Annual Report 2015-2016

# Building Our Business Responsibly

NSLC

## RETURN ON INVESTMENT

We provided a dividend of $241 million to the Province of Nova Scotia, up from $228 million in 2015.

## COMMITMENT TO LOCAL

Local product sales grew in all categories. Wine sales were up by 8.7%, craft beer was up 25.5%, spirits grew by 177.3% and ready-to-drink products grew by 44.4%. NS commercial wine sales were up 7.3% and NS commercial beer sales were stable at $160.5 million.

## 1.7 million

### WE ID CHALLENGES

We challenged 1.7 million customers for valid proof of age, up from 1.6 million last year, and we refused service on 13,000 occasions, or less than 1% of the time.

# President & CEO Message

As we reflect on our achievements at the end of the first year of our 2015-2020 Strategic Plan, I am pleased to report that our approach is reaping positive results. Our unrelenting focus on our customers is reflected in our satisfaction rating, which reached an all-time high of 92% in 2015-2016. Our sales have increased by 2.8% percent; transactions are up by 1.1%, and overall volume sold is up by 1.7%. We delivered on our mandate to support local industry and achieved impressive sales increases in all of our local categories. Local spirit sales grew by 177.3%; local wine grew by 8.7%, and craft beer sales grew by 25.5%. The local industry grew significantly in 2015-2016, and by the end of the year our province was benefiting from the commercial activities of 12 distillers, 21 wineries and 34 microbreweries.

We became a more efficient company in 2015-2016. We introduced improvements to our technology that have reduced our reliance on paper-based transactions, while at the same time improving customer experience. All licensee discounts are now applied immediately upon purchase, and we've made order confirmation and invoicing more efficient. We also completed a project in our Distribution Centre that has increased our product listing capacity without a major capital investment to expand our facility, and we improved employee safety. These initiatives, along with our constant efforts to control our costs resulted in significant savings.

Every year the NSLC delivers a dividend to our shareholder - the Province of Nova Scotia – to help fund the programs and services that matter most to Nova Scotians. For 2015-2016 that dividend is $241 million, an increase of $13 million over the previous year.

Responsible retailing is a key focus of our business. We are accountable for making sure beverage alcohol isn't sold to Nova Scotians under 19 years of age, and we've made great strides on this front. In 2015-2016 we asked for ID 1.7 million times and refused the sale over 13,000 times. These results tell an important story: Our We ID program has taken hold and is serving as a strong deterrent. We continued to monitor our environmental footprint too. Through the year we incorporated energy efficient features into our operations and continued to divert waste from landfills.

As always, I am humbled by the generosity of our employees and our customers, whose efforts throughout the year raised $255,000 for the IWK Health Center, $100,000 to restore and preserve wildlife habitat through the Adopt-A-Stream program, $50,000 for Symphony Nova Scotia, $22,000 for the United Way and over $31,000 for registered charities across the province. It is truly an honour to serve alongside so many talented and dedicated employees who make a positive difference within the communities where they live and work, in a province where helping those in need is an important part of who we are.

I am very proud of our accomplishments in 2015-2016 and encourage you to read more about our results at the links provided in this report. In closing, I would like to extend my sincere appreciation to the employees whose dedication and team work have made these results possible; to the customers who have supported our business and generously provided their feedback; and to our partners and stakeholders, whose collaboration and support for our ideas and initiatives is helping us achieve continued success.

Bret Mitchell

# Board Chair Message

The NSLC has always been at the leading edge of continuous improvement in the retail beverage alcohol business in Canada. We were the first to introduce in-store tasting; the first to produce a consumer guide to our products; and the first to introduce agency stores in local businesses. More firsts and innovative programs have followed since then, thanks to the valuable input of our customers, the pioneering spirit of our people, and the strong support and guidance of our Board of Directors.

I'm pleased to report that we continued that proud tradition of innovation in 2015-2016. Over the course of the year we worked hard to identify and capitalize on opportunities to enhance our technology in ways that are helping us to be a more efficient company. We also introduced new programs that have reduced red tape and fostered significant growth within the local industry. We challenged ourselves to provide excellent service and achieved customer service scores that are the highest in our history. Most importantly, we advanced our business responsibly, by making sure beverage alcohol doesn't get into the wrong hands, by taking steps to improve operations in a manner that reduces impact on the environment, and by hosting campaigns to raise funds that support our communities.

As Board Chair, I was pleased that in January our President and CEO, Bret Mitchell, agreed to serve another five-year term. Under Bret's expert leadership, we are well positioned to achieve the goals we established within our five-year strategic plan. I was also pleased to welcome Cathy O'Toole and Keith Dexter to our Board of Directors. As leaders within their respective industries, I'm confident they will make a positive and lasting contribution to the success of our company. I would also like to extend thanks and appreciation to John Carter, who retired from our Board this year after five years of dedicated service.

It has also been my pleasure over the past year to work with our partners and colleagues within the Department of Finance and across the Government of Nova Scotia. Our strong partnership is helping to move the NSLC forward, and this in turn is creating new and exciting opportunities for local industry. Together we're listening, and finding ways to make our industry more vibrant for customers and vendors alike.

I would also like to take this opportunity to express my sincere appreciation for the more than 1400 NSLC employees across the province whose hard work and dedication make our company great. They are the NSLC: Their commitment to excellent service, and their willingness to help people in need in our communities sets an inspiring and positive example for those we serve, and for those who serve alongside us.

I hope you will take a few moments to peruse our 2015-2016 achievements, as presented in this our very first fully digital Annual Report. As you will read within our stories, we have had another strong year. Challenges, such as shifting retail trends and a sluggish economy affected our business. But we love a challenge, and it's clear that our business plans and strategies are building equity despite the current business climate. We've had success, but we also know that we have work yet to do, as we continue to build a successful, responsible NSLC that all Nova Scotians can take pride in.

Thank you for your confidence and patronage in 2015-2016.

Sherry Porter

# Our Executive Team

*Our NSLC Executive team members are (from left), Hoyt Graham, VP Sustainable Development and Facilities, Roddy Macdonald, VP Human Resources, Bret Mitchell, President & CEO, Marsha Fanning, Director of Strategy, Planning and Risk Management, Heather MacDougall, Director of Policy and Public Affairs, Brad Doell, VP Supply Chain and Procurement, Tim Pellerin, SVP and Chief Operating Officer, and Caroline Duchesne, Director of Finance. Missing from this photo is Danny MacMillan, our SVP and Chief Services Officer.*

# Our Board of Directors

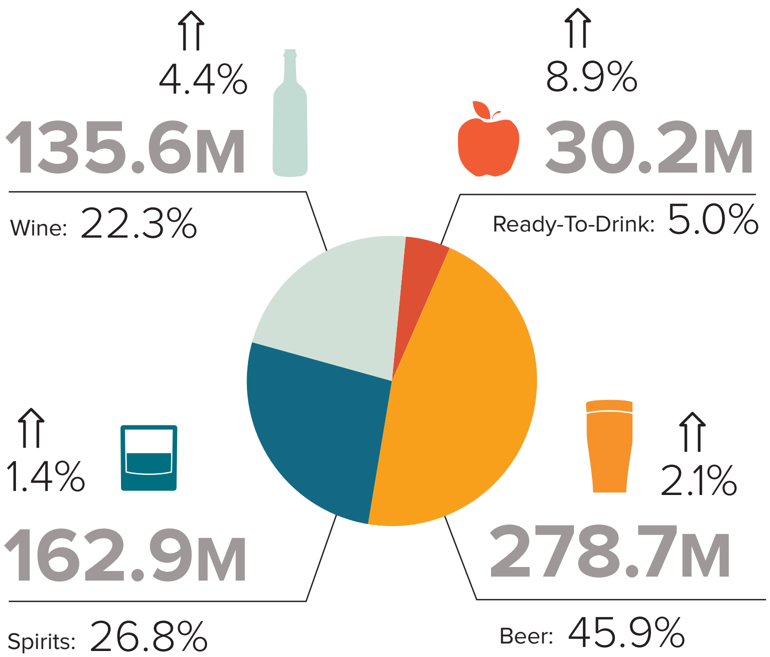
*Our Board of Directors are, from left (front row): Sherry Porter, John MacKinnon , Keith Dexter, Paul Kent, and Bret Mitchell. In the back row from left are: Michele McKenzie, Caroline Duchesne, James Wilson, Cathie O'Toole, Allan Rowe, and Heather MacDougall. Missing from the photo is Kim Brooks.*

# Our Financial Results

***A very good year:*** Our financial results for 2015-2016 reflect our commitment to conduct our business in a fiscally responsible manner. More detailed information can be found in our Audited Financial Statements.

