As the front lines of beverage alcohol sales in the province of Nova Scotia, the NSLC has an important job to do.

Every day, thousands of Nova Scotians come through our doors to look, browse and buy from among the nearly 6,500 products we offer throughout the year. We know it can all be a little overwhelming, so we’ve implemented new programs and policies to make your shopping experience better.

This year, our product team launched a new Wine Discovery Guide which helps customers match their favourite tastes and preferences with new options they might not have been aware of. Our team of experts have been working hard to make each shopping experience an enjoyable and personalized one.

But the NSLC is about more than just great service and modern stores. We also have a duty – and passion – for being a responsible corporate citizen. Each year our employees check over a million IDs to make sure our products stay out of the hands of minors. They also spend countless hours of their free time raising funds for charities and volunteering for their local community causes. We support major environmental projects like the NSLC Adopt-A-Stream program that protects and conserves local waterways and the fish population.

Through it all, we’ve managed to put in place a unique retail framework that promotes small business, infuses growth into local industries and gives back to the communities where we live and work.

On behalf of all our employees, we hope you enjoy this publication.

Sincerely,

Sherry Porter, Board Chair, NSLC Board of Directors
Bret Mitchell, President & CEO
Note to Minister
Welcome to Today’s NSLC
A Place for People
Service & Convenience
Building a Business that Works
Private Wine & Specialty Stores
Bars & Restaurants
Creating a Sense of Balance
Proud Supporter of Nova Scotia Business
A Tradition of Giving Back
Market Share by Category
Financial Performance
Sales & Customer Satisfaction
Wine
Beer
Spirits
Ready-to-Drink
Community & Social Responsibility
NSLC Adopt-A-Stream
Greenhouse Gasses
Zero Waste
Diverting Waste from Landfills
Board of Directors
Executive Team
Financial Highlights
As the frontlines of service, our employees are friendly, knowledgeable and committed to providing a great shopping experience.

A lot has happened since we first opened our doors in 1930. What began as a small group of teller-style wickets has since blossomed into a fully modern retailer. In fact, since those days, we have emerged as the largest single banner retailer in the province serving every corner of Nova Scotia.

This transformation could not have happened without the service, dedication and value provided by our 1,500 employees. With a culture steeped in training, lifelong learning and customer service, we are raising the bar for today’s retail environment. And our customers have taken notice.

This year, we earned a 88% customer satisfaction rate. It’s just one way we’re working hard to be a responsive and responsible retailer.

**Committed to Safety**

We are proud to be a recognized leader in the areas of Health and Safety. We recently won an award from the Nova Scotia Workers’ Compensation Board for our outstanding success with our “Back to Work” program. Working with our employees, we maintained our lost time incidents and reduced the total days lost by more than 22%. It’s something of which we are extremely proud.

Last year we opened several new stores to accommodate growing and underserviced communities, including:

- Wyse Road (Dartmouth)
- Novalea (Halifax)
- Forest Hills (Dartmouth)

Each of these stores builds on our commitment to creating a retail environment inspired by the local communities we serve. Next time you’re in one of our stores, take a look around. You’ll find everything from beach scenes in Dartmouth and yacht-racing in Chester, to orchard-inspired displays and lighting at our new store in Kentville.

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**A PLACE FOR PEOPLE**

Every employee is trained on all aspects of customer service and product knowledge, while maintaining the highest standards of safety.
Agency stores are a unique public-private partnership that pairs the industry expertise of the NSLC with the entrepreneurial spirit of Nova Scotia business owners. Agency Stores are typically located within another business such as a convenience store in areas with populations too small to support our traditional stores. They offer a modified selection of products and are supported with training and oversight by a dedicated team at the NSLC. In return, the Agency Stores provide the space, and comply with the NSLC’s social responsibility policies and operating procedures. It’s a win-win that helps communities support local business while keeping more of their spending within their hometown borders.
Although Agency Stores represent a small percentage of NSLC sales (less than 7%), they’ve proven to be a big hit with our rural customers. It’s part of our continued dedication to providing great and responsible service… no matter how big or small your community may be.

Most people know the NSLC through our 106 stores that dot communities across the province. But did you know we also oversee 51 Agency Stores that serve Nova Scotia’s smaller, rural communities?

