
# NSLC Annual Report 2019/2020

# Letter from Board Chair and CEO

It's been a remarkable year for the NSLC. We continued to execute on our strategic priorities and provided a healthy return to the province that exceeded our expectations. We accomplished a lot, and we're pleased to report on the highlights of that work.

Teams across our business implemented projects and initiatives that enhanced the customer experience and fostered the growth of local product sales. Our people again embraced change with the legalization of the second phase of cannabis products and our Retail Teams continued to work diligently to keep the products we sell out of the hands of minors.

This was Greg Hughes' first full year as President & CEO of the NSLC, and he's enjoyed getting to know the team. It was an exciting year as we invested $14.2 million in capital projects, including $6 million revitalizing 14 stores and adding a new store to our network. We invested a further $1.7 million modifying our 12 cannabis stores to accommodate the second phase of cannabis products and announced plans to more than double our cannabis store network with the addition of 14 new stores. This is all part of our efforts to deliver on our mandate to make legal cannabis safely accessible to Nova Scotians. On the technology front, we invested $4.8 million upgrading our systems, ensuring they remain current and supportive of business initiatives.

Our Retail Teams remained unwavering in their commitment to responsible sales and superb customer service, asking for ID a record 2.4 million times, which was a 19 per cent increase over the previous year. They also refused service more than 27,000 times, an 81 per cent increase over the previous fiscal year. These dramatic increases were due to the first full year of cannabis sales.

We're proud that teams across our business remained focused on giving back to their communities throughout the year, embracing opportunities to work together to be good corporate citizens. We entered an exciting partnership with the Children's Wish Foundation, raising enough money to provide a wish for two sick children. We also formalized new agreements with Habitat for Humanity and Feed Nova Scotia. We're passionate about supporting these organizations because we believe having a roof over your head and food on your table provide a strong foundation for your health and well-being. We were thrilled so many employees volunteered to help, so many in fact, we had wait lists of our people wanting to give of their time.

We launched the second phase of legal cannabis products, which we refer to as Cannabis 2.0. That initially included chocolates, soft chews, teas and vape products. We anticipated supply challenges based on our experience with legalization of the first phase of cannabis products and that  proved to be the case. Our team worked closely with licensed producers to minimize

*George McLellan*
*Board Chair*

*Greg Hughes*
*President & CEO*

those supply challenges. We collaborated with our licensed producers to provide cannabis product information in our stores and online as we work to educate and inform our cannabis customers. With the maturing of the industry and the availability of larger value pack sizes of dried flower, we experienced an overall reduction in cannabis prices this year.

Looking at our financials for Fiscal Year 2020, we had strong sales growth that surpassed our projections. We returned $247.3 million to our Shareholder to fund key public services in the province, which was $9.9 million more than the previous fiscal year.

Teams across our business collaborated with local producers to make it easier for them to get their products listed with the NSLC. For instance, we expanded a program called Hyper Local which facilitates craft brewers getting their products on the shelves of NSLC stores located near their facilities. Their products are showcased in our stores and our retail teams are happy to tell customers about their superb quality and, in many cases, the interesting stories behind them. We're proud of what has been accomplished, but we recognize there is more work to be done when it comes to supporting local producers. Working together to find new ways to support their industry is a key focus of our business in the next few years.

There was a phenomenal 52% growth in all local beverage alcohol and cannabis product sales last year to $71 million as Nova Scotians continue to recognize the quality of these innovative products. Local cannabis accounted for 18.3% of all cannabis sales which shows strong customer appreciation for these local products. Fiscal Year 2020 also marked the final year in our Five-Year Strategic Plan (2015-2020), a period that saw exponential growth in the number of local producers. There are now more than twice as many local producers than there were five years earlier.

Our people are the foundation of our success – from the front-line employees in our stores to the team in our Distribution Centre who ensure our stores are stocked year-round with the products our customers want. When COVID-19 hit Nova Scotia in March, our top priority was to do whatever we could to help keep them and our customers safe. We worked closely with the provincial Public Health authorities to ensure we adhered to all public health directives.

We'd like to express our deepest thanks and gratitude to the retail teams who put aside their own fears and anxieties during that time to keep our doors open, the team in the Distribution Centre for ensuring our shelves were stocked despite unprecedented demand, and our head office employees who worked diligently to ensure our store and Distribution Centre teams were well supported.

As we evolve our business, we appreciate the trust placed in us by our Shareholder to responsibly execute upon our mandate, and the collaborative relationship we have with the Province.

We're extremely pleased with the service our people provide and we will continue to work on exceeding expectations when it comes to responsibly offering beverage alcohol and cannabis, supporting local producers, and achieving public policy objectives related to our mandate.

With the support of our engaged Board of Directors, we saw tremendous progress across our organization due to the commitment, enthusiasm and professionalism of our people. We're extremely proud of all they have done to make this year such a success. Our employees supported each other, cared for one another and stepped up to help our customers in such unusual times. We look forward to moving ahead together, with our customers the focus of all we do.

George McLellan
Board Chair

Greg Hughes
President & CEO

# Our Board of Directors

*George McLellan*
*Chair, Board of Directors*

*Greg Hughes*
*President & CEO, Director*

*Liz Cody*
*Director*

*John MacKinnon*
*Director*

*Paul Kent*
*Director*

*Cathie O'Toole*
*Director*

*Keith Dexter*
*Director*

*David Pace*
*Director*

*Rick Emberley*
*Director*

*Holly Bond*
*Director*

*Byron G. Rafuse*
*Deputy Minister, Nova Scotia Department of Finance and Treasury Board*

*Karen Putnam*
*Corporate Secretary*

# Our Executive Team

*Greg Hughes*
*President & CEO,*
*Director*

*Caroline Duchesne*
*Senior Vice-President,*
*Finance*

*Dave DiPersio*
*Senior Vice-President,*
*Corporate Services*

*Paul Rapp*
*Senior Vice-President,*
*Customer Operations*

*Craig Sampson*
*Senior Vice President –*
*Human Resources*


It was a year of significant investment in our business as we worked to balance our financial objectives with other legislated mandates. Total capital expenditures of $14.2 million included a $6 million investment revitalizing 14 stores and adding one new store to our network. We invested $1.7 million to accommodate the second phase of cannabis products, improving our customer experience and supporting our strategy to provide a consistent customer experience in communities of varying sizes throughout Nova Scotia. We undertook a number of key initiatives during the year, including investing $4.8 million in upgrades to our business and financial systems.


Fiscal Year 2020 also marked the final year of our Five-Year Strategic Plan (2015-2020). It was a period of tremendous evolution and accomplishments as teams across our business implemented projects and initiatives that enhance the customer experience. Over the past five years, we invested in almost 53% of our retail network, adopted new technology to support our business and improve the customer experience, embraced our new mandate to offer cannabis, and built upon our commitments to our communities.

We went from asking for valid photo ID 1.7 million times in Fiscal Year 2016 to 2.4 million times in Fiscal Year 2020. We introduced our first digital Annual Report in this period and are happy to say we continue to implement technological improvements that reduce the use of paper and improve efficiency.

Throughout the five years, we undertook major or minor renovations to 41 stores, relocated 12 stores, and added six new beverage alcohol stores and our first 12 cannabis stores. We introduced our first Express store in Kingswood in Hammonds Plains during the second year of our strategic plan, and now have eight stores under this banner. In the fourth year, we opened our first Signature store on Portland Street in Dartmouth. Signature stores are our largest format, offering the greatest selection of products with premium wine and spirits, tasting units, a “Limited Finds” assortment, and cannabis. During the five-years, we fully renovated six stores under the Signature banner, with more to come.

# CUSTOMER

Throughout this period, we hosted 100 events that attracted more than 7,000 attendees. These included the Festivals of wine and whisky, mixology events, themed educational workshops, and tasting seminars at The Port. We added new events and expanded existing events each year to educate our customers and enhance their experience.

It's been an exciting time for us as we build upon our relationships with our customers and our communities.

## Store Investments

With a network of 108 retail stores across the province, we are a vital part of communities across Nova Scotia. We've been working hard to provide a great experience for customers across the province, whether they're popping into their neighbourhood store to pick up their usual bottle of rum or seeking advice from product specialists in one of our larger stores.

"It was a busy and exciting year for us as we renovated, revitalized and relocated 14 stores, added one store to our network, and modified our cannabis stores to accommodate the second phase of cannabis products," said Andrew Stenhouse, Manager, Network Development.

Pictou NSLC

In addition to the nearly $8 million investment in our store network, we also announced that we are more than doubling our cannabis store network with the addition of 14 new stores in the next fiscal year, bringing the total to 26.

Stores investments included a new store in Aulds Cove and five Signature store renovations – Joseph Howe Drive, Sydney River, Bridgewater, Amherst and Yarmouth. Signature stores carry a full assortment from all product categories and prominently feature local products. Signature stores also have Product Specialists to help our customers explore the product assortment.

We relocated and finalized Select stores in Guysborough, Stewiacke, Cheticamp and St. Peter's, which have an enhanced selection of local products, and we revitalized stores in Whitney Pier, Downsview, East New Glasgow, New Waterford and Pictou.

In addition, we began implementing several updates to the Cool Zone shopping experience in 14 of our largest stores. Customers want more variety in our beer and Ready to Drink offerings so we're providing an expanded product selection through additional shelving and new displays. These enhancements mean we now offer more Ready to Drink and craft beer products along with vodka sodas and light seltzers that are so popular with customers.

While executing on these projects, our Facilities team was busy ensuring the maintenance and repair needs of our entire store network were met, from smaller projects such as door repairs to renovating parking lots and installing HVAC units.

## Local


Support for local industry is a key focus area for us. We have a number of initiatives in place to get local product on our store shelves and promote local product sales.

We're excited by the success of a pilot program we introduced late in the previous fiscal year called the Hyper Local Pilot Project. It began in 13 NSLC stores in the Annapolis region. The intent is to make it easier for smaller local breweries to get their products on NSLC store shelves and increase the sale of Nova Scotia craft beer. It began with seven breweries and the NSLC Customer Strategy team worked with each store individually to find space to merchandise the local product effectively.

The numbers show this program is working. Nova Scotia beer sales grew by 24.4% in the stores that ran the pilot, compared to the rest of NSLC stores at 19.2% growth. Net sales of Nova Scotia beer went from 22% before the pilot to 29% during the pilot, which ran from February 25 to November 17, 2019.

It's so successful we have expanded the program to 22 NSLC stores in Cape Breton. The success of this second phase will determine the details of a third roll out of the program. Participating breweries have told us the program provided them with more exposure and brand visibility, easy access to diverse, local products, and insight in working with the NSLC.

