customer focus is also paramount for Gloria King, Product Specialist at our Kentville store and fellow recipient of the CEO Shining Star Award. Gloria comes to work every day bursting with knowledge and optimism, totally engaged in everything to which she turns her attention. Sharing her product knowledge with the team and supporting local products are her on-going priorities. Gloria is a true role model for her co-workers, living the NSLC’s KORE values of knowledge, optimism, respect and engagement every single day.



### Terri Mosher

President and CEO Bret Mitchell had the unique honour of also bestowing Gloria’s daughter Terri Mosher with the CEO Shining Star Award. Terri is the NSLC’s Internal Communications Specialist and her face lights up when she talks of her deep commitment to fostering employee engagement. “That’s what keeps me up at night. I want to support our employees in feeling valued and important in the workplace. They are integral to our success and it’s important that we respect and connect with each other. Our people are the NSLC and celebrating them is what I thrive on.” Terri also step ups up on her own time to volunteer for Cabbioke parades and corporate events.



# Recognition

## CELEBRATING OUR STARS

### Jeremy Archibald

Our fourth winner was Jeremy Archibald of the Finance Business Unit. He's been described as the glue that holds the business together and made a significant contribution to the NSLC's success last year. Jeremy's keen business acumen came to the forefront through his work on the Investment Management Policy as he collaborated with stakeholders both inside and outside the business. Jeremy is known for treating everyone with respect and is always willing to help others, investing as much in his community by coaching rugby as he does in his workplace.

We are extremely proud of all our employees as they work across this province to deliver a world of responsible beverage enjoyment. It takes a lot of hard individual and team work to truly delight our customers and we're thrilled to recognize and celebrate our employees' efforts.

An impressive 21 employees received peer-nominated 'Star' awards over the past year and we commended the outstanding performance of teams of employees with our Region of the Year and Store of the Year awards.

For the second year in a row, Cape Breton was Our Region of the Year for 2016-2017, substantially exceeding its sales target, attaining the highest sales increase of any region in the province. "Our people achieved this incredible accomplishment while meeting all other targets and working hard to ensure beverage alcohol stays out of the hands of minors," said Paul Rapp, Vice President of Customer Experience.

Paul indicates employee engagement is extremely high in Cape Breton with our people extremely involved in their communities. They also have a true talent with merchandizing and are exceptionally creative and focused on detail.

Our Tantallon store was named Store of the Year. Manager Glenn Devanney said while the team excelled at all targets and goals, the reason customers keep coming back is because they receive exceptional customer



service. "It's about creating excitement and delivering a really positive customer experience," Glenn said, and that's what our employees in Tantallon do so well.

The store has collaborated with local food vendors and restaurants to provide tastings and pairings that appeal to a wide range of customers and employees are deeply invested in their community, volunteering their time to help others.

The Retail Store Awards celebrated the top stores in our retail network that consistently demonstrated our KORE values while achieving or exceeding store targets, including customer satisfaction scores, merchandising and We ID mystery shop scores. Our stores in Sydney River, Baddeck, Porters Lake and Stewiacke all received Top Performing Store Awards for their outstanding work.

This was the third year of our peer-to-peer nominated Star Award program, celebrating our people who excel in the areas of Customer Service, Collaboration and Leadership as they consistently invest their time and energy in providing exceptional service. Our deserving winners this year were Joana Galante, Jennifer Gray, Andrew Stenhouse, Rachel Handspiker, Sheri Robertson, Don Godreau, Mark Turnbull, Chris Mitton, Mike Haley, Cathy MacDonald, Kelly Kendall, Sylvia Smith, Emma Spawn, Chris Belliveau, Ikue Garland, Sherry Graves, Ashley Delaney, Darla Lauchlan, Gavin Alward, Jim Ross and Joanne Worth.

The Corporate Social Responsibility Award went to our East Side New Glasgow Team. Employees were honoured as excellent stewards of the environment and of responsible retailing. They encourage customers to bring their own re-useable bags, approach and ID customers as they enter the store, regularly volunteer for such initiatives as Habitat for Humanity and enjoy challenging each other and engaging with customers through fundraising efforts.

Our people truly are the reason the NSLC is a respected and respectful corporation that puts our customers first.



## People

### NEW TECHNOLOGY SUPPORTS SAFETY AND IMPROVED OPERATIONS



*Catherine MacNally and her co-workers benefit from a computerized system that supports enhanced performance of the forklift fleet and improved safety on the job.*

Catherine MacNally swipes her employee card in the slot of a device that looks much like a car's GPS unit. It confirms on a little screen that she is authorized to operate the lift truck to which it's attached, then Catherine goes through a check list of questions that will ensure the machine is safe for her to operate.

This electronic unit, just 12 centimetres tall and 20 cm wide, is on all 40 forklifts in the NSLC's Distribution Centre, from which almost five million cases of beverage alcohol were shipped out across the province last

year. The 138,000 square foot centre holds \$25 million worth of inventory at any given time. The nearly 60 full and part time employees who work here ship out an average of 94,000 cases a week to our 130 retail stores from Yarmouth to Cape North, as well as 60 agency stores and four private wine and specialty stores and provide products for more than 2000 bars and restaurants.

We did more than \$600 million in sales last year resulting in over 4.9 million cases of beverage alcohol being shipped through our warehouse. "The onus is on us to make sure the inventory is here when it's needed and that means we load, package up and ship out a lot of pallets in the run of a day," said Steve Power, Director of Supply Chain.

