2012 | 2013 INTEGRATED ANNUAL REPORT

NSLC
BEER • WINE • SPIRITS

Success. It's something we all measure differently. Some companies measure theirs by profit, others measure it by service excellence and still others tie it to their ability to give back. At the NSLC, we measure our success based on all these things and more. You can learn about them in the following sections:

ALL ABOUT THE NSLC

CORPORATE SOCIAL RESPONSIBILITY

FINANCIAL PERFORMANCE

NOTE TO MINISTER

Attn: The Honourable Maureen MacDonald, Minister of Finance

Cc: The people of Nova Scotia

Dear Minister MacDonald,

I am pleased to present the Integrated Annual Report for the 2012-2013 fiscal year. Each year, employees from every corner of the province work together to create a unique retail experience that supports the growth of local brewers, distillers and vintners while directly contributing hundreds of millions of dollars to the provincial government.

With a network of 105 stores and nearly 1,500 employees, we're a group united and committed to making Nova Scotia a better place to work and live. Showcasing our focus on economic, environmental and corporate social responsibility performance over the past year, we feel this Integrated Annual Report provides a vibrant snapshot of the innovation and forward-thinking that drives today's NSLC.

Yours truly,

Sherry Porter

Sherry Porter,
Board Chair, NSLC Board of Directors

WELCOME TO TODAY'S NSLC

At the NSLC, we're transforming the way we deliver information to our shareholders. Although some may feel the Government of Nova Scotia is our only shareholder, in our view, we've got closer to a million of them. We're accountable to all Nova Scotians. That means we're committed to keeping you up-to-date on what we're doing and how we're doing it.

This Integrated Annual Report, which combines both our annual and sustainability reports, is designed to help you get to know us in a much more meaningful way. It's where our business crosses paths with the environment and where fresh thinking meets innovation. It's an easy-to-read perspective on how we're running our business – YOUR business – and giving back to the communities in which we live and work.

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

Sincerely,

Sherry Porter

Sherry Porter, Board Chair, NSLC Board of Directors

Sincerely,

Bret Mitchell, President & CEO

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ABOUT THIS REPORT

Traditionally, we've produced two separate reports, an Annual Report and a Sustainability Report, to benchmark our success. We're now combining the two together because, quite frankly, we see them both as important measures of our success. Although most of us are familiar with the concept of an annual report, the sustainability component is a relatively new addition.

So what do we mean by sustainability? For us, the definition means always looking for the most efficient way to run our business while maintaining a strong balance between economics, customer expectations, the environment and social responsibility.

It's about reducing our impact on the world around us while making the most of our influence on it. It's about making smarter, more balanced choices that ensures the NSLC continues to benefit Nova Scotians for generations to come.

Today's NSLC is the product of those two philosophies blended artfully together. Creating shareholder value while finding new ways to complement our surroundings. This is your NSLC.

THE NSLC AT A GLANCE

Did you know the NSLC operates 105 retail stores throughout Nova Scotia? We also provide wholesale service to restaurants and other licensed establishments and provide licensing to wineries, breweries and distillers. As part of our mandate, we are committed to driving social responsibility and creating economic benefit for Nova Scotia.

OUR ROLE IN TODAY'S NOVA SCOTIA

In order to help you better understand our commitment to Nova Scotia and the notion of sustainability, we thought it was important to examine the role that NSLC plays in today's Nova Scotia.

For over 80 years, we've been a trusted regulator and retailer of beverage alcohol in the province. At the retail level, we operate stores, check ID's and work hard to provide both great service and great products. On the production side, it means we're a regulator overseeing licensing for the production and distribution of alcohol within the province.

At the same time, it is also our mandate to make business decisions that provide an economic benefit to greater Nova Scotia. If you've been to one of our stores lately, you'll see this in action with the wide range of locally-produced wine and beer we offer. You'll see it at work with flexible permitting that allows small upstarts to take their products to market in innovative ways, like special events, wine fairs and farmers' markets.

It's a difficult balancing act, but one that has allowed us to responsibly nurture a wine, spirits and craft beer industry and the agriculture that supports it, putting millions of dollars back into the Nova Scotia economy.

ABOUT OUR BUSINESS

The global recession has certainly had its impact on the way retailers run their businesses. Consumers are becoming increasingly savvy with their limited disposable incomes. Although the economy is slowly recovering, the products we sell are a discretionary purchase by customers. Like any other retailer, we compete for our share of Nova Scotians' disposable income. As a result, any change in disposable income has a direct impact on our sales performance.

In today's environment, it is more important than ever to understand our customers and find new ways to add value. This year we continued our focus on a number of goals aimed at benefitting our customers and the province.

In our stores, we enhanced customer service with additional training for our Retail Product Specialists and celebrated our first full year with the AIR MILES® Reward Program. We made improvements to our Cool Zone brand experience to make it easier for customers to learn about our products and better find the ones they're looking for, while adding hundreds of new products to our stores.

Outside of the retail experience, we worked with our Licensee community (e.g. bars, restaurants) to craft an all-new licensee Guide. The Guide serves as a quick reference to navigating the various laws and regulations surrounding things like sampling, selling and producing of alcohol.

We also helped educate our customers through special events such as the Port of Wines Festival and Celebrate Whisky. The Port of Wines Festival introduced more than 160 new, one-time-only wines to our customers, while Celebrate Whisky brought more than 300 one-time only products to our stores, including one rare find that sold for nearly $2,000 a bottle.

In our retailing operations, we made the switch to digital with the launch of our Online Aisle, a fast and easy way to order select products through your computer or mobile device from around the world.

Over the past decade, we've increased our net income **from $167 million to $226 million** a year, while investing in new business processes, infrastructure and technology.

TIMELINE

1930 The NSLC is formed as Nova Scotia's only alcohol retailer / regulator after Nova Scotians vote in favour of legalizing the industry.

1940 The NSLC provides beverage alcohol from 33 stores from bank-like service wickets.

1960s The NSLC grows to over 60 stores and begins the transition to the self-service sales model.

1990s The NSLC reinvents itself with convenient stores, customer-friendly atmosphere and innovative marketing.

2001 The NSLC changes from a Commission to a Corporation, forever reshaping the future of our business.

SHAPED BY THE C

THE JOURNEY FROM COMMISSION TO CORPORATION

Twelve years ago, we officially changed from a commission to a corporation. That simple name change marked the beginning of a complex and massive transformation. A change that got us thinking more like a business, with a focus on strategic long-term investments for our Nova Scotian shareholders.

Our transformation has been nothing short of extraordinary. We've taken an outdated sales and inventory system and replaced it with modern SAP business management tools that allow us to better plan, track and monitor performance. It not only makes our entire process more efficient and nimble, it helps streamline our expenses as well.

We also looked at ways to create an entirely new shopping experience for our customers. It was clear to us, and to everyone, that our old stores and decaying infrastructure were just not making the cut. We sought out new, more convenient locations and redesigned our stores for a better customer experience, shifting toward a new strategy of co-locating with grocery stores. Today, we've renewed over 75% of our entire store network. This added unprecedented convenience, reduced our yearly overhead costs, while providing our customers with a better shopping experience.

But perhaps the biggest transformation during this time is our commitment to customer service. Our retail teams

are now some of the best trained in the business, known for their expert knowledge of the products we sell, their willingness to go the extra mile and for keeping alcohol out of the wrong hands.

These investments have allowed us to optimize returns on our business and have enabled us to build entirely new capabilities in the areas of marketing, category management, customer research and store security. These investments were critical to positioning the new NSLC as a sustainable, effective retailer capable of delivering our business objectives.

Today, our customer satisfaction rate has never been higher. We offer more products now than ever before and we do it in bright, modern and convenient stores that are designed for efficiency and cost-effectiveness. We've managed to work on profit too. With these investments, our gross profit has increased from 49.5% to 54.7% over what we made in our fiscal year 2001-02. During that time, gross profit dollars have increased from $194 million to $325 million.

Even though the volume of alcohol we sell has been declining, our commitment to creating value and pride for our stakeholders has never been more important. We're proud of the investments and transformation we've made to this incredible asset, owned proudly by the people of Nova Scotia.