## Our People

Exceptional employee experiences drive exceptional customer experiences. This is a fundamental philosophy in our approach to delivering on our commitment to our people. Engaged employees are happier and feel more invested in their work, which is one of the reasons we conduct an Employee Opinion Survey every two years. We want to solicit feedback from employees on key factors that impact their experience as employees of the NSLC. The survey we conducted in Fiscal Year 2020 resulted in an overall Employee Engagement Index score of 79.1%. Although that was just shy of our 80% target, it was the highest ever recorded engagement score at the NSLC. Our retail employees scored 81%, showing that our largest and most customer facing team is also our most engaged. These results provide us with a baseline to measure against as we place even more focus on our people in the coming years and challenge ourselves to exceed targets across the entire organization.

In addition to our engagement index, the NSLC was named one of Canada's Best Employers of 2020 by Forbes Canada. Ranking at 43 out of 300 Canadian employers, this achievement is based on an independent survey that focuses on recommending the NSLC as a place to work. Employee Health and Safety is paramount to our operations, and continuous improvement of the NSLC's Occupational Health & Safety Management System is our collective goal. An external audit of the NSLC was conducted by Safety Service Nova Scotia/ Worker's Compensation Board in 2019, and we scored 94%. This achievement demonstrates that all NSLC employees are working hard every day to build a positive safety culture. NSLC Employees are doing the right thing, for the right reasons - even when nobody is looking. We also worked with our three bargaining units to ratify collective agreements during Fiscal 2020. These agreements brought shared benefits for both sides, especially as we focused on improving the employee experience as it relates to casual employees working in our stores and Distribution Centre. With an increased commitment to our entry level positions, we have taken a big step to increase retention and enable career-building at the NSLC.

## Service

Our customers are the focus of everything we do. They are at the forefront of all our discussions, from hosting events such as the Festival of Whisky to store renovations and employee education and engagement. Providing excellent customer service is at the heart of why we do what we do. We invest significant time and resources to develop the skills and knowledge of our employees to facilitate informed and insightful conversations with our customers. We want our customers to have a superb experience whether they are shopping with us or attending a fun and interactive tasting seminar or themed educational event at The Port.

## Our Products


We take pride in reliably providing customers with the tried and true products they love as well as innovative new products from around the world and our own backyard. Our dedicated buyers source product from all over the world to bring unique finds to our shelves, whether it's gin from New Zealand infused with strawberry and rhubarb or sparkling white wine from Nova Scotia's Lightfoot & Wolfville Vineyards with its hints of lemon and pear. Our buyers collectively have decades of industry experience and a passion and understanding of all things wine, spirits and beer. They're excited to bring in new products and share their knowledge so that customers can discover these new products with confidence.

Our team of buyers hand-pick themed products, paying attention to industry trends and tastes when it comes to limited edition seasonal wines and spirits. These products are available for a limited time only and selected based on current and up and coming trends in the market. You'll see them in our stores and online under the sign Buyers' Picks.

NSLC spirits Category Manager Jennifer Katona said a number of factors go into determining which products we'll bring in, including whether they compliment existing products, fill a niche, and reflect customer demand. Interest in gin and whisky, for example, has grown exponentially in recent years. Whisky sales at the NSLC have gone up 20.5% in the last five years while gin sales have grown just over 51% in that time period. Jennifer said she also looks at what products are receiving accolades in other markets. "We do our best to get great selections, bringing new and innovative products to the market through our Buyers' Picks program," she said.

Rosé wine is another product that's seen a surge in popularity. With its generally lower alcohol content and refreshing taste, rosés have seen huge growth in Nova Scotia with sales increasing 80% last year over the year before. The blush wine is so popular, we increased the number of products we carried to 38 last year from 28 the year before. "The most popular rosés are those that are light in colour and have a drier style, rather than sweet," said NSLC wine Category Manager Peter Rockwell.

When he's looking at selections for our stores, Peter considers such factors as location, whether it is dry or sweet, price, and the look of the bottles and labels. "Dry rosés are selling quickly, and customers love products that have a fun story and an interesting bottle that makes them attractive. Cartoon labels and labels that tell a story about why that particular rosé is the way it is are very popular with customers."

Nova Scotia-made rosés are no exception, with the NSLC carrying 25 locally made products. When he looks at the rosés of such vineyards as Gaspereau, Grand Pré, Light & Wolfville, and Mercator, Peter said they are superb quality.  "We have some really great success stories here. The red grapes here are very juicy and create a really nice rosé with strawberry, cherry, or raspberry fruit flavour coming through."

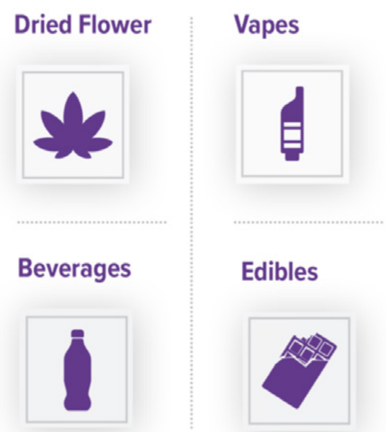
Peter expects interest in rosés with their light taste, fun packaging and moderate to lower alcohol content to continue to grow, much like it has with Ready to Drink products.

## Cannabis

It was a dynamic and evolving year for our cannabis category team as we continued to implement our strategy at a time our province experienced unprecedent challenges. We launched the second phase of legal cannabis products, which we refer to as Cannabis 2.0, just a couple of days before Christmas – the busiest time of year for our store staff and they did a phenomenal job.

# CUSTOMER

Products included in this second phase of legalization were edibles, beverages, vapes, topicals and extracts. Initially we launched with chocolates, soft chews and vape products, with beverages and concentrates following suit. As expected, based on our experience with the first phase of legalization, we had supply challenges and worked closely with licensed producers to minimize the impact.




Cannabis 2.0 products brought a new dynamic to the category as customers discovered these products and perhaps purchased from us for the first time. We saw a lot of excitement in our stores when the first wave of products was introduced amid our busy Christmas season. We were proud to show this new assortment in our cannabis stores to media and develop and share information to our employees and customers on Cannabis 2.0 products.

We were pleased to introduce 28-gram value pack sizes of dried flower which allowed for a lower price per gram and have proven extremely popular with customers. These larger package sizes, which were available late in the fiscal year, along with a maturing of the industry contributed to an 8% decline in cannabis prices over the previous fiscal year. Interest in larger package sizes was boosted during the pandemic as customers sought to make fewer trips to our stores.

We also saw a more than 35% increase in online sales as customers opted for home delivery over visiting our stores during the pandemic.

In Fiscal Year 2020, we launched our Cannabis customer education and merchandising program, which includes partnerships with our licensed producers to bring information instore and online about the category and their brands. The Learning and Development team in Human Resources helped develop Cannabis education content for our employees to align with the programs we offer to our customers and we set up a new educational platform for employees called "Connecting on Cannabis."

The platform was developed by Kevin Johnston, our Cannabis Education Coordinator. His role is to educate employees about cannabis. "Cannabis has been mysterious for a very long time and the only knowledge people had before was from someone they met in the parking lot for ten minutes. This is a source of information that our people can trust."

All the information is rooted in science. "My goal is to make this a 21st century repository of knowledge for our organization," Kevin said.

We also announced this year plans to more than double our cannabis store network with the addition of 14 new locations. The store development team pursued a unique modular design that is cost effective and flexible. "It will allow us to roll out more quickly, while also maintaining consistency of the look and feel with the initial cannabis stores," said Brad Doell, Vice-President, Network Development, Procurement & Facilities. The footprint of these stores will generally be smaller – 200 and 400 square feet – so product assortment will be tailored accordingly. All stores are expected to be open by April 2021.

## Technology

We invested extensively in information technology this fiscal year. Our projects involved both augmenting the functionality of our systems in support of business initiatives and system upgrades to keep our technology platforms current.

The IT team played a key role in the Cannabis 2.0 launch, including supporting the business in implementing data changes for the new products.

We invested in an upgrade to SAP, the enterprise software system that manages our core business processes in preparation for moving to a new hosting model. This work ensures our systems are current, provides new databases, and improves security and and disaster recovery capabilities. These changes lay the foundation for achieving upcoming strategic business initiatives.

We continued an initiative to modernize and integrate our Human Resources Information System (HRIS). The HRIS will replace our existing payroll system and will be an integrated platform that consolidates HR processes, such as administering benefits, storing employee data, and much more. This project moves us from the current manual, paper-based processes into more automatic and electronic process. This will result in better data integrity and record keeping, and improved access for all employees to their information.

We began an upgrade to our online platform, SiteCore, which is used for MyNSLC.com, for both beverage alcohol and cannabis. It is also used for our Wholesale Portal which pubs, restaurants, and bars use to place their orders. This will position us well as we continue to evolve in the on-line world.

We introduced a new version of the SecurePay and Permits solution to ensure it continues to be compliant with payment processing security rules. These changes also improved processes for store staff and the Finance Team to manage refunds and returns, run reports, and make requests for one-time payments, as well as for collecting information for permits.

The IT team completed an upgrade to the application used by Supply Chain to communicate with their vendors for sending and confirming orders, which will provide an improved user experience for Supply Chain and their vendors.

We finished an upgrade of our Point of Sale system to ensure our technology remained current. Some of the system changes also allow us to realize ongoing cost savings.

In addition, the team completed enhancements to improve efficiency in our Warehouse Management System.

## Pandemic

When COVID-19 hit Nova Scotia in March 2020, our entire focus was learning what the organization had to do to keep employees and customers safe, while keeping our doors open.

The first steps we took very early on were to ban work-related travel by employees, instore tastings, and in-person meetings.

Paul Rapp, Senior Vice President – Customer Operations, said the executive team followed all public health advice and protocols, supported by advice provided by our company doctor and from the Human Resources team in a rapidly evolving environment.

It was as important to speak with our employees as it was to speak with the health care professionals. “The bulk of ideas came from the retail team, from talking and sharing ideas about what would work.” Paul said the leadership team relied heavily on the conversations it had with store and regional managers who shared the concerns and ideas of employees.

Within three days, senior leadership had good insight into what we needed to do. We installed Lexan shields for employees at the cash registers, stepped up cleaning protocols, adjusted store hours, provided gloves and hand sanitizer, limited to five the number of customers in our stores at any one time, and asked customers to bag their own product purchases.

With initial efforts focused on basic safety, we began building on efficiency and gradually increased in-store customer limits based on store size and physical layout, keeping employee and customer safety at the centre of every decision.

