



Annual Business Plan
Fiscal 2019 – 2020

Mandate & Legislated Responsibility

The Nova Scotia Liquor Corporation (NSLC) is a local company and has been since 1930. We're owned by the people of Nova Scotia through their government and 100% of our profits are returned to the Province to help fund key public services. Our mandate and legislated responsibilities are identified in the Liquor Control Act (LCA) of Nova Scotia as well as the Cannabis Control Act (CCA).

Our role under the LCA includes responsibility for the receipt, distribution, regulation and control of beverage alcohol in Nova Scotia. Safe and responsible distribution and sale of beverage alcohol, including the prevention of alcohol sales to minors, is fundamental to our mandate.

The legislation states that the objects of the Corporation are:

1. Promotion of social objectives regarding responsible drinking;
2. Promotion of industrial or economic objectives regarding the beverage alcohol industry in the Province;
3. Attainment of suitable financial revenues to government; and
4. Attainment of acceptable levels of customer service.

The Cannabis Control Act (CCA), gives the NSLC authority to wholesale, store, distribute and sell cannabis and requires the corporation to comply with federal requirements and promote responsible consumption of cannabis.

The legislation establishes that the objects of the Corporation are:

1. Promote social objectives respecting the responsible consumption of cannabis; and
2. Control and carry out the purchase, possession, distribution and sale of cannabis in accordance with the CCA

In relation to our legislated mandates, the Board of Directors is responsible for ensuring that the affairs of the Corporation are administered on a commercial basis and that all decisions and actions of the Board are based on sound business practices in accordance with the objects of the Corporation.

We take our responsibilities seriously and we work diligently to deliver on the responsibilities entrusted to us under the LCA and CCA. We make every effort to be a good corporate citizen and recognize the value we add in the communities we serve. Responsibility is ingrained in our corporate culture and it's the lens we use for all our business decisions - and not just because it's legislated. It's the right thing to do, for the business, our customers and our employees.

This responsibility extends to the safe and responsible sale of beverage alcohol and recreational cannabis in our stores and we consider this a fundamental part of our mandate. We take an integrated approach to Corporate Social Responsibility and have a framework that outlines our commitments. At a strategic level and within our day-to-day operations, we carefully consider what we do, how we do it and who we interact with, and how our activities impact accountability, community, responsibility and sustainability.

We operate the business to be in balance with all of our mandates, including corporate social responsibility and support for local industry. But, we are also a retailer. We have 106 retail stores, along with 60 Agency stores primarily in rural areas and four Private Wine and Specialty stores. Recreational cannabis is retailed in eleven of those 106 stores as a store-in-store concept and one stand-alone store

for retailing recreational cannabis. We also offer an e-commerce experience for both beverage alcohol and recreational cannabis. Through this network, we work hard to provide Nova Scotians with a wide product assortment and superior customer service supported by knowledgeable employees.

In December 2017, our Shareholder announced that our mandated responsibilities would be expanded to include the retailing of recreational cannabis in our stores which was the most significant change to our business since 1930. Official legalization occurred on October 17, 2018 and we offer cannabis responsibly within the federal and provincial regulatory framework. Our focus is aligned with our Shareholder and the Cannabis Control Act in creating a legal cannabis market, focused on public safety and responsible sales. Our priorities include:

1. Keeping cannabis out of the hands of minors
2. Creating awareness and educating customers about cannabis
3. Provide a safe supply of cannabis to Nova Scotians and help eliminate the illicit market

We have a proven track record of success retailing a controlled product in a responsible way and providing a level of customer service that our customers enjoy. Our approach to offer recreational cannabis is an extension of our brand – we apply the same retail principles and industry best practice to recreational cannabis sales as we do with beverage alcohol.



Purpose and Vision

Purpose: To bring a world of responsible beverage enjoyment to Nova Scotia.

Vision: To be a superb retailer recognized for an engaging customer experience and to be a valued industry partner.

We support Nova Scotians by focusing our operations and efforts on fulfilling our mandated responsibilities, and by living our purpose and vision. As a crown corporation we support Nova Scotians and the priorities of the Government of Nova Scotia: healthcare, education, helping those who need it most, and providing opportunities for all Nova Scotians, within an overall context of fiscal sustainability and delivery of our core services efficiently and effectively. All of our profits go back to the Province to support the programs and services that matter most to Nova Scotians.