As the frontlines of service, our employees are friendly, knowledgeable and commited to providing a great shopping expienece. Every employee is trained on all aspects of customer service and product knowledge. Chances are, if you've got an occasion, an NSLC employee can help you pair it with the perfect beverage complement.

CREATING A PLACE FOR PEOPLE

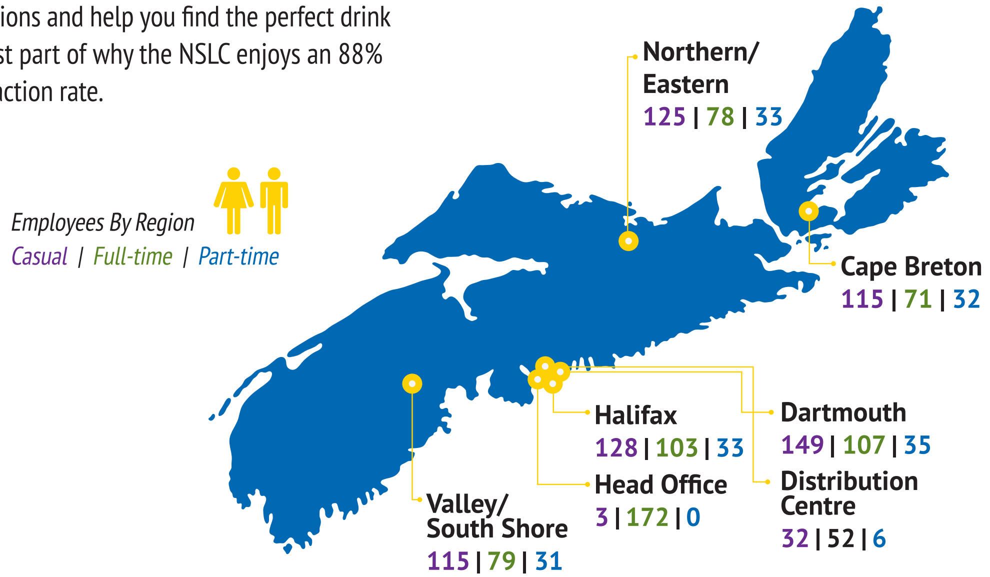
A Great Place to Shop

Research shows that customers shop at the NSLC to help celebrate an occasion. It could be as simple as the end of a long work week or the first summer barbecue. It could be a formal occasion or a festive holiday. Whatever the reason, we're here to help.

Making things easy for our customers takes a lot of work. Products must be sourced, shipped, described, displayed and promoted effectively if we are to pair our customers with the right product for their occasion. Our stores are designed to make browsing fast and efficient, while maintaining an opportunity for discovery and our employees are trained to answer questions and help you find the perfect drink selection. It's just part of why the NSLC enjoys an 88% customer satisfaction rate.

A Great Place to Work

Did you know that the NSLC employs nearly 1,500 people throughout the province? As a retailer, we offer fair and competitive wages to employees on both a part-time and full-time basis at both our stores and Distribution Centre. These employees are supported by corporate specialists in marketing, finance, inventory control, regulatory compliance and more through our Head Office and Distribution Centre located in Halifax. Together they create the revitalized shopping experience you see today, providing Nova Scotians with a richer, safer environment for beverage alcohol.



BUILDING A BUSINESS THAT WORKS

At the NSLC, we are committed to creating a business that truly works for Nova Scotians. Since we became a corporation 12 years ago, we've pioneered major advances in the way we operate. We've added a new layer of convenience and accessibility for our customers and transformed our stores from a place to shop to a personal experience.

As we evolve, renovations and co-location stores are a major part of our growth strategy. They provide a better and more premium selection, added convenience and opportunities to showcase Nova Scotia's growing wine and spirits industry. Because of this smart growth:

- The NSLC enjoys a very competitive cost per square foot. In short, we're working smarter for you by providing a better service with less overhead.
- New stores generate new revenue. When we replaced our Chester store, for instance, sales grew by 8.7% in the first four months alone.
- Sales of local, Nova Scotia products have a positive impact on the Nova Scotia economy and helps distinguish the province as a destination for food and wine enthusiasts from around the world.
- The NSLC has remitted more than $960 million in the past three years alone to all three levels of government – money used to fund essential public services.

Building Stores That Work

We recently moved our Chester store from an aging, outdated store to a bright new facility located next to a local grocery store. The beautiful store plays tribute to Chester's yacht-racing tradition, adds a new level of convenience for area shoppers, and offers a greater selection. As a result, sales have increased and more shoppers are buying within their community instead of traveling beyond for selection. Our new stores are designed to create a sense of discovery and reflect the unique characteristics of the communities they serve.

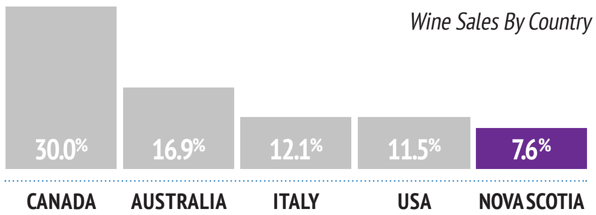
CULTIVATING SUCCESS HERE AT HOME

Toasting the Success of Nova Scotia Wines

Last year, we carried 147 different Nova Scotia wine articles in our stores from 13 different local wineries. We sold over 74,000 cases of Nova Scotia wine to customers, representing over 7% of the total wine we sell. In fact, if Nova Scotia was a wine country of its own, it would rank 5th in overall sales, outselling established wine-producing countries like Chile, Argentina and even France. That is really quite remarkable considering the relatively young age of our industry.

Clearly, Nova Scotia has become a growing force in the wine industry and an important contributor to our economy. In all, Nova Scotia now supports 18 wineries with over 500 acres of grapevines, contributing more than 850 full-time equivalent jobs to the provincial economy. That includes indirect jobs in everything from farm equipment sales and field help, to marketers, shippers and bottlers.

Net Sales of Nova Scotia wines have doubled since 2008, growing from $4.4 million to $9.4 million.



Today, we sell more Nova Scotia wines than all but four countries: Canada, Australia, Italy and the United States.

According to the latest figures:

- We sold 74,650 cases of Nova Scotia wine this year
- Local wines contributed $9,383,749 to our revenues
- Wine revenues overall grew by 6.3%
- The volume of wine sold grew by 3.2%

Economic Impact of Nova Scotia's Wine Industry

According to a 2011 study commissioned by the Vintners Association of Canada, the local wine and grape industry contributed an economy business revenue of $140 million to the province, tax revenues of $25.4 million and wages of over $30 million, totaling $196.3 million of overall economic impact. This includes $22.7 million of indirect revenue and $36.5 million of induced revenue. An average bottle of Nova Scotia wine sold generates $17.81 of business revenue, $3.22 of tax revenue and $3.90 of wages.

And the best part? The industry is still growing. With so much success and opportunity, we are proud to do our part to cultivate this unique part of life in Nova Scotia. In fact, Nova Scotia wine sales alone have grown from $4.4 million in 2008 to $9.4 million in 2013.

Nova Scotia Craft Beer

Craft beer is another category that's turning heads in Nova Scotia. In 2012, two new breweries opened in the province: Bridge Brewing Co. in Halifax and Big Spruce in Cape Breton. With demand rising and dozens of new products on the shelf, the category experienced 13% growth for the year, resulting in $6.8 million in sales.

Of those craft beers sold, $3.3 million came from Nova Scotia-based beers, which grew by 11.3% in terms of sales. As a result, one out of every two bottles of craft beer sold in our stores now comes from Nova Scotia, with Garrison Brewing Company and Propeller Brewery as our top performers.

RECENT TRENDS

At the NSLC, we regularly refresh and revise our product offerings to suit the changing needs of our customers. Here are some category highlights for the year 2012-2013:

SPIRITS

Rum represents 40% of all spirits sold at the NSLC, and white rum accounts for roughly one out of every two rum bottles sold. Big gains were made in the flavoured rum category, which grew by 20.1%. The category was largely driven by innovation in flavoured rums like Captain Morgan Black Spiced, Captain Morgan Silver Spiced and Bacardi Oakheart.

