



Financial Statements

Nova Scotia Liquor Corporation

March 31, 2020

# Contents

	<b>Page</b>
Independent auditor's report	1-2
Statements of earnings	3
Statements of comprehensive earnings	4
Statements of financial position	5
Statements of changes in equity	6
Statements of cash flows	7
Notes to the financial statements	8-26

# Independent auditor's report

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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, 2020, 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, 2020, 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.

The logo for Grant Thornton LLP, featuring the company name in a stylized, cursive script font.

Halifax, Canada  
June 12, 2020

Chartered Professional Accountants

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## Nova Scotia Liquor Corporation

### Statement of earnings

Year ended March 31 (in thousands)	2020	2019
Sales (note 12)	\$ 726,167	\$ 662,084
Cost of sales	<u>352,856</u>	<u>311,242</u>
Gross margin	373,311	350,482
Operating expenses (note 13)	128,704	116,586
Other income	<u>(4,615)</u>	<u>(4,180)</u>
Earnings from operations	249,222	238,436
Finance costs (note 8)	<u>1,944</u>	<u>1,063</u>
Earnings for the year	<u>\$ 247,278</u>	<u>\$ 237,373</u>

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See accompanying notes to the financial statements.

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## Nova Scotia Liquor Corporation

### Statements of comprehensive earnings

Year ended March 31 (in thousands)	2020	2019
Earnings for the year	\$ 247,278	\$ 237,373
Other comprehensive earnings		
Items that will not be reclassified subsequently to earnings:		
Actuarial gains on defined benefit plans (note 10)	<u>1,429</u>	<u>1,487</u>
Comprehensive earnings for the year	<u>\$ 248,707</u>	<u>\$ 238,860</u>

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See accompanying notes to the financial statements.

# Nova Scotia Liquor Corporation

## Statements of financial position

March 31 (in thousands)

2020

2019

### Assets

#### Current

Cash and cash equivalents	\$ 41,244	\$ 12,069
Receivables	4,445	4,797
Inventories	64,751	61,031
Prepays	<u>3,725</u>	<u>2,802</u>
	114,165	80,699

Intangibles (note 6)	6,833	5,796
Property and equipment (note 7)	<u>89,673</u>	<u>50,994</u>
	<u>\$ 210,671</u>	<u>\$ 137,489</u>

### Liabilities

#### Current

Payables and accruals	\$ 56,997	\$ 58,869
Lease liabilities (note 9)	4,869	-
Employee future benefit obligations (note 10)	<u>5,557</u>	<u>1,139</u>
	67,423	60,008

#### Non-current

Lease liabilities (note 9)	32,187	-
Employee future benefit obligations (note 10)	<u>22,444</u>	<u>27,052</u>
	<u>122,054</u>	<u>87,060</u>

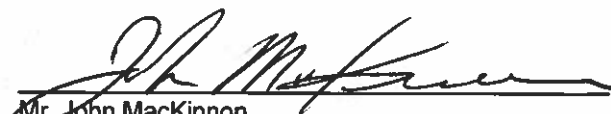
### Equity

	<u>88,617</u>	<u>50,429</u>
	<u>\$ 210,671</u>	<u>\$ 137,489</u>

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, 2019	\$ 2,140	\$ 48,289	\$ 50,429
Impact of adoption of IFRS 16 (note 5)	-	(769)	(769)
Adjusted balance at April 1, 2019	<u>2,140</u>	<u>47,520</u>	<u>49,660</u>
Remittances to Minister of Finance	-	(209,750)	(209,750)
Earnings for the year	-	247,278	247,278
Other comprehensive gain	1,429	-	1,429
Comprehensive earnings for the year	<u>1,429</u>	<u>247,278</u>	<u>248,707</u>
Balance at March 31, 2020	<u>\$ 3,569</u>	<u>\$ 85,048</u>	<u>\$ 88,617</u>
Balance at April 1, 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 loss	1,487	-	1,487
Comprehensive earnings for the year	<u>1,487</u>	<u>237,373</u>	<u>238,860</u>
Balance at March 31, 2019	<u>\$ 2,140</u>	<u>\$ 48,289</u>	<u>\$ 50,429</u>

See accompanying notes to the financial statements.