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

## Business Highlights




## Local Product Sales

**+25.5%**

**7.6 million**

**THE CRAFT BEER INDUSTRY** has grown significantly over the past year, and now comprises four percent of all beer sold. There are now 34 and growing micro breweries in Nova Scotia and more than 40 craft beer listings available at NSLC stores.

NS commercial beer sales were stable in 2015-2016, at $160.5 million.

**+177.3%**

**1.5 million**

**NOVA SCOTIA DISTILLERS** had a very strong year in sales through NSLC stores. Awareness and popularity of local spirits continued to grow and was helped along after several of the local varieties carried by the NSLC were recognized and won medals this spring at the World Spirits Competition in San Francisco.

**+8.7%**

**9.6 million**

**NOVA SCOTIA WINE** sales (made with locally grown grapes) had another strong year. There are now 21 local wineries in Nova Scotia, with many varieties earning recognition both at home and abroad. Today, one in ten bottles of wine sold at NSLC stores is locally produced.

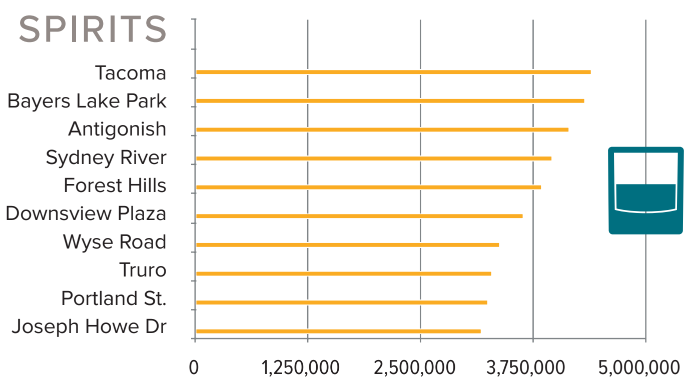
**NS COMMERCIAL WINE** sales (produced here with imported grapes) were up 7.3% to $21.7 million.

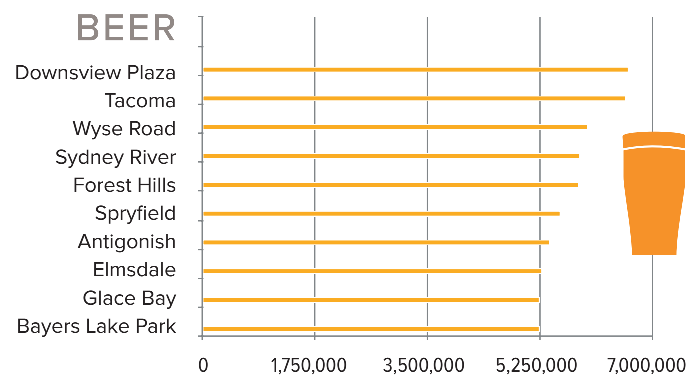
**+44.4%**

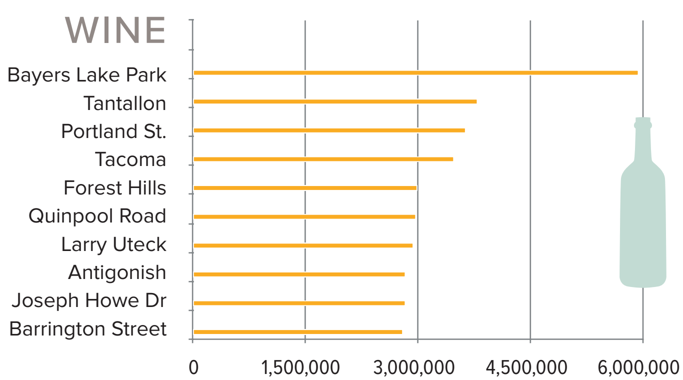
**NS READY-TO-DRINK PRODUCTS,** which are largely ciders, had a strong year with sales increasing by 44.4%. The popularity of ciders in Nova Scotia continues to grow, and now comprises 22 percent of all ready-to-drink sales.

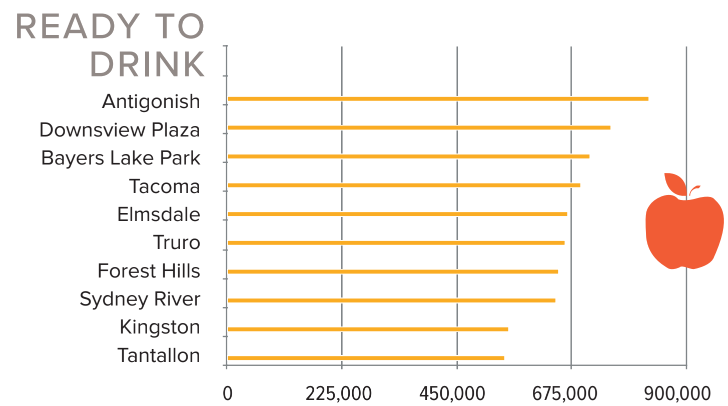
# Our Financial Results
(continued)

## Top ten store sales by category



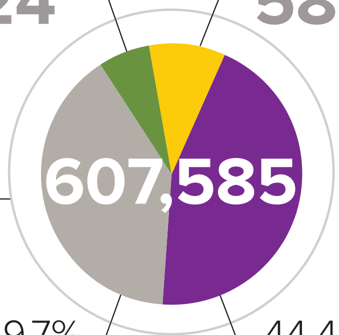



## Our Spending

Operating Costs: 6.3%
**38,424**

Salaries and Benefits: 9.6%
**58,293**

Total Sales:



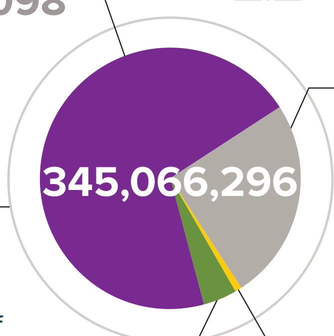

Returned to Nova Scotia: 39.7%
**241,257**

Cost of Product: 44.4%
**269,611**

## Our Financial Return

Government of Nova Scotia
**241,257,098**
(PROFIT)

Total Remittance:




Government of Canada
**86,664,116**
(HST, EXCISE, CUSTOMS)

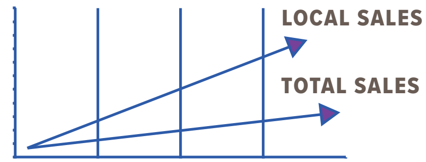
Government of Nova Scotia
**14,857,545**
(REFUNDABLE CONTAINER DEPOSITS)

Municipalities
**2,287,537**

# Trends

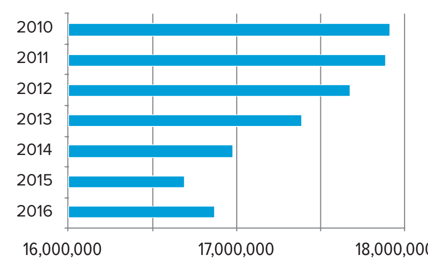
### GROWTH

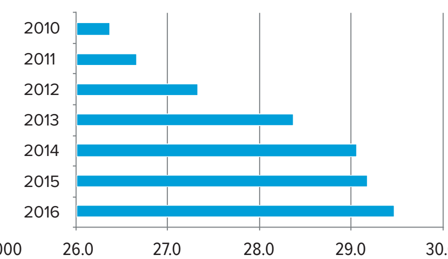
We achieved positive sales growth in all categories and significant growth in local product sales




### DEMAND

Customers are trying more premium products




### PER CAPITA CONSUMPTION*

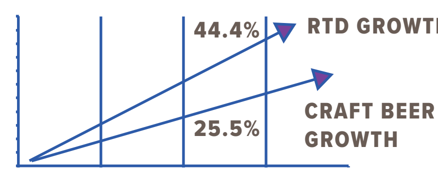
Nova Scotians are drinking less in terms of volume.

| % change 2015 / 2014 | BEER | SPIRITS | WINE | COOLERS |
|---|---|---|---|---|
| Nova Scotia | -0.8 | 0.9 | -0.7 | 15.2 |
| Canada | -0.2 | 1.0 | 0.8 | 8.5 |

*Source: Beer Canada 2015 Industry Trends. Based on Legal Drinking Age Population.

### OPPORTUNITIES

Customers are responding to innovative products, and are actively seeking out new product experiences



# Responsibility


*Retail employees (from left) Heather Thorbahn, Brenda Sullivan and Alex Davis*

For us, doing business means living up to our mandated commitments, and doing our part to help make Nova Scotia a great place to live and work. Our responsibility mandate means we safeguard the sale of beverage alcohol in our province and help keep it out of the wrong hands. It also means we proactively take steps to raise awareness about beverage alcohol issues, reduce our environmental footprint and support community organizations. In 2015-2016 our Corporate Social Responsibility Program was recognized as best practice and shared with other liquor jurisdictions across Canada. But we're not done yet. We still have ambitious goals and a dedicated team of employees that's passionately committed to achieving them. In the meantime, here are some program highlights from the past fiscal year.

