Grant Thornton

Financial Statements

Nova Scotia Liquor Corporation

March 31, 2019

Contents

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Independent auditor's report

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

Opinion
We have audited the financial statements of the Nova Scotia Liquor Corporation ("the Corporation") , which comprise the statement of financial position as at March 31, 2019, and the statements of earnings, comprehensive earnings, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of the Corporation as at March 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Grant Thornton LLP

Halifax, Canada
June 14, 2019

Chartered Professional Accountants
Licensed Public Accountants

Nova Scotia Liquor Corporation
Statements of earnings

Year ended March 31 (in thousands)	**2019**	2018
Sales (note 12)	**$ 662,084**	$ 625,662
Cost of sales	**311,242**	284,137
Gross margin	**350,842**	341,525
Operating expenses (note 13)	**116,586**	106,528
Other income	**(4,180)**	(4,577)
Earnings from operations	**238,436**	239,574
Post employment benefit interest cost (note 9)	**1,063**	968
Earnings for the year	**$ 237,373**	$ 238,606

See accompanying notes to the financial statements.

Nova Scotia Liquor Corporation
Statements of comprehensive earnings

Year ended March 31 (in thousands)		**2019**		2018
Earnings for the year	**$**	**237,373**	$	238,606
Other comprehensive earnings				
Items that will not be reclassified subsequently to earnings:				
Actuarial gains (losses) on defined benefit plans (note 9)		**1,487**		(283)
Comprehensive earnings for the year	**$**	**238,860**	$	238,323

See accompanying notes to the financial statements.

Nova Scotia Liquor Corporation
Statements of financial position

March 31 (in thousands)	2019	2018
Assets		
Current		
Cash	**$ 12,069**	$ 14,102
Receivables	**4,797**	5,342
Inventories	**61,031**	52,250
Prepaids	**2,802**	2,222
	80,699	73,916
Intangibles (note 6)	**5,796**	3,282
Property and equipment (note 7)	**50,994**	39,781
	$ 137,489	$ 116,979
Liabilities		
Current		
Payables and accruals	**$ 58,869**	$ 46,338
Current portion of employee future benefit obligations (note 9)	**1,139**	2,119
	60,008	48,457
Employee future benefit obligations (note 9)	**27,052**	28,953
	87,060	77,410
Equity (page 5)	**50,429**	39,569
	$ 137,489	$ 116,979

Lease commitments (note 8)

On behalf of the Board

Mr. George McLellan
Chair, Board of Directors

Mr. John MacKinnon
Audit Committee Chair

See accompanying notes to the financial statements.

Nova Scotia Liquor Corporation,
Statements of changes in equity

(in thousands)

	Other components of equity	Retained earnings	Total
Balance at March 31, 2018	**$ 653**	**$ 38,916**	**$ 39,569**
Remittances to Minister of Finance	**-**	**(228,000)**	**(228,000)**
Earnings for the year	**-**	**237,373**	**237,373**
Other comprehensive gain	**1,487**	**-**	**1,487**
Comprehensive earnings for the year	**1,487**	**237,373**	**238,860**
Balance at March 31, 2019	**$ 2,140**	**$ 48,289**	**$ 50,429**
Balance at April 1, 2017	$ 936	$ 37,810	$ 38,746
Remittances to Minister of Finance	-	(237,500)	(237,500)
Earnings for the year	-	238,606	238,606
Other comprehensive loss	(283)	-	(283)
Comprehensive earnings for the year	(283)	238,606	238,323
Balance at March 31, 2018	$ 653	$ 38,916	$ 39,569

See accompanying notes to the financial statements.

Nova Scotia Liquor Corporation
Statements of cash flows

Year ended March 31 (in thousands)	2019	2018
Operating		
Earnings for the year	$ 237,373	$ 238,606
Depreciation and amortization	9,068	8,357
Loss (gain) on disposal of property and equipment	142	(16)
Employee future benefit obligations	(1,394)	3,471
	245,189	250,418
Change in non-cash operating working capital (note 10)	3,715	3,439
	248,904	253,857
Financing		
Remittances to Minister of Finance	(228,000)	(237,500)
Investing		
Purchase of intangibles	(4,082)	(1,336)
Purchase of property and equipment	(18,855)	(6,427)
Proceeds on sale of property and equipment	-	16
	(22,937)	(7,747)
Net change in cash and cash equivalents	(2,033)	8,610
Cash and cash equivalents, beginning of year	14,102	5,492
Cash and cash equivalents, end of year	$ 12,069	$ 14,102

See accompanying notes to the financial statements.