Vodka was the second largest segment in the spirits category at 25% of total sales. Unflavoured vodka accounted for 94% of all vodka sold and grew by a modest 2.6%. Growth in flavoured vodka has been strong, thanks to the cocktail trend, growing at 21%.

Whisky sales grew a modest 3% and represents 20% of all spirits sold. Canadian whisky is the leader, accounting for 68% of all whisky sales. Irish whiskey grew the most at 32%, followed by American at 11% and single malts at 9%. This is consistent with the global trend toward interest in small batch craft whiskies.

WINE

This year, we added 100 new general list wines and offered 300 one-time-only products through the Port of Wines festival.

Chilean Wines grew significantly in both volume and dollars, thanks to being the feature country of the Port of Wines Festival.

American Wines continued to pique the interest of Nova Scotians, particularly Californian premium wines.

Nova Scotian Wines continued with their double digit growth, with Nova 7, Tidal Bay wines (ten in total) and Jost Valley Roads all noted as stand-out successes.

Italian Wines surged to surpass the US as the #3 country in terms of volume and dollars. This is attributed to a continued focus on education and consumer interest in the origins of their favourite grape varietals.

In terms of flavour profiles, sweeter wines grew in popularity among both white and red wines. This included renewed interest in Moscatos, Apothic-style reds and sweeter, lightly effervescent variations like Nova 7.

BEER

Despite a modest decline in volume of beer sold, revenue from beer grew just over 1%. With nearly one out of every two dollars spent at the NSLC going to beer products, beer continues to be an important category. During the year, 41 new beers were listed, including eight craft beers. As part of these offerings, we introduced over a dozen new "one-time-only beers" including six summer/seasonal craft beers.

To add convenience for our beer customers, we now offer walk-in coolers in 39 of our stores, including nine featuring our newly rebranded Cool Zone concept.

Premium Beer was the highest growth segment, with revenues growing by 11%. It now accounts for 14% of the NSLC's total beer sold. New innovative premium beers like Michelob Ultra (positioned as a low calorie active lifestyle beer) also added to strong premium beer sales growth.

Craft Beer which is included within the premium beer segment, continued its double digit sales growth, growing by 13%.

READY-TO-DRINK

Ready-to-drink, or pre-mixed products such as hard lemonades remained a popular summer alternative for many Nova Scotians. In fact, we sell twice as many ready-to-drink products in the summer as we do in the winter. Although the category is dominated by spirit-based coolers, ciders are now beginning to gain market share.

Although ready-to-drink products account for just 4% of our overall sales, the category benefited from 16 new product listings, including three new ciders crafted locally in Nova Scotia – Stutz, Shipbuilders and Bulwark.

Cider was the only segment within this group to experience a gain. During the year, sales grew by 23% and cider now accounts for 8% of all ready-to-drink sales.

Spirit-Based Coolers are well established within this category, and account for 85% of ready-to-drink sales.

$592.9M Total sales

$224.3M Dividend returned to the province of Nova Scotia

$13.6M Sales increase over last year

$760M Total revenue relating to economic impact

22% Sales growth of Nova Scotian wines

FINANCIAL PERFORMANCE

Exceeding our Goals

The 2012-2013 fiscal year certainly had its challenges. We had more than our share of cold, wet weather. An NHL labour dispute bit into our beer sales and a lagging economy and other economic stresses continued to add pressure on our business.

Despite these challenges, we still had a good year in terms of performance. Through tight expense controls and sound management, we were able to exceed our financial goals for the year. Our earnings from operations was $226.4 million, which is up by 2.2% from the year prior.

Year-End Summary by Category

During the year, we made a number of key adjustments to our product selection to help bolster sales revenue in three out of four product categories. In the end, the only category to experience a decline in overall revenue was the ready-to-drink segment, which accounted for just 4% of our overall sales.

Performance by Area of Business

Retail: The NSLC's retail sales for the year were $488.9 million, a 2.9% increase from $475.2 million last year.

Wholesale: The NSLC's wholesale (restaurants, pubs and bars, Private Wine and Specialty Stores and Agency Stores) sales for the year were $104.0 million, a 0.3% decrease from $104.3 million last year.

Sales to Agency Stores increased 2.7% and licensee sales decreased by 2.6%. Private Wine and Specialty Stores also experienced a gain, with an overall sales increase of 3.6%.

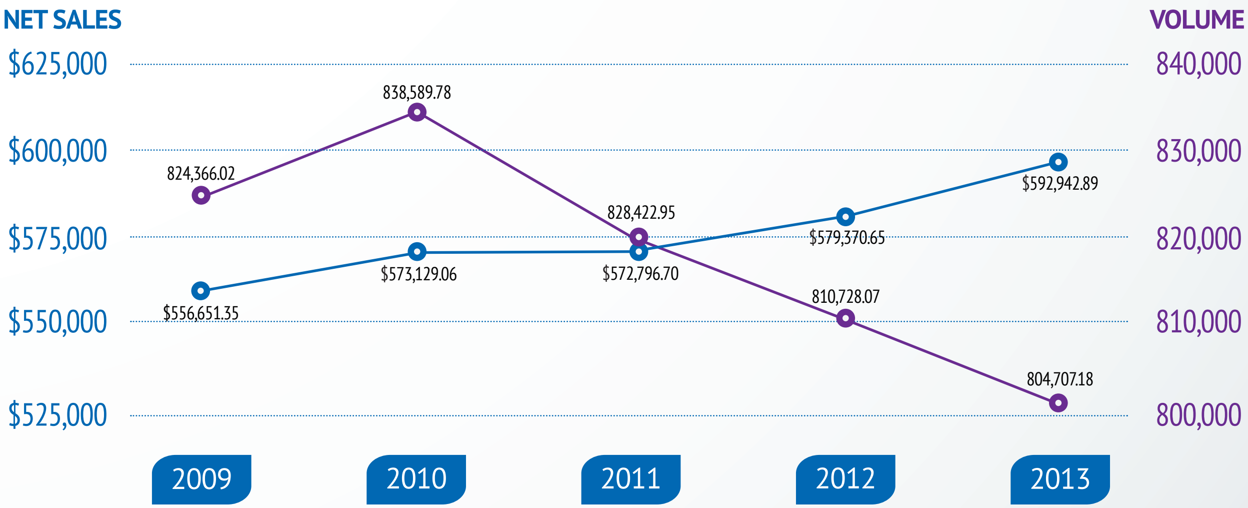
		REVENUE	VOLUME	% OF SALES
Spirits	↑	$166.0M (2.1%)	↓1.8%	28%
Wine	↑	$123.1M (6.3%)	↑3.1%	21%
Beer	↑	$280.7M (1.1%)	↓1.2%	47%
Ready-to-Drink	↓	$22.9M (0.8%)	↓1.9%	4%

Total Sales by Category


NSLC
BEER · WINE · SPIRITS

A FIVE-YEAR SNAPSHOT

In spite of volume declines over the last several years, sales enjoyed modest growth in part due to a focus on offering more premium products.



HOW WE'RE DOING

Sales by Region

At the NSLC, we group our stores into five geographic regions. Sales vary by region and are impacted by a wide range of factors, including growth or decline of local industries and shifts in population. We have been working hard to 'premiumize' the shopping experience at our stores as customers make the transition to buying less, but buying better. This allows us to continue growing our overall sales performance, even with slight volume declines.

2012/2013	Net Sales % Increase	Volume % Increase
Halifax	4.0%	1.0%
Dartmouth	2.2%	-1.0%
Northern/Eastern	0.9%	-2.0%
Cape Breton	2.2%	-0.7%
Valley/South Shore	-0.1%	-3.5%

Operating Expense Ratio

Each year, we measure our operating expense ratio as a way to compare our cost of doing business to the revenue we collect. This year, that ratio (including amortization and depreciation) was 16.6% compared to 16.5% during the previous year. Once again, strong expense management ensured the healthy maintenance of this ratio.

