



Evolving to Enhance the Customer Experience



NSLC ANNUAL REPORT 2017-2018

President & CEO Message



Bret Mitchell

<https://vimeo.com/287336808>

I'm pleased to report we continued to experience strong growth in the 2017-2018 fiscal year as we completed the third year of our Five-Year Strategic Plan. Our focus on providing superb and responsible customer service has been crucial to the success of this plan. It was a busy year that included store renovations, successful festivals and ongoing support of local products. We also initiated the process to take on our new mandate to offer recreational cannabis when it becomes legal in October 2018.

I'm proud to report we have a lot to celebrate this year and our accomplishments were significant. Total sales were \$625.7 million, an increase of \$13.8 million over the previous fiscal year. This reflects the increased value of the average transaction as well as a small increase in the number of customer transactions. We also enjoyed significant growth in every local category, as customers continue to discover and appreciate the quality of products being made here in Nova Scotia.

We continued our strong investment and support of local industry in the 2017-2018 fiscal year. We have dedicated 27% of our shelf space to Nova Scotia craft beer, local products are extremely popular with Benjamin Bridge's Nova 7 again our top-selling 750 ml wine, and Blue Lobster Vodka consistently ranking in the Top 10 of all spirits we sell. We're sending a clear message to Nova Scotians that we support quality local products through our displays, financial commitment, special events and investment in employee product knowledge.

At the NSLC, we have been evolving to meet our customers' needs. A key part of that evolution is our retail network strategy which ensures we have the right store in the right place at the right time. We have neighbourhood Express stores designed for customer convenience and opened our first Select stores in smaller communities. These rural stores offer more than 500 top-selling products and have the flexibility to feature products that are made nearby. Our largest and highest volume stores are known as Signature stores, and we opened our first on Portland Street in Dartmouth.

We have further developed our responsible retailing program, transitioning from We ID to Keep the Good Going, the all-encompassing cornerstone of our corporate social responsibility mandate that you'll read more about in this report. We asked for ID 1.7 million times which resulted in refusal of service nearly 11,000 times. We continue to take a leadership role in corporate social responsibility. Our Keep It Social program promoting responsible consumption at universities was so successful it has been picked up by other liquor jurisdictions in the Atlantic region, a reflection of the confidence that has been placed in this program.

I'm particularly proud that the NSLC was the recipient of this year's Lieutenant Governor's Conservation Award. This award recognizes our sponsorship and promotion of the NSLC Adopt A Stream program, which is managed by the Nova Scotia Salmon Association. Volunteer community groups completed 183 projects through the Adopt A Stream program in 2017 that helped improve fish habitat and passage in rivers and streams across Nova Scotia.

Our employees care about their communities and continue to give back to Nova Scotia through fundraising events and donations. We raised just shy of \$186,000 for the IWK Health Center, \$21,000 for the United Way, and registered charities across the province received almost \$40,000 thanks to employees and customers who supported our Cash Can initiative.

The great team in our Distribution Centre shipped out 4.9 million cases of beverage alcohol last year and contributed to the success of special events such as the Festival of Wines and Festival of Whisky. These festivals have grown into sold-out events that thrill and excite thousands of customers thanks to the teamwork exhibited by event organizers, product managers and the Distribution Centre team.

This was a big year as we were appointed by our Shareholder to offer recreational cannabis when it becomes legal this year. We are excited about this new mandate, which recognizes our track record of success as an organization committed to the responsible sale of a controlled product.

This is a significant change to our business – the biggest we've seen since we opened our doors in 1930.

I was also pleased to introduce our new Board Chair this past year. George McLellan was appointed for a five-year term and brings with him extensive corporate and board experience as well as a working knowledge of the organization from his former role as Deputy Minister of Finance and Treasury Board. I would like to thank Sherry Porter for her dedication as Board Chair for the previous seven years. She was an invaluable resource to the organization, providing strong leadership through a period of tremendous growth.

Our success is thanks to a combination of the exceptional customer service provided by our people, strong relationships with our suppliers, vendors and business partners and strategic and fiscally responsible implementation of creative ideas.

Every day, I see employees across the organization doing their best to provide a responsible and enjoyable shopping experience for our customers. Thank you for your dedication and commitment. Nova Scotians place their trust in you, and you have proven again that you are worthy of that trust. Thank you also to our valued customers for your feedback and support as we work together for continued success. We look forward to the year ahead.



Bret Mitchell

Board Chair Message



George McLellan

The NSLC has a reputation as a committed corporate citizen that provides exceptional customer service, so I was honoured to be appointed Board Chair in September. I joined the NSLC just as the organization was about to undergo the biggest transition in its nearly 90-year history as it was appointed the sole retailer of recreational cannabis. I am eager to join my fellow Board members in providing strategic guidance and support through these exciting times.

This year, the NSLC team continued its focus on enhancing the shopping experience for our customers. The NSLC is doing that by renovating and building new stores, supporting local producers, building employee education and enhancing responsible retailing. This was all part of an effort to provide the best experience possible for our valued customers and a strong return to the Province.

More than half a million customers came through the doors of our stores last year, which amounted to 17 million transactions a year. More importantly, it meant millions of interactions with our customers – the focus of everything we do. The NSLC places a high priority on providing a superb and personalized shopping experience and that is evident in the fact more than 90% of customers gave us top marks for customer service this year.

This success reflects the talent, expertise and experience of the trusted teams we have in place across the NSLC. Thanks to our people, our Board and management team can provide great customer service, executed through the lens of responsible fiscal management.

We are midway through our Five-Year Strategic Plan and our growth and that of the local beverage alcohol industry shows our strategic focus is working. The NSLC is the top single source of provincial revenue for the Province of Nova Scotia after income taxes and GST with every penny of profits returned to our Shareholder to fund key public services. We delivered a strong return of \$238.6 million to the Province this year.

Our success this fiscal year was driven by several key factors including diligent oversight and control of expenses, investing millions to refresh and add to our store network, providing counsel and direct financial support to local producers, and offering our customers value in all product categories. I am pleased to report the average dollar value of each purchase grew by 1.9% and we experienced a \$13.8 million increase in sales because of these efforts.

The 2018-2019 Fiscal Year is shaping up to be a milestone year for the NSLC as we embrace our new mandate to offer cannabis for recreational use when it becomes legalized in October 2018. We will pursue this new mandate by doing what we do best – putting the customer first.

We have 1400 people across this province working hard every day to deliver on our mandate. I cannot say it enough: our people are the driving force behind our achievements. Thank you to each of you for your energy and for your contributions to the NSLC's success.

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

Our Executive Team



Our NSLC Executive Council are from left: Dave DiPersio, Senior VP and Chief Services Officer; Roddy Macdonald, Senior VP and Chief HR Officer; Heather MacDougall, Director – Policy and Public Affairs; Bret Mitchell, President and CEO; Caroline Duchesne, VP Finance; Tim Pellerin, Senior VP and Chief Operating Officer

Our Board of Directors



Our Board of Directors are from left: John MacKinnon, Cathie O’Toole, David Pace, Keith Dexter, George McLellan, Bret Mitchell, Paul Kent, Liz Cody, Byron Rafuse, Heather MacDougall, James Wilson. Missing from photo: Michele McKenzie

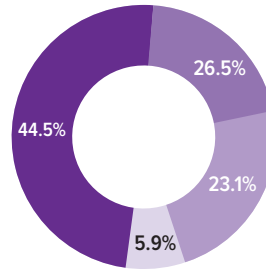
Our Financial Results

We experienced a good year with strong growth:

Our financial results for 2017-2018 reflect our commitment to providing superb customer service in a fiscally responsible manner. More detailed information can be found in our Audited Financial Statements.