## WE ID

Although the legal drinking age in Nova Scotia is 19 years, if a customer looks 30 years or younger, we ask for ID. Making sure we don't sell beverage alcohol to minors is one of our core responsibilities, and We ID helps reduce that risk. Our employees receive training for our We ID program that is renewed regularly. We mystery shop our own stores throughout the year, to make sure our policies and practices are effective, and the scores each store achieves are tied to overall performance. Our results for this year confirm that WE ID is working as an effective deterrent in Nova Scotia.

**1.7 million**

**WE ID CHALLENGES**

We challenged 1.7 million customers for valid proof of age, up from 1.6 million last year, and refused service less than 1% of the time.

## Keep it Social

We're working with universities across Nova Scotia to help educate students about making smart choices when it comes to beverage alcohol. Keep It Social offers information and strategies that college students can use whether they choose to drink or not, on or off campus. Our interactive website www.keepitsocial.ca talks about knowing your limits, making good decisions, enjoying responsibly, and planning ahead to arrive home safely. Keep It Social expanded its reach in 2015-2016 and in Nova Scotia is presented by the NSLC in partnership with Acadia University, Cape Breton University (CBU), Mount Saint Vincent University (MSVU), Université Sainte Anne, Saint Mary's University (SMU) and Saint Francis Xavier University (St.FX). On Prince Edward Island the program is presented by PEI Liquor in partnership with Holland College and the University of Prince Edward Island (UPEI).

## MADD Canada Partnership

We're proud to partner with MADD Canada on the School Assembly Program, which targets high school students and delivers an important message about the harms of impaired driving. In 2015-2016 more than 50,000 students from more than 60 schools in Nova Scotia attended this presentation.

## Cabbioke

This fun and unique program helps us spread the word about how important it is to end your celebration on a positive note, by planning ahead for a safe ride home. Over the past year Cabbioke has travelled to 25 communities across NovaScotia. We've visited 24 stores, participated in 20 festivals and eight parades. We've sung thousands of songs and awarded over a thousand taxi vouchers. We're making an impact and changing behaviours, one song at a time. Check out some of the fun we we had in 2015-2016 by clicking on the video link below.

https://youtu.be/lW09z29oMK4

# Community

As a Nova Scotia-owned and operated company, we believe in giving back to the communities where we live and work. Corporately, and through our passionate and dedicated employees, we support community groups and initiatives that are making a positive and lasting difference. As Nova Scotians we want to do our part to make our province stronger today, and for years to come. We do that by raising funds for the IWK and eight other local charities; by supporting the restoration and preservation of rivers and streams, by taking steps to improve our environmental footprint and by making our operations as sustainable as possible. We're proud of what we have achieved in 2015-2016, but prouder still of our employees, whose commitment and innovation make these initiatives and great results a reality.

*Author Glenn Devanney (left) donated five signed books and Artist Mitch Inglis donated an original watercolour to their store auction in support of the IWK. Both Glenn and Mitch are NSLC Retail employees*

## Adopt-A-Stream

As title sponsor of the Adopt-A-Stream Program, we support the work of 35 community groups whose projects result in the restoration of aquatic habitat. Over the past five years we've helped restore more than 800,000m$^2$ of degraded stream habitat, planted more than 58,000 trees, re-established more than 335 kms of fish passage and helped create more than 500 seasonal jobs. To learn more about the program and the positive contribution it's making to our natural environment in Nova Scotia, click on the video below.

https://youtu.be/NqOE9zZqbZE

## IWK

The NSLC and our employees have been passionate supporters of the IWK Women and Childrens' Health Centre since 1987. Over that time we've developed lots of creative ways to raise funds for this important regional organization, culminating in more than $2.8 million donated. We're thankful to our customers and proud of our employees for giving back so generously. Their dedication to helping others resulted in a donation of $255,000 to the IWK in 2015-2016.

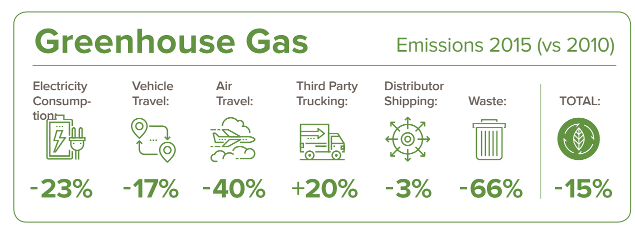
*The NSLC IWK telethon team are (back row) from left Robin West, Kelly Tucker, Sue Oland, Zohar Bronstein, Lisa Carver, Cynthia Miller and Glenda Powell. In the front row are Klea Jokic, Heather Jenkins, Marie MacLeod and Tracy Chestnut*

## Cash Cans

Thanks to the generosity of our customers and employees, we raised more than $31,000 for local charities in 2015-2016 through our retail Cash Cans Program. Fourteen organizations benefited from the program, including Feed Nova Scotia, the Juvenile Diabetes Research Foundation, and the Nova Scotia Hospice Palliative Care Association.

## Sustainability

We believe that preserving our environment is a responsibility we share with all Nova Scotians. That's why we have set and achieved ambitious goals to divert waste from our operations, and have made improvements that are helping to reduce impact. Over the past five years we've installed energy-efficient lighting in our stores and outside air economizers that allow us to take advantage of free cooling during the winter months. We've also installed more efficient fan and heat control systems, and continue to divert 95% of solid waste at our Head Office, Distribution Center and several metro stores. Since 2010, we have reduced total greenhouse gas emissions by 15%. We're also tracking and reducing water consumption in all of our facilities, through the installation over time of more efficient, low-flow plumbing fixtures.



# Taking care of business

## SMALL IMPROVEMENTS ARE MAKING A BIG DIFFERENCE

*Jillian Major, Sales Manager, Wholesale (right), with Bicycle Thief Restaurant General Manager Steve Adams*

Running a successful retail business is all about balance. “Controlling costs is part of our mandate,” says President & CEO Bret Mitchell. “But we always try to marry efficiency with improvements to customer service. That way everyone wins.”

In 2015-2016 the NSLC made two improvements to how it does business that delighted customers *and* resulted in big savings. One involved upgrading the point of sale system to enable the application of licensee discounts at our retail stores. There are over 1500 licensees in Nova Scotia. They receive a 10% discount on wine and spirit purchases made through the NSLC. “Up until we made this improvement, licensees had to wait to collect the rebate,” explains Wholesale Sales Manager Jillian Major. “Now it’s applied automatically at the cash register when they make a purchase. There’s no waiting, no need to reconcile receipts.”

Being able to apply the discount at the point of sale has also saved a lot of administrative work for the NSLC’s Finance team. “We used to calculate the rebate amount, and then issue quarterly rebate checks. It took a lot of extra time and effort,” says Finance Director Caroline Duchesne.

The second big cost-saving initiative involved an upgrade to SAP, to allow invoices and credit notes to be sent directly instead of printing them off first to be scanned, faxed or sent by traditional mail. “We would create the customer order and the invoice for it would automatically be sent to an email inbox,” explains Inside Sales Supervisor Cate Hollett. “The next morning each individual invoice would be there, usually more than 100 of them, and there was no way to tell which invoice went with which order unless you opened each one individually. Then you’d have to print some to send to customers, and email them to others, depending on the customer’s preference. It took a lot of extra time.”

Today the invoices are sent directly once the order is created in SAP. Some customers still prefer a print copy, but only a handful. Instead of managing the flow of all individual invoices, the Inside Sales team now has more time to spend talking to customers about our products. “Customers love it,” says Cate. “They get their invoices and credit notes right away.”

Both upgrades required a nominal initial investment to implement. The improvements have helped the NSLC achieve significant savings during fiscal 2015-2016, and will pay dividends for years to come.

# There's No Place Like Home

## WE SUPPORT LOCAL INDUSTRY


The local beverage alcohol industry in Nova Scotia had a very good year in 2015-2016, and the level of growth was nothing short of impressive. Sales were up in all categories: several new businesses entered the marketplace, while established producers continued to expand and launch new products.

Supporting local industry is an important part of our mandate. We provide preferential markups, direct support for industry associations, we list and promote the products our local producers bring to market, and we provide advice and support to help local products succeed. Knowledgeable employees, new store designs, and signage making it easy to find the local product section help too, and all of that helps drive higher sales in our retail stores.

"The 'Buy Local' movement is alive and well here," says Rick Martell, Store Manager at the new Port by the NSLC in downtown Halifax. "Our customers want to try local products. In fact, several of the local varieties we carry here are among our store's bestsellers." It also helps that Nova Scotia boasts some very talented and dedicated producers, who are making excellent, award-winning products.