Shoppers at Masstown Market enjoy the convenience of the NSLC Agency Store while picking up local products.

Residents of the Fundy shore and surrounding areas prefer a short ten minute drive to the Danielson Chart Ltd. NSLC Agency Store (left).
BARS & RESTAURANTS

Like Private Wine and Specialty Stores, the NSLC also serves Nova Scotia’s bars and restaurants or “licensees”. These licensees can place their orders through our dedicated licensee team or shop at their nearest NSLC store. As part of our commitment to improving service for all of our customers, we recently worked with the Restaurant Association of Nova Scotia to offer this group a discount on wine and spirits to help them through several tough years in the industry. It’s just one of many ways we help support and encourage local business.

PRIVATE WINE & SPECIALTY STORES

Did you know the private sector currently operates a total of four private wine and specialty stores within HRM? Unlike Agency Stores, Private Wine and Specialty Stores operate their businesses independently from the NSLC. The stores have the ability to offer a rare, unique and eclectic mix of products not typically offered at our traditional stores, and have flexibility with their pricing. It’s an alternate approach for retail and commercial customers looking for a different assortment of products.

DID YOU KNOW?

The NSLC prices its products based partly on alcohol content and cost of goods sold. Generally speaking, the higher the alcohol content, the higher the markup.

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WHY WE’RE HERE

Every year, the NSLC generates millions of dollars that help sustain key projects and public services across Nova Scotia. But did you know that operating a financially responsible business is just one of the many things we do for the province? Under legislation, we have four mandates, including:

Promoting social objectives and responsible consumption
We check over a million IDs every year and train all our staff to recognize the signs of impairment. If a customer appears to be under 30, has improper ID or appears to be intoxicated, they won’t be served. We also support a number of social responsibility efforts like those with MADD Canada to create awareness of the need to enjoy responsibly.

Promoting our local economy
That means doing our part to support local products and services. As part of that commitment, the NSLC provides special pricing and product placement for local wine, spirits and craft beer providers. We also cultivate new export opportunities by working with other provincial governments to secure preferred pricing in those markets as well. Through these efforts, we’ve helped create a growing wine industry in Nova Scotia. In fact, today, one out of every $12 spent on wine at our stores goes to locally bottled products.

Providing great customer service
Customer service is something we take very seriously at the NSLC. Our sales staff and product specialists are trained not just on the products we serve, but on the art of making each shopping experience a positive one for our customers. To make sure we are hitting the mark, we use a third-party mystery shop service that scores us on everything from how we greet to how our stores look. We also do regular customer surveys that let us know we’re on the right track. During the past year, we’re proud to say that half of our customers gave us a perfect 10 out of 10 when it comes to customer satisfaction.
Did you know that the NSLC sells every bit of Nova Scotia wine and craft beer we can get our hands on?

While some customers might wonder why they can’t find their favourite local product on our shelves, turns out it’s a good problem to have. With our support, demand for local products has never been greater, and the availability continues to outpace demand. The fact is, as a champion of local business, we are thrilled to stock and sell as many products as we can that are made right here in Nova Scotia. Whether it’s a small batch of seasonal craft beer or a few thousand cases of Nova 7, we are proud to showcase Nova Scotia products and promote them to our customers.

Beyond the shelf, we also provide guidance and insight to local industries. We’re a member and financial supporter of the Winery Association of Nova Scotia, and also have a seat at the Craft Brewers of Nova Scotia table. Together, we look for ways to help Nova Scotia compete with global suppliers and ensure more money is spent right here at home.

PROUD SUPPORTER OF NOVA SCOTIA BUSINESS

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LOCAL BY THE NUMBERS

- 76,500 Cases of Nova Scotia wine sold in our stores last year
- 137% Increase in Nova Scotia wine sales since 2008
- 58% Amount of all craft beer sold at the NSLC that is local
- 146% Growth of locally produced apple cider this year
- 22% Sales growth of local craft beer
- 10% Discount applied to all wine and spirits purchased by your favourite local bars and restaurants

CRAFT BEERS SOLD BY NSLC ARE FROM NOVA SCOTIA.
Cash Cans for Change
Nova Scotians have always had a “can-do” attitude when it comes to supporting local charities. So we placed cash cans at all our registers, providing our customers with a convenient way to donate their loose change to some great local causes. Together, we raised over $40,000 during the year for organizations such as the Alzheimer Society of Nova Scotia, the Heart & Stroke Foundation, Special Olympics Nova Scotia, the Nova Scotia Hearing and Speech Foundation and the Canadian Breast Cancer Foundation.

