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Building *Nunavut* Together
Nunavut liuqatigiingniq
Bâtir le *Nunavut* ensemble

2016-2017

Annual Report of the Nunavut Liquor Commission

June 2017

The Honourable Nellie Kusugak
Commissioner
Government of Nunavut

Re: Nunavut Liquor Commission 2016-17 Annual Report

Dear Madame,

I have the honour of presenting the Annual Report for the Nunavut Liquor Commission covering the period April 1, 2016 to March 31, 2017.

Respectfully submitted,



Hon. Keith Peterson
Minister of Finance
Minister Responsible for Liquor

The Honourable Keith Peterson
Minister of Finance
Minister Responsible for Liquor

Re: Nunavut Liquor Commission 2016-17 Annual Report

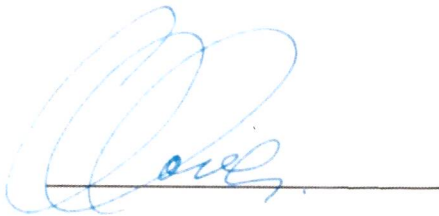
Minister Peterson:

Pursuant to Subsection 61(1) of the *Liquor Act*, we are pleased to submit the Annual Report for the Nunavut Liquor Commission for the fiscal year ended March 31, 2017.

We wish to express our thanks to all our staff for all their support and contribution to the progress of the Nunavut Liquor Commission during this past year.



Jeff Chown
Deputy Minister



Marion Love
Director of Nunavut Liquor Commission

ABOUT THE NUNAVUT LIQUOR COMMISSION

Legal Basis and Organizational Structure

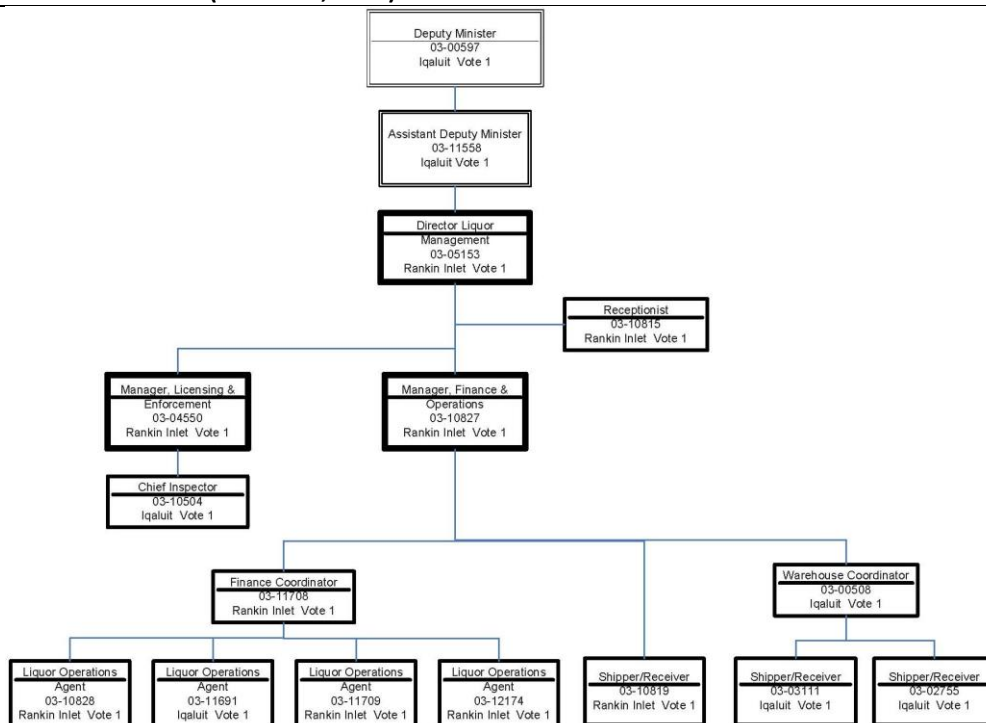
The Nunavut Liquor Commission (NULC) is a responsible wholesaler and retailer of beverage alcohol in Nunavut.

Established under Section 56 of Nunavut’s *Liquor Act*, the Commission is responsible for purchasing, selling, classifying and distributing alcohol beverage products in Nunavut. The Commission also administers Part II of the *Act* and, as a public agency of the Government of Nunavut (GN), is subject to budget and reporting requirements of the *Financial Administration Act*.

The Commission takes direction from the Minister of Finance. The Commission is embedded within the Department of Finance’s Liquor Management Division, which includes a small enforcement and inspections team. A Director oversees both teams and – following an organizational change in summer 2016 - reports to the Assistant Deputy Minister of Finance.

Before then, the Director reported directly to the Deputy Minister of Finance. The Government chose to switch reporting to the Assistant Deputy Minister as part of a wider realignment, which included the creation of a new HR Branch within the Department. While this reporting change improves the Liquor Management Division’s access to the department’s executive leadership, it has little other impact on operations. Current to March 31, 2017, the Director of Liquor Management oversees 13 employees divided between Rankin Inlet and Iqaluit.

Organization Structure (March 31, 2017)



Financially, the Commission is somewhat unique within the GN. The Commission itself operates using the Liquor Revolving Fund (LRF), separate from the GN's consolidated revenue fund. The LRF itself is subject to rules and limits set out in a separate *Revolving Funds Act*. Other aspects of Liquor Management, notably the inspections and enforcement work, are funded from within the GN's consolidated revenue fund from appropriations to the Department of Finance. The Commission presents its audited financial statements as part of this annual report.

Liquor Distribution in Nunavut

Headquartered in Rankin Inlet, the Commission manages its retail and wholesale business through a warehouse in each of Rankin Inlet and Iqaluit.