# Nova Scotia Liquor Corporation

## Statements of cash flows

Year ended March 31 (in thousands)	2020	2019
<b>Operating</b>		
Earnings for the year	\$ 247,278	\$ 237,373
Depreciation and amortization	15,419	9,068
Loss on disposal of property and equipment	98	142
Employee future benefit obligations	<u>1,238</u>	<u>(1,394)</u>
	<b>264,033</b>	245,189
Change in non-cash operating working capital (note 11)	<u>(6,164)</u>	<u>3,715</u>
Interest paid	<u>905</u>	<u>-</u>
	<b>258,774</b>	248,904
<b>Financing</b>		
Remittances to Minister of Finance	<u>(209,750)</u>	<u>(228,000)</u>
<b>Investing</b>		
Purchase of intangibles	(3,098)	(4,082)
Purchase of property and equipment	(11,154)	(18,855)
Proceeds on sale of property and equipment	5	-
Payment of lease liabilities	<u>(5,602)</u>	<u>-</u>
	<b>(19,849)</b>	(22,937)
Net change in cash and cash equivalents	<b>29,175</b>	(2,033)
Cash and cash equivalents, beginning of year	<u>12,069</u>	<u>14,102</u>
Cash and cash equivalents, end of year	<b>\$ 41,244</b>	<b>\$ 12,069</b>

See accompanying notes to the financial statements.

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# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2020 (in thousands)

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### 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 Corporation is Nova Scotia’s largest retailer of liquor and cannabis product and its network includes over 100 retail stores, 60 agency stores, four private wine & specialty stores and one standalone cannabis store. The Corporation serves as a wholesaler to more than 2,000 bars and restaurants across the province. 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.

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### 2. Basis of financial statement 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, 2020 (including comparatives) were approved and authorized for issue by the Board of Directors on June 12, 2020.

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

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### 3. Summary of significant accounting policies

#### Use of estimates and judgments

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

#### Significant management judgment

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

#### *Cash generating units*

The Corporation uses judgement in determining the grouping of assets to identify its Cash Generating Units (“CGUs”) for purposes of testing for impairment of property and equipment and intangible assets. The Corporation has determined that its retail CGUs comprise individual stores. Corporate and distribution centre assets are allocated on a rational basis to the CGUs or group of CGUs as appropriate for the purposes of performing impairment testing if needed.

#### *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.

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# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2020 (in thousands)

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### 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.

#### *Leases*

When the entity has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances, including their past practice and any cost that will be incurred to improve or modify the leased asset if an option to extend is not taken, to help them determine the lease term.

Where the interest rate implicit in the lease is not readily available, management uses the lessee's incremental borrowing rate to measure the present value of the remaining lease payments. Management's determination of the Corporation's incremental borrowing rate depends on relevant facts and circumstances, geographical location, and lease term duration of the lease property.

#### 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.

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# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2020 (in thousands)

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

#### 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 as the NSLC is acting as agent in the arrangement with AIR MILES®.

#### 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:

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# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2020 (in thousands)

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

Furniture, fixtures, other equipment, capital and leasehold improvements	10 years
Computers, software and hardware	3 – 5 years
Buildings	10 – 40 years
Right-of-use assets	2 – 20 years

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

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

#### *Impairment of non-financial assets*

At the end of each reporting period, the Corporation reviews the carrying amounts of its tangible 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, 2020 and 2019

#### **Leased assets**

As described in Note 5 the Corporation has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

#### *Accounting policy applicable from April 1, 2019*

At the inception of a contract, the Corporation assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, it is assessed whether:

- the contract involves the use of an identified asset;
- the Corporation has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use; and
- the Corporation has the right to direct the use of the asset.

#### Measurement and recognition of leases as a lessee

Qualifying leases are recognized as a right-of-use asset and a corresponding lease liability.

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# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2020 (in thousands)

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

Lease payments included in the measurement of the lease liability include the net present value of the following:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantee;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used. The incremental borrowing rate is the rate that the lessee would have to pay to borrow at prevailing interest rates, market precedents and the Company's specific credit spread, on similar terms and security. The finance cost is charged to profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period.

Right-of-use assets are initially measured at cost and are included in property and equipment on the statement of financial position. Cost of right-of-use assets is comprised of the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs
- restoration costs

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a strating-line basis. The lease term consists of:

- the non-cancellable period of the lease;
- periods covered by options to extend the lease, where the Corporation is reasonably certain to exercise the option; and
- periods covered by options to terminate the lease, where the Corporation is reasonably certain not to exercise the option.

If the Corporation expects to obtain ownership of the leased asset at the end of the lease, the right-of-use asset is depreciated over the underlying asset's estimated useful life. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The Corporation has elected to account for short term leases and leases of low-value assets using the available practical expedients; as such the related payments are recognized as an expense in the statement of earnings on a straight-line basis over the lease term.