Our purpose has broadened to include cannabis and a revised Purpose statement will be reflected in our new Strategic Plan.

NSLC Core Focus Areas

Fiscal 2020, the fifth and final year of our Five-Year Strategic Plan, presents new challenges and opportunities for our business as we continue to execute on our new mandate to the same standard as our beverage alcohol category. We have integrated cannabis into our business successfully by leveraging the infrastructure and business processes we have in place for beverage alcohol. We will continue on our journey to offer superior customer service and superb experiences at every touchpoint. The plan has been updated to include recreational cannabis and the new customer points of interaction it creates. The market, and our retail environment, will continue to evolve over time but our efforts are still focused on celebrating our people, the local industry and the communities we serve while helping our customers celebrate life's occasions and responsible choices.

Our three key focus areas outlined in the plan as it relates to the sale of beverage alcohol are also consistent with the retailing of recreational cannabis. These include: our customers, supporting local industry and our fiscal (financial) obligations. These key focus areas are supported by technology and infrastructure as well as our people, and together these provide a strong and stable foundation for the business. We will continue to manage our business by making decisions that consider and support our key focus areas while always keeping our mandates, our people and responsible sales top-of-mind. Throughout all of our objectives and actions outlined below, we consider the well-being of our employees a critical success factor. Providing employees with a safe and healthy work environment, while supporting their growth and development is key to achieving our business objectives. Focusing on our people supports Nova Scotia's goals of enhancing workplace participation and health and wellness outcomes while making a positive contribution in the communities where we live and work.

Our journey to be a superb retailer continues to drive the organization, especially as it relates to leadership and employee development. We continue to assess our business processes and functions to make sure employees are supported in their day-to-day work environments. Our leadership structure creates a framework for greater accountability, collaboration and teamwork. The structure offers strong integration across all customer touchpoints; improving our level of customer service and satisfaction, as well as execution of our mandate to sell beverage alcohol and recreational cannabis with public safety and responsible sales being top priorities.

Customer: To achieve exceptional customer satisfaction through engaged and personalized experiences.

We strive to delight our customers and create awareness about responsible choices. We are relentlessly focused on our customers, and that focus is critical to ensure we continue to engage with them as the retail landscape changes.

Reviewing trends and insights is part of our evolution to meet our customer needs and allows us to provide relevant and innovative product offers and services. A key part of that evolution is our retail network strategy which is based on customer demands and improving our customer satisfaction. It ensures we have the right store in the right place at the right time - the result, our Banner Strategy. Each format under the Banner Strategy will be consistent over time so our customers will know what to expect from a store from the logo out front. Our Banner Strategy consists of the following formats:

- NSLC Signature, which represents our highest volume stores and will offer our customers a full assortment from all categories
- NSLC Express, designed for customer convenience, offering limited selection of our top-selling 300 brands, complementing our nearby, full-size stores
- The PORT by the NSLC - a premium shopping experience designed to exceed the expectations of wine & spirit enthusiasts
- NSLC Select, representing small stores offering more than 500 top-selling products as well as products made in local communities
- NSLC Beer Wine & Spirits, represents about half of the stores in our network offering a robust product assortment with chilled and local products
- NSLC Beer Wine Spirits & Cannabis, includes cannabis offering
- NSLC Cannabis, stand-alone Cannabis location

During last fiscal year, as part of our store investment, many of our stores were renovated and branded in line with our Banner Strategy. Two Signature stores were completed – our prototype store Portland Street as well as New Minas and an additional three are planned for completion early fiscal 2020 which include Joseph Howe, Sydney River and Bridgewater; our first Select store in the Nova Centre downtown Halifax; three Express stores – First Lake in Lower Sackville, Amherst highway and Dunbrack in Halifax. As part of our small store development plan, smaller stores across the province will continue to be upgraded to the Select format to offer a consistent experience and reflect those communities in which we serve. During last fiscal year a number of these stores were updated; four stores, New Germany, Annapolis, Arichat and Springhill were renovated with new assortment added and 21 additional stores received assortment upgrades to reflect the Select store offering. Three new Select store builds commenced at the end of last fiscal year and are planned for completion early fiscal 2020.