Danny O'Hearn is one of those producers. He spent many years working for another well-known local beer maker before he and cousin Shawn O'Hearn decided to strike out on their own. They opened Nine Locks Brewery in February of 2016 on the Waverley Road in Dartmouth and haven't looked back. "I love this business," says Danny. "It's taken a lot to get to this point, but it doesn't feel like work when you love what you do."

*Danny O'Hearn, Nine Locks Brewery*

# There's No Place Like Home (continued)

## WE SUPPORT LOCAL INDUSTRY

Danny and Shawn believe the market for craft beer is growing in Nova Scotia. "People are becoming more aware of craft beer and are seeking out new taste experiences," says Danny. He says local craft brew pioneers like Garrison and Propeller have helped pave the way.

Nine Locks currently has three NSLC listings, and will add a fourth once production is established. He says the listings, and his relationship with NSLC Refreshment Team Leader Stephen Chisholm are an important part of his brewery's success. "Stephen has been a big help," says Danny. "We opened at the end of February and with his help our product was selling in 40 NSLC stores before the end of March. Through our sales at the NSLC, I'm able to attract new customers from across the province."

Danny says he likes the changes the NSLC is making to ensure customers can find his and other local products easily when they visit our stores. "The new roller racks are great, and the new local craft beer signage will give our products even more profile." He's been promoting his products through NSLC in-store sampling too. Nine Locks Brewery currently has eleven employees and is already making plans to expand its product line.

Entrepreneur Glynn Williams knows all about the challenges of expanding a product line. His Authentic Seacoast Company in Guysborough has been in expansion mode ever since it started just over 12 years ago. Authentic Seacoast is in fact several very successful enterprises operated under one umbrella. The company has been making craft beer under the Rare Bird Label for more than eleven years, in the same town where Maritime brewing first started in 1659. Authentic Seacoast added craft distilling two years ago, and its most recent expansion in June of 2016 saw the addition of state of the art brewing, distilling and bottling equipment that will accommodate higher production of both beer and spirits, to satisfy growing demand.

*Glynn Williams, Authentic Seacoast Company*

A native of Montreal who moved to Toronto in the 1970s, Glynn first visited Guysborough 27 years ago. "We fell in love with Nova Scotia," says Glynn. He and his wife bought a cottage, and brought their two children to Guysborough to vacation every summer after that. "It was my escape from the pressures of the investment industry" Glynn has had a diverse career, which has included work in the engineering, high-tech, aerospace, finance and volunteer sectors. Brewmaster and distiller are the most recent additions to his impressive resume.

# There’s No Place Like Home (continued)

## WE SUPPORT LOCAL INDUSTRY

Glynn’s Rare Bird craft beer was an early listing at NSLC stores. “Back then there were only four or five local craft beer listings,” says Glynn. “The industry has grown a lot since then, but so has demand.” As the only combined brewery and distillery in Atlantic Canada (co-located with an oceanfront golf course), Glynn’s relationship with the NSLC brings him in contact with both our Spirit Team Lead Pius Walker, and our Refreshment (Beer and Ready-to-Drink) Team Lead Stephen Chisholm. “I have a great relationship with the NSLC,” says Glynn. “Both Pius and Stephen have been great to work with in terms of new and future listings. But I know that the onus is on us to continue to produce high-quality products that NSLC customers want to buy.”

Glynn and his team are active on a lot of fronts to build that product awareness and demand. “We do a lot of product training with NSLC employees,” says Glynn. “We’ve met with the Retail Product Specialists in all of the stores where our products are listed, and their passion for local products has been tremendous. The NSLC is very supportive, especially when it comes to building product knowledge among its employees.”

Two years ago Glynn launched his distillery. Thanks to an existing partnership with the Fortress of Louisbourg, he was able to pitch an innovative idea to age his blended rum in some available fortress warehouse space. The result was Fortress Amber Rum, which first started selling in NSLC stores in February of 2015. Sales have grown every month since then and much of the 177% in sales growth for local spirits reported in the NSLC’s fiscal 2015-2016 results is attributable to sales of that one product. Glynn’s other popular spirit listings are Seafever Rum and Glynnevan Whisky.

Glynn says that having his products listed at the NSLC is a big part of his success. “It was especially tough to get folks to try our craft beer,” he recalls. “Even the folks from around here were very loyal to their traditional favourites. But once we were listed at the NSLC people took another look. It was like a validation, and people started to try it. Now they love it.” It’s clear from the sales results, that love for the company’s craft beer and spirits extends right across the province.

Authentic Seacoast has also begun to sell its products at liquor stores in New Brunswick and Prince Edward Island. Glynn is hopeful that he’ll be able to have his products listed in other Canadian provinces too. In the meantime Authentic Seacoast continues to grow: The company has 28 employees right now and expects to add more as its expanded operations reach full steam. Two new whisky product launches planned over the next year will likely help to fuel that growth.

Speaking of growth, it’s been over eight years since Stewart and Lorraine Creaser retired from successful professional careers and took the bold step of floating a 179-year-old church down the Avon River from Walton to house their Avondale Sky Winery in Newport Landing. Their vineyard and annual production have grown every year since then, and so has recognition for the excellent wines they make. This year, they were named Winery of the Year at the Atlantic Canadian Wine Awards, and nine of the ten wines they submitted for the Wine Awards last November were medal winners. They also won another eight medals at the Tasters’ Guild International Awards in May.

# There's No Place Like Home (continued)

## WE SUPPORT LOCAL INDUSTRY

*Stewart and Lorraine Creaser, Avondale Sky Winery*

"Our philosophy is simple," explains Lorraine. "We won't sell anything that we wouldn't eagerly buy ourselves. Our goal is to make exceptional wines." Avondale Sky produces 20 to 30 varieties each year: Five are listed in NSLC stores. The other varieties are available for sale at the Winery store in Newport Landing, and are served at local restaurants.

"We started with two NSLC listings, and that has grown to five," says Stewart. "We've selected varieties that we believe have excellent growth potential and staying power." Avondale's Bliss, Lady Slipper, Tennycape and Montavista are listed in 30 NSLC stores, and its Tidal Bay is available at all stores province-wide.

The Creasers' relationship with the NSLC's Category Manager Jennifer Katona is an important part of their success. "We have an open line of communication with Jennifer that's helping us to understand each other's priorities," says Stewart. "We're very pleased that our Tidal Bay is now available in all NSLC stores." Avondale's sales growth through the NSLC has been very strong. In 2015-2016 their sales grew by 63%. That growth trend has continued into this year, and currently stands at 40%.

The Creasers actively promote their products by conducting regular in-store tastings. They also schedule NSLC employee tastings at the same time. "We want NSLC employees to be ambassadors for our products," says Lorraine. "To do that they need to have the opportunity to try them."

Avondale Sky Winery has 18 full-time and seasonal employees working in the vineyards, kitchen, retail store, restaurant, as well as during harvest and bottling. Stewart, who is Past Chair of the Winery Association, says that on average the wine industry in Nova Scotia creates 1.1 net jobs per acre of cultivation.

"We're proud to play a role in supporting the success of local industry," says Bret Mitchell, NSLC President & CEO. "The industry gained both strength and momentum last year, and we're optimistic this trend will continue in the months and years to come."

NSLC sales of local products grew in all categories in 2015-2016: Local wine sales grew by 8.7%, local craft beer grew by 25.5%, and local spirit sales grew by 177.3%. At year end there were 21 local wineries, 12 craft distilleries and 34 craft breweries operating in Nova Scotia.

# Putting Safety First

## REDUCING THE RISK OF WORKPLACE INJURIES

*Distribution Centre employee Vernon Brown demonstrates how the D-stacker has reduced the risk of muscle strain injuries*

At the NSLC, cultivating a healthy and safe workplace is a top priority. "You can't be successful in business today if you don't have a safe workplace," says President & CEO Bret Mitchell. "Promoting safety at work is an important part of how we live our corporate values. We know our employees can only be knowledgeable, optimistic, responsible, respectful and engaged within a work environment that puts their safety first."

Steven Yochoff couldn't agree more. He's the longest serving member on both the NSLC's provincial Joint Occupational Health and Safety Committee (JOHSC), and on the Distribution Centre JOHSC. He's worked at the NSLC for his entire career and he's seen first-hand how far the company has come in its approach to preventing workplace injuries. "The Westray disaster and Bill C-45 had a big impact here in Nova Scotia and right across Canada," says Steven. "We made our safety framework much stronger after that." That framework included formal training, safe work practices, and the establishment of the two JOHSCs. "With these in place, we got a lot better at measuring our health and safety issues and developing plans to address them."

But despite making some progress through the 1990s, the NSLC's Distribution Centre injury frequency and severity rates remained stubbornly high. "There were still too many of our employees getting injured too often," says Steven, "and it was taking them a long time to recover. We knew we needed to do better."

