ANNUAL REPORT 2014-2015

1,475 employees.
105 stores.
60 agency stores.
1 great year in review.

CONTENTS


Our year.

Under the guidance of our board of directors, the NSLC enjoyed another great year and embarked on a number of changes designed to position the corporation for an even better future. With a focus on planning and delivering value to both the province and the people who call it home, we truly have lots to celebrate.

More than just a network of stores, the NSLC is a collective of exceptional people whose ideas and actions drive important revenues for the province, help cultivate local industry and promote responsible consumption.

As Nova Scotians serving Nova Scotians, we are proud to share our story with you through this annual report.

Attn: The Honourable Randy Delorey, Minister of Finance and Treasury Board
c: The People of Nova Scotia

Dear Minister Delorey,

I am proud to present the 2014-2015 annual report for the Nova Scotia Liquor Corporation (NSLC). With an eye on sustainability, cultivating local industry and providing superb customer service, the NSLC has truly become part of the Nova Scotia fabric, supporting new avenues for growth and creating new ways to give back to Nova Scotians.

This year, the corporation earned more than $228 million for the provincial treasury to help fund important and essential public services that Nova Scotians have come to depend on; all while achieving the highest customer satisfaction scores in our history. It's a milestone of which the NSLC is extremely proud.

On behalf of the 1,475 employees, 105 stores, 60 agency stores and our partners in the Private Wine & Specialty stores, we hope you enjoy this year's report.

Yours truly,

Sherry Porter

Sherry Porter
CHAIR, NSLC BOARD OF DIRECTORS

Optimism and teamwork.

Going the extra mile. It's a philosophy woven into every element of today's NSLC.

During the year, the NSLC accomplished some incredible results. Local product sales soared to an all-time high with additional support for spirits, wine and beer makers. Over half a million dollars was spent on delivering programs that encourage responsible consumption. And new technologies were adopted to significantly reduce the corporation's carbon footprint and consumption of water and electricity.

During the period, the NSLC also adopted strict expense controls while continually refining the product mix. Despite continued volume declines and fewer customer transactions overall, these strategies enabled us to exceed our profit expectations for the year, delivering a sound return for our shareholder. On behalf of everyone on your NSLC team, we thank you for the opportunity to share our success.

Sincerely,

Sherry Porter

Sherry Porter
NSLC BOARD OF DIRECTORS

Bret Mitchell
PRESIDENT & CEO

About us.

The Nova Scotia Liquor Corporation has been part of Nova Scotia life since 1930. Since those early days, the NSLC has grown into a sophisticated and modern retailer, providing customers with exceptional service in every corner of the province, while providing employees with a safe and progressive work environment. With 105 retail stores and more than 1,475 employees, the organization is a vital part of the communities where our people work, live and play.

Why We Exist

During the early years, the NSLC's role was to manage the controlled sale of beverage alcohol. Today, that mandate has expanded considerably, as we strive to bring a world of responsible beverage enjoyment to Nova Scotia while focusing on being a superb and sustainable retailer. In practical terms, that means:

- Delivering exceptional customer service
- Cultivating the success of local products and the industry
- Promoting responsible consumption and awareness
- Generating income used to help fund key public services

A Culture of Sustainability

Sustainability is more than just a word. It's a way of life. At the NSLC, sustainability is a key consideration in everything we do. Over the past year, the corporation continued this commitment by monitoring greenhouse gas emissions, implementing new energy-efficient systems in our stores and Distribution Centre and reducing our carbon footprint. The NSLC also sponsors major initiatives such as the NSLC Adopt-A-Stream program, which directly supports the protection and revitalization of Nova Scotia's rivers, streams and fish populations.

A Network of Change

The NSLC has been working hard to provide Nova Scotians with a variety of store sizes and formats that best suit the communities they're in. It's called the "Right place. Rights products. Right size." approach. This approach has culminated in a network of 105 NSLC retail stores across the province, 60 agency stores (those paired with other businesses in smaller communities), and four Private Wine & Specialty stores. Both agency and Private Wine & Specialty stores are owned and managed by private operators, giving customers a wide array of options delivered by both the public and private sectors.