Safe work practices are critical when you're dealing with 25 aisles of pallets loaded with up to 2300 kilograms of product stacked on shelves up to eight metres off the ground.

We encourage all employees to take personal responsibility for their safety and the safe operation of the equipment they use to do their jobs and our managers support their efforts. We invested in new technology and initiatives last year that let them do that while also gathering information that provides managers with the insights they need to make better decisions about how the warehouse operates.

A key project last year was the installation of the forklift fleet management system called iWAREHOUSE that Catherine and her fellow workers use. It transmits computerized information, allowing the remote management of employee access to various pieces of material handling equipment and keeping track of operator certifications, ensuring operators are up to date on their training and qualifications. If the operator isn't certified, the equipment doesn't work.



## People

### NEW TECHNOLOGY SUPPORTS SAFETY AND IMPROVED OPERATIONS

“iWAREHOUSE means we can protect our number one asset, which is our people,” said Brad Doell, Vice President of Supply Chain and Procurement. “While we see that as its primary use, it also enables us to protect our equipment and products.”

The system has electronic forklift operator checklists and provides immediate notification of any impacts, recording damage that might occur to equipment or products.

If there’s a minor bump, the system issues a series of three beeps which coaches the employee to pay closer attention to his surroundings. If there’s a higher impact incident, an alarm notifies all employees and supervisors and the truck is slowed to 1.6 kilometres per hour which allows the vehicle to move in case an employee is trapped. The system also limits the speed at which new employees can operate the truck.

It’s installed on all 26 pallet trucks that pick and process floor and low level daily orders. It’s also on the three trucks that pick orders from elevated heights, six reach trucks that pick products in narrow aisles and on higher shelves, two swing reach trucks that load pallets from narrow side aisles and the three counter-balanced trucks for bulky loads that weigh up to 2300 kg.

The system allows managers to collect and report on maintenance as well as operational data from the trucks, records the service history of the vehicles and provides alerts if the equipment isn’t performing properly.

“It provides for training opportunities and enables us to identify any trends that we should address. It is state of the art, providing us with information that we can use to support employee safety, ensure proper vehicle maintenance and manage equipment more efficiently,” Brad said.

There are fewer incidents of damage to equipment and vehicles and there are savings because operational decisions are based on records of



exactly what is going on with a piece of equipment as opposed to what is believed to be occurring.

“These immediate savings aren’t just one-time savings. We’re experiencing ongoing maintenance and part and machine replacement cost reductions because we readily have the information we need to make fact-based decisions,” Brad said.

iWAREHOUSE was one of several initiatives the NSLC instituted in the warehouse last fiscal year to address employee safety and operational efficiency. Employees played an active role in testing upgrades to equipment with their input resulting in the installation of new cameras on all narrow aisle reach trucks to help reduce neck strain on operators as they place and retrieve pallets that are higher up.

The NSLC also installed a suspension and a stance system on the trucks that reduce stress on operators’ knees and backs and afford them greater visibility and a light sensor system that encourages proper operating procedures.

“It was important that our employees had a say in choosing what upgrades would result in improvements for them. They do challenging physical work in the warehouse. Of course, the safety of our operators is paramount but we also want to do what we can to ensure their comfort on the job,” Steve Power said.

As one of the largest retailers in the province, we are committed to integrating technology that will improve our day-to-day operations and help us attain our strategic goals. The initiatives we implemented over the past year translated into improved productivity and accountability, better informed operational decisions and, most importantly, a safer work environment for our employees.

# Knowledge

## THIRST FOR KNOWLEDGE DRIVES ONGOING EDUCATION



*Gloria King thrives on constantly learning and she puts that knowledge to work with exciting new recommendations for customers.*

Gloria King grabs her binder and rushes off to her next class filled with enthusiasm. “It’s so fast-paced and intense it’s all I can do to get from one classroom to another on time but it’s absolutely fantastic. I love it,” she said.

Gloria is an 18 year employee of the NSLC. She’s been a Product Specialist for the past seven years which means once a year she joins her nearly 30 peers and returns to her alma mater – PSU.

Product Specialist University is an intensive two day annual training program at the NSLC’s corporate headquarters in Bayer’s Lake that’s focused on ensuring exceptional personalized and knowledgeable customer service. It’s part of an ongoing journey of learning that also includes education sessions at local breweries and wineries.

Category Manager Jennifer Katona was instrumental in establishing PSU to be responsive to customers’ thirst for knowledge and new experiences by providing a superb retailing experience. “It’s about listening to our customers, asking probing questions and reading body language.

This opens up communication between the customer and the Product Specialist and helps us build and keep a strong relationship,” she said.

The first group of Product Specialists was hired in September, 2008. Customers’ expectations have evolved since that time, which means we have evolved too, ensuring our specialists are well versed in product offerings and trends, merchandising, marketing and customer relationships.

With continuing education, informed employees are empowered to address customers’ questions and forge genuine relationships.

PSU offers an extensive range of classes. Last year, employees were given an opportunity to see the big picture as they learned the inner workings of the Distribution Centre. “We wanted to provide insight into how products make their way to the stores. It really was a chance for our Product Specialists to see the warehouse in action. It was exciting for me to see their interest and answer their questions,” said DC Senior Supervisor Kevin Higginbotham.