Between 2004 and 2011, the NSLC's injury frequency fluctuated significantly and at some points reached more than twice the typical retail industry rate. Claim duration or severity was high as well, and had increased steadily following a promising but short-lived decline in 2006.

These safety results were having an impact. The NSLC's employee engagement index, as measured by the company's bi-annual employee opinion survey was at a very mediocre 51 versus an industry average in the mid-sixties. Claims costs had reached a five-year high of $175,000.

In 2011 the Workers' Compensation Board of Nova Scotia (WCBNS) reached out to NSLC's Supply Chain Vice President Brad Doell with an offer of support. "The biggest impact when it comes to workplace injury is on people," says Brad. "We didn't want to be a company where people came to work and got hurt. We felt we had a moral obligation to go beyond provincial health and safety regulations to do everything within our power to keep our people safe."

"A lot of the injuries were happening in our Distribution Centre, so we started there," says Brad. "We worked with the WCB as part of its Partners in Prevention Safety Coaching Program, analyzed our safety performance, identified opportunities, developed a plan and put it into action."

As part of the program, a Team of Doers was assembled to identify and prioritize improvements. The team identified more than 20 initiatives and implemented them all. Safety outcomes soon began to improve. By 2013, the NSLC's Distribution Centre had drastically reduced lost-time injuries.

That same year, the NSLC's success was recognized with a Letter of Recognition from Stuart MacLean, CEO of the Workers' Compensation Board. The NSLC also won a Mainstay Award, the only provincial safety award program of its kind, which recognizes safety best practices.

Our safety outcomes have improved even more since then. Lost-time injuries declined by more than half in 2015-2016; adding to an improvement of almost 75% over the past five years. The NSLC team continues to be recognized, and last fall hosted the province's very first Materials Handling Summit, to share what we've learned through our safety journey with other supply chain businesses. Plus this spring our Supply Chain VP Brad Doell was appointed to a two-year term on the Board of Directors of Safety Services Nova Scotia, an organization dedicated to delivering world-class health and safety programs for Nova Scotians.

# A World of Beverage Enjoyment

## STRIVING TO DELIGHT OUR CUSTOMERS

*The NSLC Wine Team (from left): Peter Rockwell, Jennifer Katona and Glenda Williams*

Providing Nova Scotians with 'A World of Beverage Enjoyment' - that's a big part of NSLC's stated purpose. But what does that really mean?

"It means exceeding our customers' expectations on every aspect of our service," says SVP and Chief Operating Officer Tim Pellerin. "And offering the widest possible range of products to satisfy and delight a variety of budgets and tastes." The NSLC carries more than 3000 products in our regular listings, and over a 1000 more as temporary, or 'One-Time-Only' listings. We scour the world to find them, and then pull off minor logistical miracles to get them on our shelves. "It's not easy," says Tim. "But we're committed to offering our customers a selection that includes the latest and greatest products, as well as their favourite brands."

Much of the responsibility for finding the products we sell rests with our Category Teams. Pius Walker heads up the Spirits group. In a nutshell, it's his job to promote growth within the spirit category. He determines what varieties to list, and then tracks how they're doing. "Analyzing customer research is a key part of my job," says Pius. "I need to understand which brands and formats are selling well, which brands are picking up momentum, and which brands are losing steam."

He does a lot of his own research with suppliers and experts, and stays close to what's happening in other jurisdictions. He also has a customer insights expert on his team, so he can track buying patterns and preferences in real time.

When it comes to listings, Pius sends out an annual Request for Submissions with specific criteria around spirit type, format and price range. He does the same thing for the Celebrate Whisky Show and One-Time-Only listings. Suppliers come forward with product proposals that fit our requirements. With consumption of spirits running fairly flat over the past few years, Pius has been focusing on opportunities to encourage customers to try more premium products. "Although they may have their favourites, people still like to try something they've never tried before," says Pius. "What we're learning at the new Port by the NSLC store is that customers are looking for products that are unique, and price isn't always the most important consideration."

*Spirits Team Lead, Pius Walker*

# A World of Beverage Enjoyment (continued)

## STRIVING TO DELIGHT OUR CUSTOMERS

The growth of local products has been a real bright spot for the spirits category in 2015-2016: local spirit sales for the year were up by 177.3%. Pius works with local distillers, and supports their efforts to bring their products to market. "What's happening with the growth of local spirits is just awesome," says Pius. "Their products are gaining recognition – here at home, and internationally, and that's helping to drive higher sales in our stores." Several local producers won medals at the prestigious San Francisco Spirits Competition in March 2016.

Despite all of the careful analysis, planning and scrutiny, Pius says there are still times when product sales can take off by surprise. The sudden popularity of Crown Royal's Northern Harvest Rye in the fall of 2015 was one of those times. When international whisky aficionado Jim Murray rated Northern Harvest as top whisky for 2016, it started flying off the shelves, and keeping the spirit in stock became a challenge for beverage alcohol retailers around the world. The same thing happened here in Nova Scotia when the Trailer Park Boys tweeted an endorsement of Liquormens' Ol' Dirty Canadian Whisky. "It's times like that when I'm reminded of how humbling this business can be," says Pius. "The key is to be nimble enough to respond to sudden changes in customer preferences. I think our team does a great job and can shift gears fast in response to unexpected changes in product demand."

The spirit team's strategy and approaches are achieving good results: Overall NSLC spirit sales were up by 1.4% in 2015-2016.

The job of promoting growth within the wine category is just as challenging. "We carry over 1000 different wines, and hundreds more as One-Time-Only listings, Port of Wines selections, and for our Festival of Wines" explains the NSLC's Category Manager, Jennifer Katona. "We also change between 10 and 20% of our general listings every year." While wine sales represent about 23% of NSLC sales, wine occupies the biggest footprint in our stores.

In order to provide customers with a dynamic selection of both favourites and new wines to explore, the wine team initiates a 'category call', to let wine agents know what we're looking for. The criteria is set based on lots of research. Like their colleagues over in spirits, the wine team also has an insights expert who continuously generates information that Jennifer uses to develop an understanding of what customers want to purchase, and how much they want to spend. But she doesn't stop there: she visits wineries, convenes customer panels and focus groups, and talks to customers during the annual Festival of Wines. She also talks to lots of wine agents, as well as colleagues in other jurisdictions, to validate that listing decisions are informed by contemporary wine trends.

Jennifer also helps our Retail Product Specialists develop lots of product knowledge, so they can help our customers find exactly what they're looking for. "Delivering a great customer experience when it comes to wine depends on a lot of factors," says Jennifer. "A great range of products, excellent merchandising, good promotions, and knowledgeable, customer-focused employees are all really important."

A big success for the team this year has been the sales growth among Rosé varieties. "We brought in Rosés in the past, but they never hit their stride like they had in other jurisdictions," says Jennifer. "This year we brought in and merchandised a beautiful selection – many from local producers – and the response was different. We sold a quarter of the inventory we purchased for the whole summer in just two weeks."

Opening The Port by the NSLC store this spring was another big wine team success. The store offers over 1500 varieties of wine, and includes a rare finds room that's filled with truly unique wines that customers won't find anywhere else in Atlantic Canada. The Port also offers an extensive 'Nova Scotia' section: promoting local products and working with producers has been an important wine team area of focus. "We have a good relationship with our local producers," says Jennifer. "They're great partners when it comes to helping our retail employees build knowledge about their products." Having that local product knowledge makes it a

# A World of Beverage Enjoyment (continued)

## STRIVING TO DELIGHT OUR CUSTOMERS

lot easier for our employees to promote local varieties. Those wine education efforts have paid off: Nova Scotia wine sales grew by 8.7% in 2015-2016. Total wine sales grew by 4.4%.

Beer makes up almost half of all NSLC sales. Leading up to this year, those sales were fairly flat, as Nova Scotians consumed less, and other products like wine and ready-to-drink products gained in popularity. “Beer sales are a big part of the NSLC’s overall success,” says Refreshment (Beer and Ready-to-Drink) Team Lead Stephen Chisholm. “With consumption of beer leveling off, we’re constantly looking for new ways to make the category as interesting and dynamic as possible.” The NSLC offers 220 regular beer listings and another 150 “One-Time-Only” listings. But beer drinkers are loyal - the top ten beer brands account for 70% of all beer sales. Still, Stephen says offering lots of variety is key, because although beer drinkers have their favourites, they also like to try beers that are new and different.

*Refreshment Team Lead, Stephen Chisholm*

In order to find those new beers that our customers will love, Stephen does a call for submissions from suppliers in December each year. He does another call for single serve beers in July. “We have product turnover of about 30 to 35% every year,” says Stephen. “That means we’re regularly offering lots of new options.” Stephen doesn’t just rely on suppliers to find out what brands are taking off. He calls on the NSLC’s beer insights expert, and does a lot of his own research. “No matter where I am, I’m always looking at what new products are on the market and how they’re merchandised. I search the internet, talk to customers, conduct focus groups, meet with vendors, do online panel polls, and use the insights data through AirMiles.”

