Grant Thornton

Financial Statements

Nova Scotia Liquor Corporation

March 31, 2009

Contents

Auditors' report

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To the members of the Board of
Nova Scotia Liquor Corporation

We have audited the balance sheet of **Nova Scotia Liquor Corporation** at March 31, 2009 and the statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2009 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Halifax, Nova Scotia
May 29, 2009

Chartered Accountants

Nova Scotia Liquor Corporation
Statements of earnings and retained earnings

Year ended March 31 (in thousands)	2009	2008
Sales	$ 559,515	$ 530,552
Cost of goods sold	261,365	250,065
	298,150	280,487
Store operating expenses	49,086	48,845
	249,064	231,642
Depreciation and amortization	8,732	7,326
Supply chain expense	4,761	5,994
Corporate services expense	21,479	19,687
Other revenue	(4,522)	(5,630)
Other expenses	6,001	5,594
	36,451	32,971
Net earnings	$ 212,613	$ 198,671

Retained earnings, beginning of year	$ -	$ -
Net earnings	212,613	198,671
Distributions to the Province	(212,613)	(198,671)
Retained earnings, end of year	$ -	$ -

See accompanying notes to the financial statements.

Nova Scotia Liquor Corporation
Balance sheet

March 31 (in thousands)		2009		2008
Assets				
Current				
Cash and cash equivalents	**$**	**5,546**	$	8,281
Receivables		**2,200**		3,359
Inventories		**35,693**		35,547
Prepaids		**826**		1,006
		44,265		48,193
Property and equipment (note 3)		**44,403**		42,522
	$	**88,668**	$	90,715

Liabilities				
Current				
Payables and accruals	**$**	**27,323**	$	36,391
Payable to Minister of Finance		**39,002**		31,690
Current portion of obligation under capital lease (note 4)		**1,119**		973
Current portion of employee future benefit obligations (note 5)		**569**		787
		68,013		69,841
Obligation under capital lease (note 4)		**2,372**		3,492
Employee future benefit obligations (note 5)		**18,283**		17,382
	$	**88,668**	$	90,715

Commitments (note 6)

On behalf of the Board

The Honourable Peter L. McCreath, PC, MA, FRSA
Chair, Board of Directors

Mr. John E. Biddle, CMA
Audit Committee Chair

See accompanying notes to the financial statements.

Nova Scotia Liquor Corporation
Statement of cash flows

Year ended March 31 (in thousands)	2009	2008
Increase (decrease) in cash and cash equivalents		
Operating		
Net earnings	$ 212,613	$ 198,671
Depreciation and amortization	8,732	7,326
Loss (gain) on disposal of property and equipment	88	(1)
Increase in employee future benefit obligations	682	732
	222,115	206,728
Change in non-cash operating working capital (note 7)	(7,875)	2,397
	214,240	209,125
Financing		
Principal payments on obligation under capital lease	(973)	(838)
Remittances to Minister of Finance	(205,300)	(205,200)
	(206,273)	(206,038)
Investing		
Proceeds on disposal of property and equipment	-	35
Purchase of property and equipment	(10,702)	(13,195)
	(10,702)	(13,160)
Decrease in cash and cash equivalents	(2,735)	(10,073)
Cash and cash equivalents, beginning of year	8,281	18,354
Cash and cash equivalents, end of year	$ 5,546	$ 8,281

See accompanying notes to the financial statements.

Nova Scotia Liquor Corporation
Notes to the financial statements

March 31, 2008

1. Nature of operations

The Nova Scotia Liquor 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 Corporation was created June 1, 2001, by Chapter 4 of the Government Restructuring (2001) Act, via continuance of the Nova Scotia Liquor Commission as a body corporate. The Corporation is exempt from income tax under Section 149 of the Income Tax Act.

2. Summary of significant accounting policies

Inventories

Inventories of stock in warehouse and stores are valued at the lower of cost and net realizable value. Cost includes product costs, standard freight costs and customs with excise included when product is released for sale.