# Knowledge

## THIRST FOR KNOWLEDGE DRIVES ONGOING EDUCATION

The ‘students’ learn about specific products, about industry trends locally and globally and develop their leadership and customer engagement skills. When it comes to wines, for example, they have learned about the characteristics of various regions, the traits of various soils and what that means for the grapes. They have also learned about different distillation methods for spirits, the fundamentals of merchandising and promotions that the NSLC offers throughout the year and gained insight into how marketing and pricing decisions are made.

Students don’t just sit at a desk while at PSU. The diverse course content includes enlightening and interactive classes on such topics as the art of blending wine, giving each Product Specialist an appreciation of the expertise that goes into successful wine making, informative and engaging sessions on whiskey and craft lager and on food pairings and organic wines.

“It’s a great learning experience and I love getting together with the other Product Specialists from across the province and interacting with everyone. I really enjoy people so this is a great way for me to learn,” Gloria said.

The relationships she has forged at PSU have led to some wonderful collaborative efforts in which stores in the region work together to promote themed events. They partner with area businesses and restaurants to offer complimentary products and tastings and celebrate special occasions.

PSU is held during the week leading up to the Port of Wine’s Festival in Halifax. It’s a prime time to do this focused education with the RPS, putting their newly acquired knowledge to work at the festival once classes have finished.

“I learn an awful lot and of course the whole point is that I come back to my store in Kentville and teach what I have learned to the team here and share the information with our customers. It absolutely makes me better at my job,” Gloria said.

Product Specialists have become front line leaders in our stores, possessing a high level of product knowledge, coaching fellow employees and engaging with customers.

They get to know the products at PSU, share their experiences with their co-workers and customers and can speak honestly to the products. They open the door for our customers to be more adventurous in their choices, giving them the confidence to experience new products.

For Gloria, there is no greater reward than translating her knowledge into a terrific experience for a customer who walks out the door with a new bottle of local wine in hand that’s sure to make him a hero at the next dinner party with friends.



## Customers

### IT'S ALL ABOUT OUR CUSTOMERS – THEY'RE THE FOCUS OF EVERYTHING WE DO



*Tracy Walker is thrilled to help customers at our new First Lake NSLC Express store. It has a neighbourhood feel that's convenient for customers who may be short on time.*

At 26, Tyler Mackenzie is early in his career at the NSLC. From his first day as a casual clerk in our Eastern Passage store he's been fully focused on providing exceptional customer service. His co-workers were doing it and Tyler knew such service is expected of everyone who works at the NSLC. That focus remains steady with his current role on the sales team at the head office in Bayer's Lake Industrial Park. "I strive to provide our customers with great customer satisfaction. It's important to me to not only be successful at that, but to go above and beyond and make sure the customer is completely happy with the results. If I can give a little extra to improve their experience, I do."

Bill Spurdakes has been with the NSLC for 44 years. Like Tyler, he started out as a casual employee. He's a System Analyst now, though regardless of his role over the years, whether he was a Store Clerk or Internal Auditor, Bill never lost sight of the fact every job at the NSLC is ultimately about providing exceptional service for customers.

Delivering excellent customer service is a part of our mandate at the NSLC, but it is much more than that. Our passion for providing exceptional customer service is what sets us apart as a retailer – it's intrinsically engrained in our culture, our strategy and our values as our employees strive continually to exceed customers' expectations.

And we're good at it as evidenced by a customer satisfaction rating of 90 per cent rate for fiscal 2016-2017 and a customer approval rating of up to 91% in our retail shopping experience surveys. We know what our customers think because we speak with them in our stores and conduct 1200 telephone surveys every year. We want to know what our customers like about our products and services, where they'd like to see changes, if our staff are friendly and whether they feel comfortable in our stores.

In our surveys, we pose a series of 24 questions on everything from store layout and availability of product to the knowledge and helpfulness of our staff and effectiveness of our social responsibility initiatives. Half of our customers tell us they were 100% satisfied with their experience.

That's impressive. Our employees are clearly doing a terrific job of making sure our customers have a first rate shopping experience while learning about the products we offer.

Most corporations would view a 91 per cent approval rating as superb, and it is. In fact, it's outstanding. But that's doesn't mean we can't do better. We are on a journey of setting and exceeding ever-higher standards through continuous improvements for the customer at every step of their shopping experience.

We believe we can always do better when it comes to customer satisfaction and last year developed a strategy to make that happen with a new initiative that will help us further raise the customer experience.

"We're known for our great customer service but that doesn't mean we can stand still," said Senior Vice President and Chief Operating Officer Tim Pellerin.



## Customers

### IT'S ALL ABOUT OUR CUSTOMERS – THEY'RE THE FOCUS OF EVERYTHING WE DO

"I believe that the best retailers are always looking for new ways to raise the bar and that is what this ambitious project is all about."

This corporate commitment to providing superior service every time a customer shops with us led to development of the Service Excellence Team. Last year, we implemented the first phase with the formation of the project team that includes Tyler and Bill.

They're thrilled to be part of this strategic process.

"Being part of this team means we're bringing together various abilities and ideas. I'm really excited to be part of a team that will work together as a group on a project that will ultimately amp up our customer service even more," Bill said.

The Service Excellence Team is about building and strengthening the NSLC's service culture, and while it is focused on specific improvements for the customer, it is about more than that. It is about an enhanced understanding that all of us at the NSLC have an important role to play in improving customer service and putting that strategy in action.