Nova Scotia Talent
Music is an important part of the fabric of Nova Scotia. In support of that tradition, the NSLC has sponsored a wide range of festivals and events over the years that have delighted locals and visitors alike. This year we sponsored more than a dozen festivals, including the Stan Rogers Folk Festival, Canadian Deep Roots Music Festival, Codstock, Pugwash HarbourFest, Dutch Mason Blues Festival and the Lunenburg Folk Harbour Festival.

Giving Back to Local Charities
For more than 20 years, the IWK Health Centre has been the charity of choice for our employees. During that time, we have raised more than $2 million dollars!

In 2013, the NSLC raised $245,342.07, our largest fundraising year to date! These funds were raised through 50/50 draws, barbecues, an online auction, in-store promotions, Donation at Cash and the sale of Edible Occasions, a cookbook containing NSLC employee recipes.
Despite continued declines in the volume of alcohol sold in the province, we continue to refine our pricing and expenses to optimize its contribution to the province.

During the year:

• Net income (earnings) totaled $228 million, an increase of $1.9 million or 0.8%
• Total sales were $593.2 million, an increase of $223,000
• Total volume of alcohol sold was down 2.8%, following a 0.7% decline in the previous year
• Overall customer transactions (purchases) were down 2.4%, however, the average dollar value of each transaction grew by 2.4%

Local Product Highlights:

• Sales of Nova Scotia wines grew by 10.6%, building on the 21.9% growth last year
• Sales of Nova Scotia ciders increased 146% on top of an increase of 95% in the year prior
• Sales of Nova Scotia craft beers grew by 22.0%, building on the 11.7% growth last year. This growth was bolstered by the addition of new breweries including Boxing Rock Brewing, Authentic Seacoast Brewing, Hell Bay Brewing and The Whiffen Brewing Company.

Although tastes are constantly evolving, Nova Scotians still choose beer more than any other product at the NSLC.
CUSTOMER SATISFACTION

Committed to Doing Better

Every year we perform a detailed analysis of what our customers think of us. The Customer Satisfaction Index or CSI looks at a total of 23 different aspects of the shopping experience that are important to our customers, ranging from promptness and product knowledge to product selection and store cleanliness. This year 88% of our customers gave us an 8 out of 10 or better.

SALES BY CHANNEL

<table>
<thead>
<tr>
<th>Channel</th>
<th>Total Sales</th>
<th>From last year</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSLC Retail Store</td>
<td>$488.3 million</td>
<td>↓ $0.5 million</td>
</tr>
<tr>
<td>Licensees (bars/restaurants)</td>
<td>$54.5 million</td>
<td>↓ $1.8 million</td>
</tr>
<tr>
<td>Agency Stores (franchised stores)</td>
<td>$37.7 million</td>
<td>↑ $0.1 million</td>
</tr>
<tr>
<td>Private Wine and Specialty Stores</td>
<td>$11.7 million</td>
<td>↑ $2.6 million*</td>
</tr>
</tbody>
</table>

* Sales increase to the four private wine & specialty stores were largely due to a drawdown of inventory from the NSLC’s Distribution Centre

SALES BY REGION

<table>
<thead>
<tr>
<th>Region</th>
<th>Net Sales</th>
<th>Net Sales %</th>
<th>Volume %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Halifax</td>
<td>$129.3 million</td>
<td>↑ 1.2%</td>
<td>↓ 1.3%</td>
</tr>
<tr>
<td>Dartmouth</td>
<td>$135 million</td>
<td>↓ 0.5%</td>
<td>↓ 3.3%</td>
</tr>
<tr>
<td>Northern/Eastern</td>
<td>$80.8 million</td>
<td>↓ 1.3%</td>
<td>↓ 4.1%</td>
</tr>
<tr>
<td>Cape Breton</td>
<td>$84.8 million</td>
<td>↓ 0.1%</td>
<td>↓ 2.7%</td>
</tr>
<tr>
<td>Valley/S. Shore</td>
<td>$83.5 million</td>
<td>↓ 0.4%</td>
<td>↓ 3.3%</td>
</tr>
</tbody>
</table>
During the year, wine sales grew by 3.7%, supported in part by the addition of 120 new general listings and more than 800 one-time-only products offered through our Limited Finds program and the Port of Wines Festival. As the centerpiece of the Port of Wines Festival, Italian wines experienced significant momentum in terms of sales, outselling US wines for the year by more than 14,000 cases.