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# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2020 (in thousands)

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

#### *Accounting policy applicable before April 1, 2019*

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 the expected settlement amount 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**

##### *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").

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# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2020 (in thousands)

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

The Corporation has classified its financial instruments as follows:

<u>Asset/liability</u>	<u>Classification</u>
Cash and cash equivalents	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.

#### *Receivables*

The Corporation makes use of a simplified approach in accounting for the loss allowance 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. Lifetime expected credit loss is less than 0.1%.

#### *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.



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# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2020 (in thousands)

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

#### 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, 2020 and 2019.

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### 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. There is nothing that would be considered material to the financial statements as at the date of release.

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### 5. Accounting standards and policies adopted during fiscal 2020

#### IFRS 16 'Leases'

In 2016, the International Accounting Standards Board issued IFRS 16, replacing IAS 17 and related interpretations. The standard introduces a single, on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessees recognize a right-of-use asset representing its control of and right to use the underlying asset and a lease liability representing its obligation to make future lease payments. Lessor accounting remains similar to IAS 17.

IFRS 16 became effective for annual periods beginning on or after January 1, 2019. The Corporation adopted the standard on April 1, 2019 using the modified retrospective approach. The Corporation applied the requirements of the standard retrospectively with the cumulative effects of initial application recognized in retained earnings. Prior year figures were not restated, as permitted under the transition provisions in the standard, and continue to be reported under IAS 17.

Substantially all of the Corporation's operating leases are real estate leases for retail stores. The Corporation recognized right-of-use assets and liabilities for its operating leases except for certain classes of underlying assets in which the lease terms are 12 months or less or low-value assets. The depreciation expense on right-of-use assets and interest expense on lease liabilities replaced rent expense, which was previously recognized on a straight-line basis under IAS 17 over the term of a lease.

# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2020 (in thousands)

### 5. Accounting standards and policies adopted during fiscal 2020 (continued)

IFRS 16 permits the use of recognition exemptions and practical expedients. The Corporation applied the following recognition exemptions and practical expedients:

- excluded initial direct costs from the measurement of right-of-use assets at the date of initial application;
- elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition;
- relied on the Corporation's historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16 as an alternative to performing an impairment review;
- accounting for leases which end within 12 months of the date of initial application as short-term leases; and
- used hindsight in determining lease term at the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 2.21%.

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at April 1, 2019:

	Carrying Amount at March 31, 2019	IFRS 16 Impact of adoption of IFRS 16	carrying amount at 1 April, 2019
Property, Plant and equipment	\$ 50,994	\$ 36,223	\$ 87,217
Lease liabilities	-	(36,992)	(36,922)
Retained Earnings	\$ 48,289	\$ (769)	\$ 47,520

The following is a reconciliation of total operating lease commitments at March 31, 2019 (as disclosed in the financial statements to March 31, 2019) to the lease liabilities recognized at April 1, 2019:

<b>Total operating lease commitments disclosed at 31 March 2019</b>	<b>\$ 54,875</b>
Less : non contractual future payments (CAM, Tax, HVAC)	(11,142)
Operating lease liabilities before discounting	43,733
Discounted using incremental borrowing rate	(4,328)
Operating lease liabilities	39,405
Reasonably certain extension options	(2,413)
<b>Total lease liabilities recognized under IFRS 16 at April 1, 2019</b>	<b>\$ 36,992</b>
Current portion of lease liabilities	4,753
Non-current lease liabilities	32,239
	<b>\$ 36,992</b>

# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2020 (in thousands)

### 5. Accounting standards and policies adopted during fiscal 2020 (continued)

#### IAS 19 – Plan Amendment, Curtailment, or Settlement

Amendment to IAS 19 was effective April 1, 2019. The standard now requires that the current service cost and net interest on the net defined benefit liability (asset) for the period following the special event shall be determined using the assumptions and remeasured values (DBO, plan assets, asset ceiling effect) at the remeasurement date, and not the assumptions at the beginning of the period. Due to the timing of the Public Service Award settlement, the amendment did not apply to the Corporation in the current fiscal year.