"We believe just about every interaction we have at work is an opportunity to provide excellent service. After all, we are all in the customer service business and we are all customers. How we serve one another determines how we will be able to serve the customers who buy our products," said Jillian Major, Director of Service Excellence.

The Service Excellence Team will be responsible for all aspects of superior customer service, from wholesale ordering and external customer inquiries to store related product support and overall service excellence as we keep pace with and anticipate the ever changing needs of our customers.

"I am excited about what these changes will mean to our customers and our people," Jillian said. "Our customers have told us they want more knowledge, more technology, more responsiveness and more flexibility so that's exactly what we intend to deliver."

We've already made tremendous strides. As we lay the foundation for providing superior customer service, all retail, assistant and Head Office managers attended leadership development training. "We need to start with our people and provide proper training and support to be a truly customer-focused company. The knowledge and skills of our people is critical to the success of this project," Jillian said.

And last year, we elevated the shopping experience to a whole new level when we opened The Port by the NSLC. We have Product Specialists, Sommeliers and a certified Tequila expert at the downtown Halifax store ready to offer their assistance to our customers. The store has tasting stations, special events and education sessions as we follow through on our commitment to provide our customers with the products and experiences they are seeking.

We also introduced NSLC Express – neighborhood stores designed especially for customer convenience. The feedback we've been getting is extremely positive as customers develop a relationship with their local staff yet can also quickly pick up what they're looking for when they're in a rush. These stores complement our nearby full-size stores, offering our top-selling 300 brands, chilled white wine and reach-in coolers for beer and ready-to-drink products.

We will build on the improved shopping experience by investing up to \$6 million over the next three years to refresh more than 30 of our small stores across the province. It is an exciting project that will make a big difference for our customers, our employees and the many small communities where we live and work.

These stores will offer an enriched product assortment of more than 500 top-selling products with space to showcase local favourites, products that are made nearby and more chilled products. The upgraded stores will also offer our customers a vibrant, inviting and more consistent shopping experience in communities across Nova Scotia.

We are working hard to build relationships with our customers that extend beyond the transaction and exceed their expectations so that in the end, we are Nova Scotians' beverage alcohol retailer of choice.



# Financial Statements

Nova Scotia Liquor Corporation  
March 31, 2017

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<b>CONTENTS</b>	Page
Independent auditor's report	26
Statements of earnings	27
Balance sheets	28
Statements of changes in equity	29
Statements of cash flows	30
Notes to the financial statements	31-43

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## Independent auditor's report

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To the members of the Board of the  
**Nova Scotia Liquor Corporation**

We have audited the accompanying financial statements of the Nova Scotia Liquor Corporation, which comprise the balance sheet as at March 31, 2017 and the statements of earnings, comprehensive earnings, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

### **Auditor's responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment,

including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation'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 audit 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 the Nova Scotia Liquor Corporation as at March 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

The logo for Grant Thornton LLP, featuring the company name in a stylized, cursive script font.

Halifax, Canada  
June 16, 2017

Chartered Professional Accountants  
Licensed Public Accountants

## Statements of earnings

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Year ended March 31 (in thousands)	2017	2016
Sales	\$ 611,845	\$ 607,585
Cost of sales	274,910	269,611
Gross margin	336,935	337,974
Operating expenses (note 11)	101,805	100,507
Other income	(5,035)	(4,835)
Earnings from operations	240,165	242,302
Post employment benefit interest cost (note 8)	944	1,045
Earnings for the year	\$ 239,221	\$ 241,257

See accompanying notes to the financial statements.

## Statements of comprehensive earnings

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Year ended March 31 (in thousands)	2017	2016
Earnings for the year	\$ 239,221	\$ 241,257
Other comprehensive earnings		
Items that will not be reclassified subsequently to earnings:		
Actuarial gains (losses) on defined benefit plans (note 8)	(266)	3,298
Comprehensive earnings for the year	\$ 238,955	\$ 244,555

See accompanying notes to the financial statements.

## Balance sheets

March 31 (in thousands)	2017	2016
<b>Assets</b>		
Current		
Cash	\$ 5,492	\$ 14,167
Receivables	3,321	2,566
Inventories	54,100	52,008
Prepays	2,272	1,700
	65,185	70,441
Intangibles (note 5)	3,020	3,239
Property and equipment (note 6)	40,637	43,622
	\$ 108,842	\$ 117,302
<b>Liabilities</b>		
Current		
Payables and accruals	\$ 42,778	\$ 44,032
Current portion of employee future benefit obligations (note 8)	1,103	1,539
	43,881	45,571
Employee future benefit obligations (note 8)	26,215	24,940
	70,096	70,511
<b>Equity (page 5)</b>	38,746	46,791
	\$ 108,842	\$ 117,302

On behalf of the Board



Ms. Sherry Porter  
Chair, Board of Directors



Mr. John MacKinnon  
Audit Committee Chair

See accompanying notes to the financial statements.

## Statements of changes in equity

(in thousands)	Other components of equity	Retained earnings	Total
Balance at March 31, 2016	\$ 1,202	\$ 45,589	\$ 46,791
Remittances to Minister of Finance	-	(247,000)	(247,000)
Earnings for the year	-	239,221	239,221
Other comprehensive loss	(266)	-	(266)
Comprehensive earnings for the year	(266)	239,221	238,955
Balance at March 31, 2017	\$ 936	\$ 37,810	\$ 38,746
Balance at April 1, 2015	\$ (2,096)	\$ 44,332	\$ 42,236
Remittances to Minister of Finance	-	(240,000)	(240,000)
Earnings for the year	-	241,257	241,257
Other comprehensive income	3,298	-	3,298
Comprehensive earnings for the year	3,298	241,257	244,555
Balance at March 31, 2016	\$ 1,202	\$ 45,589	\$ 46,791

See accompanying notes to the financial statements.