Major movers in the wine segment include:

- **Italian Wines** experienced an increase of 15% thanks to the momentum from the Port of Wines Festival that encouraged local wine aficionados to explore more of what the country has to offer.

- **American Wines** were up 4.3% in terms of volume, but more than 7% in sales dollars as customers opted for more premium brands.

**Nova Scotia wines experienced a 10.6% increase in sales, with brands like Nova7, Tidal Bay and Valley Roads all having strong years.**
The beer category continues its small but steady decline in terms of popularity, a trend that is seen nationally across Canada. However, the category still makes up almost 50% of our revenue. During the year, 22 new beers were listed, and we introduced 90 one-time-only premium and craft beers to create interest in this category.

Premium beer was the highest growth segment within this category, growing revenue by 5%. It now accounts for 15% of all beer revenue at the NSLC.

Craft beer continued its double digit sales growth, rising by 15%. We list 40 different craft beers on a regular basis and rotate over 20 different products throughout the year on a one-time-only basis.

Nova Scotia craft beer sales grew by 22% during the year and now accounts for over half of all craft beer sold at the NSLC. Six Nova Scotia craft breweries are now listed at our stores, up from just two last year. Local best sellers include Propeller India Pale Ale, Propeller Special Bitter Ale and Garrison Irish Red Ale.

Sales of Nova Scotia craft beer grew 22% and now account for 58% of all craft beer sold.
2014 was a defining year for spirits—particularly premium and super premium spirits. Sales of these higher-end (and higher-priced) products grew by 4.8% last year, and now account for 7.3% or $12.2 million of total spirit sales.

Rum continued to be the main seller in terms of spirits, representing 40% of all spirits sold. Of those, about one out of every two bottles of rum sold were white rums. Spiced rum sales grew by 8%, and now account for 14.5% of all rum sold.

Vodka remained the second largest segment in the spirits category, accounting for 25% of total sales. Super premium vodkas grew by 6.5%, and flavoured vodka sales grew by 6.8% to $2.7 million. Unflavoured vodka is still by far the most popular variety, accounting for 93% of all vodka sold.

Whisky sales were dominated by the rise of Irish Whiskey. Sales of the imported spirit grew by 19.2%. Single Malt whisky was another big mover, with sales growing by 8.8%.

Gin represents just 2.8% of all spirits sold, but gained ground on other products with a sales increase of 5.2%.

Rum continued to be the main seller in terms of spirits, representing 40% of all spirits sold.
Nova Scotia cider accounts for 20% of all cider sales.

**READY-TO-DRINK**

Ready-to-Drink or pre-mixed products like ciders, coolers and hard lemonades are a relatively small category in terms of overall sales, but remain a staple for Nova Scotia events, particularly in the summer months. In fact, nearly 50% of all sales in the category are driven between June and September. During the year, we brought in 21 new product listings, including several new ciders that helped grow our sales in the category by approximately 4.6% over the year before.

Cider is the single highest-growing product within the ready-to-drink category. During the year, sales nearly doubled, growing by 94% over the previous year. In fact, cider now represents 14% of the entire category (up from 8% last year) and we now list a total of 47 ciders to meet customer demand.

Nova Scotia cider continues to skyrocket in popularity, accounting for 18 of the 47 ciders on NSLC shelves.
Being a good corporate citizen is part of our DNA. From ethical business practices and protecting the environment, to keeping alcohol out of the hands of minors, we look at every day as an opportunity to do our part for a better Nova Scotia.

With 106 retail stores and almost 1,500 employees, we are a vital part of the communities where we work, live and play. Each year we spearhead and support dozens of programs, campaigns and initiatives aimed at helping make Nova Scotia an even better place to live.

Great Big Thanks
Our "Great Big Thanks" safe driving campaign aired from November to January, and was supported by an online campaign that generated almost 1.3 million impressions.