1. Nature of operations

The Nova Scotia Liquor Corporation (the "Corporation") administers the Liquor Control Act, Chapter 260 of the Revised Statutes of Nova Scotia, 1989 and through the Nova Scotia Cannabis Control Act passed in the Nova Scotia Legislature on April 17, 2018. The Corporation is a government business enterprise as defined by Public Sector Accounting Board recommendations. The 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, 2019 (including comparatives) were approved and authorized for issue by the Board of Directors on June 14, 2019.

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.

<u>Significant management judgment</u>
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 CGUs are reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is recognized in earnings.

3. Summary of significant accounting policies (continued)

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

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

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

Useful lives of property and equipment and intangibles

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

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

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

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

Customer loyalty program
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.

3. Summary of significant accounting policies (continued)

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

Cash and cash equivalents
Cash and cash equivalents comprises cash on hand and demand deposits.

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

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

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

Enterprise resource planning	5 years
Other intangible assets	3 years

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

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

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

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

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

3. Summary of significant accounting policies (continued)

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

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in earnings. There are no impairment losses as at March 31, 2019 and 2018.

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

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

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

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

Defined benefit plans and other long term employee benefits
For defined benefit plans, including the Public Service Award Program, the post retirement health care plan and the sick leave plan, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses for the Public Service Award Program and the post retirement health care plan are recognized immediately within other comprehensive earnings. The actuarial gains and losses related to the sick leave plan are recognized in profit and loss. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested. The defined benefit obligations recognized on the balance sheet represent the present value of the defined benefit obligations.

3. Summary of significant accounting policies (continued)

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

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

The Corporation has classified its financial instruments as follows:

Asset/liability	Classification
Cash	Amortized cost
Receivables	Amortized cost
Payables and accruals	Amortized cost

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Classification and measurement of financial liabilities

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

Financial instruments risk

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

Foreign currency translation

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

Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. A provision is a liability of uncertain timing or amount. There are no provisions as at March 31, 2019 and 2018.

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

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

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

IFRS 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.

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

IFRS 16 Leases (IFRS 16) (continued)
Management is in the process of assessing the full impact of the Standard. So for, the Corporation:

- Has decided to make use of the practical expedient not to perform a full review of existing leases and apply IFRS 16 only to new or modified contracts. As some leases will be modified or renewed in fiscal 2020, the Corporation has reassessed these leases and concluded they will be recognized on the statement of financial position as a right-of-use asset, and
- Believes that the most significant impact will be that the Corporation will need to recognize a right of use asset and a lease liability for the property leases currently treated as operating leases. This will mean that the nature of the expense of the above cost will change from being an operating lease to depreciation and interest expense.

The Corporation is planning to adopt IFRS 16 on April 1, 2019 using the Standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application. Comparative information is not restated.

Choosing this transition approach results in further policy decisions the Corporation need to make as there are several other transitional reliefs that can be applied. The Corporation is currently assessing the impact of applying these other transitional reliefs.

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

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

March 31, 2019 (in thousands)

5. Accounting standards and policies adopted during fiscal 2019

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.

Management completed their assessment and the Corporation has elected to apply the modified retrospective method on transition, which means that comparative periods have not been restated. The Corporation adopted IFRS 9 in its financial statements for the annual period beginning on April 1, 2018. The adoption of this standard had no financial impact to the Corporation.

The Corporation did not identify any changes to the classification and measurement of the existing financial instruments upon applying IFRS 9, other than a change in the classification of cash and receivables from loans and receivables to assets at amortized cost, which had no impact on these financial statements.

6. Intangibles

	Enterprise Resource Planning (ERP)	Other Intangibles	Assets under Development	Total
Cost				
At March 31, 2018	$ 28,069	$ 4,014	$ 1,346	$ 33,429
Additions	**-**	**3,242**	**840**	**4,082**
Transfers	**-**	**610**	**(610)**	**-**
Disposals	**(99)**	**-**	**-**	**(99)**
At March 31, 2019	**27,970**	**7,866**	**1,576**	**37,412**
Amortization				
At March 31, 2018	(26,711)	(3,436)		(30,147)
Amortization expense	**(618)**	**(946)**	**-**	**(1,564)**
Disposals	**95**	**-**	**-**	**95**
At March 31, 2019	**(27,234)**	**(4,382)**	**-**	**(31,616)**
Carrying amounts				
At March 31, 2018	$ 1,358	$ 578	$ 1,346	$ 3,282
At March 31, 2019	**$ 736**	**$ 3,484**	**$ 1,576**	**$ 5,796**

