Grant Thornton

Financial Statements

Nova Scotia Liquor Corporation

March 31, 2011

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Grant Thornton

Independent auditor's report

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To the members of the Board of
Nova Scotia Liquor Corporation

We have audited the accompanying financial statements of Nova Scotia Liquor Corporation, which comprise the balance sheet as at March 31, 2011, and the statements of earnings, retained earnings, 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 Canadian generally accepted accounting principles, 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 entity'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 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 Nova Scotia Liquor Corporation as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Halifax, Canada
June 16, 2011

Chartered Accountants

Audit • Tax • Advisory
Grant Thornton LLP. A Canadian Member of Grant Thornton International Ltd

Nova Scotia Liquor Corporation
Statements of earnings and retained earnings

Year ended March 31 (in thousands)	2011	2010
Sales	$ 581,567	$ 579,441
Cost of goods sold	268,350	271,125
	313,217	308,316
Store operating expenses	51,589	51,397
	261,628	256,919
Depreciation and amortization	8,603	9,481
Supply chain expense	6,075	5,144
Corporate services expense	21,395	20,913
Other revenue	(4,325)	(4,272)
Other expenses	6,721	6,290
	38,469	37,556
Net earnings	$ 223,159	$ 219,363

Retained earnings, beginning of year	$ -	$ -
Net earnings	223,159	219,363
Distributions to the Province	(223,159)	(219,363)
Retained earnings, end of year	$ -	$ -

See accompanying notes to the financial statements.

Nova Scotia Liquor Corporation
Balance sheet

March 31 (in thousands)		2011		2010
Assets				
Current				
Cash and cash equivalents	$	4,657	$	10,683
Receivables		1,891		1,736
Inventories		38,130		36,465
Prepaids		1,003		762
		45,681		49,646
Property and equipment (note 3)		41,448		35,780
Intangibles (note 4)		7,370		11,121
	$	94,499	$	96,547
Liabilities				
Current				
Payables and accruals	$	30,203	$	32,008
Payable to Minister of Finance		43,224		43,064
Current portion of obligations under capital lease (note 5)		1,106		1,285
Current portion of employee future benefit obligations (note 6)		740		711
		75,273		77,068
Obligations under capital lease (note 5)		60		1,088
Employee future benefit obligations (note 6)		19,166		18,391
	$	94,499	$	96,547

Commitments (note 7)

On behalf of the Board

Ms. Sherry Porter
Chair, Board of Directors

Mr. John B. Carter, FCA
Audit Committee Chair

See accompanying notes to the financial statements.

Nova Scotia Liquor Corporation
Statement of cash flows

Year ended March 31 (in thousands)		2011		2010
Increase (decrease) in cash and cash equivalents				
Operating				
Net earnings	$	**223,159**	$	219,363
Depreciation and amortization		**8,603**		9,481
Loss on disposal of property and equipment		**312**		349
Increase in employee future benefit obligations		**804**		250
		232,878		229,443
Change in non-cash operating working capital (note 8)		**(3,866)**		4,441
		229,012		233,884
Financing				
Principal payments on obligation under capital lease		**(1,207)**		(1,118)
Remittances to Minister of Finance		**(222,999)**		(215,300)
		(224,206)		(216,418)
Investing				
Purchase of property and equipment		**(10,832)**		(12,329)
(Decrease) increase in cash and cash equivalents		**(6,026)**		5,137
Cash and cash equivalents, beginning of year		**10,683**		5,546
Cash and cash equivalents, end of year	$	**4,657**	$	10,683

See accompanying notes to the financial statements.

March 31, 2011 (in thousands)

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

Basis of presentation
These financial statements have been prepared in accordance with Canadian generally accepted accounting principles as issued by the Canadian Accounting Standards Board.
Beginning in its fiscal 2012 year end the Corporation is required to prepare its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board with restatement of its comparative 2011 fiscal year end to comply with IFRS.

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

The cost of inventory recognized as an expense during fiscal 2011 was $268,350 (2010 - $271,125).

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%
Buildings	4%

Assets under construction includes assets not yet being used, but already purchased. These assets will be 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 the lesser of the term of the lease or their estimated useful lives using the straight-line method.

Revenue recognition
Revenue is generated from sales to customers through retail stores and licensee sales to commercial customers. Revenue from retail sales is recognized at the point of sale and from commercial sales at the time of shipment.

2. Summary of significant accounting policies (continued)

Intangible assets
Intangible assets are related to the development and implementation of the ERP system and are recorded at cost. Software will be amortized over their estimated useful life of five years.

The Corporation assesses the carrying value of intangible assets for impairment when events or circumstances warrant such a review. An impairment loss is recorded when it is determined that the carrying amount of the assets is no longer recoverable and exceeds their fair value.