With a small population of roughly 37,000, of whom only 23,000 (just over 60%) are of legal drinking age, the Commission serves a small market spread across 25 remote northern communities, each connected only by air and with limited seasonal sea access.

In this context, Nunavut's liquor distribution system is unconventional by Canadian standards. In particular, the Commission does not operate any "walk-in" liquor stores. Instead, customers – including individuals and licensees (hotels, restaurants, clubs, etc.) submit liquor orders to Commission headquarters in Rankin Inlet. The Commission processes orders there before filling them at one of the warehouses in either Rankin Inlet or Iqaluit. The Commission then ships individual orders to communities by air cargo.

The Commission purchases its stock through the GN's Department of Community and Government Services (CGS). The Commission generally purchases its products directly from breweries and distilleries but, helped by smaller order volumes, occasionally purchases product through other jurisdictions.

With limited flights between communities and often-tight cargo space, most retail customers face a waiting period on all liquor purchases in the territory (licensees and holders of special occasion permits excepted). Following old government policy, Iqaluit residents purchase their product from the Rankin Inlet warehouse and, conversely, Rankin Inlet residents purchase their alcohol from Iqaluit.

Import Permits

Nunavummiut may also import alcohol into Nunavut with an import permit, which allows them a wider range of options for both selection and price. Should individuals choose to import their alcohol beverage product from outside the territory, they must purchase an import permit from one of the four permit agent offices in Rankin Inlet, Iqaluit, Kugluktuk and Cambridge Bay.

Product Pricing

The Commission applies a flat per-litre mark-up to its products, as well as an administration fee of \$0.27 per litre. The Commission applies these on top of landed cost, which is the cost of purchasing the inventory from the supplier, federal GST and excise taxes, and shipping to Nunavut.

| Mark-ups / L by category | |
|-------------------------------------|---------|
| Spirits | \$26.11 |
| Wine | \$7.96 |
| Coolers | \$3.27 |
| Beer | \$2.37 |

The Commission works to ship as much by sea as possible to save on costs, but – with limited warehouse space – still needs to rely on air shipments throughout the year.

Customers pay the Commission price plus added shipping costs to their home communities. Freight costs vary, depending on distance, community and carrier rate. The Commission’s reliance on air cargo means that customers face added and unavoidable logistical considerations (e.g. weather delays) and freight costs not commonly experienced across Canada.

Over and above the product price, the Commission charges a flat handling fee of \$10 (plus GST) per order and a bottle deposit fee of \$0.29 for bottles and \$0.14 per can.

Together, the Commission’s pricing structure serves a few functions in Nunavut’s context. First, they help cover the various fixed and variable costs the Commission takes on as part of its work, including social responsibility activities (described below). Second, they are intended to help generate profit for the Commission, which it remits each year to the GN.

In this way, the Commission mark-up and other elements of its pricing scheme benefit Nunavummiut. This public benefit component is a common and expected part of all Canadian liquor pricing regimes, though takes different forms across the country. Unlike some provinces, the Government of Nunavut does not apply a liquor-specific excise tax, nor does it apply a more general provincial sales tax.

Nunavut’s Restriction System

In communities governed by an Alcohol Education Committee (AEC), individuals apply to their community’s AEC for approval to bring alcohol beverage products into the community.

The AEC may place restrictions on the purchase or even deny the application. Once the community AEC has provided permission an individual may place an order or purchase a permit.

Nunavut communities by their chosen system

March 31, 2017

| | |
|---------------------|---|
| Unrestricted | Cambridge Bay; Grise Fiord; Iqaluit; Rankin Inlet; Taloyoak. |
| Restricted | Arctic Bay; Baker Lake; Cape Dorset; Chesterfield Inlet; Clyde River; Hall Beach; Igloolik; Kimmirut; Kugluktuk; Pond Inlet; Qikiqtarjuaq; Repulse Bay; Resolute Bay; Whale Cove. |
| Prohibited | Arviat, Coral Harbour, Gjoa Haven, Kugaaruk, Pangnirtung, Sanikiluaq. |

SOCIAL RESPONSIBILITY

Taking Steps to Reduce Alcohol-Related Harm

The GN is committed to helping reduce the harms related to alcohol.

In October 2016, the Government tabled a document called "*Taking Steps to Reduce Alcohol-Related Harm*" (available from www.gov.nu.ca/finance). In this document, the GN sets out a number of steps it will take to help reduce the harm that alcohol causes Nunavummiut and communities. Many of these steps are rooted in the extensive territory-wide consultations the GN undertook between 2010 and 2012 to identify ways to reduce harm.

The recent *Taking Steps* document is GN-wide, and so outlines actions involving (and often lead by) other departments – in particular, the Departments of Health, Family Services, Justice and Economic Development and Transportation have specific roles.

As Nunavut's public distributor of alcohol, the Commission plays a central role in many of the actions. We outline below some of the actions in which the Commission is most involved.

Iqaluit Beer and Wine Store

In its 2012 report, *A New Approach: Halting the Harm*, the Nunavut Liquor Act Review Task Force recommended liberalizing access to beer and wine as a way to reduce the harm caused by binge drinking hard liquor. They also recommended that Government, where approved by the community, open a government-run beer and wine outlet.

In April 2015, the GN – through Elections Nunavut – held a non-binding plebiscite in Iqaluit. The plebiscite asked the community whether they would support opening a beer and wine store. The majority of voters voted "yes" and, based on this approval and in line with the Task Force recommendations, the GN has committed to opening a pilot beer and wine store in 2017.

With this direction, the Commission took three key steps in 2016-17 to lay the groundwork for the pilot store. First, following the government's public commitment in November 2016 to open the store, the Commission presented a budget plan for approval by the GN's Financial Management Board of Ministers. Second, early in 2017, the Commission initiated a Request for Tender (RFT) under the GN's procurement process to hire a firm to add the storefront on to the existing Iqaluit warehouse. Third, the GN initiated a Request for Proposal (RFP) to seek a modern point-of-sale (POS) system that will act as the technological basis for store sales, inventory and reporting operations. Both the RFT and RFP were still open at the end of March 31, 2017.