Focused on the Customer

Great customer service doesn't happen by accident. With a focus on continuous training and employee development, the NSLC works hard every day to provide Nova Scotians with an exceptional experience each and every time they enter our stores.

We also pride ourselves on delivering a great and progressive selection of products to choose from. This year the Corporation introduced a total of **1,506** new products and special, one-time only offerings and launched a wine discovery guide to make purchasing easier and more enjoyable. During the year, over 90% of our customers gave us top marks for customer service. That's the best we've ever scored.

Nova Scotians can now purchase beverage alcohol at **105 retail stores**, **60 agency stores**, and **four private Wine & Specialty stores**.

100% OF OUR PROFIT GOES TO THE GOVERNMENT TO HELP FUND KEY SERVICES.

Our Financial Return:

GOVERNMENT OF CANADA: **$84,732,286** (HST, EXCISE AND CUSTOMS)

\+

PROVINCIAL GOVERNMENT (PROFIT): **$227,986,482+ $14,133,091** (REFUNDABLE CONTAINER DEPOSITS)

\+

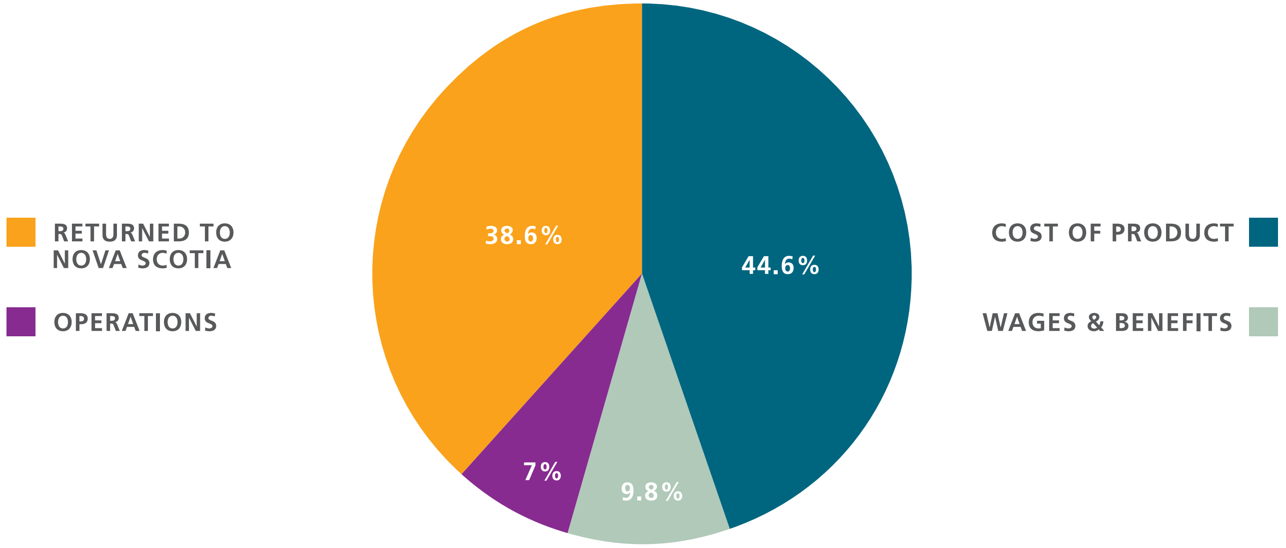
MUNICIPALITIES **$2,321,595** (PROPERTY TAXES)

=

A TOTAL REMITTANCE OF **$329,173,454**

Our spending.

Where does the money go? This is a frequently asked question. **100% of all profit** the NSLC generates goes directly to the province and is used to finance the things Nova Scotians depend on. In the past four years alone, the NSLC contributed over a billion dollars that the province can use to finance essential public services.



The NSLC works hard to operate a business that's good for Nova Scotians. During the year, the corporation generated a total of **$591M** in revenue and returned **$228M** in net income to the provincial treasury.