### 6. Intangibles

	Enterprise Resource Planning (ERP)	Other Intangibles	Assets under Development	Total
<b>Cost</b>				
At March 31, 2019	\$ 27,970	\$ 7,866	\$ 1,576	\$ 37,412
Additions	406	392	2,300	3,098
Transfers	436	224	(660)	-
Disposals	(5,145)	-	-	(5,145)
At March 31, 2020	<u>23,667</u>	<u>8,482</u>	<u>3,216</u>	<u>35,365</u>
<b>Amortization</b>				
At March 31, 2019	(27,234)	(4,382)	-	(31,616)
Amortization expense	(506)	(1,553)	-	(2,059)
Disposals	5,143	-	-	5,143
At March 31, 2020	<u>(22,597)</u>	<u>(5,935)</u>	<u>-</u>	<u>(28,532)</u>
<b>Carrying amounts</b>				
At March 31, 2019	<u>\$ 736</u>	<u>\$ 3,484</u>	<u>\$ 1,576</u>	<u>\$ 5,796</u>
At March 31, 2020	<u>\$ 1,070</u>	<u>\$ 2,547</u>	<u>\$ 3,216</u>	<u>\$ 6,833</u>

Amortization of intangibles is reported as an operating expense in the statement of earnings. The intangible assets under development are not impaired as at March 31, 2020

# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2020 (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)	Right of Use Assets	Total
<b>Cost</b>										
At March 31, 2019	\$ 17,861	\$ 16,049	\$ 8,949	\$ 1,434	\$ 690	\$ 45,700	\$ 50,212	\$ 5,171	-	\$ 146,066
Adjustment on transition to IFRS 16	-	-	-	-	-	-	-	-	36,223	36,223
Additions	580	575	1,041	131	68	1,589	4,645	2,525	4,762	15,916
Transfers	461	224	78	-	-	764	3,492	(5,019)	-	-
Disposals	(104)	(294)	(69)	(2)	(5)	(480)	(268)	-	-	(1,222)
At March 31, 2020	<u>18,798</u>	<u>16,554</u>	<u>9,999</u>	<u>1,563</u>	<u>753</u>	<u>47,573</u>	<u>58,081</u>	<u>2,677</u>	<u>40,985</u>	<u>196,983</u>
<b>Depreciation</b>										
At March 31, 2019	(12,665)	(10,925)	(6,845)	(1,064)	-	(32,356)	(31,217)	-	-	(95,072)
Depreciation expense	(1,146)	(1,048)	(841)	(172)	-	(1,248)	(3,720)	-	(5,185)	(13,360)
Disposals	103	290	60	2	-	417	250	-	-	1,122
At March 31, 2020	<u>(13,708)</u>	<u>(11,683)</u>	<u>(7,626)</u>	<u>(1,234)</u>	<u>-</u>	<u>(33,187)</u>	<u>(34,687)</u>	<u>-</u>	<u>(5,185)</u>	<u>(107,310)</u>
<b>Carrying amounts</b>										
At March 31, 2019	\$ 5,196	\$ 5,124	\$ 2,104	\$ 370	\$ 690	\$ 13,344	\$ 18,995	\$ 5,171	-	\$ 50,994
At March 31, 2020	<u>\$ 5,090</u>	<u>\$ 4,871</u>	<u>\$ 2,373</u>	<u>\$ 329</u>	<u>\$ 753</u>	<u>\$ 14,386</u>	<u>\$ 23,394</u>	<u>\$ 2,677</u>	<u>35,800</u>	<u>\$ 89,673</u>

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.

# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2020 (in thousands)

### 8. Finance costs

	<u>2020</u>	<u>2019</u>
Interest expenses – lease liabilities	\$ 905	\$ -
Post employment benefit costs (Note 10)	<u>1,039</u>	<u>1,063</u>
<b>Total Finance costs</b>	<b>\$ 1,944</b>	<b>\$ 1,063</b>

### 9. Leases

The Corporation leases properties for its retail stores. Lease contracts are typically made for fixed periods of 2 to 20 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

#### Lease liabilities

Lease liabilities are presented in the financial statement of financial position as follows:

	<u>2020</u>	<u>2019</u>
Current	\$ 4,869	\$ 4,753
Non-current	<u>32,187</u>	<u>32,239</u>
	<b>\$ 37,056</b>	<b>\$ 36,992</b>

#### Extension Options

The use of extension and termination options gives the Corporation added flexibility in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the Corporation's network development strategy and the economic benefits of exercising the option exceeds the expected overall cost.