These key actions in 2016-17 set up the GN and Commission to open the store in late summer 2017.

Prevention and Education Campaigns

In 2013, the GN amended the *Liquor Act* to allow the Commission to fund education campaigns related to socially responsible drinking (SRD).

In *Taking Steps*, the GN recognized the importance of education and awareness campaigns. In 2016-17, the Commission funded two such programs.

First, during the 2016 holiday season (late November to early January) the Commission sponsored our “Thank you for not driving” campaign in Iqaluit, Rankin Inlet and Cambridge Bay. The campaign encouraged those that chose to consume alcohol to avoid drinking and driving. Several businesses contributed to the promotion. The Commission used posters and social media to encourage individuals that chose to drink to consider safe ways to get home other than driving. The Commission, working with local RCMP, bylaw officers and GN staff, handed out taxi vouchers to the public and customers throughout the campaign period.

Second, based on community consultations in seven communities, the GN developed a new ‘flagship’ campaign known as “*Let’s Be Aware/Ujjiqsuqta*,” a key commitment in *Taking Steps*.

Led and funded by the Commission, and with the active participation and support of an interdepartmental committee of representatives from the Departments of Finance, Health and Family Services, the GN is advancing a campaign to help Nunavummiut make healthy and informed choices about alcohol.

The campaign focuses on positive messaging, encouraging Nunavummiut to be mindful of how their drinking impacts themselves, their friends and families, and their community. The campaign includes a comprehensive website to help Nunavummiut understand some of the impacts that alcohol has (www.responsiblenunavut.ca or www.ujjiqsuqta.ca), as well as a

Facebook page (www.facebook.com/responsiblenunavut) to encourage public interaction.

To start, the campaign will provide general information and messaging about alcohol. It will expand over time to focus messaging towards youth and young adults, and to support helping professions and Alcohol Education Committees.



GN launches “*Let’s Be Aware / Ujjiqsuqta*” in Cambridge Bay (March 2017)

The GN and Commission formally launched *Let's Be Aware/Ujjiqsuqta* on March 22, 2017 in Cambridge Bay, with participation by Minister of Finance Keith Peterson and the Mayor of Cambridge Bay, Jeanie Elohoak.

Looking ahead to 2017-18

The Commission will continue to help advance actions set out in *Taking Steps* in 2017-18. In particular, the Commission and GN will look at ways to improve the import permitting process, including ways to better standardize the existing system. The Commission also plans to review its pricing structure, another of the commitments set out in *Taking Steps*.

National Contributions to Social Responsibility

The Commission is a participating member of CALJ – the Canadian Association of Liquor Jurisdictions (www.calj.org). Through this group, the NULC collaborates with the various provincial and territorial liquor commissions and boards.

Nunavut's participation includes involvement on CALJ's Social Responsibility working group, providing the Commission with an opportunity to discuss and learn approaches towards socially responsible practices from counterparts across Canadian provinces and territories.

LIQUOR ENFORCEMENT AND INSPECTIONS

All distribution of alcoholic beverage products authorized by liquor licenses, import permits, and special occasion liquor permits issued under the Act are subject to inspection by Liquor Enforcement and Inspections. These inspections help ensure adherence to the Act and Regulations. Conditions related to fire risk, health and safety infractions, and the use of tobacco in and around premises licensed for the sale of liquor are also subject to inspection.

Trained contract personnel carry out inspections under the general supervision of the GN's Chief Inspector. Inspectors bring observed infractions to the attention of the Chief Inspector, who reports to the Manager of Liquor Enforcement and Inspections in Rankin Inlet.

Infractions are discussed with the Department of Justice and, where warranted, the licensee must attend a show cause hearing before the Nunavut Liquor Licensing Board (NLLB), with the Department of Justice acting as prosecutor. Such hearings may result in the imposition of fines and/or restrictions in accordance with the Act, and may result in the suspension of the license.

The Nunavut Liquor Licensing Board (NLLB) is a quasi-judicial board of individuals the Minister of Finance appoints to make certain decisions related to licensing. The NLLB is a separate organization from the Nunavut Liquor Commission, but both organizations work together to oversee the distribution of liquor in Nunavut.

The Commission keeps a roster of three contract inspectors in Iqaluit, one inspector each in Rankin Inlet and Cambridge Bay. Regularly scheduled inspections were carried out with more focus on the busier evenings through the week and weekend. The Commission spent just over \$31,400 on inspections at a rate of \$30 per inspection. There were 1,048 total inspections for 2016-17.

Working with Alcohol Education Committees

Created by territorial regulation, Alcohol Education Committees (AECs) exist in communities that have chosen to operate under a restricted system. Each AEC is slightly different in terms of its composition and its operations, but in general terms the AECs work to inform members of their communities about alcohol and to approve orders.

AEC members are generally selected by either an election or are appointed by local Council. In December 2016 six restricted communities held AEC elections, electing a number of new members. Elections were held in Arctic Bay, Cape Dorset, Clyde River, Kimmirut, Hall Beach and Pond Inlet. The Commission pays a modest honorarium to each AEC member in recognition of their work for their community. In 2016-17, the Commission paid out \$29,917 in honoraria.

SALES SUMMARY

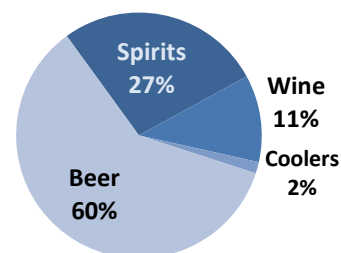
The Commission reported \$5.78 million in total sales in 2016-17, down about \$200,000 (3.7%) from the previous year. Of this, about \$5.35 million comes from selling just over 570,000 L of product.