Our approach to offering recreational cannabis is an extension of our brand which includes providing quality selection, informed employees, a bright and inviting store atmosphere and information on responsible consumption. We have taken a moderate approach to access. Eleven stores selected in populated and geographically diverse areas were renovated as store-in-store concepts and one stand-alone store on Clyde Street in downtown Halifax was opened. Purchasing cannabis online is also available. As this new market develops we will monitor operations in both our existing stores and our e-commerce channel to help us better understand how our customers interact with the new category; and help us assess future customer demand and response while taking a responsible approach to capital investments and expansion in our retail network.

In fiscal 2020, we will continue to invest in our retail network to ensure consistency in experience with the Banner Strategy. We will continue to review our retail formats and focus on ensuring our store environment stays on pace with changing category dynamics, including retail of cannabis and customer expectations, and delivers a forward thinking, seamless customer experience.

In addition to investing in our retail network we will also continue to make enhancements to our wholesale online ordering portal in fiscal 2020 which was successfully launched in the the previous fiscal year. The wholesale online portal allows our agency and licensee customers to place their orders online as opposed to phoning or faxing them in. We are one of the few beverage alcohol corporations in Canada that have a site dedicated to its agencies and licensees which is just another example of how our cusomters are the focus of everything we do.

Actions for 2019/2020:

We will:

- Continue to leverage insights across marketing, merchandising and network planning activities
- Deliver an integrated Customer Experience Strategy
- Continue implementation of and support for new customer programs
- Continue to build capacity of Retail Product Specialist's as leaders in their stores
- Continue to implement employee training and development programs as a key to providing a great work experience as well as delivering exceptional customer service. Learning will focus on core competencies to help our employees be even more successful in their work
- Continue to improve performance management efforts to support employees' success
- Implement network diversification to clarify customer offering and satisfy demand
- Evaluate the capacity and operations of our cannabis retail locations to identify opportunities for improving our customer service offering

Local Industry: To provide an engaged and collaborative business environment for local producers.

Supporting local industry is an important part of our mandate and one of our three key focus areas as identified in our Five-Year Strategic Plan. Nova Scotians' continue to support the "Buy Local" movement, and so do we. The local beverage alcohol industry continues to grow and the local cannabis industry will increase as producers become licensed by Health Canada to produce and sell cannabis. We work hard to do our part to contribute to the success of the industry. For the beverage alcohol industry, we provide support by selling and promoting the products our local producers bring to market, and by providing advice and support to help local products succeed. For the cannabis industry, we offer our retail expertise and provide customers access to, and education about local products.

As a business, we also look to support the agricultural sector, as well as private businesses, which all contribute to the economic well-being of Nova Scotia. These efforts support entrepreneurship, which is a key directive in the One Nova Scotia Report, helping operators of small and medium-sized enterprises in Nova Scotia be successful.

Actions for 2019/20:

We will:

- Continue to collaborate with local industry to support growth by directly utilizing our retail network and retail expertise to promote local products which will help grow local businesses
- Continue to assess and recommend regulation and policy changes which reduce red tape and make it easier for business owners to navigate regulations and programs to achieve business objectives. We will do this in large part by working with Industry Associations and the Province
- Ensure local product offering is clearly reflected in our retail stores and communications.
- Execute technology and business process solutions to provide efficiency and effectiveness in interactions with our various industry customers. We will also seek to create efficiencies through the introduction of more sustainable business practices, and by streamlining processes and communication efforts

Financial responsibility: To strategically maintain profitability, delivering \$1.16B in earnings over the five years, and demonstrating value to Nova Scotians by balancing financial objectives with other legislative mandates.

Protecting financial return to Nova Scotians is at the forefront of our decision making. Economic and demographic factors play a large role in our performance as well as the impacts of the emerging cannabis market. We continue to manage margin and expenses carefully, working through disciplined and sustainable management practices. We have a vested interest in supporting the Province's priorities including recommendations from the One Nova Scotia report.

Customer satisfaction is a driver for improved financial returns. We are constantly working to improve this through training and development for our employees, and by providing the right products in the right place and the right time in our retail network. We are committed to providing the best possible experience for our customers at all touchpoints. We are relentlessly focused on our customer and employee experience: they are equally important factors in our success.