“I really want to thank our employees for trusting us and working with us through this,” Paul said. “We’re really proud of who we are as a company. There were so many wonderful stories of people helping each other, making sacrifices for each other and continuing to support charities throughout it all.”

The Human Resources team worked hard to address employees’ questions, concerns, and very real fears and anxieties. People across the organization came together like a family with a lot of incredible people stepping up for one another during this period of adversity.

Retail employees found handwritten notes of support stuffed into pallets delivered to stores. They were touched knowing a team member from the Distribution Centre was concerned enough to reach out to tell them to hang in there. In return, notes went back to the DC from retail employees to recognize the amazing job they did handling volume spikes and unpredictable demand on our inventory.

Perhaps nowhere was the extent of the impact of the COVID-19 outbreak on our operations more apparent than in the Distribution Centre, said Operations Manager Peter MacDonald. The team broke all previous records for picking and shipping product to our store network. In just six days, the DC moved more than 180,000 cases of product, surpassing the previous record by more than 30,000 cases.

Before that, the most the team had ever processed was an impressive 150,000 cases over seven days.

“We far exceeded the volume of product we would move throughout the Christmas and New Year’s seasons and we plan months ahead for that. This truly shows the incredible effort put forward by the entire DC team,” Peter said.

We navigated through the pandemic together, showing care for one another and stepping up to help each other. We listened to each other and worked together to continue to deliver on our mandate and provide superb service to our customers and the communities we serve.

## Distribution Centre

While the pandemic highlighted the excellent work of the Distribution Centre (DC) team, they are the backbone of our business throughout the year. The DC is vital to the smooth operations of our business. The team ensures stores are stocked with enough of the products that our customers want and when they want them.

Last year, the team in the DC shipped out 5.2 million cases of beverage alcohol and handled 4,200 different products. The team services a network that includes 108 retail stores, 63 agency stores and four private wine and specialty stores. The DC also supplies products to more than 2,000 bars and restaurants across the province by either shipping directly to them or ensuring stock is on hand in our stores for licensees to purchase products themselves. This means at any given time the DC has almost half a million cases of beverage alcohol on its shelves. Additionally, the DC is instrumental in ensuring our educational events and the festivals of Wine and Whiskey run smoothly, making sure an adequate supply of product is available at all times.

# FESTIVALS & EVENTS

More than 5,000 people attended the 24th annual Festival of Wines in September that featured winemaker's dinners and Grand Tasting events,  showcasing more than 300 wines from 15 countries, including 42 Nova Scotia wines.


Throughout the week, attendees enjoyed a night of premium wines at The World of Wines tasting event as product specialists introduced them to 50 wines that are exclusive to The Port. There were also three food and wine pairing dinners with winemakers from Argentina and Chile. Approximately 4,500 customers enjoyed the Grand Tasting events on the weekend, learning about diverse wines and savouring some great food and wine pairings. The event also gave customers the opportunity to meet some of Nova Scotia's local wine producers and learned about the many popular Tidal Bay wines available.


More than 1,100 customers enjoyed the ninth annual Festival of Whisky in February. This product category has seen tremendous interest and growth in recent years, with attendance at the festival growing almost three-fold in five years. The festival featured a new Rare Finds tasting experience and a Women and Whisky cocktail social event in recognition of the growing interest among women in whisky.

There was something for everyone, from the curious newcomer to the whisky connoisseur. Attendees learned the stories behind the labels through one of our pairing dinners, sipped cocktails at the new social event for women, tried unique and rare drams at our curated tasting experience, and discovered new tastes at our signature Grand Tastings.

Customers at both festivals brought home their favourites by shopping on-site at Festival stores set up just for the occasion.

## The Port Events


The Port by the NSLC on Clyde Street in Halifax showcases the best in premium wine, spirits and beer from around the globe. The Port's Experience Room hosted the sold-out Discover Series, which was comprised of nine four-week, themed educational events that covered topics ranging from Proudly Nova Scotian Wine and Spirits, to Barbecue Wines, Summer Cocktails, and Organic, Biodynamic & Sustainable Wines.

In addition, well over 1,200 customers attended more than 50 sold-out tasting seminar events at The Port, hosted by both vendor partners and our employees. These included wine and chocolate pairing events in partnership with Rousseau Chocolatier, a Halifax cocktail festival for customers and the bartending community, and our first-ever Buyers' Picks tasting seminar. Spirits Category Manager Jennifer Katona guided customers through her whisky selections and taught them about the process of buying spirits for the NSLC that included informing customers about local distilleries and encouraging them to visit.

The seminar was a fantastic experience. Jennifer said, "I live in the world of product every day; I never want to lose the perspective that it's our customers who benefit from having an optimal selection of unique spirits to bring home for their collections."

We also celebrated the launch of the first season of our Port Pop-up Patio. More than 20 vendors hosted sampling events on a temporary patio set up outside of The Port in downtown Halifax throughout the summer. Our own employees also had a great time engaging with our customers, hosting sampling events, and sharing new cocktail recipes for customers to discover.

# FINANCIAL PERFORMANCE

We experienced a year of strong sales growth and successful business performance that exceeded our projections. As a result, we returned $247.3 million to the province, which was $9.9 million more than the previous fiscal year.

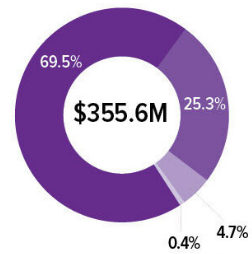
Total sales of $726 million represented an overall increase of 9.7% or $64.1 million. This increase was driven by the first full fiscal year of cannabis sales, the introduction of new cannabis categories, sales growth in all local product categories and an influx of sales resulting from the COVID-19 pandemic that hit Nova Scotia in March 2020. Beverage alcohol sales increased 4.2% to $655.2 million and there was a 113.9% increase in cannabis sales to $71 million.

Local products experienced another year of strong growth in all categories, growing 52% to $71 million as Nova Scotia producers continued to create innovative products and expand their businesses and quality offerings. Sales of locally produced beverage alcohol increased by $14.3 million or 32.6% to $58.1 million with particularly strong sales performance in local Ready to Drink products. Nova Scotia produced cannabis sales increased 343.4% to $13 million, accounting for 18.3% of all cannabis sales.

Nova Scotia Ready to Drink products experienced an extremely strong year with sales increasing by 101.4% to $16 million. This strong growth was driven primarily by vodka coolers. Nova Scotia craft beer sales grew by 21.5% to $20.1 million. We now list products from 30 local breweries, up from five breweries just five years earlier. Nova Scotia spirit sales grew by 22.2% to $9.4 million and Nova Scotia wine sales grew by 8% to $12.5 million.

The COVID-19 pandemic had a strong impact on sales leading to the end of the fiscal year. Between March 15, the day the first COVID-19 case was diagnosed in Nova Scotia, to March 31, the end of the fiscal year, overall sales increased 22% compared to the previous year.

## Our Contributions to Government

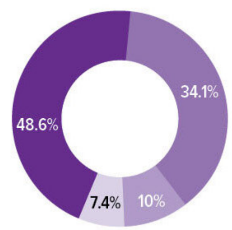



TOTAL CONTRIBUTIONS

(in millions)

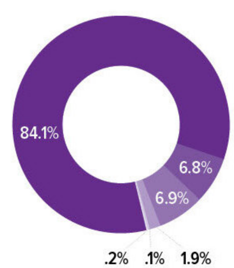
| | |
|---|---|
| Government of Nova Scotia (Profit) | $247.3M |
| Government of Canada (HST, Excise, Customs) | $90M |
| Government of Nova Scotia (Refundable Container Deposits) | $16.9M |
| Municipalities (Tax) | $1.4M |

## Our Earnings




| TOTAL SALES (in millions) | $726.2M |
|---|---|
| Cost of Product | $352.9M |
| Salaries and Benefits | $72.4M |
| Operating Costs | $53.6M |
| Returned to Province | $247.3M |

## Sales by Channel




(in millions)

| | |
|---|---|
| NSLC Retail Stores | $610.4M |
| Licensees (bars/restaurants/pubs) | $49.9M |
| Agency Stores (independently owned) | $50.0M |
| Private Wine and Specialty Stores | $13.6M |
| Other Wholesale | $.7M |
| Online | $1.4M |

**Net Income**
**$247.3M**

**Beverage Alcohol Sales**
**$655.2M**

**Cannabis Sales**
**$71M**

**Volume Beverage Alcohol Sales**
**▲ 1.7%**

# FINANCIAL PERFORMANCE

## Local Product Sales

$71 million | +52%

The sales of local products across all categories experienced strong growth as customers continue to discover and appreciate innovative products that are made here in Nova Scotia.

### Ready To Drink

+101.4% $16 million

Nova Scotia ready-to-drink products experienced an extremely strong year, with growth driven primarily by the increased popularity and offering of vodka coolers.

### Craft Beer

+21.5% | $20.1 million

Nova Scotia's craft beer industry continues to enjoy strong growth with new products introduced to the market every year. We listed products from 30 local breweries, up from five just five years earlier.

### Spirits

+22.2% | $9.4 million

Nova Scotia spirits experienced tremendous growth again in FY20, building on the steady growth that has been experienced by local distilleries in recent years.