Our contributions to the province

$228 Million
in profit that goes back to the provincial government to fund key public services, and **over a billion** in the past four years

$198 Million
in sales of locally produced and bottled products

1.6 Million
ID checks as part of our **We ID** program

1,475
employees in every corner of the province that in turn contribute to their local economies

960
tonnes of CO_2 eliminated in our stores, Distribution Centre and Head Office since 2010

$100,000
contribution toward revitalizing local rivers and streams through **NSLC Adopt-A-Stream program**, with equal commitments for the next two years

$286,580.26
donated to the IWK Health Centre, making us one of the top five corporate sponsors of this vital hospital for women and children

66 schools
received MADD presentations educating on impaired driving

$29,783.90
donated to local charities through Cash Cans

90%
customer satisfaction rate, based on independent customer service research

Social responsibility.

As a corporation, the NSLC focuses on running a sustainable business. That means investing in programs and campaigns that encourage Nova Scotians to celebrate responsibly. Our "Celebrate Responsible Choices" approach is designed to foster a more positive role for beverage alcohol in today's society.

We ID

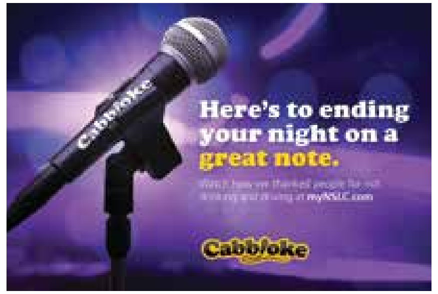
If you look under 30, there's a good chance you'll be asked for ID at our stores. As the cornerstone of our We ID campaign, we asked for proof of age 1.6 million times last year and refused nearly 11,000. It's just one more way we're going the extra mile as a responsible retailer.

MADD Canada

Each year, the NSLC partners with MADD Canada to convey the harms of impaired driving to Nova Scotia students through a school assembly program. This year, 66 schools participated in the drug and alcohol impaired driving awareness and risk reduction efforts, reaching more than 50,000 students.

Budweiser Good Sport Program

What's better than hockey and beer? Pairing it with a designated driver. We continued our partnership with Budweiser and the Scotiabank Centre (formerly the Halifax Metro Centre) this year to offer free soft drinks to designated drivers at most Scotiabank Centre events, including all Halifax Mooseheads' home games.



Cabbioke – Nova Scotia's own Karaoke Taxi Cab

Who says doing the right thing can't be fun? This year the NSLC wanted to create a fun and unexpected way to reward people for making the right choice at the end of the night. The result was a custom-branded karaoke club on wheels that offered Nova Scotians a free cab ride home after their evening out. The only catch? They had to sing for it! With cameras filming all the action, it quickly became a local favourite while earning accolades from coast to coast for its positive approach and innovative spirit. It's also loved by Nova Scotians, who appreciate the importance of the message and their role in our success. You can see all the action at **cabbioke.ca**.

Keep it Social

Collaborating with student leaders from major universities across the province, the NSLC continued the *Keep it Social* campaign in an effort to curb high-risk drinking on and around campus. The campaign features a series of poignant, humorous ads on campuses that encourage students to think twice about their drinking behaviours. It's all part of a multi-year strategy supported by administrators and student unions alike, and recognized as a best practice approach at national and international academic conferences. To see more, visit **keepitsocial.ca**.

Giving Back

The NSLC has an important part to play in the communities in which we work and live. Our employees engage with the community both personally and professionally as leaders, volunteers and proud supporters. The following are just a few of the ways that we, as an organization, give back:

IWK Health Centre. The NSLC has supported the IWK Health Centre as the employee charity of choice for more than 30 years. This year employees raised **$286,580.26** to support the IWK Health Centre, making the NSLC among their top five corporate sponsors. This brings our overall contribution to more than **$2.6 million**.