## Statements of cash flows

Year ended March 31 (in thousands)	2017	2016
<b>Operating</b>		
Earnings for the year	\$ 239,221	\$ 241,257
Depreciation and amortization	8,627	9,167
Loss on disposal of property and equipment	49	133
Post employment service costs	1,103	(496)
Post employment benefit interest cost	944	1,045
Actuarial (gain) loss on other employment benefit	181	(535)
Defined benefit plans benefits paid	(1,655)	(1,756)
	248,470	248,815
Change in non-cash operating working capital (note 9)	(4,673)	(2,867)
	243,797	245,948
<b>Financing</b>		
Remittances to Minister of Finance	(247,000)	(240,000)
<b>Investing</b>		
Purchase of intangibles	(897)	(1,141)
Purchase of property and equipment	(4,594)	(7,459)
Proceeds on sale of property and equipment	19	4
	(5,472)	(8,596)
Net change in cash	(8,675)	(2,648)
Cash, beginning of year	14,167	16,815
Cash, end of year	\$ 5,492	\$ 14,167

See accompanying notes to the financial statements.

## 1. Nature of operations

The Nova Scotia Liquor Corporation (the “Corporation”) administers the Liquor Control Act, Chapter 260 of the Revised Statutes of Nova Scotia, 1989 and is a government business enterprise as defined by Public Sector Accounting Board recommendations. The immediate parent and ultimate controlling party of the Corporation is the Province of Nova Scotia. The Corporation is exempt from income tax under Section 149 of the Income Tax Act. The Corporation’s principal place of business is 93 Chain Lake Drive, Halifax, Nova Scotia.

## 2. Basis of preparation

### Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements for the year ended March 31, 2017 (including comparatives) were approved and authorized for issue by the Board of Directors on June 15, 2017.

### Basis of measurement

The Corporation’s financial statements are prepared on the historical cost basis, except for employee future benefits which are measured as described in note 8. The financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand.

## 3. Summary of significant accounting policies

### Use of estimates and judgments

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

### Significant management judgment

The following are significant management judgments in applying the accounting policies of the Corporation that have the most significant effect on the financial statements.

### *Cash generating units*

The Corporation uses judgement in determining the grouping of assets to identify its Cash Generating Units (“CGUs”) for purposes of testing for impairment of property and equipment and intangible assets. The Corporation has determined that its Retail CGUs comprise individual stores.

### *Impairment*

The carrying values of property and equipment, intangible assets, and cash generating units are reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is recognized in earnings.

### *Capitalization of internally developed software*

Distinguishing the research and development phases of a new customized software project and determining whether the recognition requirements for the capitalization of development costs are met requires judgment. After capitalization, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalized costs may be impaired.



### 3. Summary of significant accounting policies (continued)

#### Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

#### *Impairment*

Management estimates the recoverable amount of an asset (or cash-generating unit) in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

#### *Useful lives of property and equipment and intangibles*

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected pattern of consumption of the future economic benefits embodied in the assets. Uncertainties in these estimates relate to technical obsolescence that may change the expected consumption pattern of certain software and IT equipment.

#### *Inventories*

Management estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by market-driven changes that may reduce future selling prices.

#### *Defined benefit obligations (DBO)*

Management's estimate of the DBO is based on a number of critical underlying assumptions such as rates of inflation, medical cost trends, mortality, discount rate and anticipation of future salary increases. Estimation uncertainties exist particularly with these assumptions. Variation in these assumptions may significantly impact the DBO amounts and the annual defined benefit expenses.

#### **Revenue**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognized at the point of sale when goods are sold to the customer, exclusive of sales tax.

#### **Customer loyalty programs**

An AIR MILES® loyalty program is used by the Corporation. AIR MILES® are earned by certain customers based on purchases. The Corporation pays a per point fee under the terms of the agreement with AIR MILES®. Income from the program is recognized in the period in which it is earned with the associated cost of points offsetting the revenue. The net cost is recorded in other income.

#### **Vendor rebates**

The Corporation records cash consideration received from vendors as a reduction to the cost of related inventory or, if the related inventory has been sold, to the cost of producing revenue. Certain exceptions apply where the cash consideration received is either a reimbursement of incremental costs incurred by the Corporation or a payment for assets or services delivered to the vendor, in which case the cost is reflected as a reduction in operating expenses.

### 3. Summary of significant accounting policies (continued)

#### Cash

Cash comprises cash on hand and demand deposits.

#### Inventories

Inventories are valued at the lower of cost and net realizable value using the weighted average moving cost method. Cost includes product costs, standard freight costs and customs with excise included when product is released for sale. The amount of inventory expensed during the year is shown as cost of goods sold on the statement of earnings.

#### Intangible assets

Intangible assets include the development and implementation of the enterprise resource planning system which are recorded at cost and amortized on a straight-line basis over their estimated useful lives, as these assets are considered to have finite useful lives. Useful lives are reviewed at each reporting date. The Corporation assesses the carrying value of the intangible assets for impairment when events or circumstances warrant such a review.