By value, the largest product category is beer generating about \$3.2 million in sales (60% of total), followed by spirits, generating nearly \$1.5 million (27% of total).

The Commission pays about \$2.2 million for the underlying inventory, generating a gross margin (sales revenues less cost of goods sold) of just under \$3.58 million.

The Commission also generated \$437,000 in other sales revenues, such as bottle deposits and licensee handling fees.

Product sales by category (%)



Gross Product Sales

| | 2016-17 | | 2015-16 | | Change | | | |
|----------------------|----------------|--------------|----------------|--------------|----------------|-------------|--------------|--------------|
| | Litres | \$000s | Litres | \$000s | Litres | \$000s | % Litres | % 000s |
| Spirits | 34,740 | 1,445 | 36,677 | 1,501 | -1,937 | -56 | -5.3% | -3.7% |
| Wine | 35,022 | 613 | 38,485 | 664 | -3,463 | -51 | -9.0% | -7.7% |
| Cooler | 7,763 | 80 | 9,331 | 91 | -1,568 | -11 | -16.8% | -12.1% |
| Beer | 492,836 | 3,208 | 509,250 | 3,310 | -16,414 | -102 | -3.2% | -3.1% |
| Product Sales | 570,361 | 5,346 | 593,743 | 5,566 | -23,382 | -220 | -3.9% | -3.9% |
| Other Revenue | - | 437 | - | 440 | - | -3 | | -0.7% |
| Total | 570,361 | 5,783 | 593,743 | 6,006 | -23,382 | -223 | -3.9% | -3.7% |

The Commission sells the large majority of its product through Iqaluit – nearly 90% of total sales in 2016-17. While Iqaluit has always been the largest source of sales (reasonable, given

the community's population and the number of licensees it hosts), it seems especially high in 2016-17 following a nearly 26% drop in total sales in Rankin Inlet, following declines in all sales categories.

Product Sales by Location (L)

| Litres | Iqaluit | | | Rankin Inlet | | | Cambridge Bay | | |
|----------------|----------------|----------------|--------------|---------------|---------------|---------------|---------------|---------------|--------------|
| | 2016-17 | 2015-16 | % Change | 2016-17 | 2015-16 | % Change | 2016-17 | 2015-16 | % Change |
| Spirits | 26,415 | 26,515 | -0.4% | 7,651 | 9,409 | -18.7% | 675 | 753 | -10.4% |
| Wine | 27,894 | 30,207 | -7.7% | 6,442 | 7,625 | -15.5% | 685 | 653 | 4.9% |
| Cooler | 6,579 | 7,710 | -14.7% | 1,006 | 1,356 | -25.8% | 178 | 265 | -32.8% |
| Beer | 451,070 | 457,088 | -1.3% | 26,575 | 35,837 | -25.8% | 15,191 | 16,325 | -6.9% |
| Total | 511,958 | 521,520 | -1.8% | 41,674 | 54,227 | -23.1% | 16,729 | 17,996 | -7.0% |

Product Sales by Location (\$ 000s)

| Litres | Iqaluit | | | Rankin Inlet | | | Cambridge Bay | | |
|----------------|--------------|--------------|----------|--------------|------------|----------|---------------|------------|----------|
| | 2016-17 | 2015-16 | % Change | 2016-17 | 2015-16 | % Change | 2016-17 | 2015-16 | % Change |
| Spirits | 1,100 | 1,083 | 1.6% | 317 | 387 | -18.1% | 28 | 31 | -9.7% |
| Wine | 496 | 527 | -5.9% | 107 | 128 | -16.4% | 10 | 9 | 11.1% |
| Cooler | 68 | 74 | -8.1% | 10 | 14 | -28.6% | 2 | 3 | -33.3% |
| Beer | 2,939 | 2,975 | -1.2% | 171 | 230 | -25.7% | 98 | 105 | -6.7% |
| Total | 4,603 | 4,659 | -1.2% | 605 | 759 | -20.3% | 138 | 148 | -6.8% |

Sales revenues contribute to the Commission's revolving fund. Separately, the GN generated \$934,000 in revenues from other (non-product sales) activities, including import permits (\$713,000), license fees (\$211,000), and fines (\$10,000). These revenues were about 5.5% higher than the \$885,000 the GN reported last year.

By law, these revenues are deposited into the GN's consolidated revenue fund rather than the Commission's revolving fund. However, to present a complete picture of liquor-related financial activities, the Commission includes all information in its financial statements, which follow.

CONCLUSION

The Nunavut Liquor Commission takes its role as a responsible public retailer and wholesaler of beverage alcohol seriously. The Commission made a number of important advancements in 2016-17 – particularly by supporting the creation of *Taking Steps* and launching *Let's Be Aware/Ujjiqsuqta* – and looks forward to other significant improvements in 2017-18.

NUNAVUT LIQUOR COMMISSION

Rankin Inlet, NU

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2017

NUNAVUT LIQUOR COMMISSION

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017

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MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

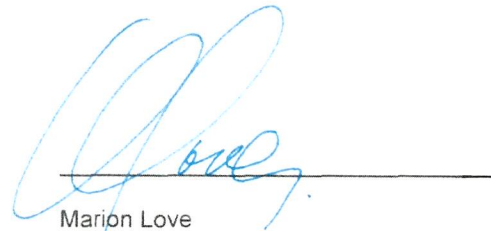
The management of the Nunavut Liquor Commission (NLC) is responsible for the integrity and objectivity of the consolidated financial statements and related note disclosures. The consolidated financial statements were prepared in accordance with Canadian Public Sector Accounting Standards and, consequently, include some amounts which are based on the best estimates and judgment of management.