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, 2011 (in thousands)

2. Summary of significant accounting policies (continued)

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at each period end date. Exchange gains or losses arising from the translation of these balances denominated in foreign currencies are recognized in operating income. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average foreign currency exchange rate for the period.

Financial instruments

The Corporation's financial instruments include cash and cash equivalents, receivables, payables and accruals and payable to Minister of Finance. 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	Held for trading	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 payables and accruals denominated in non-Canadian currency of $330 (2010 - $206).

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
Payables and accruals	$ 330	$ 33	$ (33)

March 31, 2011 (in thousands)

3. Property and equipment

			2011	2010
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Assets under construction	$ 5,191	$ -	$ **5,191**	$ 3,419
Furniture and fixtures	14,777	7,015	**7,762**	6,658
Other equipment	12,432	7,523	**4,909**	4,319
Computer	9,491	6,704	**2,787**	2,338
PC's and small applications	2,008	1,465	**543**	865
Land and buildings	20,823	17,876	**2,947**	1,540
Improvements to wholly owned properties	13,492	9,160	**4,332**	11,540
Leasehold improvements	25,199	12,222	**12,977**	5,101
	$ 103,413	$ 61,965	$ **41,448**	$ 35,780

4. Intangibles

			2011	2010
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
ERP	$ 21,736	$ 14,862	$ **6,874**	$ 11,121
Other intangibles	924	428	**496**	-
	$ 22,660	$ 15,290	$ **7,370**	$ 11,121

Amortization of $4,470 (2010 - $3,828) related to intangibles is included in depreciation and amortization expense.

5. Obligations under capital lease

The Corporation has two obligations under capital leases, one of 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% for the lease maturing in 2012 and 5% for the continuing lease. The future minimum lease payments, together with the balance of the obligation under capital lease as of March 31, 2011 are as follows:

2012	$ 1,173
2013	21
2014	22
2015	22
Total minimum lease payments	1,238
Less: amount representing imputed interest	72
Balance of obligation	1,166
Less: current portion of obligation	1,106
	$ 60

Administrative expenses include interest of $255 (2010 - $418) related to this obligation.

March 31, 2011 (in thousands)

6. Employee future benefits

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

Information about the retiree and service plans, based on the December 31, 2009 actuarial valuation extrapolated to March 31, 2011, is as follows:

Accrued benefit obligations

	Retiree health	Service award	2011 Total	2010 Total
Balance, beginning of year	$ 13,397	$ 5,277	$ 18,674	$ 12,950
Current service cost	342	368	710	569
Interest cost	788	266	1,054	1,016
Benefits paid	(430)	(490)	(920)	(998)
Actuarial (gain) loss	(1,174)	101	(1,073)	5,137
Balance, end of year	12,923	5,522	18,445	18,674
Less: current portion	(344)	(396)	(740)	(660)
Past service costs	-	(40)	(40)	(50)
Unamortized net actuarial gain (loss)	2,130	(629)	1,501	427
Accrued benefit liability (long term portion)	$ 14,709	$ 4,457	$ 19,166	$ 18,391

Components of benefit cost

	2011		2010	
	Retiree health	Service award	Retiree health	Service award
Current service cost	$ 342	$ 368	$ 256	$ 313
Interest cost	788	266	747	269
Actuarial (gain) loss on accrued benefit obligation	(1,174)	101	3,726	1,411
Costs arising in the period	(44)	735	4,729	1,993
Differences between costs arising in the period and costs recognized in the period in respect of:				
- Actuarial gain (loss)	1,174	(101)	(4,069)	(1,465)
- Plan amendments	-	10	-	10
Benefit cost recognized	$ 1,130	$ 644	$ 660	$ 538

March 31, 2011 (in thousands)

6. Employee future benefits (continued)

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

	2011		2010	
	Retiree health	Service award	Retiree health	Service award
Discount rate	5.70%	4.80%	5.90%	5.10%
Rate of compensation increase	N/A	2.50%	N/A	2.50%
Initial weighted average health care trend rate	6.14%	N/A	7.63%	N/A
Ultimate weighted average health care trend rate	4.38%	N/A	4.42%	N/A

7. Commitments

The Corporation leases buildings, premises and equipment under operating leases which expire at various dates between 2011 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, 2011:

2012	$ 5,391
2013	$ 4,581
2014	$ 4,439
2015	$ 3,684
2016	$ 2,409

8. Supplemental cash flow information

	2011	2010
Change in non cash operating working capital		
Receivables	$ (155)	$ 465
Inventory	(1,665)	(772)
Prepaids	(241)	64
Payables and accruals	(1,805)	4,684
	$ (3,866)	$ 4,441
Cash and cash equivalents consist of:		
Cash on hand and balances with banks	$ 4,657	$ 10,683
Interest and bank charges paid	$ 477	$ 454

9. Comparative figures

Certain of the comparative figures for 2010 have been reclassified to conform with the financial statement presentation adopted for 2011.