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

March 31, 2019 (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, 2018	$ 21,481	18,950	7,921	1,056	690	42,749	42,837	2,703	138,387
Additions	**810**	**978**	**693**	**377**	**-**	**3,627**	**7,858**	**4,512**	**18,855**
Transfers	**278**	**281**	**389**	**2**	**-**	**266**	**827**	**(2,044)**	**(1)**
Disposals	**(4,708)**	**(4,160)**	**(54)**	**(1)**	**-**	**(942)**	**(1,310)**	**-**	**(11,175)**
At March 31, 2019	**17,861**	**16,049**	**8,949**	**1,434**	**690**	**45,700**	**50,212**	**5,171**	**146,066**
Depreciation									
At March 31, 2018	(16,083)	(14,000)	(5,949)	(831)	-	(32,187)	(29,556)	-	(98,606)
Depreciation expense	**(1,209)**	**(1,059)**	**(941)**	**(234)**	**-**	**(1,092)**	**(2,969)**	**-**	**(7,504)**
Disposals	**4,627**	**4,134**	**45**	**1**	**-**	**923**	**1,308**	**-**	**11,038**
At March 31, 2019	**(12,665)**	**(10,925)**	**(6,845)**	**(1,064)**	**-**	**(32,356)**	**(31,217)**	**-**	**(95,072)**
Carrying amounts									
At March 31, 2018	$ 5,398	$ 4,950	$ 1,972	$ 225	$ 690	$ 10,562	$ 13,281	$ 2,703	$ 39,781
At March 31, 2019	**$ 5,196**	**$ 5,124**	**$ 2,104**	**$ 370**	**$ 690**	**$ 13,344**	**$ 18,995**	**$ 5,171**	**$ 50,994**

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

March 31, 2019 (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
$ 8,013	$ 32,524	$ 14,338	$ 54,875

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 $3,804 (2018 - $3,511) and represents contributions paid or payable by the Corporation at rates specified in the plans.

Defined benefit plans and other long term employee benefits

The Public Service Award (PSA) plan is a defined benefit plan covering substantially all of the Corporation's permanent unionized employees, as well as all full time non-union employees hired before August 1, 2005. Previous to fiscal year 2016, the actuarial assumptions in the financial statements in regards to the PSA had been that the benefit is based on the number of years of service and the employee's compensation during the final year of employment. Under the management of the Corporation's parent, the Province of Nova Scotia, the PSA plan has been closed effective April 1, 2015, for union employees, such that services earned toward this benefit are frozen as of that date and August 11, 2015 for non-union employees. On January 11, 2018 an administrative directive was issued by the Public Service Commissioner providing non-union employees with a one-time option to elect an immediate pay-out of their Service Award entitlement based on service at December 31, 2016 and salary at March 31, 2018. The impact of the elected payout in fiscal year 2019 was $969,470. Actuarial assumptions included in the financial statements have taken this into consideration. This program remains to be funded in the year of retirement of eligible employees.

The Corporation pays 65% of the cost of health care plans for substantially all retirees or surviving spouses of retirees. This is funded each year by the payment of the required premiums.

The Corporation also provides an accumulating non-vesting sick leave entitlement program. This program allows for the accumulation of unused sick time entitlements to cover short-term absences for health-related issues in lieu of a short-term disability plan. This program is funded each year as employees utilize their sick time entitlement.

March 31, 2019 (in thousands)

9. Employee remuneration (continued)

Defined benefit plans and other long term employee benefits (continued)
An independent actuary carried out the most recent actuarial valuation utilizing plan membership data up to December 31, 2017 (for the Retiree Health, Service Awards, and Sick Leave benefits). The present value of the benefit obligations were then calculated by extrapolating these valuations out to March 31, 2019. The next actuarial valuations will be performed as of December 31, 2020.