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at March 31 2020 is as follows:

	<u>Minimum lease payments due</u>					<u>Total</u>
	<u>Within 1 year</u>	<u>1-5 years</u>	<u>5-10 years</u>	<u>10-15 years</u>	<u>Over 15 Years</u>	
<b>March 31, 2020</b>						
Lease Payments	\$ 5,701	\$ 24,341	\$ 8,094	\$ 3,206	\$ 42	\$ 41,384
Finance charges	<u>(832)</u>	<u>(2,549)</u>	<u>(779)</u>	<u>(168)</u>	<u>-</u>	<u>(4,328)</u>
<b>Net present values</b>	<b>\$ 4,869</b>	<b>\$ 21,792</b>	<b>\$ 7,314</b>	<b>\$ 3,038</b>	<b>\$ 42</b>	<b>\$ 37,056</b>

#### Lease payments not recognized as a liability

The Corporation has elected not to recognize a lease liability for short term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. Payments made under such leases are expensed on a straight-line basis and totaled \$63.

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# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2020 (in thousands)

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### 10. 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 \$4,277 (2019 - \$3,804) 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 was 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 February 6, 2020 the Corporation provided all fulltime union employees with a one-time option to elect an immediate pay-out of their Service Award entitlement based on service at March 31, 2015 and salary at January 23, 2020. The impact of the elected payout in fiscal year 2020 was \$2,723,606. 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.

The Corporation is responsible for paying the employer portion of health, dental, and life insurance premiums, and both the employer and employee pension contributions for members qualifying for Long Term Disability. They will also continue to pay the employer portion of health, dental, and life insurance premiums, pension contributions, and Long Term Disability insurance premiums for employees who qualify for Workers' Compensation Benefits, but are not yet eligible for Long Term Disability.

The Corporation is self insured and is responsible for paying workers compensation to employees approved by the Workers Compensation Board. Total expenses recognized in the statement of earnings is \$1,111 (2019 - \$1,158). Any future benefit obligation is included in the financial statements of the Province of Nova Scotia.

# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2020 (in thousands)

### 10. Employee remuneration (continued)

#### Defined benefit plans and other long term employee benefits

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, 2020. 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							
	31-Mar-20				31-Mar-19			
	<u>Retiree health</u>	<u>Service award</u>	<u>Sick leave</u>	<u>Disability</u>	<u>Retiree health</u>	<u>Service award</u>	<u>Sick leave</u>	<u>Disability</u>
Discount rate(s)	3.40%	3.00%	3.00%	2.80%	3.60%	3.25%	3.25%	n/a
Expected rate(s) of salary increase	n/a	2.50%	2.50%	2.50%	n/a	2.50%	2.50%	n/a
Ultimate weighted average health care trend rate	4.50%	n/a	n/a	n/a	4.50%	n/a	n/a	n/a

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

	<u>2020</u>	<u>2019</u>
Current service cost	\$ 5,557	\$ 1,139
Interest on obligation	1,039	1,063
Actuarial gains	<u>(1,898)</u>	<u>(2,602)</u>
	<u>\$ 4,698</u>	<u>\$ (400)</u>

# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2020 (in thousands)

### 10. Employee remuneration (continued)

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

	<u>2020</u>	<u>2019</u>
Benefit obligations, beginning of year	\$ 28,191	\$ 31,072
Current service cost	5,557	1,139
Interest cost	1,039	1,063
Actuarial (gain) loss	(1,898)	(2,602)
Benefits paid	<u>(4,888)</u>	<u>(2,481)</u>
Benefit obligations, end of year	\$ <u>28,001</u>	\$ <u>28,191</u>

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

	<u>2020</u>	<u>2019</u>
Effect on aggregate of current service cost and interest cost		
One percentage point increase	\$ 351	\$ 383
One percentage point decrease	(359)	(393)
Effect on accrued benefit obligation		
One percentage point increase	3,592	3,656
One percentage point decrease	(2,778)	(2,806)



# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2020 (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:

	<u>2020</u>	<u>2019</u>
Short term benefits	\$ 1,595	\$ 1,810
Post-employment benefits	118	132
Other long term benefits	<u>21</u>	<u>21</u>
Total compensation	<u>\$ 1,734</u>	<u>\$ 1,963</u>

### 12. Revenue

Channel							<u>2020</u>
	Spirits	Wine	Beer	Ready to Drink	Non-Liquor	Cannabis	Total
Retail	\$ 150,915	\$ 125,547	\$ 216,939	\$ 46,941	\$ 76	\$ 70,006	\$ 610,424
Licensee	8,153	7,441	31,366	2,922	19	-	49,901
Agency	13,040	5,513	26,416	5,056	8	-	50,033
Private wine & specialty	1,092	10,522	1,185	833	-	-	13,632
Other							
Wholesale	206	464	36	22	-	-	728
Online	158	273	16	5	-	997	1,449
<b>Total</b>	<b>\$ 173,564</b>	<b>\$ 149,760</b>	<b>\$ 275,958</b>	<b>\$ 55,779</b>	<b>\$ 103</b>	<b>\$ 71,003</b>	<b>\$ 726,167</b>