As great as the TV and web spots were, we thought we could make things just a little more personal. So on two frosty, cold December nights, we sent our "NSLC Responsible Choice Team" into action.

Together they handed out $10 taxi vouchers to unsuspecting bar patrons.

MADD Canada: School Program
Each year, the NSLC partners with MADD Canada to help students understand the harms of impaired driving. MADD Canada brought its original film to more than 30,000 Nova Scotia students. This year’s film, Smashed, was a powerful dramatization about the tragic consequences when a young girl’s concerned friends follow her after she gets into a car driven by a boy who has been drinking alcohol and smoking marijuana.

The video ends with testimonials from real-life victims who share their heartbreaking stories with the audience.

Budweiser Good Sport Program
This year, the tradition of beer and hockey got a little bit safer with the launch of the Budweiser Good Sport Program. A joint effort by Labatt, the NSLC and the Halifax Metro Centre, the program offers a free soft drink to designated drivers at most Metro Centre events.

Keep It Social
Collaborating with student leaders from Acadia University, Mount Saint Vincent University, Saint Mary’s University, St. Francis Xavier University, University of Cape Breton and Université Saint Anne, we launched the “Keep It Social” campaign to help curb high-risk drinking. The campaign features a series of poignant, humorous ads in campuses province-wide that are designed to make students think twice about their drinking behaviours.
We are dedicated to minimizing our impact on Nova Scotia’s environment. Today, we have a wide range of programs designed to reduce our footprint on everything from how our buildings are constructed to how we dispose of our waste. It’s a commitment that spans every aspect of our business, from shipping and warehousing right up to our retail stores and head office. We see it as a series of small choices that can add up to some big changes.

2013 marked another successful year for the NSLC Adopt-A-Stream program. This partnership with the Nova Scotia Salmon Association is making lasting change in the communities and the river systems across our province. In April 2013, we presented the fourth of five annual pledges of $100,000. This funding helps provide hands on training, technical support and project funding for community groups that restore and protect local waterways.

Through the NSLC Adopt-A-Stream program, we helped:

- Restore 67,732 m² of degraded stream habitat and further improved 43,900 m²
- Plant 2,225 streamside trees
- Train 22 community groups in restoration methods
- Re-establish 88.5 km of fish passage
- Create 72 seasonal field jobs
- Involve 360 volunteers who gave 7,318 hours of their time
GREENHOUSE GASSES

Each year we look at our greenhouse gas emissions as a measure of our impact on the environment around us. These stem from a report by an independent agency that looks at our emissions caused by day-to-day operations. Emissions are calculated through assessment of:

• Direct greenhouse gas emissions caused by the consumption of energy
• Indirect greenhouse gas emissions caused by the production of the electricity we consume
• Other greenhouse gas emissions caused by things like trucking and shipping

Last year we undertook a number of steps to help mitigate our impact on the world around us:

• Upgraded our lighting to new, more energy-efficient fixtures including LED and CFL lighting
• Installed Cool Zone fan control and door heat controls
• Installed LED lighting upgrades in our refrigeration units
• Installed outside air economizers for free cooling in winter and during cool weather
• Converted to induction lighting in our Distribution Centre

We’re proud to say these efforts have paid off. We’ve reduced our greenhouse gas emissions considerably since 2009. It’s proof that our changes to our business operations are reducing environmental impact and helping us achieve sustainability goals.
**ZERO WASTE**

We define Zero Waste as the diversion of 95% of our solid waste materials from Nova Scotia landfills. This ambitious goal is in effect at our Head Office, Distribution Centre and six stores within the Halifax Regional Municipality. As a team, we’ve removed desk-side trash cans at the head office, and replaced them with waste sorting stations that encourage both recycling and composting. The result is a renewed level of consciousness and a commitment to dealing with waste responsibly.

Six stores, our Head Office and our Distribution Centre took the challenge and are now diverting as much as 95% of all waste from landfills at some locations.

Did you know that we recycle the contents of every broken bottle in our stores and Distribution Centre? The waste product is saved and then collected monthly where it is recycled and processed into biodiesel. It’s just one of the many little things we do every day to minimize our impact on the environment.
A special thanks to our Board of Directors, who provide strategic guidance, insight and direction to the NSLC throughout the year. Their contributions toward making the NSLC a success are truly appreciated.