Stephen is excited about the growth of the craft beer industry. By the end of fiscal 2015-2016 there were 34 microbreweries in Nova Scotia, and local craft beer sales grew by more than 25% . “Craft beer consumers shop differently,” says Stephen. “They’re experimental, more like a wine consumer. They’re not necessarily brand loyal, but they are loyal to a particular beer style. So if they like porter for instance, they would be more likely to try all of the types of craft porter that we carry.” Craft beer now comprises 24% of all NSLC beer listings, and 4% of total beer sales. Stephen expects that number will continue to grow in future. He says most of the NSLC’s craft beer sales right now are within the Halifax Regional Municipality: 75% of craft beer sales occur in our top 30 stores, and all but eight of those stores are located in HRM.

Ready-to-drink products also performed well last year. This segment includes products like ciders and coolers. Cider in particular has been a big success story for the NSLC. Four years ago we were selling about $1.4 million worth of cider, and cider products made up about 6% of all ready-to-drink products. This year our cider sales were $6.5 million, representing 22% of all RTD products. “It’s a big success for local cider producers too,” says Stephen. “Half of the cider we list is local, and these local products comprise 25% of our total cider sales.”

# A World of Beverage Enjoyment (continued)

## STRIVING TO DELIGHT OUR CUSTOMERS

Helping our employees develop more product knowledge around beer and ready-to-drink products is an important part of Stephen's overall strategy for his category. "Our product knowledge is what sets us apart. The more our employees know, the better equipped they are to make shopping with us a great experience for our customers."

Getting all of those great products into our Distribution Centre and ready to ship to stores and licensees from wherever they're made is Steve Power's responsibility. As Senior Manager of Supply Chain, Steve works with his team to create purchase orders based on the category teams' selections. "We apply different approaches depending on whether the products are domestic or international, regular list or One-Time-Only," says Steve. "There are lots of challenges to providing 'a World of Beverage Enjoyment', like knowing how long it will take to get a product here from far away, and understanding sales patterns and demands, so that we always have enough on hand."

*Senior Manager - Supply Chain, Steve Power*

We import some of our products from as far away as New Zealand and South Africa, and many points in between. Once we send the purchase order to the producer, we engage our freight forwarder to pick the shipment up, load it in a container, and have it sailed to the Port of Halifax. When it gets here and the shipment clears customs, our local carrier takes over. They take the container to their facility to de-consolidate the product and pack it on pallets according to our specifications. Then the local carrier works with our scheduler to set a time for delivery to our Bayers Lake Distribution Centre. For domestic products, our local carrier connects directly with the vendor to arrange pick up, and then schedules delivery to us. Steve says some of our far-away imports can take up to 13 weeks to get here, and some domestic products can take less than a day. That means he and his team have to monitor each individual product inventory trend and re-order accordingly.

Steve says a big challenge for his team is planning for products whose sales take off unexpectedly. A good example of how tough that can be was the lime beer boom a few years back. "For five months we were selling a particular brand of lime beer at a furious pace," says Steve. "Then, it just all stopped. It's not easy to predict and purchase for demand cycles that start and stop like that." Steve says there are usually a couple of products each year whose sales take off suddenly and unexpectedly. "We're usually able to respond fast when product demand spikes," says Steve. "We want to make sure that when a customer visits our store, they're able to find exactly what they're looking for, every single time."

In the end, providing 'A World of Beverage Enjoyment' is truly a team effort. "It takes a lot of collaboration to bring a great customer experience together," says Tim Pellerin. "And a great experience today includes having a world-class selection. I think our 2015-2016 results are a strong indication from our customers that we are giving them what they expect, and more." The NSLC's customer satisfaction rating for the year reached its highest score ever, at 92%.

# In Good Hands

## IT'S ALL ABOUT RESPONSIBLE ENJOYMENT

*Ready to serve responsibly, Retail employee Angela Bowden and Store Manager Darren Smith*

If you look to be 30 years old or younger and you shop at the NSLC, there's a pretty good chance you'll be asked to show proof of age, either while you're shopping or when you get to the cash. We do that as part of our We ID Program, which helps to make sure beverage alcohol doesn't get into the wrong hands.

"It's an important responsible consumption program," says Beth Martin, Manager of Corporate Social Responsibility. "The legal drinking age is 19 and it's one of our core responsibilities to make sure we don't sell to minors. We ID helps reduce that risk. But it's not always easy, because it means making a judgement about someone's age very quickly."

NSLC's retail employees are trained on how to administer We ID as soon as they're hired, and the training is renewed every two years. "The We ID Program training teaches our employees how and when to ask for ID, what forms of government-issue picture ID are acceptable, and how to explain the program to customers. It also teaches them how to deal with any conflict," says Beth.

"We ask for our customers' patience and understanding when they're asked for ID in our stores, and we would encourage them to take it as a compliment. But it's our responsibility to make sure no sale is made to a minor, and we take that responsibility very seriously." Beth says a customer could be asked to show proof of age up to three times as they encounter different store employees. "They could be asked when they first enter the store, while they are browsing, and when they make a purchase at the cash register."

Customers who are refused the sale because they don't have acceptable government-issue ID can't get someone they're shopping with who does have ID to make the purchase for them. "Some customers find this frustrating too," says Beth. "But from our perspective, we need to be sure that beverage alcohol isn't being purchased for someone who isn't over 19, so we refuse the sale."

Employees at our Spryfield store know the challenges of asking for ID and have done a great job of striking the right balance while still providing great customer service. Their We ID mystery shop scores have been perfect for more than a year. According to Store Manager Kevin Conrod, it's because the whole team is engaged in making sure that if someone looks 30 years or younger, they get asked for ID. "It's an important part of all our jobs," says Kevin. If I see someone come in that's on the age bubble I'll prompt our employees and we'll have a conversation about why we should ask this customer for ID. It's something we're paying attention to all day, every day."

Kevin says some days are a lot busier than others when it comes to the We ID Program. "I try to make sure I know when local schools are having their graduations, so that all of us are aware and prepared." He also says long weekends and certain holidays and observances, like Halloween, tend to present more challenges than other times of the year. "If they have a mask on, we ask them to remove it. And if they're wearing some kind of face makeup, we ask for ID no matter what."

Spryfield Retail employee Kay McLellan says that Fridays and Saturdays tend to be the busiest We ID days aside from the special occasions. "Some people don't like it," says Kay, "especially if they shop here regularly. For me it's simple – if they look to be under 30, I ask for ID."

It looks as though that sentiment is shared by Kay's retail colleagues across the province. In 2015 - 2016 our employees asked for ID over 1.7 million times and refused just over 13,000 transactions.

# Reaching for the stars

## OUR EMPLOYEES GO ABOVE AND BEYOND


*The 2015 - 2016 Store of the Year Team celebrate their win. Pictured above from left, (back row): Regional Manager Lorne Denney, Store Manager Mike Conrad, Director of Operations Paul Rapp. Front Row: Retail employees Louise Janes, Trish Hodder, and Greg Ritcey*

We're proud of our employees and the work they do to deliver a world of responsible beverage enjoyment for Nova Scotians. We know that delighting customers right across our store network takes a lot of hard work and is truly a team effort that involves everyone; from our stores, to our Distribution Centre, to our Head Office and our vendors and contractors.

That's why every year we recognize our outstanding performers by declaring a Store of the Year, a Region of the Year, and individual 'CEO Shining Star Award' winners who have gone above and beyond to support the success of the company. Peer-nominated 'Star' awards are also presented, and over the past year an impressive 33 employees were recognized.

The Store and Region awards are based on a combination of key performance indicators, including overall sales, the number of transactions, customer satisfaction scores, We ID mystery shop scores, merchandising, employee engagement and more. The individual CEO award winners are selected by the NSLC's Executive Team through a rigorous nomination and vetting process, and are decided by consensus.

We're happy to report that this year's winners continue the tradition of excellence that our recognition programs seek to cultivate and celebrate.

Our Region of the Year for 2015-2016 is Cape Breton. "Reaching Region of the Year is something that's always in the back of your mind," says Regional Manager Judy Kehoe. "But day-to-day, everyone in this region just works really hard to provide the best possible service for our customers." The Region of the Year achievement is a first for Judy, and hasn't been won by Cape Breton since 2010. Judy says the top three reasons for the team's success are employee commitment, management support, and the strength of NSLC's values and corporate culture in guiding everything we do.