Intangible assets are amortized on a straight line basis at the following rates per annum:

Enterprise resource planning	5 years
Other intangible assets	3 years

#### Property and equipment

Property and equipment are carried at cost, less depreciation and any recognized impairment loss. Depreciation commences when the assets are ready for their intended use. Construction in progress is stated at cost. Cost includes expenditures directly attributable to the acquisition or construction of the item.

Depreciation is provided to write off the cost of property and equipment other than land over their estimated useful lives and after taking into account their estimated residual value using the straight-line method at the following rates:

Furniture, fixtures, other equipment, capital and leasehold improvements	10 years
Computers, software and hardware	3 – 5 years
Buildings	10 – 40 years

Leasehold improvements are depreciated over 10 years which is considered the life of the asset rather than the term of the lease to reflect periodic store upgrades.

Any gains or losses arising on disposals of property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of earnings in the year in which the item is disposed.

#### *Impairment of non-financial assets*

At the end of each reporting period, the Corporation reviews the carrying amounts of its tangible assets to determine whether there is an indication of an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the assets belong. The recoverable amount of any asset (or a cash-generating unit) is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of the asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in earnings. There are no impairment losses as at March 31, 2017 and 2016.

### 3. Summary of significant accounting policies (continued)

#### **Leased assets**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

#### Lease incentives

Lease incentives received to enter into operating leases are recognized as liabilities. The aggregate benefits of incentives are recognized as a reduction of rental expense on a straight-line basis over the term of the lease.

#### **Employee benefits**

A liability is recognized for wages and benefits accruing to employees when it is probable that settlement will be required and is capable of being measured reliably. Liabilities recognized in respect of employee benefits expected to be settled within twelve months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognized in respect of employee benefits which are not expected to be settled within twelve months are measured as the present value of the estimated future cash outflows to be made by the Corporation in respect of services provided by employees up to reporting date.

#### Defined benefit plans and other long term employee benefits

For defined benefit plans, including the Public Service Award Program, the post retirement health care plan and the sick leave plan, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each reporting date.

Actuarial gains and losses for the Public Service Award Program and the post retirement health care plan are recognized immediately within other comprehensive earnings. The actuarial gains and losses related to the sick leave plan are recognized in profit and loss. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested. The defined benefit obligations recognized on the balance sheet represent the present value of the defined benefit obligations.

#### **Financial instruments**

All financial instruments are classified into one of five categories: fair value through profit and loss, held to maturity, loans and receivables, available for sale financial assets, or other financial liabilities. All financial instruments are initially measured in the statement of financial position at fair value plus transaction costs.

**3. Summary of significant accounting policies** (continued)

Subsequent measurement and changes in fair value will depend on their initial classification, as follows:

- Fair value through profit and loss financial instruments are measured at fair value and changes in fair value are recognized in net earnings;
- Available for sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income until the financial asset is derecognized or impaired at which time the amounts would be recorded in profit or loss; and
- Loans and receivables, held to maturity investments, and other financial liabilities are measured at amortized cost using the effective interest method.

The Corporation has classified its financial instruments as follows:

<b><u>Asset/liability</u></b>	<b><u>Classification</u></b>
Cash	Loans and receivables
Receivables	Loans and receivables
Payables and accruals	Other financial liabilities

Financial instruments risk

Unless otherwise noted, it is management’s opinion that the Corporation is not exposed to significant credit risk, liquidity risk, and market risk arising from its financial instruments.

**Foreign currency translation**

In preparing the financial statements, transactions in currencies other than the Canadian dollar are recorded at the rates of exchange prevailing on the date of the transaction. At each balance sheet date, monetary items denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date. Any gain or loss is recognized in other income.

**Provisions**

Provisions are recognized when the Corporation has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. A provision is a liability of uncertain timing or amount. There are no provisions as at March 31, 2017 and 2016.

#### 4. Future accounting pronouncements that are not yet effective and have not been adopted early by the Corporation

At the date of authorization of these financial statements, certain new IFRS standards, amendments and interpretations to existing standards have been published by the IASB, but are not yet effective and have not been adopted early by the Corporation.

Management anticipates that all of the relevant pronouncements will be adopted in the Corporation's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Corporation's financial statements is provided below.

##### **IFRS 15 Revenue from Contracts with Customers**

The IASB released a new standard IFRS 15 Revenue from Contracts with Customers which replaces IAS 18 Revenue, IAS 11 Construction Contracts and certain revenue-related interpretations. The new standard provides a single, principle based five-step model to be applied to all contracts with customers requiring an entity to recognize revenue 1) in a manner that depicts the transfer of goods or services to customers and 2) at an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. Management is still assessing the impact of this new standard on the financial statements.

##### **IFRS 9 Financial Instruments (IFRS 9)**

The IASB has replaced IAS 39 Financial Instruments: Recognition and Measurement in its entirety with a new standard IFRS 9 Financial Instruments. The final version of the standard introduces a new approach to financial asset classification, replaces the "incurred loss" impairment model with a more forward-looking expected loss model and substantially revises hedge accounting.

The new standard IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Management is still assessing the impact of this revised standard on the financial statements.

##### **IFRS 16 Leases (IFRS 16)**

The IASB has released a new standard IFRS 16 Leases which replaces IAS 17 Leases. The new standard specifies the recognition, measurement, presentation and disclosure of leases. The new standard provides a single lessee accounting model requiring lessees to account for all leases 'on-balance sheet' by recognizing a 'right-of-use' asset and a lease liability, unless the lease term is 12 months or less or the underlying asset has a low value. IFRS 16's approach to lessor accounting is substantially unchanged from IAS 17.