Symphony Nova Scotia. Nova Scotia's symphony reaches more than 50,000 people of all ages each year through concerts and educational programs. The NSLC supports this group of world-class musicians with the Port of Wines Festival's Winemaker's Dinner. Last year, over **$49,000** was raised through silent and live auctions which was donated directly to the Symphony.

Wolfville Magic Winery Bus. A North American one-of-a-kind, this hop-on, hop-off excursion visits four of Nova Scotia's most storied and beautiful local wineries. The NSLC as a business sponsor is pleased to contribute to the promotion of this unique region that creates some of the most memorable wines in the world and is known as the centre of wine country in Atlantic Canada.

Cash Cans. Placed at NSLC cash registers across the province, cash cans make it easy to turn loose change into positive change. In 2014, the cash can program raised **$29,783.90** for local organizations such as the Kidney Foundation, Special Olympics Nova Scotia and Autism Nova Scotia.

Industry support.

This year, the NSLC contributed over **$16 Million** in direct and indirect financial assistance to the local industry.

Industry Support

- Financially support associations that help promote and cultivate the growth of these industries such as the Winery Association of Nova Scotia and the Craft Beer Association of Nova Scotia
- Provide strategic guidance to new entrants in the beverage alcohol industry to improve their chances of success
- Work with the province on making it easier for producers to sell their products (e.g. flexibility to sell at events, farmers markets and direct to consumer) and open doors for export by negotiating preferred prices in other provinces

Retail Support

- Stock and sell the maximum amount of product available to the NSLC
- Provide local products with ideal retail space based on detailed customer analytics
- Provide extensive training and support to our retail product specialists so they're well-versed on local products
- Provide local products with a reduced markup so they can better compete on price with larger competitors

Marketing Support

- Promote wine tastings for Nova Scotian products to help customers identify which local wines they like best
- Promote local products in our advertising and through features in Occasions magazine

How have we supported your local product?

Cider

We sold $1.2 million of cider last year – a remarkable **634% leap** since 2012.

This year, approximately **549,000 bottles** were purchased from NSLC shelves.

Top selling local ciders for the year were Stutz, Bullwark's and Shipbuilder's.

Spirits

We worked with the province to **grant distilleries the same benefits as craft brewers and wineries** to help cultivate industry growth.

We supported new products from **Authentic Seacoast Distilling**.

We grew sales of local spirits by nearly **80.7%**.

Beer

One out of two bottles of craft beer sold in Nova Scotia is a local product.

During 2015, we sold the equivalent of **2.8 million bottles of local craft beer** – an increase of 25.4% from the year prior.

The NSLC sold more than **$161 million** in locally produced commercial beer, which includes labels such as Oland Export, Alexander Keith's and Labatt. That works out to approximately **17 million six-packs**!

Wine

We sold **$11.6 million in local wine**, up 12% over last year, which equates to nearly half a million bottles.

In the past five years, the **sales of local wine has nearly doubled**, growing from $6.2M to $11.6M.

Sales of Nova Scotia wines now **surpass those from France, Chile and Australia**.

One out of eleven dollars spent on wine at the NSLC is **spent on a local product**.

The **number one selling wine** at the NSLC is a local product – **Nova 7**.

Our sustainability.

As part of the organization's efforts in sustainability, a number of measures have been adopted to reduce our carbon footprint, energy consumption, and eliminate waste.

During the year, the NSLC continued efforts to reduce greenhouse gasses by installing more energy-efficient LED and CFL lighting in stores and Cool Zones, installing outside air economizers for free cooling in the colder months and installing more efficient fan and heat control systems. In all, greenhouse gas emissions were reduced from 22,229 tonnes of CO_2e to 20,597 tonnes in the past five years. This success has earned the organization some prestigious awards, including the Mobius Award for Large Business of the Year from the Resource Recovery Fund Board and the Bright Business Award from Efficiency Nova Scotia.

Zero Waste

The NSLC also embarked on an ambitious goal to divert 95% of all solid waste materials from Nova Scotia landfills in Head Office, the Distribution Centre and eight stores across HRM. Recent audits of these locations indicate the NSLC has reached its goal and plans are in place to expand the program to additional stores in 2015.