Mystery Shopping Program

How do we ensure that our stores are meeting operational standards and maintaining our commitment to customer service? The answer is mystery shop research. Throughout the year, mystery shoppers visit our stores and take careful note of our performance. This year, our scores were 89%, an improvement over last year's score of 88.2%.

Customer Engagement & Satisfaction

In order to run any successful business, it's always good to know what the customer thinks. Every month we survey 100 customers at random to determine what's known as a 'Customer Satisfaction Index' or CSI. The CSI looks at a total of 23 different aspects of the shopping experience that are important to customers, ranging on everything from promptness and product knowledge to product selection and store cleanliness. Our results showed another great year in terms of customer satisfaction.

50% of customers gave us a perfect 10 out of 10.

88% gave us an 8 out of 10 or better.

Key Performance Indicators

At the NSLC, we use a number of standard retail metrics, or Key Performance Indicators (KPIs), to track the performance of stores within our network. These KPIs include an evaluation of the execution of merchandising and operational standards, sales per employee hour and mystery shop scores.

Sales Per Employee Hour (SPEH)

Measures the efficiency of our labour costs when compared to our retail sales.

Over the past five years, our sales per employee hour have grown from $340 to $420 per hour, marking a significant improvement in the efficiency of our labour costs.

More than 87%

of Nova Scotian households have an active AIR MILES® card.

As the most popular rewards program in the province, we saw the program as an opportunity to elevate and improve the shopping experience for our customers. Launched across our entire retail network in February 2012, the AIR MILES® program provides us with valuable data that we use to provide better service and to better understand shopping patterns. The end goal is to give us the tools to deliver a personalized shopping experience, tailored to individual customer needs.

So far, we've been enjoying some great results:

- 78% of Nova Scotia AIR MLES® collectors have swiped with us at least once.
- 41% of collectors have swiped with us 10 or more times.
- Last year we awarded 18.4 million miles to collectors – that's enough for 2,500 round trips to Italy.
- Over 1,000 products had an AIR MLES® offer at least once during the year – that's nearly a third of our products.

Committed to Safety

With millions of bottles, cans and pallets traveling through our system every year, getting products from our suppliers to our shelves is a big task. To make sure it's done safely, we launched a 'Team of Doers' initiative that looks for new ways to constantly improve the way we work. This year we offered five workshops conducted by the Worker's Compensation Board that helped us achieve a 31% reduction in lost time incidents.

Our number one goal for 2012 was to reduce lost time incidents in the Distribution Centre by 50%, and reduce that by 75% by the end of 2013. So far, the results have been extremely positive.

31% reduction in lost time incidents

73% reduction in days lost

87% reduction in Worker's Compensation claims


WE ID
HAVE YOURS
NSLC
MANAGER

COMMUNITY & CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility is at the heart of the NSLC. It's putting our values into action and incorporating them into everything we do. From ethical business practices, to protecting the environment, to keeping alcohol out of the hands of minors, we are striving to become Nova Scotia's leading corporate citizen while always delivering on our legislated mandate.

With 105 retail stores across the province and almost 1,500 employees, we are a vital part of the communities where we work, live and play. As an employer, we require our store employees to ensure the safe enjoyment of beverage alcohol through a host of social responsibility programs such as WE ID. We partner with recognized leaders like MADD Canada to bring their high-energy drug and alcohol awareness and risk-reduction messages to high schools across Nova Scotia; and with the Nova Scotia Salmon Association to provide funding for the NSLC Adopt-A-Stream program working to improve water quality in our many lakes, rivers and streams. Supporting the greater community, our employees volunteer in every imaginable way from firefighting to coaching teams to helping with community events. As a responsible corporate citizen, we support charities and organizations throughout the province with an amazing history of success. Our support in staging some of the region's top musical festivals provides financial stability to the events and volunteer opportunities for our employees to become even more integrated into the fabric of our communities.

The NSLC's commitment to corporate social responsibility lives in the daily lives of our employees, our customers and all Nova Scotians. We believe that by working together, we can all make Nova Scotia an even better place to live.

SOCIAL RESPONSIBILITY

Almost is Too Close

Almost is Too Close is an anti-binge drinking campaign aimed at increasing awareness about the potential harms that can occur from irresponsible consumption of beverage alcohol. To make it happen, we partnered with five of Nova Scotia's leading universities; Acadia, Saint Mary's, Mount Saint Vincent, King's College and Cape Breton University to deliver this important message to new and returning students in September 2012.

After conducting a series of six focus groups around the province with 19–25 year olds, it was clear that almost everyone had a "close call" story about either themselves or close friends.We developed a series of four videos, each depicting a potential dangerous situation that could arrise by over-consumption. Teaser materials featuring QR codes were placed around campuses to engage with students and direct them to either YouTube or Facebook where the videos could be viewed. To see the videos, visit **myNSLC.com.**

Great Big Thanks

At the NSLC, we are committed to promoting both responsibility and safety. Each holiday season we produce a social responsibility campaign aimed at increasing awareness about responsible consumption and, specifically against drinking and driving.

This year, we developed a campaign called "Great Big Thanks" geared toward our 19-25 year old audience. The campaign takes the unique approach of recognizing and celebrating the responsible choices made by Nova Scotians in finding alternate and safe transportation home.

It features unsuspecting customers who, after a night downtown, head home in a taxi we've outfitted with secret cameras. Within a few short blocks, the taxi is surrounded with a surprise street parade – complete with jugglers, acrobats, cheerleaders and confetti – celebrating their responsible choice to not drink and drive. To view the campaign, visit **myNSLC.com.**

Did You Know?

- Alcohol consumption in Nova Scotia has been relatively stable in recent years and is consistently lower than the national average.
- Nova Scotia was the third highest ranking province in the recent Reducing Alcohol Related Harms and Costs Report documenting current alcohol policy initiatives across Canada.

We asked for proof of age 1.2 million times last year. Nearly 10,000 customers were refused service due to questionable ID.

SUPPORTING NOVA SCOTIA MUSIC

Nova Scotia has a long and storied tradition with music. In fact, in many areas of the province, music festivals are must-see events that showcase our incredible breadth of local talent while bringing communities to life.

In 2009, in its first year, "Celebrate Nova Scotia Talent" celebrated alongside five grassroots community music festivals. Today, the program supports over a dozen festivals in every corner of the province. Our sponsorships have become an instrumental force in enriching a new generation of Nova Scotians through music. We've also expanded our donation component by sponsoring things like free shuttle buses at events to promote safety and responsible choices.

In 2012-2013, we supported the following festivals:

- Stan Rogers Folk Festival
- Festival of the Straight
- Codstock
- Pugwash HarbourFest
- Harmony Bazaar
- Festival Acadien de Clare
- Dutch Mason Blues Festival
- Lunenburg Folk Harbour Festival
- Hank Snow Tribute
- The NSLC's Halifax Urban Folk Festival
- Canadian Deep Roots Music Festival
- Nova Scotia Music Week


NSLC
BEER • WINE • SPIRITS
MAIN STAGE
stan rogers 2011
folk festival
stan rogers 2011
folk festival

A TRADITION OF GIVING BACK

Giving Back To Local Charities

Giving back. It's something embedded deep within our corporate DNA. Each year, our employees raise thousands of dollars for local charities and causes. We collect donations and put on events. We've washed cars and raffled off prizes. We've given over a million dollars to the IWK Health Centre and have locked in a multi-year commitment as the title sponsor of the NSLC Adopt-A-Stream program.

$300 thousand = NSLC adopt a stream

$1.7 million = IWK Health Centre

Highlights for 2012-2013

This year, employees from every corner of the province have joined together to help a number of deserving charities.

United Way

The United Way is dedicated to building stronger communities across Nova Scotia. In 2012, we raised over $72,000 for United Ways across the province.

IWK Health Centre

Our employees have been raising funds for the IWK Health Centre for over 35 years, collecting an incredible $1.7 million for the beloved charity. This year, our employees did it again, raising more than $200,000 through a wide range of fundraisers to break last year's record.