Several factors contributed to the NSLC's success in FY18. We invested in the store network and employee education, hosted successful events, focused on providing exceptional customer service and supported the introduction of new products.

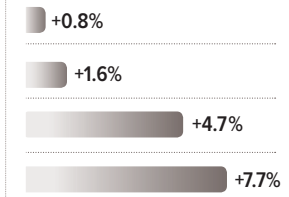
Business Highlights



TOTAL SALES (in millions)

Beer	\$278.1M
Spirits	\$165.7M
Wine	\$144.5M
Ready To Drink	\$37.2M

% INCREASE



Local Product Sales

\$9.5 million | **+37.7%** ↑

Local sales increased \$9.5 million in FY18 compared to FY17, an increase of 37.7%.

Craft Beer

+49.3%

\$13 million

The Craft Beer industry continues to experience significant growth with the NSLC listing products from 20 local breweries as of year-end, up from three breweries just five years ago.

Wine

+13.7%

\$11.3 million

Nova Scotians continue to discover quality local wines made with locally grown grapes with one out of every three wine collectors in Nova Scotia purchasing a bottle of local wine. Many products from Nova Scotia's 23 wineries continue to earn accolades and recognition here at home and abroad.

Spirits

+70.5%

\$6 million

Nova Scotia Distillers had yet another very good year with strong growth in sales through NSLC stores. The good news is spreading as new customers discover these excellent products and share their experiences with others. Awareness of this burgeoning sector is growing as local distillers introduce innovative new products into the market.

NS Ready To Drink Products

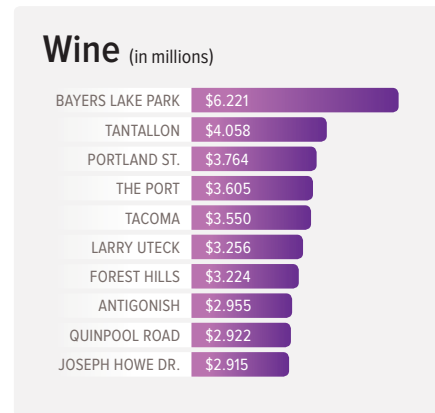
+45.0%

\$4.3 million

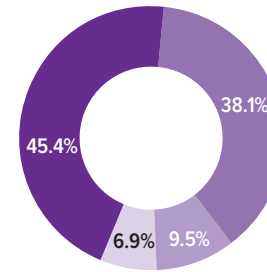
Nova Scotians continue to delight in discovering locally made ciders, which drove strong growth in the local Ready To Drink category. Local ciders account for 11.5% of all Ready To Drink sales and 42.2% of all ciders purchased through the NSLC.

Our Financial Results (continued)

Top Ten Store Sales by Category



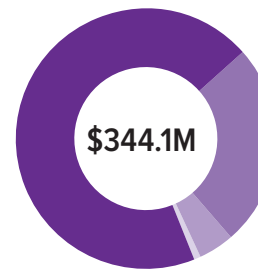
Our Spending



(in millions)

Cost of Product	\$284.1M
Returned to Province	\$238.6M
Salaries and Benefits	\$59.7M
Operating Costs	\$43.2M
TOTAL SALES	\$625.7M

Our Financial Return



(in millions)

Government of Nova Scotia (Profit)	\$238.6M
Government of Canada (HST, Excise, Customs)	\$87.3M
Government of Nova Scotia (Refundable Container Deposits)	\$15.9M
Municipalities (Tax)	\$2.3M

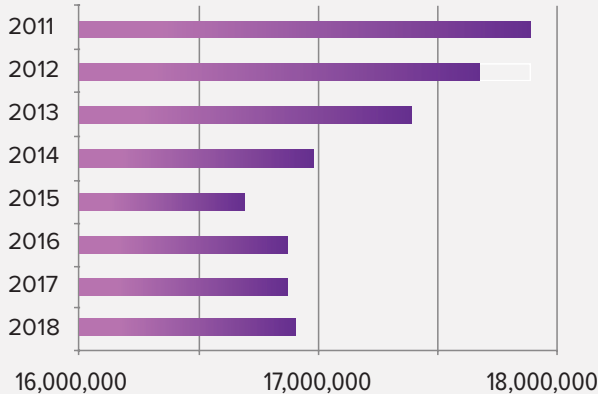
Our Financial Results (continued)

Trends

Demand

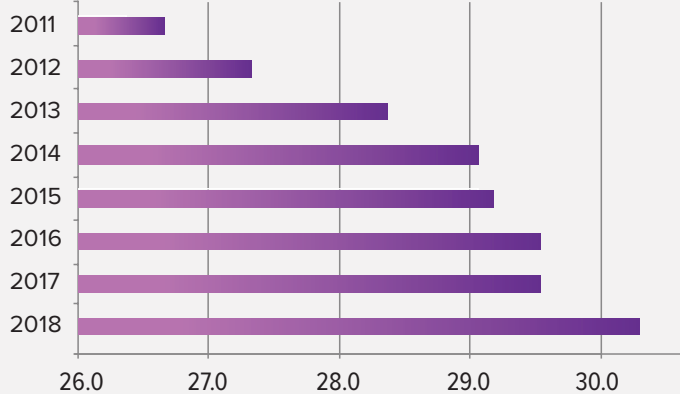
**2017/18 Retail Transactions:
16,896,409**

Transactions



**2017/18 Dollar Value
for Average Basket: \$30.25**

Average Basket



Our Financial Results (continued)

Trends

Per Capita Consumption*

	BEER	SPIRITS	WINE	RTD
Nova Scotia	-1.0%	-0.0%	1.6%	14.4%
Canada	0.7%	3.2%	3.1%	8.2%

Consumption has remained consistent with the exception of the Ready To Drink category, comprised primarily of ciders, which has seen strong growth.

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

Responsibility



<https://vimeo.com/288580720>

At the NSLC, we're committed to striking a balance by offering excellent customer service while promoting a culture of moderation. It's our mandate and a core responsibility every NSLC employee takes seriously, and it's the right thing to do. We all want to do our part to make Nova Scotia an even better place to live and work. Each and every one of us is entrusted with ensuring the responsible sale of beverage alcohol and taking every measure to help keep it out of the hands of minors.

Corporate social responsibility (CSR) informs every business decision we make, every interaction we have with our customers and the ways in which we support our employees and the greater community.

This sense of responsibility and commitment extends throughout our operations, as we actively promote responsible retailing and consumption, work hard to reduce our impact on the environment and support the communities where we live and work.

CABBIOKE

We take our responsibility to promote responsible consumption well beyond our legislated mandate through initiatives such as Cabbioke. This trademark purple, blue and yellow van has been surprising and delighting Nova Scotians with its karaoke monitors, microphones and disco balls



since 2014. It makes special appearances at festivals and events, hockey games and parades in every corner of our Province, encouraging all Nova Scotians to end their night on a great note and get home safely. We work with partner cab companies throughout the province to offer people who agree to sing along with us a \$10 voucher for their next cab ride home. It's a fun and interactive way to celebrate responsible choices.

Last year, our vibrant van travelled to 16 community events across the province and participated in 13 parades. Our customers joined us in singing thousands of songs and we awarded almost 2,000 taxi vouchers, working to change behaviours and keep Nova Scotians safe. We're inspired by the tremendous support of our employees throughout the year – 149 of our people volunteered with Cabbioke parades this past Christmas alone, from long-time employees to new hires and co-op students.

KEEP THE GOOD GOING

We were pleased to introduce a new CSR initiative in 2017 called Keep the Good Going. It is the first phase of a multi-year platform designed to evolve our operating procedures and employee learning to reflect responsible retailing standards. Keep the Good Going builds upon the achievements we've made in the CSR area. These include best-in-class service options as we adjust our approach to be more inclusive, reflect changes in our customer base and provide a respectful and safe shopping environment.