Back row: Hoyt Graham (VP Store Development & Facilities), Tim Pellerin (VP Marketing, Merchandising & Insights), Bret Mitchell (President & CEO), Greg Beaulieu (VP Government and Public Affairs & Corporate Secretary), Danny MacMillan (VP Operations), Roddy MacDonald (VP Human Resources) Front row: Brad Doell (VP Supply Chain & Procurement), Dave DiPersio, (VP Finance and Information Technology)

Special thanks goes to our management executives. Together they help run and shape every aspect of our business.
Independent auditor’s report

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

We have audited the accompanying financial statements of the Nova Scotia Liquor Corporation, which comprise the balance sheet as at March 31, 2014 and the statements of earnings, comprehensive earnings, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management’s responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Nova Scotia Liquor Corporation as at March 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Halifax, Canada
June 20, 2014
Chartered Accountants

FINANCIAL HIGHLIGHTS

TOTAL REMITTANCE TO GOVERNMENT

$331,129,641.75

Government of Canada $55,182,456.80
Government of NS $14,043,474.59
Municipalities $2,280,395.47

Harmonized Sales Tax $29,082,354.54
Excise and Customs $230,540,960.35
Municipal Property Taxes

Environmental Assessment
Dividend to Shareholder
EARNINGS

Nova Scotia Liquor Corporation
Statements of earnings
Year ended March 31 (in thousands) 2014 2013

Sales $ 593,166 $ 592,943
Cost of sales 268,001 269,054
Gross margin 325,165 323,889
Operating expenses (note 12) 101,446 101,283
Other income (5,681) (4,981)
Earnings from operations 229,400 227,587
Interest expense – lease liability 2 2
Post employment benefit interest cost (note 9) 1,152 1,199
Total finance costs 1,154 1,201
Earnings for the year $ 228,246 $ 226,386

See accompanying notes to the financial statements.

BALANCE SHEET

Nova Scotia Liquor Corporation
Balance sheets
March 31 (in thousands) 2014 2013

Assets
Current
Cash $ 13,612 $ 15,887
Receivables 1,843 1,376
Inventories 47,196 44,764
Prepaids 1,314 944
46,965 44,028
Intangibles (note 6) 4,276 4,861
Property and equipment (note 7) 45,369 44,028
$ 113,610 $ 111,860
Liabilities
Current
Payables and accruals $ 40,867 $ 42,314
Current portion of obligations under finance lease 19 20
Current portion of employee future benefit obligations (note 9) 1,490 1,319
42,376 43,953
Obligations under finance lease 1 21
Employee future benefit obligations (note 9) 68,637 72,595
Equity (page 5) 44,373 38,854
$ 113,610 $ 111,860

EQUITY

Nova Scotia Liquor Corporation
Statements of changes in equity
(in thousands)

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

Balance at April 1, 2012 (144) 40,214 40,070
Remittances to Minister of Finance (224,500) (224,500)
Earnings for the year - 226,386 226,386
Other comprehensive loss (2,125) - (2,125)
Comprehensive earnings for the year (2,125) 226,386 224,261
Balance at March 31, 2013 (2,269) 42,100 39,831

See accompanying notes to the financial statements.

CASH FLOW

Nova Scotia Liquor Corporation
Statements of cash flows
Year ended March 31 (in thousands) 2014 2013

Operating
Earnings for the year $ 228,246 $ 226,386
Depreciation and amortization 9,648 10,051
Gain on disposal of property and equipment (1,183) (57)
Post employment service costs 1,490 1,319
Post employment benefit interest cost 1,152 1,199
Actuarial gain on post employment benefit (369) -
Defined benefit plan benefits paid (1,252) (1,456)
Change in non-cash operating working capital (note 10) (4,716) 6,382
232,966 243,826

Financing
Principal payments on obligation under finance lease (20) (19)
Remittances to Minister of Finance (226,000) (224,500)
(226,020) (224,519)

Investing
Purchase of intangibles (1,423) (993)
Purchase of property and equipment (9,498) (11,249)
Proceeds on sale of property and equipment 1,700 160
(9,221) (12,082)

Net change in cash (2,275) 7,225
Cash, beginning of year 15,887 8,662
Cash, end of year $ 13,612 $ 15,887