Channel							<u>2019</u>
	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
<b>Total</b>	<b>\$ 165,663</b>	<b>\$ 142,869</b>	<b>\$ 275,751</b>	<b>\$ 44,500</b>	<b>\$ 113</b>	<b>\$ 33,188</b>	<b>\$ 662,084</b>

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# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2020 (in thousands)

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<b>13. Operating expenses</b>	<b><u>2020</u></b>	<b><u>2019</u></b>
Salaries and employee benefits	\$ 72,393	\$ 65,794
Depreciation and amortization	15,419	9,068
Service contracts and licenses	8,043	7,647
Post employment current service costs (note 10)	5,557	1,139
Debit, credit and gift card fees	5,485	4,976
Occupancy	3,743	8,580
Utilities	2,843	2,888
Freight	2,620	2,674
Marketing and merchandising	2,522	2,336
Maintenance and repairs	2,262	2,193
Supplies and sundry	2,107	1,936
Travel, training and meetings	1,230	1,328
Legal, Audit, & Consulting	987	2,495
Corporate/social responsibility	925	875
Waste diversion	581	554
Guard services	472	613
Insurance	365	328
Other	339	1,029
Market surveys	324	282
Publications	220	245
Memberships and subscriptions	212	209
Industry support	150	150
Postage and courier	136	140
Telephone	127	123
Bank charges and armoured car	112	99
Actuarial gain on other employment benefit	<u>(470)</u>	<u>(1,115)</u>
	<b><u>\$ 128,704</u></b>	<b><u>\$ 116,586</u></b>

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### 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.

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### 15. Financial instruments risk

The Corporation is exposed to credit risk and market risk in relation to financial instruments. The Corporation is exposed to the same risks in the current year as it was exposed to in the prior year.

#### Credit risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Corporation. The Corporation is exposed to this risk for various financial instruments, for example by granting receivables to customers and placing deposits. The Corporation's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized at the end of the reporting period, as summarized below:

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# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2020 (in thousands)

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### 15. Financial instruments risk (continued)

<b>Classes of financial assets – carrying amounts</b>	<b>March 31, 2020</b>	<b>March 31, 2019</b>
	\$	\$
Cash and cash equivalents	41,244	12,069
Trade and other receivables	3,740	4,050

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#### ***Credit risk management***

The credit risk is managed on a group basis based on the Corporation's credit risk management policies and procedures.

The credit risk in respect of cash balances held with banks are managed by only using major reputable financial institutions.

The Corporation does not specifically assess the credit quality of clients based on a credit rating but through an informal process while onboarding for service. Invoice terms are payable within seven days. The ongoing credit risk is managed through regular review of aging analysis.

#### **Market risk**

##### ***Foreign currency sensitivity***

The Corporation has purchases of inventory from suppliers outside of Canada. Exposure to fluctuations in currency exchange rates subjects the Corporation to foreign exchange risk as significant fluctuations impact the cost of the inventory to the Corporation.

The Corporation's main exposure is to the EURO and USD. The Corporation holds funds in US dollars to help mitigate the exposure to significant fluctuations in the US dollar exchange rate. As at March 31, 2020, the Corporation held US\$115 (2019 – US\$100) in US dollar denominated bank accounts. Amounts payable in other currencies other than CAD were not significant.

Sensitivity to a plus or minus 5.0% change in the EURO or US dollar exchange rate would not have a material impact on the Corporation's results from operations.

##### **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.

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# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2020 (in thousands)

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### 16. Subsequent event

Since December 31 2019, the spread of COVID-19 has severely impacted many local economies around the globe. Many businesses are being forced to cease or limit operations for long or indefinite periods of time. On March 22, 2020, the Province of Nova Scotia declared a state of emergency to help contain the spread of COVID-10, in addition to travel bans, quarantines, social distancing, and closures of non-essential services. The state of emergency remains in place and restrictions will gradually be eased according to public health orders and directives.

The Corporation's operations did not cease as part of non-essential services, but hours of operations were reduced to 6 days a week. The impact of the COVID-19 on the Corporation's financial position is not material as revenue overall has been maintained but a shift in revenue among sales channels has occurred. The Corporation has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of year ended March 31, 2020 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Corporation for future periods