Responsibility

“We developed a variety of new training videos from everyday scenarios that were based on consultation with several store teams,” said Beth Martin, Manager, CSR. “It was designed by our employees, for our employees, and helps all of us understand why responsible retailing is such an important part of the value we add to the communities we serve.”



It's important that our employees understand we do everything we can to provide a safe and responsible shopping experience. Part of that means asking for valid photo ID of any customer appearing to be under 30 years old and employing various discreet techniques to verify the customer's identity. In the 2017-2018 fiscal year, we asked for ID 1.7 million times and refused sale nearly 11,000 times as we continue to work to reduce the risk of beverage alcohol falling into the wrong hands.

It's against the law to serve customers who appear to be under the influence of beverage alcohol. In any case where intoxication is suspected, we will refuse service. We are committed to the societal shift towards a culture of moderation and demonstrate this through a focus on responsible retailing and making Nova Scotians aware of what responsible consumption means.

KEEP IT SOCIAL

The NSLC partnered with a number of Nova Scotia universities to develop a program to help educate university students about the harms of high-risk drinking by raising awareness and the conversation about this important issue. The collaborative initiative is rooted in reality and delivered by students. It doesn't vilify students for drinking, but rather paints a clear picture of what social consumption looks like. The program uses a wide variety of promotional materials such



as posters, digital screens, mirror clings and coasters, reminding students it's always best to Keep It Social.

In our ongoing effort to support post-secondary students in having a positive experience, we partnered with St. Francis Xavier University in Antigonish for a test pilot to promote Keep It Social. Material was posted throughout Orientation Week on campus and during the first home opener football game. NSLC employees diligently asked for IDs and St. FX students held mocktail tastings in our stores. The town, RCMP and university monitored celebrations both off and on-campus in this truly collaborative effort to reduce high-risk drinking behaviours. Based on the success at St. FX, we're looking at opportunities to expand this pilot program to other campuses.

The Keep It Social program is so successful it has been adopted by universities in New Brunswick, Prince Edward Island and Newfoundland & Labrador. We're currently in talks with campus officials in Quebec and Ontario as well.

MADD CANADA

Connecting with Nova Scotia's youth about the importance of responsible consumption is critical. It's vital that we speak with our young people in their language, encouraging them to closely examine their values and decision-making skills. We're very proud to work with MADD Canada by sponsoring its School Assembly Program for students in grades 7 through 12. More than 50,000 Nova Scotia students receive this powerful educational session during the school year at no cost thanks to our partnership. The program includes a video with a powerful dramatization that includes victims of impaired driving speaking about the tragic consequences of drivers' decisions.



Community



<https://vimeo.com/288580593>

Each day, we have more than 1,400 employees across the province working hard to contribute to the communities where we live and work. Beyond the passion we have for providing excellent customer service and ensuring that products are sold responsibly, we also make a conscious effort to work collaboratively to make meaningful and lasting contributions to our province.

We are all proudly Nova Scotian, working for a corporation that's been owned and operated by Nova Scotians since we opened our doors in 1930. All our profits are returned to the Province of Nova Scotia making us the single greatest source of provincial revenue for Government after income taxes and GST. Our employees' commitment to Nova Scotia extends well beyond the workplace as our dedicated employees proudly participate in and give back to our communities. From building homes for Habitat for Humanity to supporting sports programs for youth and providing annual support to the IWK Health Centre, we take commitments to our communities seriously.

NSLC ADOPT A STREAM

We were proud to be named the recipient of the Lieutenant Governor's Award for Conservation in recognition of our sponsorship and promotion of our Adopt A Stream program in partnership with the Nova Scotia Salmon Association (NSSA).

The NSSA manages the NSLC

Adopt A Stream program, providing technical advice, training and project funding. "Our environment is precious and we believe it is important to do our part to help keep Nova Scotia's rivers and streams clean," said Bret Mitchell, President and CEO. "We were proud to accept this award and recognize our program is a success because of the thousands of Nova Scotians who volunteer their time with their local conservation groups."

In collaboration with 35 local volunteer groups, the program has restored almost 2.2 million square meters of degraded stream habitat. Projects in 2017 were carried out to restore habitat and fish passage and improve water quality across the province, from the Annapolis River and its many tributaries to the Sysco Dam fish ladder in Sydney. Our work there made it possible for Gaspereau to return to the 140-square kilometer watershed for the first time in more than 100 years. More than 200,000 trees have been planted streamside, teams have assessed 553 culverts and 4,522 volunteers working under NSLC Adopt A Stream have undertaken 85 remediation activities. Thanks to dedicated vendor partners and supportive customers, the NSLC contributed \$100,000 last year, raised through the sale of participating products in our stores during the month of April. This brings our total financial commitment to date to more than \$800,000 over eight years.



Community

IWK

Our employees decided in 1987 to champion the IWK Health Centre as their charity of choice. This year, we used a number of creative initiatives – from online auctions to throwing a pie in your boss’s face – to raise \$186,000. This brings our ongoing support for more than three decades to well over \$1.6 million. Our employees are thrilled to make a positive and lasting difference to the lives of mothers, children and their families by choosing to support this amazing healthcare facility.



HABITAT FOR HUMANITY

Employees were eager to make a positive difference for appreciative Nova Scotia families in 2017 by participating in Habitat for Humanity builds in Oxford and Spryfield. Shanna Carpenter, Promotions Coordinator with our Customer Strategy Team, joined almost 30 NSLC volunteers helping to build a home for a young family in Spryfield. “I was very excited to participate in this build because it’s in the community where I grew up. My high school is right next door. Helping out people in my own community was extremely rewarding,” she said. Shanna helped to insulate the home and tack up vapour barrier. “I learned so much and this experience made me feel so grateful for being part of a team that really wants to do good things for our community and the people in it. I can’t wait to do it again.”



UNITED WAY

As part of the NSLC’s Give Back strategy, we also support the United Way, which helps thousands of people and communities throughout Nova Scotia by funding a number of non-profit organizations such as shelters, family resource centres and Boys and Girls Clubs. Employees participate through a payroll deduction program and put on fundraising events such as bake sales. These efforts yielded over \$21,000 in 2017.

SUPPORTING YOUTH

We had so much interest in participating in Sport Nova Scotia’s Corporate Games that we entered two teams for our inaugural year – For the WINE and Sip Sip Hooray. Events included riding Segways through an obstacle course, racing adult tricycles around pylons and building leaning towers of pizza boxes. It was a fun and energetic way for our employees to bond while drawing attention and raising money to help youth participate in sports.



Our Cash Can program continues to be a great success. It offers registered provincial charities the opportunity to conduct fundraising activities in our retail stores. Customers deposit spare change in donation boxes at every cash lane, raising almost \$40,000 in 2017-2018, supporting such organizations as Feed Nova Scotia and Habitat for Humanity.

SUSTAINABILITY

We strive to be a responsible corporate citizen and a good steward of our environment. We work toward making our operations as sustainable as possible, including setting and achieving ambitious goals to divert waste from our operations.

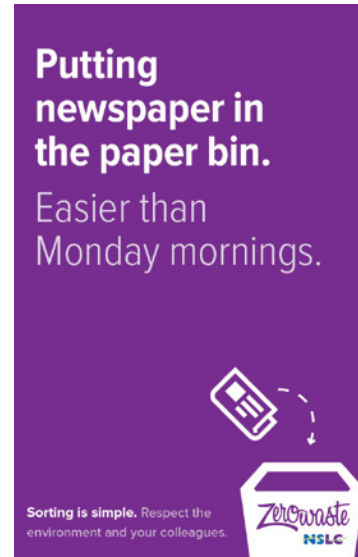
Community

ENVIRONMENTAL IMPACT

We have an important role to play in environmental stewardship and that begins at home, by minimizing our carbon footprint in our Head Office, Distribution Centre and stores. “We’re striving to be an environmentally responsible business and to help make Nova Scotia a better place to live,” said Meg Stewart, Corporate Social Responsibility Specialist.