In carrying out its responsibilities, management is responsible for the operation of financial systems and related internal controls to provide reasonable assurance that financial information presented by the management of NLC is reliable, assets are safeguarded, transactions are properly authorized, resources are managed efficiently and economically, and operations are carried out effectively in the attainment of corporate objectives, and that transactions are in accordance with the *Liquor Act* and the *Financial Administration Act* of Nunavut.

The external auditors, Lester Landau, conduct an independent examination, in accordance with Canadian auditing standards, and express their opinion on the consolidated financial statements. The external auditors have full and free access to financial management of NLC and meet when required.



Jeffrey Chown
Deputy Minister
Department of Finance



Marion Love
Director
Nunavut Liquor Management

June 6, 2017



INDEPENDENT AUDITORS' REPORT

To the Minister of Finance of the Government of Nunavut

We have audited the accompanying consolidated financial statements of the Nunavut Liquor Commission, which comprise the consolidated statement of financial position as at March 31, 2017 and March 31, 2016 and the consolidated statements of operations, changes in net financial debt, amount due to the Government of Nunavut, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Nunavut Liquor Commission as at March 31, 2017 and March 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with Canadian Public Sector Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act* of Nunavut we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

We further report in accordance with Part IX of the *Financial Administration Act* of Nunavut and regulations, the *Liquor Act* of Nunavut and regulations, and the by-laws of the Nunavut Liquor Commission that, in our opinion, proper books of account have been kept by the Nunavut Liquor Commission, the consolidated financial statements are in agreement therewith and the transactions that have come under our notice have, in all significant respects, been within the statutory powers of the Nunavut Liquor Commission.

Iqaluit, Nunavut
June 6, 2017



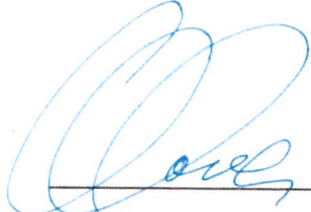
Chartered Professional Accountants

NUNAVUT LIQUOR COMMISSION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | March 31 2017 | March 31 2016 |
|--|------------------|------------------|
| Financial Assets | | |
| Cash | \$ 750 | \$ 750 |
| GST and other receivables | 27,398 | 11,463 |
| Inventories (note 3) | 1,572,814 | 1,523,761 |
| | 1,600,962 | 1,535,974 |
| Liabilities | | |
| Accounts payable and accrued liabilities | 540,094 | 157,475 |
| Employee future benefits (note 4) | 194,716 | 149,680 |
| Bottle deposit outstanding | 22,755 | 24,900 |
| Deferred revenue | 4,084 | 7,470 |
| Due to Government of Nunavut | 1,162,417 | 1,430,021 |
| | 1,924,066 | 1,769,546 |
| Net Financial Debt | (323,104) | (233,572) |
| Non-Financial Assets | | |
| Prepaid expenses | 38,057 | - |
| Tangible capital assets (note 5) | 285,047 | 233,572 |
| | 323,104 | 233,572 |
| Accumulated Surplus | \$ - | \$ - |

Commitments (note 7)



Marion Love
Director
Nunavut Liquor Management



Jeffrey Chown
Deputy Minister of Finance
Department of Finance

The accompanying notes and schedules are an integral part of these consolidated financial statements. 4

NUNAVUT LIQUOR COMMISSION

CONSOLIDATED STATEMENT OF OPERATIONS

| For the year ended March 31, | 2017 | 2016 |
|---|--------------|--------------|
| Sales | \$ 5,782,910 | \$ 6,005,514 |
| Cost of Sales | 2,206,058 | 2,247,311 |
| Gross Margin | 3,576,852 | 3,758,203 |
| Other Income | | |
| Import permit fees and special occasion permits | 712,894 | 660,091 |
| Customer shipping charged | 450,703 | - |
| Licence fees | 210,989 | 214,440 |
| Restitution and other income | 20,528 | 45,124 |
| | 4,971,966 | 4,677,858 |
| Expenses | | |
| Administration and operations (Schedule 1) | 4,293,668 | 3,270,490 |
| Enforcement and inspections (Schedule 2) | 534,102 | 577,265 |
| | 4,827,770 | 3,847,755 |
| Net Surplus | \$ 144,196 | \$ 830,103 |

The accompanying notes and schedules are an integral part of these consolidated financial statements. 5

NUNAVUT LIQUOR COMMISSION

CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL DEBT

| For the year ended March 31, | 2017 | 2016 |
|---|--------------|--------------|
| Net surplus for the year | \$ 144,196 | \$ 830,103 |
| Amortization of tangible capital assets | 42,600 | 32,882 |
| Disposal (acquisition) of tangible capital assets | (94,075) | (175,196) |
| Prepaid expenses | (38,057) | 6,311 |
| Transfer of net surplus for the year to the Government of Nunavut | (144,196) | (830,103) |
| | (233,728) | (966,106) |
| Decrease (increase) in net financial debt | (89,532) | (136,003) |
| Net financial debt, beginning of year | (233,572) | (97,569) |
| Net financial debt, end of year | \$(323,104) | \$(233,572) |

The accompanying notes and schedules are an integral part of these consolidated financial statements. 6

NUNAVUT LIQUOR COMMISSION

CONSOLIDATED STATEMENT OF AMOUNT DUE TO THE GOVERNMENT OF NUNAVUT

| For the year ended March 31, | 2017 | 2016 |
|--|---------------------|---------------------|
| Balance, beginning of year | \$ 1,430,021 | \$ 1,432,702 |
| Net surplus for the year | 144,196 | 830,103 |
| Net transfer of funds to the Government of Nunavut | (411,800) | (832,784) |
| | <u>\$ 1,162,417</u> | <u>\$ 1,430,021</u> |

The accompanying notes and schedules are an integral part of these consolidated financial statements. 7