See accompanying notes to the financial statements.
NOTES TO THE FINANCIAL STATEMENTS

Nova Scotia Liquor Corporation
Notes to the financial statements
March 31, 2014 (in thousands)

1. Nature of operations

The Nova Scotia Liquor Corporation (the “Corporation”) administers the Liquor Control Act, Chapter 260 of the Revised Statutes of Nova Scotia, 1989 and is a government business enterprise as defined by Public Sector Accounting Board recommendations. The immediate parent and ultimate controlling party of the Corporation is the Province of Nova Scotia. The Corporation is exempt from income tax under Section 149 of the Income Tax Act. The Corporation’s principal place of business is 63 Chain Lake Drive, Halifax, Nova Scotia.

2. Basis of presentation

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, 2014 (including comparative) were approved and authorized for issue by the Board of Directors on June 20, 2014.

Basic measurement

The Corporation’s financial statements are presented on the historical cost basis, except for employee future benefits which are measured as described in note 9. The financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand.

3. Summary of significant accounting policies

Presentation of financial statements

These financial statements are presented in accordance with IAS 1 Presentation of Financial Statements. IAS 1 requires the presentation of the previous year’s comparative information in each of the primary financial statements.

Certain comparative amounts in the statements of earnings, balance sheets and statements of cash flows have been reclassified to conform with the current year’s presentation.

Use of estimates and judgements

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

Significant management judgement

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

Impairment

The carrying values of property, equipment, intangible assets, and cash-generating units are reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is recognized in earnings.

Revenue

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.

4. Summary of significant accounting policies (continued)

Capitalization of internally developed software

Inventories

The Corporation reviews each of the primary financial statements.

These financial statements are presented in accordance with IAS 1 Presentation of Financial Statements.

Revenue

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 revenue from the program is reported in other operating expenses.

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 on a straight-line method over the following lives:

- Furniture, fixtures, other equipment: 3 years
- Computer, software and hardware: 3 years
- Buildings: 10 – 40 years

Leased assets

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

Corporation as lessee

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

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

3. Summary of significant accounting policies (continued)

Impairment of non-financial assets

Each asset is considered a cash-generating unit. At the end of each reporting period, the Corporation reviews the carrying amounts of its tangible assets to determine whether there is an indication of impairment loss. If any such indication exists, the recoverable amount of the asset 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 higher of the asset’s fair value less costs to sell or its value in use is used as the basis of the impairment test.

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

Leased assets

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

Corporation as lessee

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Nova Scotia Liquor Corporation
Notes to the financial statements
March 31, 2014 (in thousands)

4. Summary of significant accounting policies (continued)

Impairment

Impairment of non-financial assets

Each asset is considered a cash-generating unit. At the end of each reporting period, the Corporation reviews the carrying amounts of its tangible assets to determine whether there is an indication of impairment loss. If any such indication exists, the recoverable amount of the asset 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 higher of the asset’s fair value less costs to sell or its value in use is used as the basis of the impairment test.

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Leased assets

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Corporation as lessee

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

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

Finance leased assets are depreciated on a straight-line basis over the estimated useful life of the asset. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.
The Corporation has classified its financial instruments as follows:

- Financial instruments held at fair value through profit and loss
- Financial instruments classified in other comprehensive income
- Financial instruments held to maturity
- Loans and receivables
- Available-for-sale financial assets
- Other

All financial instruments are classified into one of five categories: fair value through profit and loss financial instruments are measured at fair value and any gain or loss on disposal is included in other income; at amortized cost using the effective interest method, with actuarial valuations being carried out as part of each reporting period; at fair value at the date of authorization of these financial statements; at fair value at the date of authorization of these financial statements but recognized in other comprehensive income; and at nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognized in respect of employee benefits which are not expected to be settled within twelve months are measured at 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 are other long-term employee benefits.

For defined benefit plans, including the Public Service Award Program, the post retirement benefit 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 each reporting period. Actuarial gains and losses for the Public Service Award Program and the post retirement health care plan are recognized in property and loss. Post service cost is also recognized each reporting period. Post service cost is recognized as a liability of uncertain timing or amount. Actuarial gains and losses are recognized on a straight-line basis over the average period until the benefit becomes vested. The defined benefit obligation recognized on the balance sheet represents the present value of the difference between the defined benefit obligation at the period end and the fair value at the date of authorization of these financial statements.