Actions for 2019/20:

We will:

- Continue to review and refine processes, bringing efficiencies into the workplace
- Identify and implement opportunities to obtain additional efficiencies in our supply chain for beverage alcohol and cannabis
- In collaboration with the Province, finalize new NSLC Regulations pursuant to the Liquor Control Act.
- Continue to assess pricing and category dynamics to ensure profitability
- Continue to integrate Enterprise Risk Management within our business and continue implementation of the NSLC Privacy Management framework
- Make considerable investments to upgrade our technical infrastructure to ensure our systems remain current and supported, and to allow for new functionality to be developed
- Implement year five of our Network Plan in alignment with our Banner Strategy and integration of cannabis into our main store space
- Continue to invest in training and development for our employees
- Deliver \$243M in net income to the province
- Develop the new Strategic Plan

Performance Measures

In order to manage our operations effectively, we monitor a core set of metrics - key performance indicators (KPIs), which ensure we stay focused on delivering on our business priorities. Our corporate KPI's and stated targets in our Five-Year Strategic Plan are shown below and were established based on our beverage alcohol business. New targets which incorporate both beverage alcohol and cannabis will not be established until there is a better understanding of how our customers interact with the product, the demand for the product, and its impact on our beverage alcohol business. Fiscal 2020 budget Net Sales, Net Income and Budget Context charts, presented below incorporate both the beverage alcohol and cannabis categories.

Customer:

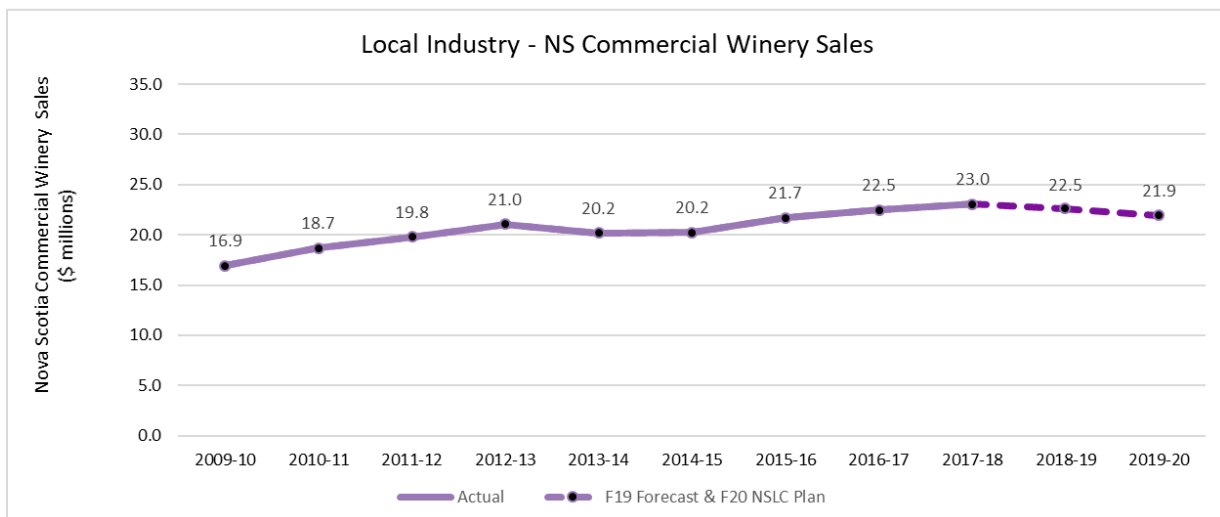
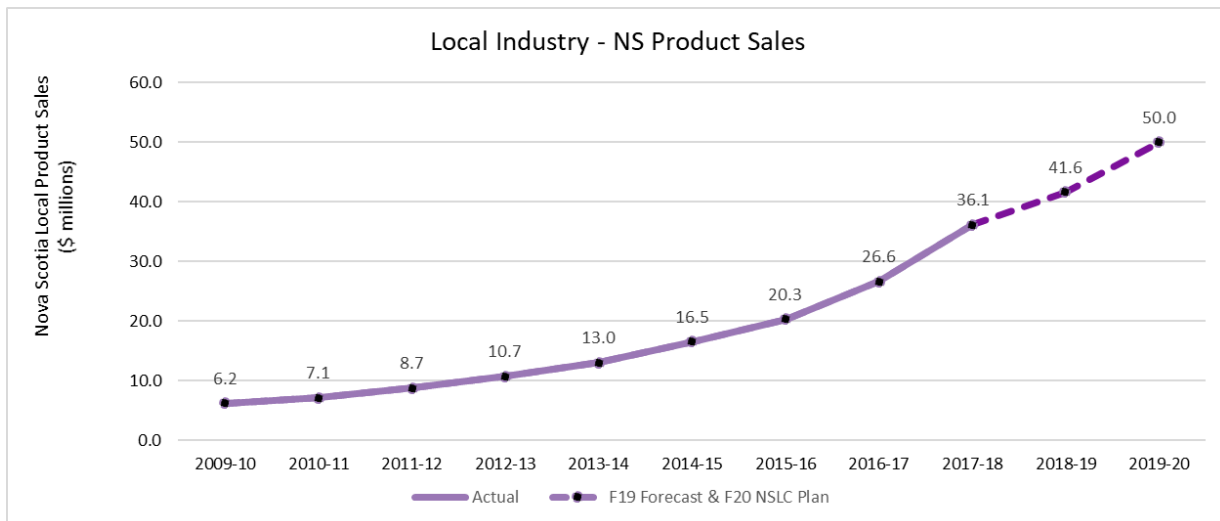
- Customer Satisfaction:

| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Ongoing Target |
|------|------|------|------|------|------|------|------|------|------|------|------|----------------|
| 83% | 85% | 89% | 87% | 86% | 88% | 88% | 88% | 90% | 90% | 89% | 89% | 90% |

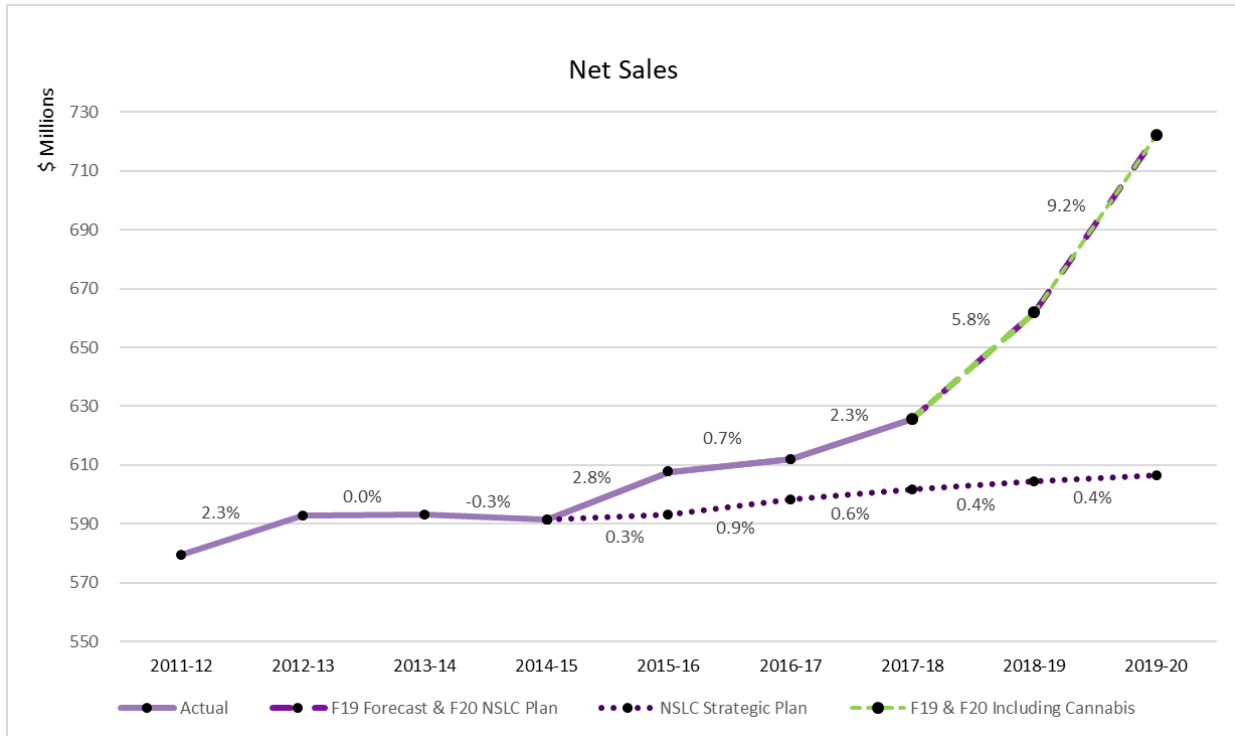
- Employee Engagement:

| 2003 | 2005 | 2008 | 2011 | 2013 | 2015 | 2017 | 2020 Target |
|------|------|------|------|------|------|------|-------------|
| 75.8 | 76.6 | 73.7 | 72.8 | 76.0 | 76.3 | 76.1 | 80.0 |