With the support of our customers and partners, we've committed **$600,000** since 2009 to **revitalize and restore Nova Scotia's waterways**.

Since starting the NSLC Adopt-A-Stream program we've helped:

Restore 456,149 m² of degraded stream habitat

Plant 55,149 streamside trees

Train 25 community groups in restoration methods

Re-establish 222 km of fish passage

Create 338 seasonal field jobs

Engaged **500 volunteers** who gave **77,883** hours of time

Protecting the environment is something we're truly passionate about. Each year, our employees volunteer their time and energy to clean and restore our local waterways and their fish populations. In partnership with the Nova Scotia Salmon Association, we've created the NSLC Adopt-A-Stream program to provide hands on training, technical support and project funding for community groups who share our passion.

Our Board of Directors.

Top row: Bret Mitchell, James Wilson, Heather MacDougall, John MacKinnon, Allan Rowe
Bottom row: Paul Kent, Sherry Porter, Dave DiPersio, Kim Brooks, Michele McKenzie
Missing: John Carter

A special thanks to our Board of Directors, who provide strategic guidance, insight and direction to the NSLC throughout the year. Their contributions toward making the NSLC a success are truly appreciated.

Our Executive Team.

Back row: Danny MacMillan (VP Operations), Heather MacDougall (Director, Government and Public Affairs), Tim Pellerin (VP Customer Strategy), Hoyt Graham (VP Sustainable Development and Facilities)
Front row: Bret Mitchell (President & CEO), Dave DiPersio (VP Finance and Information Technology), Brad Doell (VP Supply Chain & Procurement), Roddy Macdonald (VP Human Resources)

A special thanks goes to our management executives. Together they help run and shape every aspect of our business.

Financial Statements
Nova Scotia Liquor Corporation
March 31, 2015

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the Nova Scotia Liquor Corporation, which comprise the balance sheet as at March 31, 2015 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 audits 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, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton LLP

Halifax, Canada
June 10, 2015

Chartered Accountants

Nova Scotia Liquor Corporation

Statements of Earnings

YEAR ENDED MARCH 31 (IN THOUSANDS)

	2015	2014
Sales	$ 591,300	$ 593,166
Cost of sales	263,507	268,001
Gross margin	327,793	325,165
Operating expenses (note 12)	103,295	101,446
Other income	(4,643)	(5,681)
Earnings from operations	229,141	229,400
Interest expense – lease liability	–	2
Post employment benefit interest cost (note 9)	1,155	1,152
Total finance costs	1,155	1,154
Earnings for the year	$ 227,986	$ 228,246

Nova Scotia Liquor Corporation

Statements of comprehensive earnings

YEAR ENDED MARCH 31 (IN THOUSANDS)

	2015	2014
Earnings for the year	$ 227,986	$ 228,246
Other comprehensive earnings		
Items that will not be reclassified subsequently to earnings:		
Actuarial (losses) gains on defined benefit plans (note 9)	(2,123)	2,296
Comprehensive earnings for the year	$ 225,863	$ 230,542

Nova Scotia Liquor Corporation

Balance Sheets

MARCH 31 (IN THOUSANDS)

	2015	2014
Assets		
Current		
Cash	$ 16,815	$ 13,612
Receivables	2,031	1,843
Inventories	47,635	47,196
Prepaids	827	1,314
	67,308	63,965
Intangibles (note 6)	3,415	4,276
Property and equipment (note 7)	44,150	45,369
	$ 114,873	$ 113,610
Liabilities		
Current		
Payables and accruals	$ 41,118	$ 40,867
Current portion of obligations under finance lease	–	19
Current portion of employee future benefit obligations (note 9)	1,326	1,490
	42,444	42,376
Obligations under finance lease	–	1
Employee future benefit obligations (note 9)	30,193	26,860
	72,637	69,237
Equity (page 30)	42,236	44,373
	$ 114,873	$ 113,610