We have a Zero Waste policy with the goal of diverting 95 per cent of solid waste from Nova Scotia landfills. We do that through waste reduction, recycling and our liquid waste program. To ensure beverage alcohol waste does not endanger our local water supply, a contracted service provider collects all liquid waste from our stores and Distribution Centre and distills it to remove ethyl alcohol. The remaining liquid is safely released into a man-made water facility.

We refreshed our Zero Waste platform in 2017, emphasizing the importance of sorting waste into the proper waste streams. To make separating garbage, compost and recycling easier, the team placed new sorting stations throughout Head Office and the Distribution Centre with signs tailored to teams that work in each area – such as ‘Sorting waste. Easier than a password reset.’ Lunch and learn sessions were held at our Head Office and Distribution Centre including all three shifts of our Distribution Centre. “We’re talking about what may seem like small things but by taking just a couple of seconds a day and making sure

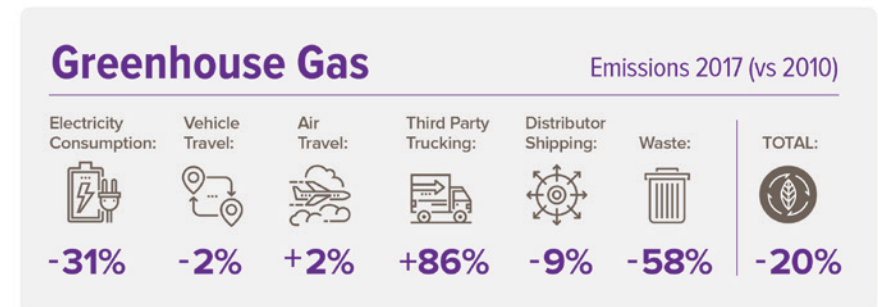


we are disposing of our waste correctly, collectively it makes a big difference,” said Peter MacDonald, Operations Manager – Supply Chain and Procurement.

We hold ourselves accountable to our policy with annual waste audits to ensure our actions reflect our words. We’re proud to say we have reduced waste 58% since 2010. Bringing re-useable coffee cups and lunch containers to work are simple actions that drastically cut down on how much waste is generated in our offices and stores each day and making these changes reflect our corporate values.

Safe work practises are paramount at the NSLC but when you’re dealing with liquids, accidents can happen – bottles get broken and cans get damaged. We have a liquid waste program to ensure this waste doesn’t endanger the local water supply. All liquid waste is collected then handled securely by a contracted service provider that ensures it is disposed of properly. We also have energy-efficient lighting in our stores, are installing low-flow plumbing fixtures over time and are committed to completing renovations and new builds to LEED Silver standards. This ensures energy efficiency, sustainable development and indoor environmental quality are standard store features.

Our business is one that’s heavily dependent on transportation yet looking across all aspects of our business, we’re pleased to say we have reduced Greenhouse Gas Emissions by 20% since 2010.



Recognition

CELEBRATING OUR STARS



David Anderson

Whether he's coming up with creative ways to improve processes at our top performing store in Tantallon or supporting his community through his musical talents, David Anderson embraces the NSLC's KORE Values.

"Dave is always looking for ways to improve operations and has a real eye for efficiency," said store manager Glenn Devenney. He said Dave's work ethic and commitment to the NSLC and the community are exceptional and make him a worthy recipient of the CEO Shining STAR Award.

Dave was one of four recipients of the NSLC's CEO Shining Star Award for his significant contributions to the corporation's success. At work,

he supports his colleagues with advice and guidance and provides comic relief with his quick wit. Off hours, Dave can be found playing the congas and acoustic guitar and taking the mic at local venues with his band FOG – Five Old Guys. He also shares his love for eclectic music on his weekly community radio show and has used his musical talent to raise hundreds of dollars for the IWK Health Centre. His efforts supported the store's overall contribution to the hospital for women, children and youth last year of \$3600.

"Having Dave on the team improves engagement in the store. He also has a real following with customers and they look forward to his 'staff picks,'" Glenn said.

Like her fellow CEO Shining Star Award winners, **Ashley Delaney** demonstrates a sustained commitment to excellence in everything she does. "She's a brilliant team player and collaborator who lives our KORE Values everyday and regularly goes above and beyond to help increase employee engagement," said Laura MacLachlan, Director of Customer Strategy, Marketing and Promotions.

As the NSLC's Graphic Design Specialist, Ashley listens to the perspective of others and integrates their feedback while constantly keeping in mind what is best for our customers. She wants to ensure we are doing the right things for the right reasons. Ashley came up with the fabulous store designs under our Banner Strategy, including the features that make our Select, Signature and Express stores unique. She is a true steward of the NSLC brand.



Ashley Delaney

Recognition

CELEBRATING OUR STARS

Rayell Swan is passionate about the products we sell and is deeply committed to our customers. She invests her time in learning new and different areas of the business and readily shares her knowledge with customers and fellow team members at The Port where she has quickly worked her way up to the position of Assistant Manager. In just a few years with the NSLC, Rayell has become a Sommelier and a French Wine specialist and most recently competed in Portugal for the coveted Master of Port.



Rayell Swan

Rayell's colleagues affectionately call her 'The Swan' but not because of her last name. "It's because of the way she moves through the store," said Bret Mitchell, who said the award has particular meaning for him since it carries his title. Rayell is known for being graceful when things are going well, but when there is a little something that needs attention – The Swan will give a little peck and keep on moving.

"It's true," Rayell laughed. "Every detail is so important to me and it's crucial that we address an issue immediately so our customers get the exceptional experience they expect when they walk through the doors of The Port."

Derek Atwater is a quiet ambassador for the NSLC who goes about his work efficiently and with purpose. His clear surprise at being named an NSLC CEO Shining STAR recipient reflects his unassuming nature. As Manager of Retail Audit Services, Derek is known as a man of integrity, trusted for strategic advice and sound counsel. "He always looks for



Derek Atwater

ways to say yes and develop new solutions to old problems," said Paul Rapp, VP of Customer Experience. "Derek takes the time to educate our employees as he consistently works hard to prevent issues from arising."

Reflecting the solid foundation on which the NSLC's KORE Values are built, Derek is truly committed to helping people, both in the workplace and in his community. He has been a respected and valued high school hockey and baseball coach for years.

Employees across our business work hard every day to provide a world of beverage enjoyment to customers throughout Nova Scotia. We're thrilled to recognize and celebrate the valuable contributions our people make as individuals and in teams as they live our values of being Knowledgeable, Optimistic, Responsible and Engaged employees. They take pride in providing excellent customer service, supporting local industry and providing a strong financial return to the Province to support programs and services for Nova Scotians.

We received a record number of peer nominations for our STAR Awards last year as our people celebrated the contributions and accomplishments of their co-workers. We were also delighted to recognize the outstanding performance of teams of employees with our Region of the Year winner and four Store of the Year award winners.

Recognition

CELEBRATING OUR STARS

The South Shore & Valley was honoured as our **Region of the Year** for the 2017-2018 fiscal year. “Our people achieved outstanding results while working together to exceed all targets, engage with our customers and sell beverage alcohol responsibly. This is a tremendous and well-deserved recognition of their accomplishments,” said Paul Rapp, Vice President of Customer Service.

Our Fall River store was named **Retail Shining STAR Store of the Year**. Store manager Shelley Rogers said the award honours the exemplary and outstanding contribution employees made to the NSLC’s Five-Year Strategic Plan. It also recognizes the superior service employees make as they engage with customers, answer their questions and recommend products they may enjoy. And it reflects the values employees live every day in their communities. “I am so proud of our people and all they do every day to live the NSLC’s KORE Values,” Shelley said.