The Corporation has adopted the CICA issued Section 3031 “Inventories” which has replaced former Section 3030 with the same title. The new section establishes that inventories should be measured at the lower of cost and net realizable value, with guidance on the determination of cost. The standard has been applied retrospectively without restatement. The adoption of the Section did not have an effect on the financial statements.

Property and equipment

Property and equipment is recorded at cost. Depreciation and amortization is provided on the straight-line basis at the following annual rates:

Furniture, fixtures, other equipment, capital and leasehold improvements	10%
Improvements to wholly owned properties	10%
Computers – stand-alone	33%
Computers – integrated systems and ERP	20%
Land and buildings	4%

Land costs, which normally would not be depreciated, are depreciated due to the retention of proceeds by the Province of Nova Scotia.

Assets under construction includes assets not yet being used, but already purchased. These assets are depreciated when they are available for use.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks.

Assets under capital lease

Assets under capital lease are depreciated over their estimated useful lives using the straight-line method.

2. Summary of significant accounting policies (continued)

Employee future benefits

The Corporation has a Public Service Award Program covering substantially all of its permanent employees. The benefit is based on 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 program is funded each year by the payment of the required premiums.

Supplementary employee retirement plan

The Canadian Income Tax Act has placed limits on the amount that can be paid out of a defined benefit pension plan such as the Nova Scotia Public Service Superannuation Plan. The Province of Nova Scotia, in 2004, passed legislation that allows for the payment of pension benefits for pension amounts that exceed the limits set by the Income Tax Act. The benefits are paid from the Supplementary Employee Retirement Plan (SERP), whose board is responsible for paying these benefits at the time of retirement. The Nova Scotia Liquor Corporation has a responsibility to fully fund this plan on behalf of those employees who qualify.

The Corporation accrues its obligations under these employee benefit plans as the employees render the services necessary to earn the employee future benefits. The Corporation has adopted the following policies.

- The cost of the benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected salary escalation, retirement ages and expected health care costs.

- The excess of the net actuarial gain or loss over 10% of the benefit obligation is amortized over the average remaining service period of active employees, which is 10 years.

Permanent employees are members of the Nova Scotia Public Service Superannuation Plan. The cost of pension benefits is the responsibility of the Province of Nova Scotia and accordingly no provision is included in the Corporation's financial statements for pension related amounts. The pension related assets and liabilities are accounted for in the Public Accounts of Nova Scotia.

Use of estimates

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those reported.

March 31, 2009 (in thousands)

2. Summary of significant accounting policies (continued)

Financial instruments

The Corporation's financial instruments include cash and cash equivalents, receivables, payables and accruals, payable to Minister of Finance, obligations under capital lease and employee future benefit obligations. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from financial instruments. In accordance with CICA Handbook Section 3855, the Corporation's financial assets and liabilities are generally classified and measured as follows:

Asset/Liability	Classification	Measurement
Cash	Available for Sale	Fair Value
Cash Equivalents	Held to Maturity	Amortized Cost
Receivables	Loans and receivables	Amortized Cost
Payables and accruals	Other liabilities	Amortized Cost
Payable to Minister of Finance	Other liabilities	Amortized Cost

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Corporation incurs currency risk on financial instruments denominated in currencies other than their functional currency.

At year end, the Corporation has accounts payable denominated in non-Canadian currency of $151 (2008 - $510).