On behalf of the Board

Ms. Sherry Porter
CHAIR, BOARD OF DIRECTORS

Mr. John B. Carter, FCA, ICD.D
AUDIT COMMITTEE CHAIR

Nova Scotia Liquor Corporation

Statements of Changes in Equity

(IN THOUSANDS)

	Other components of equity	Retained earnings	Total
Balance at March 31, 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

	Other components of equity	Retained earnings	Total
Balance at April 1, 2013	$ (2,269)	$ 42,100	$ 39,831
Remittances to Minister of Finance	–	(226,000)	(226,000)
Earnings for the year	–	228,246	228,246
Other comprehensive income	2,296	–	2,296
Comprehensive earnings for the year	2,296	228,246	230,542
Balance at March 31, 2014	$ 27	$ 44,346	$ 44,373

Nova Scotia Liquor Corporation

Statements of Cash Flows

YEAR ENDED MARCH 31 (IN THOUSANDS)

	2015	2014
Operating		
Earnings for the year	$ 227,986	$ 228,246
Depreciation and amortization	9,368	9,648
Loss (gain) on disposal of property and equipment	131	(1,183)
Post employment service costs	1,326	1,490
Post employment benefit interest cost	1,155	1,152
Actuarial gain on post employment benefit	190	(369)
Defined benefit plans benefits paid	(1,625)	(1,302)
	238,531	237,682
Change in non-cash operating working capital (note 10)	111	(4,716)
	238,642	232,966
Financing		
Principal payments on obligation under finance lease	(20)	(20)
Remittances to Minister of Finance	(228,000)	(226,000)
	(228,020)	(226,020)
Investing		
Purchase of intangibles	(949)	(1,423)
Purchase of property and equipment	(6,861)	(9,498)
Proceeds on sale of property and equipment	391	1,700
	(7,419)	(9,221)
Net change in cash	3,203	(2,275)
Cash, beginning of year	13,612	15,887
Cash, end of year	$ 16,815	$ 13,612

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, 2015 (including comparatives) were approved and authorized for issue by the Board of Directors on June 10, 2015.

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 judgment 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 assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

USEFUL LIVES OF PROPERTY AND EQUIPMENT AND INTANGIBLES

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected pattern of consumption of the future economic benefits embodied in the assets. The useful life of specific assets may be impacted by changes in the actual economic consumption pattern.

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 standard 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 for base and bonus points under the terms of the agreement with AIR MILES®. Income from the program, funded by the vendor's purchase of bonus points, is recognized in the period in which it is earned with the associated cost of points offsetting the revenue. The net cost or revenue 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

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.

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 balance sheet 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 net earnings; 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

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, 2015 and 2014.

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.

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.

The amended version of IAS 19 is effective for annual periods beginning on or after July 1, 2014. There is expected to be no impact of this revised standard on the fiscal 2016 financial statements.

Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and 38)

The amendments provide additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. The IAS 16 amendment clarifies that a depreciation method based on revenue generated by an activity that includes the use of an asset is not appropriate. The requirements of IAS 38 are amended to introduce a rebuttable presumption that a revenue-based amortization method for intangible assets is inappropriate for the same reasons as in IAS 16.

The amended versions of IAS 16 and 38 are effective for annual periods beginning on or after January 1, 2016. There is expected to be no impact of this revised standard to the fiscal 2017 financial statements.

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 aggregregated as relevant and guidance on subtotals, and clarification that an entity's share in OCI of equity-accounted and joint ventures should be presented in aggregate as a single line item based on whether or not it will be subsequently reclassified to profit and loss.

The amended verion 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.

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, 2017. 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.

5. Accounting standards and policies adopted during fiscal 2015

Impairment of Assets

The effect of IAS 36 Amendment, Recoverable Amount Disclosures for Non-Financial Assets, is to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. This amedment became effective during fiscal 2015 and had no impact on the Corporation's financial results.

Offsetting Financial Assets and Financial Liabilities

The amendment to IAS 32 Financial Instruments: Presentation clarifies certain aspects because of diversity in application of the requirements on offsetting. The amendment focuses on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- the application of simultaneous realization and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements

The amendment became effective during fiscal 2015 and had no impact on the Corporation's financial statements.