Cash Cans for Change

If you've got spare change, we've got a can for that. We've placed cash cans at our registers to help put your small change to big use, helping registered charities with their fundraising goals. During the period of this report, over $40,000 was raised 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 Division.


Thank you.
We couldn't have done it alone.
$202, 059.71
GRAND TOTAL RAISED
TELETHON for Children
NSLC

0%

That's the amount of liquid waste that goes to Nova Scotia Landfills.

ENVIRONMENT

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 one smart choice at a time that together, can add up to some big changes.

NSLC adopt a stream

If there's one thing history has taught us, it's that protecting our watersheds is a lifelong journey. Over the past few years, we've joined forces with the Nova Scotia Salmon Association as a five-year title sponsor of the NSLC Adopt-A-Stream program.

Working with groups like the Nova Scotia Salmon Association, together we've helped restore over 1 million square metres of aquatic habitat throughout Nova Scotia. This community-based watershed stewardship program helps protect, repair and improve the aquatic habitats of local wetlands, lakes, streams, rivers and estuaries in every corner of the province while enhancing fish and wildlife populations.

As part of our five-year commitment, we will be donating a total of $500,000, delivered in annual installments. The funds are earned directly from a special promotion in NSLC stores called the 'Eco Event'. Each April, we select a unique group of products that customers can purchase to help this wonderful cause. With each purchase, a donation by the supplier from those items is poured directly into the NSLC Adopt-A-Stream fund.

The Eco Event is a great way for customers to show their support and make the choice for a more sustainable water ecosystem. Customers can feel good knowing that their purchases have a direct impact on the health of our water and our communities.

Through funding from the NSLC Adopt-A-Stream program, the Sackville River Association has been able to complete several significant projects over the past five years, including work at Thompson Run in Hammonds Plains. Thompson Run is a 600m stretch that was restored with its natural curves, bends and pools – features that make life better for fish while helping to curb erosion.

As part of our success in 2012, we:

- restored 128,779 square metres of stream habitat
- re-established 54 kilometres of fish passage
- planted 10,614 stream-side trees
- created 99 seasonal field jobs
- contributed 6,474 volunteer hours

78,600

Number of trees planted along riverbanks as part of the NSLC Adopt-A-Stream program since 2009.

GREENHOUSE GASSES

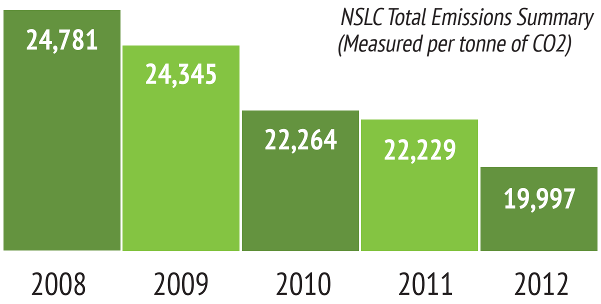
One way we measure our impact on the environment is through greenhouse gas emissions. Since 2008, Stantec has monitored our carbon footprint with an operational control approach. This approach requires accountability for 100% of the greenhouse gas emissions we produce as a result of business. The report includes:

1) Direct greenhouse gas emissions caused by the consumption of energy.
2) Indirect greenhouse gas emissions caused by the production of electricity we consume.
3) Other greenhouse gas emissions caused by transportation including trucking and shipping.

This year, we are proud to say that our emission levels continue to trend downward as we become more energy efficient. The reduction of energy consumption has been the key to our success with GHG emissions. Our new build and construction renovation program is committed to energy reduction with equipment and material choices made to achieve higher building performance. We also studied and tested various energy-reduction efforts to retrofit our systems across our existing network of retail stores, Head Office and Distribution Centre.

Additionally, we partnered with Efficiency Nova Scotia to be 'first mover' for new programs to further reduce energy consumption. Upgrades were completed to several stores which were outfitted with new efficient T8 fluorescent tubes. We also changed our track lighting to LEDs and adopted new controls to cycle evaporator fans in our walk-in refrigerated beer areas.

Further, we identified additional energy conserving upgrades for our Head Office and Distribution Centre with work to be completed to reduce systems use after hours and provide more efficient automation. Efforts such as these contribute to delivering on our goal of reducing the 2008 energy consumption total by 15% by the end of 2015, which we've now exceeded.



Zero Waste

At the NSLC, 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.

In practical terms, that means we've removed all desk-side trash cans and introduced waste sorting stations that promote recycling and composting. The net result is a new level of consciousness and commitment to dealing with all waste responsibly.

Waste Audit Results for Diversion Rates

95%	Downsview Plaza, Sackville
94%	Joseph Howe Dr., Halifax
93%	Tacoma Drive, Dartmouth
88%	Distribution Centre
92%	Tantallon / Bayers Lake, Halifax
91%	Bridge Plaza, Dartmouth / Portland Street, Dartmouth / Mill Cove
84%	Clyde St., Halifax
74%	Head Office

ENVIRONMENTAL TARGET STATUS UPDATE

▶SHORT-TERM TARGETS	▶STATUS
Take 10% of stores to Zero Waste by end of 2013.	80% complete. Zero Waste is now deployed at our Head Office, Distribution Centre and six stores.
Achieve Zero Waste (95% diversion) at our Head Office and Distribution Centre by 2015.	This year we have achieved a 74% diversion rate at our Head Office and 88% diversion at our Distribution Centre.

▶MID-RANGE TARGETS	▶STATUS
By 2015, reduce overall energy consumption by 15% compared to 2008 levels.	Efforts are now underway to reach this target and results today indicate success.
By 2015, reduce overall solid waste disposal rate by 20% compared to 2008 levels.	Waste disposal rates vary widely based on individual locations. However, overall waste audit results indicate that in stores where Zero Waste initiatives have been put into place, this objective is on track for 2015. For example, our Head Office's initial waste audit was 58% diversion and is now at 74%. This is an overall improvement of 16%.

▶LONG-TERM TARGETS	▶STATUS
By 2020, reduce Greenhouse Gas Emissions by at least 10% compared to 2008 levels.	2008 GHG emissions were 24,781 tCO_2e. 2013 emissions are 19,997 tCO_2e representing an overall decrease of 4,784 tCO_2e. This equates to a 19.3% reduction in overall GHG emissions.
Use renewable energy sources for 25% of electricity needs by 2020.	We will maximize our use of renewable energy sources as they become available throughout the province and become more cost-effective. Currently, we are using renewable energy sources in six stores, primarily in the HRM area.

EVER WONDER HOW WE HANDLE ALCOHOL FROM DAMAGED BOTTLES?

In a business that depends so much on glass bottles, it's no surprise that once in a while, some things break or crack. But have you ever wondered what happens to the alcohol inside when those bottles get damaged? It doesn't go down the sink, in a bag or down the drain. Instead, that alcohol begins a new life, thanks to some innovative advances in recycling.

At stores throughout Nova Scotia, our "waste alcohol" as it's known, is collected and stored on-site while awaiting pickup from one of our recycling partners. Once picked up, the alcohol is combined with other waste materials and ultimately processed into biodiesel. That biodiesel is then used to fuel everything from farm equipment to vehicles. It's just one of the many ways we're working to minimize our impact on the Nova Scotia environment.

MESSAGE FROM THE CHAIR

Under the guidance of the Board of Directors, the NSLC celebrated many successes, including a ground-breaking, $224.3 million dividend returned to the people of Nova Scotia. We did it all with an unwavering commitment to sustainability and social responsibility that puts the NSLC among the most innovative of its kind in Canada.

This past fiscal year, the Minister responsible for the Liquor Control Act and for the NSLC, the Honourable Maureen MacDonald, introduced amendments to the Act. The amendments required us to add two new members to further strengthen our board's diverse skills and experience. With the terms ending for two of our existing board members, that left a total of four new board positions available.

In addition, the Act was also amended to create the new role of Vice Chair to assume a leadership role in times when the chair may be unavailable.

In all, our new members bring a tremendous wealth of experience and knowledge. I would like to personally welcome Sarah Campbell, Valerie Payn, Allan Rowe and Paul Kent to the NSLC.