### Wine

+8% | $12.5 million

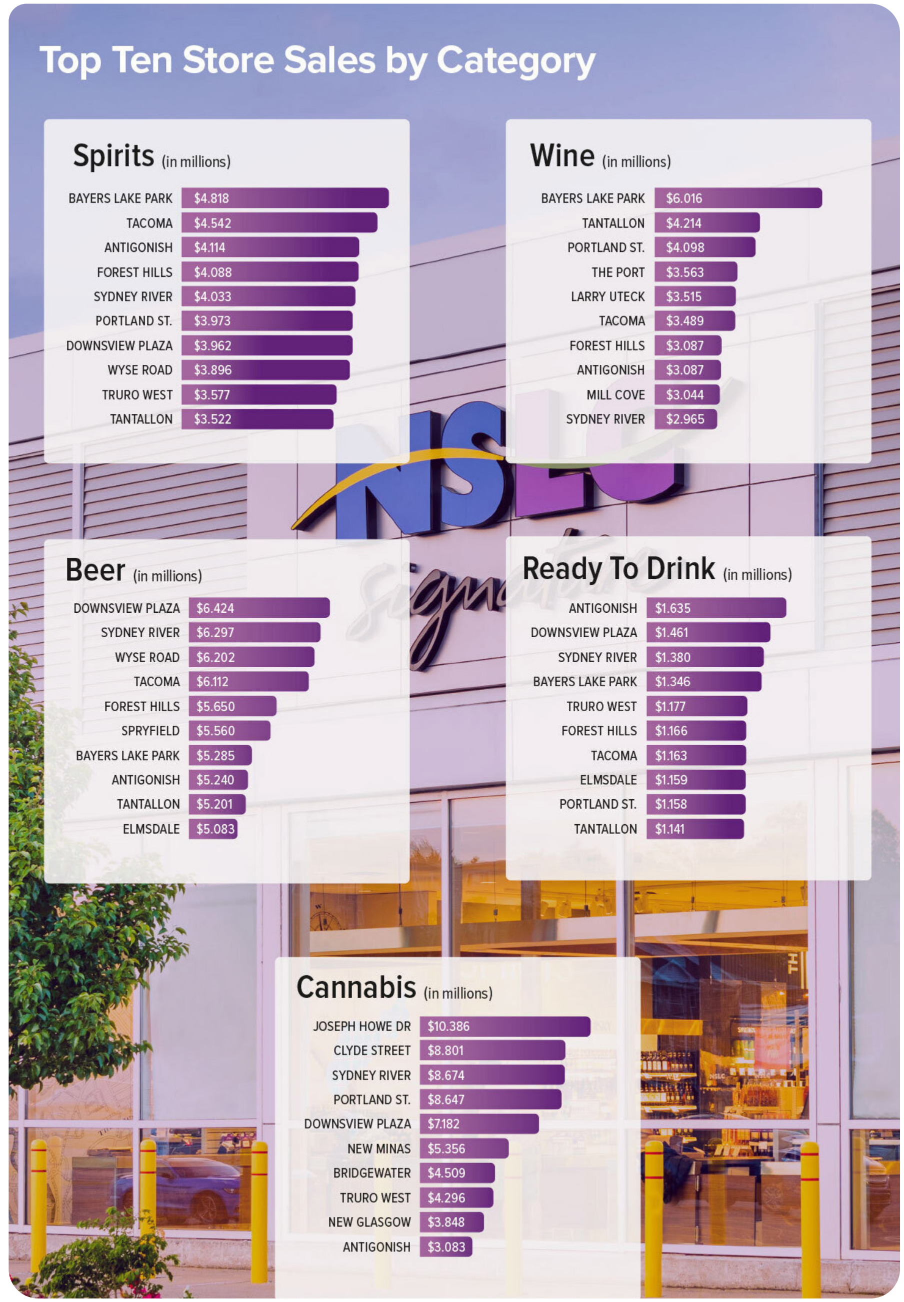
Customers were delighted to experience new local offerings this year and looked forward to the release of products such as our top-selling local wine Nova 7, which helped establish Nova Scotia's reputation for producing quality wines.

### Cannabis

+343.4% | $13 million

Nova Scotia cannabis accounted for 18.3% of all cannabis sold in FY2020, a clear recognition of its quality and of customer support for locally grown product.

## Top Ten Store Sales by Category



### Spirits (in millions)

| | |
|---|---|
| BAYERS LAKE PARK | $4.818 |
| TACOMA | $4.542 |
| ANTIGONISH | $4.114 |
| FOREST HILLS | $4.088 |
| SYDNEY RIVER | $4.033 |
| PORTLAND ST. | $3.973 |
| DOWNSVIEW PLAZA | $3.962 |
| WYSE ROAD | $3.896 |
| TRURO WEST | $3.577 |
| TANTALLON | $3.522 |

### Wine (in millions)

| | |
|---|---|
| BAYERS LAKE PARK | $6.016 |
| TANTALLON | $4.214 |
| PORTLAND ST. | $4.098 |
| THE PORT | $3.563 |
| LARRY UTECK | $3.515 |
| TACOMA | $3.489 |
| FOREST HILLS | $3.087 |
| ANTIGONISH | $3.087 |
| MILL COVE | $3.044 |
| SYDNEY RIVER | $2.965 |

### Beer (in millions)

| | |
|---|---|
| DOWNSVIEW PLAZA | $6.424 |
| SYDNEY RIVER | $6.297 |
| WYSE ROAD | $6.202 |
| TACOMA | $6.112 |
| FOREST HILLS | $5.650 |
| SPRYFIELD | $5.560 |
| BAYERS LAKE PARK | $5.285 |
| ANTIGONISH | $5.240 |
| TANTALLON | $5.201 |
| ELMSDALE | $5.083 |

### Ready To Drink (in millions)

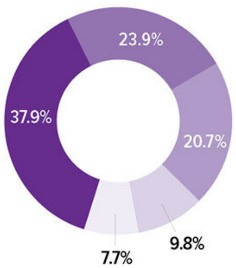
| | |
|---|---|
| ANTIGONISH | $1.635 |
| DOWNSVIEW PLAZA | $1.461 |
| SYDNEY RIVER | $1.380 |
| BAYERS LAKE PARK | $1.346 |
| TRURO WEST | $1.177 |
| FOREST HILLS | $1.166 |
| TACOMA | $1.163 |
| ELMSDALE | $1.159 |
| PORTLAND ST. | $1.158 |
| TANTALLON | $1.141 |

### Cannabis (in millions)

| | |
|---|---|
| JOSEPH HOWE DR | $10.386 |
| CLYDE STREET | $8.801 |
| SYDNEY RIVER | $8.674 |
| PORTLAND ST. | $8.647 |
| DOWNSVIEW PLAZA | $7.182 |
| NEW MINAS | $5.356 |
| BRIDGEWATER | $4.509 |
| TRURO WEST | $4.296 |
| NEW GLASGOW | $3.848 |
| ANTIGONISH | $3.083 |

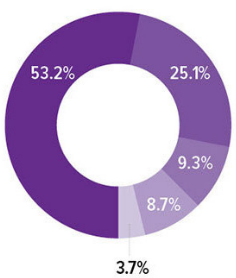
# FINANCIAL PERFORMANCE

## Business Highlights




| TOTAL SALES (in millions) | | % Var | VOLUME (HL) | % Inc/Dec |
|---|---|---|---|---|
| Beer | $275.2M | ▼ -0.2% | 572,696 | ▼ -1.5% |
| Spirits | $173.8M | ▲ +4.9% | 50,968 | ▲ +3.9% |
| Wine | $150.2M | ▲ +5.1% | 101,708 | ▲ +4.2% |
| Cannabis | $71.0M | ▲ +113.9% | N/A | N/A |
| Ready To Drink | $55.8M | ▲ +25.5% | 77,762 | ▲ +25.7% |

## Products Per Category



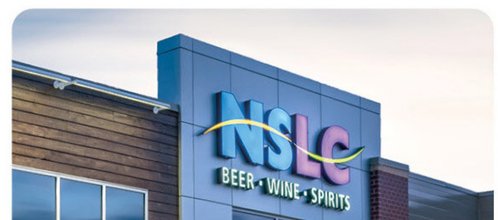

| | |
|---|---|
| Wine | 2,502 |
| Spirits | 1,180 |
| Cannabis | 436 |
| Beer | 409 |
| RTD | 174 |

## WeID

**2.4 million asks | +19%**

**27,233 refusals | +81%**

*This increase over last fiscal year is due to our first full fiscal year of offering cannabis compared to the previous ear.




## Investment in 15 stores

**New stores** that were a relocation of existing stores – Select stores in Guysborough, Stewiacke, Cheticamp and St. Peter's

**Signature store renovations** – Joe Howe Drive, Sydney River, Bridgewater, Amherst and Yarmouth

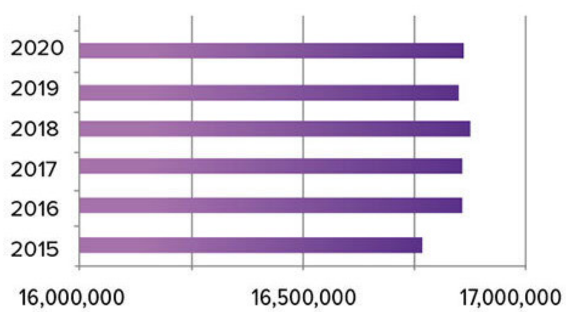
**Revitalizing stores** in Whitney Pier, Downsview, East New Glasgow, New Waterford and Pictou

**Additional new store** – Aulds Cove

## Demand

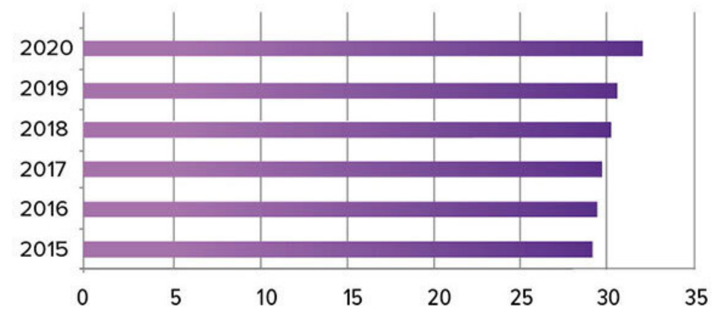
### 2019/20 Beverage Alcohol Retail Transactions: 16,915,902 ▲ +0.4%

Transactions



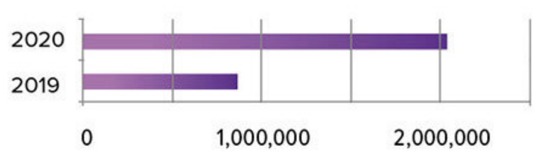

### 2019/20 Dollar Value for Beverage Alcohol Average Basket: $32.08 ▲ +4.6%

Average Basket



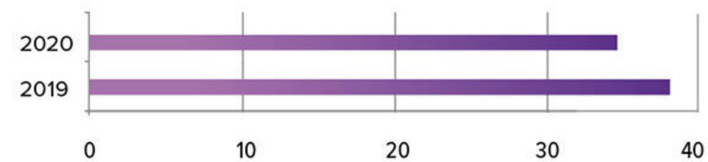

### 2019/20 Cannabis Retail Transactions: 2,044,094 ▲ +135.8%

Transactions




### 2019/20 Dollar Value for Cannabis Average Basket: $34.74 ▼ -9.3%

Average Basket




More detailed information can be found in our Audited Financial Statements.

# Community

## Responsibility

We take our role in our communities very seriously. While it's our mandate to ensure the responsible sale of beverage alcohol and cannabis in Nova Scotia, we take it far beyond that. We live our corporate responsibility by requesting valid identification from those who appear to be under 30 year of age, supporting and celebrating community initiatives, and demonstrating our values in the courteous ways in which we engage with our customers.

We contribute to the good of Nova Scotia by actively promoting responsible behaviour through partnerships, programs, and one-on-one interactions with our customers. We focus on community partnerships that support the health of our communities and programs that support informed consumption. Our employees embrace opportunities to give back to our communities as we work together to be a good corporate citizen while offering Nova Scotians who shop with us an exceptional experience.