Provisions, Contingent Liabilities and Contingent Assets

IFRIC 21 Levies is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. It establishes criteria for the recognition of a liability to pay levies imposed by governments other than income taxes. This interpretation became effective during fiscal 2015 and did not have an impact on the Corporation's financial results.

MARCH 31, 2015 (IN THOUSANDS)

6. Intangibles

	Enterprise Resource Planning (ERP)	Other Intangibles	Assets under Development	Total
Cost				
At March 31, 2014	$ 25,049	$ 3,200	$ 1,413	$ 29,662
Additions	**834**	**144**	**(7)**	**971**
Transfers	**1,285**	**34**	**(1,340)**	**(21)**
Disposals	**–**	**(462)**	**–**	**(462)**
At March 31, 2015	**27,168**	**2,916**	**66**	**30,150**
Amortization				
At March 31, 2014	(23,188)	(2,198)		(25,386)
Amortization expense	**(900)**	**(743)**	**–**	**(1,643)**
Disposals	**–**	**294**	**–**	**294**
At March 31, 2015	**(24,088)**	**(2,647)**	**–**	**26,735)**
Carrying amounts				
At March 31, 2014	$ 1,861	$ 1,002	$ 1,413	$ 4,276
At March 31, 2015	**$ 3,080**	**$ 269**	**$ 66**	**$ 3,415**

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

7. Property and equipment

	Furniture & Fixtures	Other Equipment	Small Computers	Software & Hardware	Land	Buildings	Capital & Leasehold Improvements	Assets under Construction (AUC or WIP)	Total
Cost									
At March 31, 2014	$ 17,331	$ 15,416	$ 12,126	$ 2,251	$ 701	$ 34,629	$ 37,540	$ 5,743	$ 125,737
Additions	**692**	**389**	**1,493**	**94**	**–**	**1,323**	**802**	**2,068**	**6,861**
Transfers	**612**	**132**	**272**	**43**	**–**	**3,146**	**267**	**(4,452)**	**20**
Disposals	**(101)**	**(51)**	**(7,597)**	**(1,974)**	**(5)**	**(64)**	**(793)**	**–**	**(10,585)**
At March 31, 2015	**18,534**	**15,886**	**6,294**	**414**	**696**	**39,034**	**37,816**	**3,359**	**122,033**
Depreciation									
At March 31, 2014	(10,937)	(10,201)	(9,735)	(2,129)	–	(27,694)	(19,672)	–	(80,368)
Depreciation expense	**(1,351)**	**(989)**	**(1,111)**	**(100)**	**–**	**(1,155)**	**(3,020)**	**–**	**(7,726)**
Disposals	**63**	**32**	**7,595**	**1,974**	**–**	**25**	**522**	**–**	**10,211**
At March 31, 2015	**(12,225)**	**(11,158)**	**(3,251)**	**(255)**	**–**	**(28,824)**	**(22,170)**	**–**	**(77,883)**
Carrying amounts									
At March 31, 2014	$ 6,394	$ 5,215	$ 2,391	$ 122	$ 701	$ 6,935	$ 17,868	$ 5,743	$ 45,369
At March 31, 2015	**$ 6,309**	**$ 4,728**	**$ 3,043**	**$ 159**	**$ 696**	**$ 10,210**	**$ 15,646**	**$ 3,359**	**$ 44,150**

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

MARCH 31, 2015 (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
$ 7,514	$ 29,151	$ 26,270	$ 62,935

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' contributions 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 $3,434 (2014 - $3,315) and represents contributions paid or payable to these plans by the Corporation at rates specified in the plans.

Defined benefit plans and other long term employee benefits

The Public Service Award 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. The benefit is based on the number of years of service and the employee's compensation during the final year of employment. This program is 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 defined benefit plan 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.