I would also like to congratulate Bret Mitchell, President and CEO, on receiving his fifth Atlantic Business Magazine's Top 50 CEO Award this year. Nominees are judged based on their corporate, community and industry involvement, their company's growth and their ability to respond to business challenges with strong leadership.

On behalf of the Board, I would like to thank the Government of Nova Scotia and the Honourable Maureen MacDonald for their ongoing support. As the NSLC continues to benefit from an engaged and dedicated team, I look forward to delivering on our the objective outlined in the Five-Year Strategic Plan 2010-2015 and working toward furthering our corporate sustainability with the entire NSLC team in the upcoming year.

Sherry Porter

Sherry Porter
Board Chair, NSLC Board of Directors

EXECUTIVE TEAM

During the year, the NSLC executive team was restructured to improve efficiencies. With two fewer executives, additional responsibilities were given to two of our executives. Greg Beaulieu assumed the NSLC's communications and corporate social responsibility efforts, while Dave DiPersio absorbed the company's IT portfolio. For a complete look at our executive bios, please visit **myNSLC.com.**

Back Row (left to right):
Hoyt Graham, VP Store Development & Facilities
Tim Pellerin, VP Marketing & Merchandising
Bret Mitchell, President & CEO
Greg Beaulieu, VP Communications & Corporate Secretary
Danny MacMillan, VP Operations
Roddy Macdonald, VP Human Resources

Front Row (left to right):
Brad Doell, VP Supply Chain & Procurement
Dave DiPersio, VP Finance and Information Technology

BOARD OF DIRECTORS

The main responsibility of the NSLC's Board of Directors is governance. The Board is accountable to the government, as Shareholder, in setting the strategic direction of the business as well as overseeing the overall performance of the NSLC.

The Board of Directors and its Chair are appointed by Order in-Council on the recommendation of the Minister responsible for the Administration of the Liquor Control Act. All voting members of the Board are independent of management, except for the President and Corporate Secretary; none of which are NSLC employees. All have first-hand knowledge of finance, business, entrepreneurship and retail practices. Together, the board members have the balanced mix of skills and experience needed for their stewardship role and for setting the future direction the Corporation should take.

The Liquor Control Act sets out the Board's purpose, responsibilities and duties. Like other Crown Corporations, the NSLC is subject to other laws such as the Privacy Act, Freedom of Information, and Federal Acts such as the Customs Act, Excise Act, Canada Revenue, Private Importation of Alcoholic Beverages and CRTC regulations with regards to TV and radio advertising.

Top row (left to right):
Sarah Campbell
John MacKinnon

Second row:
Sue Payne
Greg Beaulieu
Elizabeth Cody

Third row:
Frank Elliott
John Carter

Fourth row:
Valerie Payn
Dave DiPersio
Sherry Porter

Bottom row:
Paul Ken
Bret Mitchell
Allan Rowe

FINANCIAL HIGHLIGHTS

For the twelve month period ended March 31, 2013.

	2013	2012
Spirits	$166,049,783	$162,577,720
Wine	$123,111,946	$115,832,636
Beer	$280,737,766	$277,750,460
Ready-to-Drink	$22,920,029	$23,093,738
Non-liquor	$123,369	$116,094
Total Sales by Category	**$592,942,893**	**$579,370,648**
Earnings for the Year	**$226,386,159**	**$221,454,229**
Sales Volume (Hectolitres)	*$804,707*	*$810,728*

NOTE: Prior year sales have been adjusted to reflect a change in the reporting classification of certain vendor revenue. This had no impact on reported earnings.

Grant Thornton

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Independent auditor's report

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

We have audited the accompanying financial statements of the Nova Scotia Liquor Corporation, which comprise the balance sheet as at March 31, 2013 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, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton LLP

Halifax, Canada
June 24, 2013

Chartered Accountants

Nova Scotia Liquor Corporation
Statements of comprehensive earnings

Year ended March 31 (in thousands)	2013	2012 As restated (note 5)
Sales	$ 592,943	$ 579,371
Cost of goods sold	268,362	262,417
	324,581	316,954
Store operating expenses (note 12)	60,563	58,145
	264,018	258,809
Supply chain expenses (note 12)	7,014	6,743
Corporate services expenses (note 12)	28,623	27,833
Post employment service costs (note 9)	1,319	1,195
Other revenues	(5,446)	(4,862)
Other expenses	4,921	5,194
	36,431	36,103
Interest expense – lease liability	2	68
Post employment benefit interest cost (note 9)	1,199	1,184
Total finance costs	1,201	1,252
Earnings for the year	$ 226,386	$ 221,454
Other comprehensive earnings		
Actuarial losses on defined benefit plans (note 9)	(2,125)	(1,603)
Comprehensive earnings for the year	$ 224,261	$ 219,851

Nova Scotia Liquor Corporation
Balance sheets

March 31 (in thousands)	2013	2012 As restated (note 5)	April 1 2011 As restated (note 5)
Assets			
Current			
Cash	$ 15,887	$ 8,662	$ 4,657
Receivables	1,376	2,634	1,891
Inventories	44,764	40,618	38,130
Prepaids	944	842	1,003
	62,971	52,756	45,681
Intangibles (note 6)	4,861	7,050	10,205
Property and equipment (note 7)	44,028	39,751	41,069
	$ 111,860	$ 99,557	$ 96,955
Liabilities			
Current			
Payables and accruals	$ 42,314	$ 32,942	$ 30,203
Current portion of obligations under finance lease	20	19	1,106
Current portion of employee future benefit obligations (note 9)	1,319	1,306	711
	43,653	34,267	32,020
Obligations under finance lease	21	41	60
Employee future benefit obligations (note 9)	28,355	25,179	23,156
	72,029	59,487	55,236
Equity	39,831	40,070	41,719
	$ 111,860	$ 99,557	$ 96,955

On behalf of the Board

Sherry Porter

Ms. Sherry Porter
Chair, Board of Directors

J B Carter

Mr. John B. Carter, FCA
Audit Committee Chair

See accompanying notes to the financial statements.

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

	Other components of equity	Retained earnings	Total
Balance at March 31, 2012, as restated (note 5)	**$ (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**
Balance at April 1, 2011, as restated (note 5)	$ 1,459	$ 40,260	$ 41,719
Remittances to Minister of Finance	-	(221,500)	(221,500)
Earnings for the year, as restated (note 5)	-	221,454	221,454
Other comprehensive loss	(1,603)	-	(1,603)
Comprehensive earnings for the year, as restated (note 5)	(1,603)	221,454	219,851
Balance at March 31, 2012, as restated (note 5)	$ (144)	$ 40,214	$ 40,070

Nova Scotia Liquor Corporation
Statements of cash flows

Year ended March 31 (in thousands)	**2013**	2012 As restated (note 5)
Operating		
Earnings for the year	**$ 226,386**	$ 221,454
Depreciation and amortization	**10,051**	11,474
Net gain on disposal of property and equipment	**(57)**	-
Post employment service costs	**1,319**	1,195
Post employment benefit interest cost	**1,199**	1,184
Defined benefit plans benefits paid	**(1,454)**	(1,364)
	237,444	233,943
Change in non-cash operating working capital (note 10)	**6,382**	(331)
	243,826	233,612
Financing		
Principal payments on obligation under finance lease	**(19)**	(1,106)
Remittances to Minister of Finance	**(224,500)**	(221,500)
	(224,519)	(222,606)
Investing		
Purchase of intangibles	**(993)**	(1,790)
Purchase of property and equipment	**(11,249)**	(5,211)
Proceeds on sale of property and equipment	**160**	-
	(12,082)	(7,001)
Net change in cash	**7,225**	4,005
Cash, beginning of year	**8,662**	4,657
Cash, end of year	**$ 15,887**	$ 8,662

See accompanying notes to the financial statements.

1. Nature of operations

The Nova Scotia Liquor Corporation (the "Corporation") administers the Liquor Control Act, Chapter 260 of the Revised Statutes of Nova Scotia, 1989 and is a government business enterprise as defined by Public Sector Accounting Board recommendations. The immediate parent and ultimate controlling party of the Corporation is the Province of Nova Scotia. The Corporation is exempt from income tax under Section 149 of the Income Tax Act. The Corporation's principal place of business is 93 Chain Lake Drive, Halifax, Nova Scotia.