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

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

	Valuation at					
	March 31, 2019			March 31, 2018		
	Retiree health	**Service award**	**Sick leave**	Retiree health	Service award	Sick leave
Discount rate(s)	**3.4%**	**3.0%**	**3.0%**	3.6%	3.25%	3.25%
Expected rate(s) of salary increase	**n/a**	**2.5%**	**2.5%**	n/a	2.5%	2.5%
Ultimate weighted average health care trend rate	**4.5%**	**n/a**	**n/a**	4.5%	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, 2019				March 31, 2018			
	Retiree health	**Service award**	**Sick leave**	**Total**	Retiree health	Service award	Sick leave	Total
Current service cost	**$ 574**	**$ -**	**$ 565**	**$ 1,139**	$ 447	$ 2,802	$ 481	$ 3,730
Interest on obligation	**663**	**168**	**232**	**1,063**	655	117	196	968
Actuarial (gains) losses	**(1,568)**	**81**	**(1,115)**	**(2,602)**	374	(91)	788	1,071
	$ (331)	**$ 249**	**$ (318)**	**$ (400)**	**$ 1,476**	**$ 2,828**	**$1,465**	**$ 5,769**

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

	Valuation at	
	March 31, 2019	March 31, 2018
Present value of unfunded defined benefit obligation		
Current portion	**$ 1,139**	$ 2,119
Non-current portion	**27,052**	28,953
Total	**$ 28,191**	$ 31,072

March 31, 2019 (in thousands)

9. Employee remuneration (continued)

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

		2019		2018
Benefit obligations, beginning of year	**$**	**31,072**	$	27,318
Current service cost		**1,139**		3,730
Interest cost		**1,063**		968
Actuarial (gain) loss		**(2,602)**		1,071
Benefits paid		**(2,481)**		(2,015)
Benefit obligations, end of year	**$**	**28,191**	$	31,072

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

		2019		2018
Effect on aggregate of current service cost and interest cost				
One percentage point increase	**$**	**383**	$	399
One percentage point decrease		**(393)**		(409)
Effect on accrued benefit obligation				
One percentage point increase		**3,656**		3,561
One percentage point decrease		**(2,806)**		(2,752)

10. Change in non-cash operating working capital

		2019		2018
Receivables	**$**	**545**	$	(2,021)
Inventories		**(8,781)**		1,850
Prepaids		**(580)**		50
Payables and accruals		**12,531**		3,560
	$	**3,715**	$	3,439

March 31, 2019 (in thousands)

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:

	2019	2018
Short term benefits	**$ 1,810**	$ 1,417
Post-employment benefits	**132**	114
Other long term benefits	**21**	11
Total compensation	**$ 1,963**	$ 1,542

12. Revenue

2019

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

2018

Channel	**Spirits**	**Wine**	**Beer**	**Ready to Drink**	**Non-Liquor**	**Cannabis**	**Total**
Retail	$ 143,016	$ 121,305	$ 216,033	$ 31,030	$ 102	$ -	511.486
Licensee	8,654	7,339	34,744	2,368	20	-	53,125
Agency	12,707	5,216	26,175	3,469	9	-	47,576
Private wine & specialty	1,113	10,058	1,128	293	-	-	12,592
Other Wholesale	237	586	46	14	-	-	883
Online	-	-	-	-	-	-	
Total	**$ 165,727**	**$ 144,504**	**$ 278,126**	**$ 37,174**	**$ 131**	**$ -**	**$ 625,662**

March 31, 2019 (in thousands)

13. Operating expenses

	2019	2018
Salaries and employee benefits	**$ 65,794**	$ 59,715
Depreciation and amortization	**9,068**	8,357
Occupancy	**8,580**	8,433
Service contracts and licenses	**7,647**	5,202
Debit, credit and gift card fees	**4,976**	4,767
Utilities	**2,888**	2,647
Freight	**2,674**	2,058
Legal, audit and consulting	**2,495**	324
Marketing and merchandising	**2,336**	2,016
Maintenance and repairs	**2,193**	2,278
Supplies and sundry	**1,936**	1,813
Travel, training and meetings	**1,328**	983
Post employment current service costs (note 9)	**1,139**	3,730
Other	**1,029**	243
Corporate/social responsibility	**875**	783
Guard services	**613**	585
Waste diversion	**554**	535
Insurance	**328**	249
Market surveys	**282**	254
Publications	**245**	126
Memberships and subscriptions	**209**	205
Industry support	**150**	150
Postage and courier	**140**	93
Telephone	**123**	112
Bank charges and armoured car	**99**	82
Actuarial (gain) loss on other employment benefit (note 9)	**(1,115)**	788
	$ 116,586	$ 106,528

14. Capital management

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