NUNAVUT LIQUOR COMMISSION

CONSOLIDATED STATEMENT OF CASH FLOWS

| For the year ended March 31, | 2017 | 2016 |
|---|--------------|--------------|
| Cash Flows from Operating Activities | | |
| Cash receipts from customers | \$ 7,158,703 | \$ 6,889,448 |
| Cash paid to suppliers and employees | (6,652,828) | (5,881,468) |
| Cash transferred to the Government of Nunavut (Net) | (411,800) | (832,784) |
| Cash Provided by Operating Activities | 94,075 | 175,196 |
| Purchase of property and equipment | (94,075) | (175,196) |
| Cash Used in Investing Activities | (94,075) | (175,196) |
| Net Increase / (Decrease) in Cash | - | - |
| Cash, beginning of year | 750 | 750 |
| Cash, end of year | \$ 750 | \$ 750 |

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017

1. Authority and Operations

The Nunavut Liquor Commission (NLC) - The Commission is established under Part II of the *Liquor Act (Nunavut)*.

The Commission is responsible for the operation of the liquor warehouses and the purchase and sale of liquor in Nunavut through the Liquor Revolving Fund of the Government of Nunavut. The Commission is authorized by the Legislative Assembly to receive free working capital advances from time to time not exceeding \$6,500,000 to finance its operations. The NLC did not request any working capital advances for the 2016 - 2017 fiscal year. While some expenses are paid directly from the Liquor Revolving Fund, other expenses are paid by the Government of Nunavut through the Consolidated Revenue Fund and are reimbursed from the Liquor Revolving Fund.

The Nunavut Liquor Enforcement and Inspections Division is responsible for ensuring that all distribution of liquor products is authorized by liquor licences and special occasion liquor permits issued under the *Liquor Act (Nunavut)*.

The Commission, in addition to its regular responsibilities, manages, directs and provides financial services to, and on behalf of, the Nunavut Liquor Enforcement and Inspections Division. As such, the Commission controls the aforementioned group. As a result of this control, the Nunavut Liquor Enforcement and Inspections Division is consolidated into the Nunavut Liquor Commission in preparing these consolidated financial statements. In addition, there are no related party transactions, except with the Government of Nunavut.

The attached Schedules of Income and Expenses segregate the financial results of the operations of the Nunavut Liquor Commission and the Nunavut Liquor Enforcement and Inspections Division on a stand-alone basis.

2. Significant Accounting Policies

(a) Consolidated Financial Statements

NLC's consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards.

(b) Basis of Consolidation

The consolidated financial statements include the assets and liabilities and results of operations of the Nunavut Liquor Commission and the Nunavut Liquor Enforcement and Inspections Division, over which the Nunavut Liquor Commission exhibits control by managing and directing the Nunavut Liquor Enforcement and Inspections Division. All inter-entity balances and transactions, if any, were eliminated in determining the consolidated figures.

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017

2. Significant Accounting Policies (continued)

(c) Measurement Uncertainty

The preparation of consolidated financial statements in accordance with Canadian Public Sector Accounting Standards requires the use of estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the consolidated financial statements. By their nature, these estimates are subject to measurement uncertainty. The effect on the consolidated financial statements of changes to such estimates and assumptions in future periods could be significant, although, at the time of preparation of these consolidated financial statements, management believes the estimates and assumptions to be reasonable. Significant management estimates include the liability for bottle deposit outstanding, the provision for employee future benefits and the useful lives of equipment.

(d) Cash and cash equivalents

Cash and cash equivalents are comprised of a small cash float that is maintained by NLC. All sales and other cash receipts of NLC are deposited to the Liquor Revolving Fund. While some expenses of NLC are paid directly from the Liquor Revolving Fund, other expenses are paid by the Government of Nunavut through the Consolidated Revenue Fund and are reimbursed from the Liquor Revolving Fund.

All sales and other cash receipts of the Nunavut Liquor Enforcement are deposited into the Government of Nunavut Consolidated Revenue Fund. All expenses of the Nunavut Liquor Enforcement are paid by the Government of Nunavut through the Consolidated Revenue Fund.

(e) Inventories

Inventories consist of alcohol products valued at the lower of cost or net realizable value on a first-in, first-out basis.

(f) Accounts Receivable

Accounts receivable are valued at the lower cost and net recoverable value. Valuation allowances, if necessary, are recorded based on all circumstances in existence at the statement of financial position date that are known at the date these consolidated financial statements are prepared.

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017

2. Significant Accounting Policies (continued)

(g) Tangible Capital Assets

Tangible Capital Assets are initially recorded at cost, and are subsequently amortized to expense. Amortization expense is recognized on a consistent basis over the estimated useful life of the assets. In the year of purchase, amortization is applied at half the normal rate. The rates are as follows:

| | |
|-------------------------|---|
| Computer hardware | 30% declining balance |
| Computer software | 100% declining balance |
| Furniture and equipment | 20% declining balance |
| Leasehold improvements | straight line over the term of the lease up to 10 years |
| Vehicles | 30% declining balance |

(h) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are recorded as incurred. Annual, in lieu and optional leave, and severance liabilities have been included in accrued liabilities under employee future benefits.

(i) Bottle Deposit Liability

The bottle deposit liability is estimated based on the last three months of sales, to allow time for licensees and clients to return recyclables for refund.

(j) Deferred Revenue

Deferred revenue includes revenues received in advance of goods being provided or services being performed with stipulations that meet the definition of a liability per Section PS 3200. When stipulations are met, deferred revenue is recognized as revenue in the fiscal year in a manner consistent with the circumstances and evidence used to support the initial recognition of the revenue received as a liability.

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017

2. Significant Accounting Policies (continued)

(k) Employee Future Benefits

Non-pension Benefits

Under the conditions of employment, eligible employees may earn non-pension benefits for severance, retirement and removal based on years of service. The benefits are paid upon resignation, retirement or death of an employee. The expected cost of providing these benefits is recognized as employees render service and has been determined based on management's assumptions and best estimates. The NLC provides severance, retirement and removal benefits to eligible employees based on years of service, final salary and community of residence.