Mercer Limited carried out the most recent actuarial valuation utilizing plan membership data up to December 31, 2012 (for the Retiree Health and Service Awards benefits) and December 31, 2013 (for the Sick Leave benefits). The present value of the benefit obligations were then calculated by extrapolating these valuations out to March 31, 2015. The next actuarial valuations will be performed as of December 31, 2015.

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:

	March 31, 2015			Extrapolation at March 31, 2014		
	Retiree health	**Service award**	**Sick leave**	Retiree health	Service award	Sick leave
Discount rate(s)	**3.7%**	**3.1%**	**2.9%**	4.6%	3.9%	3.7%
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	**5.61%**	**n/a**	**n/a**	5.73%	n/a	n/a
Ultimate weighted average health care trend rate	**4.38%**	**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:

	March 31, 2015				Extrapolation at March 31, 2014			
	Retiree health	**Service award**	**Sick leave**	**Total**	Retiree health	Service award	Sick leave	Total
Current service cost	**$ 498**	**$ 232**	**$ 596**	**$ 1,326**	$ 516	$ 479	$ 495	$ 1,490
Interest on obligation	**702**	**251**	**202**	**1,155**	748	218	186	1,152
Actuarial (gains) losses	**2,357**	**(234)**	**190**	**2,313**	(2,856)	560	(369)	(2,665)
	$ 3,557	**$ 249**	**$ 988**	**$ 4,794**	$ (1,592)	$ 1,257	$ 312	$ (23)

MARCH 31, 2015 (IN THOUSANDS)

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

	Extrapolation at March 31, 2015	March 31, 2014
Present value of unfunded defined benefit obligation		
Current portion	$ 1,326	$ 1,490
Non-current portion	30,193	26,860
Total	$ 31,519	$ 28,350

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

	2015	2014
Benefit obligations, beginning of year	$ 28,350	$ 29,674
Current service cost	1,326	1,490
Interest cost	1,155	1,152
Actuarial (gains) losses	2,313	(2,665)
Benefits paid	(1,625)	(1,301)
Benefit obligations, end of year	$ 31,519	$ 28,350

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

	2015	2014
Effect on aggregate of current service cost and interest cost		
One percentage point increase	$ 288	$ 311
One percentage point decrease	(218)	(235)
Effect on accrued benefit obligation		
One percentage point increase	4,137	3,015
One percentage point decrease	(3,176)	(2,358)

10. Change in non-cash operating working capital

	2015	2014
Receivables	$ (188)	$ (467)
Inventories	(439)	(2,432)
Prepaids	487	(370)
Payables and accruals	251	(1,447)
	$ 111	$ (4,716)

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:

	2015	2014
Short term benefits	$ 1,522	$ 1,602
Post-employment benefits	116	126
Other long term benefits	19	18
Total compensation	$ 1,657	$ 1,746

12. Operating expenses

	2015	2014
Salaries and employee benefits	$ 58,173	$ 55,903
Depreciation and amortization	9,368	9,648
Occupancy	7,961	8,000
Service contracts and licenses	5,088	4,519
Debit, credit and gift card fees	4,890	4,573
Utilities	2,953	2,953
Marketing and merchandising	1,988	2,133
Freight	1,960	2,503
Maintenance and repairs	1,774	1,901
Supplies and sundry	1,665	1,626
Legal, audit and consulting	1,538	1,386
Post employment current service costs (note 9)	1,326	1,490
Travel, training and meetings	918	1,025
Corporate/social responsibility	697	721
Guard services	645	988
Waste diversion	645	650
Bank charges and armoured car	329	404
Market surveys	279	263
Insurance	251	250
Actuarial loss (gain) on post employment benefit (note 9)	190	(369)
Memberships and subscriptions	179	230
Telephone	168	212
Industry support	100	100
Publications	98	104
Postage and courier	65	75
Other	47	158
	$ 103,295	$ 101,446

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.

Cheers to you!

THIS YEAR **OVER HALF** OF OUR CUSTOMERS GAVE US A PERFECT **10 OUT OF 10** FOR CUSTOMER SERVICE.

NSLC