2. Basis of preparation

Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements for the year ended March 31, 2013 (including comparatives) were approved and authorized for issue by the Board of Directors on June 24, 2013.

Basis of measurement
The Corporation's financial statements are prepared on the historical cost basis. 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
IAS 1 requires the presentation of the previous year's comparative information in each of the primary financial statements. In certain circumstances, IAS 1 requires the presentation of an additional year's comparative information in the balance sheet. Accordingly, the Corporation has included three balance sheets in the financial statements as a result of a prior period restatement (note 5).

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

<u>Significant management judgment</u>
The following are significant management judgments in applying the accounting policies of the Corporation that have the most significant effect on the financial statements.

Impairment
The carrying values of property and equipment and intangible assets 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.

Nova Scotia Liquor Corporation
Notes to the financial statements
March 31, 2013 (in thousands)

3. Summary of significant accounting policies (continued)

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

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

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

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

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

Revenue
Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised at the point of sale when goods are sold to the customer.

Customer loyalty programs
An AIR MILES® loyalty program is used by the Corporation. AIR MILES® are earned by certain customers based on purchases. The Corporation pays a per point fee under the terms of the agreement with AIR MILES®.

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

3. Summary of significant accounting policies (continued)

Cash
Cash comprises cash on hand and demand deposits.

Inventories
Inventories are valued at the lower of cost and net realizable value using the weighted average moving cost method. Cost includes product costs, standard freight costs and customs with excise included when product is released for sale.

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	20%
Other intangible assets	33%

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

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

Property and equipment are depreciated on a straight-line basis at the following rates per annum:

Furniture, fixtures, other equipment, capital and leasehold improvements	10%
Computers, software and hardware	20% to 33%
Buildings	2.5% to 10%

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

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

3. Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

Defined contribution plan
Contributions to the retirement benefit plan are expensed as employees render service.

3. Summary of significant accounting policies (continued)

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

Financial instruments
All financial instruments are classified into one of five categories: fair value through profit and loss, held to maturity, loans and receivables, available for sale financial assets, or other financial liabilities. All financial instruments are initially measured in the statement of financial position at fair value plus transaction costs.

Subsequent measurement and changes in fair value will depend on their initial classification, as follows:

- Fair value through profit and loss financial instruments are measured at fair value and changes in fair value are recognized in net earnings;
- Available for sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income until the financial asset is derecognized or impaired at which time the amounts would be recorded in profit or loss; and
- Loans and receivables, held to maturity investments, and other financial liabilities are measured at amortized cost using the effective interest method.

The Corporation has classified its financial instruments as follows:

Asset/liability	Classification
Cash	Loans and receivables
Receivables	Loans and receivables
Payables and accruals	Other financial liabilities

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

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

Nova Scotia Liquor Corporation
Notes to the financial statements
March 31, 2013 (in thousands)

3. Summary of significant accounting policies (continued)

Provisions
Provisions are recognized when the Corporation has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. A provision is a liability of uncertain timing or amount.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in provision due to the passage of time is recognized as an interest expense. There are no provisions as at March 31, 2013 and 2012 and April 1, 2011.

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

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

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

IFRS 9 Financial Instruments (IFRS 9)
The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning on or after January 1, 2015.

Further chapters dealing with impairment methodology and hedge accounting are still being developed. Management does not expect to implement IFRS 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.

Amendments to IAS 19 Employee Benefits (IAS 19 Amendments)
The IAS 19 Amendments include a number of targeted improvements throughout the Standard. The main changes relate to defined benefit plans and:

- eliminate the 'corridor method', requiring entities to recognize all actuarial gains and losses arising in the reporting period. This amendment has already been adopted by the Corporation upon its transition to IFRS at March 31, 2012;
- streamline the presentation of changes in plan assets and liabilities; and
- enhance the disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

The amended version of IAS 19 is effective for annual periods beginning on or after January 1, 2013. Management is still assessing the impact of this revised standard on the financial statements.

Nova Scotia Liquor Corporation
Notes to the financial statements
March 31, 2013 (in thousands)

5. Restatement of financial statements

Correction of error
During the course of calculating the Corporation's current year estimates of liabilities for its accumulating non-vesting sick leave entitlement, it was noted that the accumulated liabilities on the prior year balance sheets were incorrect. The balances as of April 1, 2011 and March 31, 2012 have been restated to correct this error as follows:

	March 31 2012	April 1 2011
Increase in current portion of employee future benefit obligations	$ 456	$ -
Increase in employee future benefit obligations	5,125	5,420
Decrease in equity	$ (5,581)	$ (5,420)

The statements of earnings and comprehensive earnings for the year ended March 31, 2012 have been restated as follows:

Decrease in store operating expenses	$ (420)
Decrease in supply chain expenses	(33)
Decrease in corporate services expenses	(26)
Increase in post employment service costs	456
Increase in post employment benefit interest cost	184
Decrease in net earnings and comprehensive earnings	$ (161)

Reclassifications
The Corporation reclassified the billback to vendors of discounts applied at time of sale to customers. Previously, this billback was recorded as revenue, but has now been reclassified as a decrease to cost of goods sold. Prior year amounts have been restated to include this reclassification and the effect is summarized below:

	2012
Decrease in net sales	$ (9,576)
Decrease in cost of goods sold	(9,576)
Effect on net earnings	$ -

During the year, certain assets under construction included in property and equipment were reclassified to assets under development in intangibles. The effect was to increase intangibles and decrease property and equipment by $670 in 2013 (2012 - $1,764).

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6. Intangibles

	Enterprise Resource Planning (ERP)	Other Intangibles	Assets under Development	Total
Cost				
At April 1, 2011	$ 21,736	$ 924	$ 2,835	$ 25,495
Additions and transfers	2,457	404	(1,071)	1,790
At March 31, 2012	24,193	1,328	1,764	27,285
Additions and transfers	**677**	**1,410**	**(1,094)**	**993**
Disposals	**(12)**	**-**	**-**	**(12)**
At March 31, 2013	**24,858**	**2,738**	**670**	**28,266**
Amortization				
At April 1, 2011	(14,862)	(428)		(15,290)
Amortization expense	(4,693)	(252)	-	(4,945)
At March 31, 2012	(19,555)	(680)		(20,235)
Amortization expense	**(2,510)**	**(671)**	**-**	**(3,181)**
Disposals	**11**	**-**	**-**	**11**
At March 31, 2013	**(22,054)**	**(1,351)**	**-**	**(23,405)**
Carrying amounts				
At April 1, 2011	$ 6,874	$ 496	$ 2,835	$ 10,205
At March 31, 2012	$ 4,638	$ 648	$ 1,764	$ 7,050
At March 31, 2013	**$ 2,804**	**$ 1,387**	**$ 670**	**$ 4,861**

Amortization expense for intangible assets is reported in the statements of earnings within the following line functions:

	2013	2012
Store operating expenses	**$ 399**	$ 391
Supply chain expenses	**33**	17
Corporate service expenses	**2,749**	4,537
	$ 3,181	$ 4,945

March 31, 2013 (in thousands)