Pension Benefits

Eligible employees of the NLC participate in the Public Service Pension Plan administered by the Government of Canada. The employees and NLC contribute to the cost of the Plan. The NLC's contributions to the Plan reflect the full cost of the employer contributions. This amount is currently based on a multiple of the employee's required contributions and may change from time to time depending on the experience of the Plan. The NLC contributed at a rate of 1.01 times the employees contribution for the calendar year of 2017 (1.15 times for the calendar year of 2016). These contributions are charged to expenditures on a current year basis, and represent the total pension obligation of the NLC. NLC is not obligated under present legislation to make contributions to actuarial deficiencies of the Public Service Pension Plan.

(l) Revenue Recognition

Revenue from sales of liquor is recorded when the customer places their order, it has been paid in full and the products have been shipped.

Revenue from sales of import permit fees and special occasion permits is recorded when the customer places their order and it has been paid in full.

Revenue from licence fees are recognized on a straight-line basis over the term of the licence. Licences do not exceed one year.

(m) Expenses

Expenses are recorded on an accrual basis. While some expenses of NLC are paid directly from the Liquor Revolving Fund, other expenses are paid by the Government of Nunavut through the Consolidated Revenue Fund and are reimbursed from the Liquor Revolving Fund.

All expenses of the Nunavut Liquor Enforcement are paid by the Government of Nunavut through the Consolidated Revenue Fund without reimbursement.

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017

2. Significant Accounting Policies (continued)

(n) Financial Instruments

The NLC initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument.

The NLC subsequently measures all its financial assets and financial liabilities at amortized cost, except for derivatives and equity securities quoted in an active market, which are subsequently measured at fair value.

Financial assets measured at amortized cost include cash and cash equivalents and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, employee future benefits, bottle deposit outstanding and amounts due to the Government of Nunavut.

(o) Due to the Government of Nunavut

The *Liquor Act (Nunavut)* requires the NLC to present the amount owing to the Government of Nunavut. This is calculated by summing the following amounts: The Balance owing at the end of the prior year, the Net Surplus for the year, less the net funds transferred to the Government of Nunavut during the year. The ending balance is normally carried forward to be funded from future year's Net Surplus.

This balance is a non-interest bearing liability.

3. Inventories

| | March 31 2017 | March 31 2016 |
|--------------------|---------------------|---------------------|
| Spirits | \$ 586,155 | \$ 524,424 |
| Wine | 387,221 | 362,292 |
| Beer | 556,376 | 574,722 |
| Coolers and ciders | 43,062 | 62,323 |
| | \$ 1,572,814 | \$ 1,523,761 |

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017

4. Employee Future Benefits

The Employee Future Benefits accrued by the NLC relate to annual leave benefits and severance benefits.

Non-pension Benefits

NLC provides non-pension benefits to its employees for severance and removal costs. As at March 31, 2017 severance and removal costs total \$127,125 (\$102,507 - 2016).

Pension Plan

NLC and all eligible employees contribute to the Public Service Pension Plan (PSPP). This pension plan provides benefits based on years of service and best five years average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. Contributions during the year were as follows:

| | 2017 | 2016 |
|--------------------------|------------|------------|
| Employer's contributions | \$ 161,218 | \$ 148,755 |
| Employees' contributions | \$ 141,728 | \$ 119,029 |

5. Tangible Capital Assets

| | March 31 2017 | | March 31 2016 | |
|-------------------------|------------------|-----------------------------|-------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Computer hardware | \$ 53,669 | \$ 51,323 | \$ 2,346 | \$ 3,351 |
| Computer software | 50,777 | 50,777 | - | - |
| Furniture and equipment | 276,561 | 155,688 | 120,873 | 151,091 |
| Leasehold improvements | 145,176 | 5,117 | 140,059 | 48,031 |
| Vehicles | 36,587 | 14,818 | 21,769 | 31,099 |
| | \$ 562,770 | \$ 277,723 | \$ 285,047 | \$ 233,572 |

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017

| 6. Expenses by Object | 2017 | 2016 |
|------------------------------|--------------|--------------|
| Salaries and benefits | \$ 2,252,918 | \$ 2,083,684 |
| Social responsibility | 574,326 | 185,682 |
| Rent | 540,660 | 541,617 |
| Customer shipping paid | 439,285 | - |
| Office | 237,668 | 248,208 |
| Bottle deposits refund | 178,778 | 189,253 |
| Contractor fees | 147,090 | 96,461 |
| Bank charges and interest | 116,311 | 104,163 |
| Travel | 85,879 | 64,939 |
| Property taxes and utilities | 77,021 | 80,779 |
| Repairs and maintenance | 54,148 | 48,036 |
| Amortization | 42,600 | 32,882 |
| Plebiscites | 32,168 | 35,542 |
| Communication | 13,259 | 11,130 |
| Professional fees | 34,849 | 23,582 |
| AEC support | 810 | 98,490 |
| Loss on disposal of assets | - | 2,919 |
| Bad debt provision | - | 388 |
| | \$ 4,827,770 | \$ 3,847,755 |

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017

7. Commitments

There is a two year lease effective April 1, 2016, expiring March 31, 2018, for warehouse and office premises in Rankin Inlet. An annual lease agreement effective April 1, 2017, expiring April 1, 2018, for the liquor warehouse in Iqaluit valued at \$120,000 per year is also in place. Additional warehouse space was leased as of October 1, 2014 for a term of five years expiring September 30, 2019 valued at \$161,058 per year. The minimum annual lease payments are as follows:

| Fiscal year ending March 31 | Total |
|-----------------------------|-------------------|
| 2018 | \$ 540,659 |
| 2019 | 161,058 |
| 2020 | 80,528 |
| | <u>\$ 782,245</u> |