## Community Giving

We have more than 1,800 employees working in more than 100 stores across our province. We are deeply committed to our communities and our people make it a priority to give back as a corporation and as individuals. As part of that commitment, we formalized new agreements this year with Habitat for Humanity and Feed Nova Scotia and formed a new partnership with the Children's Wish Foundation. Here are some of the ways we support our communities.

## Habitat for Humanity

We think it's important to focus on the most basic needs of Nova Scotians, helping to provide them with a strong foundation of support, which is why we formalized an agreement to provide financial and volunteer support to Habitat for Humanity this year. Initially, we committed $25,000 with 63 employees volunteering on three builds for a total of 440 hours of work.

Habitat for Humanity brings communities together by helping families build strength, stability, and independence through affordable home ownership across Nova Scotia. We're excited about this new partnership and thrilled so many employees jumped at the chance to help, from framing walls to installing windows, our people were passionate about giving up their time to help.

Erin Sheppard, a Customer Experience Agent from our Service Excellence Team, couldn't wait to get involved. "The experience was both humbling and rewarding," she said. "I love working for a company that is invested in the community and is committed to giving back." Erin was delighted to meet the parents of the families she was helping to build homes for and humbled that the children made muffins for the crews and thank you cards for each volunteer. "I have my card at my desk to remind me of how easy and how much fun it was to give back."

# Community

## Feed Nova Scotia


As important as a roof over your head is food on your table, which is why we entered into a new partnership with Feed Nova Scotia. We committed $15,000 in the initial agreement with 35 employee volunteers packaging 8,000 kg of food to be distributed to food banks across Nova Scotia.

Jenna Briggs stepped away from her role as Manager of the Craft Beer and Ready to Drink categories for a day to sort donations and pack boxes at Feed Nova Scotia's warehouse. Food security has always been an issue close to her heart. "I was fortunate enough to grow up in a household where our next meal was always guaranteed, and the fridge was always full; but I learned early on that it wasn't the case for all of my friends. A lot of Nova Scotians struggle to find their next meal. Food is a basic need for physical health as well as a person's mental and emotional health," she said.

There are many ways to make a difference to the lives of Nova Scotians, and Jenna said giving her time was extremely rewarding. "I'm thankful to work for an organization that allows us to volunteer and focus on meaningful causes."

Marketing Manager Elizabeth Hammersley said she appreciated the opportunity to volunteer for both Feed Nova Scotia and Habitat for Humanity. She said she was tremendously proud to be part of a group that's so passionate and committed to contributing to a home for such deserving families, and she thoroughly enjoyed sorting food and packaging boxes for Feed Nova Scotia. "It's such a rewarding and meaningful experience working alongside such passionate community members and knowing you're a small part of helping make a difference. It's a simple yet impactful way to give back and I look forward to doing it again!"

Employees across the organization organized a number of other efforts to support Feed Nova Scotia including a Hawaiian-themed potluck hosted by the Finance team, which raised enough money to provide 1,074 meals. The Sydney River team volunteered at a special hockey game hosted by the Cape Breton Screaming Eagles with their efforts raising over $3,000 in cash donations and over 40 boxes of food donations.

Employee fundraising initiatives such as these, along with the Cash Can program, a coat check at the Festival of Wines, and participation in the Feed Nova Scotia Biggest Potluck raised an additional $8,124.

# Community

## Children's Wish Foundation

The Children's Wish Foundation is a new and exciting partnership for us. In September, we set out to raise $10,000 for the foundation and assembled a team of employees from around the province to participate in the Heroes Challenge. The initial $10,000 was the average cost to cover one wish for a sick child.

This objective brought everyone together and we saw an extraordinary level of participation. With weekly fundraisers, 50/50 draws, themed casual days, bake sales, an open house and more, the initiative truly showed the creativity and commitment of our teams.

After all of our hard work, and a generous donation of $7,000 from the Nova Scotia Government Employees Union (NSGEU), we were able to provide a cheque to the Children's Wish Foundation for $22,570, which was enough to provide two wishes to children who will always treasure their experience.

Shannon Graham, a manager of our store on East River Road in New Glasgow, said as the parent of a healthy child, she knows how fortunate she is and how proud she was to join the challenge team. "My favourite part was seeing the children being granted their wishes and meeting their superheroes. At the end of the day I was exhausted, but also very thankful to be part of such an amazing day."

Nadine Watson, a business partner with our Human Resources team, said whether or not you're a parent, we can all see the value in the Children's Wish Foundation. "According to my watch, we walked over 16,000 steps during the Heroes Challenge, so my feet were sore, but my heart was full!"

## IWK Health Centre

The IWK Health Centre is our employee's charity of choice. Our employees raised almost $240,000, which was almost 20 per cent over our goal. It was an astounding accomplishment, made even more so because our top three fundraising stores are in smaller communities. Our store in Shelburne raised just over $10,000, employees in Elmsdale raised just shy of $9,800, and our Barrington Passage store raised just over $9,500.

# Community

"When you're asked to help raise money, you try to raise money. When you're asked to help raise money for sick and injured children, you step it up and let your passion take over," said Julia Murphy, a clerk in our Shelburne store.

Store manager Belinda Acker said the team brainstormed and drew inspiration from the community when it looked at what they could do to raise money for the IWK Health Centre throughout the month of May. Initiatives included picking up garbage from roadside ditches with the help of their families. "It was a hot old day," Belinda said, but they raised $500 cleaning up a five-kilometer stretch along the highway.

Then there's the weekly auction with donated items that included home-knit doilies, home-made washer boxes, wood carvings and a big bag of scallops, as well as barbecues and 50/50 boards with customers purchasing squares to win cash. The team even sells water to themselves, purchasing water to keep in the fridge in the store lunchroom, then buying a cold bottle when they're thirsty.

## United Way

We're extremely proud to support the United Way. Generous employees contribute through a payroll deduction plan that last year raised more than $14,000 to support organizations working for the betterment of communities across Nova Scotia.

## Cash Cans

We place Cash Cans at all cash lanes across the province where generous customers place their loose change to create positive change for Nova Scotia. In Fiscal Year 2020, the cash can program raised $54,636.07. Programs and services that benefitted include the Mental Health Foundation of Nova Scotia, Canadian Red Cross, Ronald McDonald House and MADD Canada. We are grateful to our customers for helping us support the good works of these organizations in our communities.

# Responsible Retailing

Responsibly offering beverage alcohol and cannabis is our legislated mandate and truly is the heart of the organization. Every day, our employees focus on ensuring our products are sold responsibly while providing customers with an enjoyable shopping experience. Two of the ways we do that are to diligently verify a customer's age by asking for valid photo identification if the customer looks to be under the age of 30, and by conducting mystery shops to ensure our people are meeting and exceeding our standards for responsible sales.

Last fiscal year, our front-line store workers asked for ID 2.4 million times, an almost 19 per cent increase over prior year. They refused service more than 27,000 times, which is an 81 per cent increase. These large increases reflect that Fiscal Year 2020 was the first full year of cannabis sales but it's also a clear indication our people are working hard to help ensure products stay out of the wrong hands.

Mystery shopping showed an average 91% compliance rate across our store network. That's excellent, but we're not content with less than 100% and will work hard to ensure all store employees are offering superb service and fulfilling our legislated mandate all the time.

## Keep It Social


We're very proud of the program we developed in partnership with post-secondary students to create awareness about the dangers of excessive drinking. Keep It Social is designed by and for university and college students, with students playing a critical role in its implementation. Keep It Social is offered at a number of Atlantic Canadian universities, promoting informed and responsible consumption of beverage alcohol and cannabis. Last year in Nova Scotia, the program was offered at Acadia, Cape Breton, Dalhousie, Mount Saint Vincent, St. Francis Xavier and Saint Mary's universities as well as Université de Sainte-Anne and University of King's College.

This program is so successful it is now also offered at Bishop's University and Université de Sherbrooke in Quebec, the University of Prince Edward Island and Holland College in PEI, St. Thomas University in New Brunswick, and Memorial University in Newfoundland and Labrador.

In partnership with Atlantic University Sport, a regional membership association for university athletic programs, the NSLC provided courtside Keep It Social signage and had a big-screen digital presence at games as well as booths where students could engage with a KIS team member, get helpful information and pick up promotional items.

# Responsible Retailing

A highlight of the year was the creation of a new video in partnership with Atlantic University Sport. It features athletes from Saint Mary's, Cape Breton, St. Francis Xavier and Dalhousie universities. We had a great time filming with student athletes in a rink and at a football field at two Halifax universities. We're proud to showcase local athletes who help us connect with the students we want to reach. The video was aired at 17 AUS championship games and through various advertising and social media campaigns.

We also refreshed our Keep It Social website with information such as Canada's Low-Risk Drinking Guidelines, Lower-Risk Cannabis Use Guidelines, and new harm reduction content.

## MADD Canada

We have a long-standing relationship with MADD Canada that was expanded to include cannabis. As part of this, we sponsored MADD Canada's School Assembly Program for students in grades 7 to 12. This is a critical demographic as young people face peer pressure while making responsible decisions that affect their lives. With our contribution of $40,000, the program reached 40 schools throughout Nova Scotia, with more than 11,000 students seeing the presentation.

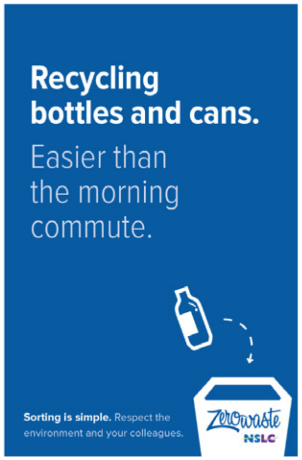
## Cabbioke

Cabbioke has been a staple in our communities since 2014, celebrating the responsible choices Nova Scotians make to get home safely. Whether it was at music festivals, hockey games, pride parades or other fun-filled events, the Cabbioke team has been ready to spread some cheer. In those six years, Cabbioke grew from attending a handful of events the first year to 110 appearances in parades, events and store visits last fiscal year. Some would come out for the fun, while others lived and breathed it – never missing a parade when they had the opportunity to take part. This was Cabbioke's last year. Even though Cabbioke is now retired, we will continue to spread the message of responsible consumption and getting home safely.

# Sustainability

We continue our commitment to minimize our impact on the environment. Many of the products we offer are shipped into Nova Scotia from around the world. They're delivered to stores throughout the province where many are kept in refrigerated coolers, and that process has an impact on the environment. We have an obligation to do our part to be a responsible corporate citizen, and that sense of responsibility is at the forefront of our decisions. Whether an employee in head office opts for digital as opposed to print, to installing energy efficient overhead fans in our warehouse, we strive to be responsible stewards of our environment.

