Nova Scotia Liquor Corporation
Financial Statements

March 31, 2007

Contents

Grant Thornton

Grant Thornton LLP
Chartered Accountants
Management Consultants

Auditors' Report

To the Members of the Board of
Nova Scotia Liquor Corporation

We have audited the balance sheet of the **Nova Scotia Liquor Corporation** as at March 31, 2007 and the statements of earnings and 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, 2007 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
June 25, 2007

Grant Thornton LLP
Chartered Accountants

Suite 1100, Cogswell Tower
2000 Barrington Street
Halifax, NS B3J 3K1
T (902) 421-1734
F (902) 420-1068
E Halifax@GrantThornton.ca
W www.GrantThornton.ca

Nova Scotia Liquor Corporation
Statements of Earnings and Retained Earnings

Year Ended March 31 (in thousands)	2007	2006
Net sales	$ 504,718	$ 486,084
Cost of goods sold	242,345	233,008
	262,373	253,076
Store operating expenses	47,066	45,876
	215,307	207,200
Depreciation and amortization	4,833	4,554
Supply chain expense	5,262	4,834
Corporate services expense	17,161	17,428
Other revenue	(6,321)	(5,741)
Other expenses	6,131	4,909
	27,066	25,984
Net earnings	$ 188,241	$ 181,216
Retained earnings, beginning of year	$ -	$ -
Net earnings	188,241	181,216
Distributions to the Province	(188,241)	(181,216)
Retained earnings, end of year	$ -	$ -

See accompanying notes to the financial statements.

Nova Scotia Liquor Corporation
Balance Sheet

March 31 (in thousands)

		2007		2006
Assets				
Current				
Cash and cash equivalents	$	18,354	$	2,478
Receivables		2,219		2,480
Inventories		36,761		30,011
Prepaids		879		771
		58,213		35,740
Property and equipment (Note 3)		36,686		26,604
Assets under capital lease		-		112
	$	94,899	$	62,456
Liabilities				
Current				
Payables and accruals	$	33,941	$	31,573
Payable to Minister of Finance		38,217		8,275
Current portion of obligation under capital lease (Note 4)		847		737
Current portion of employee future benefit obligations (Note 5)		666		684
		73,671		41,269
Obligations under capital lease (Note 4)		4,456		5,313
Employee future benefit obligations (Note 5)		16,772		15,874
	$	94,899	$	62,456

Commitments (Note 6)

On behalf of the Board

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

Mr. James G. MacLean, B.Sc., LL.B.
Audit Committee Chair

See accompanying notes to the financial statements.

Nova Scotia Liquor Corporation
Statement of Cash Flows

March 31 (in thousands)

		2007		2006
Increase (decrease) in cash and cash equivalents				
Operating				
Net earnings	$	188,241	$	181,216
Depreciation and amortization		4,833		4,554
(Gain) loss on disposal of property and equipment		(33)		254
Increase in employee future benefit obligations		880		809
		193,921		186,833
Change in non-cash operating working capital (Note 7)		(4,228)		8,780
		189,693		195,613
Financing				
Principal payments on obligations under capital lease		(747)		(643)
Remittances to Minister of Finance		(158,300)		(189,700)
		(159,047)		(190,343)
Investing				
Proceeds on property and equipment		387		566
Purchase of property and equipment		(15,157)		(12,885)
		(14,770)		(12,319)
Increase (decrease) in cash and cash equivalents		15,876		(7,049)
Cash and cash equivalents, beginning of year		2,478		9,527
Cash and cash equivalents, end of year	$	18,354	$	2,478

See accompanying notes to the financial statements.

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. Customs and excise tax have not been included where payment is due upon shipment from a bonded warehouse.

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%
Computers – stand-alone	33%
Computers – integrated systems	20%
Land and buildings	4%

In the year of addition, depreciation is charged at the full annual rate.

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

Work in progress 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.

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.

March 31, 2007 (in thousands)

2. Summary of significant accounting policies (continued)

Employee future benefits (continued)
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.

Financial instruments
The Corporation's financial instruments include cash and cash equivalents, receivables, payables and accruals, payable to Minister of Finance and obligations under capital lease. 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. The fair value of these financial instruments approximate their carrying values except for the obligation under capital lease. The fair value of the obligation under capital lease was not determinable due to the fact exit costs were not known.

3. Property and equipment

	2007	2006
Furniture and fixtures	$ 11,699	$ 8,743
Other equipment	6,696	8,126
Computers	10,030	12,713
Land and buildings	12,042	11,673
Capital and leasehold improvements	31,204	32,639
Work in progress	12,983	5,790
	84,654	79,684
Less: accumulated depreciation	47,968	53,080
	$ 36,686	$ 26,604

March 31, 2007 (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, 200,7 is as follows:

2008	$ 1,536
2009	1,536
2010	1,536
2011	1,536
2012	1,152
Total minimum lease payments	7,296
Less: amount representing interest	1,993
Balance of obligation	5,303
Less: current portion of obligation	847
	$ 4,456

Administrative expenses include interest of $799 (2006 - $895) related to this obligation.

5. Employee future benefits

The Corporation has two 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, 2007 is as follows:

	2007	2006
Accrued benefit obligation:		
Balance, beginning of year	**$ 17,599**	$ 16,588
Current service cost	**684**	645
Interest cost	**1,045**	988
Benefits paid	**(860)**	(834)
Actuarial (gain) loss	**(2,560)**	212
Balance, end of year, and funded status – deficit	**15,908**	17,599
Less: current portion	**666**	684
Past Service Costs	**(80)**	(90)
Unamortized net actuarial gain (loss)	**1,610**	(951)
Accrued benefit liability	**$ 16,772**	$ 15,874

March 31, 2007 (in thousands)

5. Employee future benefits (continued)

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

	2007	2006
Discount rate	**5.70%**	5.95%
Rate of compensation increase	**2.50%**	2.90%

The assumed health care cost trend rate at April 1, 2007 was 7.9%, decreasing at 1% per annum to an ultimate rate of 4.42% per annum.

The Corporation's net benefit plan expense was $1,738 (2006 - $1,636).

6. Commitments

The Corporation leases buildings, premises and equipment under operating leases which expire at various dates between 2007 and 2015. 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, 2007:

2008	$	3,414
2009	$	2,909
2010	$	2,122
2011	$	1,471
2012	$	1,335

7. Supplemental cash flow information

		2007		2006
Change in non cash operating working capital:				
Receivables	**$**	**262**	$	600
Inventory		**(6,751)**		3,327
Prepaids		**(108)**		127
Payables and accruals		**2,369**		4,726
	$	**(4,228)**	$	8,780
Cash and cash equivalents consist of:				
Cash on hand and balances with banks	**$**	**18,354**	$	2,478
Interest and bank charges paid	**$**	**1,244**	$	1,275