8. Related Party Transactions

The NLC is related in terms of common ownership to all of the Government of Nunavut created departments, agencies and Crown corporations. The NLC enters into transactions with these entities in the normal course of business at normal trade terms. All sums collected by the NLC are deposited directly into a Government bank account, and the Government of Nunavut pays for all of the expenses of the NLC. Expenses include the following services provided by the Government of Nunavut at cost and Qulliq Energy Corporation at normal trade terms, during the normal course of business:

| | 2017 | 2016 |
|------------------------------------|-------------------|-------------------|
| Government of Nunavut: | | |
| Communications | \$ 11,400 | \$ 9,350 |
| Office | 79,527 | 92,715 |
| Rent (note 7) | 281,058 | 281,058 |
| Repairs and maintenance | 51,236 | 47,111 |
| Property taxes | 34,719 | 30,570 |
| Purchase of property and equipment | 94,075 | - |
| Sealift | 37,066 | - |
| Qulliq Energy Corporation | | |
| Utilities (electricity) | 15,424 | 16,995 |
| | <u>\$ 604,505</u> | <u>\$ 477,799</u> |

NUNAVUT LIQUOR COMMISSION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017

9. Capital Management

NLC's capital is cash, it has no Contributed Equity. NLC is authorized by the Legislative Assembly to receive free working capital advances from time to time not exceeding \$6,500,000 to finance its operations. The NLC did not request any working capital advance for the 2016-17 fiscal year.

All revenues collected by the NLC are deposited into a bank account controlled by the Government of Nunavut. As the Government of Nunavut controls all cash deposited by the NLC, the Government of Nunavut pays for all the expenses of the NLC.

10. Financial Instruments and Risk Management

Credit Risk - Credit risk refers to the potential that a customer or counter party to a financial instrument will fail to discharge its contractual obligations, and arises principally from the NLC's receivables from customers. NLC has minimum exposure to credit risk from customers as collection is made prior to sales. Where necessary, the NLC performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its trade and other accounts receivable in order to mitigate any possible credit losses.

Interest Rate Risk - Interest rate risk is the risk that the fair values of future cash flows from a financial instrument will fluctuate because of changes to market interest rates. The NLC is not exposed to interest rate risk because the NLC has no investments or debt.

Liquidity Risk - Liquidity risk is the risk that the NLC will not be able to meet its financial obligations as they fall due. The NLC is not exposed to liquidity risk, although some expenses of NLC are paid directly from the Liquor Revolving Fund, others are paid directly by the Government of Nunavut through the Consolidated Revenue Fund and reimbursed from the Liquor Revolving Fund.

Foreign Currency Risk - The NLC is not exposed to risk arising from fluctuation in foreign exchange rates since it enters into sales and purchase transactions denominated in Canadian currency.

Unless otherwise noted, it is management's opinion that NLC is not exposed to other significant interest, currency or credit risks arising from these financial instruments.

11. Comparative Figures

Certain figures presented for comparative purposes have been reclassified to conform with the current year's presentation.

NUNAVUT LIQUOR COMMISSION

SCHEDULE 1 - NUNAVUT LIQUOR COMMISSION

| For the year ended March 31, | 2017 | 2016 |
|--|--------------|--------------|
| Sales | \$ 5,782,910 | \$ 6,005,514 |
| Cost of Sales | 2,206,058 | 2,247,311 |
| Gross Margin | 3,576,852 | 3,758,203 |
| Other Income | | |
| Customer shipping charged | 450,703 | - |
| Other income | 10,528 | 34,558 |
| Prior years adjustments | - | 545,347 |
| | 4,038,083 | 4,338,108 |
| Expenses | | |
| Salaries and benefits | 1,952,502 | 1,790,209 |
| Social responsibility | 574,326 | 185,682 |
| Rent | 540,660 | 541,617 |
| Customer shipping paid | 439,285 | - |
| Office | 201,646 | 222,799 |
| Bottle deposits refund | 178,778 | 189,253 |
| Bank charges and interest | 101,511 | 86,534 |
| Property taxes and utilities | 77,021 | 80,779 |
| Repairs and maintenance | 54,148 | 48,036 |
| Travel | 51,555 | 27,919 |
| Amortization | 42,600 | 32,882 |
| Plebiscites | 32,168 | 27,221 |
| Professional fees | 34,849 | 23,582 |
| Communication | 12,619 | 10,670 |
| Loss on disposal of assets | - | 2,919 |
| Bad debt provision | - | 388 |
| | 4,293,668 | 3,270,490 |
| Revenue in Excess (Deficit) of Expenses | \$(255,585) | \$ 1,067,618 |

NUNAVUT LIQUOR COMMISSION

SCHEDULE 2 - NUNAVUT LIQUOR ENFORCEMENT AND INSPECTIONS DIVISION

| For the year ended March 31, | 2017 | 2016 |
|---|-------------------|---------------------|
| Income | | |
| Import permit fees and special occasion permits | \$ 712,894 | \$ 660,091 |
| Licence fees | 210,989 | 214,440 |
| Restitution and other income | 10,000 | 10,566 |
| Prior years adjustments | - | (545,347) |
| | 933,883 | 339,750 |
| Expenses | | |
| Salaries and benefits | 300,416 | 293,475 |
| Contractor fees | 147,090 | 96,461 |
| Office | 36,022 | 25,409 |
| Travel | 34,324 | 37,020 |
| Bank charges and interest | 14,800 | 17,629 |
| AEC support | 810 | 98,490 |
| Communication | 640 | 460 |
| Plebiscites | - | 8,321 |
| | 534,102 | 577,265 |
| Revenue in Excess (Deficit) of Expenses | \$ 399,781 | \$(237,515) |