7. Property and equipment

	Furniture & Fixtures	Other Equipment	Small Computers	Software & Hardware	Land	Buildings	Capital & Leasehold Improvements	Assets under Construction (AUC or WIP)	Total
Cost									
At April 1, 2011	$ 14,776	$ 12,432	$ 9,491	$ 1,983	$ 905	$ 34,088	$ 25,199	$ 2,355	$ 101,229
Additions	544	1,122	874	75	-	804	745	1,047	5,211
At March 31, 2012	15,320	13,554	10,365	2,058	905	34,892	25,944	3,402	106,440
Additions	**1,007**	**1,112**	**954**	**223**	**-**	**569**	**3,955**	**3,429**	**11,249**
Disposals	**(9)**	**(15)**	**(7)**	**(5)**	**(6)**	**(13)**	**-**	**(73)**	**(128)**
At March 31, 2013	**16,318**	**14,651**	**11,312**	**2,276**	**899**	**35,448**	**29,899**	**6,758**	**117,561**
Depreciation									
At April 1, 2011	(7,013)	(7,523)	(6,704)	(1,440)	-	(25,257)	(12,223)	-	(60,160)
Depreciation expense	(1,248)	(826)	(915)	(274)	-	(1,199)	(2,067)	-	(6,529)
At March 31, 2012	(8,261)	(8,349)	(7,619)	(1,714)	-	(26,456)	(14,290)	-	(66,689)
Depreciation expense	**(1,304)**	**(896)**	**(997)**	**(276)**	**-**	**(1,024)**	**(2,373)**	**-**	**(6,870)**
Disposals	**5**	**6**	**4**	**3**	**-**	**8**	**-**	**-**	**26**
At March 31, 2013	**(9,560)**	**(9,239)**	**(8,612)**	**(1,987)**	**-**	**(27,472)**	**(16,663)**	**-**	**(73,533)**
Carrying amounts									
At April 1, 2011	$ 7,763	$ 4,909	$ 2,787	$ 543	$ 905	$ 8,831	$ 12,976	$ 2,355	$ 41,069
At March 31, 2012	$ 7,059	$ 5,205	$ 2,746	$ 344	$ 905	$ 8,436	$ 11,654	$ 3,402	$ 39,751
At March 31, 2013	**$ 6,758**	**$ 5,412**	**$ 2,700**	**$ 289**	**$ 899**	**$ 7,976**	**$ 13,236**	**$ 6,758**	**$ 44,028**

Depreciation expense of property and equipment is reported in the statements of earnings within the following line functions:

	2013	2012
Store operating expenses	**$ 5,152**	$ 4,744
Supply chain expenses	**333**	333
Corporate service expenses	**1,385**	1,452
Total depreciation	**$ 6,870**	$ 6,529

March 31, 2013 (in thousands)

8. Lease commitments

Operating leases as a lessee
The Corporation's operating leases relate to retail stores with lease terms between 1 to 20 years. Generally the leases have renewal options, primarily at the Corporation's option. The Corporation does not have an option to purchase the leased assets at the expiry of the lease periods. The Corporation's future minimum operating lease payments are as follows:

Minimum lease payments due			
Within 1 year	1 to 5 years	After 5 years	Total
$ 6,227	$ 15,438	$ 5,669	$ 27,334

9. Employee remuneration

Retirement benefit plan
The Corporation contributes to the Nova Scotia Public Service Superannuation Plan, which is a defined benefit plan. The Corporation accounts for these contributions as a defined contribution plan. Under this plan, the Province of Nova Scotia assumes the actuarial and investment risk. The Corporation matches the contributions of employees' contributions calculated as: 8.4% on eligible earnings up to the year's Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan (CPP) and 10.9% on eligible earnings that is in excess of YMPE.

The total expense recognized in the statement of earnings is $3,130 (2012 - $3,058) and represents contributions paid or payable to these plans by the Corporation at rates specified in the plans.

Defined benefit plans and other long term employee benefits
The Public Service Award plan is a defined benfit plan covering substantially all of the Corporation's permanent unionized employees as well as all full time non-union employees hired before August 1, 2005. The benefit is based on the number of years of service and the employee's compensation during the final year of employment. This program is funded in the year of retirement of eligible employees.

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

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

9. Employee remuneration (continued)

Defined benefit plans and other long term employee benefits (continued) The most recent actuarial valuation was carried out by Mercer Limited at December 31, 2009 and the present value of the benefit obligations were updated at March 31, 2013. The present value of the defined benefit obligations, and the related current service costs and past service costs, were measured using the Projected Unit Credit Method.

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

	Valuation at					
	March 31, 2013			March 31, 2012		
	Retiree health	**Service award**	**Sick leave**	Retiree health	Service award	Sick leave
Discount rate(s)	**4.3%**	**3.6%**	**3.4%**	5.1%	4.2%	3.4%
Expected rate(s) of salary increase	**n/a**	**2.5%**	**2.5%**	n/a	2.5%	2.5%
Initial weighted average health care trend rate	**5.85%**	**n/a**	**n/a**	5.99%	n/a	n/a
Ultimate weighted average health care trend rate	**4.38%**	**n/a**	**n/a**	4.38%	n/a	n/a

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

	Valuation at							
	March 31, 2013				March 31, 2012			
	Retiree health	**Service award**	**Sick leave**	**Total**	Retiree health	Service award	Sick leave	Total
Current service cost	**$ 417**	**$ 431**	**$ 471**	**$ 1,319**	$ 343	$ 396	$ 456	$1,195
Interest on obligation	**763**	**246**	**190**	**1,199**	736	264	184	1,184
Actuarial losses	**1,911**	**214**	**-**	**2,125**	1,395	208	-	1,603
	$3,091	**$ 891**	**$ 661**	**$4,643**	$ 2,474	$ 868	$ 640	$3,982

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

	Valuation at		
	March 31, 2013	March 31, 2012	April 1, 2011
Present value of unfunded defined benefit obligation			
Current portion	**$ 1,319**	$ 1,306	$ 711
Non-current portion	**28,355**	25,179	23,156
Total	**$ 29,674**	$ 26,485	$ 23,867

9. Employee remuneration (continued)

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

	2013	2012	2011
Benefit obligations, beginning of year	**$ 26,485**	$ 23,867	$ 18,674
Recognition of sick leave obligation (Note 5)	-	-	5,420
Current service cost	**1,319**	1,195	711
Interest cost	**1,199**	1,184	1,054
Actuarial (gains) losses	**2,125**	1,603	(1,072)
Benefits paid	**(1,454)**	(1,364)	(920)
Benefit obligations, end of year	**$ 29,674**	$ 26,485	$ 23,867

The Corporation expects to pay benefits of $1,499 relating to the benefit plans during the next financial year.

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

	2013	2012	2011
Effect on aggregate of current service cost and interest cost			
One percentage point increase	**$ 242**	$ 197	$ 196
One percentage point decrease	**(189)**	(156)	(157)
Effect on accrued benefit obligation			
One percentage point increase	**3,462**	2,641	2,007
One percentage point decrease	**(2,714)**	(2,100)	(1,626)

10. Change in non-cash operating working capital

	2013	2012
Increase in receivables	**$ 1,258**	$ (743)
Increase in inventories	**(4,146)**	(2,488)
(Increase) decrease in prepaids	**(102)**	161
Increase in payables and accruals	**9,372**	2,739
	$ 6,382	$ (331)

Nova Scotia Liquor Corporation
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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.

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:

	2013	2012
Short term benefits	**$ 1,537**	$ 1,543
Post-employment benefits	**126**	130
Other long term benefits	**20**	20
Total compensation	**$ 1,683**	$ 1,693

12. Operating expenses

	2013	2012
Salaries and employee benefits	**$ 54,799**	$ 53,294
Depreciation and amortization	**10,052**	11,474
Occupancy	**7,650**	7,105
Service contracts	**4,468**	4,016
Marketing and merchandising	**2,795**	2,236
Utilities	**2,756**	2,600
Freight	**2,924**	2,650
Legal, audit and consulting	**1,839**	1,279
Supplies	**1,617**	1,539
Maintenance repairs	**1,188**	995
Guard services	**1,083**	842
Other	**5,029**	4,691
	$ 96,200	$ 92,721

The operating expenses are recognized in the statement of earnings as follows:

	2013	2012
Store operating expenses	**$ 60,563**	$ 58,145
Supply chain expenses	**7,014**	6,743
Corporate services expenses	**28,623**	27,833
	$ 96,200	$ 92,721

13. 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.

TOTAL REMITTANCE TO GOVERNMENT

$324,744,515

Government of Canada	$54,913,338	Harmonized Sales Tax
	$29,362,588	Excise & Customs
Government of NS	$13,785,977	Environmental Assessment
	$224,260,977	Dividend to Shareholder
Municipalities	$2,421,635	Municipal Property Taxes
	$324,744,515	**Total**

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