Our **Top Performing Stores** award applauds stores according to size and for their excellence in meeting a variety of measurements while consistently demonstrating the values upon which the NSLC is built. Criteria for the selection process include WeID mystery shop scores, fundraising to support community initiatives and customer satisfaction scores. Our Top Performing Stores were Tantallon, New Minas, Liverpool and Ingonish.

Our peer-to-peer nominated Star Awards celebrate individuals and teams who excel in the areas of Collaboration, Customer Service and Leadership. They commend employees for their excellence in sharing their knowledge with one another, their optimistic outlook and pride in providing superb customer service. It also honours their respectful and responsible

actions and engagement with co-workers, customers and community. We were delighted to present this deserving recognition to Glen Aker, Shannon Arsenault, Cheryl Ann Bennett, Heather Bennett, Zohar Braunstein, Angela Brownell, Nathan Carmichael, Ken Cusack, Kelli Dahl, Glenn Devenney, Albert Dickson, Jacqueline Ellis, Kelly Giberson, Brandy Hartley, Rocky Hebb, Rick Herritt, Micheala Hewitt, Olaf Hollak, Tammy Isenor, Janita MacIver, Curtis MacKenzie, Shauna MacLean, Marie MacLeod, Adam Martin, Jackie McCullough, Christy Pippy, Jackie Ramsdale, Greg White. Several teams also won Star Awards for their collaborative efforts: The New Glasgow and Lower Sackville stores and the Corporate Security, myNSLCWholesale Project and Payroll teams.

The **Corporate Social Responsibility Award** went to Kelli Dahl, a manager at our Kearney Lake store. Kelli is a huge champion of our CSR initiatives. Not only does she tell our in-store customers about such programs as NSLC Adopt A Stream but she participates in numerous events throughout the year, living her commitment to CSR. She’s always one of the first to sign up to help others – taking calls at the IWK Telethon, donating to the United Way, running around the Canada Games Centre to support youth sports through Sport Nova Scotia, busting out tunes with the Cabbioke Crew to promote getting home safely and putting her carpentry skills to work for Habitat for Humanity.

Our people truly are the strength of the NSLC – the foundation that allows us to be responsible and responsive as our employees invest their talents and time to help make Nova Scotia an even better place to live and work.



<https://vimeo.com/287337068>

Enterprise

BANNER STRATEGY



NSLC Signature Store

Like the post office and local coffee shop, an NSLC store is often a cornerstone of the community. Our New Germany store, for example, has always been known as a place to catch up with your neighbour and chat with friendly and knowledgeable employees. Thanks to a beautiful renovation it now offers a truly modern and well-rounded experience.

“It’s a wonderful thing for the community,” said Manager Nicole Holland. The renovations had been a topic of conversation in the Lunenburg County village for weeks. She said it’s a vibrant and exciting place with its enhanced product assortment, a walk-in beer cooler, chilled single serve and Ready To Drink section, new shelving and a complete update to the corporate colour scheme. “Customers are commenting on how grateful they are that the NSLC invested this amount of time and effort into their community,” Nicole said.

We have a diverse retail network. Some stores are large and offer a full selection of products and services and others have a smaller footprint and product offering designed for customer convenience. We’re excited to be investing in our stores to provide a consistent experience for customers across the province while reflecting the communities we serve.

As part of this effort, the signs outside our stores will make it clear to customers what they can expect to see when they get inside. New Germany has the proud distinction of being the first of more than 30 of our small stores to become a Select store. Customers can be confident their shopping experience will be consistent in all Select stores across the province.

New Germany now carries more than 500 top-selling products and has the flexibility to feature about 15% of that assortment with products that are made nearby. We were extremely excited to update our Springhill and Annapolis locations to Select stores last year as well.

These investments are part of our broader commitment to update our stores across the Province. It’s an exciting initiative that will make a big difference for our customers, our employees and the many communities where we live and work.

Fifteen of our largest and highest volume stores will eventually be branded as Signature stores. We began development of the first Signature store on Portland Street in Dartmouth in the 2017-2018 fiscal year and we’re thrilled with how it looks. We have re-designed the store to create a better customer experience, added a Port section with premium wine and spirits tasting units, Limited Finds and a Cool Zone. We also have a Product Specialist to help customers explore the product assortment.



Enterprise

BANNER STRATEGY

A number of our stores, such as Eastern Passage, Lunenburg, Wolfville and Liverpool, now have Cool Zones, refrigerated rooms where customers can shop from the beer and Ready To Drink categories. These stores carry the sign most familiar to our customers – Beer Wine & Spirits. Previously, Ready To Drink products and single-serve beer were unrefrigerated on regular store shelves. Customers could only get six-packs and cases of beer in a refrigerated unit and they had to open a glass door and reach in to get the product. Now customers can stroll about an entire cold area.



We also changed the shelving strategy in the Cool Zone this year to consolidate local products, putting them front and center, and we dedicated 27% of shelf space to Nova Scotia craft beer.

Our standard Beer Wine & Spirits logo will remain on about half of the stores in our network. “These stores are across the province. As we further define the look and feel for these stores, customers can expect a robust product assortment, chilled products, local products, and in the larger stores, a Product Specialist to offer assistance in finding just what you’re looking for,” said Andrew Stenhouse, Manager, Network Development.

As part of our store investments, we continued the rollout of neighbourhood Express stores designed especially for customer convenience by opening stores in Scotia Square and Park Lane malls in Halifax, in Burnside and on First Lake Drive in Lower Sackville. These stores offer a limited selection of our top-selling 300 brands and complement our nearby, full-size stores.

The format for each Signature store, Select store, Express and Beer Wine & Spirits store will be the same so that over time our customers will know what to expect from a store from the logo out front. This will help create a positive experience and strengthen our brand equity.

“We have undertaken a huge effort that’s really exciting to roll out. Implementing this approach involved our Customer Strategy team, design specialists, and especially our Customer Experience team at store level, who have lived through the renovations and stayed excited all the while. It’s rewarding to receive feedback from customers who are just as excited by the fresh look of their stores and enhanced assortment as we are to design and build them,” Andrew said.

With the Banner Strategy, we now have 106 stores in cities, towns and villages across the province. In each of them, our employees are ready and excited to welcome the next customer through their doors, providing them with the ultimate in customer service.



Recreational Cannabis

PAVING THE WAY



Dave DiPersio

With over 25 years of retail experience on his resume, Dave DiPersio embraced the groundbreaking opportunity to prepare the NSLC to offer recreational cannabis to Nova Scotians.

“As Canadians we all knew legalization of cannabis was coming and the NSLC may have some role to play,” said Dave, Senior VP & Chief Services Officer. “But when the Province announced in December the NSLC would be the sole retailer for recreational cannabis it was the most significant change to our business since we opened our doors in the 1930s.”

Teams of employees across the corporation immediately began to develop plans with stringent deadlines. They welcomed the new challenge, paving the way for the NSLC to be ready to offer recreational cannabis as soon as it became legal by federal legislation.

Dave was excited the corporation would be the global pioneer of a new approach, offering a cannabis section within 11 of our beverage alcohol stores across the province plus a stand-alone store on Clyde Street in Halifax. The entire organization supported developing an execution plan to responsibly offer recreational cannabis – a move that put the NSLC on the path to filling the most new jobs it had seen since the 1990s.

“We have an amazing team of people here who know what they’re doing and applied their knowledge and skills to another product category,” Dave said. “We delivered on bold deadlines and by the end of the fiscal year we were well on our journey.”

“

...when the Province announced in December the NSLC would be the sole retailer for recreational cannabis it was the most significant change to our business since we opened our doors in the 1930s.