The new standard IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Management is still assessing the impact of this revised standard on the financial statements.

## 5. Intangibles

	Enterprise Resource Planning (ERP)	Other Intangibles	Assets under Development	Total
<b>Cost</b>				
At March 31, 2016	\$ 27,262	\$ 2,955	\$ 1,052	\$ 31,269
Additions	-	48	849	897
Transfers	807	939	(1,819)	(73)
At March 31, 2017	28,069	3,942	82	32,093
<b>Amortization</b>				
At March 31, 2016	(25,185)	(2,845)		(28,030)
Amortization expense	(826)	(217)	-	(1,043)
At March 31, 2017	(26,011)	(3,062)	-	(29,073)
<b>Carrying amounts</b>				
At March 31, 2016	\$ 2,077	\$ 110	\$ 1,052	\$ 3,239
At March 31, 2017	\$ 2,058	\$ 880	\$ 82	\$ 3,020

Amortization expense for intangible assets is reported as an operating expense in the statements of earnings.

## 6. Property and equipment

	Furniture & Fixtures	Other Equipment	Small Computers	Software & Hardware	Land	Buildings	Capital & Leasehold Improvements	Assets under Construction (AUC or WIP)	Total
Cost									
At March 31, 2016	\$ 19,044	\$ 16,415	\$ 6,820	\$ 785	\$ 690	\$ 40,849	\$ 37,938	\$ 5,368	\$ 127,909
Additions	112	272	163	19	-	75	(395)	4,348	4,594
Transfers	1,459	1,349	238	180	-	837	2,608	(6,598)	73
Disposals	(11)	(10)	-	(1)	-	(147)	(172)	-	(341)
At March 31, 2017	20,604	18,026	7,221	983	690	41,614	39,979	3,118	132,235
Depreciation									
At March 31, 2016	(13,488)	(12,010)	(4,268)	(376)	-	(29,974)	(24,171)	-	(84,287)
Depreciation expense	(1,364)	(1,011)	(977)	(227)	-	(1,207)	(2,798)	-	(7,584)
Disposals	11	7	-	-	-	147	108	-	273
At March 31, 2017	(14,841)	(13,014)	(5,245)	(603)	-	(31,034)	(26,861)	-	(91,598)
Carrying amounts									
At March 31, 2016	\$ 5,556	\$ 4,405	\$ 2,552	\$ 409	\$ 690	\$ 10,875	\$ 13,767	\$ 5,368	\$ 43,622
At March 31, 2017	\$ 5,763	\$ 5,012	\$ 1,976	\$ 380	\$ 690	\$ 10,580	\$ 13,118	\$ 3,118	\$ 40,637

Depreciation expense of property and equipment is reported as an operating expense in the statements of earnings.

## 7. Lease commitments

### Operating leases as a lessee

The Corporation's operating leases relate to retail stores with lease terms between 1 to 20 years. Generally, the leases have renewal options, primarily at the Corporation's option. The Corporation does not have an option to purchase the leased assets at the expiry of the lease periods. The Corporation's future minimum operating lease payments are as follows:

Minimum lease payments due			
Within 1 year	1 to 5 years	After 5 years	Total
\$6,780	\$30,488	\$17,780	\$55,048

## 8. Employee remuneration

### Retirement benefit plan

The Corporation contributes to the Nova Scotia Public Service Superannuation Plan, which is a defined benefit plan. The Corporation accounts for these contributions as a defined contribution plan. The actuarial and investment risk is administered by Public Service Superannuation Plan Trustee Inc. The Corporation matches the contributions of employees' calculated as 8.4% on eligible earnings up to the year's Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan (CPP), and 10.9% on eligible earnings that is in excess of YMPE. The Corporation is not responsible for any unfunded liability with respect to the Public Service Superannuation Plan.

The total expense recognized in the statement of earnings is \$3,377 (2016 - \$3,447) and represents contributions paid or payable by the Corporation at rates specified in the plans.

### Defined benefit plans and other long term employee benefits

The Public Service Award (PSA) plan is a defined benefit plan covering substantially all of the Corporation's permanent unionized employees, as well as all full time non-union employees hired before August 1, 2005. Previous to fiscal year 2016, the actuarial assumptions with regard to the PSA have been that the benefit is based on the number of years of service and the employee's compensation during the final year of employment. Under the management of the Corporation's parent, the Province of Nova Scotia, the PSA plan has been closed effective April 1, 2015, such that services earned toward this benefit are frozen as of that date. Actuarial assumptions included in these financial statements have taken this into consideration. This program remains to be funded in the year of retirement of eligible employees.

The Corporation pays 65% of the cost of health care plans for substantially all retirees or surviving spouses of retirees. This is funded each year by the payment of the required premiums.

The Corporation also provides an accumulating non-vesting sick leave entitlement program. This program allows for the accumulation of unused sick time entitlements to cover short-term absences for health-related issues in lieu of a short-term disability plan. This program is funded each year as employees utilize their sick time entitlement.



**8. Employee remuneration** (continued)**Defined benefit plans and other long term employee benefits (continued)**

Mercer Limited carried out the most recent actuarial valuation utilizing plan membership data up to December 31, 2015 (for the Retiree Health, Service Awards, and Sick Leave benefits). The present value of the benefit obligations were then calculated by extrapolating these valuations out to March 31, 2017. The next actuarial valuations will be performed as of December 31, 2018.