We live our commitment to sustainability through a range of programs that include our Zero Waste program and the use of paper bags.





## Zero Waste

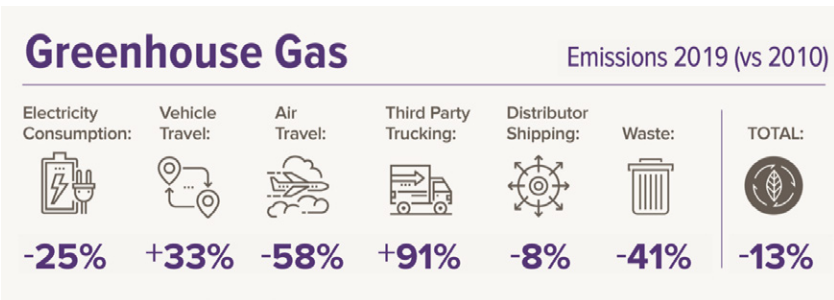
We are committed to Zero Waste which we define as diverting 95% of solid waste materials generated in our Distribution Centre and Head Office from Nova Scotia landfills. It is an ambitious goal but one we're focused on meeting. We have desk-side recycling containers and sorting stations that encourage recycling and composting as we work to reduce how much garbage we produce. We also reuse items whenever possible. These actions heighten employees' awareness and commitment to dealing with waste responsibly. Our people have embraced these goals and emissions due to waste decreased 41% in Fiscal Year 2020 from the base year (2010) and 30% from the fiscal year that ended March 31, 2019.


Our team in Shelburne cleaned up five kilometers of highway in their community, collecting 95 bags of litter in six hours.

# Sustainability

## Greenhouse Gas Emissions

One of the ways we work to minimize our impact on Nova Scotia's environment is to measure our greenhouse gas emissions. Each year, an independent agency provides us with a report that looks at emissions caused by our day-to-day business operations. This report assesses both direct and indirect GHG emissions, which include our buildings, ground and marine transportation, waste, vehicle use and air travel.




We have monitored our carbon footprint through these reports since 2008 and we remain committed to reducing our impact on the environment. During Fiscal Year 2020, we reduced our greenhouse gas emissions by 13% from 2010 levels, proving changes to our business operations are reducing the environmental impact and helping us achieve our sustainability goals.

The reduction of energy consumption has been the key to our success with GHG emissions. Emissions due to electricity consumption have gone down 25% since 2010.

Emissions from air travel decreased 58% since the base year and 71% from Fiscal Year 2019. Vehicle emissions increased 33% in Fiscal Year 2020 from the base year due to the inclusion of travel in rental vehicles in the calculation. This was a 10 per cent increase over Fiscal Year 2019. Emissions from third party trucking of products from the Distribution Centre increased by 91% from 2010 levels while Distributor Shipping decreased 8%. This was due to changes to trucking boundaries and ground and marine shipping boundaries in Fiscal Year 2011. Emissions in both categories have been consistent in the 2013-2019 fiscal years. We're proud of what we have accomplished and know there is more work to do as we continue to review our operations and focus on reducing our impact on the environment.

# Financial Statements

## Nova Scotia Liquor Corporation
## March 31, 2020

**CONTENTS** Page


| | |
|---|---|
| Independent auditor's report | 28 |
| Statements of earnings | 30 |
| Statements of financial position | 31 |
| Statements of changes in equity | 32 |
| Statements of cash flows | 33 |
| Notes to the financial statements | 34 |

# Independent auditor's report

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

**Opinion**
We have audited the financial statements of the Nova Scotia Liquor Corporation ("the Corporation"), which comprise the statement of financial position as at March 31, 2020, 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.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of the Corporation as at March 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

**Basis for Opinion**
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Information Other than the Financial Statements and Auditor's Report Thereon**
Management is responsible for the other information. The other information comprises the Annual Report. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRSs), 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.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Grant Thornton LLP

Halifax, Canada
June 12, 2020

Chartered Professional Accountants

## Statements of earnings

| Year ended March 31 (in thousands) | 2020 | 2019 |
|---|---|---|
| Sales (note 12) | $ 726,167 | $ 662,084 |
| Cost of sales | 352,856 | 311,242 |
| Gross margin | 373,311 | 350,482 |
| Operating expenses (note 13) | 128,704 | 116,586 |
| Other income | (4,615) | (4,180) |
| Earnings from operations | 249,222 | 238,436 |
| Finance costs (note 8) | 1,944 | 1,063 |
| Earnings for the year | $ 247,278 | $ 237,373 |

See accompanying notes to the financial statements.

## Statements of comprehensive earnings

| Year ended March 31 (in thousands) | 2020 | 2019 |
|---|---|---|
| Earnings for the year | $ 247,278 | $ 237,373 |
| Other comprehensive earnings | | |
| Items that will not be reclassified subsequently to earnings: | | |
| Actuarial gains on defined benefit plans (note 10) | 1,429 | 1,487 |
| Comprehensive earnings for the year | $ 248,707 | $ 238,860 |

See accompanying notes to the financial statements.

## Statements of financial position

| March 31 (in thousands) | 2020 | 2019 |
|---|---|---|
| **Assets** | | |
| Current | | |
| Cash and equivalents | $ 41,244 | $ 12,069 |
| Receivables | 4,445 | 4,797 |
| Inventories | 64,751 | 61,031 |
| Prepaids | 3,725 | 2,802 |
| | 114,165 | 80,699 |
| Intangibles (note 6) | 6,833 | 5,796 |
| Property and equipment (note 7) | 89,673 | 50,994 |
| | $ 210,671 | $ 137,489 |
| **Liabilities** | | |
| Current | | |
| Payables and accruals | $ 56,997 | $ 58,869 |
| Lease liabilities (note 9) | 4,869 | – |
| Employee future benefit obligations (note 10) | 5,557 | 1,139 |
| | 67,423 | 60,008 |
| Non-current | | |
| Lease liabilities (note 9) | 32,187 | – |
| Employee future benefit obligations (note 10) | 22,444 | 27,052 |
| | 122,054 | 87,060 |
| **Equity** | 88,617 | 50,429 |
| | $ 210,671 | $ 137,489 |

On behalf of the Board

Mr. George McLellan
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, 2019 | $ 2,140 | $ 48,289 | $ 50,429 |
| Impact of adoption of IFRS 16 (note 5) | – | (769) | (769) |
| Adjusted balance at April 1, 2019 | 2,140 | 47,520 | 49,660 |
| Remittances to Minister of Finance | – | (209,750) | (209,750) |
| Earnings for the year | – | 247,278 | 247,278 |
| Other comprehensive gain | 1,429 | – | 1,429 |
| Comprehensive earnings for the year | 1,429 | 247,278 | 248,707 |
| Balance at March 31, 2020 | $ 3,569 | $ 85,048 | $ 88,617 |
| | | | |
| Balance at April 1, 2018 | $ 653 | $ 38,916 | $ 39,569 |
| Remittances to Minister of Finance | – | (228,000) | (228,000) |
| Earnings for the year | – | 237,373 | 237,373 |
| Other comprehensive loss | 1,487 | – | 1,487 |
| Comprehensive earnings for the year | 1,487 | 237,373 | 238,860 |
| Balance at March 31, 2019 | $ 2,140 | $ 48,289 | $ 50,429 |

See accompanying notes to the financial statements.

# Statements of cash flows

| Year ended March 31 (in thousands) | 2020 | 2019 |
|---|---|---|
| **Operating** | | |
| Earnings for the year | $ 247,278 | $ 237,373 |
| Depreciation and amortization | 15,419 | 9,068 |
| Loss on disposal of property and equipment | 98 | 142 |
| Employee future benefit obligations | 1,238 | (1,394) |
| | 264,033 | 245,189 |
| Change in non-cash operating working capital (note 11) | (6,164) | 3,715 |
| Interest paid | 905 | – |
| | 258,774 | 248,904 |
| **Financing** | | |
| Remittances to Minister of Finance | (209,750) | (228,000) |
| **Investing** | | |
| Purchase of intangibles | (3,098) | (4,082) |
| Purchase of property and equipment | (11,154) | (18,855) |
| Proceeds on sale of property and equipment | 5 | – |
| Payment of lease liabilities | (5,602) | – |
| | (19,849) | (22,937) |
| Net change in cash and cash equivalents | 29,175 | (2,033) |
| Cash and cash equivalents, beginning of year | 12,069 | 14,102 |
| Cash and cash equivalents, end of year | $ 41,244 | $ 12,069 |

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 through the Nova Scotia Cannabis Control Act passed in the Nova Scotia Legislature on April 17, 2018. The Corporation is a government business enterprise as defined by Public Sector Accounting Board recommendations. The Corporation is Nova Scotia’s largest retailer of liquor and cannabis product and its network includes over 100 retail stores, 60 agency stores, four private wine & specialty stores and one standalone cannabis store. The Corporation serves as a wholesaler to more than 2,000 bars and restaurants across the province. 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 financial statement 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, 2020 (including comparatives) were approved and authorized for issue by the Board of Directors on June 12, 2020.

**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 10. 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. Corporate and distribution centre assets are allocated on a rational basis to the CGUs or group of CGUs as appropriate for the purposes of performing impairment testing if needed.

*Impairment*
The carrying values of property and equipment, intangible assets, and CGUs 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.

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

*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.

*Leases*
When the entity has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances, including their past practice and any cost that will be incurred to improve or modify the leased asset if an option to extend is not taken, to help them determine the lease term.

Where the interest rate implicit in the lease is not readily available, management uses the lessee's incremental borrowing rate to measure the present value of the remaining lease payments. Managements determination of the Corporation's incremental borrowing rate depends on relevant facts and circumstances, geographical location, and lease term duration of the lease property.

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 CGU) 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.

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

**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 as the NSLC is acting as agent in the arrangement with AIR MILES®.

**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.

**Cash and cash equivalents**
Cash and cash equivalents 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 |
| Right-of-use assets | 2 – 20 years |

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

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) is included in the statement of earnings in the year in which disposed.

*Impairment of non-financial assets*
At the end of each reporting period, the Corporation reviews the carrying amounts of its tangible and intangible 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 CGU) 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, 2020 and 2019.

**Leased assets**
As described in Note 5 the Corporation has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

*Accounting policy applicable from April 1, 2019*
At the inception of a contract, the Corporation assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, it is assessed whether:

- the contract involves the use of an identified asset;
- the Corporation has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use; and
- the Corporation has the right to direct the use of the asset.