The Store of the Year Award was presented to the Bridgewater store on Dufferin Street. Manager Mike Conrad says that while he and his team didn't explicitly set out to win the award, everyone there works hard to provide the best customer service each and every day. "We're a team of type 'A's," says Mike. "We all want to everything to be the best it can be. We take a lot of pride in how our store looks and in our level of service." Mike says the top three reasons for his team's success include trying to see things through the eyes of the customer, great merchandising, and cultivating a friendly fun atmosphere for customers and employees.

The CEO Award winners span the spectrum of the company's operations:

- Integration Manager - Marketing, **Cyra Belbin** is spearheading efforts to re-platform the NSLC's corporate website.
- Master Data and Reporting Specialist **Mark Turnbull** successfully tackled an upgrade of the NSLC's intranet, enabling licensee discounts at point of sale, and is helping with the website re-platform.
- Retail Product Specialist **Jennifer Russell** from our Tantallon Store goes above and beyond to connect customers and her fellow employees with our products.
- Assistant Manager **Susan Slaunwhite** prides herself on providing excellent service every time she meets one of our customers. She's helpful, knowledgeable and always ready to lend a helping hand.

This year's peer-nominated Star Award winners are: David Harris, Kelly Tucker, Robin West, Sean LeClair, Tracy Walker, Elaine Graham, Christina Goucher, Carrie Lynn Neary, Sabrina McGrath, Barbara Gerroir, Emma Cross, Keri MacDonald, Nicholle Warren, Stephen Chisholm, Stephen Ford, Barb LeFort, Bonny Hardy, Steve Connick, Peggy Hopper, Adam McKinnon, Candace Melbourne, Chris Belliveau, Erin Arnason, Heather Negus, Marie MacLeod, Olaf Hollak, Steven Stirling, Michael Haley, Sean Ryan, Don Barter, Paul Rapp, Stephen Bayer, and Tracey Darrigan.

# Financial Statements

## Nova Scotia Liquor Corporation
## March 31, 2016

**CONTENTS**

# 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, 2016 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, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton LLP

Chartered Accountants

Halifax, Canada
June 17, 2016

## Statements of earnings

| Year ended March 31 (in thousands) | 2016 | 2015 |
|---|---|---|
| Sales | $ 607,585 | $ 591,300 |
| Cost of sales | 269,611 | 263,507 |
| Gross margin | 337,974 | 327,793 |
| Operating expenses (note 12) | 100,507 | 103,295 |
| Other income | (4,835) | (4,643) |
| Earnings from operations | 242,302 | 229,141 |
| Post employment benefit interest cost (note 9) | 1,045 | 1,155 |
| Earnings for the year | $ 241,257 | $ 227,986 |

See accompanying Notes to the Financial Statements.

## Statements of comprehensive earnings

| Year ended March 31 (in thousands) | 2016 | 2015 |
|---|---|---|
| Earnings for the year | $ 241,257 | $ 227,986 |
| Other comprehensive earnings | | |
| Items that will not be reclassified subsequently to earnings: | | |
| Actuarial gains (losses) on defined benefit plans (note 9) | 3,298 | (2,123) |
| Comprehensive earnings for the year | $ 244,555 | $ 225,863 |

See accompanying notes to the financial statements.

## Balance sheets

| As at March 31st (in thousands) | 2016 | 2015 |
|---|---|---|
| **Assets** | | |
| Current | | |
| Cash | $ 14,167 | $ 16,815 |
| Receivables | 2,566 | 2,031 |
| Inventories | 52,008 | 47,635 |
| Prepaids | 1,700 | 827 |
| | 70,441 | 67,308 |
| Intangibles (note 6) | 3,239 | 3,415 |
| Property and equipment (note 7) | 43,622 | 44,150 |
| | $ 117,302 | $ 114,873 |
| **Liabilities** | | |
| Current | | |
| Payables and accruals | $ 44,032 | $ 41,118 |
| Current portion of employee future benefit obligations (note 9) | 1,539 | 1,326 |
| | 45,571 | 42,444 |
| Employee future benefit obligations (note 9) | 24,940 | 30,193 |
| | 70,511 | 72,637 |
| **Equity (page 25)** | 46,791 | 42,236 |
| | $ 117,302 | $ 114,873 |

On behalf of the Board

Ms. Sherry Porter
Chair, Board of Directors

Mr. Allan Rowe
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, 2015 | $ (2,096) | $ 44,332 | $ 42,236 |
| Remittances to Minister of Finance | - | (240,000) | (240,000) |
| Earnings for the year | - | 241,257 | 241,257 |
| Other comprehensive income | 3,298 | - | 3,298 |
| Comprehensive earnings for the year | 3,298 | 241,257 | 244,555 |
| Balance at March 31, 2016 | $ 1,202 | $ 45,589 | $ 46,791 |
| | | | |
| Balance at April 1, 2014 | $ 27 | $ 44,346 | $ 44,373 |
| Remittances to Minister of Finance | - | (228,000) | (228,000) |
| Earnings for the year | - | 227,986 | 227,986 |
| Other comprehensive loss | (2,123) | - | (2,123) |
| Comprehensive earnings for the year | (2,123) | 227,986 | 225,863 |
| Balance at March 31, 2015 | $ (2,096) | $ 44,332 | $ 42,236 |

See accompanying notes to the financial statements.

# Statements of cash flows

| Year ended March 31 (in thousands) | 2016 | 2015 |
|---|---|---|
| **Operating** | | |
| Earnings for the year | $ 241,257 | $ 227,986 |
| Depreciation and amortization | 9,167 | 9,368 |
| Loss on disposal of property and equipment | 133 | 131 |
| Post employment service costs | (496) | 1,326 |
| Post employment benefit interest cost | 1,045 | 1,155 |
| Actuarial gain on other employment benefit | (535) | 190 |
| Defined benefit plans benefits paid | (1,756) | (1,625) |
| | 248,815 | 238,531 |
| Change in non-cash operating working capital (note 10) | (2,867) | 111 |
| | 245,948 | 238,642 |
| **Financing** | | |
| Principal payments on obligation under finance lease | - | (20) |
| Remittances to Minister of Finance | (240,000) | (228,000) |
| | (240,000) | (228,020) |
| **Investing** | | |
| Purchase of intangibles | (1,141) | (949) |
| Purchase of property and equipment | (7,459) | (6,861) |
| Proceeds on sale of property and equipment | 4 | 391 |
| | (8,596) | (7,419) |
| Net change in cash | (2,648) | 3,203 |
| Cash, beginning of year | 16,815 | 13,612 |
| Cash, end of year | $ 14,167 | $ 16,815 |

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, 2016 (including comparatives) were approved and authorized for issue by the Board of Directors on June 17, 2016.

**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.

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.

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

*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.

**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 |

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

**Property and equipment**

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

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

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

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

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

*Impairment of non-financial assets*

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

If the recoverable amount of the asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in earnings. When an impairment loss is subsequently reversed, the carrying amount of the assets (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

**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.

Corporation as lessee

Assets held under finance leases are initially recognized at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included on the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Corporation’s accounting policy on borrowing costs.

Finance leased assets are depreciated on a straight-line basis over the estimated useful life of the asset. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

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

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.

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:

| Asset/liability | Classification |
|---|---|
| Cash | Loans and receivables |
| Receivables | Loans and receivables |
| Payables and accruals | Other financial liabilities |

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

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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in provision due to the passage of time is recognized as an interest expense. There are no provisions as at March 31, 2016 and 2015.

## 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.

**Disclosure Initiative (Amendments to IAS 1)**
Amendments to IAS 1 Presentation of Financial Statements address perceived impediments to preparers exercising their judgement in presenting their financial reports. Amendments provide clarification on materiality through aggregation of information, clarification of line items to be disaggregated and aggregated as relevant and guidance on subtotals, and provide additional examples of possible ways of ordering the notes to clarify the understandability and comparability of the information presented in the financial statements.

The amended version of IAS 1 is effective for annual periods beginning on or after January 1, 2016. There is expected to be minimal impact of this revised standard to the fiscal 2017 financial statements.

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

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

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

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

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

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

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

## 5. Accounting standards and policies adopted during fiscal 2015

*Amendments to IAS 19 Employee Benefits (IAS 19 Amendments)*
The IAS 19 Amendment includes clarification of the requirements related to how contributions from employees or third parties that are linked to service should be attributed to periods of service:

- If the amount of the contributions is independent of the number of years of service, contributions may be recognized as a reduction in the service cost in the period in which the related service is rendered (note: this is an allowed, but not required method).
- If the amount of the contributions depends on the number of years of service, those contributions must be attributed to periods of service using the same attribution method as used for the gross benefit in accordance with paragraph 70 of IAS 19.

This amendment became effective during fiscal 2016 and did not have an impact on the Corporation's financial results.