— Dave DiPersio

Recreational Cannabis

PAVING THE WAY

Our employees ensured our approach to offer recreational cannabis will be an extension of our brand – that it will look and feel like us. That includes providing quality selection, informed employees, a bright and inviting store atmosphere and information on responsible consumption.



The NSLC had the retail infrastructure in place and decided to offer recreational cannabis with a category management methodology – like we do with beverage alcohol. We also leveraged the corporate social responsibility programs we had in place to support this new category. These programs focus on providing a safe, inviting and engaging retail experience and promote responsible use and consumption.

Employees drew on every aspect of our KORE values as they supported the responsible offering of this new product category. Our foundational values of Knowledge, Optimism, Responsibility, Respectfulness and Engagement were the lens through which each decision was made.

The corporation issued a Request for Information in January to get a better understanding of the cannabis market in terms of suppliers and the volume of product they would be able to provide to the corporation. Teams conducted due diligence on potential suppliers as others got to work developing a platform for online cannabis sales. The result will be a website that closely resembles myNSLC.com, ensuring customers have a similar experience whether they're on the beverage alcohol or new cannabis website. And we have committed that these online orders will be shipped directly to the customer's home.

Our Corporate Social Responsibility team met with industry leaders, licensed producers, other liquor jurisdictions, MADD Canada and with student and administrative representatives from local universities. We all worked collaboratively to weave cannabis into existing responsible retailing and consumption programs.

We selected stores in populated and geographically diverse areas that could be renovated on time and we issued an Expression of Interest to secure our initial supply of cannabis for recreational use. Before the end of FY18, we had a fresh, modern and inviting store design in place. It is consistent with our brand yet ensures the inside of the store is concealed from the view of customers, as required by federal regulations.

Significant progress was also made in the development of a new supply chain to support cannabis, consumer education and employee education programs, as well as a Service Excellence model to support the in-store and e-commerce experience.

The work accomplished was nothing less than astonishing. "I'm so proud of the teams across the business for pulling together to make this happen," Dave said. "I'm excited to see what the coming year brings as all this hard work comes together through the successful offering of recreational cannabis."

Distribution Centre

SUPERIOR CUSTOMER SERVICE



<https://vimeo.com/287336887>

When Peter MacDonald walked through the doors of the NSLC's Distribution Centre (DC) he knew this was the place he wanted to work. He had a wealth of experience with retail warehousing by the time he joined the NSLC in 2017 as Operations Manager of the Distribution Centre.

"This is an organization that has a large distribution system throughout the province and is connected to its customers, taking pride in delivering personalized customer service," Peter said.

He is excited to be working with our team in the DC who work hard day and night to deliver on our customer promise. "We have to be sure we meet their expectations every time. We must be accurate in filling orders and ensuring the product arrives in excellent condition. The people working in our DC are committed to that goal," Peter said.

The Distribution Centre is a vital part of our business, handling 4,200 different products and accounting for a \$26.2 million inventory. It services a \$625.7 million network that includes 106 retail stores, 60 agency stores, four private wine and specialty stores. It also provides products to more than 2000 bars and restaurants. This means at any given time the DC has almost half a million cases of beverage alcohol on its shelves.

"It's critically important that we do our job right to ensure the overall success of retail operations and to satisfy customer demand. We work hard to exceed our customers' expectations. We want them to find the product they're looking for when they want it," Peter said.

The DC shipped out almost five million cases of beverage alcohol to retail and wholesale customers last fiscal year. Some of those products were for special events hosted by the NSLC, from mixology events at The Port to the Festival of Wines and the Festival of Whisky.

The 22nd annual Festival of Wines was Nova Scotia's premier wine event last year showcasing more than 350 wines from 12 countries. "The Festival of Wines is an opportunity for Nova Scotians to learn about some wonderful wines made here in Nova Scotia and around the world," said NSLC Chief Operating Officer Tim Pellerin.

Its success depends on the Distribution Centre properly stocking and restocking a pop-up store set up on site. The DC was also crucial to ensuring the ever-popular Grand Tastings at the Cunard Centre in Halifax went smoothly. "The festival's success reflected the fantastic effort put forth by teams across the NSLC," Peter said.

Distribution Centre

SUPERIOR CUSTOMER SERVICE



“

It's critically important that we do our job right to ensure the overall success of retail operations and to satisfy customer demand.

— Peter MacDonald

In addition to their regular job of ensuring stores, bars and restaurants were properly stocked, our employees in the DC handled a whopping 72,255 bottles of wine – that included unloading each of those bottles for the temporary store set up in the Cunard Centre, replenishing inventory then repackaging unsold bottles at the end of the event. The DC also shipped out individual orders to our customers across the Province.

“The DC team did a remarkable job handling this operation – the cases were stickered with bin tab labels, checked to ensure the vintages and descriptions were correct and the barcodes confirmed. On top of all that, they placed the stickers on the 12,660 bottles of award-winning wines,” Peter said.

Most of those wines arrived on containers in the Port of Halifax from countries such as Spain, Italy, New Zealand and Argentina. Many of the whiskies and scotches from Scotland, Japan and Ireland also arrived on container ships before making their way via the DC to the extremely popular Festival of Whisky. The team ensured more than 170 selections from five countries along with whisky from Nova Scotia's three producers were available at the festival in March.

The DC team takes extreme care with every pallet they unload from the delivery trucks that back into the bays of the warehouse in Halifax. They use forklifts to expertly place these cases of whisky and beverage alcohol from every corner of the world on shelves up to eight metres off the ground.

When a customer walks into one of our stores and wants that bottle, the team uses the same care to ensure it gets safely and securely into the back of another delivery truck because they know its ultimate destination is your table.

Customers

SERVICE EXCELLENCE



<https://vimeo.com/287336995>

At the NSLC, it's all about our customers. Between our stores and our wholesale customers, the NSLC does 17 million transactions a year. That represents a lot of customers and customer interactions and it's important that we treat every single person with respect and integrity. Our customers are the focus of everything we do. We strive to engage in meaningful and knowledgeable conversations so that they find the product that suits them and walk out of our stores having learned something new.

Every month, we ask Nova Scotians what they think of us through telephone surveys and we use these insights to inform all aspects of our business – from employee training to product offerings. These reviews tell us our people provide a warm, welcoming and informative experience for our customers.

We had a 90 per cent satisfaction rate at the end of our fiscal year with fully half of the people we spoke with giving us a perfect 10 out of 10.

"We're very proud of these results," said Stephen Ford, Insights Manager. Customers commend our employees on their friendliness and product knowledge as well as the welcoming look and feel of our stores. We focus on continuous training and employee development because our customers place such high value on well-informed, helpful employees.

Jackie McCullough started out as a casual employee working on cash in one of our Bedford stores. A natural with our customers, she has studied hard to learn about

Customers

SERVICE EXCELLENCE

our products. Her knowledge has expanded so much that customers look for her when they visit our Fall River store, value her recommendations and provide her with feedback that she takes to heart. Jackie works hard and has a desire to do well. At the NSLC, she saw an opportunity to build a career while still being able to interact with our customers, because that's the part of her job she loves most.

Customers are at the forefront of every discussion that informs our business decisions at the NSLC. Listen to Jackie tell us what providing exceptional customer service means to her:



<https://vimeo.com/287336948>

Financial Statements

Nova Scotia Liquor Corporation
March 31, 2018

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Independent auditor's report

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

We have audited the accompanying financial statements of the Nova Scotia Liquor Corporation, which comprise the balance sheet as at March 31, 2018 and the statements of earnings, comprehensive earnings, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Nova Scotia Liquor Corporation as at March 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Halifax, Canada
June 15, 2018

Chartered Professional Accountants
Licensed Public Accountants

Statements of earnings

Year ended March 31 (in thousands)	2018	2017
Sales (note 12)	\$ 625,662	\$ 611,845
Cost of sales	284,137	274,910
Gross margin	341,525	336,935
Operating expenses (note 13)	106,528	101,805
Other income	(4,577)	(5,035)
Earnings from operations	239,574	240,165
Post employment benefit interest cost (note 9)	968	944
Earnings for the year	\$ 238,606	\$ 239,221

See accompanying notes to the financial statements.