Financial instruments

All financial instruments are classified into one of the following categories: financial liabilities recognized in equity, financial liabilities classified in other comprehensive income, financial liabilities recognized in profit or loss, and financial liabilities recognized at nominal values using the remuneration rate expected to apply at the time of settlement.
### Notes to the Financial Statements

#### 7. Property and equipment

<table>
<thead>
<tr>
<th>Furniture &amp; Fixtures</th>
<th>Other</th>
<th>Small</th>
<th>Software &amp; Hardware</th>
<th>Land</th>
<th>Buildings</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At March 31, 2013</td>
<td>$16,316</td>
<td>$14,651</td>
<td>$11,312</td>
<td>$2,276</td>
<td>$899</td>
<td>$6,798</td>
</tr>
<tr>
<td>Additions</td>
<td>1,013</td>
<td>765</td>
<td>814</td>
<td>(26)</td>
<td>305</td>
<td>7,641</td>
</tr>
<tr>
<td>Transfers</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(4,728)</td>
<td>(4,728)</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(198)</td>
<td>(1,124)</td>
<td>(1,322)</td>
</tr>
<tr>
<td>At March 31, 2014</td>
<td>$17,331</td>
<td>$15,416</td>
<td>$13,126</td>
<td>$2,293</td>
<td>$793</td>
<td>24,639</td>
</tr>
</tbody>
</table>

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

#### 8. Employee remuneration (continued)

**Minimum lease payments due**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Point</th>
<th>Year</th>
<th>Total</th>
<th>Point</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$5,936</td>
<td></td>
<td>2013</td>
<td>$14,301</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$26,757</td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Plan</th>
<th>Discount rate</th>
<th>Ultimate rate</th>
<th>Initial rate</th>
<th>Health care trend rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPP</td>
<td>4.9%</td>
<td>5.73%</td>
<td>5.4%</td>
<td>2.5%</td>
</tr>
<tr>
<td>YMPE</td>
<td>4.9%</td>
<td>5.73%</td>
<td>5.4%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

The total expense recognized in the statement of earnings is $3,315 (2013 - $3,130) and represents contributions paid or payable to these plans by the Corporation at rates specified in the plans.

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.
NOTES TO THE FINANCIAL STATEMENTS

Nova Scotia Liquor Corporation
Notes to the financial statements
March 31, 2014 (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:

<table>
<thead>
<tr>
<th>Year</th>
<th>Short term benefits</th>
<th>Post-employment benefits</th>
<th>Other long term benefits</th>
<th>Total compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$1,602</td>
<td>$126</td>
<td>$18</td>
<td>$1,746</td>
</tr>
<tr>
<td>2013</td>
<td>$1,537</td>
<td>$126</td>
<td>$20</td>
<td>$1,683</td>
</tr>
</tbody>
</table>

12. Operating expenses

<table>
<thead>
<tr>
<th>Year</th>
<th>Salaries and employees benefits</th>
<th>Depreciation and amortization</th>
<th>Occupancy</th>
<th>Debt interest cost fees</th>
<th>Service contracts &amp; licenses</th>
<th>Utilities</th>
<th>Freight</th>
<th>Marketing and merchandising</th>
<th>Maintenance and repairs</th>
<th>Post employment current service costs (note 9)</th>
<th>Total operating expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$55,903</td>
<td>$9,648</td>
<td>$8,000</td>
<td>$4,573</td>
<td>$4,519</td>
<td>$2,953</td>
<td>$2,503</td>
<td>$4,519</td>
<td>$1,901</td>
<td>$1,490</td>
<td>$101,446</td>
</tr>
<tr>
<td>2013</td>
<td>$54,799</td>
<td>$10,051</td>
<td>$7,650</td>
<td>$4,430</td>
<td>$4,541</td>
<td>$2,756</td>
<td>$2,616</td>
<td>$4,430</td>
<td>$1,319</td>
<td>$1,319</td>
<td>$101,283</td>
</tr>
</tbody>
</table>

14. Post-reporting date events
No adjusting or significant non-adjusting events have occurred between the reporting date and the date the financial statements were authorized for issue.