Measurement and recognition of leases as a lessee
Qualifying leases are recognized as a right-of-use asset and a corresponding lease liability.

Lease payments included in the measurement of the lease liability include the net present value of the following:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantee;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used. The incremental borrowing rate is the rate that the lessee would have to pay to borrow at prevailing interest rates, market precedents and the Company's specific credit spread, on similar terms and security. The finance cost is charged to profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period.

Right-of-use assets are initially measured at cost and are included in property and equipment on the statement of financial position. Cost of right-of-use assets is comprised of the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs
- restoration costs

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a strating-line basis. The lease term consists of:

- the non-cancellable period of the lease;
- periods covered by options to extend the lease, where the Corporation is reasonably certain to exercise the option; and
- periods covered by options to terminate the lease, where the Corporation is reasonably certain not to exercise the option.

If the Corporation expects to obtain ownership of the leased asset at the end of the lease, the right-of-use asset is depreciated over the underlying asset's estimated useful life. The right-ofuse asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The Corporation has elected to account for short term leases and leases of low-value assets using the available practical expedients; as such the related payments are recognized as an expense in the statement of earnings on a straight-line basis over the lease term.

*Accounting policy applicable before April 1, 2019*

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 straightline 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 the expected settlement amount 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.

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

**Financial instruments**

*Recognition and derecognition*

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

*Classification and initial measurement of financial assets*

All financial assets are initially measured at fair value and adjusted for transaction costs (where applicable). Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit and loss ("FVTPL").

The Corporation has classified its financial instruments as follows:

| Asset/liability | Classification |
|---|---|
| Cash and cash equivalents | Amortized cost |
| Receivables | Amortized cost |
| Payables and accruals | Amortized cost |

The classification is determined by both the Corporation's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset.

*Subsequent measurement of financial assets*

Financial assets are measured at amortized cost if the assets meeting the following conditions(and are not designated as FVTPL):

- they are held within a business model whose objectives is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Corporation's cash and receivables fall into this category (under IAS 39 they were classified as loans and receivables and subsequently measured at amortized cost).

*Impairment of financial assets*

IFRS 9's impairment requirements use more forward-looking information to recognize expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements included receivables.

*Receivables*

The Corporation makes use of a simplified approach in accounting for the loss allowance for receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Corporation uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. The Corporation assesses impairment of receivables on a collective basis. As they possess shared credit risk characteristics, they have been grouped based on the days past due. Lifetime expected credit loss is less than 0.1%.

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

**Financial instruments** (continued)

*Classification and measurement of financial liabilities*
The Corporation's financial liabilities include payables and accruals and are measured at amortized cost. Financial liabilities are initially measured at fair value, and where applicable, adjusted for transaction costs unless the Corporation designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortized cost using the effective interest method.

**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, 2020 and 2019.

## 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. There is nothing that would be considered material to the financial statements as at the date of release.

## 5. Accounting standards and policies adopted during fiscal 2020

**IFRS 16 'Leases'**
In 2016, the International Accounting Standards Board issued IFRS 16, replacing IAS 17 and related interpretations. The standard introduces a single, on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessees recognize a right-of-use asset representing its control of and right to use the underlying asset and a lease liability representing its obligation to make future lease payments. Lessor accounting remains similar to IAS 17.

IFRS 16 became effective for annual periods beginning on or after January 1, 2019. The Corporation adopted the standard on April 1, 2019 using the modified retrospective approach. The Corporation applied the requirements of the standard retrospectively with the cumulative effects of initial application recognized in retained earnings. Prior year figures were not restated, as permitted under the transition provisions in the standard, and continue to be reported under IAS 17.

Substantially all of the Corporation's operating leases are real estate leases for retail stores. The Corporation recognized right-of-use assets and liabilities for its operating leases except for certain classes of underlying assets in which the lease terms are 12 months or less or low-value assets. The depreciation expense on right-of-use assets and interest expense on lease liabilities replaced rent expense, which was previously recognized on a straight-line basis under IAS 17 over the term of a lease.

March 31, 2020 (in thousands)

## 5. Accounting standards and policies adopted during fiscal 2020

(continued)

IFRS 16 permits the use of recognition exemptions and practical expedients. The Corporation applied the following recognition exemptions and practical expedients:

- excluded initial direct costs from the measurement of right-of-use assets at the date of initial application;
- elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition;
- relied on the Corporation's historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16 as an alternative to performing an impairment review;
- accounting for leases which end within 12 months of the date of initial application as short-term leases; and
- used hindsight in determining lease term at the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 2.21%.

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at April 1, 2019:

| | | | IFRS 16 |
|---|---|---|---|
| | Carrying Amount at March 31, 2019 | Impact of adoption of IFRS 16 | carrying amount at 1 April, 2019 |
| Property, Plant and equipment | $ 50,994 | $ 36,223 | $ 87,217 |
| Lease liabilities | – | (36,992) | (36,922) |
| Retained Earnings | $ 48,289 | $ (769) | $ 47,520 |

The following is a reconciliation of total operating lease commitements at March 31, 2019 (as disclosed in the financial statements to March 31, 2019) to the lease liabilities recognized at April 1, 2019:

| | |
|---|---|
| **Total operating lease commitments disclosed at 31 March 2019** | **$ 54,875** |
| Less : non contractural future payments (CAM, Tax, HVAC) | (11,142) |
| Operating lease liabilities before discounting | 43,733 |
| Discounted using incremental borrowing rate | (4,328) |
| | 39,405 |
| Operating lease liabilities | – |
| Reasonably certain extension options | (2,413) |
| **Total lease liabilities recognized under IFRS 16 at April 1, 2019** | **$ 36,992** |
| Current portion of lease liabilities | 4,753 |
| Non-current lease liabiltiies | 32,239 |
| | **$ 36,992** |

**IAS 19 – Plan Amendment, Curtailment, or Settlement**

Amendment to IAS 19 was effective April 1, 2019. The standard now requires that the current service cost and net interest on the net defined benefit liability (asset) for the period following the special event shall be determined using the assumptions and remeasured values (DBO, plan assets, asset ceiling effect) at the remeasurement date, and not the assumptions at the beginning of the period. Due to the timing of the Public Service Award settlement, the amendment did not apply to the Corporation in the current fiscal year.

Notes to the Financial Statements March 31, 2020 (in thousands)

## 6. Intangibles

| | Enterprise Resource Planning (ERP) | Other Intangibles | Assets under Development | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| At March 31, 2019 | $ 27,970 | $ 7,866 | $ 1,576 | $ 37,412 |
| Additions | 406 | 392 | 2,300 | 3,098 |
| Transfers | 436 | 224 | (660) | – |
| Disposals | (5,145) | – | – | (5,145) |
| At March 31, 2020 | 23,667 | 8,482 | 3,216 | 35,365 |
| **Amortization** | | | | |
| At March 31, 2019 | (27,234) | (4,382) | – | (31,616) |
| Amortization expense | (506) | (1,553) | – | (2,059) |
| Disposals | 5,143 | – | – | 5,143 |
| At March 31, 2020 | (22,597) | (5,935) | – | (28,532) |
| **Carrying amounts** | | | | |
| At March 31, 2019 | $ 736 | $ 3,484 | $ 1,576 | $ 5,796 |
| At March 31, 2020 | $ 1,070 | $ 2,547 | $ 3,216 | $ 6,833 |

Amortization of intangibles is reported as an operating expense in the statement of earnings. The intangible assets under development are not impaired as at March 31, 2020

Notes to the Financial Statements March 31, 2020 (in thousands)

## 7. Property and equipment

| | Furniture & Fixtures | Other Equipment | Small Computers | Software & Hardware | Land | Buildings | Capital & Leasehold Improvements | Assets under Construction AUC or WIP) | Right of Use Assets | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | | |
| At March 31, 2019 | $ 17,861 | $ 16,049 | $ 8,949 | $ 1,434 | $ 690 | $ 45,700 | $ 50,212 | $ 5,171 | $ – | $ 146,066 |
| Adjustment on transition to IFRS 16 | – | – | – | – | – | – | – | – | 36,223 | 36,223 |
| Additions | 580 | 575 | 1,041 | 131 | 68 | 1,589 | 4,645 | 2,525 | 4,762 | 15,916 |
| Transfers | 461 | 224 | 78 | – | – | 764 | 3,492 | (5,019) | – | – |
| Disposals | (104) | (294) | (69) | (2) | (5) | (480) | (268) | – | – | (1,222) |
| At March 31, 2020 | 18,798 | 16,554 | 9,999 | 1,563 | 753 | 47,573 | 58,081 | 2,677 | 40,985 | 196,983 |
| **Depreciation** | | | | | | | | | | |
| At March 31, 2019 | (12,665) | (10,925) | (6,845) | (1,064) | – | (32,356) | (31,217) | – | – | (95,072) |
| Depreciation expense | (1,146) | (1,048) | (841) | (172) | – | (1,248) | (3,720) | – | (5,185) | (13,360) |
| Disposals | 103 | 290 | 60 | 2 | – | 417 | 250 | – | – | 1,122 |
| At March 31, 2020 | (13,708) | (11,683) | (7,626) | (1,234) | – | (33,187) | (34,687) | – | (5,185) | (107,310) |
| **Carrying amounts** | | | | | | | | | | |
| At March 31, 2019 | $ 5,196 | $ 5,124 | $ 2,104 | $ 370 | $ 690 | $ 13,344 | $ 18,995 | $ 5,171 | – | $ 50,994 |
| At March 31, 2020 | $ 5,090 | $ 4,871 | $ 2,373 | $ 329 | $ 753 | $ 14,386 | $ 23,394 | $ 2,677 | $ 35,800 | $ 89,673 |

Depreciation of property and equipment is reported as an operating expense in the statement of earnings.
No depreciation has been recorded on assets under construction.

March 31, 2020 (in thousands)

## 8. Finance costs

| | 2020 | 2019 |
|---|---|---|
| Interest expenses – lease liabilities | $ 905 | $ – |
| Post employement benefit costs (Note 10) | 1,039 | 1,063 |
| Total Finance costs | $ 1,944 | $ 1,063 |

## 9. Leases

The Corporation leases properties for its retail stores. Lease contracts are typically made for fixed periods of 2 to 20 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

**Lease liabilities**
Lease liabiltiies are presented in the financial statement of financial position as follows:

| | 2020 | 2019 |
|---|---|---|
| Current | $ 4,869 | $ 4,753 |
| Non-current | 32,187 | 32,239 |
| | $ 37,056 | $ 36,992 |

**Extension Options**
The use of extension and termination options gives the Corporation added flexibitliy in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only excersiced when consistent with the Corporation's network development strategy and the economic benefits of exercising the option exceeds the expected overall cost.