Sensitivity analysis

The following sensitivity analysis identifies the impact on net earnings of a 10% increase or decrease in the value of the Canadian dollar against the US dollar (the US dollar represents the primary non-functional currency utilized on supplier payments):

	Carrying value (Cdn $)	Effect of a 10% increase in Canadian dollar	Effect of a 10% decrease in Canadian dollar
Accounts payable	$ 151	$ 15	$ (15)

3. Property and equipment

	Cost	Accumulated Depreciation	2009 **Net Book Value**	2008 Net Book Value
Assets under construction	$ 870	$ -	**$ 870**	$ 7,226
ERP	15,956	4,266	**11,690**	6,506
Furniture and fixtures	11,375	5,589	**5,786**	5,288
Other equipment	10,374	7,063	**3,311**	2,925
Computer	11,563	7,293	**4,270**	6,170
PC's and small applications	1,237	1,115	**122**	143
Land and buildings	19,932	19,063	**869**	915
Improvements to wholly owned properties	15,440	10,479	**4,961**	788
Leasehold improvements	27,762	15,238	**12,524**	12,561
	$ 114,509	$ 70,106	**$ 44,403**	$ 42,522

March 31, 2009 (in thousands)

4. Obligation under capital lease

The Corporation has an obligation under a capital lease, which matures in 2012. The obligation represents the total present value of future minimum lease payments discounted at the rate implicit in the lease which is 13.8%. The future minimum lease payments, together with the balance of the obligation under capital lease as of March 31, 2009 is as follows:

2010	$ 1,536
2011	1,536
2012	1,153
Total minimum lease payments	4,225
Less: amount representing interest	734
Balance of obligation	3,491
Less: current portion of obligation	1,119
	$ 2,372

Administrative expenses include interest of $563 (2008 - $689) related to this obligation.

5. Employee future benefits

The Corporation has three employee future benefit plans for which it is responsible as described in note 2.

Information about these benefit plans, in aggregate, based on the December 31, 2006 actuarial valuation extrapolated to March 31, 2009 is as follows:

	2009	2008
Accrued benefit obligations:		
Balance, beginning of year	**$ 18,274**	$ 15,908
Adjustment to beginning balance	**(2,253)**	-
Adjusted beginning balance	**16,021**	15,908
Current service cost	**677**	666
Interest cost	**954**	906
Benefits paid	**(906)**	(828)
Actuarial (gain) / loss	**(3,796)**	1,622
Balance, end of year, and funded status – deficit	**12,950**	18,274
Less: current portion	**(569)**	(787)
Past service costs	**(60)**	(70)
Unamortized net actuarial (loss) / gain	**5,962**	(35)
Accrued benefit liability	**$ 18,283**	$ 17,382

March 31, 2009 (in thousands)

5. Employee future benefits (continued)

The Corporation changed its discount rate in fiscal 2009 to conform with the CICA recommended rate. The adjustment to beginning balance reflects the impact of the change to the opening balance. The adoption of this rate results in an actuarial gain at March 31, 2008 of $630 in place of the loss of $1,623 that was reported in the previous year.

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations are as follows:

	2009	2008
Discount rate	**7.93%**	4.95%
Rate of compensation increase	**2.50%**	2.50%

The assumed health care cost trend rate at April 1, 2009 was 8.17%, decreasing at 1% per annum to an ultimate rate of 4.41% per annum.

The Corporation's net benefit plan expense was $1,588 (2008 - $1,560).

6. Commitments

The Corporation leases buildings, premises and equipment under operating leases which expire at various dates between 2010 and 2024. Some of these operating leases contain renewal options at the end of the initial lease term.

The following schedule approximates future minimum rental payments required under operating leases that have initial lease terms in excess of one year, as of March 31, 2009:

2010	$	5,229
2011	$	4,652
2012	$	3,801
2013	$	3,282
2014	$	3,215

March 31, 2009 (in thousands)

7. Supplemental cash flow information

		2009		2008
Change in non cash operating working capital				
Receivables	**$**	**1,159**	$	(1,140)
Inventory		**(146)**		1,214
Prepaids		**180**		(127)
Payables and accruals		**(9,068)**		2,450
	$	**(7,875)**	$	2,397
Cash and cash equivalents consist of:				
Cash on hand and balances with banks	**$**	**5,546**	$	8,281
Interest and bank charges paid	**$**	**398**	$	428

8. Comparative figures

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.