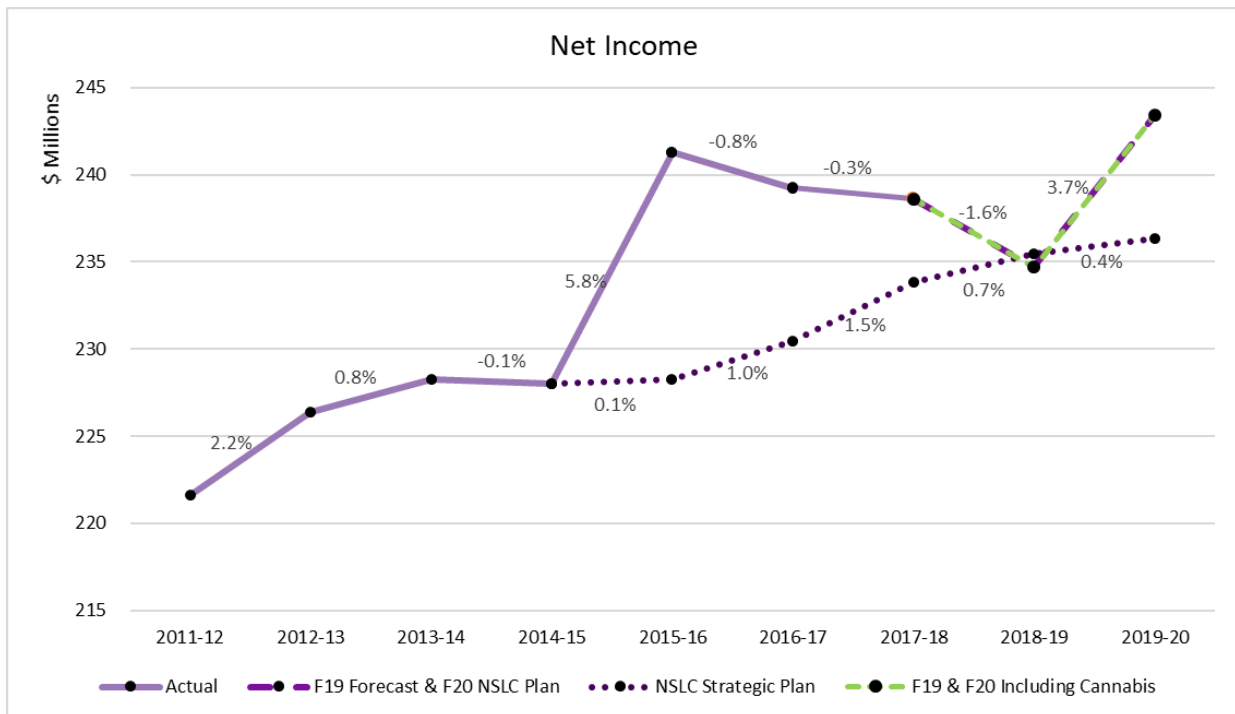
Local Industry (Beverage Alcohol):