Statements of comprehensive earnings

Year ended March 31 (in thousands)	2018	2017
Earnings for the year	\$ 238,606	\$ 239,221
Other comprehensive earnings		
Items that will not be reclassified subsequently to earnings:		
Actuarial gains (losses) on defined benefit plans (note 9)	(283)	(266)
Comprehensive earnings for the year	\$ 238,323	\$ 238,955

See accompanying notes to the financial statements.

Balance sheets

March 31 (in thousands)	2018	2017
Assets		
Current		
Cash	\$ 14,102	\$ 5,492
Receivables	5,342	3,321
Inventories	52,250	54,100
Prepays	2,222	2,272
	73,916	65,185
Intangibles (note 6)	3,282	3,020
Property and equipment (note 7)	39,781	40,637
	\$ 116,979	\$ 108,842
Liabilities		
Current		
Payables and accruals	\$ 46,338	\$ 42,778
Current portion of employee future benefit obligations (note 9)	2,119	1,103
	48,457	43,881
Employee future benefit obligations (note 9)	28,953	26,215
	77,410	70,096
Equity (page 5)	39,569	38,746
	\$ 116,979	\$ 108,842

Lease commitments (note 8) Subsequent event (note 15)

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, 2017	\$ 936	\$ 37,810	\$ 38,746
Remittances to Minister of Finance	-	(237,500)	(237,500)
Earnings for the year	-	238,606	238,606
Other comprehensive loss	(283)	-	(283)
Comprehensive earnings for the year	(283)	238,606	238,323
Balance at March 31, 2018	\$ 653	\$ 38,916	\$ 39,569
Balance at April 1, 2016	\$ 1,202	\$ 45,589	\$ 46,791
Remittances to Minister of Finance	-	(247,000)	(247,000)
Earnings for the year	-	239,221	239,221
Other comprehensive loss	(266)	-	(266)
Comprehensive earnings for the year	(266)	239,221	238,955
Balance at March 31, 2017	\$ 936	\$ 37,810	\$ 38,746

See accompanying notes to the financial statements.

Statements of cash flows

Year ended March 31 (in thousands)	2018	2017
Operating		
Earnings for the year	\$ 238,606	\$ 239,221
Depreciation and amortization	8,357	8,627
(Gains) losses on disposal of property and equipment	(16)	49
Post employment service costs	3,730	1,103
Post employment benefit interest cost	968	944
Actuarial losses on other employment benefit	788	181
Defined benefit plans benefits paid	(2,015)	(1,655)
	250,418	248,470
Change in non-cash operating working capital (note 10)	3,439	(4,673)
	253,857	243,797
Financing		
Remittances to Minister of Finance	(237,500)	(247,000)
Investing		
Purchase of intangibles	(1,336)	(897)
Purchase of property and equipment	(6,427)	(4,594)
Proceeds on sale of property and equipment	16	19
	(7,747)	(5,472)
Net change in cash	8,610	(8,675)
Cash, beginning of year	5,492	14,167
Cash, end of year	\$ 14,102	\$ 5,492

See accompanying notes to the financial statements.

1. Nature of operations

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

2. Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements for the year ended March 31, 2018 (including comparatives) were approved and authorized for issue by the Board of Directors on June 15, 2018.

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 9. The financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand.

3. Summary of significant accounting policies

Use of estimates and judgments

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

Significant management judgment

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

Cash generating units

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

Impairment

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

Capitalization of internally developed software

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

3. Summary of significant accounting policies (continued)

Estimation uncertainty

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

Impairment

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

Useful lives of property and equipment and intangibles

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

Inventories

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

Defined benefit obligations (DBO)

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

Revenue

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

Customer loyalty programs

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

Vendor rebates

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

3. Summary of significant accounting policies (continued)

Cash

Cash comprises cash on hand and demand deposits.

Inventories

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

Intangible assets

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

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

Enterprise resource planning	5 years
Other intangible assets	3 years

Property and equipment

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

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

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

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

Any gains or losses arising on disposals of property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount) 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 assets to determine whether there is an indication of an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the assets belong. The recoverable amount of any asset (or a cash-generating unit) is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of the asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in earnings. There are no impairment losses as at March 31, 2018 and 2017.

3. Summary of significant accounting policies (continued)

Leased assets

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

Lease incentives

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

Employee benefits

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

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

Defined benefit plans and other long term employee benefits

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

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

Financial instruments

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

3. Summary of significant accounting policies (continued)

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

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

The Corporation has classified its financial instruments as follows:

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

Financial instruments risk

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

Foreign currency translation

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

Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. A provision is a liability of uncertain timing or amount. There are no provisions as at March 31, 2018 and 2017.

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

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

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

IFRS 9 Financial Instruments (IFRS 9)

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

The new standard IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Management has assessed this new standard and has determined that there is no significant impact to the financial statements.

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

IFRS 16 Leases (IFRS 16)

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

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

IAS 19 Employee Benefits (amendment) (IAS 19)

The IASB issued amendments to IAS 19 Employee Benefits. The amendment clarifies the effect of a plan amendment, curtailment and settlement on the defined benefit plan. In addition, if a plan amendment, curtailment or settlement occurs, it is mandatory under the amended standard that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. This amendment is to be applied prospectively.

The amendment to IAS 19 is effective for annual periods beginning on or after January 1, 2019. Management is assessing the impact of this amendment on the financial statements.

5. Accounting standards and policies adopted during fiscal 2018

IFRS 15 Revenue from Contracts with Customers

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

Management completed their assessment and has determined that there is no significant impact to the Corporation. The Corporation adopted IFRS 15 in its financial statements for the annual period beginning on April 1, 2017. The Corporation has elected to apply the modified retrospective method on transition, which means that comparative periods have not been restated. On transition, cumulative impacts related to adoption are required to be recognized in opening equity; however no adjustments were required for the Corporation.

6. Intangibles

	Enterprise Resource Planning (ERP)	Other Intangibles	Assets under Development	Total
Cost				
At March 31, 2017	\$ 28,069	\$ 3,942	\$ 82	\$ 32,093
Additions	-	2	1,334	1,336
Transfers	-	70	(70)	-
Disposals	-	-	-	-
At March 31, 2018	28,069	4,014	1,346	33,429
Amortization				
At March 31, 2017	(26,011)	(3,062)		(29,073)
Amortization expense	(700)	(374)	-	(1,074)
Disposals	-	-	-	-
At March 31, 2018	(26,711)	(3,436)	-	(30,147)
Carrying amounts				
At March 31, 2017	\$ 2,058	\$ 880	\$ 82	\$ 3,020
At March 31, 2018	\$ 1,358	\$ 578	\$ 1,346	\$ 3,282

Amortization of intangibles is reported as an operating expense in the statement of earnings.