Notes to the Financial Statements March 31, 2016 (in thousands)

## 6. Intangibles

| | Enterprise Resource Planning (ERP) | Other Intangibles | Assets under Development | Total |
|---|---|---|---|---|
| Cost | | | | |
| At March 31, 2015 | $ 27,168 | $ 2,916 | $ 66 | $ 30,150 |
| Additions | 79 | 36 | 1,026 | 1,141 |
| Transfers | 37 | 3 | (40) | - |
| Disposals | (22) | - | - | (22) |
| At March 31, 2016 | 27,262 | 2,955 | 1,052 | 31,269 |
| Amortization | | | | |
| At March 31, 2015 | (24,088) | (2,647) | | (26,735) |
| Amortization expense | (1,119) | (198) | - | (1,317) |
| Disposals | 22 | - | - | 22 |
| At March 31, 2016 | (25,185) | (2,845) | - | (28,030) |
| Carrying amounts | | | | |
| At March 31, 2015 | $ 3,080 | $ 269 | $ 66 | $ 3,415 |
| At March 31, 2016 | $ 2,077 | $ 110 | $ 1,052 | $ 3,239 |

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

March 31, 2016 (in thousands)

## 7. Property and equipment

| | Furniture & Fixtures | Other Equipment | Small Computers | Software & Hardware | Land | Buildings | Capital & Leasehold Improvements | Assets under Construction (AUC or WIP) | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | | |
| At March 31, 2015 | $ 18,534 | $ 15,886 | $ 6,294 | $ 414 | $ 696 | $ 39,034 | $ 37,816 | $ 3,359 | $ 122,033 |
| Additions | 467 | 472 | 508 | 93 | - | 1,663 | 1,057 | 3,199 | 7,459 |
| Transfers | 208 | 199 | 18 | 278 | - | 234 | 253 | (1,190) | - |
| Disposals | (165) | (142) | - | - | (6) | (82) | (1,188) | - | (1,583) |
| At March 31, 2016 | 19,044 | 16,415 | 6,820 | 785 | 690 | 40,849 | 37,938 | 5,368 | 127,909 |
| Depreciation | | | | | | | | | |
| At March 31, 2015 | (12,225) | (11,158) | (3,251) | (255) | - | (28,824) | (22,170) | - | (77,883) |
| Depreciation expense | (1,420) | (993) | (1,017) | (121) | - | (1,217) | (3,082) | - | (7,850) |
| Disposals | 157 | 141 | - | - | - | 67 | 1,081 | - | 1,446 |
| At March 31, 2016 | (13,488) | (12,010) | (4,268) | (376) | - | (29,974) | (24,171) | - | (84,287) |
| Carrying amounts | | | | | | | | | |
| At March 31, 2015 | $ 6,309 | $ 4,728 | $ 3,043 | $ 159 | $ 696 | $ 10,210 | $ 15,646 | $ 3,359 | $ 44,150 |
| At March 31, 2016 | $ 5,556 | $ 4,405 | $ 2,552 | $ 409 | $ 690 | $ 10,875 | $ 13,767 | $ 5,368 | $ 43,622 |

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

March 31, 2016 (in thousands)

## 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 |
| $6,312 | $30,080 | $22,769 | $59,161 |

## 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 $3,447 (2015 - $3,434) 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 this fiscal year, the actuarial assumptions in the financial statements in regards to the PSA have been that the benefit is based on the number of years of service and the employee's compensation during the final year of employment. Under the management of the Corporation's parent, the Province of Nova Scotia, the PSA plan has been closed effective April 1, 2015, such that services earned toward this benefit are frozen as of that date. Actuarial assumptions included in the financial statements for the year ended March 31, 2016 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 abscences 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.

March 31, 2016 (in thousands)

## 9. Employee remuneration (continued)

**Defined benefit plans and other long term employee benefits (continued)**
Mercer Limited carried out the most recent actuarial valuation utilizing plan membership data up to December 31, 2015 (for the Retiree Health, Service Awards, and Sick Leave benefits). The present value of the benefit obligations were then calculated by extrapolating these valuations out to March 31, 2016. The next actuarial valuations will be performed as of December 31, 2018.

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

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

| | Valuation at | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2016 | | | March 31, 2015 | | |
| | Retiree health | Service award | Sick leave | Retiree health | Service award | Sick leave |
| Discount rate(s) | 3.9% | 3.2% | 3.4% | 3.7% | 3.1% | 2.9% |
| Expected rate(s) of salary increase | n/a | 2.5% | 2.5% | n/a | 2.5% | 2.5% |
| Initial weighted average health care trend rate | 5.43% | n/a | n/a | 5.61% | n/a | n/a |
| Ultimate weighted average health care trend rate | 4.3% | n/a | n/a | 4.38% | 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, 2016 | | | | March 31, 2015 | | | |
| | Retiree health | Service award | Sick leave | Total | Retiree health | Service award | Sick leave | Total |
| Current service cost | $ 645 | $ 247 | $ 647 | $ 1,539 | $ 498 | $ 232 | $ 596 | $ 1,326 |
| Past service cost | - | (2,035) | - | (2,035) | - | - | - | - |
| Interest on obligation | 682 | 191 | 172 | 1,045 | 702 | 251 | 202 | 1,155 |
| Actuarial (gains) losses | (3,543) | 245 | (535) | (3,833) | 2,357 | (234) | 190 | 2,313 |
| | $ (2,216) | $ (1,352) | $ 284 | $ (3,284) | $ 3,557 | $ 249 | $ 988 | $ 4,794 |

Notes to the Financial Statements March 31, 2016 (in thousands)

## 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, 2016 | March 31, 2015 |
| Present value of unfunded defined benefit obligation | | |
| Current portion | $ 1,539 | $ 1,326 |
| Non-current portion | 24,940 | 30,193 |
| Total | $ 26,479 | $ 31,519 |

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

| | 2016 | 2015 |
|---|---|---|
| Benefit obligations, beginning of year | $ 31,519 | $28,350 |
| Current service cost | 1,539 | 1,326 |
| Past sevice cost | (2,035) | - |
| Interest cost | 1,045 | 1,155 |
| Actuarial (gains) losses | (3,833) | 2,313 |
| Benefits paid | (1,756) | (1,625) |
| Benefit obligations, end of year | $ 26,479 | $ 31,519 |

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

| | 2016 | 2015 |
|---|---|---|
| Effect on aggregate of current service cost and interest cost | | |
| One percentage point increase | $ 368 | $ 288 |
| One percentage point decrease | (271) | (218) |
| Effect on accrued benefit obligation | | |
| One percentage point increase | 3,127 | 4,137 |
| One percentage point decrease | (2,413) | (3,176) |

March 31, 2016 (in thousands)

## 10. Change in non-cash operating working capital

| | 2016 | 2015 |
|---|---|---|
| Receivables | $ (535) | $ (188) |
| Inventories | (4,373) | (439) |
| Prepaids | (873) | 487 |
| Payables and accruals | 2,914 | 251 |
| | $ (2,867) | $ 111 |

## 11. Related party transactions

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

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

The following is compensation expense for key management personnel:

| | 2016 | 2015 |
|---|---|---|
| Short term benefits | $ 1,566 | $ 1,522 |
| Post-employment benefits | 127 | 116 |
| Other long term benefits | 23 | 19 |
| Total compensation | $ 1,716 | $ 1,657 |

## 12. Operating expenses

| | 2016 | 2015 |
|---|---|---|
| Salaries and employee benefits | $ 58,293 | $ 58,173 |
| Depreciation and amortization | 9,167 | 9,368 |
| Occupancy | 7,990 | 7,961 |
| Debit, credit and gift card fees | 4,778 | 4,890 |
| Service contracts and licenses | 4,692 | 5,088 |
| Utilities | 2,808 | 2,953 |
| Maintenance and repairs | 2,287 | 1,774 |
| Marketing and merchandising | 2,075 | 1,988 |
| Freight | 1,951 | 1,960 |
| Supplies and sundry | 1,654 | 1,665 |
| Legal, audit and consulting | 1,254 | 1,538 |
| Travel, training and meetings | 912 | 918 |
| Corporate/social responsibility | 699 | 697 |
| Guard services | 667 | 645 |
| Waste diversion | 597 | 645 |
| Market surveys | 339 | 279 |
| Other | 262 | 47 |
| Insurance | 233 | 251 |
| Bank charges and armoured car | 224 | 329 |
| Memberships and subscriptions | 194 | 179 |
| Telephone | 160 | 168 |
| Publications | 138 | 98 |
| Industry support | 103 | 100 |
| Postage and courier | 61 | 65 |
| Post employment current service costs (note 9) | (496) | 1,326 |
| Actuarial loss (gain) on other employment benefit (note 9) | (535) | 190 |
| | $ 100,507 | $ 103,295 |

## 13. Capital management

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

**Nova Scotia Liquor Corporation**

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