The present value of the defined benefit obligations, and the related current service costs and past service costs, were measured using the Projected Unit Credit Method.

The principle assumptions used for the purposes of the actuarial valuations were as follows:

	Valuation at					
	March 31, 2017			March 31, 2016		
	Retiree health	Service award	Sick leave	Retiree health	Service award	Sick leave
Discount rate(s)	3.8%	3.0%	3.1%	3.9%	3.2%	3.4%
Expected rate(s) of salary increase	n/a	2.5%	2.5%	n/a	2.5%	2.5%
Initial weighted average health care trend rate	5.34%	n/a	n/a	5.43%	n/a	n/a
Ultimate weighted average health care trend rate	4.3%	n/a	n/a	4.3%	n/a	n/a

Amounts recognized in the statements of earnings and comprehensive earnings in respect of these benefit plans are as follows:

	Valuation at							
	March 31, 2017				March 31, 2016			
	Retiree health	Service award	Sick leave	Total	Retiree health	Service award	Sick leave	Total
Current service cost	\$ 430	\$ 214	\$ 459	\$ 1,103	\$ 645	\$ 247	\$ 647	\$ 1,539
Past service cost	-	-	-	-	-	(2,035)	-	(2,035)
Interest on obligation	620	128	196	944	682	191	172	1,045
Actuarial (gains) losses	210	56	181	447	(3,543)	245	(535)	(3,833)
	\$ 1,260	\$ 398	\$ 836	\$ 2,494	\$ (2,216)	\$ (1,352)	\$ 284	\$ (3,284)

**8. Employee remuneration** (continued)

The amounts included on the balance sheets arising from the Corporation's obligation in respect of these benefit plans are as follows:

	Valuation at	
	March 31, 2017	March 31, 2016
Present value of unfunded defined benefit obligation		
Current portion	\$ 1,103	\$ 1,539
Non-current portion	26,215	24,940
<b>Total</b>	<b>\$ 27,318</b>	<b>\$ 26,479</b>

Movements in the present value of the benefit obligations in the current period were as follows:

	2017	2016
Benefit obligations, beginning of year	\$ 26,479	\$31,519
Current service cost	1,103	1,539
Past service cost	-	(2,035)
Interest cost	944	1,045
Actuarial losses (gains)	447	(3,833)
Benefits paid	(1,655)	(1,756)
<b>Benefit obligations, end of year</b>	<b>\$ 27,318</b>	<b>\$ 26,479</b>

The effect of the change in the assumed health care cost trend rates:

	2017	2016
Effect on aggregate of current service cost and interest cost		
One percentage point increase	\$ 259	\$ 368
One percentage point decrease	(193)	(271)
Effect on accrued benefit obligation		
One percentage point increase	3,285	3,127
One percentage point decrease	(2,532)	(2,413)

**9. Change in non-cash operating working capital**

	2017	2016
Receivables	\$ (755)	\$ (535)
Inventories	(2,092)	(4,373)
Prepays	(572)	(873)
Payables and accruals	(1,254)	2,914
	\$ (4,673)	\$ (2,867)

**10. Related party transactions**

The immediate parent and ultimate controlling party of the Corporation is the Province of Nova Scotia. Remittances to the Province of Nova Scotia are disclosed in the statements of changes in equity. Other transactions with the Province of Nova Scotia are deemed to be collectively insignificant to these financial statements.

**Compensation of key management personnel**

Members of the Board of Directors and Executive Team are deemed to be key management personnel. It is the Board of Directors and Executive Team who have the responsibility for planning, directing and controlling the activities of the Corporation.

The following is compensation expense for key management personnel:

	2017	2016
Short term benefits	\$ 1,614	\$ 1,566
Post-employment benefits	122	127
Other long term benefits	19	23
Total compensation	\$ 1,755	\$ 1,716

**11. Operating expenses**

	2017	2016
Salaries and employee benefits	\$ 58,550	\$ 58,293
Depreciation and amortization	8,627	9,167
Occupancy	7,545	7,990
Debit, credit and gift card fees	4,931	4,778
Service contracts and licenses	4,826	4,692
Utilities	2,716	2,808
Freight	2,044	1,951
Marketing and merchandising	2,057	2,075
Supplies and sundry	1,710	1,654
Maintenance and repairs	1,697	2,287
Legal, audit and consulting	1,518	1,254
Post employment current service costs (note 8)	1,103	(496)
Travel, training and meetings	984	912
Corporate/social responsibility	804	699
Guard services	569	667
Waste diversion	523	597
Market surveys	268	339
Insurance	248	233
Memberships and subscriptions	221	194
Actuarial loss (gain) on other employment benefit (note 8)	181	(535)
Publications	158	138
Telephone	145	160
Other	135	262
Industry support	100	103
Bank charges and armoured car	81	224
Postage and courier	64	61
	\$ 101,805	\$ 100,507

### 12. Capital management

The Corporation does not have share capital or long term debt. Its definition of capital is cash and retained earnings. The Corporation's main objectives for managing capital are to ensure sufficient liquidity in support of its financial obligations to achieve its business plans and to continue as a self-sufficient going concern entity in order to provide continuous remittances to the Province of Nova Scotia.

**Nova Scotia Liquor Corporation**

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