7. Property and equipment

	Furniture & Fixtures	Other Equipment	Small Computers	Software & Hardware	Land	Buildings	Capital & Leasehold Improvements	Assets under Construction (AUC or WIP)	Total
Cost									
At March 31, 2017	\$ 20,604	\$ 18,026	\$ 7,221	\$ 983	\$ 690	\$ 41,614	\$ 39,979	\$ 3,118	\$ 132,235
Additions	603	544	166	73	-	803	1,995	2,243	6,427
Transfers	274	422	767	-	-	332	863	(2,658)	-
Disposals	-	(42)	(233)	-	-	-	-	-	(275)
At March 31, 2018	21,481	18,950	7,921	1,056	690	42,749	42,837	2,703	138,387
Depreciation									
At March 31, 2017	(14,841)	(13,014)	(5,245)	(603)	-	(31,034)	(26,861)	-	(91,598)
Depreciation expense	(1,242)	(1,028)	(937)	(228)	-	(1,153)	(2,695)	-	(7,283)
Disposals	-	42	233	-	-	-	-	-	275
At March 31, 2018	(16,083)	(14,000)	(5,949)	(831)	-	(32,187)	(29,556)	-	(98,606)
Carrying amounts									
At March 31, 2017	\$ 5,763	\$ 5,012	\$ 1,976	\$ 380	\$ 690	\$ 10,580	\$ 13,118	\$ 3,118	\$ 40,637
At March 31, 2018	\$ 5,398	\$ 4,950	\$ 1,972	\$ 225	\$ 690	\$ 10,562	\$ 13,281	\$ 2,703	\$ 39,781

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

8. Lease commitments

Operating leases as a lessee

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

Minimum lease payments due			
Within 1 year	1 to 5 years	After 5 years	Total
\$7,477	\$31,447	\$16,883	\$55,807

9. Employee remuneration

Retirement benefit plan

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

The total expense recognized in the statement of earnings is \$3,511 (2017 - \$3,377) 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 is based on the number of years of service and the employee's compensation during the final year of employment. Under the management of the Corporation's parent, the Province of Nova Scotia, the PSA plan has been closed effective April 1, 2015, 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 January 11, 2018 an administrative directive was issued by the Public Service Commissioner providing non-union employees with a one-time option to elect an immediate pay-out of their Service Award entitlement based on service at December 31, 2016 and salary at March 31, 2018. 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.

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

Morneau Shepell 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, 2018. 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					
	March 31, 2018			March 31, 2017		
	Retiree health	Service award	Sick leave	Retiree health	Service award	Sick leave
Discount rate(s)	3.6%	3.25%	3.25%	3.8%	3.0%	3.1%
Expected rate(s) of salary increase	n/a	2.5%	2.5%	n/a	2.5%	2.5%
Ultimate weighted average health care trend rate	4.5%	n/a	n/a	4.3%	n/a	n/a

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

	Valuation at							
	March 31, 2018				March 31, 2017			
	Retiree health	Service award	Sick leave	Total	Retiree health	Service award	Sick leave	Total
Current service cost	\$ 447	\$ 2,802	\$ 481	\$ 3,730	\$ 430	\$ 214	\$ 459	\$ 1,103
Interest on obligation	655	117	196	968	620	128	196	944
Actuarial (gains) losses	374	(91)	788	1,071	210	56	181	447
	\$ 1,476	\$ 2,828	\$ 1,465	\$ 5,769	\$ 1,260	\$ 398	\$ 836	\$ 2,494

9. Employee remuneration (continued)

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

	Valuation at	
	March 31, 2018	March 31, 2017
Present value of unfunded defined benefit obligation		
Current portion	\$ 2,119	\$ 1,103
Non-current portion	28,953	26,215
Total	\$ 31,072	\$ 27,318

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

	2018	2017
Benefit obligations, beginning of year	\$ 27,318	\$26,479
Current service cost	3,730	1,103
Interest cost	968	944
Actuarial losses	1,071	447
Benefits paid	(2,015)	(1,655)
Benefit obligations, end of year	\$ 31,072	\$ 27,318

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

	2018	2017
Effect on aggregate of current service cost and interest cost		
One percentage point increase	\$ 399	\$ 259
One percentage point decrease	(409)	(193)
Effect on accrued benefit obligation		
One percentage point increase	3,561	3,285
One percentage point decrease	(2,752)	(2,532)

10. Change in non-cash operating working capital

	2018	2017
Receivables	\$ (2,021)	\$ (755)
Inventories	1,850	(2,092)
Prepays	50	(572)
Payables and accruals	3,560	(1,254)
	\$ 3,439	\$ (4,673)

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 with the exception of 3313086 Nova Scotia Limited. Transactions with 3313086 Nova Scotia Limited, controlled by the Province of Nova Scotia, were entered into during the course of the fiscal year and included as a receivable (\$1,356) in the statements. 3310386 Nova Scotia Limited was established on December 20, 2017 to facilitate planning activities related to the implementation of cannabis distribution and retailing within the Province of Nova Scotia. Upon passing of the Nova Scotia Cannabis Control Act, that company was dissolved and, under the provisions of the Act, specific responsibilities and authorities related to cannabis distribution and retailing assigned to the Corporation.

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:

	2018	2017
Short term benefits	\$ 1,417	\$ 1,614
Post-employment benefits	114	122
Other long term benefits	11	19
Total compensation	\$ 1,542	\$ 1,755

12. Revenue

2018						
Channel	Spirits	Wine	Beer	Ready to Drink	Non-Liquor	Total
Retail	\$ 143,016	\$ 121,305	\$ 216,033	\$ 31,030	\$ 102	\$ 511,486
Licensee	8,654	7,339	34,744	2,368	20	53,125
Agency	12,707	5,216	26,175	3,469	9	47,576
Private Wine and Specialty Stores	1,113	10,058	1,128	293	-	12,592
Other Wholesale	237	586	46	14	-	883
Total	\$ 165,727	\$ 144,504	\$ 278,126	\$ 37,174	\$ 131	\$ 625,662

2017						
Channel	Spirits	Wine	Beer	Ready to Drink	Non-Liquor	Total
Retail	\$ 140,972	\$ 116,812	\$ 214,036	\$ 28,948	\$ 106	\$ 500,874
Licensee	8,942	7,273	35,342	2,195	16	53,768
Agency	12,307	4,864	25,657	3,139	8	45,975
Private Wine and Specialty Stores	738	8,640	925	229	-	10,532
Other Wholesale	193	458	34	11	-	696
Total	\$ 163,152	\$ 138,047	\$ 275,994	\$ 34,522	\$ 130	\$ 611,845

13. Operating expenses

	2018	2017
Salaries and employee benefits	\$ 59,715	\$ 58,550
Occupancy	8,433	7,545
Depreciation and amortization	8,357	8,627
Service contracts and licenses	5,202	4,826
Debit, credit and gift card fees	4,767	4,931
Post employment current service costs (note 9)	3,730	1,103
Utilities	2,647	2,716
Maintenance and repairs	2,278	1,697
Freight	2,058	2,044
Marketing and merchandising	2,016	2,057
Supplies and sundry	1,813	1,710
Travel, training and meetings	983	984
Actuarial loss on other employment benefit (note 9)	788	181
Corporate/social responsibility	783	804
Guard services	585	569
Waste diversion	535	523
Legal, audit and consulting	324	1,518
Market surveys	254	268
Insurance	249	248
Other	243	135
Memberships and subscriptions	205	221
Industry support	150	100
Publications	126	158
Telephone	112	145
Postage and courier	93	64
Bank charges and armoured car	82	81
	\$ 106,528	\$ 101,805

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. Subsequent event

On April 17, 2018 the Nova Scotia Cannabis Control Act was passed in the Nova Scotia Legislature. This legislation provides the framework for how the legalization of cannabis will come into effect upon proclamation of the federal legislation. The Act gives the Corporation the authority to prepare for legalization, including the ability to wholesale, store, distribute and sell cannabis, while complying with federal requirements and promoting responsible consumption. Upon passing of the Nova Scotia Cannabis Control Act, 3313086 Nova Scotia Limited was dissolved and all its right, title and interest in any real or personal property was vested and all its obligations and liabilities became those of the Corporation.

Nova Scotia Liquor Corporation

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