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at March 31 2020 is as follows:

| | Minimum lease payments due | | | | | |
|---|---|---|---|---|---|---|
| | **Within 1 year** | **1-5 years** | **5-10 years** | **10-15 years** | **Over 15 years** | **Total** |
| **March 31, 2020** | | | | | | |
| Lease Payments | $ 5,701 | $ 24,341 | $ 8,094 | $ 3,206 | $ 42 | $ 41,384 |
| Finance charges | (832) | (2,549) | (779) | (168) | – | (4,328) |
| **Net present values** | **$ 4,869** | **$ 21,792** | **$ 7,314** | **$ 3,038** | **$ 42** | **$ 37,056** |

**Lease payments not recognized as a liability**
The Corporation has elected not to recognize a lease liability for short term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. Payments made under such leases are exposed on a straight-line basis and totaled $63.

## 10. 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 $4,277 (2019 - $3,804) 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 in the financial statements in regards to the PSA had been that the benefit was 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, for union employees, such that services earned toward this benefit are frozen as of that date and August 11, 2015 for non-union employees. On February 6, 2020 the Corporation provided all fulltime union employees with a one-time option to elect an immediate pay-out of their Service Award entitlement based on service at March 31, 2015 and salary at January 23, 2020. The impact of the elected payout in fiscal year 2020 was $2,723,606.

Actuarial assumptions included in the 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.

The Corporation is responsible for paying the employer portion of health, dental, and life insurance premiums, and both the employer and employee pension contributions for members qualifying for Long Term Disability. They will also continue to pay the employer portion of health, dental, and life insurance premiums, pension contributions, and Long Term Disability insurance premiums for employees who qualify for Workers' Compensation Benefits, but are not yet eligible for Long Term Disability.

The Corporation is self insured and is responsible for paying workers compensation to employees approved by the Workers Compensation Board. Total expenses recognized in the statement of earnings is $1,111 (2019 - $1,158). Any future benefit obligation is included in the financial statements of the Province of Nove Scotia.

March 31, 2020 (in thousands)

## 10. Employee remuneration (continued)

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

An independent actuary carried out the most recent actuarial valuation utilizing plan membership data up to December 31, 2017 (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, 2020. The next actuarial valuations will be performed as of December 31, 2020.

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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 31-Mar-20 | | | | 31-Mar-19 | | | |
| | Retiree health | Service award | Sick leave | Disability | Retiree health | Service award | Sick leave | Disability |
| Discount rate(s) | 3.40% | 3.00% | 3.00% | 2.80% | 3.60% | 3.25% | 3.25% | n/a |
| Expected rate(s) of salary increase | n/a | 2.50% | 2.50% | 2.50% | n/a | 2.50% | 2.50% | n/a |
| Ultimate weighted average health care trend rate | 4.50% | n/a | n/a | n/a | 4.50% | n/a | n/a | n/a |

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

| | 2020 | 2019 |
|---|---|---|
| Current service cost | $ 5,557 | $ 1,139 |
| Interest on obligation | 1,039 | 1,063 |
| Actuarial gains | (1,898) | (2,602) |
| | $ 4,698 | $ (400) |

March 31, 2020 (in thousands)

## 10. Employee remuneration (continued)

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

| | 2020 | 2019 |
|---|---|---|
| Benefit obligations, beginning of year | $ 28,191 | $ 31,072 |
| Current service cost | 5,557 | 1,139 |
| Interest cost | 1,039 | 1,063 |
| Actuarial (gain) loss | (1,898) | (2,602) |
| Benefits paid | (4,888) | (2,481) |
| Benefit obligations, end of year | $ 28,001 | $ 28,191 |

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

| | 2020 | 2019 |
|---|---|---|
| Effect on aggregate of current service cost and interest cost | | |
| One percentage point increase | $ 351 | $ 383 |
| One percentage point decrease | (359) | (393) |
| Effect on accrued benefit obligation | | |
| One percentage point increase | 3,592 | 3,656 |
| One percentage point decrease | (2,778) | (2,806) |

## 11. 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:

| | 2020 | 2019 |
|---|---|---|
| Short term benefits | $ 1,595 | $ 1,810 |
| Post-employment benefits | 118 | 132 |
| Other long term benefits | 21 | 21 |
| Total compensation | $ 1,734 | $ 1,963 |

March 31, 2020 (in thousands)

## 12. Revenue

**2020**

| Channel | Spirits | Wine | Beer | Ready to Drink | Non-Liquor | Cannabis | Total |
|---|---|---|---|---|---|---|---|
| Retail | $ 150,915 | $ 125,547 | $ 216,939 | $ 46,941 | $ 76 | $ 70,006 | $ 610,424 |
| Licensee | 8,153 | 7,441 | 31,366 | 2,922 | 19 | – | 49,901 |
| Agency | 13,040 | 5,513 | 26,416 | 5,056 | 8 | – | 50,033 |
| Private wine & specialty | 1,092 | 10,522 | 1,185 | 833 | – | – | 13,632 |
| Other Wholesale | 206 | 464 | 36 | 22 | – | – | 728 |
| Online | 158 | 273 | 16 | 5 | – | 997 | 1,449 |
| Total | $ 173,564 | $ 149,760 | $ 275,958 | $ 55,779 | $ 103 | $ 71,003 | $ 726,167 |

**2019**

| Channel | Spirits | Wine | Beer | Ready to Drink | Non-Liquor | Cannabis | Total |
|---|---|---|---|---|---|---|---|
| Retail | $ 142,948 | $ 119,630 | $ 214,590 | $ 37,292 | $ 86 | $ 32,401 | $ 546,947 |
| Licensee | 8,595 | 7,415 | 33,715 | 2,729 | 19 | – | 52,473 |
| Agency | 12,625 | 5,353 | 26,054 | 4,025 | 8 | – | 48,065 |
| Private wine & specialty | 1,100 | 9,594 | 1,342 | 436 | – | – | 12,472 |
| Other Wholesale | 223 | 668 | 42 | 15 | – | – | 948 |
| Online | 172 | 209 | 8 | 3 | – | 787 | 1,179 |
| Total | $ 165,663 | $ 142,869 | $ 275,751 | $ 44,500 | $ 113 | $ 33,188 | $ 662,084 |

Notes to the Financial Statements March 31, 2020 (in thousands)

## 13. Operating expenses

| | 2020 | 2019 |
|---|---|---|
| Salaries and employee benefits | $ 72,393 | $ 65,794 |
| Depreciation and amortization | 15,419 | 9,068 |
| Service contracts and licenses | 8,043 | 7,647 |
| Post employment current service costs (note 10) | 5,557 | 1,139 |
| Debit, credit and gift card fees | 5,485 | 4,976 |
| Occupancy | 3,743 | 8,580 |
| Utilities | 2,843 | 2,888 |
| Freight | 2,620 | 2,674 |
| Marketing and merchandising | 2,522 | 2,336 |
| Maintenance and repairs | 2,262 | 2,193 |
| Supplies and sundry | 2,107 | 1,936 |
| Travel, training and meetings | 1,230 | 1,328 |
| Legal, Audit, & Consulting | 987 | 2,495 |
| Corporate/social responsibility | 925 | 875 |
| Waste diversion | 581 | 554 |
| Guard services | 472 | 613 |
| Insurance | 365 | 328 |
| Other | 339 | 1,029 |
| Market surveys | 324 | 282 |
| Publications | 220 | 245 |
| Memberships and subscriptions | 212 | 209 |
| Industry support | 150 | 150 |
| Postage and courier | 136 | 140 |
| Telephone | 127 | 123 |
| Bank charges and armoured car | 112 | 99 |
| Actuarial gain on other employment benefit | (470) | (1,115) |
| | $ 128,704 | $ 116,586 |

## 14. 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.

## 15. Financial instruments risk

The Corporation is exposed to credit risk and market risk in relation to financial instruments. The Corporation is exposed to the same risks in the current year as it was exposed to in the prior year.

**Credit risk**

Credit risk is the risk that a counterparty fails to discharge an obligation to the Corporation. The Corporation is exposed to this risk for various financial instruments, for example by granting receivables to customers and placing deposits. The Corporation's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized at the end of the reporting period, as summarized below:

**Classes of financial assets – carrying amounts**

| | March 31, 2020 | March 31, 2019 |
|---|---|---|
| | $ | $ |
| Cash and cash equivalents | 41,244 | 12,069 |
| Trade and other receivables | 3,740 | 4,050 |

## 15. Financial instruments risk (continued)

**Credit risk management**

The credit risk is managed on a group basis based on the Corporation's credit risk management policies and procedures.

The credit risk in respect of cash balances held with banks are managed by only using major reputable financial institutions.

The Corporation does not specifically assess the credit quality of clients based on a credit rating but through an informal process while onboarding for service. Invoice terms are payable within seven days. The ongoing credit risk is managed through regular review of aging analysis.

**Market risk**

*Foreign currency sensitivity*

The Corporation has purchases of inventory from suppliers outside of Canada. Exposure to fluctuations in currency exchange rates subjects the Corporation to foreign exchange risk as significant fluctuations impact the cost of the inventory to the Corporation.

The Corporation's main exposure is to the EURO and USD. The Corporation holds funds in US dollars to help mitigate the exposure to significant fluctuations in the US dollar exchange rate. As at March 31, 2020, the Corporation held US$115 (2019 – US$100) in US dollar denominated bank accounts. Amounts payable in other currencies other than CAD were not significant.

Sensitivity to a plus or minus 5.0% change in the EURO or US dollar exchange rate would not have a material impact on the Corporation's results from operations.

**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.

## 16. Subsequent event

Since December 31 2019, the spread of COVID-19 has severely impacted many local economies around the globe. Many businesses are being forced to cease or limit operations for long or indefinite periods of time. On March 22, 2020, the Province of Nova Scotia declared a state of emergency to help contain the spread of COVID-10, in addition to travel bans, quarantines, social distancing, and closures of non-essential services. The state of emergency remains in place and restrictions will gradually be eased according to public health orders and directives.

The Corporation's operations did not cease as part of non-essential services, but hours of operations were reduced to 6 days a week. The impact of the COVID-19 on the Corporation's financial position is not material as revenue overall has been maintained but a shift in revenue among sales channels has occurred. The Corporation has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of year ended March 31, 2020 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Corporation for future periods.

**Nova Scotia Liquor Corporation**

93 Chain Lake Drive,
Halifax NS, B3S 1A3
Tel: 902.450.6752
www.mynslc.com

/theNSLC /theNSLC /theNSLC /theNSLC