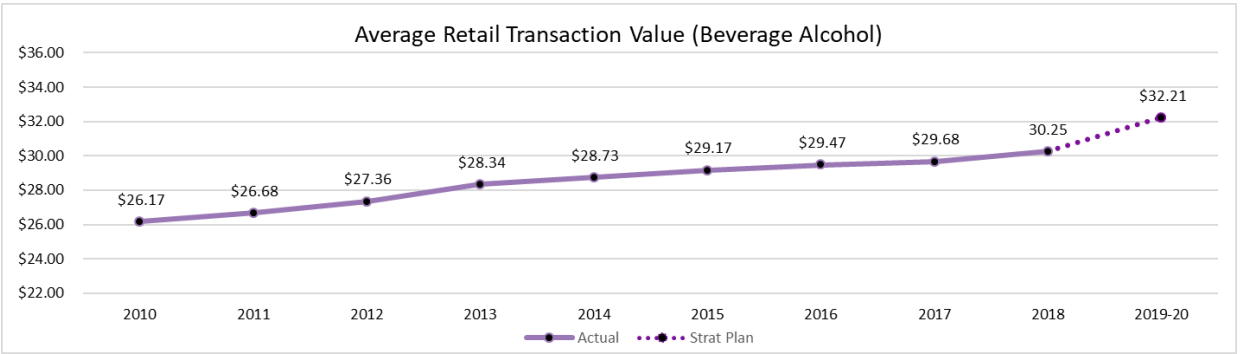
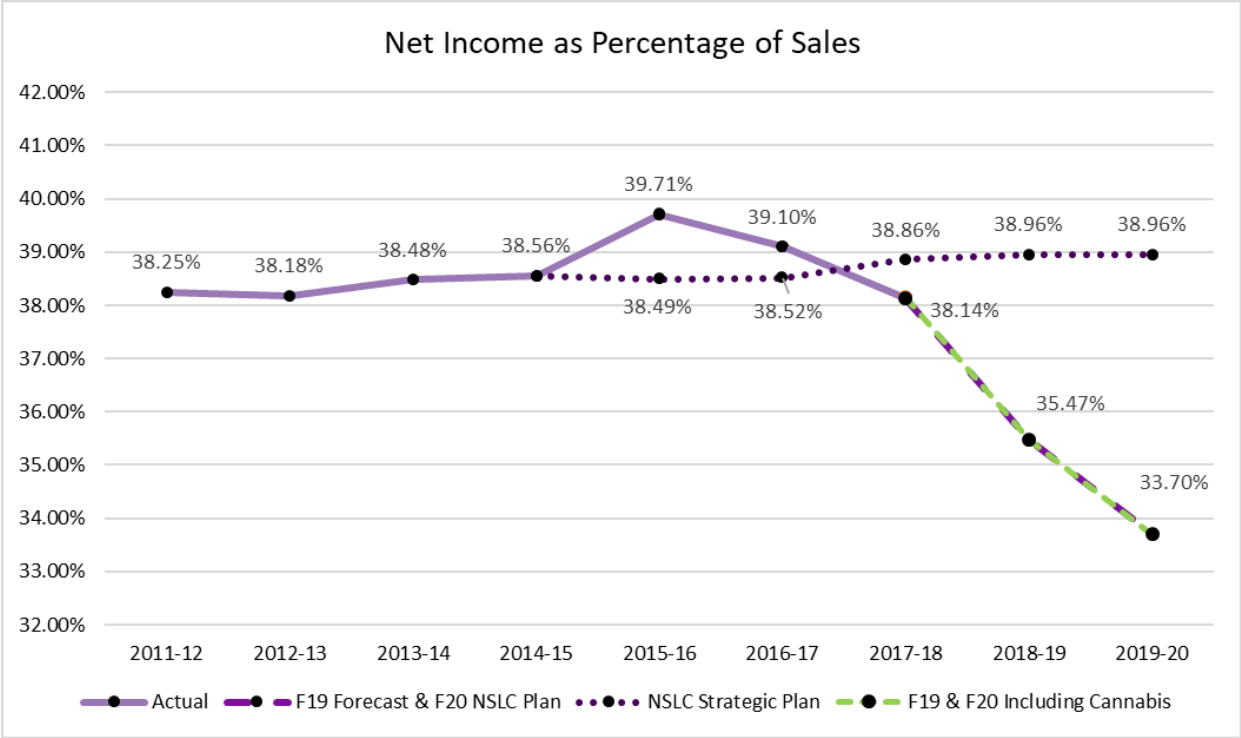
Financial:



Percentage indicates the percentage change in Net Sales from previous year.



Percentage indicates the percentage change in Net Income from previous year.



Budget Context:

| | Actual 2014-15 | Actual 2015-16 | Actual 2016-17 | Actual 2017-18 | Forecast 2018-19 | Sales (%) | Budget 2019-20 | Change (%) |
|---|--------------------|--------------------|--------------------|--------------------|---------------------|---------------|--------------------|---------------|
| | \$ | \$ | \$ | \$ | \$ | | \$ | |
| Spirits | 163,265,323 | 165,636,957 | 165,837,842 | 168,645,797 | 168,988,845 | | 171,568,010 | |
| Wine | 135,160,664 | 141,348,224 | 143,569,801 | 150,788,173 | 148,759,071 | | 152,106,641 | |
| Beer | 275,454,680 | 281,484,342 | 278,893,578 | 282,066,202 | 279,195,614 | | 281,951,148 | |
| Ready-to-drink | 28,040,206 | 30,557,393 | 34,962,836 | 37,700,822 | 44,946,851 | | 52,299,662 | |
| Non-liquor | 125,883 | 121,396 | 130,786 | 136,211 | 110,946 | | 110,946 | |
| Cannabis | 0 | 0 | 0 | 0 | 33,460,983 | | 78,514,500 | |
| Total Gross Sales | 602,046,757 | 619,148,313 | 623,394,843 | 639,337,205 | 675,462,310 | 102.1% | 736,550,907 | 9.0% |
| Less: Discounts | 10,746,737 | 11,563,725 | 11,549,801 | 13,675,313 | 13,745,927 | 2.1% | 14,262,837 | |
| Net Sales | 591,300,020 | 607,584,588 | 611,845,042 | 625,661,892 | 661,716,383 | 100.0% | 722,288,070 | |
| Cost of Sales | 263,507,143 | 269,611,009 | 274,909,681 | 284,136,988 | 311,449,658 | 47.1% | 354,795,150 | |
| Gross Profit | 327,792,876 | 337,973,579 | 336,935,361 | 341,524,904 | 350,266,725 | 52.9% | 367,492,920 | |
| Less: Store Operating Expenses | 61,281,852 | 61,231,677 | 61,334,942 | 63,555,752 | 69,930,035 | 10.6% | 71,964,829 | |
| Gross Operating Profit | 266,511,024 | 276,741,902 | 275,600,419 | 277,969,152 | 280,336,690 | 42.4% | 295,528,091 | |
| Less: Supply Chain | 6,922,635 | 7,048,509 | 7,058,180 | 7,216,564 | 9,566,466 | 1.4% | 9,966,046 | |
| Corporate Services | 24,860,627 | 24,697,017 | 24,530,382 | 23,877,917 | 28,451,104 | 4.3% | 29,631,774 | |
| Other Expenses | 2,694,644 | -40,017 | 1,729,630 | 4,945,050 | 2,830,032 | 0.4% | 2,002,600 | |
| Add: Other Revenue | 5,321,491 | 5,387,396 | 5,565,709 | 5,032,858 | 4,351,423 | 0.7% | 4,327,048 | |
| Total Expenses (excl. stores) | 29,156,416 | 26,318,113 | 27,752,483 | 31,006,673 | 36,496,179 | 5.5% | 37,273,372 | |
| Operating Income before Depreciation | 237,354,609 | 250,423,789 | 247,847,936 | 246,962,479 | 243,840,511 | 36.8% | 258,254,719 | |
| Less: Depreciation | 9,368,127 | 9,166,691 | 8,626,736 | 8,356,789 | 9,143,848 | 1.4% | 14,840,183 | |
| Income from Operations | 227,986,481 | 241,257,098 | 239,221,200 | 238,605,690 | 234,696,664 | 35.5% | 243,414,537 | 3.7% |
| Actuarial Loss (Gain) | 2,123,100 | (3,297,500) | 265,700 | 282,700 | 0 | 0.0% | 0 | |
| Comprehensive Income | 225,863,381 | 244,554,598 | 238,955,500 | 238,322,990 | 234,696,664 | 35.5% | 243,414,537 | 3.7% |
| Total Expenses (not depreciation) | 90,438,268 | 87,549,790 | 89,087,425 | 94,562,425 | 106,426,214 | 16.1% | 109,238,201 | |
| Total Expenses | 99,806,395 | 96,716,481 | 97,714,161 | 102,919,214 | 115,570,061 | 17.5% | 124,078,383 | |

| | | | | | | Change (%) | | Change (%) |
|-----------------------------|---------|---------|---------|---------|---------|---------------|---------|---------------|
| Volume (hectolitres) | | | | | | | | |
| Spirits | 48,872 | 49,240 | 48,171 | 49,360 | 49,141 | -0.4% | 49,783 | 1.3% |
| Wine | 93,250 | 97,056 | 100,147 | 100,354 | 97,075 | -3.3% | 98,424 | 1.4% |
| Beer | 594,402 | 599,552 | 569,377 | 586,831 | 580,167 | -1.1% | 579,230 | -0.2% |
| Ready-to-drink | 39,362 | 42,909 | 53,925 | 51,817 | 61,640 | 19.0% | 71,218 | 15.5% |
| Total | 775,886 | 788,756 | 771,619 | 788,362 | 788,023 | 0.0% | 798,655 | 1.3% |
| Volume (Kilograms) | | | | | | | | |
| Cannabis | - | - | - | - | 3,399 | 0.0% | 8,000 | 135.3% |